

# The critical impact of buildings on ESG goals

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**Real estate choices have a material impact on achieving ESG goals, particularly climate change reduction, according to leading provider of corporate real estate services in Africa, Cushman & Wakefield | BROLL.**

With buildings known to have one of the highest impacts on carbon emissions, the real estate industry plays a pivotal role in addressing compliance, climate and reputation risks faced by all organisations.

Property decisions play a critical role in organisations' ability to achieve their environmental, social and governance (ESG) goals, and thus their core strategies, especially as an increasing number of countries, companies and other concerns commit to specific carbon reduction targets.

From the perspective of the broader property industry, Calvin Crick, MD for Transaction Services at Cushman & Wakefield | BROLL, explains the significance of real estate choices in meeting ESG goals.

"Real estate is at the centre of compliance, climate and reputation risk for companies. Through our global Cushman & Wakefield affiliation, we see more and more countries putting mandatory audits in place including obligations to report carbon emissions and carbon reduction performance. This is already considered best practice for multinationals and top-tier local businesses, many of which have set ambitious Net Zero goals that rely on the right real estate strategies to be achievable. Considering the intensifying forthcoming climate risk reporting requirements, integrating sustainability into real estate solutions has become paramount," says Crick.

## ***Creating better returns***

Moreover, sustainability has emerged as a central driver of value, offering better returns for real estate owners and favourable differentiation in a challenging market.

Locally, the recently released MSCI South Africa Green Annual Property Index showed that for the year ended December 2022, certified green offices delivered a total return of 6.1%, 50bps above the non-certified return of 5.6%. Since the index's inception in 2016, green-certified offices outperformed the non-certified ones by a cumulative 20.9%.

## ***Boosting reputations***

Moreover, sustainable buildings have a greater ability to enhance occupiers' reputations to attract capital and customers, with similar benefits for the buildings' owners.

## ***Protecting against accelerating building obsolescence***

Crick further highlights the impact of climate risk on property obsolescence, pointing to the example of Energy Performance Certificates (EPC) in the UK, which provide an energy rating for a building from A to G, where A is very efficient. Currently, commercial buildings must have an EPC rating of E or higher for landlords to be able to rent or sell the property. This will increase to a rating of C by 2027. Disturbingly, it is estimated that 90% of existing UK properties will fail to meet these standards by 2030.



Calvin Crick, MD for Transaction Services at Cushman & Wakefield BROLL

Similarly, in line with global best practices, South Africa has also introduced its own EPC, which also has a rating scale from A to G. Initially, certain commercial properties were required to obtain and display an EPC by December 2022. This deadline was, however, extended to 7 December 2025. If a rating isn't obtained by this point, the building owners or their presiding accounting offices will be in violation of the law and could face a fine of up to R5m, five years in prison, or both.

### ***Intensifying challenges***

Crick underscores the exponential challenges for the real estate sector and building users globally. Despite efforts to date, alarming temperature increases are being recorded with the past eight years representing the warmest on record, and 2023 looks set to be the hottest year yet according to the Copernicus Climate Change Service (C3S). In fact, it notes that the September 2023 global temperature was the most anomalously warm month of any year in a dataset that goes back to 1940.

According to the World Meteorological Organisation, average global temperature in 2022 was about 1.15°C above the pre-industrial (1850-1900) levels, confirming that annual global temperatures have reached at least 1°C above pre-industrial levels, and approaching the 1.5°C of the Paris Agreement with time. Meeting the challenge of keeping warming below this requires annual reductions of 14%, an undertaking so enormous that the latest data predicts the world will, albeit temporarily, exceed the 1.5°C level.

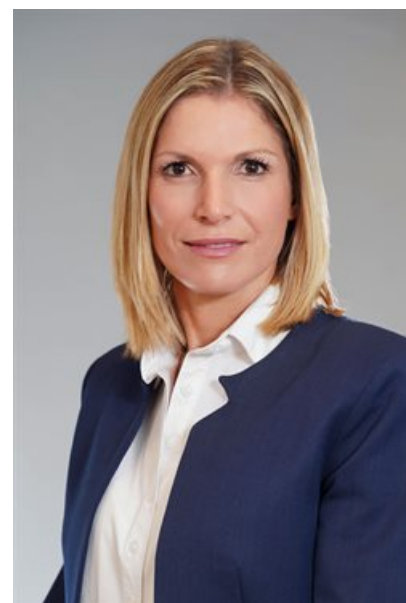
"Both public and private sector organisations acknowledge that dramatic climate action is needed and are looking for real estate solutions that achieve this. We are responding to this need and striving to integrate sustainability into every transaction throughout the real estate solution process," confirms Crick.

### ***Striving for new solutions***

Natasha Bruwer, managing director of Occupier Services at Cushman & Wakefield | BROLL, confirms that her team is increasingly being asked to support corporate occupiers to drive change and tackle new challenges.

"Sustainability is at the core of real estate solutions for corporate occupiers and their employees. Defining your ambition, setting ESG requirements, and establishing an ESG checklist aligned with corporate targets and best practices is crucial," explains Bruwer.

During the market search and screening phase, the team at Cushman & Wakefield | BROLL assess opportunities against the ESG checklist. Detailed due diligence and shortlisting include evaluation of ESG goals, policy demands, transition risks, path to Net Zero, climate risk and other compliances. Establishing essential lease clauses and leveraging compliance in renewals are vital elements of the legal negotiation phase.



Natasha Bruwer, managing director of Cushman & Wakefield BROLL Occupier Services

### ***Internalising sustainability***

The opportunity for realising positive environmental and social impacts goes beyond the building, its size, location and the lease, and extends to the fit-out stage. Tandi Jacobs, operations manager, Internal Developers (ID), suggests defining sustainability ambitions, designing sustainable solutions with key performance indicators (KPIs) and delivering optimal approaches aligned with ESG goals.

Jacobs adds that while it isn't always mandatory, demonstrating and obtaining certifications for sustainability achievements is integral to realising lasting change.

### ***Delivering impact***



Tandi Jacobs, operations manager, Internal Developers (ID)

By highlighting the importance of property choices in achieving ESG goals, Cushman & Wakefield | BROLL aims to do more than drive awareness and inspire the real estate industry and corporate occupiers to prioritise sustainability, mitigate risks and optimise investment opportunities – it aims to deliver impact.

“With buildings playing a significant role in carbon emissions, we understand that our clients and our society are looking to us to proactively address climate challenges and accelerate the transition towards a sustainable future,” concludes Crick.

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