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Driving ESG in real estate

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Is it a justifiable cause or pure hype?

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THE practice of embracing environmental, social and governance (ESG) has been gaining a lot of traction over the past few years, especially within the real estate sector.

With the Covid-19 pandemic pushing the agenda even harder, Zerin Properties chief executive officer Previn Singhe says ESG is quickly becoming an essential factor in the real estate market.

"Investors who are considering a real estate investment should make sure to research the ESG ratings of potential projects. "Doing so can help ensure the investment is well-managed and generates strong returns," he tells *StarBizWeek*.

However, with many companies hopping on the ESG bandwagon these days, eager to prove a point on how important its practices are, has it all been overhyped or oversold to investors?

The *Financial Times (FT)* in a 2020 article acknowledged that ESG has been "on a roll".

"Companies are becoming ESG advocates, tempted by promises that they will become more profitable and valuable if they follow the ESG script, say the right things and spend money improving their ESG ratings.

"In the meantime, institutional investors, drawn by the allure of earning higher returns while keeping their consciences clean, are directing tens of billions of dollars to 'good' companies with high ESG ratings," says the *FT* in its article titled "The ESG concept has been overhyped and oversold."

Previn believes that the concept of ESG is not oversold.

"I don't think ESG is overhyped. I think trying to go full throttle might be an overhype and we must aspire to do what we can within our framework."

He notes that ESG has become an essential factor in the investment world and is also starting to impact the real estate market.

"ESG real estate considerations have become a top priority for investors at every stage in the asset lifecycle, from screening prospective acquisitions to building development and, of course, optimising building energy usage in servicing tenants."

As more investors consider ESG factors when making investment decisions, a shift is being seen in the real estate market, says Previn.

"Companies, funds and properties with solid ESG ratings are becoming more desirable and those with poor ratings are becoming less attractive."

Previn explains that ESG-rated real estate companies and funds tend to outperform their unrated counterparts.

"In addition, investors who focus on ESG criteria are often seen as more responsible

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Previn Singhe



and socially conscious.

"This can help attract capital from other impact-minded investors and ultimately lead to a higher valuation for the company or project."

Globally, Previn says ESG continues to be a growing focus of investors when it comes to real estate funds.

"Around 56% of institutions now are reporting that they have implemented a formal ESG policy, up from 50% in 2021 and 32% in 2016.

"All Australia-based institutions report having ESG policies in place that influence investment decisions, followed by Europeans at 81% and Canadians at 80%.

"At 25%, the United States continues to lag behind its peers in adopting ESG policies," he says.

Companies pushing for ESG

When it comes to listed property firms on the Malaysian stock market, a flip through the pages of their annual reports will reveal how much they have embraced or plan to further pursue ESG.

Property developer MK Land Holdings Bhd sees the concept of ESG as an opportunity to provide potential buyers with the types of properties that they need.

"The group is exploring the development of smarter, more environmentally and occupant-friendly houses which offer flexibility for people to work and study from home.

"Such a move will augment the group's intention for product differentiation, not simply to offer houses but a conducive lifestyle, working in partnership with customers to embrace the ideas of ESG," the company says in its 2022 annual report.

Additionally, MK Land says it sees more business opportunities with the heightened need to embrace ESG.

"Globally, there is an ongoing worldwide

energy shortage, environmental crisis and rising raw renewable energy (RE) material costs, leading to concerns on climate change and sustainability, therefore increasing ESG considerations at the world stage."

Solar potential

Given Malaysia's vast solar potential due to its location in the equatorial zone, MK Land says it has developed a plan to expand its traditional scope as a property developer to include environmentally-sustainable avenues into its operations.

"MK Land went into RE by bidding in the tender for the fourth cycle of the large-scale solar programme.

"The group's wholly owned subsidiary, Solar Citra Sdn Bhd, entered into a power purchase agreement (PPA) with Tenaga Nasional Bhd (TNB) on Aug 26, 2021, to supply 10.95 megawatts of electricity."

MK Land has been granted a four-year extension on the PPA, resulting in a concession agreement until the end of 2047.

Malton Bhd chairman Tan Sri Lim Siew Choon says the Covid-19 pandemic has been a wake-up call and has underscored the importance of embracing sustainable practices in all sectors.

"Sustainability has been prevalent as seen in recent government's initiatives to ramp up the implementation of various ESG strategies and measures under the 12th Malaysia Plan," he says in the group's 2022 annual report.

In building a more sustainable future, Lim says the group will align its corporate responsibility and business performance with Bursa Malaysia's requirements for sustainability reporting.

"As we continue to keep the interests of our home buyers and tenants in mind, the group strives to deliver the utmost living experience from our developments by infusing key ESG principles progressively in the overall plan-

ning of three broad areas.

"These encompass our design approach; using innovative and green technologies and investing in the environment as well as through strategic partnerships."

Guided by a set of key performance indicators to benchmark its sustainability initiatives, Lim says Malton will increase the use of more eco-friendly methods of construction and materials.

Furthermore, in line with the government's initiative to encourage the use of more environment-friendly electrical vehicles (EVs), Lim says Malton will be introducing EV charging stations at its ongoing projects and future property developments.

"This will encourage green mobility and sustainable living among residents, thus marking a great step towards our environmental commitments to propel Malaysia into becoming a carbon-neutral nation by 2050.

"Moving forward, Malton endeavours to create a culture where sustainability is embedded throughout the organisation to drive its business direction and operations for long-term value creation."

Sustainability plans

S P Setia Bhd president and chief executive officer Datuk Choong Kai Wai, meanwhile, says the group will continue to enhance its sustainability plans throughout its project developments, in line with its continuous ESG efforts.

"These include installation of solar panels and EV chargers at selected new housing projects and commercial assets in Setia City Mall, the convention centres and selected welcome centres in collaboration with TNB.

"It was promoted through the S P Setia Foundation with the various activities carried out in joint effort with the group," he says in a statement following the announcement of S P Setia's third-quarter financial results last week.

Apart from listed companies, property consultancy firms have also been embracing ESG.

In August, Zerin Properties and Habitat Builders Sdn Bhd announced their joint venture in Zerin Habitat Sdn Bhd to go into ESG rating and consultancy.

Zerin Habitat is a Global ESG Benchmark for Real Assets (GRESB) partner that provides a range of services, from assisting participants with their ESG strategy to helping them complete the GRESB assessment.

As GRESB's first local partner, Previn says he is seeing more companies prioritising ESG assessments.

"As governments, cities and individual companies plan for the future, it's clear that transitioning to a sustainable world is a challenge that we must face together."