
S-Reits on journey to raise sustainability standards

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NUPUR JOSHI

AFTER Covid-19, climate change is accepted to be the next big global crisis confronting humanity. Many senior management and boards are actively discussing what this means for their business model and how prepared they are for the transformations that will inevitably take place as we move towards a greener society.

The focus of this article is on the "E" (environmental) of ESG. This is not to imply that social and governance aspects of ESG are not important (they certainly are) but merely to lay out the scope for this writeup.

REITS AS A LONG-TERM INVESTMENT VEHICLE

The mission of Reits is to deliver regular and steady distributions in the long term. Increasingly, investors and tenants will become more involved in environmental and sustainability matters and would prefer properties that are environmentally friendly and that can contribute to mitigate their impact on the climate. Reit managers thus need to pay particular consideration to whether their properties would be attractive to investors and tenants, and capable of generating the same level of rental income after 10, 20 or 30 years.

As buildings account for around 40 per cent of annual greenhouse gas emissions globally, Reit managers as property owners need to be cognisant of the greenhouse impact of their buildings and for those buildings that are less "green", make appropriate improvements via technology etc to make them worthy of being part of a future-ready property portfolio.

INCREASING INVESTOR FOCUS

In his letter to CEOs in January 2021, Larry Fink, CEO of Blackrock, said: "As more and more investors choose to tilt their investments towards sustainability-focused companies, the tectonic shift we are seeing will accelerate further. And because this will have such a dramatic impact on how capital is allocated, every management team and board will need to consider how this will impact their company's stock."

Data on the tremendous increase in ESG investing highlights Mr Fink's point. In the US, 33 per cent of overall assets under professional management is subject to some type of sustainable investment strategy. In Europe, 45 per cent of total AUM is invested in some sort of ESG investment strategy. In Singapore, a significant 86 per cent of respondents highlighted ESG investing as a key growth driver. The message is clear: Reit managers, like other business owners, need to bring sustainability issues to the forefront of their strategy, integrate it into their operations and effectively communicate their goals and progress, not just to investors but to all stakeholders.

ROLE OF GOVERNMENT

The government and Singapore Exchange have been guiding companies, including Reits, along this journey. Singapore Reits (S-Reits) are of diverse size and maturity. Many are part of a bigger group and started on their sustainability journey years ago, while others are turning their attention to this issue more recently. To get everyone on the same page, SGX mandated a new listing rule (effective for FY ending on or after Dec 31, 2017) requiring listed issuers to issue an annual sustainability report on a comply-or-explain basis. A 2019 study noted that the real estate sector was among the best in terms of reporting quality.

In 2019, the Monetary Authority of Singapore (MAS) announced its Green Finance Action Plan with the vision of making Singapore a leading centre for Green Finance in Asia. In December 2020, MAS published its Guidelines around Environmental Risk Management with proposals on how financial institutions, including Reits, may incorporate Environmental Risk Management into their overall risk management framework. Other initiatives by MAS include the Sustainable Bond Grant Scheme, Green and Sustainability-Linked Loan Grant Scheme, etc. There is thus clear encouragement from regulators that corporates need to make sustainability matters integral to their overall strategy.

WHERE ARE REITS ON THEIR SUSTAINABILITY JOURNEY?

All S-Reits now produce annual sustainability reports which have encouraged them to re-examine their portfolio and operations through a sustainability lens. Reits are now striving to increase the proportion of "green" properties in their portfolios, ie, properties that adhere to some nationally or internationally recognised green standard (eg the Building and Construction Authority's) by consciously favouring acquisitions of properties with green characteristics or if developing/re-developing, aiming to achieve a relevant green building certification.

S-Reits have also been active in the area of green finance with real estate companies (that sponsor Reits) and Reits accounting for a significant proportion of green financing done in Singapore in the last two years. Close to a dozen Reits have already issued green finance, either in the form of green loans, green bonds, sustainability-linked loans or even a green perpetual. There is no doubt that many more Reits will follow suit, especially with the encouragement from MAS via their various grant schemes.

Many Reits, often at their sponsor/group level, have constituted a "sustainability council" with some board representation or reporting to the board. Other Reits may not have a formalised council yet but are discussing sustainability issues at the board level, indicating that this is now becoming a strategic issue.

CONCLUSION

Globally, we are in the relatively early days of this movement towards integrating financial and sustainability considerations into overall corporate strategy and operations. Internationally, there is a move towards harmonising the plethora of ESG reporting standards. This will help to provide corporates and investors a clearer framework for reporting and comparability. A harmonised ESG reporting framework will also spur the creation of new ESG indices and sustainability themed ETFs which will help to make ESG investing more mainstream. SGX has already launched two new ESG ETFs in late 2020 and the trend is likely to continue. Investors are also refining their ESG evaluation frameworks.

The S-Reit sector is well regarded as a global Reit hub, and enhancing the sector's green characteristics is an important aspect of remaining globally competitive. Many of our Reits are firmly on this journey and as an association, it is our endeavour to ensure that all S-Reits make sustainability a key focus area. To quote Larry Fink again, "companies with better ESG profiles are performing better than their peers, enjoying a 'sustainability premium'". Our vision is for S-Reits to enjoy that premium over the future decades. Towards this end, REITAS will continue to work with all stakeholders to help the industry along as we intensify our efforts to raise our standards on sustainability-related issues.

- **The writer is CEO of the Reit Association of Singapore (REITAS)**