JONES DAY

ESG: The End ... or Just the Beginning? The Future of ESG in Real Estate and Infrastructure

On 21 February 2023, the Firm's London Real Estate and Infrastructure teams hosted a panel event with the above title in London. Anna Cartwright, who moderated the discussion, was joined by Alex Edmans - Professor of Finance at the London Business School, Emma Hoskyn - UK Head of Sustainability at JLL, Monica O'Neill – Head of Capital and Investor Relations at Immobel Capital Partners, and Katherine Scott – Sustainability Legal Counsel at Macquarie Asset Management.

The Key Takeaways

- In European markets, ESG is already a mainstream consideration for most companies in the real estate and infrastructure sectors. However, other markets, such as the United States, are at differing stages in their journey to ESG becoming mainstream.

> **"ESG should not be put on a pedestal—it is one of many key components in investment decision-making."**
>
> **- Professor Alex Edmans,** *London Business School*

- The drivers for integration of ESG into the real estate and infrastructure sectors can be distilled into three key areas:

Market:	Regulatory:	Financial:
the demands of customers and/or investors, e.g. to report under voluntary ESG standards such as GRESB.	compliance with legislation.	managing risk and financial returns.

- Notwithstanding these drivers, the principal rationale for ESG investment is predicated on creating long-term financial and social value rather than reacting to a changing regulatory landscape.
- Understanding and incorporating ESG into real estate strategy revolves around understanding the data and managing risk and value.

> **"The data is starting to show that ESG pays."**
>
> **- Emma Hoskyn,** *JLL*

- The drivers for ESG are creating urgency around integrating ESG into operations and strategies across all aspects of business and the value chain but these need to be weighed, like any investment decision, against the current uncertain economic environment. In 2023 portfolio managers will likely need to balance other capital requirements and constraints against a desire to make capital investments to improve energy efficiency and other ESG metrics related to their assets.
- Owners should consider "responsible divestment" i.e. it may not be enough to dispose of assets that are poor or underperforming from an ESG metrics perspective as the owner also has a responsibility to investigate the intentions of the buyer of those assets in terms of retrofitting and repurposing those assets.
- The concept of "responsible divestment" is nascent, and it remains to be seen how best to fully decarbonise portfolios. However, there are an increasingly large number of asset managers acquiring brown assets for retrofitting and/or repurposing.
- Understanding the impact of ESG on asset value is a complex issue which takes into account numerous factors and requires the input of a broad variety of experts.

ESG Contacts

LONDON


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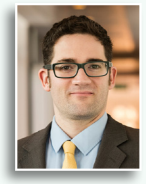
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Jones Day's Experience

The Firm has extensive experience advising clients on ESG-related matters in the UK and globally. We provide specialist teams, focused on the jurisdictions and disciplines that matter to clients, to help businesses maximise the opportunities ESG trends present for their businesses, while navigating ESG-related risk. Such work includes:

TRANSACTIONAL

- Advising on virtual power purchase agreements, sleeved retail renewable energy purchase agreements, community solar agreements, demand response agreements, carbon credit agreements, energy storage agreements and related data analytic agreements.
- Advising on green bond and sustainability linked financings.

RISK

- Advising clients on ESG-related risks including litigation and enforcement, potential personal liability for directors, and implementing effective and meaningful policies to mitigate such risks, as well as investigating and responding to claims if and when they arise.
- Advising on the rapidly evolving ESG and sustainability-related legal and regulatory frameworks including the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive, which require specific actions and impose new liabilities. "Gap analyses" can help identify the potential scope of the application of these rules (e.g. considering complex areas like the application to joint ventures and minority investments), and identify key areas where:

Changes in internal policies or procedures are required.	Additional/updated corporate disclosures will be needed.	Required data or information is currently lacking.

- Helping clients to comply with their disclosure requirements, while at the same time being alive to any reputation or litigation risks associated with such disclosures.
- Advising on issues such as anti-bribery, anti-money laundering, data protection and sanctions.

ENVIRONMENTAL

- Advising on environmental liability and issues relating to waste management, permitting, pollution and contamination.

GOVERNANCE

- Advising on employment issues including the gender pay gap, as well as advising on human rights due diligence and supply chain management (including anti-modern slavery).

> **"ESG is as much about opportunities as it is risk."**
>
> **- Anna Cartwright,** *Jones Day*

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