

German Real Estate Finance

# REFIRE



***ESG is more than E***

by Adalbert Pokorski  
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In the real estate industry, sustainability is increasingly becoming a necessary criterion for investments. New financial regulations are driving this development. The obligations under the EU Disclosure Regulation, which apply from this year onwards, result, for instance, in more transparency in respect of the sustainability of financial enterprises. The EU Taxonomy Regulation, which is still being elaborated, is to ensure uniform sustainability criteria for financial products. Because so far every financial enterprise had the possibility to define sustainability for itself. Consequently, this opened the doors to greenwashing.

However, the EU Taxonomy Regulation only covers the ecological dimension of sustainability. The criteria aim to measure how climate-friendly and environmentally compatible an investment is with a view to achieving the overarching goal of a climate-neutral economy from 2050 onwards under the "European Green Deal". For the real estate sector, the EU Commission intends to define by the end of 2024 uniform standards through which the climate and environmental friendliness of new and portfolio properties is recorded. Until then, transitional provisions apply which are oriented towards existing directives. As far as the other dimensions of sustainability are concerned, namely the social and governance aspects, a lack of clarity continues to prevail. However, these areas should be considered at least as important as the ecological level. In particular in the real estate industry there are frequently close interactions between the different fields. In this connection there must not necessarily be a positive correlation.

Whereas compliance with sustainability in the real estate sector can be measured for governance, there is a big question mark as far as social aspects are concerned. The increasing appropriation of housing policy issues by policy makers illustrates even more that there is a lot to catch up here. In no other real estate segment the focus is on people as it is in residential real estate. The description of tenants as victims of the unbridled greed of investors has resulted at many locations in the political enforcement of measures such as rent increase restrictions. These measures have had a counter-productive effect and the root of the problem, i.e. the scarce supply of housing, has even been exacerbated. For that reason, the creation of more housing space through favourable political framework conditions is an area to promote the social component of sustainability since it can lead to a stabilisation of rents.

However, residential asset managers are actually required to implement social sustainability themselves. This can be ensured simply and unbureaucratically by taking the interests and needs of tenants seriously. Examples for a service-oriented approach are short response times in the event of enquiries by tenants. Property and facility managers should be reachable 100% and comprehensively – i.e. also via digital channels such as the website of the residential property company or online services. In this connection multilingual employees and platforms should be available, so that tenants with a different mother tongue are not left out in the cold. The regular physical presence of the caretaker in the residential complex secures the immediate remedying of technical malfunctions.

Good communication is another element to strengthen social sustainability in residential property management. Economic crises as we have experienced since last year as a result of the Covid-19 pandemic, require a special sensitivity in tenant management and communication. A personal telephone contact in the event of non-payment of rent to learn about the background of the tenant or the granting of rent payment deferral in case of existential crises, represent socially oriented tenant measures. Communication between the tenants should likewise be supported so that the living atmosphere is improved. Sponsorship for a summer party in the residential complex could contribute towards reducing anonymity as it otherwise frequently prevails in cities.

Low bureaucracy and a problem-solving mindset are the pillars for modern tenant management. This also includes measures to accommodate tenants. If a tenant wishes to extend his tenancy to his companion or with a view to an addition to the family, this request should be given favourable consideration. The same should apply if a tenant wishes to shorten his period of notice by looking for a subsequent tenant himself, and the landlord should provide proactive support.

Another element of a socially sustainable residential real estate strategy includes charity activities, depending on the portfolio size. On the one hand, the living space can be designed in such a way that socially weaker tenants are supported. For instance by accessibility features for disabled people in the building design or free of charge availability of an apartment for private lessons of school children. On the other hand, a residential real estate company can raise financial allowances to support social projects such as donations to the kindergarten, which is integrated into the residential complex.

Finally, residential real estate investors should become even more aware of the relationship between ecological and social sustainability. Climate protection measures can have an adverse effect on social sustainability if the end consumers have to bear the corresponding costs alone. In the residential real property segment the adverse effect is higher the worse the economic position of the tenant. The most recent decision by the German Government on the CO<sub>2</sub> price provides for a sharing of the CO<sub>2</sub> costs by the tenant and the landlord, which would, in turn, increase social sustainability again. Because of the climate change it will, moreover, be increasingly necessary for the residential real estate sector to think about solutions which do not exclude anyone. If intelligent residential concepts are developed, which take the climate change into due account, and which benefit all the tenants, this also increases the social return.

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"European Green Deal"

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EU Taxonomy Regulation

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