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FOCUS ON ESG


Katerina Papavasileiou

Companies face a stark binary choice in relation to ESG: 'commit or quit'. That is the view of Federated Hermes ESG and responsibility director, real estate, Katerina Papavasileiou.

In a rousing speech to kick off BE News' oversubscribed 'Focus on ESG' breakfast networking event at UKREiiF, Papavasileiou warned that in Donald Trump's anti-ESG world, some companies would quit.

Most of the 40 leaders from across the industry who attended the event, which was sponsored by Workman and held at Brasserie Blanc in Leeds, were adamant they would commit. Here, Papavasileiou explains why that might be easier said than done – at least over the next five years:

Have you ever heard of "relational ambivalence"? It's that feeling we all know - those moments in relationships when excitement and fear, love and frustration, all swirl together, leaving us wondering: should I stay, or should I go? Right now, the real estate industry - and, frankly, the wider business world - is experiencing its own version of relational ambivalence when it comes to ESG.

We're living through turbulent times. Geopolitical upheaval, market volatility and the rise of anti-ESG sentiment are all making headlines. Donald Trump's tariffs are sending economic uncertainty across the globe and the UK real estate sector isn't immune.

It's easy to feel like the sun is setting on ESG, that sustainability is just a "nice to have" and that social value and D&I are under threat.

So, we're presented with the question: do we quit, or do we commit?

Despite the noise, the fundamentals haven't changed. Physical climate risk, sustainability, and social impact are still at the top of the agenda - and if anything, they're only gaining importance.

But there is no avoiding the fact that the way ESG is woven into our business models in real estate is evolving. As sustainability professionals, we need to listen to critics, learn from them, and adapt our approaches.

So, what does commitment look like in practice? It means being pragmatic and relevant. A Harvard Business Review paper put it plainly: companies that focus on material ESG issues outperform their peers by up to 6% per year.

But there's no benefit in chasing ESG initiatives that aren't material to your business. We need laser focus. Our job is to cut through the noise and futureproof our real assets.

Perhaps the time has come to be more robust and rigorous in our thinking, so we can remain relevant to our customers and pragmatic in our approach.

We need to move away from seeing sustainability issues as separate from financial performance and recognise them as the critical business drivers they really are.

The focus should be on true integration of all the sustainability related risks into the financial modelling.

Over recent years, Federated Hermes Real Estate has been integrating Net Zero Transition Plans into assets' business plans and maintenance plans. Valuation is becoming the catalyst, and translating ESG benefits into valuation just makes commercial sense - especially as standards for energy-efficient buildings keep rising.

Circularity: the next learning curve

Another area that we can't afford to ignore is circularity. The "retrofit first" approach isn't just good for the planet - it's increasingly commercially attractive, especially as construction costs soar and sourcing new materials gets trickier.

Geopolitical changes, "friendshoring," and climate change are all reshaping how we build. There's hidden value in low embodied carbon buildings, and we need to weigh those benefits alongside financial returns and risk avoidance.

Time for a language shift

As the real estate market understanding of ESG evolves and matures, it may well be time to move on and use more effective definitions and labels.

It's time for a language shift as the term ESG has tried to do too much and act a catch-all for too many complex, interrelated issues.

Many of today's investors understand the link between sustainability, social impact and the added value. We understand that proximity to nature boosts asset prices, that lower carbon and circularity cut operational costs, and that green credentials make buildings easier to lease.

"It's time for a language shift. The term ESG has tried to do too much"

Long-term investors are still committed to climate resilience, and due diligence now digs much deeper - beyond EPCs and certifications, into climate risk, decarbonisation costs, community engagement, and tenant exposure to controversial activities.

The hidden cost of quitting

Let's pause and consider what happens if we quit. Inaction has a hidden cost and we're entering an era where operating unsustainably is increasingly expensive. Physical climate risks are undeniable.

Even if the UK hasn't yet faced the catastrophic weather events seen in many other parts of the world, our supply chains and customers might.

Insurance premiums are already reflecting these risks, and it only takes one event to shift market perception.

There's also the risk of losing access to funding. Sustainability questions are now standard in due diligence, bank covenants, occupier discussions, and talent recruitment. If you're not integrating sustainability, you're at risk of being left behind.

And perhaps most crucially, inaction means denying progress. If we don't operate or build in higher standards now, we're missing out on vital learning and expertise.

For example, currently in our new building the embodied carbon target has dropped from 900 to 550-600 tCO_2/sq m in just six years - a huge leap in a very short timeframe. Standards are only going up. If we don't build capability now, catching up later will be costly.

The UK industry has made huge strides on integration over the last five years therefore, we could risk losing momentum while the market risks that relate to sustainability are increasing; the risk of being left behind is real.

What now?

In summary, sustainability and responsibility can help to support value creation; reduce operational costs and insurance premiums; mitigate serious physical climate and other risks; and improve access to sustainable finance.

The industry has previously seen major pushbacks. In 2009, many companies slashed their CSR budgets and teams, and the media declared the era of business responsibility over. After Covid, we learned how interconnected and interdependent we all are.

So, quit or commit? That's the only question that matters - as the next five years are crucial for keeping up momentum and making real progress. □

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