KEYNOTE INTERVIEW

An integrated approach to ESG

Barings' Lori Mabardi discusses the state of ESG and the challenges and opportunities of aiming for net-zero carbon in the built environment

"At Barings, we are leaning into this moment, acknowledging the complexity and criticality of integrating ESG into property investing," says Lori Mabardi, ESG senior director, US real estate equity. She discusses how real estate investors are warming up to ESG and argues inflationary pressures can actually be a tailwind to help the industry achieve its sustainability targets.

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Q How is Barings making progress toward its sustainability goals? Have you committed to achieving net zero?

We have set corporate goals pertaining to our operational emissions to start. These include short-term and long-term operational greenhouse gas (GHG) emission reduction targets set in July 2021.

We used carbon offsets to achieve global operational GHG neutrality for 2019 onwards and have set the target of achieving net zero in our global operations by 2030. We know that offsetting our emissions is only a short-term solution and that to achieve our long-term goal of net-zero operations we must encourage emissions reduction and behavior changes.

Q We all have heard the term net zero, but it can be hard to pinpoint a definition. How would you define it in relation to the built environment?

While there are no real standards in how net-zero carbon is defined today, as carbon literacy rises, so will the ability to sniff out plans that aren't comprehensive or that may not follow the true principles of achieving net-zero carbon.

As it pertains to the built environment, a comprehensive net-zero strategy starts with measuring current energy use (aiming for full building data) and maximizing operational efficiency (which can be achieved with technology, capital investment, tenant engagement, design and engineering and more).

Once energy efficiency is maximized, to the extent possible at that point in time, the next step is to consider onsite or offsite renewable solutions, and lastly to offset any remaining emissions, including those that come from embodied carbon. All of this is to say, there is no shortage of factors to consider when it comes to defining net zero.

Ultimately, the right target is the one that is clear, transparent, measurable and aimed at becoming more aggressive over time. It is important not to let perfection get in the way of progress.

Q What are the main challenges for real estate investors looking to implement net zero within their portfolios?

There are a number of challenges to consider. First, there is a massive learning curve. It is an entirely new language and it impacts everyone's job.

So, one challenge is educating investors and managers alike that they are critical to the success of any ESG strategy – invite them to the table and give them the tools to be successful.

Another challenge is pushing managers to think beyond their hold period. My colleagues often hear me say we need to "own our piece of the pathway." We view a building's journey to net zero as a relay race – even if we hold an asset for five years, we need to do the work to progress along the pathway in those five years, so we can hand that asset off in a way that avoids stranding.

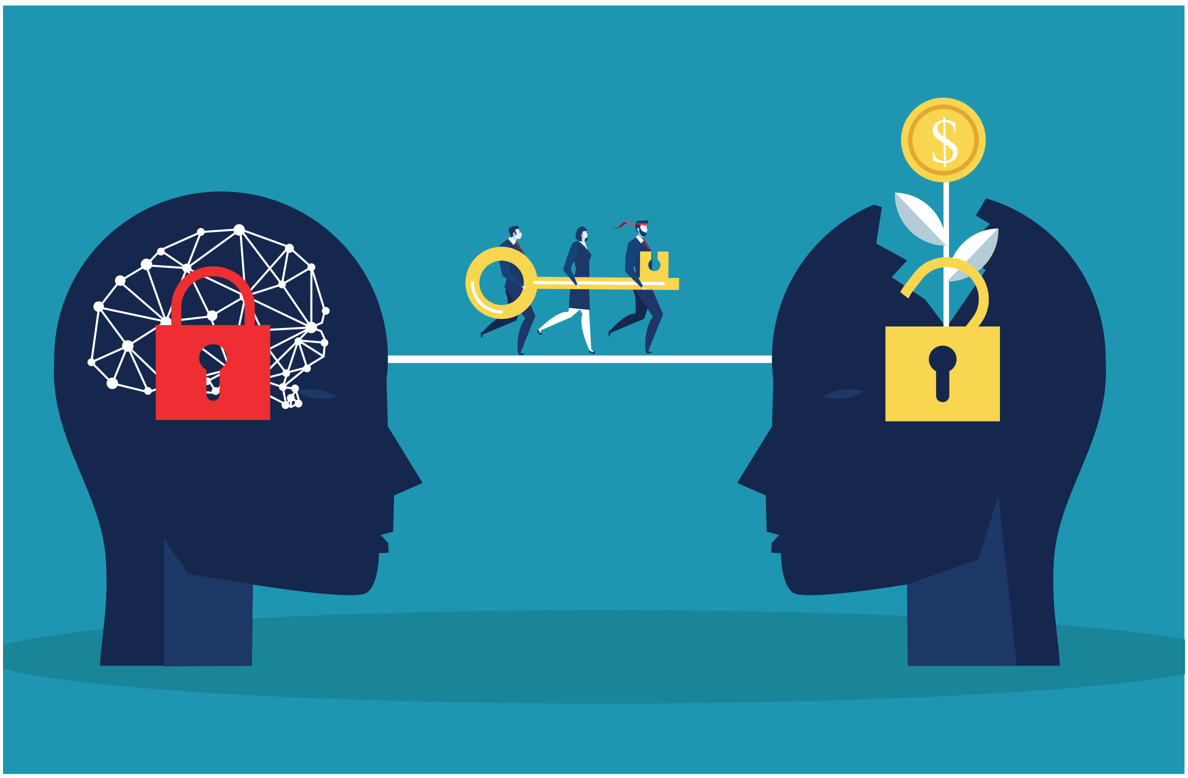
A final challenge lies in opening our aperture to look at factors beyond the

Q Have real estate investors' mindsets on ESG changed over time?

Absolutely. ESG is increasingly entering mainstream consciousness in the real estate industry, resulting in a much greater understanding of the impact that real estate has on the planet and can have on the health and wellbeing of people.

But frankly, beyond that, pressure to pay further attention to ESG issues – whether from local and national regulators or other stakeholders including tenants – is rising.

The industry increasingly understands the need to mitigate financial, reputational or even purely physical risk from climate change, for instance. It comes with our fiduciary responsibility to be prudent investors and good stewards of our clients' capital. There is opportunity to not only preserve value but create value through ESG efforts.



short-term outlook and the immediate impact of cost. Our job has to be focused on creating value and generating strong risk-adjusted returns for our investors, but, now, that means going beyond short-term cost and considering carbon footprint and resilience to climate change as well.

Beyond carbon and climate, it means considering factors like biodiversity and social value, which will become an increasingly important part of the equation. So long-held, established ways of doing business are changing.

Our focus today and going forward is on future-proofing our assets so that they are valuable to all stakeholders. That prospect is exciting but represents a massive shift in consciousness and a need to measure and quantify value in ways we haven't ever before.

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Q What do you see as the biggest opportunities for ESG advancement in real estate?

Technology, innovation and disruption are a huge opportunity. The way we will get to net zero will be through the confluence of new and existing solutions – like advancements in smart building technologies, solar and renewable energy, and battery storage – and being able to capitalize on that disruption and implement it in buildings. That will ultimately enable managers to be on the right side of this energy transition.

There is also an argument to be made that real estate hasn't been disrupted as much as it could. Our buildings can be much smarter and much more efficient than they are today. In that sense, the opportunity to take a building and turn it into a greener, healthier version of itself is massive.

Q How do you describe the outlook for ESG in property investment?

I am very optimistic, even if we are seeing headwinds and the politicization of ESG right now. In the real estate industry, at this moment in time, there are technology solutions that are coming out and significant advancements that can bring about the step changes we need to help meet our goals.

Of course, doing so will require a growth mindset, an appetite for challenging the status quo, a vision for the potential and the discipline to reach for more.

Encouragingly, our industry is made up of many individuals who can see a better, healthier, more equitable and more sustainable built environment and get excited about the prospect of being a part of that transformation. It might be a challenge, but taking it on is well worth it.

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Q Are you concerned some of that momentum might be derailed by a challenging 2023?

Honestly, no. We are in inflationary times, which can push us to look for ways to do more with less, like find ways to save energy. We face rising temperatures, which also promote energy efficiency. We increasingly face drought and extreme climate, which will encourage many of us to use natural resources more responsibly.

According to the International Energy Agency's annual *World Energy Outlook*, the war in Ukraine is likely to speed, not slow, the shift to clean energy. As the cost of debt rises, so perhaps will the adoption of sustainable finance options, like C-PACE financing, or the use of incentives like those in the Inflation Reduction Act.

Lastly, for better or worse, regulations will also continue to force action. Even in the face of a potentially slowing economy, we must push to achieve the victories where we can, as any progress made contributes to the creation of more resilient and sustainable systems over time, which directly links back to value. ■