Increasingly, financial institutions are looking to ESG performance as a marker of sustainable and resilient business, in turn informing investment decision making and lending criteria. It is envisaged that the same may soon apply from an insurance coverage perspective. Construction contracts could come under scrutiny from insurers seeking details on the environmental impact of projects before committing to providing coverage. Integration of ESG factors into due diligence practices, portfolio analysis and investment decisions will create ESG related business opportunities. Projects may be at risk where contractors are unable to demonstrate their ESG strategy as investors become increasingly focused on the sustainability of their portfolios and alignment with their ESG policies and strategies. They will seek to ensure that their investments are managed efficiently and responsibly, that there is a programme in place to reduce risks caused by climate change, energy price volatility, water scarcity, evolving customer demands, and changes in environmental legislation across different property types and markets.

Buildings and infrastructure are amongst the largest contributors to global carbon emissions, being responsible for 39% of global energy-related carbon emissions according to the World Green Building Council: 11% from manufacturing building materials and products such as steel, cement and glass; and 28% to heat, power and cool buildings while in use. Up-front carbon emissions released before the building or infrastructure is even used will be responsible for half the entire carbon footprint of new construction between now and 2050. Operational performance of buildings, the harvesting and sourcing of raw materials, the potential for adaptation and use of raw materials, and their ecological implications must be considered.

A construction firm's ESG framework will influence its selection of building materials and design of products, having a significant effect upon its supply chain. Product manufacturers and suppliers may find themselves excluded from tender opportunities if they cannot validate the environmental impact of their products. This is expected to drive change throughout the supply chain via new procurement strategies and more detailed system specifications.

Greater levels of transparency and consistent reporting will be required. There is opportunity here for firms within the construction industry to become market leaders in demonstrating the effective embedding of ESG considerations into its business model.

As construction processes become more industrialised, the role of partners throughout the supply chain and the asset life-cycle will become increasingly important. Many companies are now realising the importance of supply-chain engagement and incentivisation around ESG factors.

Caution must be exercised when seeking to decarbonise the products and processes to ensure that industrialised construction solutions do not reduce carbon emissions at one stage of the processing and construction of an asset, while creating them in another. Consideration for what happens to materials at the end of the life of the assets must also be considered.

Client demand

Asset owners and developers are also more likely to require assets to be procured, operated and maintained in a lower carbon way, with these requirements increasingly becoming a feature of tender documents and construction contracts. Contractors who are unable to deliver projects efficiently and sustainably will become less competitive, and ultimately end up losing work to those that can.

Quality ESG data will be crucial to future investment decisions. Investor decision-making will increasingly depend on reliable and comparable data on a project's ESG credentials. For example, decisions on whether or not to invest in a new road may depend on data covering the likely carbon cost of constructing the road, its embodied carbon,), support for electric vehicles and similar factors.

Global Real Estate Sustainability Benchmark (GRESB)

GRESB is the global standard for environmental, social and governance (ESG) benchmarking**.** The GRESB assessment evaluates performance against seven sustainability aspects, containing approximately 50 indicators, ranging from policies to evidence-based data. There are two dimensions to data submitted – company level, and property level. Data submitted is then compared to its peers taking into account country, region, investment type and asset variations. Results are plotted in the GRESB model and a rating from one to five stars is awarded. The deadline for submission of all data is July 1 each year. All submitted data is entered through the online GRESB portal and data is submitted by property sector. The first year of submission to the GRESB is a grace year and the data is not published. This gives companies/funds an opportunity to review their submission and improve in the second year of participation. The data in year two is published through a portal and is visible to investor members. Engagement with, and some level of understanding of the process by, all parties, such as the client's representative, building managers, technical advisors, managing agents and tenants, is essential.

Advice for construction companies

It will be important to engage in compliance and development practices. Such as implementing an Environmental Management System (EMS) accredited to ISO 14001, undertaking baseline environmental assessments of main contractor and the supply chain, setting wider sustainability KPIs to include biodiversity, diversity & inclusion, volunteering, social interactions and community development, updating tender return documents to reflect Green Public Procurement requirements and including Life Cycle Costing assessments in tender returns. Additionally, companies have the opportunity to become industry leaders by developing sustainable procurement teams for public procurement tenders and for projects with green building certification requirements, e.g., LEED, BREEAM, introducing circular economy practices, evolving company websites with sustainability sections and setting Science Based Targets and reporting through climate disclosure reporting is seen as gold standard for companies who are targeting ambitious corporate climate action.

Wider considerations

Throughout 2020, Covid-19 and the Black Lives Matter movement have forced emphasis on the social element of ESG in particular and acted as "ESG accelerants". As a result, corporates and the financial sector are considering the environmental, social, human and economic impact of their business decisions and focusing more on long-term sustainable value creation..

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