

## PRESS RELEASE

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### Implementation of ESG criteria is set to change the real estate sector

- EU ESG regulation measures not well coordinated in some cases
- Too few green properties at first to cover demand
- Policymakers could stipulate even stricter requirements
- Warburg-HIH Invest incorporates environmental due diligence (EDD) into acquisition processes
- Warburg-HIH Invest converts portfolio to smart metering to gather property data for ESG reporting
- Warburg-HIH Invest launches Deutschland Selektiv Immobilien Invest II, its first disclosure-regulation-compliant ESG product.

**Hamburg, 25 August 2020** – The European Union is tightening the sustainability requirements for the real estate sector as part of its ESG regulation efforts for the financial sector. A comprehensive package of measures that will enter into force successively from March 2021 is currently in preparation. The disclosure regulation, the benchmark regulation, the taxonomy regulation and changes to other sets of rules such as MiFID II are a key part of the measures. The aim is to make sustainability mandatory for all stakeholders. So far, sustainability has been a recommended but not compulsory aspect in the real estate sector. In future, ESG will join returns and risk as central criteria in investment decisions. One challenge is that the measures are not coordinated in some instances. They bear certain similarities, cover similar ground and influence each other, but are not consistent and are not timed in a well-coordinated manner. The sector needs to build bridges and help itself with pragmatic solutions.

Warburg-HIH Invest Real Estate (Warburg-HIH Invest) has already developed a sustainability strategy that it is implementing at corporate and fund level. Organisational measures include the formation of an ESG project team and the definition of an ESG mission for Warburg-HIH Invest. At fund level, the ESG criteria are taken into account throughout the investment process. Specifically, the company performs environmental due diligence (EDD) during the purchasing

process to review properties in terms of energy efficiency, user comfort, user safety, the location and physical risks.

These were the core findings of today's online press conference, "**ESG: How can the real estate sector find the right path between the regulatory jungle and investors' wishes?**" ("ESG: Wie findet die Immobilienbranche den richtigen Weg zwischen Regulierungs-Dschungel und Anlegerwünschen?"). **Martina Hertwig**, Partner, German CPA and Certified Tax Advisor at Baker Tilly, Dr **Christian Reibis**, Partner, German CPA and Certified Tax Advisor at Baker Tilly, and **Alexander Eggert**, Managing Director at Warburg-HIH Invest, spoke at the press conference.

Martina Hertwig from Baker Tilly started by recapping the previous ESG regulation process and providing an overview of the current measures. The starting point was the Paris Agreement and the United Nations Sustainable Development Goals in 2015, which led to the European Union's Action Plan consisting of ten central measures in March 2018. Those individual measures have been implemented or are being implemented with the benchmark, taxonomy and disclosure regulation, among other acts.

Martina Hertwig explains: "The fund and real estate sector faces a raft of measures. The challenging part is that the measures are not coordinated. Furthermore, I believe there will be high demand for green products, but only a minimal supply at first."

For companies in the sector, ESG presents opportunities for differentiation. "Fund providers, asset managers, property managers and project developers with a stringent ESG strategy will have a competitive edge," says Dr Christian Reibis. "Companies that do not consistently and systematically implement ESG will encounter problems, for example when they require financing. Size is an advantage when it comes to implementing the complex guidelines."

With a view to the future, Martina Hertwig adds: "ESG and climate action are currently very high on the political agenda. I think the measures we're seeing are just the beginning. Policymakers are already thinking about further tightening. ESG isn't something you implement and then simply lean back. It's going to be with us for good."

Later, **Alexander Eggert** from Warburg-HIH Invest described how the major real estate investment management firm, which manages a portfolio of assets worth €11.6 billion, is taking practical steps to prepare for the implementation of ESG criteria. Warburg-HIH Invest has initiated a wide range of portfolio management measures to reduce CO2 emissions, including green lease clauses for extensions and new contracts. In addition, a large portion of the portfolio in Germany for which Warburg-HIH Invest provides asset management services has been converted to green electricity or green gas.

Because recording property-related data in order to derive further energy optimisation measures plays a pivotal role in successfully implementing the EST strategy within portfolio management, Warburg-HIH Invested started converting its portfolio to smart metering at an early stage. The move allows the company to gather detailed and complete building data that serves as a basis for future ESG reporting.

“In terms of ESG, we are on the right track and are launching our first disclosure-regulation-compliant ESG product with our Deutschland Selektiv Immobilien Invest II fund,” says Alexander Eggert, Managing Director at Warburg-HIH Invest. “What’s more, our Warburg-HIH Zukunft Invest fund offers investors the opportunity to make a socially conscious investment in a portfolio of day nurseries. Despite the initial success in implementing our sustainability strategy, we will continue to further enhance our abilities in this field, as we still have a long path ahead of us. That is due in part to the vague wording of the EU regulations and the lack of a universal definition of a sustainable real estate fund, which makes building a bridge from theory to practice difficult. As a result, we are involved in multiple initiatives, such as the ESG Circle of Real Estate, in order to develop common standards and ultimately ensure comparability for investors.”

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### **About Baker Tilly**

With more than 36,000 employees in 146 countries, Baker Tilly provides a broad range of innovative and individual consulting services in the areas of Audit & Advisory, Tax, Legal and Consulting worldwide. Globally, our accountants, lawyers, tax advisors and management consultants develop solutions which are precisely tailored to the individual needs of our clients and implement them with the highest standards of quality and efficiency.

Based on our entrepreneurial consulting philosophy, the engagement partners form interdisciplinary teams consisting of specialists best suited for each particular project.

In Germany, Baker Tilly employs 1,115 specialists in ten different locations and is one of the largest partner-managed consulting firms in the country.

The Baker Tilly Competence Centers and Industry Teams combine know-how and expertise from various disciplines and industries in cross-sector teams, focusing on the specific requirements of clients and their markets.

### **About Warburg-HIH Invest**

Warburg-HIH Invest Real Estate (Warburg-HIH Invest) is one of the leading investment managers for real estate in Germany and elsewhere in Europe. We find, develop and control real estate and investments under a forward-looking approach in the best interest of our clients. Decades of experience, the proximity to real estate markets and tight networking enables us to identify real estate opportunities and to act on them quickly in the right market cycle.

Around 150 institutional clients entrust their investments to Warburg-HIH Invest. They benefit from the structuring, product development, property management and market development specialists we make available for the purpose of developing just the right investment solutions for them.

Warburg-HIH Invest maintains a presence in ten different locations across Europe. As part of the HIH-Group, we cover the entire real estate investment value chain with in-house capacities. The early recognition of market changes, the implementation of regulatory requirements and forward-looking digital management are part of our corporate philosophy.

At the moment, we have 11.6 billion euros worth of assets under administration in 72 investment funds.