



SPOTLIGHT

SAVILLS RESEARCH 2022

ESG in Egypt

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Introduction

Sound financial and economic performance are perceived as the primary and sole measures of a nation’s prosperity. Today, these measures are no longer sufficient. Environmental, Social and Governance (ESG) commitments have gained significant global importance across all sectors and are currently perceived as essential measures for the long-term economic viability and success of business and nations.

As the issue of climate change takes global centre stage, evolving from a mere peripheral matter to a universal priority, countries worldwide have begun turning to “green economy” as a strategy to reduce the environmental risks associated with their economic growth. Over the last decade, awareness on the pressing need to alter the planet’s current trajectory has risen on the political agenda at local, national, and global fronts. It is imperative that our society commits to fundamental changes today to limit the extent of global warming and avoid permanent degradation of the Earth’s resources, habitats and species.

In light of COP27 that was held in Egypt, the country has set comprehensive development plans and implemented numerous projects in line with the economic and environmental priorities of the State. Egypt’s ‘Vision 2030’ also prioritises and highlights the importance of incorporating ESG aspects across all sectors.



ESG in Real Estate

With buildings accounting for around 40% of all CO₂ emissions globally, decarbonising the real estate sector is perceived as a challenge that needs to be tackled, as highlighted in COP26. The ongoing growth of the real estate sector and the continuous construction of new developments to meet growing population and urbanisation, places greater pressure on the industry as a whole to try and incorporate more ESG aspects.

This calls for more a sustainable approach to development across Egypt which has seen an increase in urbanisation rate and a growth in domestic population leading to a strong growth in construction activity over the last few years.

Fulfilling ‘Environmental’ aspects within real estate is a commonly discussed topic within the sector, as carbon emissions are present at all stages of a property’s lifecycle - from construction through the operational phase, as well as throughout the building’s lifespan. As such, solving for the environment is of utmost importance and greatest difficulty.

‘Social’ factors refer broadly to the impact of assets on occupiers and their communities. Consideration is often given to how technology changes the way we live and work, and the role real estate plays in meeting the requirements of the changing socio-demographic.

‘Governance’ includes culture, diversity and conduct and is widely associated with how corporates conduct their business operations. Governments, however, also play a key role in creating the framework and laying down necessary regulations for companies. Good governance aims to be transparent, inclusive, efficient, accountable, and carried out by taking into account the cultural dynamics of the region.





Solving for the Environment

COMMITTING TO NET-ZERO CITIES

Today, 55% of the world’s population lives in cities, and this number is set to rise to over 68% by 2050 as global population swells and urbanises. According to the Organization for Economic Co-operation and Development (OECD), this increase is expected to result in the doubling of global building stock by 2050. In the Middle East, construction activity over the last decade has been strong and is likely to grow going forward, due to an estimated USD 2.5 trillion development pipeline until 2050.

The impact on the climate, however, is not just limited to the initial construction phase, but the day-to-day operations also contribute significantly to climate related issues. As per the International Energy Agency (IEA), electricity consumption in buildings represents nearly 55% of global electricity consumption. Accordingly, the built environment has an important role to play in combating climate change. To properly reach net-zero, we need to try eliminating emissions across the property life cycle.

Modern methods of construction and retrofitting existing projects are common practices used to reduce carbon emissions during the initial building phase. Efforts to limit operational carbon within the real estate sector often fall under two key approaches: a) the removal of fossil fuels as a source of energy, and b) the use of renewable energy sources. The idea is to utilise technology to improve the energy efficiency of buildings by reducing consumption which in turn unveils “Smart” buildings.

“ Electricity consumption in buildings represents nearly 55% of global electricity consumption. ”

In Egypt, the ‘Vision 2030’ states that it aims to reduce carbon emissions by 70 million tons by the year 2030, representing around 33% of the country’s emission levels. Accordingly, the strategic vision for urban development in Egypt is currently focusing on developing smart cities, with the New Administrative Capital (NAC) taking the lead. The development of NAC integrates smart infrastructure and, subsequently, operational measures to ensure environmental considerations are met across the project’s lifecycle.

Solar panels will be installed on the rooftops of the residential districts, envisaged to produce around 130 MW of energy to become the largest rooftop solar panel project in the world. Such an initiative aligns NAC with

the Administrative Capital for Urban Development’s (ACUD’s) target of producing 30-35% of the district’s power supply from renewable energy sources. Smart integration of utilities will also be adopted and managed by advanced technology to ensure efficiency. Smart irrigation systems, smart waste management systems, smart meters, amongst other features, will be implemented across the city, in an attempt to reduce carbon emissions and save natural resources.

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SUSTAINABLE ENVIRONMENTAL DESIGN

Sustainable architecture has been gaining traction across the industry as a means of incorporating sustainable design methods to minimise negative impact on the environment.

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Commercial developers have been the first to adopt sustainable design methods.
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The most common examples of sustainable design include the use of double-glazed windows, motion sensors, solar panels, and low-flow shower heads, amongst others. Locally, commercial developers have been the first to adopt sustainable design methods, with one notable example of a 1,300 sqm solar panel installed in a retail project in Cairo leading to 29% electricity savings within a span of nine months.

However, for a project to be labelled as truly sustainable, it must also utilise sustainable construction materials alongside the design. To ensure global consistency, building rating systems such as BREEAM, GRESB and LEED are now common in this sector, with steps being taken to also implement new grading systems that better measure the operational carbon performance of a building. Certified projects meet ESG goals by tackling decarbonisation, improving efficiency and creating healthy atmospheres for occupiers. Currently, Egypt hosts 23 LEED-certified buildings, most of which have been privately developed.

Evidence that greener buildings cost less to run, means that less persuasion, or government intervention, is needed to transform commercial properties into more sustainable developments. As an example, measures have been put in place to create a governmental Green Star Hotel program (GSH),

managed by the Egyptian Hotel Association under the support of the Egyptian Ministry of Tourism.

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Egypt hosts 23 LEED-certified buildings, most of which have been privately developed.
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The purpose of the programme is to encourage sustainable tourism by certifying hotels that adhere to high levels of environmental performance. To date, 22 hotels in Egypt are GSH-certified, with an additional 64 properties attempting to obtain the credentials.





REFURBISHMENT AND REGENERATION

Calculations by the Federal Environment Agency of Germany have revealed that emissions released during the construction of real estate (known as grey energy or embodied carbon) are recouped over 43 years of operation. To take the right steps towards our global environmental goals, the entire life cycle of a property must be taken into greater consideration. As such, the refurbishment of an existing building could actually prove more sustainable than building anew- even if new properties are certified.

Despite this, however, most of the current discussions within and outside the industry (including national climate targets and the ESG taxonomy) seem to revolve purely around the greener operations of real estate properties, neglecting almost entirely the construction stage. If embodied carbon is excluded, new buildings naturally perform better than existing properties in terms of greenhouse gas emissions. But this is a fallacy with regards to combating climate change- and one that is likely to lead to misguided incentives on the markets.

“Renovating Downtown Cairo and its buildings has been on the government’s top priorities list for the last decade.”

If we assume that the ‘E’ in ESG can be achieved primarily with new buildings, ESG-compliant investors will divert their capital only into new buildings. This will devalue existing properties and therefore discourage asset owners to make urgently needed refurbishments. Considering the entire life cycle, and doing this at all times, is therefore crucial for evaluating the real ecological impact of real estate investment decisions. Such transparency could make renovations and refurbishments of existing properties appear more attractive and contribute to longer life cycles.

In Egypt, we have recently seen a change of mindset amongst the public and private real estate developers who have launched initiatives to reclaim and restore heritage buildings. For example, old properties are either brought back to their original function or repurposed entirely to match current societal needs.

Renovating Downtown Cairo and its buildings has been the government’s priority. As ministries and embassies relocate to the New Administrative Capital, their now vacant, previously occupied old buildings, are set to be regenerated and repurposed in line with the government’s new masterplan and vision for Downtown Cairo. Paving the way for Downtown’s restoration is the Sovereign Wealth Fund’s dedicated Real Estate and Tourism investment vehicle which comes with the mandate to reclaim and maximise the potential use of the neighbourhood. Private developers including Al Ismaelia for Real Estate Investment, Misr Real Estate Asset Management and the likes have already led the process by transforming a number of historical buildings into a technology and start-up hub.

Solving for Social factors

Real estate and infrastructure investment can help foster greater social welfare within communities by taking into consideration factors that affect health and wellbeing. Recently, Covid-19 has reshaped the ways in which communities interact, essentially altering how they experience residential, office and retail space. The pandemic has also shed light on key societal pain points in reference to health and social inequality. In Egypt, these have included limited access to nature and public space within the city, an increase in mental illness and restricted access to affordable housing.

As such, real estate developers are pressured to tackle the issues at forefront. Given the diversity of communities and variance in scale of new developments however, a one-size fits all solution to improving social value is neither feasible nor appropriate. Today, built environment practitioners must move away from box-ticking to developing project-specific social outcomes and interventions.

Moving forward, developers of office and commercial complexes are expected to face greater demands from tenants that are determined and focused on meeting the social responsibility they have towards their employees. Globally, certifications such as Fitwel and WELL are being used more widely to guide the development of buildings that emphasise people's health and safety.

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Locally, government led initiatives to improve the social value within our communities have taken shape through a series of investments in city-wide infrastructure to enhance public spaces, prioritise pedestrian and bike routes and improve city-wide access to public transportation. Amongst the most notable projects, is the construction of the “Ahl-Misr” walkway on the Nile Corniche and the establishment of a dedicated bike lane within Downtown Cairo to inspire a healthier everyday lifestyle.

“A dedicated bike lane within Downtown Cairo to inspire a healthier everyday lifestyle”

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Solving for Good Governance

Good governance practices take into consideration culture, diversity and conduct. It is widely associated within the sector of real estate with how developers conduct their business operations. Governments, however, also have a key role to play in creating broad frameworks and laying down the necessary regulations. The aim is to create transparent, inclusive, efficient, and accountable settings that take into account the cultural dynamics of the greater community.

The Egyptian government understands the importance of spreading a culture of “sustainable development” and expanding its economic dimensions, considering the social and environmental aspects of project planning and execution. Moreover, in the framework of its 2030 Vision, Egypt aims to achieve sustainable development with the basic guarantor of the rights of future generations in the uses of natural resources and in development returns.

Regulatory guidelines and sectoral environmental sustainability standards are being created and implemented. Key mandates include:

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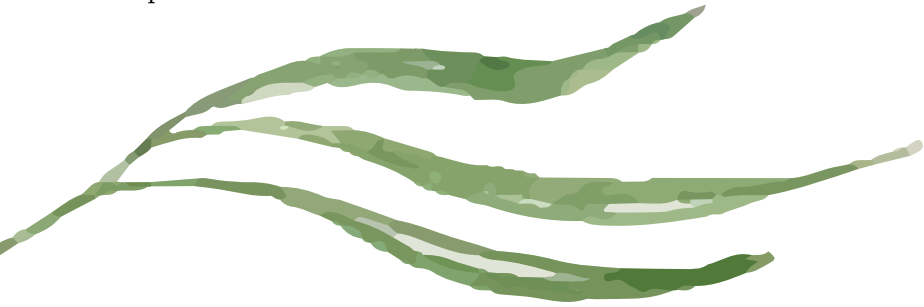
Providing proper housing for Egyptian citizens and completely eradicating slums for their lack of electricity, safety, clean water, and sewage. Relocate slum residents to new developments with higher quality of life and safety.
- 2

Reduction of migration from the countryside to the cities to minimise the effects of urban sprawl.
- 3

Improve labour conditions.
- 4

Expanding the production of clean energy through renewable resources.
- 5

Following Egyptian design code to ease and accommodate differently abled individuals.



Moreover, investors are increasingly considering ESG and non-financial KPIs as part of their analysis and decision-making process to identify material risks and growth opportunities within the real estate market. Accordingly, starting 2023, EGX-listed firms will be required to file mandatory annual ESG reports. The companies would have to disclose their performance in key environmental, social and governance metrics along with their financial statements. Their ESG performance will be based on 21 KPIs from operational environmental footprint to diversity, anti-discrimination, and health and safety.





Savills Egypt

Working alongside investors, developers, operators and owners, we inject market insight and provide evidence-based advice at every stage of an asset's lifecycle. We have unrivalled reach across the Middle East with extensive market experience in Egypt, UAE, Bahrain, Oman and KSA.

Savills recognizes real estate is responsible for 40 per cent of carbon emissions and, to coincide with COP27, it is launching its latest research examining how the sector is adapting to meet climate challenges. Savills supports clients to develop strategies and working practices that turn sustainability targets and commitments into reality and embrace the change needed to improve the effects that property has on the plant.

Savills Market Research

We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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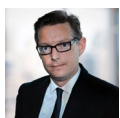


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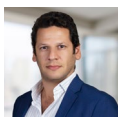
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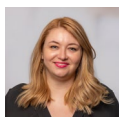
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