SPOTLIGHT
Savills Research

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ESG in Vietnam

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Vietnam

Savy corporates realize that ESG reporting is responsible, moreover it will be mandatory in the short term. Engaging early will deliver competitive advantage.

INTRODUCTION

The origins of ESG lie in the rise of socially responsible investing in the 1980s, followed in the 1990s by sustainable funds indices, the UN Framework Convention on Climate Change, the Kyoto Protocol, and the Global Reporting Initiative of 1997. The term itself was first coined in 2005, what followed was a plethora of frameworks and rating agencies including the Task Force on Climate-related Financial Disclosures (TCFD) and the UNs Sustainable Development Goals in 2015.

According to the United Nations Environment Program, in 2020 building operations accounted for about 31% of global final energy consumption and 28% of energy related CO2 emissions. A growing appreciation of the important role which real estate can play in mitigating climate change has prompted participants to take ESG much more seriously across the entire lifecycle of a property. In the region's real estate markets, Australia, Hong Kong, Japan, New Zealand and Singapore are the front runners, with China and Vietnam making swift progress. Asia-Pacific lags Europe and the US in transforming the industry with issues hindering the wider adoption of ESG standards such as inertia, capital cost, insufficient policy impetus and inadequate access to green energy and construction materials.

The importance of Asia Pacific's real estate markets to sustainability is highlighted as the region now accounts for 20 out of the world's 36 megacities with populations of over ten million. The region's urban population will grow from 2.3 billion in 2019 to nearly 3.5 billion by 2050, a 52% increase. Rising urban populations usually stimulate a boom in all types of real estate assets and according to the International Energy Agency, Asia-Pacific will see the greatest rise in stock across all property sectors globally, with a 65% increase by 2050 led by ASEAN, China and India. While the spike in supply implies a steep rise in embedded and operational carbon, the region also has huge potential to promote sustainability and develop new technologies to combat climate change. The mission is to ensure that Asia can decarbonize while expanding its urban footprint.



VIETNAM OFFICES

There are currently 20 office buildings that have LEED or Green Mark certification in Vietnam. Seventeen are in Ho Chi Minh City, accounting for approximately 25% of existing office stock, rising to 31% by 2026. There are 4 projects that will provide up to 164,000 m2 NLA green office to be delivered from 2024 to 2026.

According to the 2022 report on "ESG Readiness in Vietnam" by PwC, Vietnamese companies are increasingly embracing ESG practices. The report was based on a survey of 234 business representatives, of which 41% were Foreign direct investment (FDI) companies, highlights the following findings.

Most surveyed companies (80%) have committed to or plan to commit to ESG within the next 2-4 years. However, there is a discrepancy between different types of companies. FDI companies show clear ESG commitments with 57% stating explicit ESG commitment, while listed companies in Vietnam seem to adopt a "wait-and-see" approach, with 58% indicating future ESG commitments. Notably, 40% of private/family-owned enterprises have already set ESG commitments, reflecting a sense of responsibility among the next generation of Vietnamese businesses.



MEASUREMENT

The challenge is to understand the difference between what a guideline is, and what is mandated, avoid the pitfalls of green washing, and choose between a bewildering array of certifications and standards. The Taskforce for Climate related Financial Disclosures (TCFD) follows on from the Sustainable Development Goal (SDG) framework and supports development of a Net Zero Pathway and SDG Action Plan. Much of which then feeds into Science Based Targets initiative which is there to translate into concrete energy reduction action plans that put meaning into Net Zero targets which then cannot be left until the last minute.

It is too late to do nothing. Aside from growing public concern and increasing government regulation, there is also a sound financial justification for investors to improve the sustainability credentials of their portfolios including risk management, transparency, cost savings and increased revenues. According to a recent ULI/ PwC survey, 37% of respondents cited ESG factors as a mandatory consideration in real estate investment decisions, up from 22% two years earlier.

In commercial real estate markets where transparent measurement criteria are often scarce, green building certification is one of the more structured indicators. While LEED is arguably the most widely adopted building standard in the region, many jurisdictions have developed their own to consider local market characteristics (eg: water issues may be at the forefront in areas prone to drought). Taking all green certifications into account, local and international, Singapore stands out with 95% of the city state's Grade A stock certified, followed by 64% in Kuala Lumpur and 47% in Hong Kong. Vietnam has 52% by NLA.



BROWN DISCOUNT OR GREEN PREMIUM?

The business case for ESG in real estate remains difficult to quantify. Although we do see a rental premium between certified green stock and non-certified averages (up to 10%), it is still hard to pinpoint how much more occupiers are willing to pay for green buildings. Certified projects are newer and better designed, thus naturally commanding a rental premium over older stock. Given the growing scrutiny of corporate ESG compliance, however, it is safe to assume that prospective tenants and investors favour facilities which can help them reduce their carbon footprint and overall energy consumption. As such, buildings without certification might be at risk of higher vacancy going forward. The margin between green and non-green can be considered a 'brown discount' as much as a 'green premium'.

OCCUPIERS

Meeting these standards has important implications for landlords. By demonstrating good corporate governance and increasing the appeal of offices for tenants whose own ESG commitments mean that they cannot occupy non-compliant buildings. There is also an opportunity to improve relationships with tenants and the wider community, while also addressing issues such as wellness. Green leases can be used to encourage landlords and tenants to agree sustainability-linked targets and performance indicators as part of an ongoing collaboration. Examples might be for a tenant to submit fit out plans showing recycled and recyclable content of material used, or for a landlord to commit to support paper, plastic and metal recycling efforts. F&B operations may be encouraged through a green lease to reduce food waste, make use of on-site composting or sending cooking oil for recycling into bio diesel. These all require greater collaboration than many existing landlord - tenant relationships. Translating the call to action includes a large number of relatively small steps; for example the payback period from switching fluorescent tubes to LED, can be as short as 18 months.

All Savills Vietnam offices are LEED certified.

For a killer twist on a corporate's commitments, see Apples recent 'Mother Nature'; LINK HERE

For more information about this report, please contact us

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