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Value, not Values:

Resetting the ESG Conversation in Real Estate

AREF THOUGHT LEADERSHIP

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In July, AREF hosted 18 organisations at a roundtable event to debate the need for a strategic reset in how ESG is understood and applied across the UK real estate industry. This paper is the outcome of that debate.

The roundtable acknowledged that there has been genuine progress in the industry over the past decade. ESG is now firmly embedded in boardrooms and investment committees, supported by evolving regulation and mainstream investor demand. These advances represent meaningful steps forward.

However, the rapid growth and complexity of ESG have brought unintended consequences, necessitating a period of recalibration. This paper highlights the resulting confusion and fragmentation, which have at times undermined clarity, credibility, and long-term impact. The intention is to move beyond labels and rhetoric, and to reframe ESG as a practical, outcome-driven tool for value creation, value protection, and stewardship—ensuring it remains a powerful force for positive change in the sector.

The Evolution and Challenges of ESG

'ESG', 'Sustainable Investing', 'Sustainability', 'Responsible Investing', 'Impact Investing'.

Anyone with a combination of these words in their job title should be able to tell you the technical difference between them, but for the rest of the market, these concepts have become mired in ambiguity, fragmentation and for some, growing scepticism.

A decade ago, ESG was simpler and more intuitive, with fewer regulations, reporting standards, and complexities. Unfortunately, the rapid rise of ESG in more recent years propelled this misunderstood concept into the spotlight; and in so doing, the industry lost its way.

The rise of ESG has reshaped the investment landscape, prompting managers to respond in different ways. Some have led with conviction, embedding sustainability into core strategy and decision-making. Others, navigating a rapidly evolving space, began with foundational steps—sometimes prioritising visibility while building internal capabilities. This diversity of approaches is understandable given the pace of change and the complexity of ESG itself. But as frameworks mature and investor expectations sharpen, the focus is shifting toward greater accountability, clarity, and alignment.

For investors, this is a pivotal moment. ESG is no longer just about signalling intent—it's about demonstrating impact. That means assessing how sustainability is integrated into governance, underwriting, and asset management, and how net-zero commitments are supported by credible, context-aware transition plans.

The proliferation of standards and definitions has created complexity, but it also reflects growing ambition. The opportunity now is to refine, align, and build trust—ensuring ESG becomes a strategic enabler of long-term value, not just a reporting requirement.

Investors are central to this evolution. By engaging with managers, asking thoughtful questions, and supporting transparency, they help shape a market where ESG is both meaningful and measurable.

ESG should not be a marketing tool—it should be a framework for managing risk, unlocking value, and stewarding capital responsibly. That means net-zero pathways must be credible, context-aware, and underpinned by realistic transition plans. It means ESG data must inform decisions, not just reporting. And it means frameworks and standards must support clarity, not confusion. Investors have a critical role to play in shaping the next phase of ESG—one defined not by hype, but by integrity, transparency, and strategic alignment.

Compounding these challenges are blurred lines and misconceptions surrounding the link between ESG performance and financial returns. While there is growing recognition of ESG within valuation frameworks, lending practices, and academic research, striking the right balance between ESG ambition and financial returns remains a struggle in the real estate sector. Investors are not always clear on the distinction between

ESG integration for value protection (risk management) and value creation— strategic opportunities with returns that may take longer to manifest. There is a misalignment in the desire to prioritise short-term financial returns while at the same time expecting strong ESG performance, when those benefits may only be profitable over the long run. This tension is intensified by traditional financial models that rarely reflect ESG performance, making it difficult to quantify its contribution to returns or justify investment decisions based on sustainability criteria alone.

Although research increasingly demonstrates correlations between sustainability features and rental premiums or occupancy rates, particularly in office and multifamily sectors, the data remains fragmented across markets and property types. It is not ESG performance alone that presents challenges in establishing a clear financial link, but also other real estate factors—such as proximity to public transport or crime rates. These factors are often considered in valuations, yet they are typically not assigned a specific monetary value. This underscores the broader difficulty in isolating and quantifying the impact of individual non-financial attributes in real estate, many of which could arguably be framed within the ESG lens. As empirical evidence continues to evolve, firms must transparently communicate the assumptions and limitations of ESG-related financial projections, ensuring that sustainability claims are grounded in data and context.

This short-term mindset extends beyond financial performance to strategy and decision-making. ESG requires long-term thinking and resilience planning—especially in the face of a potential 3°C global temperature rise, for which the industry is woefully unprepared.[1] The pressure to meet shorter-term investment return targets has often limited the ability to pursue ESG initiatives that address systemic risks and protect or enhance asset value over the long term. The real estate sector has traditionally lacked a systems thinking approach, often making business decisions in isolation and without fully considering their broader impacts. For example, while divesting from high-emitting assets may improve a portfolio's carbon footprint, it does little to address systemic risk if exposure to climate-vulnerable markets remains unchanged. Companies, sectors, and markets are deeply interconnected; actions in one area inevitably influence outcomes across the entire system.

Investor Sentiment and Market Trends

After a period of rapid growth and high expectations, the 'ESG hype cycle' momentum was met by rising geopolitical tensions, inflationary pressures, macroeconomic uncertainty, and a political backlash emerging from certain regions in the United States. In some jurisdictions, these pressures have cast a shadow of doubt over the legitimacy and long-term relevance of ESG globally, while in others, they have compelled a critical reassessment and a shakeout of performative practices.

Investor sentiment in the UK and Europe has been notably resilient. Recent surveys reinforce this, showing no decline in investor interest in ESG and plans for increased ESG-related spending, underscoring sustained commitment even amid market uncertainties[2]. In fact, many investors are using this moment of heightened scrutiny as an opportunity to refine and reprioritise their ESG strategies—particularly in how they engage with fund managers. UK pension funds, especially Local Government Pension Schemes (LGPS), have maintained their ESG commitments and increasingly seek strategies that can demonstrate impact alongside financial return. In addition, engagement levels are rising and investors are scrutinising ESG delivery more closely, demanding evidence of implementation rather than just policies. The Mansion House Accord – a 2023 initiative to mobilise UK pension fund capital toward productive investments including sustainable

[1] https://www.unepfi.org/wordpress/wp-content/uploads/2023/03/Real-Estate-Sector-Risks-Briefing.pdf

https://www.mckinsey.com/~/media/mckinsey/industries/real%20estate/our%20insights/climate%20risk%20and%20the%20opportunity%20for%20real%20estate/climate-risk-and-the-opportunity-for-real-estate-v3.pdf

[2] INREV-Investment-Intentions-Survey-2025 report.pdf (pp 24) and emerging-trends-in-real-estate-europe-2025.pdf (pp 6)

infrastructure and venture growth – further reinforces the UK's commitment to sustainable finance, creating new opportunities for ESG-aligned investment in private markets.

While the language is evolving, with terms like "ESG" and "DEI" being used more cautiously in politically sensitive markets, the underlying actions and priorities in the UK and Europe remain largely unchanged. This reframing reflects a strategic adaptation, especially in highly politicised environments like the US, rather than a fundamental shift in values. Investors, as long-term stewards, continue to look beyond short-term political cycles and sustain strong demand for sustainable, resilient investments, particularly in regions where long-term value creation remains central to investment philosophy.

We must not forget that the physical nature of real assets anchors the fundamental drivers of ESG – where sustainability features have become synonymous with quality, and assets remain especially vulnerable to climate-related damage. Cyclical losses, rising insurance costs, ongoing regulatory requirements for mass retrofit, and supply-demand imbalances all create significant structural challenges and opportunities. While not all ESG initiatives are value accretive, their financial materiality is firmly rooted in the fiduciary duty of long-term stewards of institutional capital, whose performance relies on stable, well-functioning economic systems.

The Path Forward: From Rhetoric to Results

The industry needs a reset. We must shift our focus from debating terminology to re-establishing clarity of purpose. Whether we call it ESG, sustainable investing, responsible investment, or something else entirely, the label matters far less than the outcomes: resilient assets, long-term value, and positive impacts on people and the planet. The industry must move beyond the noise toward an outcome-driven approach that integrates environmental and social considerations as standard components of investment decision-making.

This reset requires embracing a more integrated and pragmatic view of ESG grounded in three core objectives: value creation, value protection, and stewardship.

1. **Value creation**: Using ESG insights to drive operational efficiencies, reduce costs, and make better-informed investment decisions.
2. **Value protection**: Ensuring assets remain resilient to regulatory changes, climate risks, and evolving market demands.
3. **Stewardship**: Recognising the privilege and responsibility that comes with capital—to contribute positively to communities, ecosystems, and future generations.

These objectives are not idealistic—they are essential to long-term portfolio viability.

ESG helps to identify externalities missed by traditional financial models and to drive outcomes such as revenue growth, client retention, and market differentiation. To realise these benefits, senior leadership must understand both the qualitative and quantitative value ESG brings, from capital committed with sustainability ambitions to enhanced risk management. For this reset to succeed, ESG must become everyone's responsibility. The current model, where sustainability teams simultaneously serve as compliance officers, data analysts, legal experts, and strategists is unsustainable. ESG should be embedded across all functions—from acquisitions and asset management to leasing and development. This cultural shift will require leadership, education, and willingness to challenge legacy thinking. It also necessitates technology investment, as data management and analytics capabilities become increasingly critical to effective ESG integration.

Collaboration is equally important. Sharing lessons, aligning on standards, and making data accessible will enable ESG to be fully integrated into financial decision-making—ensuring it is not just a reporting requirement, but a driver of long-term value.

Crucially, the industry must collaborate to align on meaningful metrics and standards that relate to investment performance and ensure that reporting frameworks facilitate—not distract from—the investment case for sustainability. Only through collective effort, sharing lessons, and making data accessible, can ESG transcend labels and compliance to become a driver of long-term success.

Conclusion: Value, Not Values

Ultimately, it is about value—not values. We need to go back to the basics and move beyond labels, frameworks, and political noise to focus on what truly matters: building resilient portfolios that deliver long-term value for investors while benefiting communities and the planet. This requires returning to fundamentals: clarity of purpose, strategic focus, and a shared understanding of ESG as a tool for identifying risk, driving performance, and unlocking opportunity.

The industry has a chance to reset, to simplify and standardise, and to reframe ESG not as a burden, but as a business imperative. By embedding ESG into the heart of investment decision-making, articulating a clear value thesis, empowering teams with the right tools and authority, and fostering collaboration across the market, we can ensure that ESG is not just sustained—but strengthened—as a driver of competitive advantage and enduring impact.

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AREF
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The Association of Real Estate Funds
- The Voice of the Real Estate Funds Industry -
3 Waterhouse Square, London EC1N 2SW
Tel: 020 7269 4677 – www.aref.org.uk
LinkedIn