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THE IMPACT OF ESG FACTORS INTEGRATION ON FINANCIAL PERFORMANCES OF REAL ESTATE INVESTMENT TRUSTS (REITs) IN FRANCE.

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Abstract

This study demonstrates how ESG is valued in REITs. Between 2011 and 2020, collecting ESG ratios from the IEIF SIIC France index, and see if the high rated ESG companies outperform the market. The findings, show that this association of multi-factor is shifting toward a favorable performance for companies with a high ESG ratios. Furthermore, when comparing listed real estate to the market, it indicates that ESG has a mixed influence. According to the findings, the price of ESG varies between REITs and the market. The link between ESG and return on listed real estate has gotten little attention. This thesis demonstrates the importance of considering the individual influence, as well as the fact that previous market studies cannot simply be applied to REITs

Keywords – REITs; Multi-Factor Model; ESG ratios

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Introduction

Given the fact that integration of ESG criteria into the investment process of asset management companies appears to impose major challenges for the industry, this paper will focus on the study of the indicated integration in the French asset management market. This relevant topic arouses my interest all the more because it resonates with the various professional experiences I have had during my studies. My experience as a real estate investment analyst at Banque Neuflize OBC (ABN AMRO Group) allowed me to learn about the demanding regulatory frameworks that impose many obstacles on companies (insurance companies, management companies, credit institutions and private banks). I was also able to discover the operational side of the real estate asset management sector, where I was made aware of the different issues related to the integration of ESG criteria in the investment solutions offered to all types of investors. Finally, writing a research paper on this subject is a real added value for me both personally and professionally, as it is an opportunity to deepen my knowledge and my ability to report on the trends and perspectives of an asset management sector through our indirect real estate investment activity. The research and analysis of this thesis will aim to resolve the following issue:

"How the integration of ESG factors impact the financial performances of the real estate investment trusts (REITs) in France."

In order to answer this question, the paper will first report on the main trends, developments and prospects of the French third-party asset management market, the evolution of the consideration of ESG criteria in the financial industry and the trends and prospects of responsible investment in France. The research will then look at the issues involved in taking these criteria into account in the investment process of real estate asset management companies from the point of view of a third-party asset management professional. Finally, the purpose of this study is to determine the degree of attention that major investors implement once considering the ESG criteria in the management of their own financial assets and once selecting management companies in which they invest.

Despite being born in 1920s, SRI underwent a second phase of development in continental Europe in the 1990s before becoming more international at the turn of the 21st century. The relevant investing strategy has faced many oppositions; commencing with Friedman (1970), who argues that that investing socially will lead to financial underperformance; the second stream on contrary supports SRI, demonstrating that the strategy has a good track record, and the final stream includes actors for whom the relationship between financial and social performance is so complex that its effect is neutral. There are various empirical studies conducted to date in the United States and Europe that support these three theoretical trends. Indeed, this multitude of empirical studies have used various measures of financial and social performances, several statistical and econometric models covering different geographical regions have not converged on the same conclusions. These results thus confirm that it is difficult to establish a systematic and positive link between SRI's social and financial performance. One would then wonder whether the findings of this work might not call into question the rise of socially responsible investment. As Cowton and Sparkes (2004) have argued, the financial return on socially responsible investment is one of the most contentious issues and that its outcome is crucial to the growth of the activity. Besides, the empirical studies by Fuerst (2015) revealed a positive correlation between ESG performance and stock market performance from the Us market.

Section 1 : Literature review

1.1 General introduction of Real Estate market

Since October 2020, the SRI label also concerns real estate asset funds, for which specific requirements are foreseen. One of the main contributions of the new version of the standard is to extend the scope of the label to real estate funds, both for professional clients and for the general public and private clients. The following are now eligible for the SRI label real estate AIFs (Alternative Investment Funds) marketed in France and Europe that fall under the AIFM directive or under a regulation of the European Union;

- AIFM Directive or equivalent regulations for funds marketed outside the European Union the European Union
- management mandates for real estate assets.

Several technical criteria ensure that the fund is mainly composed of real estate assets. These assets may be; directly or indirectly owned, located within or outside of France and used for various purposes (office, retail, housing, etc.). For these real estate funds, however, the SRI label sets out specific requirements that are different from those applicable to securities. These requirements are the result of work carried out by the French association of real estate investment companies (ASPIM) assisted by PwC and in conjunction with the SRI label committee. The objective was to extend the principles of the SRI label to real estate, while taking into account its specific characteristics, in particular the more direct understanding of sustainability issues and the slow pace of asset renewal.

Socially Responsible Investing (SRI) has grown in popularity in recent decades (Newell, 2009). The proportion of investments made in companies that consider environmental, social, and corporate governance (ESG) issues is steadily increasing. According to Bansal and Roth (2000), four factors influence corporate social responsibility (CSR): regulation, stakeholder pressure, moral views, and increased financial performance. Climate change, as well as increased attention to social and ethical issues, hasten the shift to more sustainable investments. Furthermore, obtaining information about a company's ESG performance is becoming easier. As a result, investors are increasingly incorporating corporate social performance (CSP) factors into their decision-making process. Because of their long-term horizons, the US and European Sustainable Investment Forum (USSIF) anticipates that investors such as insurance firms and pension funds will primarily adopt SRI by 2020. (Geiger et al., 2014). Asset4good, the Dow Jones Sustainability Index, and the MSCI ESG Indexes demonstrate the growing need for SRI benchmarks. Increased focus and knowledge of SRI is also seen in the real estate sector. Buildings account for roughly 32% of overall energy use and 33% of world CO2 emissions (Geiger et al. 2014). It is therefore critical to minimize emissions in the real estate sector in order to keep temperatures from rising by more than two degrees Celsius. To reduce emissions within the sector, initiatives like as LEED, Energy Star, and Green Star were launched (Fuerst, 2015).

Investigating the relation between CSP (Corporate Social Performance) and CFP (Corporate Financial Performance) is often discussed within the academic literature. Nonetheless, the argument on how investing in ESG factors affects the CFP continues (Nagy et al., 2016). More than 2000 articles have been published on this topic, yet the results are often contradictory. As a result, Friede et al. (2015) gathered all previous research on the subject in an attempt to achieve a consensus. The authors discovered actual evidence through an empirical analysis that backs up ESG investing; specifically, by integrating 2000 individual research, roughly 90% of the results of revealed a non-negative link in ESG investment. Furthermore, the majority of results demonstrated a positive relationship between CSP and CFP. However, this does not necessarily mean that high ESG scores produce in a superior return for investor. A strong ESG commitment is assumed to reduce the investment's systematic and idiosyncratic risk (Giese et al., 2017). As an outcome, investors may demand a lesser risk premium from SRI, triggering a reduced return. Little emphasis has been paid to study into the relationship between CSP and CFP in the real estate sector (e.g., Cajias et al., 2014; Fuerst, 2015; Geiger et al., 2014; Newell, 2009). A substantial portion of earlier research simply describes the growing importance of SRI for real estate investors. Others have looked at the relationship between ESG performance and firm value, focusing on its relation to return. Using the MSCI ESG database, (Cajias et al. 2014) discovered that ESG scores are associated with worse returns in the period 2003-2010 by utilizing the MSCI ESG database. Another study investigates the relationship between ESG and return between 2011 and 2014. (Fuerst, 2015), whe REITs with strong GRESB scores outperformed their peers. However, it is vital to note that the ESG performance of REITs is displayed differently in both articles, and therefore, involves unresolved mystery surrounding relationship between ESG and return on listed real estate.

1.2 Analysis of the French REITs market and the role of ESG into the Real Estate area

The three relevant Real-Estate Investment strategies (Public REITs, Direct Investents and Private Funds) emerged due to their disparity among five categories: investors, return profile, asset quality, diversification, liquidity, will be analysed with the focus on the French market. (See Figure 6 Overview of Real Estate Investment Strategies)

The impact of the pandemic on our ecosystem was immediate, both positive on our environment (with an estimated 5-10% drop in CO_2 emissions by 2020), but also negative on the mental health of telecommuting employees, almost 50% of whom report a sharp and rapid deterioration. This health and economic crisis is making environmental, societal and governance (ESG) issues more visible and material, which until now could still be relegated to the background, in the face of shorter-term financial profitability objectives. These new extra-financial issues are naturally at the heart of companies' real estate strategies: “their operating assets are both a major contributor to CO_2 emissions and a tool for improving quality of life at work” (QWL). However, this must be handled with great care from a budgetary perspective. The review of strategic plans undertaken in response to the health crisis by many companies is undeniably an opportunity to re-evaluate the role of CSR. The idea is to better reflect the societal issues dear to employees while effectively contributing to the recovery. Budgetary restrictions are a challenge in the current context but implementing them

too heavily on the deployment of a CSR strategy would clearly not be sustainable. Especially since the sensitivity of employees and investors to CSR issues has been exacerbated by the Covid-19 crisis. Ignoring this sensitivity today presents major risks:

- HR risks: recruitment difficulties and the mindset shift of employees in search of transparency, an issue that is all the more important at a time when Generation Z is entering the job market;
- financial risks: disengagement of certain partner-investors who do not want to be associated with a non-virtuous company;
- media and reputational risks that could lead to a decline in attractiveness and a slowdown in activity in the event of a customer boycott.

Real estate remains at the heart of the debate and the leaders of the post-Covid world are expected to address these societal issues. Office real estate appears to be a meaningful lever for ESG issues. Therefore, the multiplicity of workplaces and the appearance of new dimension brought about by massive telecommuting, such as making ones’ home an annex to the office with its own issues, must be accepted. Among the key elements to be integrated in the reflections on the three ESG pillars are some unavoidable ones, common to most companies in their real estate strategy:

- Reducing office space, to integrate an even larger share of remote office space, and thus proportionally reduce environmental impact. This strategy will complement efforts already underway to move towards high environmental performance office assets.
- More use of data generated by the building, to move towards a more reasoned operation. For example, by correlating occupant flows with catering, cleaning, heating and air conditioning to combat waste and unnecessary consumption.
- Rising number of new services, directly at employee’s home, that address social issues including comfort of physical facilities and precariousness: provision of furniture, meal delivery, psychological support by qualified professionals, etc. Remaining the emphasis on connectivity as acceleration of digitalization as a consequence of the pandemic is at the heart of the development of a service ecosystem adapted to nomadism.
- The redesign of the whole workplace is in process, an hybrid way of working accepted by many companies might be a realistic collaboration for employees.
- The different workspaces must be better interwoven to complement each other in the long term and not just in times of crisis.
- The generalization of 'real estate CSR reporting and innovation' referents, in order to have relevant governance and indicators.

The multiple crises linked to the pandemic have suddenly shifted the lines; once the shock of the national confinement imposed in March 2020 has passed, deeper strategic reflections have begun, including on the CSR component. The public authorities are preparing tomorrow's work standards; companies, are no longer stagnating in the current uncertain environment, are anticipating and adapting in real time. While nothing is certain, a new balance between general interest and financial interest seems to be emerging, in line with the expectations expressed by the majority of employees.

1.3 Definition of the ESG criteria and evolution of their consideration

The acronym ESG is used in the financial vocabulary to designate areas of analysis based on environmental, social and governance criteria. These criteria constitute the three pillars of so-called extra-financial analysis.

The following are the definitions of these criteria according to the Novethic research centre: According to Novethic reseach center: "The environmental criterion takes into consideration waste management, minimization of greenhouse gas emissions and safeguarding against of environmental danger. The social criterion encompasses; workplace safety, employee training, adherence to labor laws and rights, as well as the subcontracting chain and social dialogue. The governance criterion assures the board directors' independence, certifies the management structure and the existance of an audit committee. (NOVETHIC, 2020).

According to Christophe Rivelli (2013), the ESG investment movement was born out of a concept of "ethical" investment in the middle of the 20th century, initially influenced by the religious convictions of individual investors, and later supported by shareholder activism.

The consideration of these extra-financial criteria has accelerated in recent years, supported by a collective awareness of sustainable development, resource efficiency, climate change and transition risk. This awareness has led to increased political pressure to take these criteria into account in investment decisions, with the aim of ensuring that this awareness is matched by the financial impact of investments.

The inclusion of extra-financial criteria in the investment decisions of institutional investors (management companies, credit institutions, pension funds, insurance companies and mutuals, etc.) has greatly accelerated with the launch of the international benchmark for responsible investment, the so called Principles for Responsible Investment (PRI) in 2006. The PRI focuses on rising relevance of environmental, social and corporate governance matters to investment practices. The mentioned criteria was founded by institutional investors with the financial support of international bodies such as the United Nations Environment Programme (UNEP) and the UN Global Compact, and stands independent from the United Nations, which aims, among other things, to determine the links between investments and ESG issues. As such, each signatory commits, within its fiduciary responsibilities, to the principles listed below: (see Figures 2)

- Principle 1: Embodiment of ESG issues into investment analysis and decision-making processes.
- Principle 2: Activation of be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: Inestigation of appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: Promotion and implementation of the Principles within the investment industry.
- Principle 5: Unify to enhance the effectiveness in implementing the Principles.
- Principle 6: Adhere to individual activities backed by PRI.

According to a study by Franklin Templeton published in November 2018, "since the launch of these principles in 2006, "nearly 2,000 signatories representing €81.700bn have committed" to them. Additionally, The COP21 that took place in Paris in 2015, drove several decrees of change such as acceleration of various actors' considerations of ESG criteria, thanks to the implementation of an extra-financial reporting obligation for investors. The context and presentation of the extra-financial reporting obligation for asset management companies and other investors are presented in Annex 1. The outcome of the entry into force of this decree in June 2019 can be summarised as follows: "Qualitatively, three years after the entry into force of Decree No. 2015-1850, increasing amounts of asset management companies and institutional investors are demonstrating their commitment to taking externalities into account in their investment policies, particularly by investing in a low-carbon economy." (DIRECTION

GÉNÉRALE DU TRÉSOR, 2019) This movement has also resulted in numerous changes to the regulatory frameworks applicable to different types of investors. Among those that have had the greatest impact are the Basel III directive (which came into force in 2010), applicable to credit institutions, and the Solvency II directive (which came into force in 2016), applicable to insurance companies and mutuals - as we have seen previously, these players account for 85% of total assets under management in France at the end of 2019.

The main purpose of these directives is to put the notion of risk back at the centre of the financial management of these companies. This notion of risk also refers to the consideration of ESG criteria as a tool for measuring the risk of an investment. Indeed, a study of academic research articles by Guy Ertz (Chief Investment Advisor, Bnp Paribas Wealth Management Luxembourg) in February 2020 on the risk-return properties of ESG investment strategies shows that "the integration of ESG criteria into the strategy and culture of a company can lead to a reduction in risk". Indeed, investing in a company that does not take ESG issues sufficiently into consideration presents increased risks. This is demonstrated in a study by Clark, Feinher and Viehs (2015), which focuses on why poor ESG management can threaten a company's reputation and, in the long run, lead to lower valuations and even defaults. As an example, on the environmental theme, Ilhan, Sautner and Vilkov (2019) have shown the importance of the risks of extreme losses related to poor carbon management. This conclusion is based on an analysis of risks representing a cost in performance over the long term. The integration of these extra-financial criteria would not only be a source of optimisation of the risk-return relationship (most studies find a positive or zero relationship between ESG criteria and the financial performance of companies) but it would also prove to be a means of reducing risk, in particular the extreme risk linked to environmental risks and carbon emissions.

1.4 Presentation of the different ESG approaches

Socially responsible investment has historically taken three forms according to Domini (1992): Shareholder activism, investment in portfolios guided by specific criteria, and community investment.

Shareholder activism:

This form of SRI consists of institutional or individual investors exercising their rights and responsibilities as shareholders and putting pressure on companies to improve their ethical performance on certain social responsibility issues (Domini et al., 1993; Hutton et al., 1998). Shareholder activism originated in the United States in the late 1920s. Early indications are signaled in the 1929s Stock Market Crash percieved as the result of a lack of transparency on the part of companies (De Brito, 2005). However, the exercise of voting rights did not take on a socially responsible orientation until the 1970s. In fact, alongside the religious communities that initiated these modes of intervention, communities from civil society, local associations and peace movements emerged and tried to change the behaviour of companies by tabling resolutions at the general meetings of listed companies. The first socially responsible resolution was in 1969 and concerned companies with economic interests in the Vietnam War. From the late 1970s onwards, companies with significant interests in South Africa during the apartheid period were the subject of an increasing number of resolutions. As a result, under pressure from investors and activist shareholders, a number of companies were forced to withdraw from South Africa (Hutton et al. 1998). Nowadays, it is the large institutions that practice this type of financial investment since the size of their portfolio allows them to exercise their shareholder votes with managers (Fahrer, 1998).

Criteria-driven investment:

This type of investment corresponds to the management of portfolios based on social and ethical criteria that reflect the personal values of the investors, while maintaining a financial return objective (Kinder et al., 1993). Thus, according to Weigand et al (1996), investors are committed to applying social responsibility criteria in the construction of their portfolios. There are mainly two types of criteria: exclusionary or negative criteria and qualitative or positive criteria. The former defines the criteria on the basis of which funds decide to automatically exclude a company from their portfolio, such as those involved in the production of arms, tobacco, etc. Qualitative or positive criteria identify the companies in which investors prefer to invest, to support their pro-active actions on social and environmental responsibility issues.

Investment in community development:

This kind of investment takes the form of development loans to local communities struggling to survive and improve their quality of life (Hutton et al., 1998). These funds are intended to improve housing and employment conditions, democratic structures, and other conditions related to the satisfaction of basic human needs (Domini et al., 1993). It is non-traditional financial institutions that can provide such funds to local low- and moderate-income communities at rates of return that are often below market rates (Domini et al., 1993). In this way, community investors enable local organisations to create jobs, provide access to financial services, housing or social services for the poor. These three SRI principles are not mutually exclusive and any investor could use a combination of them. The extent of the impact of SRI will depend on the combination of these three growing forms of SRI. However, it is important to note that the most common practice remains screening, while shareholder engagement and community investment are still emerging strategies in most countries.

Moving forward, The main approaches that provide quality and performance on the real estate world are certification, label and standard, where;

1) **Certification**

Certification is a voluntary procedure that attests to a building's compliance with current standards and sometimes additional specifications on a set of criteria. It ensures its general quality according to its theme: environment, well-being, digital, etc.. Certification is based on an evaluation framework at different stages of an operation, set by an independent certification body. This approach applies to all real estate cycles: construction, renovation and operation of a building, and are effective on multi-thematics including offices, retail, logistics and also residential.

The French NF HQETM Bâtiments Tertiaires (High Environmental Quality) certification assesses a building on a large number of criteria grouped into four main themes: energy environment, comfort and user health. This certification, which is a voluntary process, is currently the most widespread in France for office buildings. Three areas are taken into account and can be applied together or separately: (I.) Sustainable Building for owners: intrinsic environmental quality of the building, (II.) Sustainable Management for operators or principals of the operation: environmental management in terms of technical and service provision and services; (III.) Sustainable use for users divided into performance levels: Good, Very good, Excellent, Outstanding.

Issuer and certifier: Building Research Establishment (BRE)

BREEAM is a British certification that assesses the building from acquisition to operation.

It is based on ten criteria: energy, health and well-being, innovation, land use, materials, management, pollution, transport, waste and water. This certification is a leader in Europe and encompasses performance levels of: Pass, Very Good, Excellent, Outstanding

Issuer and certifier: US Green Building Council

LEED is an American initiative that takes into account the building as a whole (materials & resources, energy, atmosphere, water, indoor environment, design and innovation) from construction to operation. LEED certification is not widely used in France and the UK, however it is well represented in Germany and comprises performance levels of: Certified, Silver, Gold, Platinum

Issuer and certifier: Deutsche Gesellschaft für Nachhaltiges Bauen

The German DGNB certification takes into account the whole life cycle of a building, its ecological, economic, and technical aspects, and sometimes even analyses socio-cultural parameters. This certification is predominant in Germany involving performance levels: Bronze, Silver, Gold, Platinum.

2) Label

The label attests to the specific quality of a building or a service in a particular field. Each label is a sign of identification based on a set of standards defined (energy, digital, well-being, biodiversity, etc.) by a professional association or an association.

The Effinergie labels specifically qualify the energy performance of a building beyond regulatory requirements.

Issuer: Effinergie or Collectif Effinergie / Certifiers: Certivea / Cerqual / Promotelec

The Biodivercity label (Issued and certified by: Conseil international Biodiversity and Real Estate (CIBI)), created in 2013, rates and displays the performance of real estate projects that are particularly effective in terms of biodiversity. Due to the urban positioning of logistics platforms platforms, the label is often used to qualify the integration of operations into the natural environment.

The E+C- label (Issued by: Ministry of Ecological Transition and solidaire (public sector) and certified by: Certivea / Promotelec), launched in 2016, aims to assess the energy performance of a building and its and its low carbon footprint. It applies to the entire life cycle of the building, from design to use and end of life of the building. It prefigures the future 2020 environmental regulation provided for in the ELAN law, voted at the end of 2018.

3) Standards

Unlike certifications and labels, the standards are based on a regulation established by the public authorities that the actors must to obey. Despite it being highly specific it concerns an immense variety of fields (environment, health safety, etc.). For instance, A building can have several certifications and labels. Additionally, developers and investors are committed to a double or triple certification to meet the expectations of an increasingly international clientele. Finally, the accumulation of certifications is a prerequisite to ensure the sale or rental of a building.

1.5 Presentation ESG integration on Real Estate Funds

The European Union is adopting ambitious measures to support sustainable growth and promote responsible investment. The paper will take a closer look at two market regulations that concern financial products and strengthen the transparency obligations of portfolio managers, acknowledging the products they offer, particularly those with a strong ESG orientation.

The Disclosure regulation (Sustainable Finance Disclosure Regulation -march 2021)

This regulation requires management companies to implement a common set of transparency rules concerning their investment strategy and their communication on the ESG-oriented products they offer. These companies are ought to :

- Take into account sustainability risks, which is the impact that external sustainability events may have on the performance of the financial product;
- Declare whether they take into account sustainability impacts, which is the impact that investments made may have on external sustainability factors.

The Taxonomy Regulation (2020)

This regulation establishes a definition and classification of economic activities in order to determine their degree of environmental impact. It distinguishes three categories of activities:

- Those that are truly sustainable;
- Those that enable a transition by reducing greenhouse gas emissions;
- Those that enable the development of green activities.

Real estate is responsible for almost 40% of greenhouse gas (GHG) emissions and accounts for more than a third of global final energy consumption. In order to comply with the Paris Agreement, which aims to limit global warming to well below 2°C, the sector must accelerate its energy transition. Aware of these challenges, institutional and private investors are looking for responsible investment products that reflect their environmental and social concerns.

The investors are interested in the ESG integration following the whole life cycle of building; the construction, occupation, demolition and renovation. Because each stage produces GHG emissions, consumes energy, water and waste. Additionally, the emergence of exceptional weather climate episodes is intensified by processes such as widespread use of air conditioning systems, connectivity of objects and electrical equipment etc. The direct and indirect GHG emissions related to electricity and heating in building reached 10 Gigatones of CO2 equivalent in 2019, the highest level ever recorded. While the challenges of preserving natural resources and the reduction of GHG emissions have been integrated for several years, investors have an increasing interest in its social dimension interest in social dimension. Many companies are emphasizing on the well-being of their CSR strategy to attract and retain talent. The design of work and social spaces, the connectivity of the building, the provision of services (gym, concierge service, bicycle parking etc..) are all assets that will serve both the satisfaction of current and future staff as well as build the value for the company itself. With regards to return-risk-responsibility mindset, the factors such as: energy efficiency, tenant well-being or climate change resilience, helps in mitigation and anticipation of a significant number of risks related to climate, law regulation, obsolescence, and attractiveness of building.

Section 2 : Presentation of the methodology

The previous review identified the main trends in the French third-party asset management market, that has been growing since the beginning of the century, reflecting the dynamism of asset management companies. Third-party management is marked by the growing importance of management under mandate, influenced by institutional investors and changes in their regulatory framework (Solvency II, Basel III, Pact Act, etc.). A strong concentration of assets under management by institutional investors can be observed as they represent 85% of assets under management over the last five years, making them major players in the asset management industry. Taking all of this into consideration, the research will foucs on European REITs and Real Estate Funds in Europe.

Furthermore, the French asset management market is highly competitive and there is a trend towards consolidation and mergers between management companies in order to achieve economies of scale. At the same time, our research has highlighted the growing importance of taking ESG issues into account under the impetus of a flourishing collective awareness (individuals and companies) influenced by political pressure, that is accelerating the creation of the PRI, as well as changes and prospects for changes in the regulatory frameworks that are applicable to all players in the real estate industry (AIFM). In addition, these ESG criteria are also proving to be effective medium and long-term risk management tools that can negatively affect portfolio performance. The acceleration of the consideration of extra-financial criteria and the usefulness of their analysis in investment decisions have resulted in an increase in assets. Under SRI management over the last few years and are also conceptualizing the upcoming years under the impetus of action plans led by governmental bodies at national and regional levels. With asset classes that have been under threat, such as the Office sector during the COVID-19 crisis, it is essential to increase our ESG scope in order to limit the risks and ease the forecasting of sudden changes in trends that we have seen in recent years.

2.1 Qualitative analysis of the actuals through

Bansal and Roth conducted a qualitative meta-study in 2000 to discover why organizations impart a high ESG commitment, despite the fact that these techniques compete for resources with other functional goals. There were three firm profiles identified: the caring profile, the competitive profile, and the worried profile (Bansal & Roth, 2000). In the caring profile, the management is confident that ESG aspects are critical to the company's future success and, as a result, is willing to tolerate a sacrifice in financial performance in order to achieve their ESG goals. As a result, these companies have a strong societal obligation to operate responsibly in terms of the environment. Riedl and Smeets verified the caring profile by proving that when making an ESG decision, financial considerations are typically less important to socially conscious investors. Instead, their top objective is to invest based on their social preferences (Riedl & Smeets, 2017). Because organizations had distinct attitudes regarding return targets performance prior to the 1970s, the presence of the caring profile leads to somewhat conflicting or inconclusive study outcomes (Renneboog, Horst, & Zhang, 2008). Second, organizations with a competitive profile are driven by ESG investments because they provide a competitive edge by focusing on a strategic niche. Increased voluntary publication of sustainability reports by EU REITs, for example, is an effort to promote their sustainable activities to investors. Finally, the profile in question implements ESG practices in order to reap reputational or regulatory benefits and to limit the danger of syncretic shocks. Officials can elicit an industry-wide response by addressing the worried profile of companies, since firms frequently rely on regulatory benefits to remain competitive. Firms use ESG activities to improve their financial performance, according to both the competitive and concerned characteristics. Furthermore, Van Beurden and Goessling (2008) emphasize on shortage o adequate research on ESG performance prior to the 1970s. Moreover, Fuerst investigated the benefits of improved openness on sustainability indicators for worldwide REITs, implying that ESG offers untapped potential for US REITs. The study period spanned from 2011 to 2014, and the sample consisted of REITs with a GRESB rating. The study discovered a positive association between ESG activities, stock market performance and risk. The connection was generated by adjusting absolute stock market performance for risk using a Sharpe ratio.Fuerst believes that REITs can improve and that ESG activities will become a vital component in order to remain competitive. Thus, according to Fuerst, is due in part to the fact that most scoring techniques depend on self-reported data rather than thorough validation procedures and property inspections. All things considered, we can conclud that REIT investors are not comprehensively familiar with ESG activities at this stage.

2.2 Quantitative analysis findings

To summarize, the review of scientific literature provides ambiguous evidence in support of a positive correlation regarding ESG integration and REIT performance. The ESG stewardship commitment and the real impact on the market were slightly different especially in a environment without an efficient ESG rating methodology, this is why previous analysis may have been inaccurate. Aside from the many emphasis topics, other impediments to efficient comparison and assessment of research results exist, such as the lack of a legislative framework for material factors or ESG grading schemes. While the "doing well by doing well" approach shows a favourable connection between ESG exposure and corporate success as a result of cost savings and improved efficiency, there is limited evidence that this link holds true at the portfolio level. Prior research suggests that ESG commitment reduces downside risk by providing insurance-like protection during crisis situations. Several studies show that a strong ESG commitment is related with reduced cost of capital as well as the potential to build trust and confidence among stakeholders. These features will allow REITs to behave more flexibly while simultaneously increasing their lifetime.

Section 3 : Presentation and analysis of results

The European commission gradually imposing a framework (disclosure regulation, taxonomy, etc.) aimed at redirecting financial flows towards sustainable investments. A movement that should be intensified with the Green Pact and the renewal of this strategy expected in the 2nd half of 2020. The expectations are growing from investors and governments in favours of the type of assets classes.

3.1 Data

The data collection process employs secondary data from different sources. The dependent variables were retrieved using Bloomberg Financial Service for the corresponding sample of Euronext IEIF SIIC France index. Bloomberg's terminal gives users access to real-time, historical, and basic data. Given that dividends account for the majority of a REIT's return, the performance analysis is based on total return data. As a result of reinvesting all capital gain distributions during the sample period, total return gives a more precise gauge of the REIT's performance. Additionally, Bloomberg's ESG Disclosure Score was used to categorize the REITs based on their ESG openness. Bloomberg's own ESG valuation model was chosen from a wide range of ESG disclosure frameworks because it combines Sustainalytics (updated weekly) and RobecoSAM insights (updated every six months). Sustainalytics and RobecoSAM are both pioneers in the field of ESG analysis, and by combining their data insights, they operate as a dependable source to assure an accurate ESG assessment. The ESG compliance of REITs was assessed using Bloomberg's ESG Disclosure Score, as previously mentioned. The ranking reflects the company's ESG transparency, which is a core value of good corporate governance that sits alongside accountability, fairness, and responsibility. By annually awarding ESG disclosure scores to incorporate ESG risks and opportunities into the basic analysis, it assists investors in identifying stocks that match with their investing objectives (Huber, Comstock, & Polk, 2017). It does not, however, give data on the REIT's real ESG performance. The ESG disclosure score remain on a rating of 1-100, indicating that for a maximum score the company issue a maximum disclosure of information. Following these factors, we can see on Figures 9-10 and 11 the framework used for the ESG ratios).

3.3 The contribution of ESG analysis to the performance and the sustainability of Real Estate through time

Portfolio greenness is likewise inversely connected to REIT market beta, according to Eichholtz et al. (2012). Greenness of a portfolio is assessed in their study using certifications that demonstrate how energy efficient a property is. The fact that this technique was used instead of the whole ESG performance might be the explanation for the disparity in results. Despite the vast amount of knowledge on the issue, it is still necessary to consider sector-specific impacts. The majority of previous research has generalized the effect of ESG on excess return across the whole market (Hoepner et al., 2010). This thesis demonstrates the need of considering the consequences of each sector. It's especially important for REITs because the quantity of research on the impact of ESG on this business is currently limited (Friede et al., 2015).

This index includes the most representative European REIT (Real Estate Investment Trust) businesses, as determined by market size and liquidity. The Euronext IEIF REIT Europe Index therefore measures European real estate businesses that have chosen the REIT tax regime and allows investors, fund managers, and issuers to evaluate and compare their performance to that of others in the sector. The Euronext IEIF REIT Europe index was created by Euronext and IEIF and adheres to Euronext's methodological guidelines. It is produced and distributed through Euronext's specialized organization Euronext indices BV. The index's Scientific Council is in charge of assessing the sample's reliability and representativeness, taking into consideration the sector's unique characteristics.

Furthermore, when ESG is factored in, the data demonstrate that high ratings are favorably related with REIT returns during the period from 2014 to 2016. Most importantly, the findings show that the link between ESG and REIT returns is always shifting. This is the first time it has been demonstrated. The findings are significant because they demonstrate the need of continuously monitoring the relationship between sustainability and the return on listed real estate. While the answer is outside the scope of this research, it may imply that people's perceptions of SRI are shifting. Today's data is far superior to that of 10 years ago. Furthermore, the prevailing mentality is shifting toward greater CSR. It's impossible to predict how important SRI will become for REITs in the next years, but the findings demonstrate that the connection is shifting.

Section 4 : Conclusion

When ESG is taken into account, the performance for both REITs tilted as momentum strategies shifts from mostly unfavorable to favorably related from 2014 to 2016. These findings are consistent with the findings of Cajias et al. (2014), who discovered a negative relationship between ESG performance and listed real estate return between 2003 and 2010. Using the GRESB ratings as a performance indicator, Fuerst (2015) found a favorable correlation in subsequent years. The findings of this study back up previous findings by proving that the association has altered over time. Furthermore, the market and REITs tend to have different ESG prices. According to Hoepner et al. (2010), the impact of CSP varies depending on the industry. The data support their conclusions, implying that previous research that assumed a homogenous impact cannot simply be applied to listed real estate. The relationship between ESG and REIT return has gotten little attention. With the expanding relevance of SRI, there is a growing demand for enough, high-quality information on the issue. Buildings, as previously stated, account for around a third of total world energy use and CO2 emissions. To keep temperatures from climbing too much, it is consequently critical to improve sustainability in the real estate industry. Investors are likely to be more receptive to include ESG factors into their decision-making process if it allows them to boost their return at the same time. The growth in the importance of ESG reflects society's growing awareness of the need to develop and operate in a way that is more respectful of environmental, social and governance issues, which can be found at all levels of our society. While efforts are being made by financial actors and regulators to promote the consideration of these issues through the establishment of regulations and principles, the implementation of a global ESG policy applicable to the financial sector faces a dual problem concerning the relevance of the ESG indicators used in company analyses and the implementation of criteria or international standards that would take them into account. Research into the definition of ESG indicators on a global scale, in partnership with academic bodies, could open up avenues of reflection on the major societal issues of the day. Finally, it’s relevant to think outside the box and have a quick look on the biggest Real estate Fund in Europe as BlackRock, Blackstone, Credit Suisse. They currently don’t really have green implications worldwide, few projects are emerging however there is no global green politics applied in these funds. Most of those projects are Private Real Estate Funds distributed mostly for institutional investors or for wealthy clients of Private Banks. Thus, government need to adapt and obliged to disclosure more about their activity as they did on REITs on the latest years.

Section 5 :Bibliography

5.1 Appendixes:

List of Figures

Figure 1 : ESG approaches

ESG APPROACHES	
ESG Integrated Approach	*This approach is at the forefront of recent developments in the field. Fund managers actively take into consideration ESG factors when choosing among investments. They believe that, by not considering these factors, one is ignoring significant extra-financial factors that can expose companies to a range of risks.*
Screening	*Screening usually comes as a negative and positive screening, one, or a combination of both. While the former represents the exclusion/underweighting of stocks that are involved in sectors that are perceived to have a negative impact on society (tobacco, alcohol, etc.), the latter encourages the inclusion/overweighting based on whether the company has a positive impact on society through their ESG policies.*
Impact Investing	*Impact Investing refers mostly to investments inn private equity, private debt and other alternatives. A common approach is to use investors' capital to support small businesses in emerging or undeserved markets.*
Active Ownership	*This is an approach whereby investors seek to use their influence as shareholders to change corporate behavior. It ranges from using voting rights to verbal and written communications (shareholder advocacy).*
Theme Funds	*Investment in funds that only target very specific gaps within sustainability, for example a fund that only invests in companies providing solutions to sustainability challenges in health and waste.*

Figure 2 : PRI : the six Principles

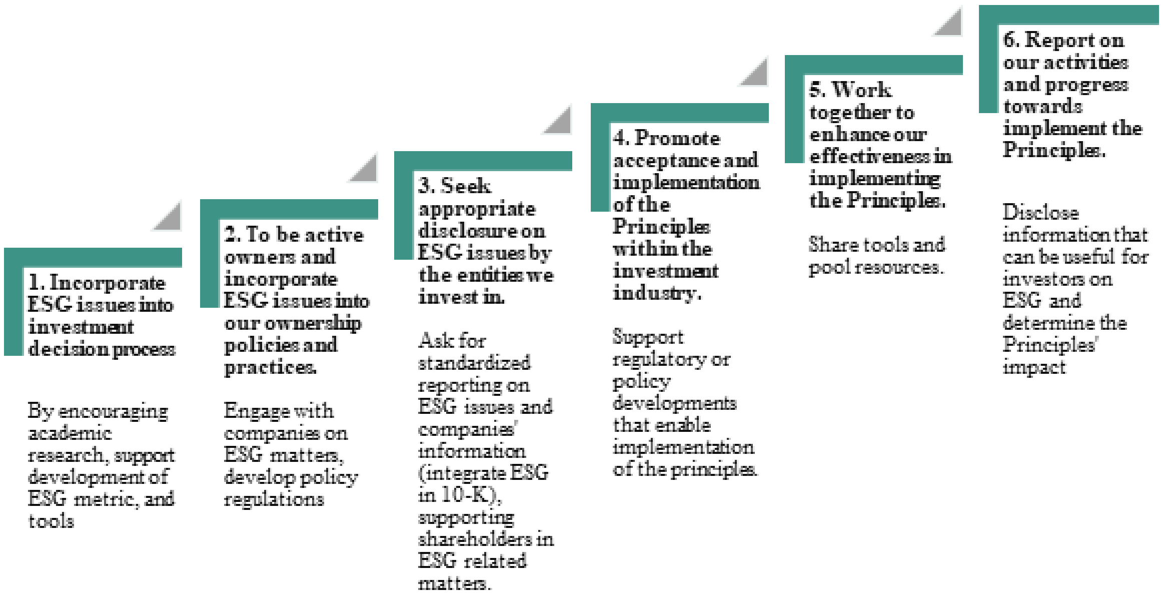


Figure 3: Certification efficiency and label classification (Greenproperty)

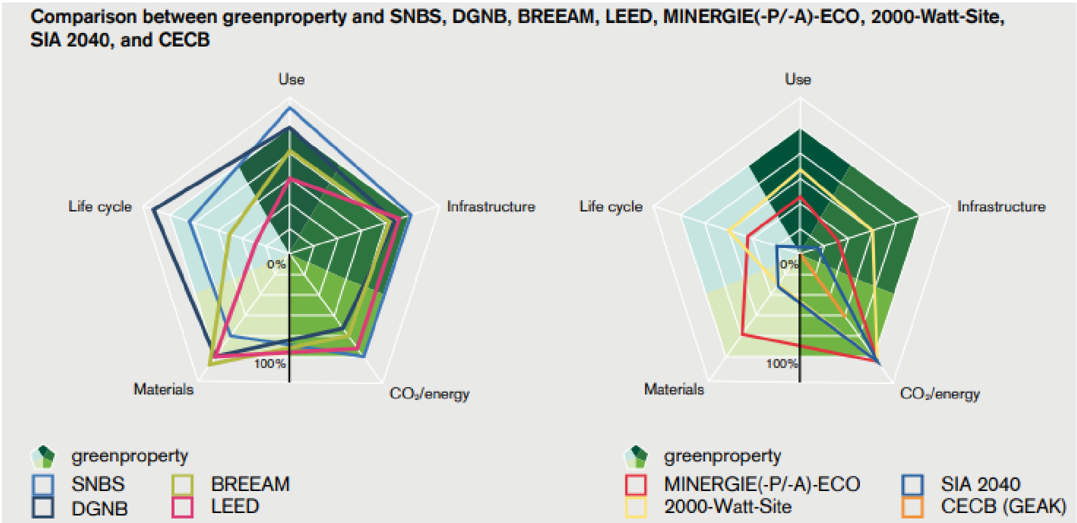


Figure 4 : Real Estate market in France (in billions €)(ASPIM)

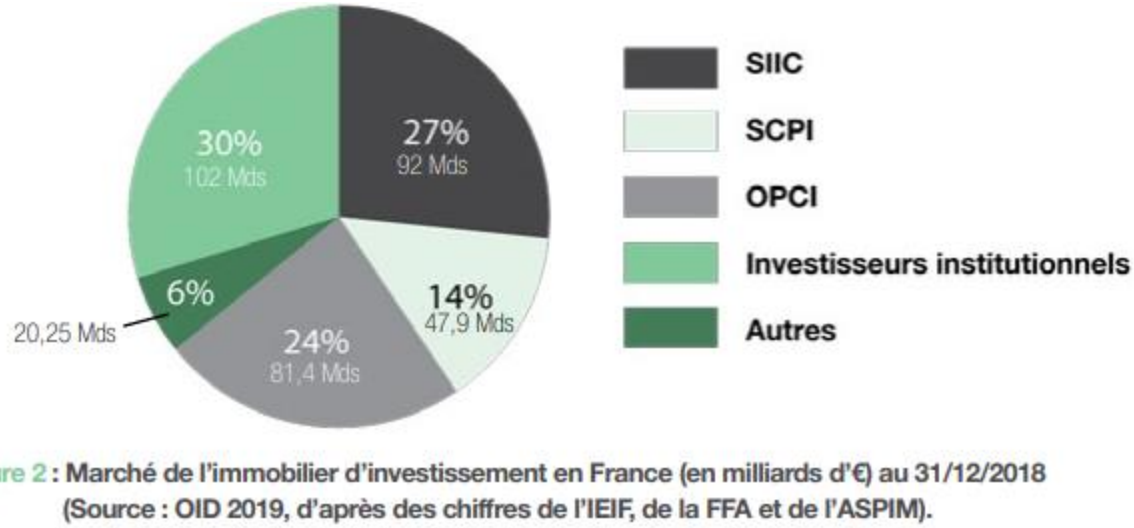


Figure 5 : Factors impacting performance (Bnp Paribas REIM)

FACTORS IMPACTING PERFORMANCE AS A RESULT OF THE ADOPTION OF SUSTAINABLE FEATURES	
VARIABLE	*RATIONALE OF IMPACT*
Income	*Lower operating expenses* *Lower voids* *Higher rental values* *Attract better tenants*
Pricing	*Lower voids* *Higher liquidity* *Lower Finnancing margins* *Lower obsolescence*
Capex	*Lower need for capital requirements*

Figure 6 : Overview of Real Estate Investment Strategies

OVERVIEW OF REAL ESTATE INVESTMENT STRATEGIES			
	Public REITs	Direct Investments	Public Funds
Investors	• Individuals • Institutional investors	• Institutional investors • High-net worth individuals	• Institutional investors • High-net worth individuals
Return Profile	• Highly correlated with broad equity market • Return driven by asset quality and management team	• Performance primarily dependent on investors skills and experience and access to competitively priced apital	• Index focus (core) • Absolute return focus regardless of market cycle (value-add. opportunistic) • Performance primarily dependent on fund managers skill and experience and access to competitively priced capital
Asset Quality	• Institutional quality • Major markets • Stabilized	• Dependent on investos capital availability, investment style, skills and experience	• Core strategy high quality stabilized assets in major markets •Value-add/opportunistic strategy: underperforming properties often with unsustainable capital structure
Diversification	• Individual REIT stock is property type focused • Diversification through portfolio REIT equities or REIT mutual funds	•Concentrated investments and risks •Tend to be geographic or property type focused	• Usually diversified by property types and markets • Certain funds have geographic and property type focus
Liquidity	•High, shares can be bought and sold on exchanges	• Low to medium, private real estate is considered illiquid • Liquidity through time-consuming and unpredictable broker sales processes	• Low to medium, private real estate is considered illiquid: limited secondary market liquidity for ownership interest in the funds

Figure 7 : Overview of Real Estate Investment Strategies

OVERVIEW OF ESG CRITERIA IN REITS	
QUALIFYING CRITERIA	KEY PERFORMANCE INDICATORS
ENVIRONMENTAL	• Energy and greenhouse gas reduction • Green building certifications • Biodiversity and land conservation
SOCIAL	• Urbanism and transit orientation • Community impact and engagement • Affordable housing
GOVERNANCE	• Disclosure and reporting • Tenant and employee engagement • Greenhouse gas policies and programmes
QUALIFYING CRITERIA	KEY PERFORMANCE INDICATORS
CONTROVERSY	Bribery, corruption, human rights, displacements and fines
BUSINESS LINE	Fossil fuel and prison industries
CLIMATE RISK	Floods, sea level rise, heat, droughts and storms

Figure 8 : Asset owner incorporating ESG issues (OID 2020-2021)

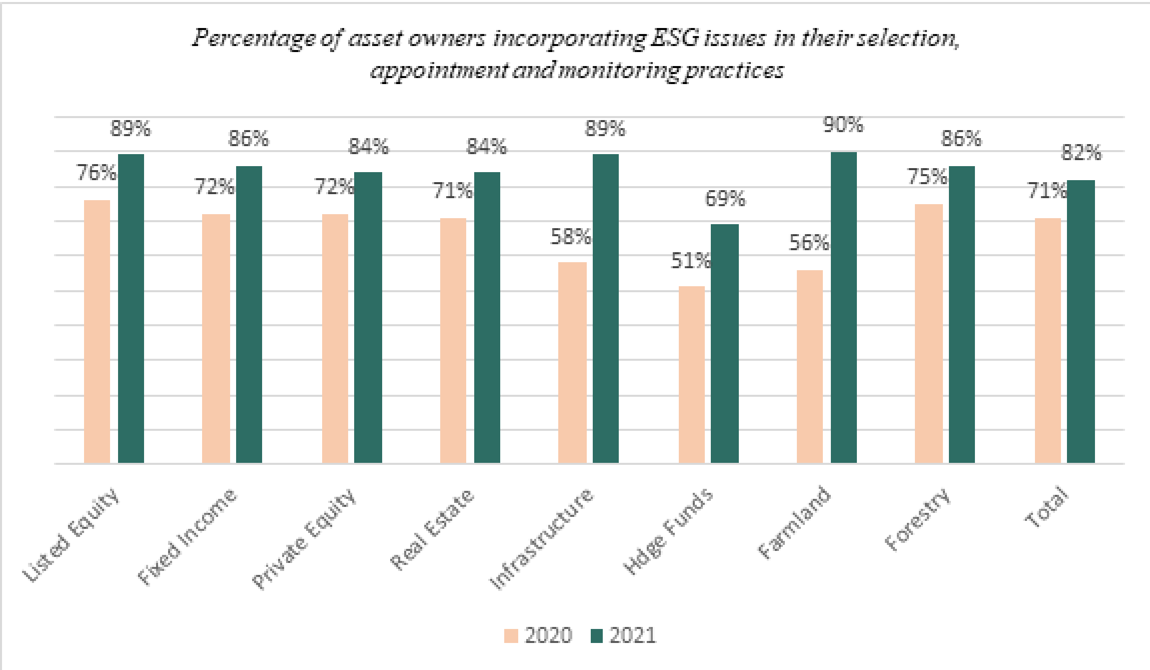


Figure 9 : Description of ESG ratios: environmental framework (Bloomberg)

Climate Change Opportunities and Risk:	Disclosure of strategies for identifying and managing climate change and its integration into the overall risk management process.
Greenhouse Gas Emissions:	Verifiable disclosure of standardized data for greenhouse gas emissions and the presentation of approaches to reduce harmful emissions in the future.
Energy:	Disclosure of all energy consumption-related indicators as well as the integration of renewable energies into the operational processes.
Environmental Management Systems:	Clarification of the internal goals and procedures for collecting and managing ESG data.
Environmental Policy:	The scope and completeness of management guidelines and regulations regarding ESG factors.

Figure 10 : Description of ESG ratios: Social framework (Bloomberg)

Health and Safety:	Disclosure of data regarding the frequency of injuries at work and absences, as well as guidelines that specifically improve the well-being of employees. In 2019, 86% of US REITs provided formal health and well-being strategies.
Stakeholder Engagement:	Describes practices to meet the interests of stakeholders to create value for local and global communities. In this regard, 95% of REITs reporting to GRESB provide tenant engagement programs.
Social Supply Chain Management:	Insights into how the REIT integrates screening policies and procedures to ensure the entire supply chain adheres to social practices.
Workforce Development/Human Capital:	Includes all measures for the promotion and further training of employees like the number of training hours or the employee turnover rate.
Diversity and Equal Opportunity:	Disclosure of measures and strategies relating to the recognition of ethnic equality, gender diversity, and other workforce demography practices that take into account social, economic, and political factors. In this regard, the entire US REIT industry is strongly committed to promote diversity in the

	workplace, with 96% promoting gender diversity, 90% promoting race inclusion, as well as 59% offering inclusion initiatives for disabled employees (Nareit, 2020).

Figure 11 : Description of ESG ratios : Governance framework (Bloomberg)

Board level ESG Oversight:	Disclosure of practices that ensure the right composition, structure, and procedures to monitor the long-term value creation of ESG strategies. With 52%, more than half of Nareit members possess a board that tracks the financial and operational performance of ESG initiatives.
Compensation Policy:	A company's efforts to align the interests of management with those of shareholders where compensation data is public as well as to establish incentive programs that are related to ESG performance. In 2019, only 30% of REITs reporting to GRESB had financially linked ESG performance targets.
ESG Reporting Standards:	Indicates whether ESG information is publicly available and whether the REIT is a member of ESG agreements.
Governance Policy:	Measures and guidelines to ensure the commitment by REITs to their stakeholders.
Governance Risk Assessment:	The extent of entrepreneurial action to identify, assess, and monitor strategic and operational risks.

Figure 12 : Stock performance of SIIC

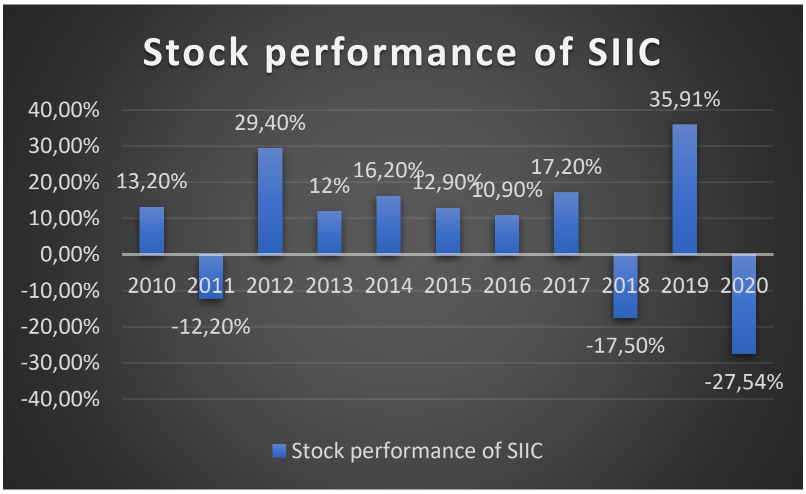
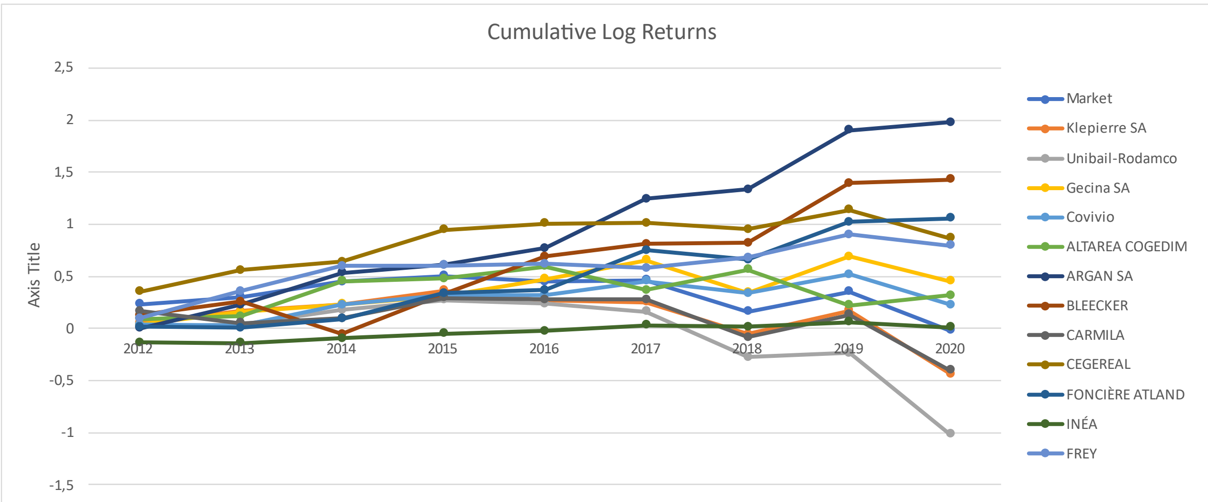


Figure 13 : Cumulative Log returns sample



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