

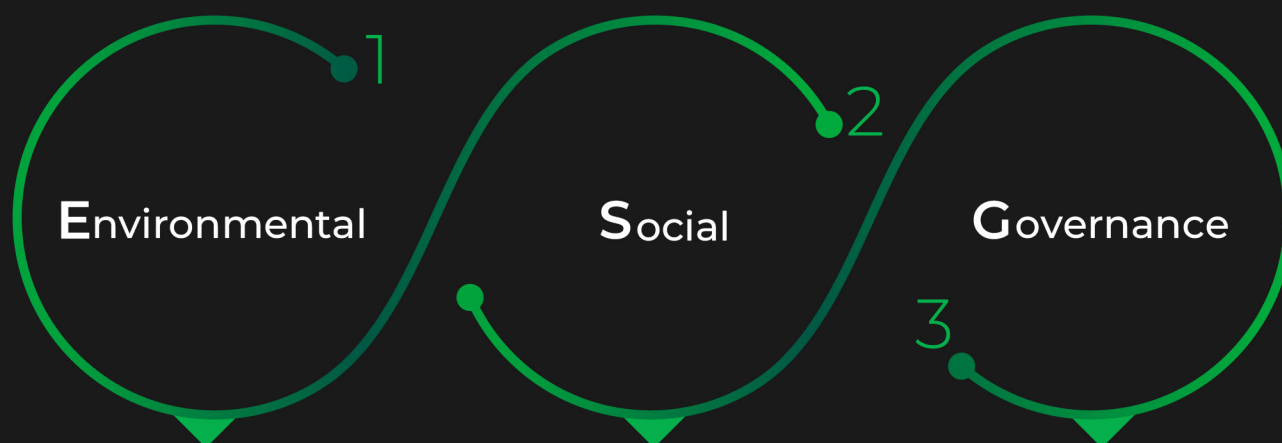
ESG in Saudi Arabia Real Estate Market

Towards a More Sustainable Future

In recent years, there has been a significant shift in the way businesses and industries approach sustainability and social responsibility. One sector that has particularly gained attention is the real estate sector, where the concept of Environmental, Social, and Governance (ESG) has become increasingly important. ESG principles go beyond traditional financial metrics and focus on the long-term impact of real estate projects on the environment, communities, and governance structures.

What is ESG?

ESG stands for Environmental, Social, and Governance. It refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. ESG criteria are currently used by investors and other stakeholders, as they allow assessing the risks and opportunities for the development of an organization.



Environmental factors include a company's impact on the natural environment

Environmental criteria, includes:

- ❑ The energy your company takes in
- ❑ Water & Waste Management
- ❑ The resources it needs
- ❑ The consequences for living beings as a result
- ❑ Carbon emissions and climate change

Social factors include its impact on employees, customers, and other stakeholders

Social criteria, addresses:

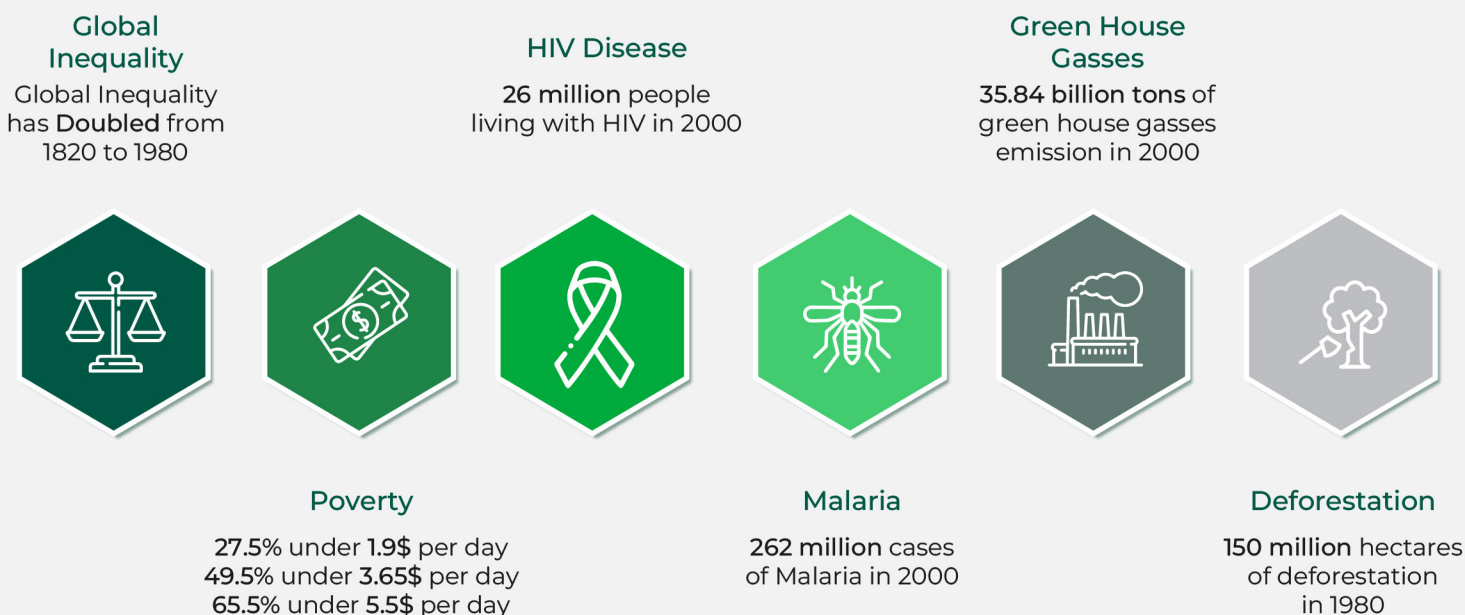
- ❑ The relationships your company has
- ❑ The reputation it fosters with people and institutions in the communities where you do business.
- ❑ Labor practices, healthy and safety
- ❑ Diversity and inclusion.

Governance factors include a company's leadership and ethical practices.

Governance criteria, addresses the internal system of practices, controls, and procedures your company adopts in order to:

- ❑ Govern itself
- ❑ Make effective decisions
- ❑ Comply with the law
- ❑ Meet the needs of external stakeholders.

What triggered ESG?



The increasing focus on ESG can be attributed to a combination of factors such as environmental concerns, changing societal expectations, investor demand, regulatory changes, reputation protection, and the recognition of long-term value creation. These factors have collectively driven the rise of ESG as a vital framework for businesses across sectors, including real estate, to address environmental, social, and governance challenges and opportunities.



Why Should Companies Start Adopting ESG?

From overall resilience and future-proofing to regulatory compliance and reputation protection, companies should adopt ESG practices for several compelling reasons

Environmental, Social, Governance (ESG)



Improve Access to Capital

Integrating sustainability enhance company's ability to attract long-term capital and favorable financing conditions. It also enhances the company's ability to attract longer-term investors, including major institutional investors



Profitability & Growth

Generate financial value for the company by identifying opportunities for cost savings, revenue generation, and risk mitigation. It also creates a deeper understanding of stakeholder needs, which could drive innovation and enhance market differentiation and competitiveness.



Cost Reductions

Effective ESG execution helps combat rising operational expenses such as raw material costs. These cost reductions from ESG have been found to boost operating profits by as much as 60%.



Enhance Compliance

In most jurisdictions, legislation requires listed companies to 'disclose' their ESG footprint through ESG disclosure reports. Saudi Exchange has developed guidelines for listed companies to encourage ESG disclosure. This initiative aligns with Saudi's Vision 2030 and commitment to sustainable growth.



Increase Employee Engagement

Sustainability helps companies to improve human resources policies, and indirectly improve employee morale and loyalty.



Positive Branding

Active sustainability efforts can provide a competitive edge in their own right. Branding a positive social or environmental contribution can put your business in the shop window of global supply chains and new export markets, and domestically create a positive image.

Why Should Saudi Real Estate Companies Aspire the Implementation of ESG?

Implementing serious ESG measures within Real Estate Companies and enhancing the sustainability of the company can positively affect the brand image, operational efficiency and overall results, while complying to the local efforts and standing out in competition.



Empowering National Environmental Ambitions

The Saudi Government is investing 700bn SAR to **reduce carbon emissions** by 278mn tons annually by 2030 and planning to reach the net zero target by 2060. Also, the government has clear targets to enforce the inclusion **within the population and the workforce**.



Coping up with Competition

Several real estate developers all around the region have already started **adopting serious ESG** measures within their projects and operations. Examples of these companies are **Emaar, Majid Al Futtaim, Al Dar, and others**.

With more developers implementing ESG measures, **Saudi developers have to aspire these measure to cope up with competition**.



Strengthening the Brand

With **more customers being aware of the ESG measures** and entities applying them, implementing serious ESG initiatives within Al Akaria and properly marketing and publicizing these efforts can **promote the brand image and help standing out in competition**.

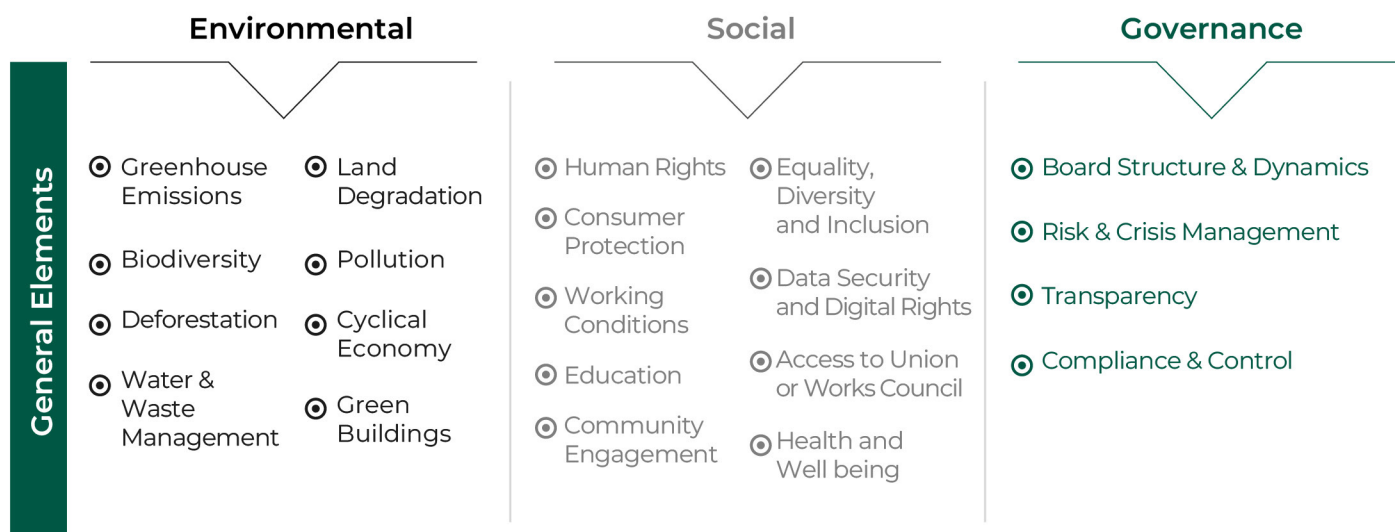


Improving Operations & Results

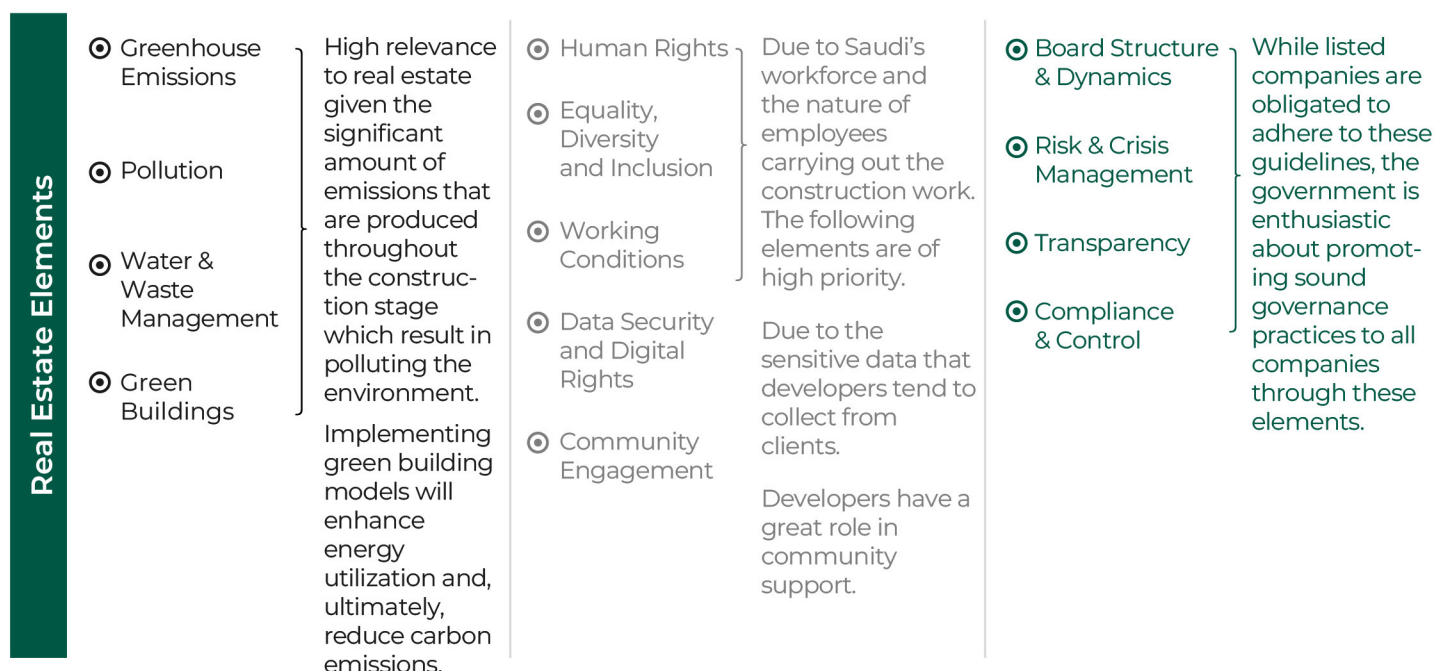
The proper implementation of the most relevant ESG measures impacts the company's internal operations and **reflects on the overall results**; specifically, the **commercial, financial, operational, and legal performance of the company**.

What are the most relevant ESG elements to Real Estate Companies?

Real estate companies can focus on several key ESG elements to drive sustainability, social responsibility, and good governance within their operations.



Funneling the Relevant Elements to Real Estate Industry



By focusing on these ESG elements, real estate companies can contribute to sustainable development, address societal challenges, enhance stakeholder value, and position themselves as leaders in the industry. Embracing ESG practices not only demonstrates corporate responsibility but also unlocks opportunities for innovation, market differentiation, and long-term success.

Examples of ESG practices in Real Estate Companies

Some of the regional Real Estate Companies have started taking serious steps towards full ESG deployment, where reporting on their ESG performance has become an integral part of their regular corporate disclosure. Some of the common material topics includes:

| Analyzed Companies | Industry Material Topics |
|--|--|
|     الدار العقارية ALDAR PROPERTIES |  Governance, Ethics and Transparency <ul style="list-style-type: none"> Board composition Board Committees Delegation of Authority |
| |  Health & Safety <ul style="list-style-type: none"> Occupational health and safety management system Hazard identification, risk assessment, and incident investigation |
| |  Human Rights <ul style="list-style-type: none"> Child Labor Safe and healthy working environment Inclusion, gender equality, women empowerment |
| |  Employee Well-being <ul style="list-style-type: none"> Workers Contracts Minimum Wage Social Insurance |
| |  Climate change/ Energy Management <ul style="list-style-type: none"> Energy Consumption Reduction of Consumption |
| |  Water Management <ul style="list-style-type: none"> Water Consumption Water Recycling and reuse |
| |  Waste Management <ul style="list-style-type: none"> Waste generation Waste burning |
| |  Responsible Supply Chain <ul style="list-style-type: none"> Vendor Social and Environmental obligation Fairness in Selection Conflict of interest |

How can ESG practices impact different departments in Real Estate Companies?

ESG implementations impact how a firm operates within its ecosystem. The following pillars showcase the levels of impact of ESG in these departments within the firm.

The commercial section focuses on ESG implementation on a firm's commercial position focusing on the brand and competition.



Commercial



Operational

The operational components of a firm are impacted by ESG implementation thus the analysis of ESG impact shows the level of impact on a company's processes, people, and organizational structure

The financial impact of ESG is analyzed through understanding the effects of ESG on a firm's topline, bottom line and cashflow.



Financial



Legal

Legal analysis shows how a company's incorporation of ESG affects licensing and external investigations.



The following Analysis shows the level of impact of implementing the different ESG measures on different pillars of the firm including commercial, financial, operational, and legal aspects.

| | Environmental | | Social | | | | | Governance | | |
|------------------------------|----------------------------------|--------------------------|--------------------|---------------------------------|--------------------|--------------------------------|----------------------|-------------------------------------|--------------------------|----------------------------|
| | Greenhouse Emissions & Pollution | Water & Waste Management | Human Rights | Equality, Diversity & Inclusion | Working Conditions | Data Security & Digital Rights | Community Management | Transparency, Compliance & Controls | Risk & Crisis Management | Board Structure & Dynamics |
| Commercial | | | | | | | | | | |
| Brand | High Impact | Moderate Impact | High Impact | High Impact | | No/Negative Impact | High Impact | High Impact | No/Negative Impact | |
| Competition | High Impact | Moderate Impact | High Impact | Moderate Impact | | No/Negative Impact | High Impact | High Impact | No/Negative Impact | Moderate Impact |
| Financial | | | | | | | | | | |
| Revenues | Moderate Impact | No/Negative Impact | Moderate Impact | | | | | Moderate Impact | | Moderate Impact |
| Cashflow | Moderate Impact | High Impact | No/Negative Impact | | | | | Moderate Impact | High Impact | Moderate Impact |
| Profitability | Moderate Impact | High Impact | No/Negative Impact | | | | | Moderate Impact | High Impact | Moderate Impact |
| Internal / Operations | | | | | | | | | | |
| Process | | | No/Negative Impact | No/Negative Impact | High Impact | No/Negative Impact | High Impact | High Impact | Moderate Impact | Moderate Impact |
| People | Moderate Impact | | High Impact | High Impact | High Impact | | No/Negative Impact | High Impact | | |
| Organizational Structure | | | Moderate Impact | Moderate Impact | Moderate Impact | Moderate Impact | Moderate Impact | High Impact | High Impact | No/Negative Impact |
| Legal | | | | | | | | | | |
| Permissions, Licenses | Moderate Impact | Moderate Impact | Moderate Impact | Moderate Impact | | High Impact | High Impact | High Impact | No/Negative Impact | |
| External Investigations | Moderate Impact | Moderate Impact | Moderate Impact | Moderate Impact | | High Impact | High Impact | High Impact | High Impact | High Impact |

High Impact Low Impact

Moderate Impact No/Negative Impact

Towards ESG Deployment

LOGIC Consulting has formulated the following high-level roadmap showcasing the different sections of ESG and providing a clear overview of the steps needed to implement the ESG concepts within Saudi Real Estate Companies.

| | | Understand | Analyze and Aspire | Prioritize and Implement |
|---------------|---|--|---|--|
| Environmental | <ul style="list-style-type: none"> Greenhouse Emissions & Pollution | <ul style="list-style-type: none"> Understand effects of greenhouse emissions, causes and drivers as well as water consumption and waste management initiatives and practices. | <ul style="list-style-type: none"> Benchmark the firm's position in comparison to other similar peers. | <ul style="list-style-type: none"> Prioritize the initiatives that are highest in urgency and choose the optimum solution to implement. |
| | <ul style="list-style-type: none"> Water & Waste Management | <ul style="list-style-type: none"> Identify and quantify the amounts of emissions by the firm and benchmark to 2030 UN vision and 2060 KSA goals. | <ul style="list-style-type: none"> Identify different available technologies and initiatives. Formulate financial analysis and implementation timelines for the different initiatives and remedies. | <ul style="list-style-type: none"> Transform the initiatives into detailed initiatives/internal projects. Revisit internal processes to ensure effective implementation. Seek certifications and accreditations if applicable. |
| Social | <ul style="list-style-type: none"> Human Rights | <ul style="list-style-type: none"> Understand current related local and global workplace human rights and social regulations. | <ul style="list-style-type: none"> Determine processes that need enhancement in demographics, working conditions, diversity, and inclusion. | <ul style="list-style-type: none"> Formulate required action plans into detailed initiatives along with their implementation timeline and corresponding investment. |
| | <ul style="list-style-type: none"> Equality, Diversity & Inclusion Working Conditions Data Security & Digital Rights Community Engagement | <ul style="list-style-type: none"> Revisit the current internal processes to identify any gaps within the existing culture. Identify the firm's employee demographics. | <ul style="list-style-type: none"> Identify different initiatives to instill socially responsible attitude within the firm's culture. Formulate timeline and financial analysis for processes implementation. | <ul style="list-style-type: none"> Incorporate regulations to ensure workplace human rights and diversity metrics are met thoroughly. Ensure and review legal data security compliance. |
| Governance | <ul style="list-style-type: none"> Board Structure & Dynamics | <ul style="list-style-type: none"> Understand and benchmark current board effectiveness. | <ul style="list-style-type: none"> Determine internal documents and processes that need to be amended to ensure streamlining internal business ethics and corporate values and culture. | <ul style="list-style-type: none"> Ensure instilling the required corporate culture while planning the required workshops, activities, etc. |
| | <ul style="list-style-type: none"> Risk & Crisis Management Transparency Compliance & Controls | <ul style="list-style-type: none"> Revisit effective risk & crisis management practices. Test and examine levels of transparency, compliance, business ethics and reporting. | <ul style="list-style-type: none"> Study the formation of an GRC department. | <ul style="list-style-type: none"> Plan to restructure the board with respect to identified best practices. Turn any risk management action plans into detailed initiatives along with their implementation timeline and corresponding investment. |

Cairo Office:

+20 127 350 5023
SODIC West, Block 1, Zone 4B
Giza, Egypt

Riyadh Office:

+966 53 662 0650
3888 Anas Ibn Malik, Al Malqa
Riyadh, KSA

Jeddah Office

+966 53 661 8642
1004 Jameel Square Bldg. Tahlia St.
Jeddah, KSA

Dubai Office

+971 52 499 2567
Emaar Business Park, Office 509, B1
Dubai, UAE