

No clear correlation yet between property firms' ESG, financial success

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No clear correlation yet between Singapore property firms' ESG, financial success: IREUS

Some companies could be performing well financially but scoring lower in ESG because of a lack of green ratings for their assets, says institute's Lee Nai Jia

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PROPERTY companies that score well on environmental, social and governance (ESG) metrics may not necessarily enjoy higher returns, according to an analysis by the Institute of Real Estate and Urban Studies (IREUS) at the National University of Singapore.

The research institute examined ESG scores calculated by financial markets data and infrastructure provider Refinitiv for Singapore-listed companies in the real estate services sector, including developers, and real estate investment trusts (Reits).

Lee Nai Jia, IREUS deputy director, said: "The seeming lack of relationship between ESG grades and returns in the 2021 snapshot may imply that investors that are myopic and have a short investment horizon may still go for firms with a low ESG grade but strong financial performance."

Some firms could be performing well financially but scoring lower in ESG because of a lack of green ratings for their assets, he noted.

Another possible reason is that the region they invest in does not have a widely recognised rating system.

On the other hand, companies with better ESG grades may be undergoing restructuring, which explains a lower average return in 2021, Dr Lee added.

The majority of the 39 property names in Singapore rated by Refinitiv achieved between B and C-, with the most frequent grade being C+.

Refinitiv's scores aim to measure a company's relative ESG performance, commitment and effectiveness across 10 main themes – such as emissions, human rights, shareholders, and environmental product innovation – based on publicly reported data.

IREUS found that the relationship between the ESG scores and return on investment is not straightforward. For firms graded A-, B+ and B, their average return on equity per share in 2021 was higher than those graded B- through to C-.

However, companies graded D+ clocked the highest return, while the single firm graded A had the lowest return.

"That said, the frequency of outliers is considerably low, with just a total of 3 firms scoring A and D+, so it might be premature to make any generalisation," Dr Lee pointed out.

Factors influencing the financial performance of these outliers may

be company-specific instead of ESG-related.

Focusing on the "Environmental" category (where 100 is the highest score), the research institute also plotted the trend lines – that is, the best-fit straight lines – for the companies' average dividend yield as well as the average return on equity per share.

Both charts appear to suggest that the return and yield tend to decline for companies with higher "Environmental" pillar scores on average, IREUS noted.

Its analysis comes at a time when investors are paying more attention to ESG-related factors that traditionally have not been reflected in a company's balance sheet.

Global inflows of ESG-themed exchange-traded fund products totalled US\$38.8 billion from January to July 2020, more than double the inflows over the same period in 2019, according to statistics from Morningstar.

However, it remains debatable whether companies that commit more to ESG will perform better financially than those that do not.

Many researchers who have explored the impact of ESG on company performance have come to different conclusions, as the data often lacks comparability across sectors, firms and geographical regions, IREUS added.

ESG showings

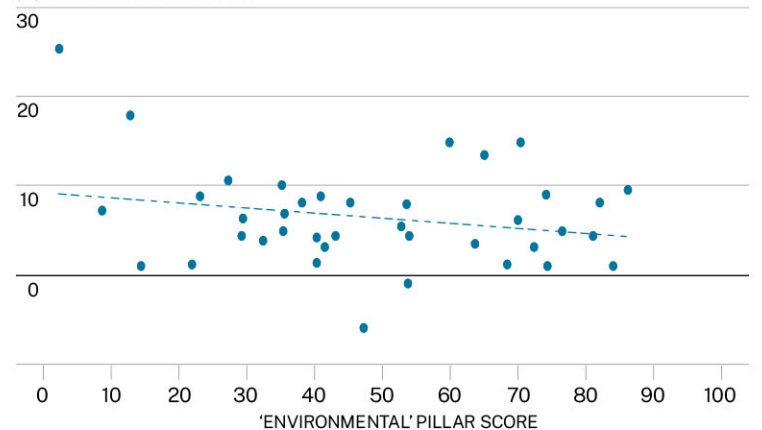
Property firms' and S-Reits' returns and yields in 2021

ESG GRADE	NO. OF FIRMS	DIVIDEND YIELD (%)	AVERAGE RETURN ON EQUITY PER SHARE (%)
A	1	1.49	1.02
A-	1	-	9.60
B	5	3.66	7.52
B-	6	5.13	4.44
B+	2	5.58	9.83
C	7	4.17	5.51
C-	6	5.42	7.14
C+	9	3.84	4.92
D+	2	5.78	16.29

Return on average equity

ROAE seems to decline with higher 'Environmental' scores

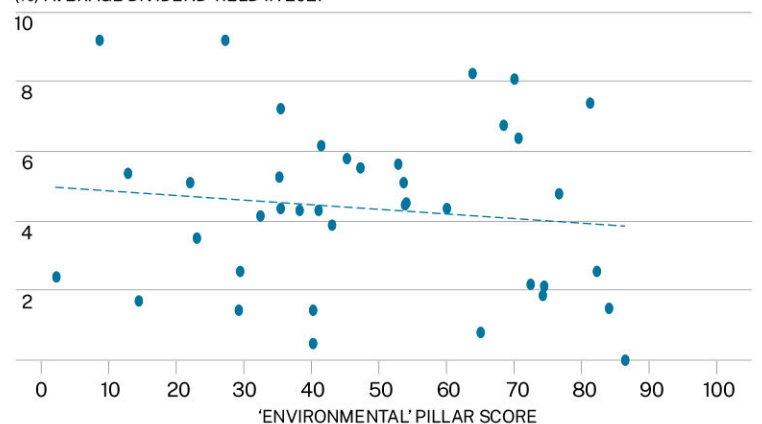
(%) ROAE PER SHARE IN 2021



Dividend yield

Yields tend to shrink as the 'Environmental' pillar scores increase

(%) AVERAGE DIVIDEND YIELD IN 2021



Sources: Refinitiv, IREUS, NUS