

ESG IN REAL ESTATE AND HOSPITALITY: A SUSTAINABLE FUTURE IN THE MAKING

ABSTRACT

The integration of Environmental, Social, and Governance (ESG) principles has become a critical factor in shaping the future of the real estate and hospitality sectors. As businesses recognize the need for sustainable operations, ESG compliance is no longer just a regulatory requirement but a strategic advantage that enhances investor confidence, operational efficiency, and long-term resilience. Real estate and hospitality companies are increasingly adopting energy-efficient technologies, green building practices, and responsible governance frameworks to align with global sustainability goals while simultaneously improving profitability and brand reputation.

Green financing and ESG-driven investments have gained significant momentum, with financial instruments such as green bonds and sustainability linked loans playing a pivotal role in funding sustainable projects. Institutional investors and financial institutions are prioritizing ESG-aligned ventures, recognizing that sustainability enhances financial performance and mitigates risks. This shift in investment strategy is reshaping capital allocation in real estate and hospitality, encouraging businesses to implement robust ESG policies to attract funding.

The regulatory landscape surrounding ESG is evolving rapidly, with governments and international organizations implementing stricter disclosure norms. Key frameworks such as the European Union's Corporate Sustainability Reporting Directive (CSRD), the United Kingdom's Sustainability Disclosure Requirements (SDR), and India's Business Responsibility and Sustainability Reporting (BRSR) Core mandate transparent ESG reporting. However, the fragmented nature of regulations and the absence of standardized global ESG reporting frameworks present compliance challenges for companies operating across multiple jurisdictions.

Despite the growing emphasis on ESG, several challenges hinder widespread adoption, particularly in India. Limited corporate commitment, inconsistent data reporting, and the lack of standardized performance metrics make ESG implementation complex. Additionally, many businesses struggle to integrate ESG considerations into their core strategies due to financial constraints and limited government incentives. Addressing these challenges requires greater industry collaboration, regulatory clarity, and proactive policy measures to ensure ESG becomes a fundamental aspect of corporate governance in real estate and hospitality.

This article delves into the integration of ESG principles in the real estate and hospitality sectors, exploring the growing importance of sustainability-driven business practices, the rise of green financing and ESG-driven investments, financial scenario, the evolving regulatory landscape and compliance challenges, and the key obstacles hindering widespread ESG adoption, particularly in India.

IMPORTANCE OF ESG IN REAL ESTATE AND HOSPITALITY

As the property market continues to prioritize sustainability, integrating Environmental, Social, and Governance (ESG) principles has become essential for businesses to remain competitive. Implementing energy-efficient technologies and sustainable practices not only ensures regulatory compliance but also leads to substantial operational cost savings, such as reduced utility bills and lower maintenance expenses. Real estate owners embracing ESG standards signal their commitment to sustainability, making their properties more attractive to businesses with stringent ESG commitments. Conversely, non-compliance may render properties undesirable for tenants with strong environmental and social responsibilities. ESG adoption also fosters stronger relationships between real estate owners, tenants, and the wider community, as sustainability is increasingly becoming a key consideration in corporate social responsibility initiatives.

ESG principles are also transforming the hospitality industry by influencing investment decisions, operational efficiencies, and consumer preferences. Environmental factors include renewable energy integration, eco-friendly building designs, and efficient waste and water management, with hotels incorporating solar panels, sustainable materials, and circular economy principles. Social factors focus on fair labour practices, diversity, and community engagement, ensuring ethical employment, local investment, and high health and safety standards. Governance factors emphasize transparency, regulatory compliance, and responsible investment strategies, including ESG-linked performance metrics, adherence to disclosure regulations, and stakeholder accountability. By embedding ESG into their operations, real estate owners not only enhance financial performance but also contribute to a more sustainable and socially responsible built environment.

GREEN FINANCING

Building on the importance of ESG in real estate, green financing has emerged as a crucial mechanism to support sustainable development. Green finance refers to financial investments specifically designed to fund eco-friendly projects, including loans, bonds, and equity investments. By facilitating access to capital for sustainable initiatives, green financing not only promotes environmental conservation but also strengthens economic growth. It offers long-term financial benefits such as higher returns for investors, tax advantages, lower utility bills, and reduced energy consumption. For real estate and hospitality industry, green financing provides access to loans at lower interest rates while enhancing the social and market value of their projects. As the demand for sustainable investments rises, commercial real estate and hospitality lenders are increasingly structuring loans based on sustainable performance. The global issuance of green debt has seen a significant surge, rising from USD 250 million in 2018 to over USD 700 billion in 2020, and ESG-focused investment products are projected to exceed USD 53 trillion by 2025¹.

Institutional investors play a vital role in accelerating the adoption of green construction methods by injecting liquidity into the sector. Green bonds, sustainability-linked loans (SLLs), and ESG focused investment funds provide developers and investor with diversified financial

¹ Acuity Knowledge Partners, *Green Financing in Commercial Real Estate*.

products that promote sustainability while mitigating risk. Banks are also supporting the transition by offering favourable financing conditions, such as reduced interest rates, longer repayment tenures, and partial or full coverage of green certification costs. In the hospitality sector, various financial instruments are being leveraged to drive sustainability. Green bonds finance energy-efficient lighting, HVAC systems, solar installations, and smart waste management solutions. Sustainability linked loans (SLLs) offer interest rate reductions tied to ESG performance metrics, encouraging hotels to achieve energy efficiency targets. ESG linked investment funds direct capital toward low carbon initiatives and socially responsible business practices, while carbon offset financing enables hotels to balance their environmental footprint through reforestation and renewable energy projects. By integrating green financing mechanisms, real estate and hospitality sectors can align with global sustainability goals while unlocking long-term financial and environmental benefits.

REGULATORY LANDSCAPE

As green financing continues to gain momentum, the regulatory landscape governing Environmental, Social, and Governance (ESG) practices has become increasingly stringent. Governments and financial institutions worldwide are implementing robust ESG regulations, making compliance essential for businesses across various sectors, including hospitality and real estate. These evolving regulatory frameworks ensure that companies integrate sustainable and responsible business practices while enhancing transparency and investor confidence.

Several global ESG frameworks have been established to standardize sustainability reporting and enhance corporate accountability. Key initiatives such as the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB), and the United Nations Global Compact (UNGC) have gained widespread acceptance among businesses. In the European Union (EU), a robust regulatory framework has been introduced with the European Sustainability Reporting Standards (ESRS) in July 2023. These standards, which are part of the Corporate Sustainability Reporting Directive (CSRD), require companies to disclose detailed sustainability-related information covering their direct operations and supply chains. Additionally, the EU Taxonomy for Sustainable Activities establishes clear criteria for sustainability-linked investments, ensuring that financial flows are directed toward environmentally responsible projects.

In the United Kingdom (UK), ESG reporting is governed by multiple regulations, including the Sustainability Disclosure Requirements (SDR), introduced in 2023. The SDR framework provides businesses with clear guidelines for managing sustainability risks and setting measurable goals. Further strengthening corporate transparency, the UK enacted two mandatory ESG disclosure laws in 2022: The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 and The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022. These laws, in conjunction with the Companies Act and the Corporate Governance Code, reinforce accountability in corporate ESG performance.

In the United States, ESG reporting is transitioning from voluntary to mandatory frameworks, aligning with international standards. A significant development in this regard is the Securities and Exchange Commission's (SEC) proposal, titled *Enhancement and Standardization of Climate-Related Disclosures for Investors*. This proposal mandates public companies to

integrate climate-related data into their financial disclosures, reinforcing transparency in corporate sustainability practices.

India has also taken significant steps to strengthen its ESG regulatory landscape. The Securities and Exchange Board of India (SEBI) has incorporated ESG metrics within the Business Responsibility and Sustainability Report Core (BRSR Core), a mandatory disclosure framework for top-listed entities. Implemented in July 2023, the BRSR Core comprises nine key ESG attributes, including greenhouse gas emissions, energy and water consumption, circular economy adoption, and employee well-being. The phased implementation plan is as follows:

1. FY2023–2024: Applicable to the top 150 listed entities by market capitalization.
2. FY2024–2025: Expanded to the top 250 listed entities.
3. FY2025–2026: Further extended to the top 500 listed entities.
4. FY2026–2027: Will apply to the top 1,000 listed entities.

Initially, SEBI had mandated the top 100 listed companies to submit a Business Responsibility Report (BRR), which captured their non-financial ESG performance. In 2021, this requirement was expanded with the introduction of the BRSR framework, making ESG disclosures applicable to the top 1,000 listed entities². The BRSR Core focuses on value chain ESG metrics, requiring companies to report data covering at least 75% of their upstream and downstream partners based on purchase and sales value. The report is structured into three key sections: General Disclosures, Management and Process Disclosures, and Principle-wise Performance Disclosures.

Several Indian corporations, including Infosys, Tata Consultancy Services, Wipro, and Larsen & Toubro, have adopted the BRSR Core framework, demonstrating their commitment to sustainability. Infosys, for instance, has established a green-certified development centre dedicated to AI and cloud technologies, reflecting its strong ESG priorities.

CHALLENGES IN ESG INTEGRATION

While regulatory advancements in India have paved the way for Environmental, Social, and Governance (ESG) integration, significant challenges persist in its effective implementation. One of the primary roadblocks is the absence of a unified ESG framework. Currently, ESG-related provisions are fragmented across various laws, such as the Energy Conservation Act, 2001 (amended in 2022), which addresses energy efficiency and carbon emissions. Furthermore, both central and state governments have introduced sector-specific ESG policies, creating complexities in compliance and making it difficult for companies to align their strategies cohesively.

A major challenge in ESG implementation is the lack of standardized metrics for sustainability reporting. As global regulations evolve, Indian companies struggle to benchmark their ESG performance consistently. The inconsistency in ESG disclosures makes it challenging for investors to assess and compare corporate sustainability efforts. A consolidated ESG legislation

² Chambers and Partners, *ESG Disclosures in India and Internationally*.

would enhance regulatory efficiency, streamline compliance, and contribute to a more transparent and sustainable business environment. However, the current regulatory landscape does not offer sufficient incentives to encourage companies to adopt strict ESG standards.

Beyond regulatory hurdles, there is a broader issue of intent. Critics argue that the poor adoption of ESG in India is not just due to compliance challenges but also due to a lack of commitment from developers³. The situation mirrors that of Corporate Social Responsibility (CSR), where Indian developers often fail to recognize its strategic advantages. When integrated into a company's core strategy, CSR can significantly enhance brand value and stakeholder trust. However, many developers view CSR as a regulatory burden rather than an opportunity to drive long-term societal impact. A shift in mindset is necessary, moving from a traditional short-term financial outlook to a business-oriented approach where long-term sustainability is valued.

According to a CSR consultant, even the basic framework for CSR is missing in most real estate companies. Many leading developers do not have dedicated ESG or CSR specialists, despite the need for specialized expertise in executing such initiatives. Furthermore, the mandatory CSR budget is often allocated with a primary focus on achieving tangible short-term returns rather than fostering long-term brand equity. In many cases, CSR activities are conducted through the developer's own sister companies instead of partnering with independent third-party organizations focused on sustainable development.

The broader real estate industry in India faces additional ESG challenges that hinder sustainable growth. Many developers perceive compliance as an added cost rather than an investment in long-term resilience. This reluctance stems from the lack of immediate tangible benefits and the uncertainty surrounding returns on ESG investments. To address this, the regulatory framework should incorporate both incentives and disincentives to drive ESG adoption. While the Indian government has introduced initiatives such as the Smart Cities Mission and the Swachh Bharat Abhiyan⁴ to promote sustainable urban development, more structured policies are needed to encourage ESG integration at an industry-wide level.

One of the biggest obstacles in sustainable real estate development is the lack of awareness and education. Many developers, homebuyers and the people in the hospitality industry are unaware of the benefits of sustainable development and fail to prioritize it in their decision-making processes. Public education campaigns and awareness programs could help shift this mindset and drive a cultural change toward sustainability.

The high initial cost of implementing sustainable development practices further deters adoption. Sustainable buildings require advanced technology and eco-friendly materials, which often come at a premium. Developers hesitate to invest in these features due to increased construction costs, even though they provide long-term savings in energy efficiency and operational expenses. Financial incentives, tax benefits, and subsidies could help offset these costs and make sustainable real estate development more viable. Additionally, the limited availability of sustainable building materials in India further compounds the issue. Many eco-friendly materials are either expensive or not easily accessible, making it difficult for

³ Housing.com, *ESG Compliance: Indian Real Estate on Learning Curve*.

⁴ Avneesh Sood, *Sustainable Real Estate Development in India: Challenges*.

developers to integrate them seamlessly into their projects. Greater investment in research and development for affordable, locally sourced sustainable materials is needed.

Another pressing issue is the inadequacy of policies and regulations for sustainable development. While India has ESG-related guidelines in place, enforcement remains weak. Policymakers must create structured regulations that not only mandate compliance but also incentivize sustainable business practices. The introduction of green financing mechanisms, carbon credits, and sustainability-linked loans could encourage businesses to integrate ESG principles more effectively.

From an investment and occupier standpoint, several key challenges hinder ESG adoption. As highlighted in the CBRE Global ESG survey 2022⁵, these challenges include poor availability or quality of ESG data, uncertainty surrounding costs and benefits, lack of expertise, and the complexity of government regulations and sustainability targets. Many stakeholders have differing priorities, further complicating ESG implementation. Additionally, some organizations struggle to establish a clear link between ESG goals and real estate implications, making it difficult to justify sustainable investments. Addressing these concerns requires a collaborative effort between regulators, investors, developers, and occupiers to create clear, actionable ESG frameworks that align with market realities.

Despite these challenges, the potential opportunities for sustainable real estate and hospitality development in India are vast. By prioritizing ESG principles, developers can create more liveable and resilient communities while reducing their environmental footprint. To achieve this, all stakeholders must work together, governments should introduce stronger policy support, developers must embrace ESG as a strategic priority, and investors should drive demand for sustainable projects. Only through a collective effort can India transition toward a more sustainable and responsible real estate and hospitality sector, ensuring long-term value creation for businesses, investors, and society at large.

FINANCIAL SCENARIO

Incorporating Environmental, Social, and Governance (ESG) practices in real estate and hospitality ventures offers tangible financial advantages. From attracting socially responsible investors to enhancing property value and mitigating long-term risks, ESG integration has become an essential strategy for sustainable growth. While the correlation between ESG initiatives and financial performance is influenced by multiple factors, an increasing body of research suggests a positive relationship between the two.

Strong ESG practices play a critical role in mitigating financial risks. Real estate and hospitality projects are vulnerable to various external threats, including climate change-related events, supply chain disruptions, and reputational risks. By proactively addressing these challenges, developers and investors can safeguard their assets and ensure long-term stability.

Furthermore, ESG-aligned strategies enhance financial resilience by promoting responsible investment and operational practices. Companies that prioritize environmental and social considerations are better positioned to withstand market fluctuations, regulatory changes, and

⁵ CBRE, *Strengthening Value Through ESG: Challenges*.

unforeseen disruptions. This proactive approach strengthens financial stability and fosters investor confidence.

One of the most immediate financial benefits of ESG implementation in real estate and hospitality is cost optimization. Sustainable building designs, energy-efficient systems, and waste reduction initiatives significantly lower operational expenses. Energy-efficient properties, for instance, reduce utility costs over time while enhancing the overall asset value.

Additionally, fostering a positive work environment through strong ESG policies contributes to higher employee satisfaction, improved productivity, and reduced turnover rates. A stable and engaged workforce leads to more efficient operations, which ultimately translates into financial savings and increased profitability.

The financial sector is witnessing a growing preference for ESG compliant investments. Companies with strong ESG performance attract a broader pool of investors, particularly those focused on sustainability and responsible investing. As a result, such companies enjoy improved access to capital and a lower cost of borrowing.

A robust ESG framework also strengthens investor relations by fostering transparency and trust. Investors and stakeholders increasingly seek companies that demonstrate long-term sustainability and ethical governance. Effective ESG communication not only enhances investor confidence but also positions the company favourably in capital markets, making fundraising and debt financing more accessible.

Consumer preferences are shifting towards brands and businesses that align with their environmental and social values. In real estate, ESG driven properties hold a distinct competitive advantage, attracting tenants and buyers who prioritize sustainability. A well implemented ESG strategy enhances a company's brand reputation, helping it stand out in a crowded market.

Customer loyalty is another significant financial advantage. Residents and businesses prefer leasing or purchasing properties that meet high environmental and ethical standards. This translates to higher occupancy rates, stable rental income, and long-term tenant retention, all of which contribute to a steady revenue stream.

ESG implementation drives innovation by encouraging the development of sustainable building materials, smart energy systems, and eco-friendly architectural designs. Companies that embrace ESG initiatives position themselves as industry leaders and gain a first-mover advantage in the evolving real estate landscape.

Moreover, regulatory trends increasingly favour sustainable practices. Real estate and hospitality projects that proactively adapt to ESG regulations are better prepared for future compliance requirements, avoiding potential legal and financial penalties. By integrating ESG principles into their core business strategies, real estate and hospitality projects can maintain a competitive edge while securing long-term profitability.

ESG TRANSFORMATION IN INDIA

India's real estate and hospitality sector is undergoing a sustainable transformation, driven by government backed ESG policies, industry collaborations, and heightened stakeholder awareness. ESG is no longer just a set of guidelines but is rapidly becoming an industry

standard, significantly shaping India's broader sustainability agenda. The sector's commitment to net-zero targets, retrofitting existing buildings, and reducing carbon footprints⁶ ensures a sustainable future while addressing present day needs.

One of the key strategies in this transformation includes rejuvenating Grade A office buildings, offering 155 million sq. ft. for upgradation, and factoring in sustainability criteria in potential office leases over the next three to four years. Developers and occupiers are placing a growing emphasis on integrating social and environmental elements throughout the development process. Additionally, the streamlined certification of Leadership in Energy and Environmental Design (LEED) and WELL standards, along with the adoption of occupancy sensors and building automation systems, is reinforcing sustainability-driven well-being in real estate projects.

India is not merely discussing ESG principles, it is actively embedding them into the fabric of its real estate and hospitality industry. This commitment represents more than just an industry shift; it is a national imperative redefining the trajectory of the sector. ESG compliance is no longer optional but a fundamental commitment shaping the future of real estate and hospitality towards a sustainable and ethical framework.

The adoption of sustainable construction materials and green technologies is pivotal for ESG integration in the real estate and the hospitality sector. By incorporating environmentally friendly practices, both the industries can significantly reduce its carbon footprint and align with global sustainability goals. Government endorsement and policy support for eco-friendly materials and technologies can accelerate their widespread use. Furthermore, mandating the adoption of sustainable construction techniques can transform the industry's ecological impact, ensuring a more responsible and greener future.

Voluntary eco-housing rating systems, such as the initiative by the Municipal Corporation of Greater Mumbai, provide a framework to quantify the environmental impact of real estate developments. Expanding governmental involvement could make grading systems a statutory requirement, thereby reinforcing sustainable practices. Real Estate Regulatory Authorities (RERA) could further enhance transparency by mandating the disclosure of these grades on official platforms, enabling buyers and investors to make informed decisions based on sustainability benchmarks.

Governments play a crucial role in promoting sustainable construction by incentivizing developers who prioritize green building techniques and eco-friendly methodologies. Offering tax concessions and stamp duty rebates to buyers of sustainable properties can stimulate demand for environmentally responsible structures. A mutually reinforcing system of incentives for both developers and buyers can cultivate a culture of responsible development, encouraging the widespread adoption of ESG principles in the real estate sector.

A comprehensive approach to ESG requires increased awareness among all stakeholders, including developers, investors, and buyers. Climate risk assessments should become an integral part of due diligence processes to ensure long-term resilience and sustainability. The United Kingdom's Law Society has issued guidance on addressing climate change-related risks, which can serve as a valuable model for India. Enhanced stakeholder awareness will not

⁶ ET Edge Insights, *Future-Proofing Cities: How ESG Practices are Shaping the Future of Indian Real Estate*.

only drive responsible growth but also reinforce the industry's commitment to sustainability and climate resilience.

Let's understand it with the help of a case study; Maharashtra has been at the forefront of incentivizing sustainable hospitality and real estate practices. The state's Urban Development Department provides additional Floor Area Ratio (FAR) incentives of 3%, 5%, and 7% for buildings certified as Silver, Gold, and Platinum by the Indian Green Building Council (IGBC). Similarly, the Pune Municipal Corporation (PMC) and Pune Metropolitan Region Development Authority (PMRDA) offer comparable FAR benefits for IGBC-rated buildings. The Public Works Department (PWD) mandates that all new government buildings and renovation projects adhere to IGBC Green Building Rating criteria. Under the revised UDCPR 2020, Integrated Township Projects in Maharashtra must secure at least a Silver rating from IGBC to qualify for government incentives.⁷

CONCLUSION

The integration of ESG principles in the real estate and hospitality sectors is no longer just a matter of regulatory compliance but a fundamental shift in how businesses operate and attract investment. From my perspective, this transformation is being driven by a combination of evolving investor expectations, regulatory pressures, and the long-term financial viability of sustainable practices. While the adoption of ESG remains a challenge, particularly in India due to infrastructural constraints, lack of standardized reporting frameworks, and the initial costs associated with green initiatives, the long-term benefits far outweigh these hurdles. Companies that proactively embed sustainability into their core strategies will not only mitigate risks but also unlock new growth opportunities. The shift toward ESG-driven financing further reinforces that the industry is at an inflection point, where businesses must align with global sustainability trends or risk being left behind. Thus, a concerted effort by stakeholders, including regulators, investors, and industry leaders, is imperative to drive meaningful and lasting change.

⁷ Indian Green building council.