
ESG and Vietnam's Corporate Real Estate (CRE)

Q4 2022



REGULATION REVIEW

Vietnam's Environment – Social – Governance (ESG) commitments are further steps on its roadmap to sustainability. They underpin previous environmental regulations such as Energy Efficiency & Conservation, National Green Growth Strategy, Green Growth Action Plan and the moves towards eco-industrial parks for real estate.

By signing COP26 in 2021, Vietnam pledged to achieve net zero carbon by 2050. Upon closer inspection, most regulatory frameworks in Vietnam encourage different sectors to follow an environmental framework that leads to sustainability rather than strict adherence to all projects reducing their impact. Energy Efficiency & Conservation targets energy efficiency, the National Green Growth Strategy aims to reduce greenhouse gas (GHG) emissions and the Green Growth Action Plan, in cooperation with USAID, focuses on building operations and performance. There is also an upcoming revised draft of Decree No. 28/2018/ND-CP on Management of Industrial Parks and Economic Zones following the guidelines of UNIDO for Eco-Industrial Parks (EIP).

Table 1. Main Regulations in Vietnam for Sustainable Developments

Key Themes	Main Regulations
Energy Efficiency & Conservation	<ul style="list-style-type: none"> ▪ Energy Efficiency Building Code (2005), Update (2013) and Revision (2017) ▪ National Goals in Energy Efficiency & Conservation (2006) ▪ Law on Energy Efficiency & Conservation (2010) ▪ Vietnam National Energy Efficiency Program 2019 – 2030 (2018)
National Green Growth Strategy	<ul style="list-style-type: none"> ▪ Release of the National Green Growth Strategy for the period 2011 – 2020 with a vision to 2050 (2012) ▪ Approval of the National Green Growth Strategy (2013)
Green Growth Action Plan	<ul style="list-style-type: none"> ▪ USAID and MoC implementing Green Growth Action Plan (2017)
Eco Industrial Park	<ul style="list-style-type: none"> ▪ Decree No. 82/2018/ND-CP Management of Industrial Parks and Economic Zones (2018) and upcoming revision with draft 3439_BKHDT

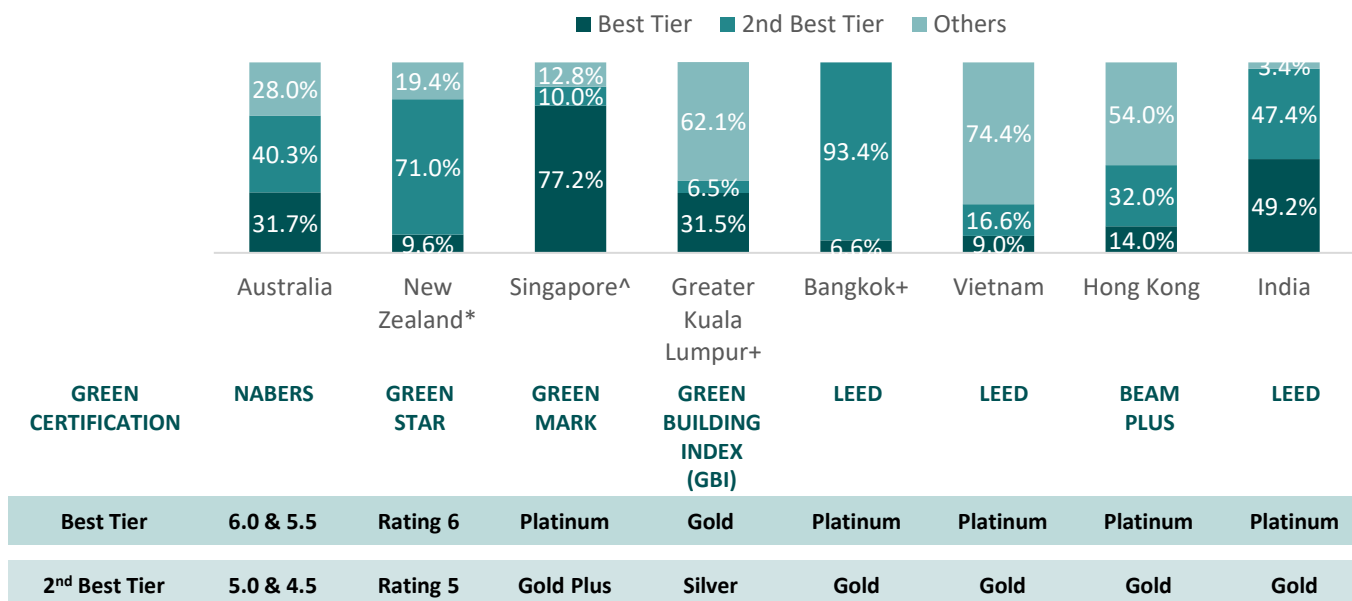
Source: Knight Frank Vietnam Research

In the absence of strict green requirements for office buildings, it is at the landlords' discretion whether to factor in green accreditations into their developments. Accreditations in Vietnam range from local LOTUS to international IFC's EDGE, Singapore BCA's Green Mark, and USGBC's LEED. The growing need from occupiers to satisfy ESG criteria means more office buildings are going green for the environment, as well as social and governance requirements.

However, ESG is more than just satisfying occupiers to guarantee long-term leases. Along with the green movement come green leases and loans, which are beginning to take an upward trajectory within Vietnam's commercial property market, providing a foundation for future developments to follow. This paper intends to dive into how landlords could ride the ESG wave to enhance not just their assets but also contribute to the overall health of the market by sustainable value creation for occupiers.

ENVIRONMENTAL

Figure 1. Proportion of Green Accredited Buildings in Select APAC Markets



*Buildings rated 4, 5 & 6 in New Zealand from 2017 – 2022
 ^Data as of 2020
 +Data from basket of office buildings tracked by Knight Frank
 Source: USGBC, NABERS, NZGBC, GBI, Knight Frank Research

For an office to satisfy the environmental aspect of ESG, green accreditation is the starting point. According to a study published in October 2022, “Innovation in Green Building Sector for Sustainable Future”¹, green buildings save 20–30% in water and 40–50% in energy compared to non-green buildings, with LEED-certified buildings producing 34% less CO₂ emissions, using 25% less energy and 11% less water (Meena et al.).

Grade A and B office buildings in Vietnam favour LEED and Green Mark due to their prestige and the ease of attaining these certifications compared to the more rigorous NABERS or BREEAM, which require buildings to be in operation to examine against credit criteria. Within Ho Chi Minh City (HCMC) alone, there are seven LEED-accredited buildings and two Green Mark-accredited buildings with varying degrees of rating, while Hanoi only has three LEED-accredited buildings. We expect to see this trend continuing in existing and future pipelines, from green fit-outs from MNCs (e.g. a major US technology and electronic setting up their representative office with a LEED fit-out) to retrofitting a whole building to attain green accreditation (e.g. Me Linh Point’s renovation to achieve BCA’s Green Mark Platinum). Projects that want to be considered for Grade A will need green accreditation as occupiers are becoming more aware of rating scores that satisfy their sustainability initiatives and ultimately lower their carbon footprint.

Green leases are agreements between landlords and occupiers to enhance building performance and satisfy ESG criteria. The lease agreement specifications are based on a list of building performance indicators for monitoring eases, applying penalties, and strictly following set targets. In HCMC, more than one future supply in Grade A is looking into developing the framework.

From a global perspective, Knight Frank has observed occupiers’ and landlords’ green lease requirements evolving. They now can include: setting up a sustainability forum or task force; a commitment to sourcing gas and electricity from renewable sources; occupier’s modifications to not affect property’s energy efficiency; data sharing between landlord and occupiers on utility usage, waste production and recycling; occupiers allowing landlords entry to the premise to carry out energy efficiency improvements with cost recoverable from occupiers; and Alienation – landlord’s refusal to lease out space to occupiers based on the latter’s ESG reputation.

¹Meena, Chandan Swaroop, et al. “Innovation in Green Building Sector for Sustainable Future.” *Energies*, vol. 15, no. 18, 2022, p. 6631., <https://doi.org/10.3390/en15186631>.

SOCIAL

For buildings, the Social criteria represent the aspects that help to foster employee health and wellness. From buildings with WELL accreditation to post-CoVid-19 concerns, occupiers now require more from landlords, whether it's delivering circadian lighting, hospital-grade air ventilation or indoor and outdoor amenities that facilitate well-being.

Figure 2. Building Aspects to Consider



Better Air: Indoor air quality standards relating to particulate matter and inorganic gases can be met by installing high-quality HVAC systems. High-Efficiency Particulate Air filters can filter pollutants under 0.1 microns and help mitigate the spread of airborne viruses.



Well-Located: Integrating green spaces into urban environments makes a city livable and is a key factor in Knight Frank's Sustainably Led Cities Index. Well-connected offices, close to public transport nodes and in proximity to green and blue spaces that promote walkability are core components considered in Fitwel and WELL certification.



Productive Space: User comfort that results from sustainable practices and energy-efficient solutions, such as incorporating natural light and better thermal retention, leads to productivity benefits of up to 10%².



Environmental Benefits: Some studies³ found that employees experienced significant improvement in both air quality and lighting after they moved from a conventional facility to a newly built green facility.

²Fullbrook, D. & Jackson, Q. (2006) Value case for sustainable building in New Zealand. Ministry for the Environment

³Ries, R., M.M. Bilec, N.M. Gokhan, and L.S. Kim. The Economic Benefits of Green Buildings: A Comprehensive Case Study. The Engineering Economist, 2006, 51:3, 259–95. Robins

Landlords in Vietnam typically utilize rooftops as F&B features as a means of enhancing their assets. However, post-CoVid-19, they are now rethinking their usage and are moving towards common green spaces for occupiers to improve employee wellness. Looking forward, occupiers and developers are already starting to apply WELL accreditation to building and fit out design, we can expect these features to grow in popularity as they hit the mark within the social criteria.



What is WELL?

The WELL Building Standard® is a performance-based system for measuring, certifying, and monitoring features of the built environment that impact human health and wellbeing, through air, water, nourishment, light, fitness, comfort, and mind.

WELL is managed and administered by the International WELL Building Institute (IWBI), a public benefit corporation whose mission is to improve human health and wellbeing through the built environment.

WELL is grounded in a body of medical research that explores the connection between the buildings where we spend more than 90 percent of our time, and the health and wellness of its occupants. WELL Certified™ spaces and WELL Compliant™ core and shell developments can help create a built environment that improves the nutrition, fitness, mood, and sleep patterns.

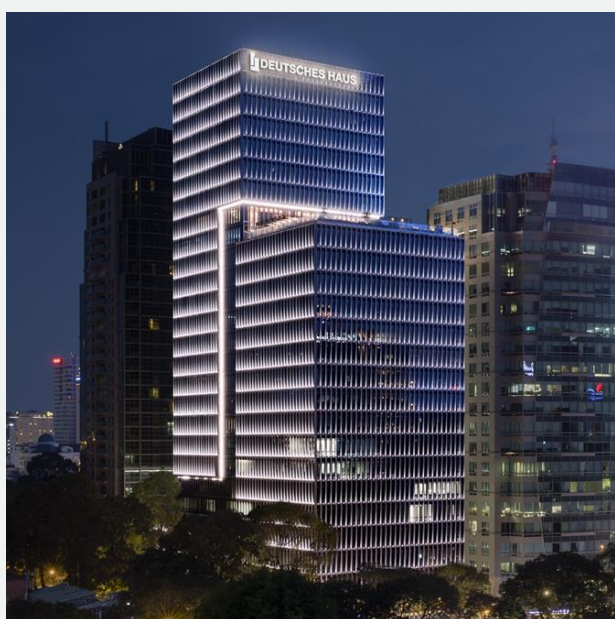
Source: International WELL Building Institute, USGBC

GOVERNANCE

Assessing governance criteria from a project formation standpoint, green loans in Vietnam have been available since 2020, mainly from HSBC Vietnam. For office buildings, so far, only Etown 6 – a LEED Platinum project expected to come online in 2023 – has applied and been awarded a seven-year green loan. While bilateral green loans encompass everything from renewable energy to infrastructure, developers can leverage this to help facilitate their governance commitment for non-listed entities.

Diving deeper to project operation, early facilitation of co-signing green leases with occupiers is an aspect that developers can look at to partake in governance reporting. Other than adhering to occupiers' requirements for ESG to the best of their ability, landlords can deliver on governance through gradually green-certifying their existing portfolio and future pipeline to contribute to Net Zero Carbon by 2050.

CASE STUDY: DEUSTCHES HAUS



Environment:

- **LEED Platinum score of 84:**
 - Double-skin façade to minimize heating and be energy-efficient.
 - Energy-efficient LEDs are used throughout the building with control from Integrated Building Management System (IBMS).
 - Energy-efficient components: IBMS, low-energy consumption and ecological building materials to generate renewable energy.
 - Centralized water treatment system to filter and purify drinking water through pantry taps.
 - Water-cooled high-performance chillers for AC to target 36% less than the benchmark average usage.

Social:

- **Air:**
 - Heat recovery and central air filtration treatment system.
 - Increased ventilation with CO2 monitoring and control.
 - Hospital-grade air quality.
- **Light:**
 - Special double-skin building façade with sun-shading louver acting as daylighting control.
 - Lighting to be 500 Lx.
- **Well-located:** sustainable location with excellent connectivity to public transport and public resources.

Governance:

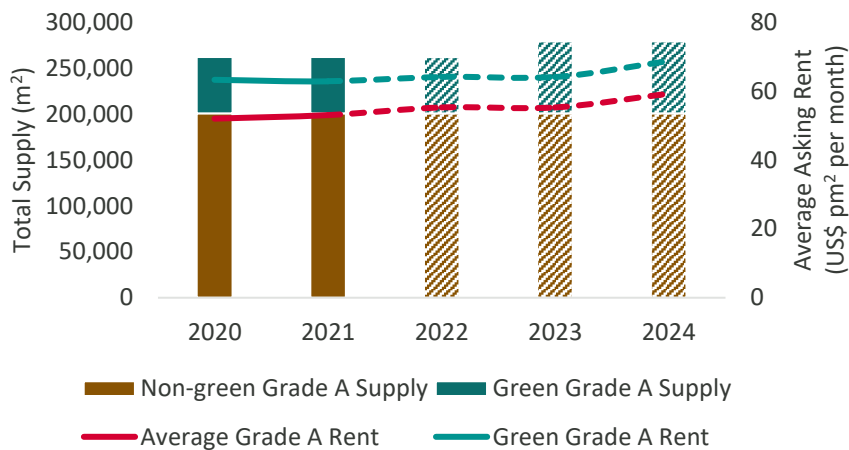
- **Early adoption of sustainable building through accreditations:**
 - LEED Platinum by USGBC for green building.
 - Distinction "EnEff" of the Federal Ministry of Economics and Technology of Germany.
 - DGNB Gold for sustainable building from lifecycle assessment to performance orientation.

Source: Deustches Haus Ho Chi Minh Stadt

CONCLUSION: IMPLICATION FOR LANDLORDS

While the initial investment for green buildings can seem high, with construction costs increasing from 2 – 5%, Quang Do, co-founder of GREENVIET, a leading green building consultancy in Vietnam, observes that within five years of operation, the building will have repaid the additional construction costs. This aligns with Knight Frank Vietnam's findings, where we have been tracking rental premium in CBD for green buildings, which commanded up to 16% more than non-green buildings in Q3 2022. Looking forward, we anticipate this trend to continue as expected future supply to the market will largely have green accreditations.

Figure 3. HCMC CBD Supply and Rents



Average Asking Rent is exclusive of Service Charge and VAT
 Source: Knight Frank Vietnam Research

A close examination of the project life-cycle from formation to end of use shows that early investment into green self-sustaining buildings pays off for landlords from tangible results, such as rental premium and operational excellence, to the non-tangible, such as prestige and safeguarding vacancies in times of MNC's adopting ESG.

Among the Fortune Global 500, 63% of companies have set emissions reduction targets for 2050 and 47% have set more ambitious 2030 targets. Vietnam plans to attract 50% of Fortune Global 500 corporations by 2030, as highlighted in Prime Minister Decision 667, signed on June 2nd, 2022. Decision 667 issued the country's foreign investment cooperation strategy for the 2021-30 period, in tandem with agreements from the recently held COP 27, setting Vietnam on track for Net Zero Carbon by 2050, as pledged at COP 26 last year. ESG-minded occupiers are driving the demand for green-grade buildings to stand out in helping them achieve their ESG commitments. Thus, for landlords to remain relevant, they must be best-in-class when it comes to meeting occupiers' needs and governance towards tackling environmental and social factors within the office space.



Quang Do
 Co-founder of GREENVIET

“The additional construction cost to achieve LEED certificates depends on levels (Certified, Silver, Gold or Platinum) and original investment budget. It also depends on the experience of project team, especially the green building consultant. Typically, the extra cost is 2-5%, however the percentage could go down to less than 1% if an experienced green consulting firm is involved early at the beginning of design process.”

We like questions. If you've got one about our research, or would like some property advice, we would love to hear from you.

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