

RSM KUWAIT NEWSLETTER

Building a Sustainable Future in the GCC Construction and Real Estate Sector

Navigating Environmental, Social,
and Governance (ESG) Initiative



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Background

While the GCC (Gulf Cooperation Council) countries are endowed with one of the world's most valuable resources—oil—they face the challenge of balancing economic growth with environmental responsibility. The extraction and production of oil contribute significantly to harmful emissions, impacting the atmosphere. To mitigate these negative effects, companies in the GCC should explore sustainable solutions to reduce the environmental burden associated with oil production, as part of their commitment to their community and base of operations. Today, we turn our focus to the construction and real estate sector. Affluent and developed countries face challenges, including aging population, slowing economic growth, geopolitical tensions, and immigration concerns. The World Economic Forum, in a Global Alliance for Buildings and Construction (ABC) report, states that the building operations and construction sector, which accounted for a staggering **40% of global energy**-related carbon emissions in 2021, stands at the epicenter of this challenge.

[Ref. Note 1: <https://www.unep.org/resources/publication/2022-global-status-report-buildings-and-construction>]

Meanwhile, the [Global Status Report for Buildings and Construction](#) of the UN Environment Program (UNEP) states that in 2022, the sector accounted for **37% of global operational energy and process-related carbon dioxide (CO₂) emissions**, rising to just under **10 gigatonnes of carbon dioxide (GtCO₂)**. Its energy consumption reached **132 exajoules (EJ)**, which is more than a third of global demand.

[Ref. Note 2: <https://www.unep.org/news-and-stories/press-release/not-yet-built-purpose-global-building-sector-emissions-still-high>]



In the GCC, this sector is a cornerstone of the economy and a powerful agent for shaping a sustainable future. The transformative power of ESG in this context is undeniable. As urbanization accelerates globally, the industry's impact on the environment, communities, and long-term value creation intensifies.

[Ref. Note 3: GCC building industry is growing & embracing sustainability (cityscape-intelligence.com)]

A study by the Global Green Building Council highlights the need for sustainable practices in the construction sector. Recognizing this, companies worldwide, including those in the GCC, increasingly embrace ESG principles, seeking to mitigate risks, attract investors, and enhance their reputation. While progress is being made, the GCC currently trails behind more mature markets like Europe and North America in ESG adoption.

[Ref. Note 4: ESG in GCC: A Comparative Analysis of Efforts with Europe and Western Countries ([linkedin.com](https://www.linkedin.com))]

This newsletter serves as your guide in navigating this dynamic landscape. It will delve into **real estate and construction-related ESG trends, regulatory developments, and best practices**, showcasing success stories and providing practical insights. It will also explore how this sector, both in the GCC and globally, can move beyond compliance, leverage ESG for long-term value, and build a future that is both prosperous and sustainable.

Certification by globally leading agencies plays a crucial role in the decarbonization of the construction and real estate sector. **Leadership in Energy and Environmental Design (LEED)** is the globally leading framework for designing more sustainable buildings. It encourages the construction of buildings that are not just energy-efficient, but have the least possible potential impact on the natural environment. In promoting these sustainable practices, various green building councils play a crucial role, including **LEED and BREEAM (Building Research Establishment Environmental Assessment Method)**, widely used in Canada and the UK. Other certifying agencies, though important, represent smaller and more regionally focused shares.

GCC Nations and International Leaders with LEED Certification

The GCC nations are making notable advances in sustainable development, with LEED certification reflecting their commitment to green building practices. A number of reputed companies in the GCC have achieved LEED certification or similar certification for their constructed buildings, showcasing their dedication to sustainability. This initiative promotes eco-friendly construction and inspires regional and international leaders to embrace greener approaches in their areas of influence.

Applicable Sustainability Standards and Frameworks

For the advancement of sustainability in the construction and real estate sector, various standards and frameworks have been developed to guide and assess environmentally responsible practices. Brief summaries of selected related standards followed in the GCC are set out below:

International Financial Reporting Standards (IFRS) S1 and S2:

- IFRS S1 provides general requirements for disclosing sustainability-related financial information. It covers topics like governance, strategy, risk management, and metrics related to sustainability.

[Ref. Note 5: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>]

- IFRS S2 focuses specifically on climate-related disclosures. It requires companies to report on topics similar to S1 but with a specific focus on climate change-related risks and opportunities.

[Ref. Note 6: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures/>]

- While the adoption of IFRS S1 and S2 is not yet mandatory in the GCC, certain companies in the GCC real estate and construction sector are applying various global standards and frameworks set out subsequently to disclose information on climate-related risks, energy consumption, waste management, and social impacts. Such information is similar to that required under the IFRS standards.

Global Reporting Initiative (GRI):

- This sector-specific standard provides detailed guidance on material topics and disclosures relevant to the construction and real estate industry, including circular economy principles.
- GRI Universal Standards provide a foundation for Sustainability reporting and can be used in conjunction with the sector standard to ensure comprehensive disclosure.

European Sustainability Reporting Standards (ESRS) and Corporate Sustainability Reporting Directive (CSRD):

Larger European Union (EU) corporations, including GCC companies with European connections, are required to publish sustainability information under the CSRD. The ESRS provides comprehensive guidelines on reporting effectively to facilitate this. In essence, the ESRS specifies how to accomplish the reporting requirements of companies, while the CSRD specifies what those reports must include. The ESRS sector-specific standards could provide valuable insights for GCC companies, especially those with operations or stakeholders in Europe.

ISO 14064 – Greenhouse Gases:

ISO 14064 is a set of international standards guiding, quantifying, and reporting greenhouse gas (GHG) emissions and removals. In the GCC, the adoption of ISO 14064 is voluntary. Part 1 focuses on organizational GHG inventories, Part 2 on GHG project quantification, monitoring, and reporting, and Part 3 on validating and verifying GHG assertions.

GHG Protocol:

The GHG Protocol developed by the World Resource Institute, along with the World Business Council that has set out GHG accounting practices since 2001, is the most widely used standard, and is recommended by IFRS S2, with companies permitted to use regulatory options in the first year of sustainability reporting.

Several of these frameworks are designed to be interoperable, allowing companies to leverage their efforts across different reporting requirements. For example, the International Financial Reporting Standards (IFRS) and International Sustainability Standards Board (ISSB) standards can be used together to provide a comprehensive picture of sustainability performance. Because of their interconnectedness, using these standards enable companies to effectively fulfil their various reporting obligations and improve the caliber of their disclosures.

The choice of framework would depend on various factors, including the **company's size, industry, maturity level, stakeholder expectations, and regulatory requirements**. Companies should carefully consider their specific circumstances and select the frameworks that best align with their needs and objectives.





Global Perspective in the Construction and Real Estate Industry

The construction and real estate sector is witnessing a surge in ESG adoption, driven by factors like increasing investor pressure, regulatory changes, beneficial returns, and growing awareness of climate risks. Key trends include, among others:

Increased ESG Reporting

More companies are publishing comprehensive sustainability reports and increasing their focus on ESG, aligned with frameworks like GRI and the aforementioned frameworks and standards. There is a growing focus on data accuracy, transparency, and third-party assurance.

[Source: <https://www.cbre.com/insights/articles/companies-intensified-focus-on-esg-goals-is-driving-their-real-estate-decisions>]

Net-Zero Commitments

Leading players are setting ambitious targets to achieve net-zero carbon emissions across their operations and value chains. This includes measures like energy-efficient construction, renewable energy adoption, and carbon offsetting.

Green Building Certifications

Green building certifications, like LEED, BREEAM, and WELL, Global Real Estate Sustainability Benchmark (GRESB), and Envision, are globally recognized sustainability assessment methods for buildings and communities.

These certifications are becoming increasingly important for reducing carbon footprint and attracting tenants and investors, and these drive demand for sustainable construction practices.

Social Impact Focus

Companies prioritize social responsibility through community engagement, diversity and inclusion programs, and fair labor practices. Social aspects are also reflected in the aforementioned certifications.

The GCC Progress Compared to Other Regions – ESG Trends & Comparison

GCC Rating on Sustainability:

Among the GCC countries, **Kuwait is ranked 111th, as compared with the UAE's 48th, Saudi Arabia's 101st, and 95th rank of Qatar.**

[Source: Sustainable Development Report 2024]

The GCC's sustainability ranking underscores the region's need for accelerated progress in sustainable development. By adopting and implementing various related standards and frameworks, GCC companies can contribute to a more sustainable future.



ESG Strategy Development

Assessing the entity's current ESG performance, setting ambitious targets, and developing a roadmap for implementation.



Trends

The GCC is seeing increased ESG reporting, net-zero commitments, adoption of green building certifications, and focus on social impact.



Strengths

GCC has strong government support, showcases mega-projects, and benefits from a growing awareness of ESG's importance.



Comparison

There is lower investor pressure and a lower level of data maturity compared to more developed markets.

Key Performance Indicators and the Path to Net Zero:



Resource Depletion:

Address the depletion of natural resources and the importance of adopting circular economy principles in construction and real estate development. The industry's reliance on natural resources is a major concern. Adopting circular economy principles could help reduce waste, conserve resources, and promote sustainable development.



Social Impacts:

Examine the social impacts of the construction industry, including labor rights, community engagement, and affordable housing. Addressing these issues is essential for creating a positive and equitable built environment.



Opportunities:

The construction and real estate sector is increasingly adopting sustainability standards and frameworks. Key areas of focus include reducing carbon emissions, conserving resources, and addressing social impacts. The GCC region has significant opportunities to lead in this area due to its abundant solar resources and financial capabilities. By embracing sustainability, companies can enhance their reputation, attract investors, and contribute to a more sustainable future.

[Ref. Note 7: "The Role of Sustainability in Attracting Investment" - Consulting Firm]

ESG integration could improve brand reputation, attract talent, foster innovation, and attract increased investments from financial institutions. By demonstrating a commitment to sustainability, companies could make themselves more appealing to stakeholders seeking to support responsible and ethical businesses.



Regulatory Compliance and Risk Management

As GCC nations continue to adapt and implement new regulations to address environmental concerns and promote sustainable practices, the construction and real estate sector must remain vigilant and proactive in its compliance efforts based on its understanding of which sustainability risks to prioritize.

[Ref. Note 8: www.iso.org/standard/62816.html]

Emerging Trends and Risks

- a. Renewable Energy Transition:** Countries like Saudi Arabia are diversifying their energy mix with significant investments in constructing solar and wind farms to produce power.
- b. Investor and Public Pressure:** Stakeholders are increasingly demanding ESG (Environmental, Social, and Governance) integration from companies. This drives innovation in sectors but also necessitates responsible practices to manage expectations.
- c. Technological Advancements:** The technology sector is leveraging compliance management software to streamline regulatory adherence and risk management processes, and broader ESG initiatives. Technology plays a crucial role in this, with many ESG tools being used to streamline regulatory adherence and risk management. Software solutions help track compliance, manage risks, and ensure adherence to industry standards. Digital innovations like AI and blockchain offer tools for improved efficiency, environmental impact reduction, and enhanced transparency. Ideally, tools like blockchain could mitigate greenwashing by creating tamper-proof ESG data records.

The significant sustainability risks include:

- a. Transition Risks:** Any policy changes, technological advancements, and shifting market preferences could disrupt traditional business models with a corresponding impact on ESG initiatives.
- b. Reputational Risks:** Any poor ESG performance could damage brand image and stakeholder trust especially when benchmarked to applicable standards and frameworks.
- c. Legacy Infrastructure:** Any infrastructure issues could be challenging to address. Overcoming the existing carbon-intensive infrastructure and fostering a paradigm shift towards sustainable practices is crucial.
- d. Social and Economic Considerations:** The transition to a sustainable economy must be sensitive to the social and economic complexities it presents.
- e. Data Transparency:** Issues of data integrity could be a potential area of risk. Ensuring data accuracy and transparency in ESG reporting is essential to build trust and avoid greenwashing.

Challenges and Considerations:

Several challenges highlighted by apex global bodies in sustainable construction include:



High Upfront Costs:

IRENA (International Renewable Energy Agency) reports often emphasize the higher upfront costs associated with renewable energy projects, especially in developing countries.



Grid Integration Challenges:

Integrating large amounts of variable renewable energy (like solar and wind) into existing electricity grids can be technically challenging and require significant upgrades to grid infrastructure.

[Source: IRENA report]



Policy and Regulatory Barriers:

Any inconsistent or unclear policies and regulations could hinder the development and deployment of renewable energy technologies.



Fossil Fuel Dependence:

The International Energy Agency's (IEA) World Energy Outlook reports consistently highlight the continued global reliance on fossil fuels, which poses a major challenge to achieving climate goals.



Investment Gaps:

The IEA emphasizes the need for significantly increased investment in clean energy technologies and infrastructure to accelerate the energy transition.



Policy Inertia and Gaps:

The IEA warns about the risks of policy inertia and the need for stronger government action to drive the transition to a low-carbon energy system.



Access to Finance:

World Bank data reveals that access to finance remains a major challenge for renewable energy projects in developing countries, particularly for smaller-scale projects.



Capacity Constraints:

Many developing countries lack the technical and institutional capacity to plan, implement, and manage renewable energy projects effectively.



Risk Perception:

Investors often perceive higher risks associated with renewable energy projects in developing countries, leading to higher financing costs and hindering investment.



Technology Needs:

Many countries highlight the need for technology transfer and capacity building to support their transition to renewable energy in their national communications to the United Nations Framework Convention on Climate Change (UNFCCC).



Land Use Conflicts:

Large-scale renewable energy projects can sometimes compete with other land uses, such as agriculture or conservation.



Social and Environmental Impacts:

It is important to consider and mitigate the potential social and environmental impacts of renewable energy projects, such as impacts on biodiversity or community displacement.



Cooling GHG Risks:

The life-cycle of a building, and particularly the refrigeration process in air-conditioning, results in the generation of Hydrofluorocarbons (like HFL23) and Perfluorocarbons (PFL), which are potent greenhouse gases that have GWP (Global Warming Potential) thousands of times higher than CO2. These gases, when released into the atmosphere, can remain for decades or even over a century.

Addressing the Challenges:



Capacity Building:

Investing in capacity building and technology transfer could help developing countries develop the skills and expertise needed to implement and manage renewable energy projects. Under the [World Bank Group Climate Action Plan \(CCAP\) 2021–2025](#), the International Finance Corporation (IFC) undertook to align 85% of its new investment projects with the objectives of the Paris Agreement starting July 1, 2023 and increasing to 100% starting July 1, 2025.

[Ref. Note 9: <https://www.ifc.org/en/what-we-do/sector-expertise/climate-business>]



Cool Coalition:

The UNEP – IEA joint initiatives, and amendments made to the Montreal Agreement have set participating countries a threshold to limit Hydrofluorolefins (HFL) and Perfluorolefins (PFL) emissions to less than 0.1% of products and services manufactured.

[Ref. Note 10: <https://www.epa.gov/climate-hfcs-reduction/control-hfc-23-emissions>]



Sustainability Funding:

The IFC estimates that emerging economies need nearly \$3 trillion annually by 2030 to adapt to the changing climate. Of this, the sustainable cooling market is targeted to touch \$600 billion by 2050 for private businesses and could generate \$8 trillion as revenue from the operations and a lion's share of it must come from private sources.

[Ref. Note 11: <https://www.ifc.org/en/pressroom/2024/8-trillion-opportunity-in-sustainable-cooling-solutions-for-developing-economies>]



Community Engagement:

Engaging with local communities and addressing their concerns is crucial for the successful deployment of renewable energy projects.

Executive Director of UNEP Inger Anderson, while highlighting concerns about lagging climate pledges, in the Emission Gap Report 2024 issued in October 2024 commented that limiting warming to 1.5°C is one of the greatest asks of the modern era. We may not make it, but the only certain path to failure is not trying.

[Ref. Note 12: <https://www.unep.org/resources/emissions-gap-report-2024>]



GCC Landscape of Construction Companies Leading Sustainability Case Studies

Although data on LEED certifications and waste recycling may be limited, the momentum toward sustainability in the GCC construction sector is undeniable. There are leading case studies of ESG initiatives and Sustainability reporting in GCC construction and real-estate companies, and adoption of sustainability measures amidst growing regulatory pressure for ESG disclosure and transparency. Examples include:

United Arab Emirates

- **Emaar Properties, UAE:** Reduced carbon emissions intensity by 13% since 2019, achieved average energy savings of 20% through energy-efficient technologies and contributed over AED 1 billion to CSR programs in the past 5 years.
[\[Source: Emaar Sustainability Report 2023\]](#)
- **Majid Al Futtaim, UAE:** Cut carbon emissions by 24% since 2019, diverted 75% of waste from landfills and reduced water consumption by 18%, and targeted net zero by 2040.
[\[Source: Majid Al Futtaim Sustainability Report 2023\]](#)

Saudi Arabia

Being the largest producer of oil and gas in the GCC, it is committed to diversifying its energy mix, reducing its reliance on fossil fuels, and promoting sustainable development in line with its Vision 2030 plan to generate 50% of its power from renewable sources, which translates to around 58.4 GW.

ACWA Power, a globally leading power generation company leads the Saudi energy transition initiatives with an existing and project pipeline of around 24 GW. These are its key projects and those in collaboration with Aramco & Public Investment Fund (PIF):

- **Sakaka Solar Plant:** Located in Al Jouf, it is Saudi Arabia's first utility-scale solar power plant, with a production capacity of 300 megawatts. It is a key component of the National Renewable Energy Program.
- **Sudair Solar PV:** Set to become Saudi Arabia's largest solar plant with a capacity of 1,500 MW, capable of powering 185,000 homes.
- **Aramco's Sustainability Initiatives:** The oil giant is investing in carbon capture and storage technologies, as well as exploring hydrogen as a cleaner energy source.
- **Public Investment Fund (PIF's) mega-projects, including NEOM and the Red Sea Project** aim to be 100% powered by renewable energy.

Kuwait projects

Kuwait regulatory bodies and the Capital Markets Authority (CMA) are recommending that listed companies and major investment companies adopt Sustainability reporting under IFRS S1 and S2 and other permitted frameworks to support UN SDGs and net zero pledges. Some important construction and real estate projects that promote sustainable practices include:

- **Burj Alshaya Complex & Four Seasons Kuwait:** Alshaya Group Office – 1,612,880 sq. ft., LEED Platinum certified
- **National Bank of Kuwait New Headquarters:** 300 m tall, total floor area of 1,367,016 sq. ft., LEED Gold certified
- **Boursa Kuwait Securities Company Office:** 490,909 sq. ft., LEED Gold certified
- **The Avenues Mall:** Retail – 3,245,596 sq. ft., LEED Silver certified
- **Kuwait International Airport:** Phase 2 terminal – 405,799,422 sq. ft. LEED Gold certified





Way Forward

GCC companies should proactively integrate ESG practices by embracing established frameworks, setting science-based targets, and effectively measuring and managing risks. Each can tailor its approach based on specific goals, industry requirements, and stakeholder expectations. Collaboration among stakeholders is crucial to drive innovation and achieve sustainable progress towards UN SDGs commitments and Net Zero pledges made.

By first covering these high-level themes, such as specific certifications and technical practices like LEED and recycling, companies would create a clear context for the more detailed aspects of the ESG approach. This structured approach ensures that these entities not only meet industry standards, but also align their actions with broader sustainability goals.

How we can help

RSM Kuwait is committed to supporting our business community in navigating the complexities of ESG integration, especially in relation to the construction and real estate sector. Our team of experts can assist in various services such as, but not limited to:



ESG Strategy Development

Assessing the entity's current ESG performance, setting ambitious targets, and developing a roadmap for implementation.



IFRS S1 and S2 Compliance

Ensuring the entity's Sustainability reporting disclosures meet the new standards, reducing risk, building investor confidence, and improving accountability and transparency.



Risk Assessment and Implementation Support

Identifying and quantifying climate-related and other material sustainability risks to your business. It also involved developing systems to collect data, analyze, quantify, manage, and disclose the risks and available opportunities.



Sustainable Reporting Solutions

Assisting entities in implementing Sustainability reporting systems for meeting disclosure requirements and sharing innovative technology-driven construction and real estate industry best practices that can reduce carbon footprint and align with ESG principles.



Assurance Services

Performing ESG attest and review engagements that provide entities with limited or reasonable assurance on adherence to IFRS S1 and S2, as well as frameworks like GRI or others, depending on the entity's needs and stakeholder expectations.



Underwriting Services

Evaluating sustainability performance of entities or projects for investment purposes, to advise on funding sustainability projects, including through corporate finance, issuing green bonds, or in line with evolving practices.

To stay ahead of the curve, contact RSM Kuwait today to explore how we can support your company in developing and implementing a robust ESG strategy, implementing Sustainability reporting systems, and proactively embracing opportunities that can drive long-term value creation. The time for decisive action on ESG integration is now. Let us build a sustainable, resilient, and prosperous future for the GCC.



Conclusion

The GCC's construction and real estate sector has a compelling rationale to assume a lead role in decarbonization and ESG adoption, to attain sustainable growth that aligns with its corporate strategy and goals. However, there is also an urgent need for focused ESG initiatives from companies to move beyond compliance and view ESG as a catalyst for transformation, by considering the following:



Beyond Compliance

Move beyond mere compliance and adopt a proactive approach to ESG integration.



Embrace Frameworks

Utilize established ESG frameworks such as IFRS S1 and S2, LEED, GRI, and the GHG Protocol to enhance transparency and comparability, and to align with evolving standards.



Set Ambitious Targets and Measure and Manage Risks

Adopt more sustainable practices in risk management as mandated by government regulations and industry associations, such as energy-efficient building codes and renewable energy.



Set Science-based Targets

Focusing on emissions reduction and sustainability performance that align with the Paris Agreement and national goals.



Collaborate and Innovate

Collaborate with government, employees, and other stakeholders to drive innovation and accelerate progress toward a sustainable future.



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