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Major Aspects of Development of Sustainable Investment Environment in Real Estate Industry

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Abstract

Ever increasing ecological treats and unlimited, accelerated economic growth shall be evaluated in interaction with each other. In real estate industry investment environment unable to ensure sustainability without conformity of other economic sectors with the criteria of sustainable development. In practice entrepreneurs devoting insufficient attention to the outcome of a construction process, underestimate its political, economical, technological, social and ecological aspects. This paper focus on analysis of economic consequences of integrating of environmental sustainability into corporate strategies.

Financial and environmental risk analysis identified the key factors influencing sustainability of real estate industry and proposes environmentally friendly solutions for robust economic growth within the industry. That creates the economic and technical grounds of competitiveness for construction companies. For the purpose of maintaining competitiveness and growth in different economic cycles, entrepreneurs expected to embrace economic, environmental and technological innovation as instruments for enhancement of sustainable development.

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1. Introduction

Development of sustainable investment environment has gradually becoming an important aspect of government's national strategic development plans around the world. Since the Brundtland report [1] in 1987, environmental sustainability has been widely accepted as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The global emergence of green building rating systems is gaining attention of wider community within real estate industry, being a substantive step towards promoting investment in sustainable real estate and provision of environmental public goods [2]. The progress of mainstreaming investment towards sustainable real estate is still underdeveloped due to lack of sufficient information on the financial performance of such investments [3].

There is a large volume of information on corporate social responsibility and corporate financial performance debating on issues related to environmental sustainability. Researchers referring to conflicts between corporate and social responsibility and shareholder value-maximization principles [4]. The main concern is about interrelation between enterprises' environmental performance, added value and economic growth [5, 6]. This paper extends the existing literature and provides the research on the major aspects and development of sustainable investment environment in the real estate industry within political, economic, technological, ecological and social dimensions. The main objective of this research to focus on economic, environmental and social aspects [7].

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To address the potential uncertainty and volatility problems as well as omitted variable bias, an instrument variable approach is employed in our empirical analysis to examine synthesis of major sustainability factors and interrelation between different stages of economic development, environmental awareness and corporate growth strategy [8]. Our empirical results provide evidence of positive association between real estate companies' environmental performance and market expectation of future profitability, intangible reputation effect, investor trust and investor risk.

2. Definitions of sustainability

Based on the extensive literature search, conception of the "sustainable development" is extensively clarified in scientific and economical vocabulary. Conceptually, attention is devoted not only to reducing the negative impact of production of various goods and the transport system on the environment, but also to optimization of consumption of goods and services and to increasing efficiency of the resources usage [9, 10]. Consequently, significant role is played by sustainable construction. The uncertainty and volatility embedded in the concept of sustainable development gives a reliable ground for wide discussions about sustainable operation and development of the real estate industry [11].

The international construction research organization Counsel International Batimen [12] defines the concept "sustainable construction" as follows:

"sustainable construction – a process of creating a building that is applicable for the provided purposes and that is environmentally friendly, in operation and management of which high efficiency of resource usage is ensured". This definition does not take into account construction undertaker and the owner of the building competence in a sustainable building production and in the features of life-cycle of a sustainable building. In construction, unlike other national economy sectors, unique products are produced. Those products completely correspond with the client's requirements that are included in the building's technical documentation. For that reason the above mentioned definition is largely referable to the concept of a sustainable building rather than sustainable construction.

The definition suggested by the European Union demonstrates sketchy and superficial approach to content of sustainable construction, stating that "... sustainable construction – dynamic process of new solutions of the developer, investor, manufacturer of building materials, constructions and equipment, service provider and other involved parties where environmental, social-economic and cultural development objectives are taken into account" [13]. EU definition notable demonstrates that politically responsibility for environment protection issues and achievement of social-economic development objectives suppose to lie on entrepreneurs. Comparison of operating objectives of an undertaker to environmental, social-economic and cultural development objectives indicate to a formal approach to issues of development of sustainable construction [14].

Analyzing the concepts of sustainable construction in development of the real estate industry and the entire national economy, achievement of the public social-economic development goals, and existing functional, economically technical and legal differences in those concepts, explanation of the concept of sustainable construction is proposed in the following wording [15]:

"sustainable construction – process of designing construction projects, placement, production and demolition of a building, which ensures conformity of the finished product with the criteria of sustainable development, technical documentation and other regulatory enactments with regard to safety, harmlessness of the production process and the finished product, high efficiency of using resources at one's disposal, a possibly minimal impact on the environment".

The definition referring to the construction process from the further operation of the building after the construction process is finished and the buildings are transferred to its owner and user. In the definition it is taken into account that the construction industry is included in the regulated area of business activity, sustainability requirements or criteria of the construction process are set in the respective regulatory enactments [16].

3. Decline in construction output within the European Union

The significant fall of the construction output in European Union shall be analyzed with reference to such macroeconomic indicators as government budget deficit, debt as percentage of GDP and economic growth. According to Euro stat within period from 2005 to 2012 the construction output in European Union (27 countries) is down to 25%. The positive movements in relation to stabilizing of euro crisis such as approval of European Stability Mechanism by German Supreme Court, parliamentary election of parties supporting euro in Netherlands, announced establishment of European Central Bank as a supervising institution, jointly expected to give a material impact on managing the European debt crisis. Namely, these events as Euro zone safety measures mechanism expected to create more confidence about continuity of the Euro zone [17].

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