



Unlocking the future of sustainable real estate in Saudi Arabia

How **urban development** in the Kingdom can
create global **ESG investment opportunities**



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Building a Saudi ESG model for urban development

Foreword

Saudi Arabia's transformation, led by its Vision 2030 programme, has established the Kingdom as a major global hub for urban developers and investors. Across the country, ambitious giga and megaprojects that incorporate advanced digital technologies are building a new future for Saudi citizens.

To realise the full social and economic potential of these projects, Saudi Arabia must seize the opportunities created by the **global environmental, social and governance (ESG)** investment movement. Projects that meet the highest international ESG standards and sustainable finance criteria can unlock a rapidly growing source of capital. ESG best practices will also ensure that Saudi urban developments deliver the best possible housing and living spaces for all residents, regardless of their wealth, in line with Vision 2030's quality-of-life objectives.

This report provides guidance for developers on how to comply with complex, constantly evolving international ESG regulations, and practical recommendations on implementing ESG best practices throughout a project's life cycle, drawing on evidence from one of the Kingdom's leading mega-projects.

We hope that developers, regulators and regional and international investors will find our report valuable and timely, as world-class ESG compliance becomes imperative for the next phase of the Kingdom's urban transformation.

Imad Shahrouri, PwC Middle East

Christiane Conrads, PwC Germany

Executive summary

Well-built housing

Affordable, well-built housing is a critical component of Saudi Arabia's drive to build a modern, inclusive society, as outlined in the Kingdom's transformative Vision 2030 roadmap that emphasises a sustainable approach to housing development, adhering to ESG principles to ensure long-term environmental and social impact. Saudi homeownership per household rose from 47% to 60% between 2018 and 2022 and is on track to reach its Vision 2030 target of 70% by the end of the decade.¹



This ambitious housing programme is an important part of a series of mega urban development projects, which have already attracted huge inflows of foreign capital. However, Saudi developers must ensure that every stage of these projects - from initial planning to completion - meets the highest international ESG standards. Firstly, this is an ethical imperative that aligns with Vision 2030's commitment to enhance the quality of life of all Saudi citizens. Secondly, it is a commercial imperative, given the increasing worldwide importance of ESG investing in urban real estate projects.

For Saudi urban developers, world-class ESG compliance is the key to attract global investors and unlocking major long-term opportunities.

However, the complexity of urban development projects, which involve multiple stakeholders and sectors, means that achieving the highest possible level of ESG compliance is a formidable challenge. This report, produced by PwC’s Global real estate ESG team and PwC Middle East real estate team, draws on interviews with local and international investors in Saudi Arabian real estate and on the latest ESG guidelines. It sets out a comprehensive methodology for Saudi urban projects to implement ESG compliance, incorporating best international practices in urban development and sustainable finance.

Four guiding principles

Define the methodology’s framework. To achieve the highest international ESG compliance, urban projects must:



Make a positive contribution to the environment and society in compliance with minimum standards, without compromising other environmental and social goals.



Adopt a holistic life cycle approach where the social and environmental impacts of urban projects are considered comprehensively at every stage.



Analyse both the internal environmental and social risks associated with urban projects and the potential external impact of developments on the environment and society – a dual perspective known as the “double materiality” approach.



Establish a detailed, transparent database as an essential platform for observing the first three principles and maintaining accurate reporting.



Key findings

By observing these principles, urban developments can achieve a series of successful ESG outcomes. ESG real estate transformations:

- **Offer significant opportunities** at every stage of a project's life cycle to minimise risks and maximise returns.
- Enable **flexible, proactive risk management** in a dynamic, constantly evolving environment.
- Attract **international investors**, in line with Saudi Arabia's National Investment Strategy and Vision 2030 goals.
- Increase **long-term access** to international capital by integrating sustainable finance requirements into Saudi urban development projects.
- Respond to **growing demands** from stakeholders for ESG-compliant real estate projects.
- Ensure **compliance** with rapidly rising global standards in sustainable finance.



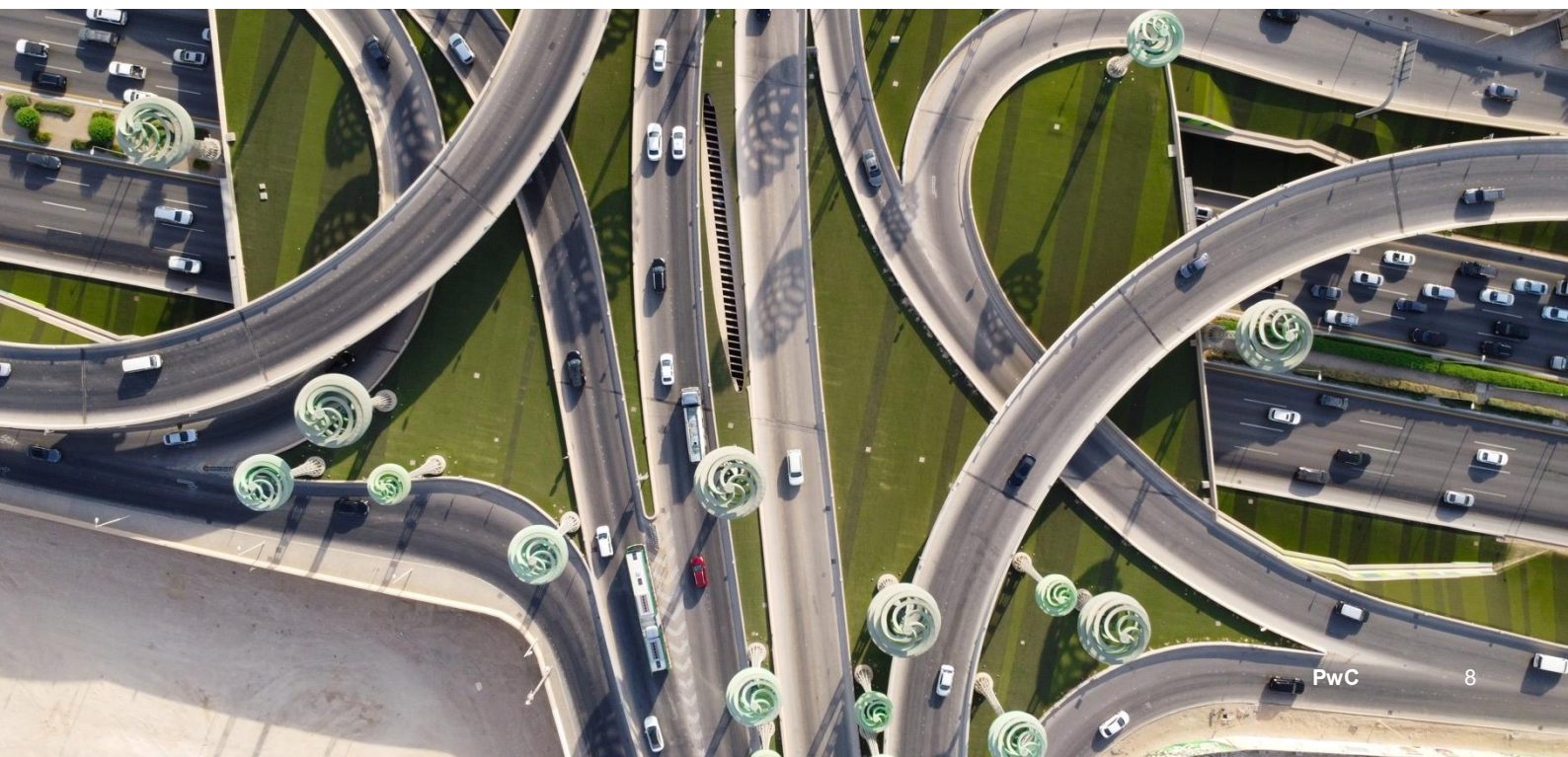
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How ESG has
begun to
transform
Saudi
Arabia's real
estate sector

How ESG has begun to transform Saudi Arabia's real estate sector

Several mega urban development projects already underway have immense potential to drive ESG transformation across Saudi Arabia's real estate market. Projects such as The Line, a linear smart city under construction in Tabuk Province, focus on livability and quality of life and aim to build a "Saudi ESG way" by attracting international investors and real estate talent from around the world, while respecting Saudi culture and values.

This report analyses the implications of the global ESG movement for Saudi urban developments, identifying opportunities and challenges for project managers, investors, and other stakeholders.²



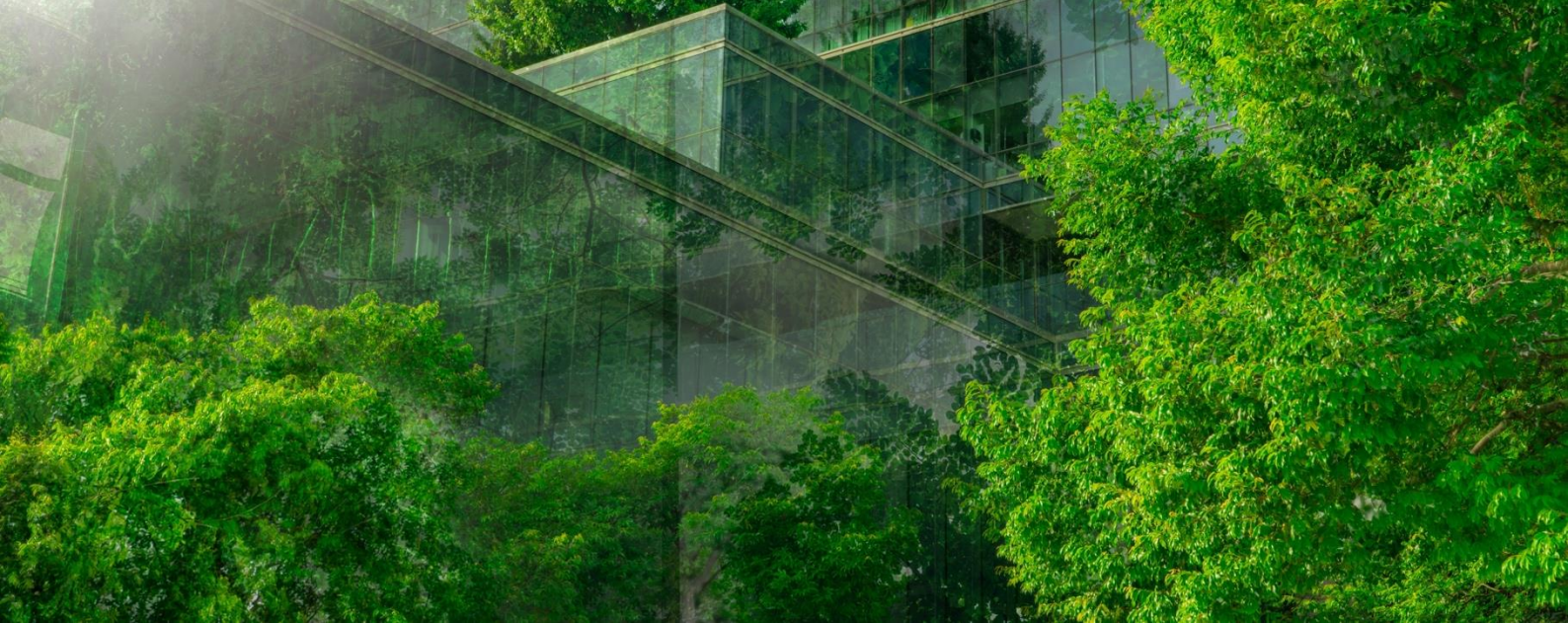


Figure 01: Best international ESG practices in urban development projects



Trust & governance

Ensure planning and financial transparency throughout the project's lifecycle.



Systematic approach

Implement individual ESG measures in the correct order by following the 4 guiding principles.



Add ESG template to project master plan

Conduct a comprehensive ESG analysis of all project phases to create the ESG template.



Advanced digital data collection & analysis

Accurate, up-to-date information is essential for ESG compliance and investor confidence.

To illustrate the application of ESG principles, the report presents an anonymised case study of a current urban development project. A comprehensive gap analysis identifies areas where current practices should be revised to meet further ESG criteria, providing insights and lessons for future Saudi real estate projects.

1.1

Saudi urban development projects: current state and key objectives

In recent years, Saudi Arabia's urban developments have made significant progress towards integrating ESG principles, guided by Vision 2030 sustainability goals. However, our research tells us there is still room for improvement. The current real estate market presents both challenges and opportunities for enhancing sustainability, inclusivity, transparency and economic viability in urban development projects across the Kingdom. This includes incorporating sustainable design and construction practices in all areas, ensuring transparent governance, and achieving economic viability that benefits all stakeholders. Implementing ESG considerations and perhaps regulations can lead to more sustainable and resilient urban development, attract foreign investments, improve resource efficiency, and create a healthier environment for residents. By following the examples set by regions like Singapore and the European Union, Saudi Arabia can enhance transparency, accountability, and global competitiveness.

Achieving full compliance with best ESG practices is essential for Saudi Arabia to achieve its ambition to become a leader in sustainable urban development. This includes developing a skilled, flexible workforce and securing access to capital in an increasingly challenging global investment climate. By working towards this vision, KSA can secure access to resources, agility, and self-sufficiency in a constantly changing geopolitical environment, as well as ensure a skilled workforce.

Moreover, such developments could be leveraged to educate stakeholders on ESG concepts and their benefits, stay current with evolving ESG regulations and standards to ensure compliance, and consistently report and communicate progress on ESG goals. In conclusion, embracing comprehensive ESG practices will not only enable Saudi Arabia to meet its Vision 2030 sustainability objectives but also position the Kingdom as a global exemplar in sustainable urban development.

1.2

Saudi Arabia's participation in the global ESG transformation

Over the past decade, major global events such as the 2015 UN Climate Change Conference in Paris have dramatically increased international awareness of the need for higher environmental standards in all major sectors, including real estate. At the same time, there is growing worldwide support across the public and private sectors for companies, investors, and other actors to play their part in creating a more sustainable future. Policies to mitigate climate change and adapt to global warming have become key elements in national strategies, paving the way for a broader ESG transformation in areas such as biodiversity loss, pollution prevention, and the protection of water and marine resources.

The social dimension of ESG is also gaining prominence. Increasingly, laws and policy initiatives are being designed to prioritise social welfare and promote inclusive societies where all citizens enjoy equal opportunities to lead healthy, fulfilling lives. The United Nations' Sustainable Development Goals (SDGs), established in 2015, are an international cornerstone for this new approach, setting out 17 global objectives for addressing poverty, inequality, conflict, injustice, and a wide array of other challenges.

Saudi Arabia's Vision 2030 embodies this shift in global attitudes towards ESG principles and provides an overarching framework for the Kingdom's ambition to become a leader in ESG-compliant urban development. Within this framework, real estate stakeholders need to address a range of methodological and technical challenges to develop projects that meet the highest global ESG standards and can act as future models of international best practices.

1.3

Four guiding principles that are essential for successful real estate ESG transformations

ESG transformations are complex, involving different stakeholders at the project, corporate and funding levels. The goals need to be aligned, regularly evaluated and adjusted to take on board new technical insights and market developments.

Often, only some individual ESG goals are implemented in real estate projects. However, to make real progress, a comprehensive, rigorous methodology is essential, based on the four guiding principles that are the focus of this report. These principles are derived from different sources of international law and widely recognised by national and regional regulators and standard-setting bodies. The principles therefore provide an indispensable navigation tool for Saudi urban development projects embarking on ESG transformations.

Specifically, urban development projects should:



Principle 1

Make a positive contribution to the environment and society in compliance with minimum standards, without compromising other environmental and social goals.

ESG-compliant projects must contribute positively to the environment and society while not undermining existing ESG goals. For example, solar panels, which help mitigate climate change, should be produced in an environmentally friendly way. Similarly, social housing projects should meet internationally recognised environmental standards to qualify as being sustainable.

The need for a balanced social and environmental approach lies at the heart of principle 1. It considers the social and political context of sustainable development, including global regulatory and standard-setting frameworks, and focuses on three distinct stages that represent historical milestones in the evolution of sustainable development:

Initial stage:

Anticipated resource limitations impacting development. These constraints first received global attention following the 1972 report *The Limits to Growth* commissioned by the Club of Rome, an international non-profit research group of business leaders and academics.

Second stage:

Environmental “carrying capacity” – the maximum human activity that the environment can support sustainably – and its implications for future generations.

Third stage:

Integration of a long-term, holistic view of these impacts, as proposed by the groundbreaking 1987 UN report *Our Common Future*, which introduced the three-pillar model of sustainability, encompassing ecological, economic, and social aspects. The report defined sustainable developments as those that met “the needs of the present without compromising the ability of future generations to meet their own needs”.

All urban projects must take this definition into account in order to be both ESG compliant and in observance of the “no harm principle”, which emphasises the interconnectedness of economic efficiency, social justice and environmental protection.

Internationally, the first guiding principle is reflected in various legislative and standard-setting initiatives, including:

- EU taxonomy regulation: This classification system, which came into force in 2020, is a prime example of a three-stage, balanced approach.³ To qualify as sustainable, economic activities must make a substantial contribution to at least one environmental objective; not cause significant harm to other environmental objectives; and conform with minimum international and human rights standards.
- Singapore-Asia taxonomy for sustainable finance: The 2023-edition of this taxonomy employs a traffic light system to assess the compliance of activities with its standards and actively supports ESG transition pathways.⁴



Principle 2

Adopt a holistic life cycle approach where the social and environmental impacts of urban projects are considered comprehensively at every stage.

A life cycle approach considers all stages of activities and investments, rather than focusing solely on specific periods. This holistic perspective makes it possible to assess a project's net environmental and social impact comprehensively throughout its duration, from resource extraction to production, use and disposal. The potential negative impacts can be identified and mitigated, while positive contributions can be maximised.

A life cycle outlook is particularly important when evaluating the past, present, and future environmental and social impacts of projects under development. By taking a proactive approach to planning and construction, it becomes possible to maximise the lifespan of properties and anticipate future changes, such as demographic shifts or repurposing needs, ultimately leading to cost savings.

As part of life cycle assessments, it is essential to consider the issue of embodied carbon in real estate projects. Embodied carbon refers to the carbon emissions associated with the extraction, manufacturing, transport, and construction of building materials - all of which should be analysed to reduce the project's carbon footprint.

Principle 2 is underpinned by various international initiatives and legislation. For example:

The EU's circular economy action plan:

Adopted in 2020, the plan champions reducing waste and advocates for a life cycle approach in product design and usage.⁵

China's circular economy promotion law:

Since 2008, the law has encouraged the country's manufacturers and retailers to recycle resources and materials and use them more efficiently.⁶





Principle 3

Analyse both the internal environmental and social risks associated with urban projects and the potential external impact of developments on the environment and society.

This dual perspective is known as the “double materiality” approach. It involves a comprehensive analysis of the sustainability risks associated with the social and economic impacts of an economic activity (inside-out perspective) and the influence of environmental and societal factors on the activity (outside-in perspective).

It is crucial for Saudi urban project developers to analyse and manage these risks as part of responsible risk management and investor protection. For example, negative impacts on the environment can include activities that result in high CO₂-emissions, excessive waste, or ecological harms such as air pollution. Project managers must always be aware of these impacts and take steps to reduce them with environmentally friendly measures.

Non-compliant projects can also incorporate socially harmful effects such as human rights violations and adverse impacts on the health and safety of employees. In the financial sector, negative impacts can arise from supporting high CO₂ emitters, harming biodiversity, or engaging in unethical business practices that damage society.

By observing Principle 3’s double materiality approach, urban developers can expand the holistic approach of Principles 1 and 2 to encompass a comprehensive analysis of external factors, as reflected in the following EU frameworks:

Corporate Sustainability Reporting Directive (CSRD):

Since 2023, companies operating in the EU must disclose how they impact and are impacted by environmental and social factors.⁷

Sustainable Finance Disclosure Regulation (SFDR):

Introduced in 2019, the regulation requires financial market participants to assess and report the Principal Adverse Impacts (PAI) of their investment activities on the environment, society, labour conditions and human rights.⁸



Principle 4

Establish a detailed, transparent database as an essential platform for observing the first three principles and maintaining accurate reporting.

Without adequate, trustworthy data, it becomes challenging for urban project developers to implement higher ESG standards in areas ranging from climate change and biodiversity loss to labour conditions. Reliable data sets are essential for urban projects to follow Principles 1, 2 and 3, all of which require comprehensive, timely analysis based on the latest information.

However, project developers, like all companies and organisations, also face significant challenges in managing ESG data. These challenges include identifying key ESG metrics, establishing reporting and auditing systems and processes, and ensuring that internal sustainability data is directly comparable with equivalent data in other corporate reports.

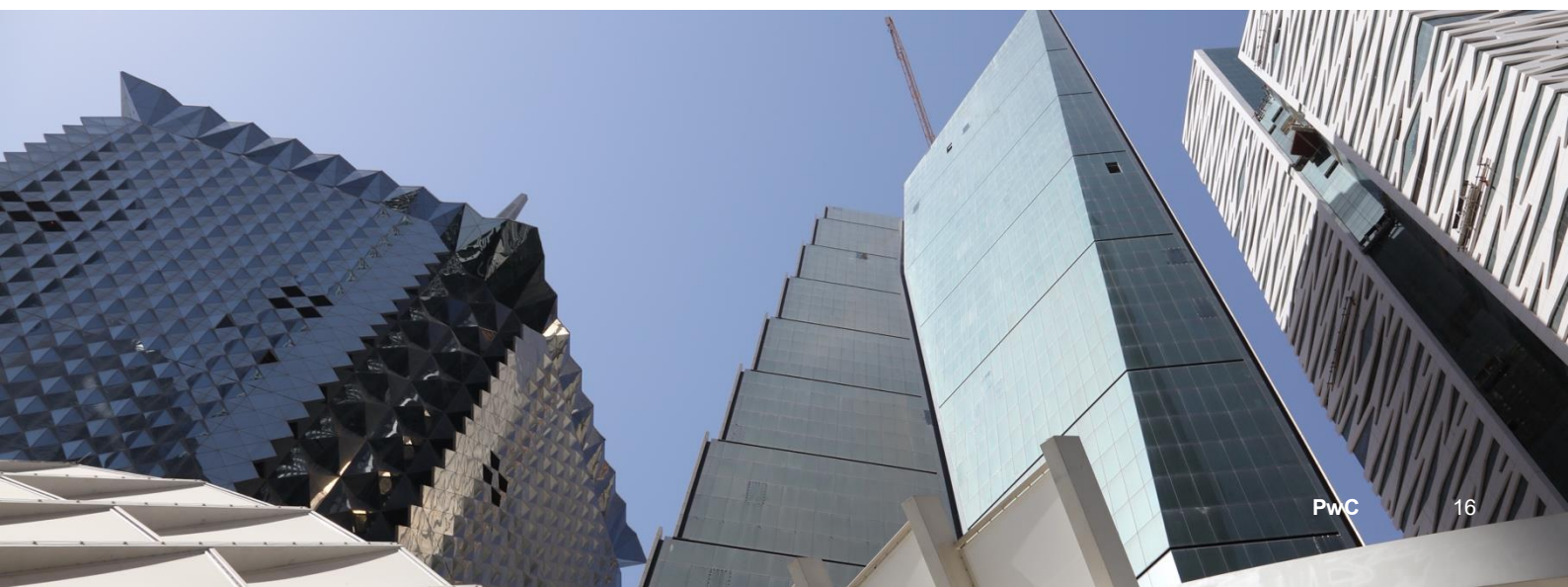
Globally, Principle 4 is recognised as an essential feature of full ESG compliance. Leading international examples of frameworks that incorporate this principle include:

The Global Reporting Initiative (GRI):

Founded in 1997, the GRI provides a comprehensive framework for reporting on sustainability performance in all ESG areas.⁹

The Sustainability Accounting Standards Board (SASB):

SASB focuses on industry-specific sustainability disclosure standards and provides guidelines for reporting on financially material ESG factors.¹⁰



In the real estate sector, internationally recognised standards for collecting, managing, and disclosing ESG data will become more rigorous over the next few years as increasing digitalisation accelerates the industry's global ESG transformation. Saudi urban projects need to ensure their data collection is already efficient, even if their observance of Principles 1, 2, and 3 is still a work in progress. Accurate, comprehensive ESG data collection is essential for observing the first three principles in full at a later stage, in order to meet stricter data-driven ESG standards.



1. Environmental and social targets



2. Fully integrated life cycle



3. Double materiality



4. Transparency



1.4

Saudi Arabia's progress towards best-practice ESG compliance in urban developments

99%

Consider ESG key in Saudi real estate investments

The results of our survey¹¹ revealed significant interest in the market and a common desire to stay informed about future progress towards meeting globally recognised ESG requirements. Almost all respondents were clear that ESG considerations feature prominently when deciding whether to invest in Saudi real estate projects, with close scrutiny of prospectuses to ensure that development and approval processes comply with the highest international standards.

Our interviewees highlighted the following critical ESG investment considerations:

1. Observing the highest global ESG standards:

Limited Partners (LPs) and investment committees in particular should prioritise sustainable and socially responsible investments. Adhering to the highest ESG standards is crucial for long-term value creation and risk mitigation.

2. Building trust through genuine transformation:

Saudi urban developments need to demonstrate their commitment to sustainable and socially responsible practices and communicate progress towards ESG goals transparently.

3. No excuses for projects built from scratch:

Investors expect a strong focus on sustainable and socially responsible practices from the outset, with rigorous governance. Regulators should ensure that no excuses are accepted, setting a precedent for future urban developments.

4. Focus on securing resources and experienced workforces:

Ensuring the availability of resources and skilled labour is key for Saudi mega projects. Investors and stakeholders expect robust planning and execution to ensure resource availability. Addressing these priorities will set projects up for success.

5. Building diverse, inclusive city communities

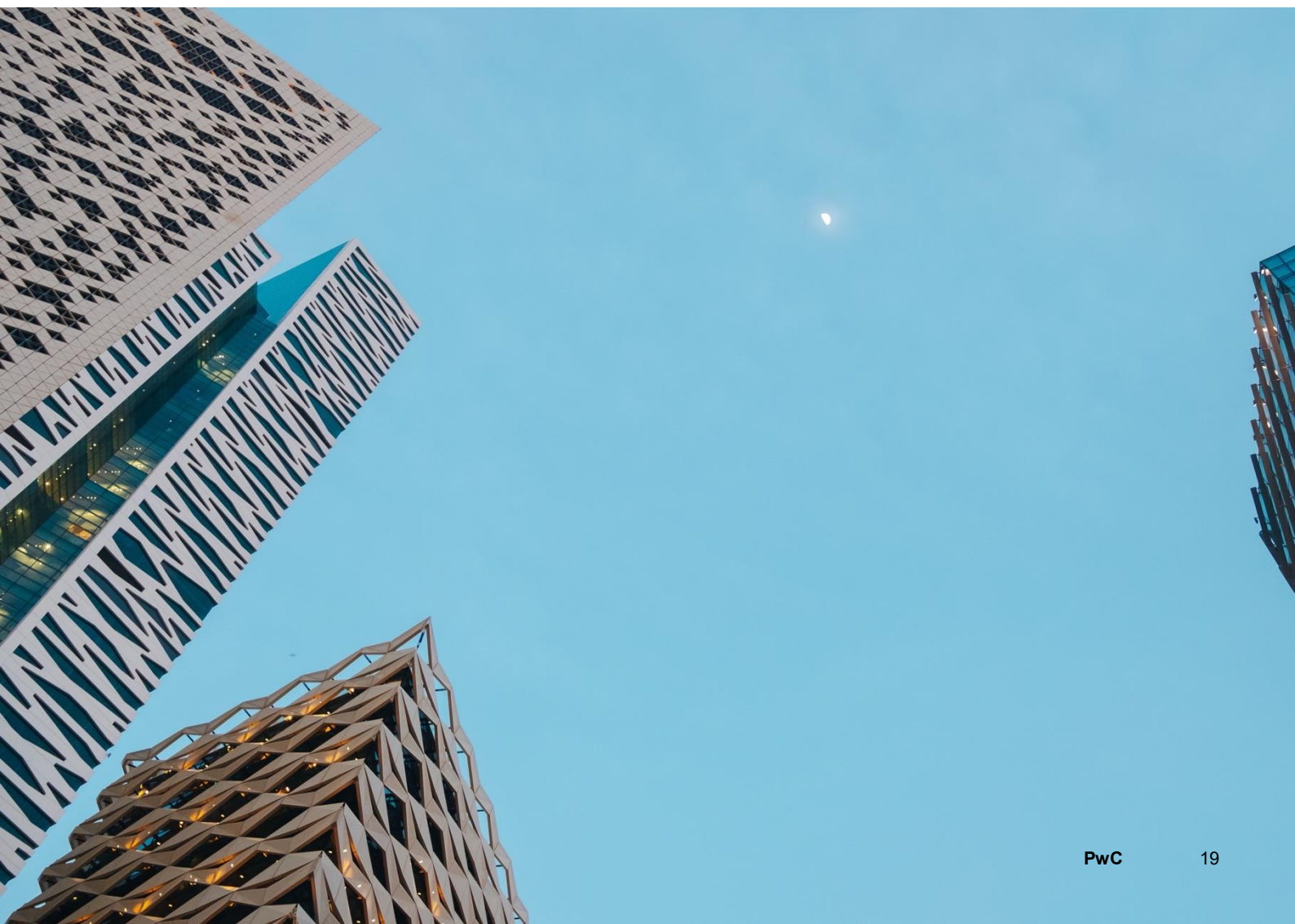
Putting people first should go beyond addressing the needs of affluent populations. Saudi urban developments should create neighbourhoods and transport systems that cater to people from widely ranging socio-economic backgrounds.

6. Adoption of the UN's SDGs and the four guiding principles:

Alignment with these frameworks is seen as a key indicator of whether Saudi urban projects are committed to addressing sustainability challenges and to integrating ESG considerations into their business strategies.

7. Adoption of standardised reporting:

Internationally recognised ESG frameworks, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) ensure consistency and comparability in ESG reporting. Such frameworks facilitate assessments and comparisons of respective ESG performances across different real estate projects and companies.



8. Sustainable finance integration:

ESG financing vehicles, such as green bonds and sustainability-linked loans, can attract a broader range of investors and provide additional funding for sustainable real estate initiatives. Projects should have sufficient data and information to assess and classify an investment as sustainable.

9. Reducing dependence on fossil fuels:

Investors expect evidence of success, with demonstrable progress increasing the attractiveness of further investment.

10. Mitigation of sustainability risks:

This objective is relevant for international insurance companies, when evaluating Saudi real estate projects, for reducing potential liabilities and promoting sustainable development.

11. Transparency and compliance with ESG reporting frameworks:

Investors expect clear, comprehensive reporting on ESG performance, demonstrating accountability and adherence to global standards.



12. Balancing competition and collaboration:

In Saudi urban developments, the drive for profit should be complemented by a commitment to creating residential and commercial properties that benefit all citizens. Industry and government organisations can enhance this effort by sharing valuable ESG insights and best practices. ESG-compliant real estate projects should be encouraged to develop unique features that allow them to thrive, ensuring they stand out without being overshadowed by other attractive properties in the area.

13. Commitment to protecting labour rights:

The Kingdom's Vision 2030 emphasises improving working conditions and social well-being as part of its broader economic reforms. The National Transformation Program (NTP) within Vision 2030 outlines labour market reforms, including worker rights protection. Implementing robust policies and practices around labour rights, in line with Vision 2030, will boost investor confidence and support the long-term sustainability of the Kingdom's real estate market.

14. Comparison with emerging market mechanisms:

It is important to consider the potential impact of underperforming asset classes such as office spaces on the overall system. Emerging markets often face specific ESG challenges in areas such as different or new regulations, social dynamics and governance structures. By comparing and learning from these mechanisms, Saudi developers and relevant government organisations can better adapt practices to the distinctive needs of the Kingdom's real estate sector while meeting internationally recognised ESG standards.



1.5

The human dimension of ESG transformations: Maintaining progress in the real estate sector

Since the launch of Vision 2030, Saudi Arabia has enacted a series of laws and regulations aimed at supporting the rights of all citizens and residents to healthy, rewarding lives. These rights extend to the workplace, where employees are protected by a range of national, regional and global legal frameworks. For example, Saudi Arabia is a signatory to the International Labour Organisation (ILO) declaration on fundamental principles and rights at work and has also ratified the 2014 Protocol to the 1930 Forced Labour Convention.

Against this background, Saudi urban developments are in the forefront of efforts to ensure that both domestic and migrant workers enjoy full employee rights, as enshrined in law. For migrant workers, the Saudi labour reforms which came into force in March 2021 are especially relevant, granting them the right to leave their jobs without the consent of the employer when their contract ends. In September 2023,¹² Saudi Arabia increased the minimum wage for its citizens working in the private sector to SR4,000, aiming to improve worker well-being and strengthen the national labour market.

These developments illustrate how the human dimension of ESG transformations in the real estate sector is a rapidly evolving story. As the global ESG movement gains momentum and Saudi Arabia's transformation into a dynamic society accelerates, investors are likely to place increased focus on this area.

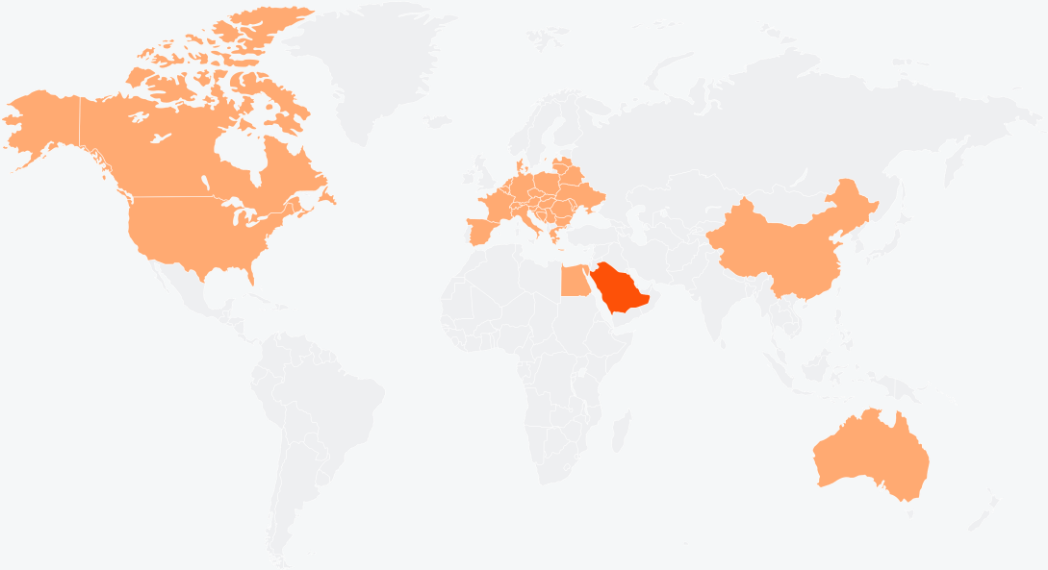
SR4,000

For Saudi citizens in the private sector



Figure 02:
Stakeholder
sentiment
report (Dec
2023 – Jan
2024) - great
level of interest
in Saudi
Arabia’s real
estate market

Canada	Egypt	China	Australia
USA	EU	Singapore	UK
KSA			



Best ESG practice recommendations for regulatory frameworks,

**policies and planning and construction
processes**

A large, bold, orange number '2' is positioned in the lower right quadrant of the image. It is superimposed over a background of several tall, modern skyscrapers with glass and steel facades. The buildings are arranged in a cluster, with some showing unique architectural features like triangular patterns or stepped tops. The sky is a clear, pale blue.

Current state of the project from an ESG perspective

Urban development projects are complex, covering a range of disciplines, from planning and design to urban sociology. ESG-compliant developments are especially dynamic and multifaceted, requiring a forward-looking, holistic approach which can flexibly accommodate future ESG trends.

In Saudi Arabia, SDGs and Vision 2030 provide the foundation for ESG transformations. A rigorous methodology based on the four guiding principles is needed to implement these goals while achieving specific urban objectives, focusing on when and how they should be applied during the different phases of development projects.

We set out below a systematic step-by-step approach to creating an ESG framework for urban projects that is informed by the four guiding principles. The framework can be incorporated into urban master plans as a scalable solution for achieving a distinctive Saudi ESG way in urban development.



2.1

Different phases of sustainable urban development projects in KSA that follow the four guiding principles

Figure 03: Key steps for Saudi urban projects to meet international best-practice ESG standards



The main phases are as follows:

1. Feasibility study and stakeholder analysis

This phase involves conducting a comprehensive study to assess the project's potential viability, covering such areas as market demand, environmental impacts, financial feasibility, and user requirements for creating diverse, inclusive urban neighbourhoods. The goal is to create a sustainable mix of population groups and land uses.

In addition, a thorough stakeholder analysis should cover investors, regulators, architects and other relevant parties and incorporate their perspectives and requirements into the project. Integration of stakeholder interests helps create a project that meets the needs of the community while complying with regulatory requirements.

2. ESG analysis

This crucial step determines the project's specific ESG goals, based on the four guiding principles. The analysis covers various environmental factors such as air corridors, green belts, biodiversity, climate change mitigation and resilience. It also considers social factors such as community engagement, inclusivity and access to amenities and services and defines the project's Key Performance Indicators (KPIs).

An ESG template is then created to guide the subsequent planning steps, ensuring that the project adheres to international standards and best practices.

3. Urban planning

This phase involves identifying and determining land usage, including green spaces, based on the results of the ESG analysis. It covers the implementation of air corridors and green belts from an ESG perspective and defines other elements such as infrastructure, buildings and public parks.

To ensure a comprehensive approach, we recommend developing a master plan that incorporates the specific ESG template created in the previous step. The masterplan should promote a mixture of socio-economic groups to ensure the neighbourhood's long-term attractiveness, and consider future geopolitical and demographic trends, as well as cultural and religious characteristics.



4. Design and concept development

This phase involves creating an ESG blueprint for the project's architectural designs and engineering plans. The blueprint should be integrated into the design process, ensuring that factors such as materials, energy efficiency, biodiversity, and the project's life cycle are considered, with the four guiding principles promoted through landscaping and green spaces.

5. Permits and approvals

The approval process needs to be compliant with the ESG template and blueprint and adhere to the four guiding principles. Architects and contractors should demonstrate their commitment to ESG principles when filling in building permit applications to investors and other stakeholders. Supporting documents are then submitted as a critical part of the building permit application.

Adhering to international ESG standards boosts projects' chances of attracting capital from major investors. Strong ESG documentation, demonstrates commitment to sustainable development and fosters stakeholder confidence and transparency.



6. Construction and infrastructure development

This phase involves conducting a comprehensive study to assess the project's potential viability, covering such areas as market demand, environmental impacts, financial feasibility, and user requirements for creating diverse, inclusive urban neighbourhoods. The goal is to create a sustainable mix of population groups and land uses.

In addition, a thorough stakeholder analysis should cover investors, regulators, architects and other relevant parties and incorporate their perspectives and requirements into the project. Integration of stakeholder interests helps create a project that meets the needs of the community while complying with regulatory requirements.

7. Marketing and sales

Marketing and sales strategies to attract interested parties and secure commitments for the project should be enhanced by applying the ESG template and blueprint.

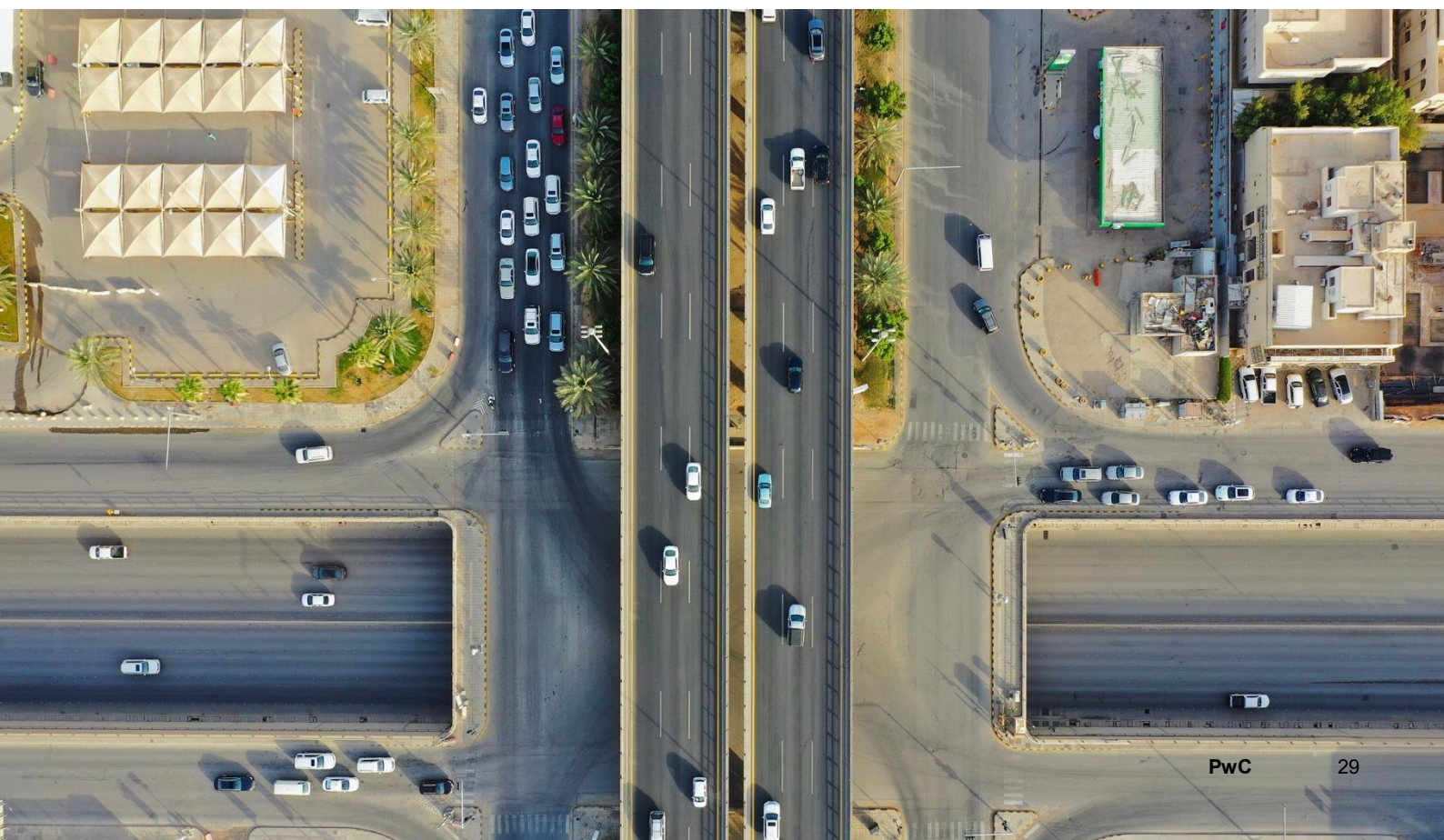
8. Building management and operations

This phase, which follows completion of the project, involves managing day-to-day operations such as basic maintenance and ensuring the smooth functioning of the developed urban area. Property and facility management should ensure sustainable building operations and compliance with the four guiding principles.

9. Renovations, capital expenditure and conversions

It is essential in this phase to revisit the ESG blueprint to ensure it is up to date and aligned with the four guiding principles. This will ensure that all renovations, capital expenditures (CAPEX), and conversions adhere to the latest internationally recognised ESG standards, thereby promoting sustainability and responsible development and improving the project's overall performance and long-term value.

Overall, it is important to note that the order of these different phases may vary due to several factors, including regulatory and legal requirements, project objectives and scope, and the need for stakeholder engagement.



2.2

Key ESG focus areas for successful urban development projects

The project's ESG goals can be determined once the feasibility study and comprehensive stakeholder analysis have been conducted. To meet best international ESG practice standards, all the following major

topics must be addressed, with corresponding sub-topics identified, to ensure thorough consideration of all relevant ESG aspects for the project.

Strengthen economic resilience

- Attract international investment and long-term growth
- Create clear ESG-aligned incentives to draw domestic and international investors.
- Support green and impact investments that deliver both financial and social returns.

Lead with environmental stewardship

- Integrate climate and ecological priorities
- Apply ESG template to address climate change, pollution, and water management.
- Embed circular economy principles in construction and operations.
- Protect biodiversity and reduce embodied carbon through sustainable materials and design.

Promote social equity through urban design

- Ensure a balanced mix of housing to accommodate diverse income levels.
- Prioritise investment in public services such as schools, libraries, and healthcare facilities.
- Design to prevent spatial segregation and promote upward mobility.

Leverage smart technologies

- Adopt emerging technologies in energy efficiency, construction materials, and transport systems.
- Build digital infrastructure that enables smart mobility, utility management, and citizen engagement.
- Use data analytics and AI to monitor ESG performance in real-time.

Design for inclusive spaces and society

- Focus on cultural identity, diversity and integration.
- Foster inclusive spaces that celebrate local identity and enable social integration across different demographics.
- Prioritise accessible urban spaces and community-driven development.

Build transparent and accountable governance

- Ensure early-stage ESG integration in planning, procurement, and delivery.
- Establish robust oversight, stakeholder engagement, and reporting mechanisms.
- Align governance structures with international sustainability benchmarks and transparency standards.

2.3

Realising the full potential of sustainable finance - best practice recommendations for Saudi real estate projects

Sustainable finance is a major ESG theme which Saudi real estate projects cannot ignore. Increasingly, international investors are demanding comprehensive ESG documentation, communication and KPIs from projects before committing capital. At the same time, the requirement criteria for sustainable finance are constantly rising, reflecting a broader awareness by investors of its critical role in addressing challenges such as climate change, social inequality and corporate governance.

Good communication about a project's sustainability acts as a catalyst for raising capital from investors exploring their ESG options. It is therefore essential for Saudi projects to speak with a common language to global investors regarding sustainability activities and targets, enabling direct comparison of ESG real estate and infrastructure market opportunities.

Standardised ESG KPIs and other relevant documentation will help investors understand the broader ESG impacts of specific Saudi urban projects and assess whether they meet international requirements for ESG investment portfolios. Such standardisation is essential to ensure that Saudi projects gain full access to sustainable finance networks which are increasingly global and play a pivotal role in investment decisions.

At the same time, the requirement criteria to qualify for sustainable finance is constantly rising, reflecting a broader understanding of sustainability's critical role in addressing global challenges such as climate change, social inequality and corporate governance. Saudi urban developers, like their global peers, will need to adapt to increasingly stringent sustainable finance rules in order to remain internationally competitive in this rapidly expanding project funding field.

The following sustainable finance frameworks align with global ESG standards and support the transition to low-carbon, resource-efficient and inclusive economies. They enhance transparency and comparability in financial markets, foster stakeholder trust, and can be used by Saudi urban development projects as guidance for integrating ESG factors into financial decision-making and operations:

1. The EU sustainable finance framework

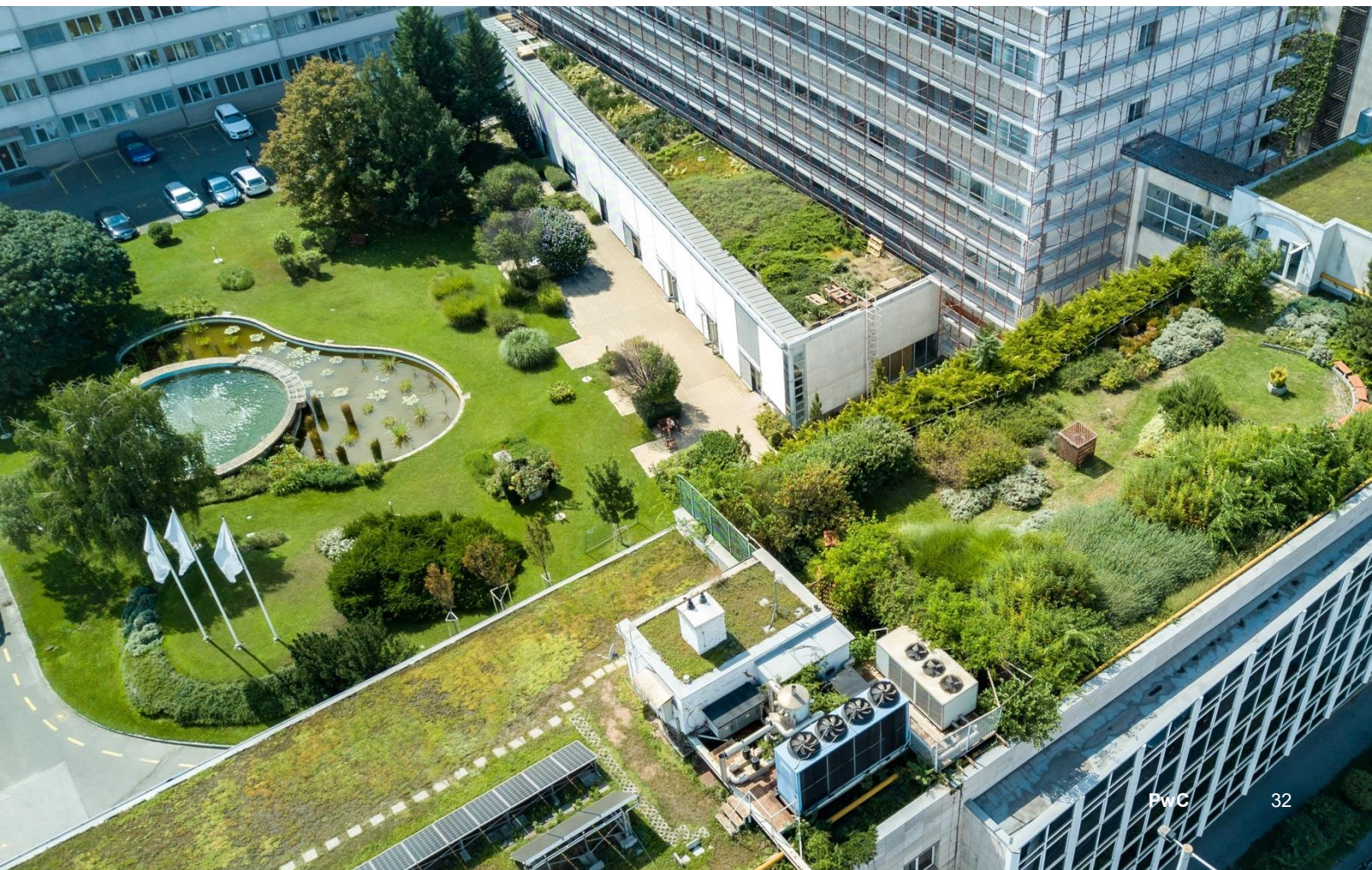
The framework - part of the EU's 2019 European Green Deal - aligns financial activities with ESG considerations, fostering a more sustainable and resilient economy. A key element is the EU Taxonomy Regulation, which establishes a classification system for environmentally sustainable economic activities.¹³ This regulation includes clear criteria for the real estate sector, especially on planning, construction and the treatment of buildings through their lifetime.

2. The Association of Southeast Asian Nations (ASEAN) green bonds standards

ASEAN's green bonds standards, launched in 2017, have strict project eligibility criteria and robust reporting and disclosure requirements regarding the utilisation of funds.¹⁴

3. China's green bond catalogue

Introduced in 2017, the catalogue aims to standardise China's green bond market as part of the country's broader efforts to direct capital towards environmentally sustainable projects and reduce carbon emissions.¹⁵



4. Malaysia's i-ESG framework

Launched in October 2023, Malaysia's National Industry Environmental, Social, and Governance (i-ESG) framework promotes sustainable manufacturing, with a specific focus on micro, small, and medium-sized enterprises (MSMEs).¹⁶

5. Sustainable Singapore blueprint and Singapore's Building and Construction Authority (BCA) green market certification

Published in 2018, the Singapore blueprint outlines the financial sector's role in promoting sustainable, ESG-compliant development that emphasises resilient infrastructure and green spaces. The BCA's Green Market Certification is a key ESG investment standard for sustainable buildings.¹⁷

6. Abu Dhabi Global Market (ADGM) framework

The framework requires comprehensive ESG disclosure requirements, which are among the most stringent in the region.¹⁸ In 2023, ADGM expanded the framework to include environmental instruments such as carbon offsets to establish the world's first regulated, voluntary carbon exchange.



2.4

Saudi Arabia's progress towards establishing a globally recognised sustainable finance framework

Saudi Arabia's transformative sustainability goals, encapsulated in Vision 2030, present investors with compelling opportunities. As PwC Middle East noted in its report, 'The case for a GCC Common Sustainable Finance Framework', there is an urgent need for accelerating sustainable finance in GCC countries, given the region's vulnerability to climate change, and pressing concerns such as water availability and food security. Green finance, in fact, represents a major, untapped opportunity for the Middle East - especially the GCC, with its strong capital markets and low-cost renewable energy advantage. Global investor interest in ESG-aligned projects is rising, and the region is well-positioned to lead. A Strategy& analysis shows that green investments across six key GCC industries could unlock up to US\$2 trillion in cumulative GDP by 2030, create over 1 million jobs, and attract significant foreign direct investment.

15%

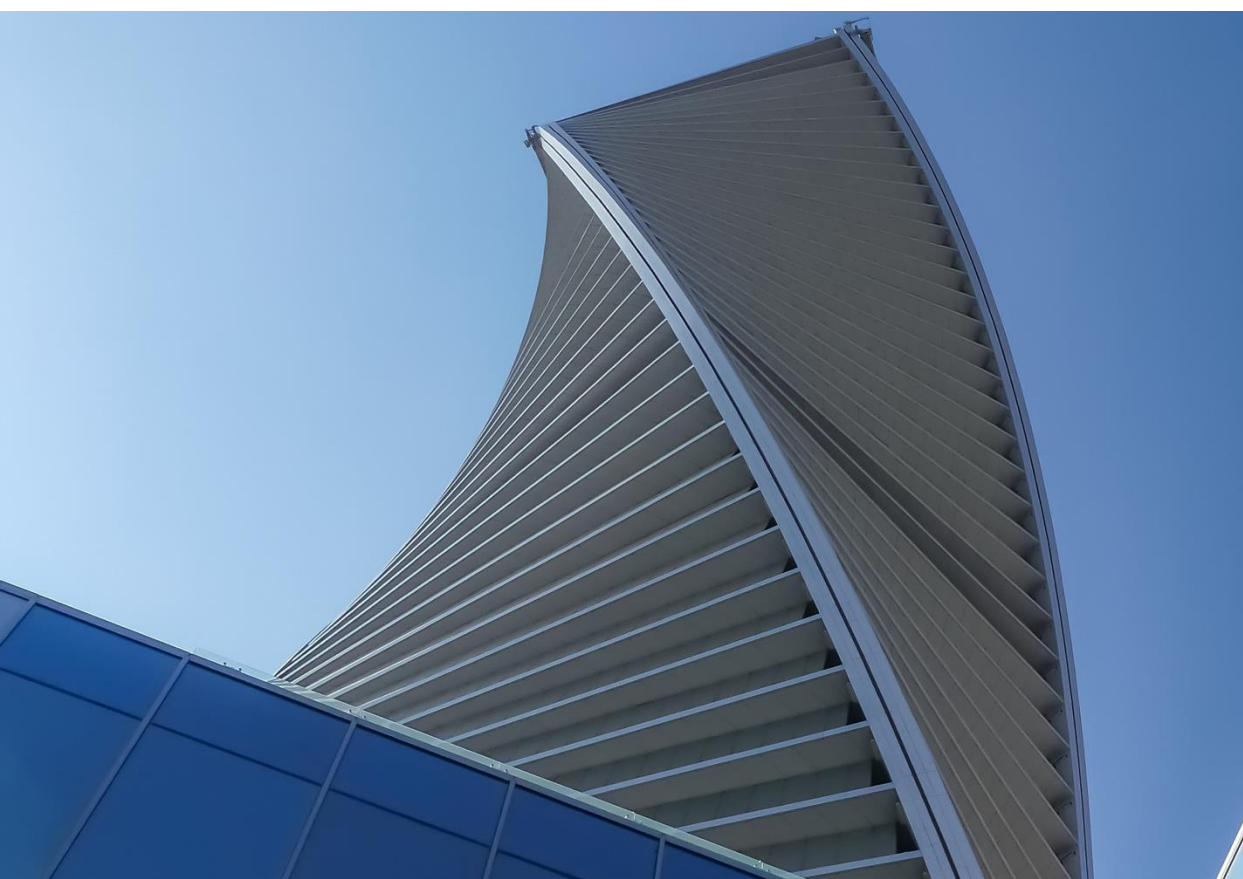
Most efficient buildings in the local market

Over the past decade, Saudi Arabia has been in the vanguard in supporting sustainable finance initiatives, with the Saudi Green Initiative and the Vision 2030 Urban Development Pillar guide investments towards environmental sustainability and infrastructure development. The Saudi Green Initiative serves as a financial catalyst, supporting projects that align with the Kingdom's green ambitions. And Vision 2030 also contains various ambitious measures and approaches that include its housing programme.

The Public Investment Fund (PIF) Green Finance Framework includes investments in new or existing commercial or residential buildings that are among the local market's top 15% in terms of their energy efficiency or are eligible for independently verified green building certificates. These include LEED (Leadership in Energy and Environmental Design),¹⁹ BREEAM (Building Research Establishment Environmental Assessment Method),²⁰ and Saudi Arabia's MOSTADAM certification scheme.²¹ A key component of the PIF framework is the PIF's green bond. First issued in 2022, the bond explicitly prohibits its use to fund projects associated with child labour and forced labour.

In March 2024, Saudi Arabia's Ministry of Finance published its own Green Financing Framework, which aims to encourage public and private initiatives that support climate and environmental finance. The framework addresses the allocation of funds in green financing, outlines procedures for assessing projects, and defines permissible categories for green projects such as sustainable natural resource management, energy efficiency, renewable energy, and eco-friendly transport.

Collectively, these initiatives have established a platform for Saudi Arabia to develop a market-leading sustainable finance framework for urban development inspired by Vision 2030. The four guiding principles highlighted in this report provide the essential building blocks to achieve this goal, in a sector where institutional investors increasingly expect sustainable finance to be at the heart of funding for major urban projects.



3

Conclusion



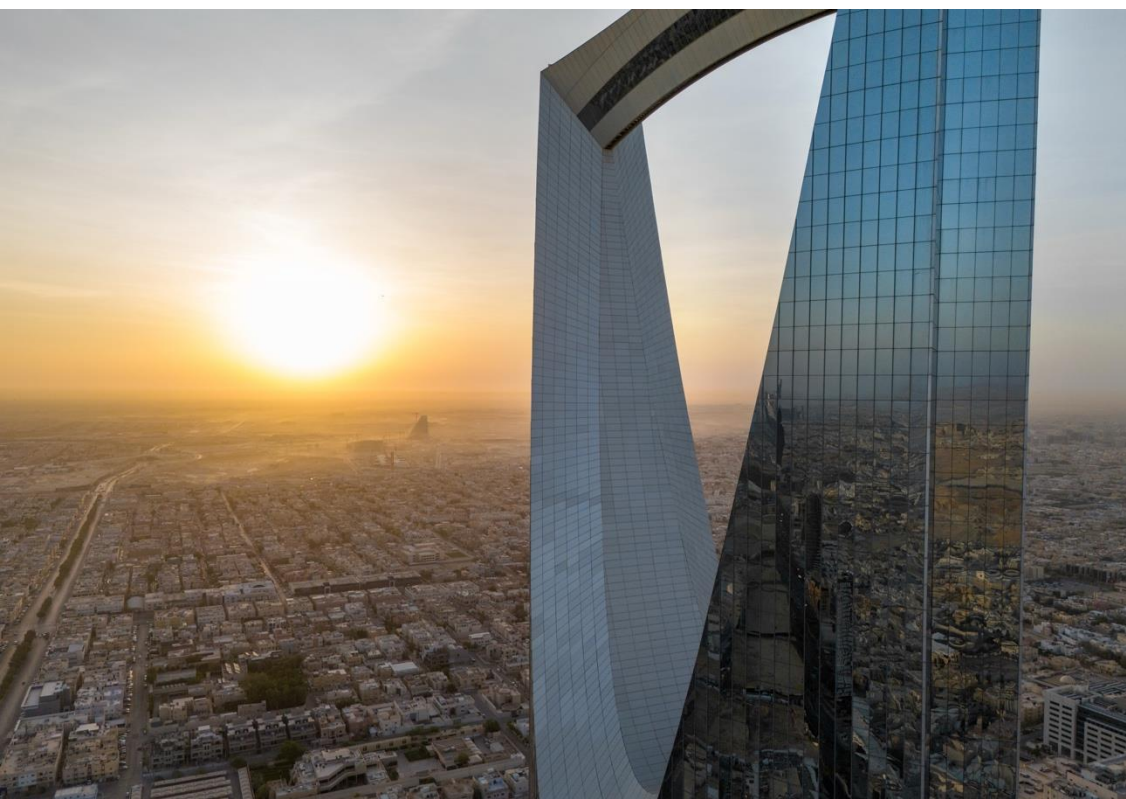
What's next?

Building a Saudi ESG model for urban development

In highly competitive global funding conditions - where access to capital increasingly depends on meeting ESG standards - Saudi urban projects face the real risk of losing critical investment if they fail to comply with stringent environmental, social, and governance requirements.

Moreover, ESG is a moral imperative for the real estate sector. Projects that are not environmentally sustainable, socially inclusive, and transparently governed are fundamentally misaligned with the spirit and objectives of Vision 2030.

This report has set out how adherence to the four guiding principles will enable urban projects in the Kingdom to comply with best global ESG practice. However, this does not mean disconnecting from the Kingdom's rich and ancient design and architectural heritage. On the contrary, these principles are deeply rooted in the traditions and values that have shaped Saudi society over generations, forming the foundation of a uniquely Saudi ESG approach to urban development - one that blends sustainability, cultural identity, and visionary growth. Establishing a Saudi ESG model for urban development will firmly establish the nation as a leader in driving sustainable urban transformation.



List of Resources

1. <https://www.vision2030.gov.sa/en/explore/programs/housing-program>
2. As part of our research, we conducted a series of interviews in December 2023 and January 2024 with local and international investors and other stakeholders from the Middle East, Europe, the Asia-Pacific region, China, and the Americas to gain insights into how they regard Saudi Arabia's real estate market from an ESG perspective. Respondents included private equity firms, institutional investors, insurance companies, sustainable finance experts, and non-governmental organisations (NGOs).
3. https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en
4. <https://www.mas.gov.sg/-/media/mas-media-library/development/sustainable-finance/singaporeasia-taxonomy-dec-2023.pdf>
5. https://environment.ec.europa.eu/strategy/circular-economy-action-plan_en
6. <https://leap.unep.org/en/countries/cn/national-legislation/circular-economy-promotion-law-peoples-republic-china>
7. https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
8. https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en
9. <https://www.globalreporting.org/>
10. <https://sasb.ifrs.org/>
11. In December 2023 and January 2024, we carried out a survey of major international investors and other stakeholders in Saudi Arabia's urban developments.
12. <https://gulfnews.com/world/gulf/saudi/saudi-arabia-raises-minimum-wage-for-nationals-in-private-sector-to-sr4000-1.97911088>
13. <https://thedocs.worldbank.org/en/doc/8dea75f98f65a824e389bdbd422fo6d8-0430012022/related/Andreas-Rajchl-EU-Commission.pdf>
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16. <https://www.miti.gov.my/index.php/pages/view/9849>
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18. <https://www.adgm.com/legal-framework>
19. <https://www.usgbc.org/leed>
20. <https://www.thenbs.com/knowledge/what-is-breeam#:~:text=BREEAM%20>
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Contact us



Imad Shahrouri

Real Estate and
Municipalities Lead Partner -
Consulting, PwC Middle East



Thomas Veith

Partner, Global Real Estate
Leader, PwC Germany



Nader Moghazy

Real Estate and
Municipalities Partner -
Consulting, PwC Middle East



**Christiane
Conrads, LL.M.**

Partner, Global Real Estate
ESG Leader, PwC Germany



Saeed Awad

Real Estate and
Municipalities Partner -
Consulting, PwC Middle East



Marius Schröm

Associate, PwC Germany



Firas Hassan

Real Estate and
Municipalities Partner -
Consulting, PwC Middle East



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