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From ESG to Future Prospects: Financial and Management Strategies of Segro and Land Securities

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ABSTRACT
This study focuses on Segro and Land Securities, two major real estate investment trusts (REITs) in the UK, and systematically compares the two companies' business performance and sustainable development strategy based on the analysis of their financial data and operation strategy from 2020 to 2023. The study finds that, in terms of financial indicators, Segro's return on equity (ROE) is significantly better than the peer group average, even though it declines from a peak of 16.8 per cent in 2021 to 9.2 per cent in 2023; Land Securities, on the other hand, has had a negative ROE for most of the time, reflecting the fact that it is facing greater operational difficulties. At the management Strategies, Segro focuses on logistics and industrial property development while Land Securities focuses on urban regeneration and commercial property transformation. It has also adopted a more integrated strategy in green building and social responsibility. Finally, the study uses a SWOT analysis to forecast future trends for both companies, suggesting that Segro could expand its market by taking advantage of growth opportunities in the e-commerce and logistics sectors, while Land Securities needs to refine its portfolio to meet the challenges of the retail market. The study provides investors with an in-depth analysis of the UK REITs market, with recommendations for improving management strategies.

KEYWORDS
REITs; ESG; Return on Equity (ROE); Financial Performance

1 Introduction

REIT，a significant investment tool, has the ownership or provide financial assistance to a various profitable real estate properties. For investors who are able to use it as an significant investment instrument to get in touch with real estate properties flexibly and smoothly（Cai and Xu，2022). REITs have their own unique advantages over other financial instruments, which attract a large number of investors to choose REITs. For example, the return rate of REITs is higher than the average return rate of financial instruments, and it is an investment opportunity that professional investors should not miss. Secondly, because the real estate market is unique compared to other markets, regionally specialised (especially residential area) REITs often benefit from better investment information, thereby selecting different investment opportunities and reducing the cost of monitoring and servicing asset owners. This type of REITs can improve the investment returns obtained in the investment process, and a diversified investment combination can reduce the concentration of real estate investment（Gibilaro,et al. 2021). REITs provide investors with a convenient way to invest in real estate and generate substantial income, and are an essential part of the modern investment market. In recent years, REITs have become increasingly important in Europe, with REIT markets established in the UK, France and Northern Ireland. European REITs account for 11% of the world's total REITs (EPRA, 2016b). In the UK, the real estate trust market has become the world's fourth largest real estate investment trust market (Newell and Marzuki, 2016). From only 9 companies in 2007, it has grown to more than 27 in 2014. It is now Europe's largest real estate investment trust market, worth 62 billion US dollars, accounting for 50% of the European real estate investment trust market and 6.0% of the global market share (EPRA, 2015). In addition, in order to provide a wealth of financial and asset data, most REITs comply with the disclosure requirements of the Securities and Exchange Commission for public trading (Capozza and Seguin, 2000), and must distribute 95% of their income as dividends (Cannon and Vogt, 1995). This paper selects two UK REITs, Segro and Land Securities, and draws conclusions from the analysis and comparison of various financial data in the two main areas of financial performance and management strategies. Finally, a SWOT analysis is used to make predictions for the future.

2 Brief Profile of Selected UK REITs

Segro is a UK-based REIT founded in 1920, which focuses on owning, managing and developing modern warehouse and industrial property. The company owns or manages approximately 116 million square ft of space and has a diverse range of customers across a wide range of industries. Its properties are located in major cities, surrounding areas and near important transportation links in the UK and seven other European countries. In addition, the company's investment portfolio includes warehouses and light industrial buildings, including data centres, mainly in the UK, France and Germany, with the remainder spread across European countries such as Poland and Spain. Segro's warehouses provide a wide range of services to a broad customer base, covering multiple industries such as transportation and logistics, retail (physical stores, online and hybrid models), and food (Financial Times, n.d.). Land Securities is also a real estate company based in the UK. The company is committed to creating sustainable places and promoting community connections through the construction and investment in buildings, spaces and partnerships. Land Securitie has a diverse portfolio covering retail, leisure, workspace and residential. Its business departments include Central London, Major Retail Destinations , Mixed-Use Urban Communities and other types of properties. The prime retail section covers regional shopping centres and stores outside London; the mixed-use urban section focuses on investments in mixed-use urban projects; and the secondary sector includes leisure and retail parks. The company owns many well-known property assets, such as Mayfield, the O2 Centre, Lewisham Shopping Centre, etc (Financial Times, n.d.).

3 Financial Performance Indicators Over Time And Across REITs

The financial status of a company is a key indicator of its operations (Shen. et al. 2020), and the rate of return is one of the key financial indicators in a company's financial statements. It is also a measure of how much value different shareholders can generate (Ndlovu and Alagided, 2018). Khairulanuwar et al (2021) proposed that financial radio can quickly reflect the weaknesses and strengths of reits. For Segro and Land Securities, an analysis of their returns in recent years shows that different operating strategies and industry markets can produce different results. Therefore, this essay selects return on equity as the main financial indicator to be discussed, and selects data from the past 3-4 years to analyse the company's overall financial position and operating performance. ROE, or return on equity, is a ratio that measures the ratio of net assets after tax to equity capital. It is one of the types of return rate. The higher this indicator is, the higher the income from investment and the stronger the profitability of the corporation, which will have an impact on the rise of the company's stock price (Hapsoro and Husain, 2019). It reflects the ability of the company to use the capital invested by shareholders to generate net income. For investors, data on a company's financial performance can be used to consider investing in the company, because a high company value can also reflect high shareholder wealth. Since ROE is not directly reflected in the annual reports of Segro and Land securities, this essay will introduce the formula **ROE =** $\frac{\textit{Net Profit}}{\textit{Total Equity}} \times 100\%$, and calculate the annual ROE of Segro and Land securities from 2020 to 2023. Firstly, according to the Sergo Annual Report 2020, 2021, 2022, 2023:

Table 1 Sergo Net Profit and Total Equity (2020-2023)

	2020	2021	2022	2023
Net Profit(£m)	1464.1	4355	1967	263
Total Equity(£m)	9671.1	13436	11373	10904

Source: SEGRO Annual Report 2020, 2021, 2022, 2023.

The company's ROE from 2020 to 2023 can be calculated as：

Source: Calculated by the author based on data from SEGRO Annual Reports (2020, 2021, 2022, 2023).

Secondly, according to the Sergo Annual Report 2020, 2021, 2022, 2023:

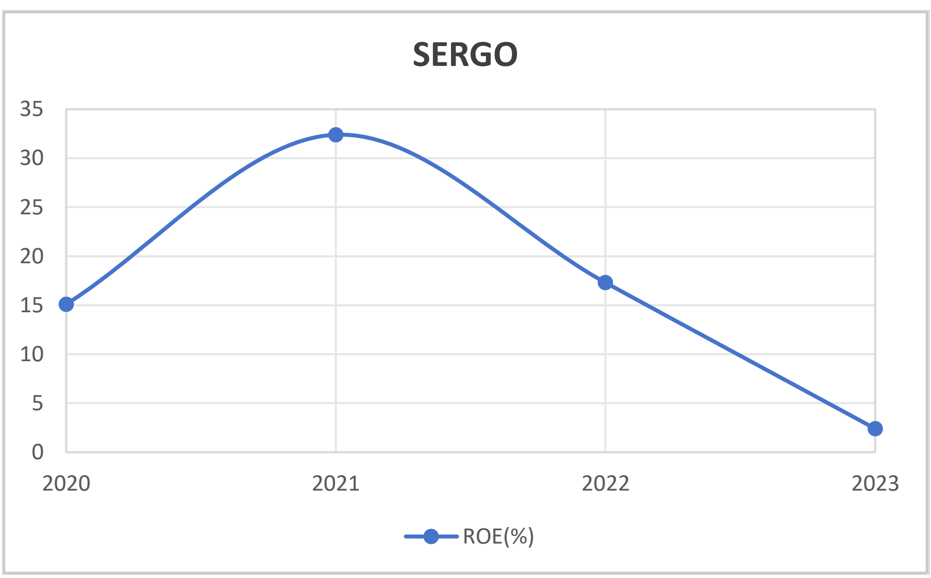

Figure1 Displays the Sergo ROE(2020-2023)

Table 2 Land Securities Net Profit and Total Equity (2020-2023)

	2020	2021	2022	2023
Net Profit(£m)	-837	-1393	875	-622
Total Equity(£m)	8750	7212	7991	7072

Source: Land Securities Annual Report 2020, 2021, 2022, 2023.

Therefore, the company's ROE from 2020 to 2023 can be calculated as follows:

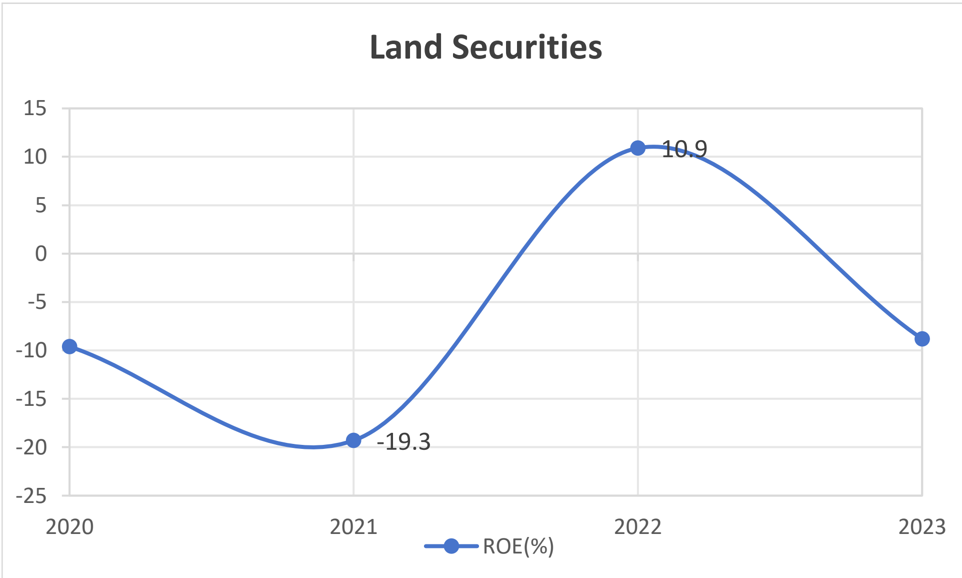

Figure 2 Displays the Land Securities ROE(2020-2023)

Source: Land Securities Annual Report 2020, 2021, 2022, 2023.

From the results of Figures 1 and 2, this essay first analyses the data itself. Sergo's ROE is generally higher than Land Securities', fluctuates slightly, and generally shows a downward trend. Land Securities' ROE fluctuated greatly from 2020 to 2023.

Between 2020 and 2023, Sergo faces some challenges in terms of profitability and asset management efficiency, while Land Securities' ROE is basically negative in the same time period, indicating that the company's profitability is poor, basically in a loss-making state, unable to generate profits for investors, reflecting the company's business, operations have major problems, unable to achieve stable profit growth, while the ROE fluctuates greatly, indicating that the company's financial situation is unstable. Second, analyse the causes of the loss. The causes can be divided into external and internal causes. Since 2020-2023 is mainly during the period of the COVID-19, changes in the macroeconomic environment have had a relatively large impact on most industries. Fluctuations in demand and supply chain issues caused by the COVID-19 may have led to the company's weak financial performance. The company itself may have invested in projects with low returns or newly expanded assets that have not provided corresponding returns, leading to a decline in the return on capital. In addition, the company's internal operating management strategies also lead to different financial performances. Internal operational inefficiencies and inappropriate management methods can all lead to a company's lack of profitability. To sum up, compared to Land Securities, Sergo has a comparative advantage in terms of its ability to remain profitable, cater to market demand, and operate internally, but its ROE is still on a downward trend, and management urgently needs to seek better development policies and be keen to capture market demand.

4 Management Strategies

As governments, companies and investors become increasingly aware that value creation requires businesses to enhance rather than deplete the environment and natural resources (McGrath and Worzala ,2024), the importance of ESG–environmental, social and governance–in real estate investment is growing and is crucial for making smarter real estate investment decisions (Newell. et al., 2023). ESG strategies therefore directly impact a company's financial performance and market attractiveness. There are many different management strategies for companies. In view of the commonalities in the strategies of Sergo and Land Securities, this essay selects the ESG strategy for analysis, and discusses in depth how the two companies have influenced their market performance and attracted investors through this strategy, as well as how they have responded to the demand for ESG in modern society. The first is the environment. The environmental component of ESG is very important in climate change, because carbon emissions are a major factor contributing to climate change (Biasin, 2024). The real estate industry contributes 39% of global carbon emissions, of which asset and property management accounts for 28% (Boland et al. 2022). Sergo's environmental strategy focuses mainly on energy conservation and emission reduction, and the strategy has four parts: Embodied carbon, which means developing with low-carbon or renewable materials as much as possible. Renewable energy, which means sourcing renewable energy offsite and generating renewable energy on site. Energy efficiency, which means improving the energy efficiency of buildings, and Offset residual carbon, which means seeking to offset residual carbon emissions after doing one's best to reduce them. Through its ESG strategy, Sergo aims to achieve zero carbon emissions by 2030 (SEGRO, 2020). Land Securities, on the other hand, aims to reduce carbon emissions by 70%, reduce energy intensity by 40%, and avoid landfill by 100% and recycle at least 75% of waste generated during project development by 2030 (Land Securities, 2020). Both companies have set clear emission reduction targets, actively use renewable energy and waste management, but Sergo emphasises the addition of green space in the development process of logistics properties and the adoption of BREEAM/DGNB and other green building certifications (SEGRO, 2020), while Land Securities tends to focus on green buildings and the renovation of old buildings in the retail and office sectors. Therefore, Sergo's strategy is closely linked to demand and focuses on energy efficiency in the development process, while Land Securities excels in carbon emission control and biodiversity improvement. However, Land Securities' green transformation faces the challenges of high cost and difficulty. Secondly, from a society perspective, Sergo has taken four main actions, such as developing investment plans for all major markets by 2025, increasing opportunities for collaboration with local businesses to help improve the skills of local people, and increasing employment opportunities through this training programme. Increase the diversity of its own employees, create a healthy working atmosphere (SEGRO, 2023), and improve the public environment around the community to meet the social needs of the community (SEGRO, 2022). Such strategies have made Sergo's main business closely linked to ESG strategies, but the goals are relatively broad, lacking specific measurement standards to determine specific progress. Land Securities proposes that under its strategic plan, every employee will enjoy equal employment opportunities without discrimination (Land Securities, 2020). Provide a large number of employment opportunities, help 30,000 people enter the workplace by 2030, and also achieve diversity and acceptance in the workplace, increasing the representation of women and people of different ethnicities at all levels. In addition, there are donations, volunteering and other aspects of social participation (Land Securities, 2023). Although Land Securities' strategy is very comprehensive, it is vulnerable to external factors that may prevent it from being achieved, such as the failure to provide a large number of jobs during the COVID-19. When comparing the strategies of the two companies, both focus on creating a healthy, safe and equal working environment, but Sergo prefers to achieve social benefits through partnerships and local investment, while Land Securities focuses more on quantifiable social values and development goals. Finally, from a governance perspective, Sergo adopts a model of corporate management led by the board of directors, actively cooperates with suppliers and local businesses to improve the sustainability of the supply chain, and strengthens communication with shareholders to ensure that the company's development meets the needs of all parties (Land Securities, 2022). The advantages of these strategies are clear, such as a stable governance structure and the promotion of sustainable development, but it is still impossible to clearly assess the extent to which the strategies have been achieved. Land Securities reports transparently on its sustainable development performance, methods and data every year (Land Securities, 2020), and ensures that all employees and suppliers comply with relevant codes of conduct. In addition, Land Securities also implements a salary incentive mechanism that links part of an employee's salary to ESG goals, encouraging employees to contribute to ESG development (Land Securities, 2023). In contrast, both companies achieve sustainable governance through cooperation with suppliers or other investors. However, Land Securities focuses on managing employees and suppliers to promote ESG strategies, while Sergo prefers to promote ESG strategies through corporate leadership or cooperation between multiple companies to achieve common growth of the enterprise and society.

5 Future Outlook

In order to more clearly demonstrate this article's assessment of the future development of Sergo and Land Securities, this essay will use the SWOT analysis method to analyse from the four perspectives of strengths, weaknesses, opportunities and threats, to help Sergo and Land Securities enhance their competitiveness in the increasingly competitive Reits market. Firstly, with the development of technology and e-commerce, the demand for logistics is increasing. Sergo is focusing on the development of the logistics industry and industrial property industry, so it has great development potential. In addition, the company has made significant progress in its low-carbon development goals, with solar energy production increasing by 34% in 2023 (SEGRO, 2023), so the ESG strategy can be better pursued during project construction. Land Securities' diverse investment portfolio helps to diversify risk and reduce the impact of changes in macroeconomic conditions on its financial position. In addition, the company has successfully developed several buildings that fully meet sustainability standards. Secondly, Sergo's concentration on a single industry will lead to a weak ability to bear risks. Once the development of the industry is hindered, the company's financial situation will be affected. In recent years, during the pandemic, Land Securities' retail business has been significantly affected. Due to the rapid development of the e-commerce industry, the revenue situation of the retail business is not optimistic, which has a negative impact on Land Securities' overall income. Thirdly, after the COVID-19, consumers are becoming more and more dependent on online shopping, and consumption habits change with the external environment. This is a "blue ocean" for the logistics, transportation and warehousing management industry, which also happens to meet the core project needs of Sergo and help the company expand into new projects. In addition, Sergo's properties are usually located near major transportation routes in Europe. Under the current market conditions, the infrastructure for warehousing and logistics in many regions has not yet been fully developed. Sergo can take this opportunity to expand into new overseas markets and expand its business footprint. Land Securities should keep up with the process of urbanisation and grasp urban redevelopment projects to help urban renewal in the face of the demand for mixed-use development with high-quality living space and limited space in big cities. In addition, the company can also meet the new needs of employees for the office environment by transforming office space, meet the needs of sustainable development, and create opportunities for itself to attract high-end brands and increase rental levels. Lastly, the uncertainty of the global environment and the continued rise in interest rates will increase the project financing costs of both companies and the project's rate of return, making profitability uncertain. At the same time, the popularity of the work-from-home model has created uncertainty about the future development of office properties. In addition, the emergence of new competitors has led to increasing competition in all industries, putting pressure on the capture of market share.

6 Conclusion

This essay focuses on the development of Sergo and Land Securities from two aspects: financial performance and management strategies. Through comprehensive analysis, it illustrates their different advantages and strategies in the face of the same market environment. The analysis shows that Sergo's continued development has benefited from the correct ESG strategy, insisting on the development of fixed industries and the opportunities brought about by e-commerce development. Land Securities, on the other hand, is facing an uncertain market environment, but is highly adaptable due to its diverse investment portfolio and correct business development strategy. For investors looking for stable returns in high-growth markets, Sergo is a better choice, as it has a leading position in industries such as logistics and warehousing and has extensive development experience. Investors looking for long-term and diversified investments can choose Land Securities, which develops urban renewal strategies and high-quality space strategies. The project duration is relatively long, and the company has extensive experience in developing projects and is of long-term investment value.

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