SUSTAINABLE REAL ESTATE INVESTMENT

IMPLEMENTING THE PARIS CLIMATE AGREEMENT: AN ACTION FRAMEWORK

February 2016

FRAMEWORK FOR ACTION

FOR DIRECT REAL ESTATE INVESTMENT MANAGERS PROPERTY COMPANIES AND THEIR REAL ESTATE CONSULTANTS

Investor Group on Climate Change | IIGCC | Investor Network on CLIMATE RISK a project of Ceres | UNEP FINANCE INITIATIVE | PRI Principles for Responsible Investment | RICS

Strategy

Develop a material ESG and climate strategy

Key elements

Preparing and drafting an ESG and climate risk and opportunity policy enables Direct Real Estate Investors, Property Companies and their Consultants to better identify and manage ESG and climate risks and opportunities in ways consistent with their fiduciary duty to exercise due care, skill and diligence in the pursuit of the best interests of fund beneficiaries , without being prescriptive as to how this is achieved.

Stakeholders engaged in this process should factor in existing and likely changes in the regulatory environment over the investment horizon, financial regulations surrounding climate change risk disclosure, and rating methodologies by mainstream groups such as Bloomberg, Moody's, and MSCI, as well as ESG groups such as Sustainalytics, Oekom, Trucost, and others.

Key elements of this process include a review and understanding of the ESG and climate risks and opportunities, the development and selection of dedicated ESG and climate risk policies and strategies together with the determination and setting of targets that are actionable and transparent.

Stakeholders should also decide which targets are appropriate for their investment strategies, and which will be made public, and which remain private. It is understandable that not all may be appropriate for the public domain. This step will help stakeholders set reasonable and achievable goals, which can be stretched over time.

When a strategy is in place, such targets may be more uniquely tailored to the stakeholder. However, the action of setting targets can stand on its own. Most important is to define what the targets are, who is responsible for measuring them, how they will be measured, at what frequency they will be reported on, and what the incentives or expected consequences are if the targets are met, exceeded, or missed.

Recommended Actions

The following is a non-exclusive list of actions which are recommended to Direct Real Estate Investment Managers, Property Companies and Real Estate Consultants, to develop their ESG and climate risk policy and strategy:

Assess risks and opportunities

SHOULD

Question and assess whether key ESG and climate risks are being considered in real estate strategic asset allocation and investment strategies.

Ask consultants support on appropriate sources of information to assess current investment strategy, their expert view on the relevance of these risks to current real estate investment strategy, and their help in identifying gaps in existing processes and evaluation framework to account for ESG and climate risks:

- What are the impacts of changes in sustainability policy and regulation throughout the real estate investment cycle?
- What are ratings agencies, regulators, legal advisors and other stakeholders saying about the materiality of ESG and climate risks?
- What ESG and climate impacts are already included in assessment of risks, are there risks that are material over the life of my asset portfolio which are not yet included?
- What will be the likely impacts of ESG and climate risks on the valuation assessment of real estate assets over their useful lives?
- Will real estate assets face regulatory or physical “obsolete” due to ESG and climate risk factors over their useful lives and/or become stranded assets?
- What are and will be the impacts from the societal shift to place greater economic value on ESG and climate factors on real estate assets/ strategies over the fund live?

COULD

Establish regular or on-going ESG and climate risk assessment. This can include:

- Identify relevant information sources and collect relevant data on regular basis.
- Review risks and opportunities on a regular basis.
- Review the value impacts on the portfolio on a regular basis.

Develop ESG and climate policy

SHOULD

Develop or update policy and strategy stating specific approaches to integrate ESG and climate risk into investment framework. Policy and strategy should determine how ESG and climate risk assessment processes will impact strategic real estate asset allocation and investment management including:

- Identify key procedures in asset acquisition, management, operation, planning, new developments, refurbishment, upgrade, rental, and manager selection, which are impacted by ESG and climate risk strategy.
- Integrate new tools and ESG and climate risk data sources to more effectively model their impacts on value and investment decisions in management systems.
- Include relevant ESG and climate risk factors and assessments in inputs to management systems at asset level.
- Set priorities to evolve ESG and climate targets in line with ESG and climate risk strategy review results and requirements within the management system.
- Determine requirements for reporting and feedback to asset owners and stakeholders.
- Establish periodicity and approach to review and evaluate ESG and Climate risk policy and strategy.

Develop ESG and climate policy

COULD

Take a leadership role in terms of dissemination and supporting training of advisers /managers so that the pace of change is accelerated.

Determine appropriate approach to embed a dynamic, data-driven assessment of ESG and climate risks into investment strategies.

Exploit synergies when collecting and processing building-related information.

Set targets

SHOULD

Determine and set appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in your portfolio.

Where relevant, issue clear directives to external property managers managing your property assets to deliver these targets, including requirement for their executives to be responsible for delivery of performance.

Targets can include:

- Qualitative targets to have in place investment and asset management procedures and tools to integrate ESG in climate risks in asset acquisition, management, operation, planning, new developments, refurbishment, upgrade, rental and occupier management.
- Quantitative and material targets to reduce energy, carbon intensity, water and waste of the portfolio over specified timeframes.
- Set a goal to measure and reduce the environmental/ resource intensity of a portfolio against relevant benchmarks over a given time period.
- Quantitative and qualitative targets to address social impacts of the portfolio, including community engagement and contribution to local communities.
- Set quantitative targets for the inclusion of green lease clauses in the lease agreements with tenants.
- Target for a specified proportion of the fund's buildings to be powered by clean energy, to be highly energy efficient, to achieve minimum requirements for renovations, or to be "best in class" with respect to resource intensity.
- Require periodic reports on progress against targets.

COULD

Engage with property managers, operators and maintenance to ensure that "best in class" energy/ carbon reduction technologies and operating procedures are in place across a growing percentage of the managed portfolio over a given timeframe.

Share best practice and ensure ESG and climate risk "learnings" are socialized among internal stakeholders.

Resource mapping and selected reference resources

The resource-mapping graph also shows the range of resources available and their relevance to this particular audience, see Annexes. Below are selected resources of particular relevance for Direct Real Estate Investment Managers, Property Companies and Real Estate Consultants when developing their ESG and climate risk strategy.

"Advancing Responsible Business in Land, Construction and Real Estate Use and Investment"

RICS / UN Global Compact, 2015, Global

The document provides a guide to the practical application of the 10 principles of the UN global Compact to the land, construction and real estate sectors. It helps set the strategic agenda for companies operating in the sector, real estate users and investors, through clear action items supported by a list of benefits and real life case studies.

"Climate Change Investment Solutions Guide"

IIGCC 2015, Europe

The aim of this guide is to provide asset owners with a range of investment strategies and solutions to address the risks and opportunities associated with climate change. While the guide is targeted at asset owners it also contains insights for asset managers which are directly relevant to equity real estate investors. The guide proposes a four-step framework for considering climate change investment solutions. It also affirms that corporate and policy engagement are important complementary strategies, which can address climate change risks across portfolios and facilitate new investment opportunities. It provides specific questions that asset owners and investors can ask the companies they invest in, to reduce and report their carbon intensity.

"The-21st-century-investor-ceres-blueprint-for-sustainable-investing" Ceres 2013, North America

The aim of this guide is to provide asset owners with a range of investment strategies and solutions to address the risks and opportunities associated with climate change. While the guide is targeted at asset owners it also contains insights for asset managers which are directly relevant to equity real estate investors. The guide proposes a four-step framework for considering climate change investment solutions. It also affirms that corporate and policy engagement is important complementary strategies, which can address climate change risks across portfolios and facilitate new investment opportunities. It provides specific questions that asset owners and investors can ask the companies they invest in, to reduce and report their carbon intensity.

"Unlocking the energy efficiency retrofit investment opportunity" UNEP FI 2014, Global

The energy efficiency report provides a detailed briefing on the business case and why investors should invest in energy efficiency retrofit opportunities. It provides a clear and simple seven-step approach to effectively increase the supply of financeable energy retrofit projects in real estate portfolios.

"Trustee's Guide: Protecting value in real estate through better climate risk management" IIGCC 2014

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"Investing through an adaptation lens', IGCC 2015

"Assessing climate change risks and opportunities for investors - Property and Construction Sector" IGCC 2013, Australia

The aim of this guide is to provide asset owners with a range of investment strategies and solutions to address the risks and opportunities associated with climate change. While the guide is targeted at asset owners it also contains insights for asset managers which are directly relevant to equity real estate investors. The guide proposes a four-step framework for considering climate change investment solutions. It also affirms that corporate and policy engagement is important complementary strategies, which can address climate change risks across portfolios and facilitate new investment opportunities. It provides specific questions that asset owners and investors can ask the companies they invest in, to reduce and report their carbon intensity.

Execution

Integrate ESG and climate in investment strategy

Key elements

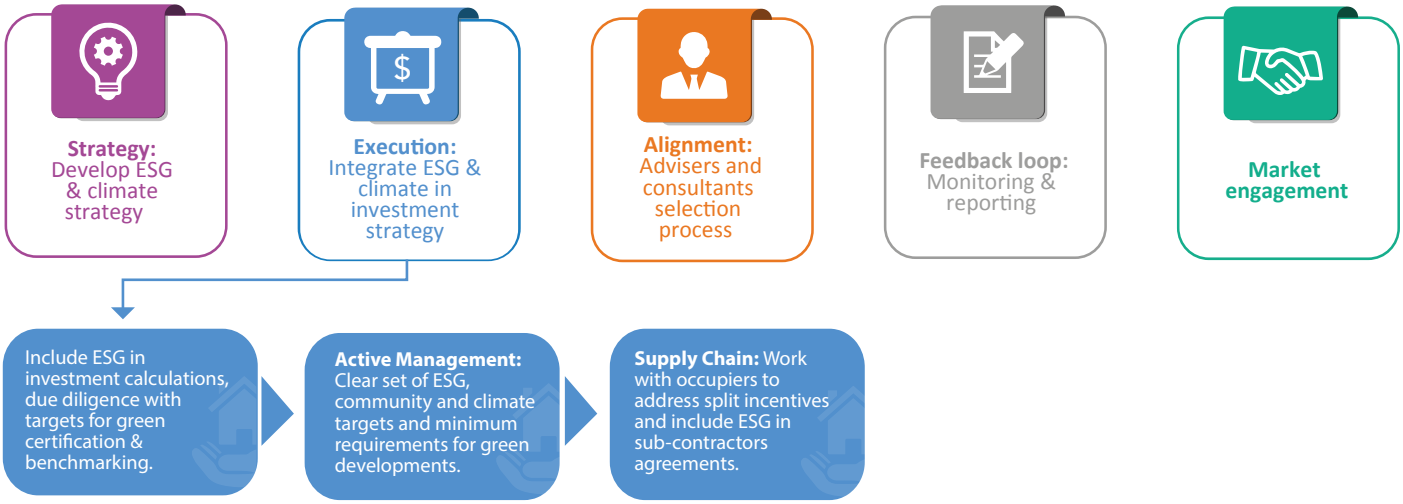
ESG and climate risks should be an integral part of investment management and related business processes along with the traditional decision-making factors and parameters, rather than being seen as an add-on or separate category. To do so, investors should integrate ESG and climate factors in each element of their investment, asset management and operational processes. These processes cover governance, strategy and targets, risk assessment, active management and refurbishment, monitoring, comparability and reporting across the portfolio, extending throughout the industry to stakeholder and sector engagement.

There are major benefits to integrating ESG and climate risks in the investment strategy and through the investment and asset management processes across all organisational levels. As described in the introduction, these benefits include the ability to better manage risks and better capture opportunities to improved long-term performance. Beyond the investment manager's own portfolio, it supports improvements in transparency and comparability across markets, enabling asset owners to better engage with investment managers on the implementation of responsible investments and for investment managers to gain market visibility for their efforts.

Finally, given the growing interest from asset owners to fulfil their fiduciary duty, this will help investment managers be prepared for assessment against ESG and climate risk management frameworks early during the investment manager selection process.

Managing and monitoring of asset managers' sustainability performance has become simpler and more transparent with the emergence and uptake of a large number of global and regional sustainability benchmarks and reporting guidelines.

Real estate investors should integrate ESG and climate risk management requirements into their supply chains in all areas where investment managers have control and influence. To do this, they need to ensure that their proper employees have responsibility and empowerment to drive compliance with these procedures.



Recommended Actions

The following is a non-exclusive list of actions, which are recommended to Direct Real Estate Investment Managers, Property Companies, and Real Estate Consultants, to fully integrate ESG and climate risk in their investment strategy and asset management processes.

Investment strategy: ESG in investment calculations and valuations

SHOULD

Be more explicit about how sustainability affects the value of individual assets and the risk of depreciation of entire portfolios.

- Measure how these factors impact on real estate investment performance and how they influence real estate market fundamentals.
- Capture the value of property level sustainability investment at the fund or corporate level Leverage work of RICS and US Appraisal Institute to work with valuation professionals and adopt internal investment models to integrate ESG and climate risks considerations in the assessment of value.
- Provide valuers with building sustainability characteristics information.
- Collaborate with valuers to incorporate sustainability data as part of the standard valuation assessments.
- Consideration should be given to the impact on a property's likelihood to command top market rents, become vacant, remain vacant, and other market fundamentals that drive value.
- Request valuers' opinion on risk posed by the sustainability characteristics of buildings, according to RICS rules.

COULD

Integrate ESG and climate risk information into the discounted cash flow models of real estate investments and the valuation assessment of portfolios.

- Working on Discounted Cash Flow models taking account of sustainability metrics.
- Link existing Discounted Cash Flow models with Monte Carlo Simulation techniques.

Investment strategy: ESG in transactions, Investment and asset selection

SHOULD

Assess sustainability risks at acquisition of new assets and through assets' lifecycles and identify mitigation strategies to future proof and enhance the value of the portfolio.

Carry out a sustainability due diligence for new acquisitions for prospective assets, including:

- Identify cost effective environmental improvements to future proof the value of assets.
- Commission investment grade study to estimate the savings which would be delivered from CapEx potential measures identified during due diligence.
- Integrate cost of mitigation improvements in refurbishment budgets.

COULD

- Contractually require information from seller and letting and leasing agents on sustainability characteristics of new acquisitions.
- Integrate risks identified and refurbishment costs into discounted cash flow analysis.

Investment strategy: Green certification and benchmarking

SHOULD

Contribute to dedicated sustainability benchmarking and reporting tools to improve management and the monitoring of funds' sustainability performance.

Contribute and use operational level benchmarks to asses and analyse performance of assets against sector performance.

Asses and monitor asset level green building and energy certificates.

COULD

Determine methodology to benchmark and measure relative performance of specific ESG/ climate themed approaches against the remainder of the portfolio.

- Proportions of energy provided from renewable sources.
- Highly energy efficient buildings for class and use.
- On-site renewable power.
- Near zero energy buildings.

Active management: property management

SHOULD

Reinforce the positive impacts of active property management to deliver continuous ESG and climate performance. This should include:

- Integrate requirements for sustainability improvements and occupier comfort and health enhancement through the active property management and planned and preventive maintenance programmes.
- Set minimum operational environmental, health and social performance requirements and targets.
- Clearly assign responsibility for targets to appropriate asset and property managers, whether in-house or sub-contracted.
- Implement Energy Management Systems in the property, have them audited by a third party, and ensure that data gathering and tracking are consistent and timely.
- Monitor and report on monthly and quarterly basis performance against targets with continuous feedback between property managers, asset managers and sustainability experts.

COULD

Focus active property management on a building by building level.

- Monitor and analyse building level ESG and climate risk performance data on regular basis, monthly or quarterly.
- Set individual building targets in line with the portfolio target and supported by the asset investment strategy.
- Support a continuous and knowledge-based feedback between property managers, asset managers and sustainability experts.

Determine proportion or strategy to integrate the above assets into the overall investment approach.

- Proportions of energy provided from renewable sources.
- Highly energy efficient buildings for class and use.
- On-site renewable power.
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- On-site renewable power.
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Active Management: Sustainable development and refurbishment

SHOULD

Consider ESG and climate risk improvements in all development and refurbishment activities and look for opportunities for these factors to drive a renovation.

- Maintain and use development and refurbishment guides with minimum ESG and climate risk requirements. Minimum requirements should capture all aspects of ESG, environmental footprints, resource efficiency, construction and occupational health impacts and labour rights.
- Ensure that building documentation (building files / passports) is issued within project development and refurbishment projects and that these are continuously updated during the management phase.
- Use contractors and refurbishment teams who have experience in and track records in successfully and economically reducing ESG and climate building footprints.
- Produce and use sustainable fit-out guides for tenants.

COULD

Showcase assets for new low carbon or sustainable technologies or practices.

Supply Chain integration: Work with occupants

SHOULD

Work with tenants to find ways to agree joint ESG and climate risk management programmes to achieve environmental objectives through programmes.

- Engage with tenants to share data and align lease clauses to incentivize landlords to reduce building operating expenses and core contractual components of "green leases" .
- Consider establishing a "Green Building Management Group" (GBMG) to manage engagement. Targets or objectives which may come for the owners or from any of the occupants can be discussed and plans can be made accordingly to implement and monitor progress. GBMGs are helpful in driving green leasing strategies, especially those where tenant buy in is needed or desired for capital projects which deliver operational savings to the tenant and may be recovered from tenants via the service charge.
- Align incentives and define contractual responsibility for operational practices that minimize energy use with clear share of benefits between occupants and owners.
- Identify engagement activities responding to the needs of occupants that also strengthen the ESG and climate performance of the buildings.
- Work to maintain strong levels of occupant comfort, productivity, and satisfaction, owners and property managers should both implement and educate building occupants on building materials, chemical compositions of carpeting & paint, air quality, and related strategies to drive employee and occupant performance and health.

COULD

- Provide incentives where appropriate with engagement tools to strengthen occupants dialogue.
- Facilitate collection of relevant data and achievement of ESG and climate targets from occupant.

Supply Chain integration: Community engagement and social impacts

SHOULD

Engage with building's community and local stakeholders.

Identify ESG impacts of buildings to local communities and implement community programmes to mitigate these impacts.

COULD

Engage with community stakeholders and programmes to involve them with monitoring of impacts and in the formulation of ESG mitigation approaches.

Supply Chain integration: Integrate in employees and contractors requirements

SHOULD

Integrated ESG and climate risk management requirements throughout the supply chain and in all areas where investment managers have control and influence.

Ensure that all employees have responsibility for ensuring compliance and implementation labour best practice, including decent labour practices, work conditions, and human rights principles.

Develop a supply chain policy stating requirements for the whole value chain ensures that ESG and climate principles are included in external contracts, such as with property managers, refurbishment teams and surveyors, leasing and letting agents, and that in turn they require similar terms from their suppliers.

Have specific requirements included in contract with external contractors, requirements should include:

- Create a framework of requirements (that have to be applied at all corporate levels) for type, extent, format and frequency of data/information exchange with third-party service providers.
- Amend the contractual arrangements with these counterparts accordingly.

COULD

Include supply chain and contractors in the ESG and climate risk dialogue to ensure that they are both educated and that their ideas can be considered in the building's management, development and renovation programme. Participate and join forces with others to encourage higher standards of ESG and climate risk visibility and engagement.

Our real estate supply chain policy ensures that our principles are included in our contracts with our property managers, refurbishment teams and surveyors and that in turn they require similar terms from their suppliers.

Resource mapping and selected reference resources

Below are selected resources of particular relevance for Direct Real Estate Investment Managers, Property Companies and Real Estate Consultants when integrating ESG in their investment strategy. The resource-mapping graph also shows the range of resources available and their relevance to this particular audience. It is based on the result of the survey of global practitioners to ask them help position and calibrate the publications identified in the literature review.

"Advancing Responsible Business in Land, Construction and Real Estate Use and Investment"

RICS / UN Global Compact, 2015, Global

The report helps set the strategic agenda for companies operating in the sector, real estate users and investors, through clear action items supported by a list of benefits and real life case studies.

"Assessing climate change risks and opportunities for investors - Property and Construction Sector"

IGCC 2013, Australia

This guide provides information to help investors assess and integrate climate risk and opportunity within the property and construction sector into investment analysis. The guide covers the following key areas and steps for this process: Identify current risks; Identify risk variance and impacts; Identify the adaptation strategies and mitigation measures; Assess materiality. The guide then proposes steps to integrate the information into investment processes. The follow up guide in 2015 provides practical insights on how investors can and should be investing through an adaptation lens.

"Unlocking the energy efficiency retrofit investment opportunity'"

UNEP FI 2014, Global

The energy efficiency report provides a detailed briefing on the business case and why investors should invest in energy efficiency retrofit opportunities. It provides a clear and simple seven-step approach to effectively increase the supply of financeable energy retrofit projects in real estate portfolios.

"Sustainability and commercial property valuation - Professional Guidance Note, Global"

RICS 2013, Global

This guidance note encompasses the wide range of ESG economic factors relating to sustainability that can impact on value and of which valuers should be aware. Topics covered include: The role of the valuer; Assessing a building's sustainability characteristics; Reflecting sustainability characteristics in market value, fair value, market rent and investment value.

"Trustee's Guide: Protecting value in real estate through better climate risk management" IIGCC 2014

This guide covers the key questions which asset owners and investment managers should be asking themselves when developing their ESG and climate policy and strategy and their investment strategy to integrate ESG and climate risks into their businesses. It covers four areas: Assessing risks and opportunities, managing regulatory risks, manager selection, incentives and rewards.

"Sustainability metrics: translation and impact on property investment and management"

UNEP FI et al 2014, Global

The report provides a framework for a corporate real estate sustainability management (CRESM) system for property investment and management organisations, and offers a pragmatic three level approach (corporate, portfolio and single building level) that aims to help the industry manage the complexity of sustainability metrics and to organize information flows more efficiently.

"Whose Carbon is it? GHG Emissions and Commercial Real Estate" REALpac and ICF 2011, North America

At the completion of this document, the reader should have an appreciation for the complexities of greenhouse gas accounting, knowledge of the critical factors involved in accounting for greenhouse
gases in the commercial building sector, and the ability to apply suggested guidance to their portfolio.

Alignment

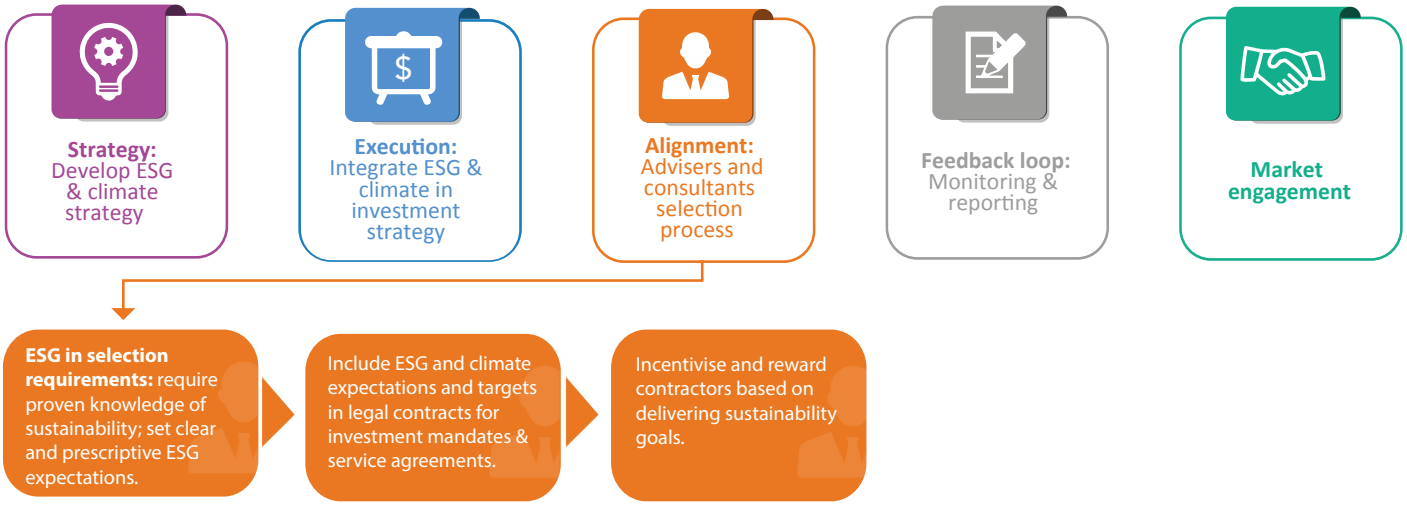
Advisers and managers selection process

Key elements

Having defined the most appropriate approach to integrate ESG into the investment strategy, it is fundamental for Direct Real estate Investors and Property Companies to instruct their sub-contracted asset, property or facility managers, where relevant. The material ESG and climate risk components identified in the first two steps need to be integrated in the selection of these contracted parties. Key elements of this process comprise the selection process, having clear ESG and climate portfolio expectations, setting clear targets based on absolute performance and performance against benchmarks to be included in the service agreement with reference to economic incentives, rewards and penalties as appropriate.

Investment managers should set expectations of their property managers with respect to their ESG and climate strategies and set targets with clear responsibility for the achievement of any targets, which are set at the property level. Property managers should be requested to implement sustainability standards for operations, based on relevant regional and local guides.

While rewarding property managers for hitting sustainability targets is currently the exception rather than the norm, it is one, which could be among the most impactful. At a minimum, investment managers could notify their property managers that a minimum level of expertise, service, and sustainability performance is required in order to keep or win their business.



Recommended Actions

The following is a non-exclusive list of actions addressing ESG and climate risks, which should be considered for inclusion during the contractors and manager selection process:

Selection requirements

SHOULD

Include specific requirements for ESG and climate investments and expertise in the selection processes.

Focus selection engagement process on specific direct requests and past performance rather than open-ended questions, these could include:

- Ask for opinion on asset level or portfolio out-performance opportunities through greater integration of ESG and climate criteria.
- Request description of how the investment manager implements ESG and climate risks in their asset and property management approaches throughout the real estate investment cycle with requested evidence of track records and concrete examples.
- Request and review performance against benchmarks to ensure that ESG and climate risk criteria are effectively integrated in asset management processes.
- Require examples of experience in executing portfolio strategies to reduce the environmental footprint of the managed properties.

COULD

- Seek managers who provide contractual assurance for energy or carbon performance / reductions, green / energy efficiency certification, or other targets sets jointly with the manager.

ESG and climate risk in service agreement

SHOULD

The service agreement should include clear and detailed expectations for incorporating ESG and climate risk factors and the process for monitoring ESG and climate risk implementation and performance. The asset, property or facility manager should be required to:

- Have dedicated procedures in all relevant asset and property management phases: asset acquisition, management, operation, upgrade, rental, planning and manager selection, which are impacted by ESG and climate risk strategy.
- Monitor portfolio and underlying real estate assets performance in carbon, energy and natural resource intensity (e.g.: portfolio level and individual asset case studies), and social impacts such as community engagement and contribution to local communities.
- Have an Environmental Management System (EMS) that applies to the entity level.
- Use relevant Real Estate sustainability benchmarks to monitor and compare absolute and performance against market peers.
- Have clear reporting requirements including narrative and quantitative reporting against targets.

Set and reward clear performance targets

SHOULD

The service agreement should include appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in portfolio. Targets can include:

- Quantitative and material targets to reduce energy, carbon intensity, water and waste of the portfolio over specified timeframe.
- Set a goal to measure and reduce the environmental/ resource intensity of a portfolio against relevant benchmarks over a given time period.
- Quantitative and qualitative targets to address social impacts of the portfolio, including community engagement and contribution to local communities.
- Set quantitative targets for the inclusion of green lease clauses in the lease agreements with tenants. Require periodic reports on progress against targets; Specific incentives are provided for ESG and climate.

Set and reward clear performance targets	COULD
	Set targets for a specified proportion of the fund's assets in real estate to be powered by clean energy, to be highly energy efficient, to achieve minimum requirements for renovations, or to be "best in class" with respect to resource intensity. Provide specific incentives for performance against agreed ESG and climate risks requirements. • Incentivize pro-active seeking and reporting of ESG and climate risk management improvements. • Reward with economic incentives/ penalties as appropriate, for performance against agreed ESG and climate portfolio targets for both, absolute and benchmarks performance.

Resource mapping and selected reference resources for contractors and manager selection

The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to implement this step. More details are provided on selected resources of particular relevance when selecting advisors, and their contractors and property managers. Among the most impactful. At a minimum, investment managers could notify their property managers that a minimum level of expertise, service, and sustainability performance is required in order to keep or win their business.

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UNEP FI et al 2014, Global

The report provides a framework for a corporate real estate sustainability management (CRESM) system for property investment and management organisations, and offers a pragmatic three level approach (corporate, portfolio and single building level) that aims to help the industry manage the complexity of sustainability metrics and to organize information flows more efficiently.

"Greening the building supply chain" UNEP SBCI 2014, Global

The report aims to identify opportunities for achieving greater resource efficiency in the building sector supply chain and contribute towards wider socio-economic goals. It defines prioritisation of green interventions to support the development of a Sustainable Buildings and Construction programme. The Report also maps the interdependencies upstream and downstream of the construction site, allowing the various stakeholders to gain insight into their role and on how they impact on the overall system.

The Report also introduces an "Intensity Analysis Methodology" based on an LCA approach aimed at improving the understanding of environmental impacts of selected materials and providing indications about potential entry points for green interventions within the building materials supply chains.

Feedback loop

Monitor, report and benchmark

Key elements

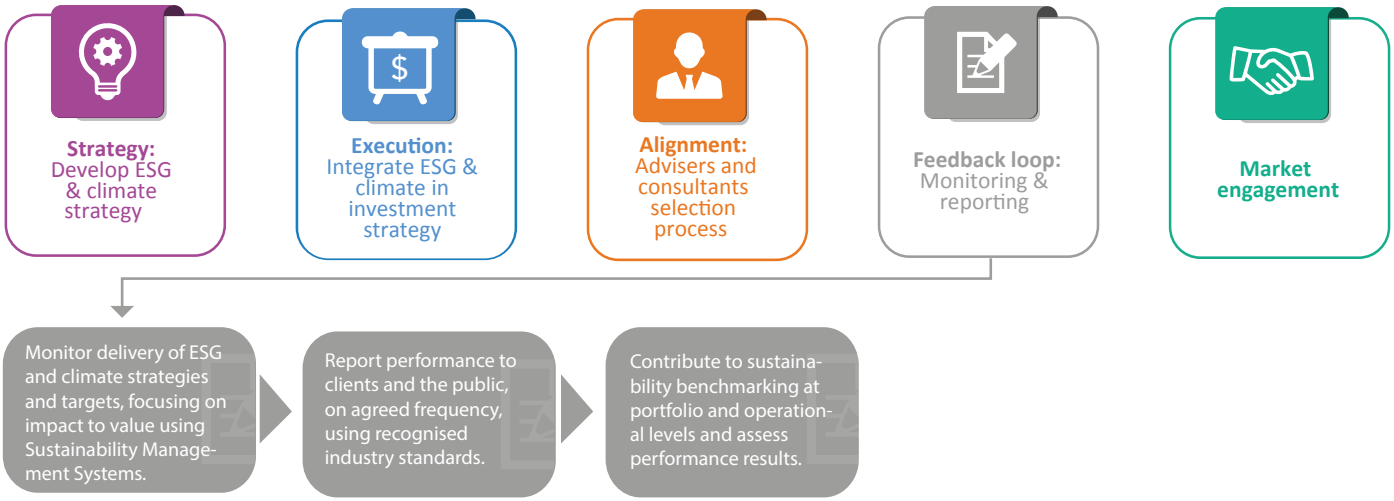
All stakeholders have responsibility in monitoring progress against goals and targets which are set – as per Step 1 & 2 - to demonstrate that ESG & climate change risks and opportunities are being managed and acted upon to the best of the ability of all those involved.

The regular observation, evaluation, benchmarking and recording of ESG and climate risk management activities should take place routinely within a pre-agreed monitoring and reporting schedule with the appointed manager and advisers. Reports should be practical and oriented towards delivering performance on ESG and climate risk factors and offer decision makers with relevant information. Monitoring should also involve feedback about the progress of the various strands of activity outlined and agreed in the Strategy Review for direct investors, property companies and their consultants .

It is important to demonstrate how the property portfolio's sustainability performance has changed over previous months and years, and to be able to present such changes on a like-for-like basis, normalized for weather and occupancy (or instead of occupancy some other measure of intensity). Additionally, controlling for boundaries and being consistent in measuring within these boundaries is very important.

In 2014, The UNEP FI Property Working Group published a comprehensive guide to sustainability metrics and how to deploy a Commercial Real Estate Sustainability Management (CRESM) system. Direct investors, property companies should consider to procure such a system to facilitate accurate, robust, efficient data collection practices which make reporting at the building, portfolio and company level quite simple. This would likely reduce quite substantially the level of effort currently expended in reporting to multiple building, portfolio and company level sustainability related frameworks for commercial property.

An additional benefit of such an approach is that regulatory issues relating to buildings and energy data benchmarking and disclosure are on the rise; and this was the case before COP21. Going forward, access to energy, carbon, water, and waste data will become increasingly valuable and required.



Selected resources for Monitoring & Reporting

The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to implement this step, see Annexes. Below are selected resources of particular relevance for Monitoring & Reporting.

Monitoring process

SHOULD

Define ESG and climate risk-related expectations in monitoring requirements against investment strategies and quantitative ESG and climate risk performance targets (see step Define ESG and climate policy and strategy).

- Monitor performance through an Environmental Management System (EMS) that applies to the entity level.
- Monitor performance against specific agreed targets, both absolute and relative performance compared to selected portfolio level benchmarks.
- Monitor underlying asset performance in carbon, energy and natural resource intensity (portfolio level and individual case studies).
- Within each portfolio identify “best performer” and “worst performer” (asset type, geography or portfolio) to allow focus on effective intervention and performance improvement.
- Keep track of new technologies which may reduce ESG and climate risks on a portfolio basis selected portfolio level benchmarks.

COULD

- Request for Environmental Management System (EMS) to be aligned with a standard and/or verified or certified by an independent third party.
- Include external verification or assurance where data or conclusions will be published or where material decisions will be taken based on this data.
- Ensure “deep dive” on divergent assets (with positive or negative impact) to understand the overall portfolio effect of these.

Reporting standards and requirements

SHOULD

Define ESG and climate risk-related expectations in reporting requirements to asset owners and to stakeholders.

- Define delivery date and format for reporting to asset owners with sections for “business as usual progress towards agreed targets” as well as an “exception report” area to identify or highlight particular incidents in the reporting period.
- Provide systematic updated in a cost effective format or dashboard, which provides ESG and climate performance information in a meaningful and coherent manner.
- Include a placeholder for relevant regulatory update and industry framing section in recognition of the fact that ESG and climate frameworks are not static and changes to the regulatory environment or competitive landscape are important to monitor.
- Include free-form comments to the standard and data driven format to enable reporting on policy and process implementation progresses.
- Identify and integrate data sources from across the investment process and ensure that reports are furnished systematically with the most relevant and updated data relevant to the asset owner.
- Request regular performance updates against selected benchmarks and information around exemplar or best-in-class activities.
- Define periodicity and materiality thresholds for reporting activities.

Publicly report ESG and climate risk assessments and management activities.
Define ESG and climate risk-related expectations in reporting requirements to external stakeholders

- Select reporting standards, and define scope and depth of reporting, with a focus on materiality to the business and value drivers and accounting for geographical or regional norms and regulatory expectations.
- Define periodicity and materiality thresholds for reporting activities. Selected portfolio level benchmarks.

COULD

Include external verification or assurance where data or conclusions will be published or where material decisions will be taken based on this data.

Migrate towards actionable and information-intense measures for reporting and away from “check-box” approaches. Implement a feedback loop to ensure that, where selected reporting tools are not “best fit” then this can be reported upon.

Reporting standards and requirements

SHOULD 

Determine relevant portfolio level and operational level benchmarks based upon characteristics of portfolio and geography.

- Contribute to relevant portfolio wide sustainability investment management framework.
- Contribute to relevant operational level and asset performance benchmarks, where such benchmarks are available.
- Integrate benchmark relevant results and analysis in reporting requirements.

COULD 

- Do a performance analysis against the benchmark to identify what are the most material areas of focus and how to best address them.

Selected reference tools for Monitoring & Reporting

Managing and monitoring of asset managers' sustainability performance has become simpler and more transparent with the emergence and uptake of a large number of global and regional sustainability benchmarks and reporting guidelines. The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to implement this step, see Annexes.

Below are selected resources of particular relevance for Monitoring & Reporting based on the result of the survey of global practitioners.

"G4 Sustainability Reporting Guidelines: Construction and Real Estate Sector Disclosures", GRI 2015, Global

This resource is the definite guidance on performance indicators and reporting processes for anyone who invests in, develops, constructs, or manages buildings. The GRI Guidelines, help reporting organizations disclose their most critical impacts – be they positive or negative – on the environment, society and the economy. They can generate reliable, relevant and standardized information with which to assess opportunities and risks, and enable more informed decision-making – both within the business and among its stakeholders. The GRI's Construction and Real Estate sector guidance makes reporting relevant and user-friendly for organizations in this targeted sector.

"PRI reporting framework – Asset Owners, Direct, Equity and Debt investments" PRI, Global

The PRI Reporting Framework seeks to answer one question: How do you govern and implement responsible investment? The framework is composed of modules, with general modules tailored for multiple asset class investors and dedicated modules focused by asset class. Reporting through the Framework is mandatory for all PRI signatories and responses are translated into Transparency Reports which are available on the PRI website as a public demonstration of signatories' commitment to implementing the Principles for Responsible Investment.

"Global Real Estate Sustainability Benchmark – Asset Owners, Direct, Equity and Debt investments"

GRESB 2015, Global

Through GRESB, direct real estate investor members are able to monitor the annual GRESB survey results for all their direct investments and, if they invest in listed real estate securities, all listed real estate companies' results. By using the GRESB Portfolio Analysis tool, investors are able to select investments to compare results, e.g. for a particular investment manager, a region or country, or a particular property type. They are also able to undertake portfolio analysis for self-selected groups of their investments.

The GRESB debt survey represents an initial step in monitoring real estate debt and assessing how to integrate ESG and climate risks into this growing financial instrument for real estate investment. The survey aims to increase transparency in the debt market and guide investors on best practice implementation.

Market engagement

Key elements

Over 1,400 finance sector institutions managing over US$59 trillion of assets subscribe to the United Nations supported Principles for Responsible Investment and it is likely that the level of engagement between business and public policymakers will increase, especially as more and more real estate investors integrate ESG and climate risks into their business practices and regulations on these matters become more developed.

Real estate investors should consider taking an active role in public policy and sector engagement to promote acceptance and implementation of ESG and climate risks measures across the real estate industry. This ensures sector-wide tools are developed enabling industry comparison and better monitoring of the sector's and portfolio's performance.

It is also important that they play a role, directly, or indirectly through sector organisations, in establishing positive dialogue and engaging with public policy to ensure that a robust regulatory framework supports the effective integration of ESG and climate risks in real estate investments.

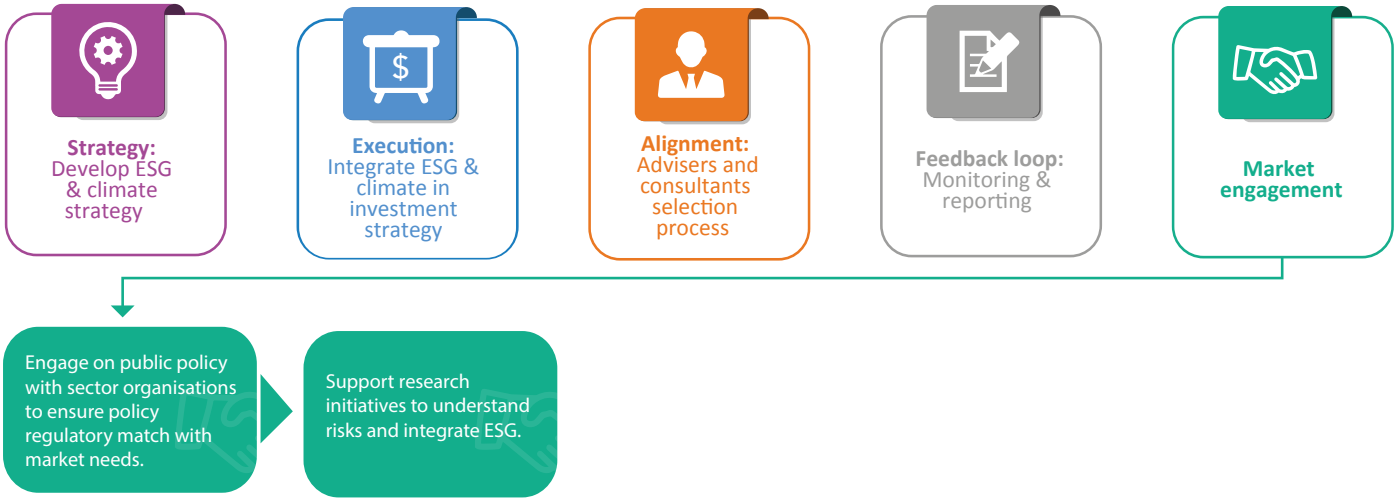
Recommended Actions

There are three key areas in which all real estate investment stakeholders can optimise their engagement with public policy:

1. Engage, directly or indirectly, on public policy to manage risks.
2. Support research on ESG and climate risks;
3. Support sector initiatives to develop resource to understand risks and integrate ESG.

PRI Policy Frameworks for Long-Term Responsible Investment: The Case for Investor Engagement in Public Policy, Global

This PRI policy framework shows why public policy engagement is essential for long-term investors, provides examples of investor engagement in public policy, lessons learned, and offers practical recommendations for better integration of ESG factors in the public policy-making process.



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