SUSTAINABLE REAL ESTATE INVESTMENT

IMPLEMENTING THE PARIS CLIMATE AGREEMENT: AN ACTION FRAMEWORK

February 2016

FRAMEWORK FOR ACTION FOR EQUITIES, BONDS AND DEBT INVESTORS AND THEIR FINANCIAL ADVISORS
Key elements

ESG and climate risks should be managed by investors in alignment with their ESG and climate risk policy and strategy by selecting and embedding it in the most appropriate investment strategy.

Preparing and drafting an ESG and climate risks and opportunities policy will enable investors to understand the evidence and decide what is the most appropriate approach for them to manage these risks and integrate the required management approaches in their determined investment strategies. It enables Equities, Bonds and Debt investors and their Financial Advisors 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.

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 risks policies and strategies and the determination and setting of actionable and transparent targets.

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.

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 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 form the core components required to develop an ESG and climate risk policy and strategy which focuses on material risks and opportunities:

**SHOULD**

**Assess risks and opportunities**

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

Ask advisers support to identify appropriate sources of information to assess current strategic allocation and investment strategy, their expert view on the relevance of these risks to current real estate investment strategy and their help in answering the following questions in order to identify 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 which will be 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 “obsolescence” due to ESG and climate risk factors over their useful lives?
- 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 life?

**COULD**

Establish regular or on-going ESG and climate risk assessment, including:

- Identify relevant information sources and collect relevant data on regular basis.
- Review risks and opportunities on regular basis.

**SHOULD**

**Develop ESG and climate policy and strategy**

Develop or maintain a regularly updated 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.
- Set ESG and climate change indicators to evaluate new investment opportunities.
- Define ESG and Climate criteria for selection of new mandates and monitoring of existing mandates.
- Determine requirements for reporting and feedback from all relevant investment managers and advisers.
- Determine reporting process to members and stakeholders.
- Establish periodicity and approach should be used 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 resources to integrate in strategy

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 Equity, Bond and Debt investors when developing their investment strategy.

“Investing in a time of climate change” Mercer 2015, Global
“An-Investment-Framework-for-Sustainable-Growth” Mercer 2014
“Climate change scenarios: Implications for strategic asset allocation” Mercer 2011

These three studies help asset owners and investors better understand and estimate the impacts of climate change on investment strategies and financial performance. They address the following questions: Which financial impact could climate change have- at which magnitude and when? What are the key risks and opportunities, how do we manage and integrate those into current investment processes? Which actions could an investor take to become more resilient to climate change?

“Climate Change Investment Solutions Guide”
IGCC 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.

“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.


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“Developing an asset owner climate change strategy”
PRI 2015, Global

This pilot framework offers a step-by-step approach for addressing climate change across three main strategies: engage, invest and avoid. Case studies outline existing examples of asset owner action, including several initiatives that have been started by project participants during the project.

“Investing through an adaptation lens”, IGCC 2015
“Assessing climate change risks and opportunities for investors- Property and Construction Sector’
IGCC 2013, Australia

The later guide provides practical insights on how investors can and should be investing through an adaptation lens. The former 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.

“Trustee’s Guide: Protecting value in real estate through better climate risk management” IGCC 2014

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.
Key elements

ESG and climate risks should be managed by investors in line with their ESG and climate risk policy and strategy by selecting and embedding it in the most appropriate manner within key procedures in the existing investment processes and strategies. The real estate investment process naturally has points at which value is created and where risks lie. Stakeholders should articulate how any interventions either increase the likelihood that value creation within the existing business model is realized, and / or highlight how risk management is improved. Taking this approach will help ground any actions in what is of material concern for a particular company or investment strategy.

Equity/REITs:
- select managers with proven active investment approaches; Be active in engagement & proxy voting.

Bonds:
- require green property bonds certified with recognised standards and information on assets’ sustainability performance.

Debt:
- Integrate ESG in due diligence at transaction, valuation assessment and include in loan documentation.

Market engagement:

Feedback loop:
- Monitoring & reporting

Alignment:
- Advisers and consultants selection process

Execution:
- Integrate ESG & climate in investment strategy

Strategy:
- Develop ESG & climate strategy

Key elements of this process include a review the selection of the type of investment strategy with a focus on relevant asset classes, active engagement and proxy voting for equity/REITS, integration of ESG investment procedures for debt and certification of bonds investments to green property bonds standards.
### Recommended Actions

The following is a non-exclusive list of actions, which should be considered for inclusion in the investment strategy with specific recommendations for each type of financial instruments:

<table>
<thead>
<tr>
<th>Measures by asset class</th>
<th>Equity Portfolios</th>
<th>Green Property Bonds</th>
<th>Debt Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHOULD</strong></td>
<td></td>
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<tr>
<td>Give preference and award active property ESG and climate risks investment mandates. Review passive mandates to include a screening based on benchmarks and green property ratings in underlying entities.</td>
<td>Require integration of new tools and ESG and climate risk data sources to more effectively model their impacts on equity value and investment decisions.</td>
<td>Require “Green” criteria by issuer to be externally verified. Consider divestment from issuers with “worst in class ESG and climate performance”.</td>
<td></td>
</tr>
<tr>
<td><strong>COULD</strong></td>
<td></td>
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<tr>
<td>Measure and reduce portfolio exposure to ESG and climate risks and consider divestment strategies for “worst in class”.</td>
<td>Set portfolio decarbonisation or ESG footprint targets and measure and manage over time against determined benchmarks.</td>
<td>Integrate ESG and climate criteria into valuation and debt investment assessments. Due diligence issuer for ESG and climate risks at transaction points with a focus on: Energy Performance Certificates, Flood Risks, Green Building Certifications, On-Site renewable Energy Generation, EcoPAS Questionnaire, Borrower Sustainability Credentials. Include ESG and climate risk factors in loan documentation (if involved in the primary issuance or private placement). Evaluate managers on their use of ESG and climate criteria in daily fund management activities.</td>
<td>Review existing loan portfolios for ESG and climate risk. Require ESG and climate risk data from issues of all existing loan portfolios. Consider divestment from issuers with “worst in class ESG and climate performance”.</td>
</tr>
</tbody>
</table>
Resource mapping and selected resources to integrate in investment process

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“Investing through an adaptation lens”, IGCC 2015 Australia & “Assessing climate change risks and opportunities for investors - Property and Construction Sector”
IGCC 2013, Australia

The later guide provides information to help investors assess and integrate climate risk and opportunity within the property and construction sector into investment analysis.

“Trustee’s Guide: Protecting value in real estate through better climate risk management” IIGCC 2014 Global

“Protecting value in real estate: Managing investment risks from climate change” IIGCC 2013, Europe

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.


The report acts as a guide to help investors satisfy the fiduciary responsibilities. It is designed to help concerned trustees or board members advance a process for better oversight and decision making that enhances sustainable risk-adjusted returns. It outlines the critical decisions that trustees must make regarding board policies and implementation and specific steps in the investment process that will benefit from trustee involvement.

“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.

“Green Property Bonds Standards”
Climate Bonds Initiative 2015,
“Green Bond Guidelines” GRESB 2015, Regional

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.

“Debt tools - New lending decisions framework & Loan documentation” BBP 2015, Regional

These two reports provide a list of potential sustainability due diligence items lenders might want to undertake in relation to a new lending decision secured against commercial real estate and illustrate potential ways to adapt existing processes for monitoring existing loans/borrower to incorporate relevant sustainability issues.
Having set the ESG and climate risks policies and targets and decided on the most appropriate approach to integrate ESG into the investment strategy, it is fundamental for real estate investors using equities, debt and bonds to include ESG and climate risk strategy and targets in their selection processes and mandates to their direct real estate investors, real estate portfolios or property companies. Establishing clear ESG and climate portfolio expectations, including specific targets based on absolute performance and against benchmarks, are key to this process and these expectations must be explicitly included in any mandate terms and connected to economic incentives, rewards and penalties as appropriate.

While much progress has been done on real estate sustainability benchmarks, REITS who are comparing direct investment managers and property companies should be careful not to oversimplify this process by looking only at ratings, certifications and benchmarks. These provide indications, but not answers. It is imperative for those investigating to engage with property companies, to understand both how ESG and climate risks are applicable to each business model, and how well ESG is understood and acted upon by the most senior decision makers. This is by far the best way to assess which managers are ticking boxes or bolting on ESG as an afterthought, and which are serious contenders. This framework and its actions provide a one-stop shop for how to check on and engage with investee companies.

Finally, whether engaging with existing investees or making a new investment, investors should be explicit in their requests for qualifications and RFPs to invest their precious capital and specify which actions they expect managers to take with respect to the integration of ESG & climate risks and opportunities. Investment managers and property companies will respond more favourably as such language becomes a series of asks and contains some prescriptive requirements. This approach would be major improvement over open-ended inquiry.

Asset owners should set expectations of their property managers with respect to ESG and climate risks. Responsibility for the achievement of any targets which are set at the portfolio and asset level should be clearly defined, with agreed upon mechanisms for the process and frequency of data collection and reporting.

While rewarding investment managers and property companies 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, asset owners could put their investment managers and property companies on notice 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 direct real estate investment manager and/or property company selection:

### ESG and climate risk in service agreement

#### SHOULD

- Favour active investment and investment managers demonstrating integration of ESG and climate risks in their investment processes.
- 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.
  - Require specific description of mechanisms used to embed ESG and climate risks in the buy, hold and sell decisions being made on properties.
  - Request description of how the investment manager implements ESG and climate risks in their asset 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 investment processes.
  - Require examples of experience in executing portfolio strategies to reduce the environmental footprint of the managed properties.
  - Adviser/ consultant to demonstrate that their ESG and climate research is understood and implemented in some meaningful way by the real estate / property researchers and that ESG and climate is not treated as a specialist silo.

### ESG and climate risk in Investment Mandates agreement

#### SHOULD

- The mandate or investment management 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. For equity investment manager these should be part of the requirements to undertake engagement and voting activities with the assets invested in. The investment manager should be required to:
  - Incorporate criteria to assess the capabilities of managers/ advisers in measuring and managing the physical risks of climate change.
  - Have dedicated procedures in all investment 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.

#### COULD

- Seek managers who link compensation to energy or carbon performance / reductions, green / energy efficiency certification, or other targets which have either been set voluntarily by the manager or requested by the asset owner.
## ESG and climate risk in investment mandates

**SHOULD**
- Have clear reporting requirements including narrative and quantitative reporting against targets.
- Publicly report their ESG and climate risk assessments and management activities.
- Engage with managers and request them to report on the extent to which they support or resist ESG and climate risk policies at the regulatory level.

## Set and reward clear performance targets

**SHOULD**

The mandate should include appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in portfolio. Targets can include:
- Quantitative targets to undertake voting and engagement activities where appropriate (Equity, bonds, debt).
- 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.
- Target 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.

Require periodic reports on progress against targets. Specific incentives are provided for ESG and climate.

**COULD**

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 resource for advisers 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 asset owners and their advisers to implement this step. More details are provided on selected resources of particular relevance when selecting advisors, and their direct investors, property companies, and Equity/REITS, Bond and Debt vehicles and investors.

“Aligning expectations: guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring” PRI 2013, Global

This guidance helps asset owners assess whether their managers’ investment policies and processes are consistent with their ESG expectations. It aims to support them in their dialogues with managers so that they gain a clear understanding of the ESG risks and opportunities affecting their portfolios and how their managers are addressing them. This guidance is also relevant for fund-of-fund managers who outsource investment activities and who need greater confidence that managers are aligned with their own expectations.

‘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.


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The follow up guide in 2015 provides practical insights on how investors can and should be investing through an adaptation lens.
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. Monitoring should also involve giving feedback about the progress of the various strands of activity outlined and agreed in the Investment Strategy and the mandate of the direct real estate investor or real estate company.

Reports should be practical and oriented towards delivering performance on ESG and climate risk factors and offer decision makers relevant information. Monitoring should also involve feedback about progress.

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, normalised 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 on sustainability metrics and how to deploy a Commercial Real Estate Sustainability Management (CRESM) system. Equity/REIT investors could request from their direct investment managers and property companies and debt and bonds investments the procurement of such a system to facilitate accurate, robust and 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 is 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.
### 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.

**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.

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**Recommended Actions**

The following is a non-exclusive list of actions, which should be considered for inclusion in the investment strategy with specific recommendations for each type of financial instruments:
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**

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.

**COULD**

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

Benchmarking

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.
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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Investor Network on Climate Risk (CERES – INCR)
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Principles for Responsible Investment (PRI)
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