GRI Club
REAL ESTATE

The GRI ESG & Impact Investment
Global Committee Report

2021 Edition

griclub.org/**committees**

Contents

Introduction

Introduction

From February to November 2021, the **GRI Global ESG & Impact Investment Committee** brought together a selected group of **C-Level real estate investors, asset owners, lenders, and developers** with the aim of creating a global community to share experiences, envision collaborative actions and understand where the international real estate industry stands as a whole across the ESG agenda.

This **GRI Global Committee Report** will discuss key messages raised by our members during the meetings. It will also explore the challenges and opportunities investors, lenders, and developers face when adapting strategies.

In a broad sense, Committee Members discussed the **impacts of climate change** and associated risks for the real estate industry, as well as related **ESG strategies**. While reaching net-zero as soon as possible before 2050 is the common target, collecting **data** and developing efficient and tangible targets are the main tasks – not only with regard to the market, but the future of our planet and generations to come.

**Disclaimer: This report does not contemplate the full discussion between the Board and all Members. In addition, committee sessions also dedicate time for networking.*

1 ESG trending topics under discussion

February Edition

Key topics raised in our Inaugural meeting:

- **Benchmarking** ESG strategies;
- **KPIs** for target-setting standards;
- **Proptech** advancements;
- Governments' new **regulations** worldwide

While sustainable strategies are seeing an increasing demand by investors, landlords, and developers, **tangible targets** for green buildings have been challenging to quantify. Investors have net-zero commitments, governments are establishing different standards as well as new laws targeting emissions, and developers are seeing an uptake in sustainable buildings and construction materials.

Leaders understand that an in-depth **benchmarking** of ESG strategies is more than ever needed when changing from a **non-regulatory era of ESG**, to a **regulated** one. A clear alignment of the whole market must address the increasing number of governments taking embodied carbon into consideration.

In this sense, more relevant and **reality-connected tools** seem to be necessary when defining ESG actions as well as target-setting standards. "Does **carbon disclosure** analysis replace some benchmarking standards?", and "are **certifications** the right way to standardize the efforts?" were some questions raised by the Board.

"Does carbon disclosure analysis replace some benchmarking standards?"

From the investment perspective, the willingness to take a hit on the return side from buildings may be quite limited. However, some investors and developers are rather looking to **the circularity of the real estate sector**, considering the whole supply chain and the materials companies are dealing with. Sharing the pathways to a holistic approach should spur further initiatives to make the whole industry more sustainable.

Delivering the climate transition not only creates new challenges for leading players, who will have to reassess their portfolios in the years to come, but also demands new sources of data. Defining **what actually makes a building green**, as well as understanding the **complexity of the data** that companies need to perform analysis, are urgent demands in the ESG agenda.

Lucas Brancucci

2 Global ESG Real Estate Goals

Are we aligned on our KPIs?

April Edition

In the April Edition, the Board together with Members had a closer look at factors and indicators real estate leaders consider as key for successful **ESG strategies** across the world and what targets they set to achieve them.

Important Takeaways:

- More considerations from governments to regulate embodied carbon call for **clear market** alignment;
- There seems to be **no mainstream approach** in establishing ESG KPIs;
- It would be crucial to **understand ESG** strategies not as separated units between E, S, and G;
- In order to meet industry standards, **retrofitting** the majority of the global existing stock (which is brownfield) is key;
- While many lenders are offering discounts for greenfields, there is a high risk of companies being left with **obsolete assets** across portfolios

Most members agreed that the key for hitting their targets would be a clear alignment of the whole market, especially with more and more considerations from governments to regulate embodied carbon.

While the Paris Agreement and the European taxonomy laws are seen across the Western world as the key regulatory milestones for the industry, it seems that many real estate companies have set themselves much more ambitious targets. Among the most common goals in ESG strategies, r**educing carbon emissions and committing to the net carbon pathway** are playing a major role in investment, transaction, and development decisions. However, while setting an overarching goal is the first step, ESG leaders also need to understand and develop KPIs to reach them to be able to create targets that are ambitious and efficient but also achievable.

Most members agreed that the key for hitting their targets would be a clear alignment of the whole market, especially with more and more considerations from governments to **regulate embodied carbon**.

When it comes to **establishing KPIs, there seems to be no mainstream industry approach** at this point. Depending on the target that has been set and the portfolio of a company, some leaders are employing a top-down approach while others are trying to understand what will be needed for every single asset in their portfolio. It also needs to be taken into consideration if companies commit to reducing operational or embodied carbon, which creates a complicated matrix between landlords, asset managers, tenants, and developers. Some members suggested that it would be crucial to understand ESG strategies not as separate units between E, S, and G, but to see them as a potential systemic evaluation framework that could offer more opportunities to integrate different KPIs.

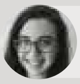
One of the key challenges that members identified on their net carbon pathway was **embodied emissions**. Most investors are focusing on greenfield new builds within their ESG strategies, but the majority of the global existing stock is currently brownfield and will need to be retrofitted to meet industry standards. And while new developments might match the current net-zero pathways, once embodied carbon will be taken into account by regulators this could mean a big step back for some ESG strategies. However, brownfield assets, especially those without the potential to be retrofitted, offer options to be recycled or reused. At the same time, this also opens doors for value add possibilities to buy cheap and sell green.

Another push for **retrofitting or recycling brownfield is also the risk of being left with obsolete assets across portfolios**. With valuers taking ESG strategies and carbon emissions more and more into account, the coming years could see discounts for brown assets and some institutional investors have already stopped buying brownfields that have no option to be transformed into greenfield assets.

Interesting to see will also be how governments will react to brown assets in the future, as some countries that are heavily involved in pushing ESG agendas have tightened their regulations already, such as the Netherlands which will require certain levels of energy efficiency for all office buildings from 2023 and those non-compliant will be prohibited.

From a **financing perspective**, many lenders are already offering discounts for greenfields and while this might have a limited impact on overall yields considering the low interest rate environment, more and more lenders are committing to financing brownfield redevelopments. This is also supported by governments making it increasingly difficult to finance brown developments going forward. However, the question remains whether capital requirements in the future will see more capital relief for green assets or implement additional charges for brownfields.

Looking across the globe, most real estate companies seem to go through similar challenges when it comes to ESG strategies and their implementation. With the growing attention of governments worldwide on this topic, most are positive that regulations will become tighter within the next years and decades. Members agreed that looking ahead and designing assets now with the tenant of the future in mind will be key to safeguarding portfolios from obsolescence and driving the ESG agenda.



Julia Haugg

3 Incorporating social impacts in ESG strategies

June Edition

Important Takeaways:

- A demand for **science-based** social return and **data collection** from their end-investors has increased;
- There is a wide variety of definitions for social impact, but **health & wellbeing** has been a spotlight during COVID;
- Leading players have to consider their impacts on a **local and national level** to understand how to maximize their social impact;
- The industry needs to understand how to **measure and benchmark** social impact;
- As the pandemic unemployment and inequality levels have drastically increased, **affordable housing** is becoming more and more important to communities;
- With regards to **commercial assets**, choosing tenants based on their social impact on the community will be key

Putting a spotlight on the ***S*** and having a closer look at the **social impact** of ESG strategies across the global real estate markets, was a big focus for the Board and Members. While the environmental aspect of ESG seems to be the main focus point for many real estate companies due to a regulatory crackdown on carbon emissions, the social impact is becoming a bigger headache by the minute. Investors and developers are seeing increased demand for **science-based social return strategies and data collection** from their end investors.

However, while many would agree that social impact will play a crucial role going forward and can benefit monetary returns of assets and portfolios, how to measure and report on these impacts is still unclear to most.

So what does the S in ESG actually mean?
There is a wide variety of definitions for social impact, but some of the key topics to be addressed are social responsibility, creating social value for surrounding communities and the actual building, as well as health & wellness considerations.

The link between **social responsibility and social value creation** is strong and usually value creation is a result of social responsibility. One example would be lenders having a social responsibility to finance social linked loans for affordable housing, which in turn creates social value across communities. On the other hand, some investors also see risk mitigation as a result of social responsibility. Staying in the realm of affordable housing, some see tenants not only stay longer but also keep up buildings for a longer period of time.

Health & wellbeing has been pushed into the spotlight during COVID as a key area where buildings can improve tenants' health and mental wellbeing. Studies have shown that indoor space – which is where most people spent the majority of their time – is a key factor in health and aging processes. Investors and developers have taken wellbeing credentials for buildings and portfolios to increase their attractiveness towards potential tenants and charge premium rental incomes and higher exit returns. In particular, senior housing and student housing have been key drivers in this space.

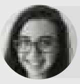
Looking across the board at the social considerations, the main common factor is that their implementation has **serious impacts on asset management** and on an operational level. Many have been already speaking about real estate becoming more and more a service-based industry and buildings themselves will not be enough to charge premiums and stay ahead of the competition going forward. Social impact is a perfect example of this. Investors, lenders, and developers have to broaden their focus and consider their impacts on society as a whole but more importantly on a local and national level to understand how to maximize their social impact.

The main hurdle will be to understand how to **measure and benchmark social impact**. In particular, data protection laws are restricting the type and amount of data that companies can collect to quantify their social impact decisions, making most companies rely on anecdotal and case study evidence. Some factors are easier to track than others, such as the performance of individual assets and portfolios with a focus on social return that outperforms in the same location with higher leasing values, faster leases, and increased tenant retention.

One asset class that can see a big influence through social impact is **residential assets**. With the pandemic unemployment and inequality levels have drastically increased, and **affordable housing** is becoming more and more important to communities. While the cost of land is still the main pain point in creating affordable housing, a more adjusted risk-return standpoint is crucial to be considered, as more stable tenants would benefit from this positively. In assessing the actual social impact and value creation, one must consider the wider community matrix with factors such as economic welfare, education, and healthcare that is provided through affordable housing – however, the actual quantitative measurements are limited.

With regards to **commercial assets**, it seems that **choosing tenants** based on their social impact on the community surrounding the asset will be a key point to be considered. This could potentially also add to value creation, especially for placemaking and mixed use projects. However, this also raises questions about whether it is the role of the landlord to weigh up their potential tenants in terms of ESG considerations. Furthermore, if tenant exclusion based on their ESG compliance becomes a crucial criteria going forward, markets would need simple criteria to mitigate the operational heavy task of weighing up each tenant against one another.

The **overall approach to the social side of ESG** is still a head-scratcher for most real estate professionals. However, what members were in agreement with was a holistic approach that integrates already established efforts around the E with their S agenda. While there is still a lack of benchmarking and reporting measurements in the markets, each company is trying to understand where to put their main focus for social return and impact.



Julia Haugg

4 ESG Benchmarking Challenges

August Edition

Important Takeaways:

- The main **standard for benchmarking** ESG strategies is not yet consensus;
- Tools like Carbon Real Estate Monitor (**CRREM**) may give significant feedback;
- Valuing a portfolio can be drastically modified depending on the **ESG metric**;
- A **standardized metric** is key

"Is it possible to compare and have a standardized ESG metric?"

Benchmarking ESG strategies is becoming increasingly important since centralized pools of information are lacking, as we move towards a **regulatory era of ESG**, driven particularly by recent announcements coming from the **Intergovernmental Panel on Climate Change (IPCC)**. The great majority of countries are now committed to reduce emissions to net-zero by 2050. Although it is quite difficult to track and predict ESG impacts as the real estate sector is very fragmented, analyzing **carbon disclosure** considering the supply chain thoroughly may be a solution. From some developers' perspectives, **focusing on a carbon accounted** model is potentially the main standard for benchmarking.

In this sense, some members discussed the need for **specific tools** that monitor the sustainability of a portfolio, as there are no clear rankings to harmonize with the **IPCC** warnings. The **Carbon Real Estate Monitor (CRREM)**, a tool developed by universities in Europe and the UK, funded by the Union Commission, was mentioned as a possible solution to measure the carbon footprint. It was highlighted that the CRREM features produce climate risk analysis that also comes with certification.

Regulation complexities of each country also significantly impact the value of portfolios. If the main focus is **carbon disclosure** rather than **energy efficiency**, for example, assets in France will perform better than assets in Ireland. In the US, real estate companies are having a closer look not only at the private sector but also the public one, by comparing different municipalities in a holistic analysis. Yet, at least in the asset level, Committee Members seem to agree that the industry needs to be able to **compare and to have a standardized metric**, such as a color code or an ABC scoring. Initiatives like that would make it possible to **classify different assets from different countries in a way that they are easily comparable.**

Collecting information that clearly translates **how green the portfolio of a client is** and what the carbon footprint looks like is the first main challenge. The second one would be **comparing all the data** according to each country. Without clear rankings, defining global ESG metrics will be a hurdle.

Lucas Brancucci

5 ESG Committee Issues Recap

October Edition

Important Takeaways:

- Monitoring carbon disclosure with **climate risk analysis tools** seems to be essential, but it may also set the least ambitious targets;
- Managing the supply chain and buildings as close to **net-zero emissions** as possible is the first step;
- Data is far from being easily comparable;
- Relevant progress has been made by PropTech in emerging markets

Looking at supply chains, questions were raised around ***why*** the supply chain does not seem to be as green as the industry wanted it to be, as well as ***why*** the knowledge base is not as developed. Even though the real estate industry is aware of climate change, **significant progress** worldwide regarding net-zero carbon does not seem to be happening, at least from some investors' perspectives. Possible standards and concrete solutions in order to **measure and collect data** were mentioned with greater urgency as one of the essential dilemmas.

Implementing **decarbonization** actions together with **climate risk analysis tools** was under debate. According to some members, an increased implementation and acknowledgment of using these tools mean that data access becomes the key for any kind of **successful and sustainable pathway**. The Carbon Risk Real Estate Monitor tool (**CRREM**) was again taken into consideration, when looking at how it could be a more efficient and intelligent way to set **relevant goals**.

However, while this tool has been tested across the Western world as one of the most complex and complete solutions for data collection and setting goals, there is no consensus whether KPI tools such as CRREM can bring valuable data for concrete ESG solutions. According to some, the industry runs the risk of being under a **biased perspective** when programming KPI metrics. It may actually **delay the process** of reducing carbon emissions or rather **set the least ambitious targets**. Instead of waiting for the data to come from external sources or tools, **developers** should create their own data from **wider, more ambitious projects**.

"The only way to actually achieve effective sustainable goals is by creating our own data by doing the projects."

In this scenario, however, holistic approaches like **carbon offset strategies** may only be considered when developers have gone through all stages to be as close to net-zero emissions as possible in brown and greenfield projects.

What "good data" is was another question addressed by the Committee Members. While everyone in the real estate market is now collecting different kinds of information, throwing them into the data pool, and then trying to come up with a path towards net-zero for 2050, **the information is far from being easily comparable**.

From a financing perspective, the results risk not being achievable in the long term, even with new buildings that are being built with net-zero carbon targets. When looking at existing buildings, developers, owners, and investors should also monitor **how much is being consumed in terms of data**. Only by then will companies be able to put in place net-zero goals – not by 2050 but way before that.

There seems to be a gap between equity and operations, not to mention tenants who are going to use new technology. In this sense, **communication between corporations, tenants, and owners was mentioned as a key factor**. Most real estate businesses already have ESG goals, but more **dialogue** could be the push in order to accomplish further results since the very essence of creating value in real estate is by knowing and relating to one's tenants.

"Can ESG strategies, especially the common goal of reducing carbon, be truly effective when seen by the need to start connecting companies, tenants, and owners?"

For this matter, **technological components in emerging markets** may be successfully implemented in affordable housing. A number of **PropTech** groups propose to measure energy efficiency and waste produced by residents as well as retrofitting action plans considering tenant demands. Getting data from tenants using **apps that gamify** the whole process can be a creative and fun way for people to acquire green habits. One of the PropTech companies that use gaming applications connected with **affordable housing communities**, is currently implementing this initiative in Brazil and India. The app should allow tenants and owners to track carbon emissions.

Although asking for data concerning ESG metrics is what many investors look forward to when reaching their clients, **misinformation** is still not under control. Regardless of collecting the information, treating it in a comparative way is a necessary step. **Consistency in definitions** and in the **new taxonomy** might be a good starting point. **Dialogue** between tenants and owners may be crucial in the process of ESG-focused property investments and net-zero carbon targets. **Innovation** coming from PropTech will be key.

Lucas Brancucci

List of GRI ESG & Impact Investment Global Committee Members – 2021

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Alexander Piur
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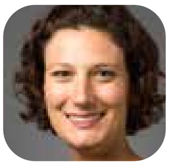
Committee Members



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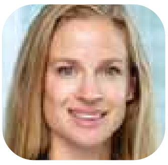

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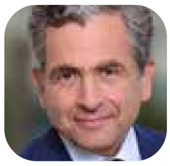

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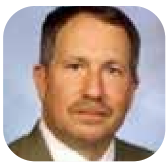

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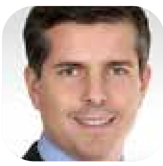

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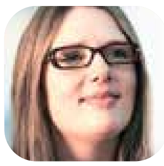

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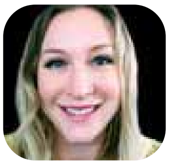

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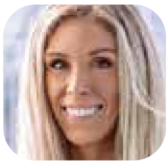

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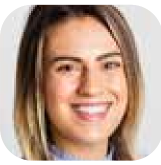

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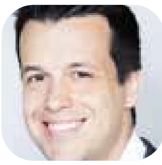

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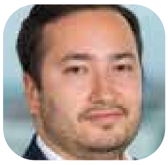

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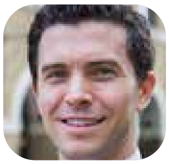

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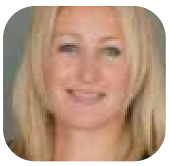

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GRI Club

GRI is a global club bringing together key players in the real estate and infrastructure sectors. Founded in 1998 in London, it is present in 20 strategic countries.

The mission of GRI is to connect leaders from these markets and contribute to the building of privileged relationships and real business opportunities. In this context, more than 6 thousand businessmen, senior executives, and investors participate annually in the club's programming in the world.

ABOUT THE GLOBAL COMMITTEES

Our **Global Committees** exist to mobilize expertise and serve as important catalysts for ideas and action.

They are pushing for change through ideas and networks, in order to **assist decision-makers to build a comprehensive strategic vision**.

We bring together a selected group of members who are at the forefront of the real estate industry. **Spanning across 100+ countries**, they gather the essence of global real estate leadership.

Board Committees consist of **Chairperson and Vice-chairs** who will steer thought-provoking conversations and bring to the table the most pressing challenges in the market.

Special Guests are frequently invited and play a constructive role by sharing exclusive data and information on a given topic.

Committee Members have the unique opportunity to discuss the most relevant challenges on a global scale in a friendly and open dialogue. They have access to the nest where market trends are born.

Activities include:

- Powerful online sessions;
- Fireside chats with industry high profile leaders;
- Strategic studies;
- Private WhatsApp groups;
- Access to exclusive reports and interviews.

GLOBAL COMMITTEES TEAM

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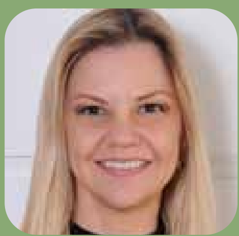

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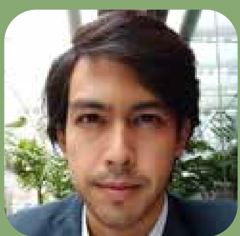

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