ESG TRENDS IN REAL ESTATE INVESTMENT

Best practices, drivers and challenges in Europe

May 2021

A study by

GREEN SOLUCE

IEIF INSTITUT DE L'EPARGNE IMMOBILIÈRE & FONCIÈRE

Partners

EPRA EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

INREV

EJENDOM DANMARK

IPF Investment Property Forum

IVBN

NORSK EIENDOM

RAKLI

WOMEN IN REAL ESTATE SPAIN

ZIA German Property Federation

Disclaimer

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Foreword

Ella Etienne-Denoy, CEO of Green Soluce

The Green Soluce team is pleased to present the first edition of the ESG Trends in Real Estate Investment study.

Resulting from a unique partnership between Green Soluce and Institut de l'Epargne Immobilière et Foncière (IEIF), this study aims to provide an overview of sustainable real estate investment best practices in Europe, and to identify drivers, challenges, and future trends. For this first edition, the scope of study exclusively focuses on fund managers, property companies and institutional investors. As an active real estate industry participant, Green Soluce felt it crucial at this transition point for the industry to provide a better understanding of the practices and issues in the real estate investment sector. In particular with regards to the Environmental, Social and Governance (ESG) challenges at a European level in order to accelerate the environmental and social transition.

This need was all the more pressing in light of the European Union's objective of carbon neutrality by 2050, the growing regulatory constraints and the health crisis we are experiencing, which is a catalyst for a radical change in the way we use our offices and homes.

Green Soluce is delighted to have brought together the main European real estate organisations for an unprecedented partnership in the alignment of the SDG 17 – "Partnerships for the Goal".

A note of appreciation to our partner IEIF, to the participating European and national real estate organisations, to the industry leaders for sharing their points of views and to the Green Soluce team.

To the readers, we hope you enjoy the study!

Christian de Kerangal, CEO of IEIF

ESG concerns have progressively taken an increasingly important place in the investment and asset management strategies of professional real estate investors. Today, it is no longer an option, but an obligation that has had and will have major consequences on investment choices, on the performance and risk profile of property assets and portfolios, and on business models.

On a European scale, the study that we have carried out in partnership with Green Soluce, and which you have in front of you, aims to analyse the best practices of institutional investors, listed property companies and non-listed fund management companies. It confirms a certain number of priority themes (carbon, energy, environmental certification of buildings, etc.), but also highlights the challenges that we will have to take up as an industry: working with public authorities and regulators to harmonise definitions and legislation in Europe at least; standardising monitoring indicators and automating the data collection as much as possible; resolutely implementing new actions in areas that are complex to master, such as biodiversity or circular ecosystems, etc.

This study will be updated every year to allow all stakeholders to better assess the current state of ESG practices in responsible investment real estate and thus to provide a regular benchmark.

Many thanks to our partner, Green Soluce, and to all the nine associations that have supported this initiative.

Happy reading.

Acknowledgement

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To refer to the present study and/or any of this content, the following is to be clearly stated:

Green Soluce, IEIF, 2021 *"ESG trends in Real Estate Investment - Best practices, drivers and challenges in Europe"*

This study has the support of two leading pan-European organisations: EPRA and INREV.

EPRA's mission is to promote, develop and represent the European public real estate sector.

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles with a goal to improve transparency, professionalism and best practices across the sector.

They both contributed to the successful running of the study by sending the survey to their members, by providing advice in the definition of the methodology and by helping with contacts for the interviews.

Prior to the publication of the study, they also participated in the "ESG trends in real estate investment" committee by sharing their feedback on this first edition and on the views and needs of their respective markets for future editions.

Special thanks to Mr. Mathhew Ulterino, Property Working Group Coordinator at UNEP Finance Initiative.

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Executive summary (1/2)

- More than 60% of the respondents have defined **specific target figures and monitoring indicators** for **energy and carbon** issues.
- **Complexity of processes** and **lack of normative frameworks** are seen as the **most important challenges** for systematic and explicit consideration of ESG factors into assets valuation.
- According to the real estate market players, **carbon, regulation** as well as **availability** and **quality of the data** are priority ESG topics but also among the **most complex to address.**
- Real estate investors value **green buildings** more than conventional buildings and consider them as a **key lever to accelerate the transition.**

Most of the real estate market players plan to **extend their ESG policy coverage** to over 75% of their assets under management/portfolio in the next five years.

Social and governance issues are considered but **poorly monitored** so far according to a majority of respondents.

More than 50% of the entities surveyed said they use **GRESB**, either to participate to that initiative, either to use the results of the benchmark.

Most of the institutional investors do not appear to consider **ESG/SRI labels** for the real estate funds they invest in.

However, they try to demonstrate the **value creation** and the **superior risk adjusted return** on their investment in green buildings.

The different types of respondents (institutional investors, fund managers and property companies) share the same view on the **main drivers for ESG integration:** investor demand, lowering risks, compliance with local government policy and value creation.

Regulations also drive sustainable best practices within the real estate sector but **lack harmonisation** between local and European regulations.

Executive summary (2/2)

Although there are different levels of understanding and preparation for the **European taxonomy** among the respondents, there is a consensus that the taxonomy will move the real estate sector forward and **accelerate the transition** by providing a single market standard. However, to reach **significant impact,** real estate market players expect the taxonomy to address the issue of the **refurbishment of existing buildings** and to clarify its **application according to local legislation.**

The ability to **upgrade the existing stock and demonstrate progress year after year** is perceived as the most valuable initiative to address the carbon issue.

Data management is considered as well as a strategic priority for real estate markets and respondents expect **a harmonised approach** in terms of data collection and quality.

Data technologies are also supporting **new building use cases** and lead the real estate market players to rethink the building as a **hub for shared services.**

Energy efficiency and environmental certifications are both priorities according to the interviewees. However, they are more mature on these subjects, which therefore seem less complex to implement and consist more of a **license to operate.**

Circular economy is perceived as a good lever for decarbonisation but requires a **technical and normative framework** to structure the process and supply chains.

Biodiversity is one of the **most complex issues** to implement. Market players do not know how to address it in a concrete and pragmatic manner. Moreover, they consider that there is a **lack of harmonized approach and guidelines.**

INTRODUCTION:
SCOPE AND METHODOLOGY

INTRODUCTION: SCOPE AND METHODOLOGY

A. Research objectives and methodology

Objectives:

The main objective of this study is to conduct a broad evaluation of real estate investment practices to draw inspiration for better practices, and to have a global understanding of the prospective views of the sector on ESG.

In particular, the survey addresses two objectives, to:

- Present an overview of sustainable investment practices and sustainability policies at corporate and fund levels;
- Identify the key challenges and drivers regarding ESG integration.

Insights from our interviews aim to widen our understanding of the ESG-related priorities, obstacles and business opportunities, with a focus on future trends.

This study is based on a quantitative survey that gathered 93 responses from European institutional investors, fund managers and property companies, as well as 25 interviews with leading real estate professionals in Europe. The companies who participated in the survey and/or the interviews, and agreed to disclose their identity are mentioned in appendix 4 and 5.

The survey was conducted between October 2020 and January 2021 and the interviews between December 2020 and March 2021.

For its first edition, the study encompasses a total of 787 billions euros of real estate assets under management (direct and indirect), as at end of 2019.

Methodology:

In total, 162 entities contributed to the survey, of whom 91 respondents completed the survey entirely and two respondents completed a sufficient number of questions to be included in the scope of the survey. (i.e. 93 responses are included in total).

Survey respondents were expected to answer all the questions. Answers were aggregated to maintain confidentiality, in terms of identity and affiliation.

The survey was limited by the number of people who responded. In addition, we acknowledge that leading players in ESG and largest companies in terms of human resources were more likely to contribute to the survey.

In addition, 36% of the institutional investors or fund managers that responded to the survey are signatories to the UN Principles for Responsible Investment (PRI) and almost half of the property companies participate in the GRESB benchmark, with an average evaluation of 85/100. As such, the results of the survey may be biased towards the best practices of the European market.

See Disclaimer p.2 in regard to the limitation of information of the study.

B. Scope of the study (1/2)

Scope of the study:

The study concerns Europe-based institutional investors, fund managers and property companies. The study takes into account the responses of entities with headquarters in Europe, including the United Kingdom. In some cases, the respondent represents the local subsidiary and, in other instances, its European headquarters. For this first edition, we focused particularly on the following countries: France, the United Kingdom, Germany, the Netherlands, Spain, Denmark, Norway and Finland.

Data collection, review and accuracy (1/2):

The survey was sent by email to the European partners shown in the chart opposite. These entities then forwarded the survey to their membership.

The survey is declarative based. The authors and their partners cannot ensure the accuracy of the information collected. However, a data quality review was conducted in order to identify any irrelevance. In the case of inaccurate data, these were not integrated in the information provided in the responses. The list of the entities that have contributed to the survey and agreed to disclose their identity is available in appendix 4.

Fig 1: Scope of the study and partners involved

B. Scope of the study (1/2)

Data collection, review and accuracy (2/2)

By filling in the survey, respondents had to identify whether they were an Investor/ Asset Owner, a real estate Asset Manager or a Property Company, so the typology distribution is determined on a declarative basis. In this study, they are respectively referred to as institutional investors, fund managers and property companies.

For the open questions in the survey, the authors sometimes carried out a qualitative review of the information collected to draw a comparison between the responses and share a synthesis.

The interviews were conducted by the authors. The authors made their best efforts to gather inputs from an equivalent number of institutional investors, fund managers and property companies. The main geographies included in the scope of the study are also represented. The list of the participants is available in appendix 5.

The same questions were addressed to all participants. Some specific questions may have been addressed during the interview. The authors carried out a synthesis of the answers without interpretation. The quotes used in the study have been reviewed and validated by their respective sources.

Fig 2: Survey contributors breakdown by type of respondent (Proportion of responses)

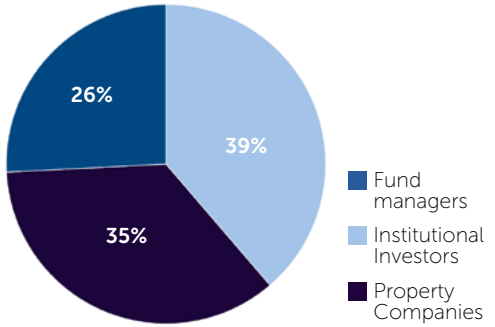


Fig 3: Survey contributors breakdown by geography (Proportion of responses)

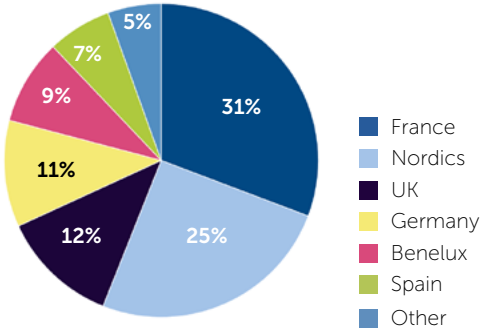


Fig 4: Survey contributors breakdown by type of respondent (By assets under management, as at end of 2019)

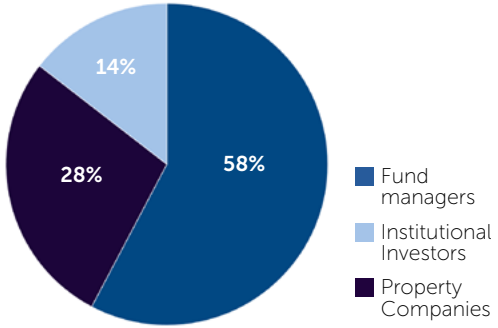
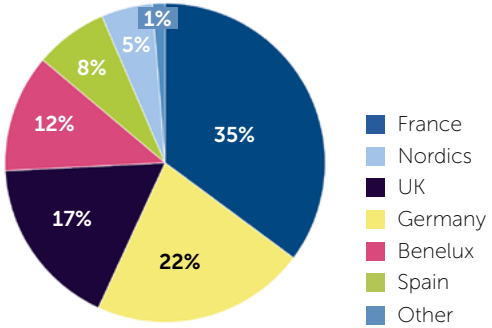


Fig 5: Survey contributors breakdown by geography (By assets under management, as at end of 2019)



SECTION 1:
OVERVIEW OF SUSTAINABLE INVESTMENT BEST PRACTICES AND SUSTAINABILITY POLICIES

SECTION I: OVERVIEW OF SUSTAINABLE INVESTMENT BEST PRACTICES AND SUSTAINABILITY POLICIES

A. Governance and ESG frameworks

Objectives of the section:

This section focuses on the evaluation of ESG practices in terms of governance and frameworks for the implementation of ESG policies in the investment and management phases. Being directly correlated, we integrated questions on governance practices and the use of reference frameworks for the implementation and communication of such ESG policies.

In this edition, no distinction was made between frameworks and reporting tools.

Methodology:

The survey limited the number of frameworks to the 10 most widely used in the industry. EPRA and INREV have been consulted when defining this shortlist. More frameworks might be added to future editions.

The vast majority of the entities have an ESG policy for their real estate investments

94% of all surveyed entities have defined an **ESG policy** for their real estate investments.

Among the objectives related to the integration of ESG issues in real estate investment policy, the assessment of material ESG risks and opportunities is performed by **86%** of the entities.

- According to figure 6, the ESG policy defined by institutional managers **currently covers** in average 95% of their assets under management (AuM).
- It is also the case for 85% of property companies' AuM and 75% of the AuM of fund managers.
- Increasing the share of responsible investments is another key objective related to the ESG integration in real estate investment policy. According to figure 7, 70% of institutional investors whose ESG policy does not cover all their AuM plan to extend their ESG policy coverage to over 75% of their AuM **in the next five years.**
- It is also the case for 66% of property companies and 58% of fund managers.

Fig 6: Percentage of real estate AuM/portfolio in Europe covered by an ESG policy, by type of respondent

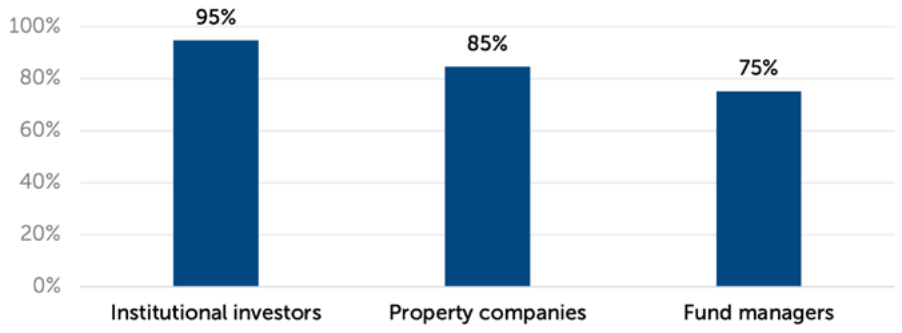
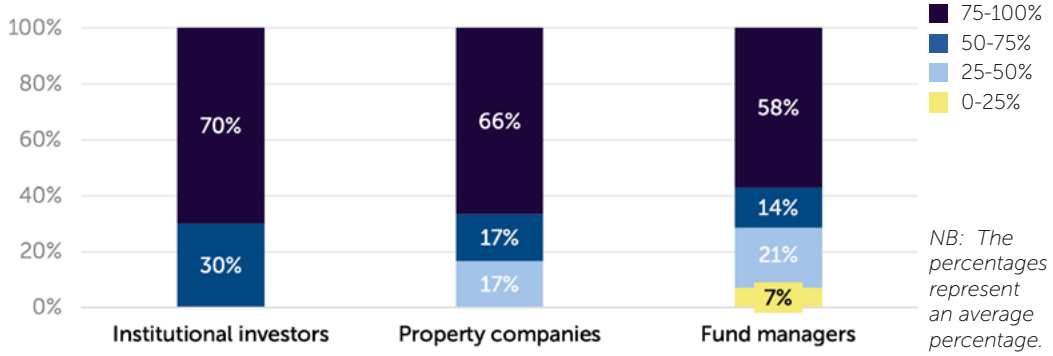


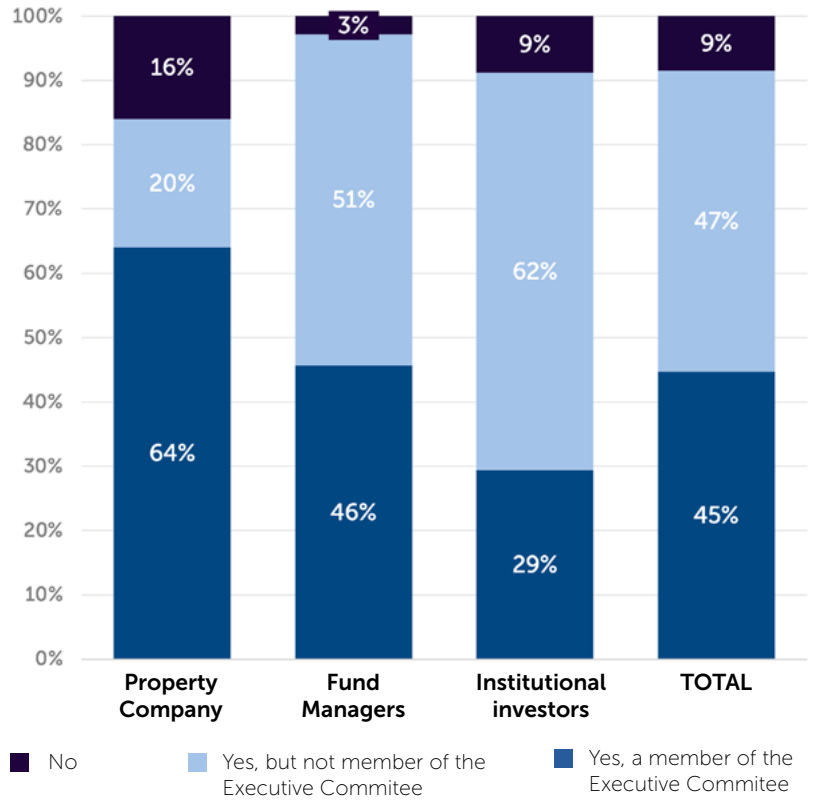
Fig 7: ESG policy coverage target (AuM/portfolio) over the next five years for the share of real estate not currently covered, by type of respondent



NB: The percentages represent an average percentage.

Most entities have a designated person in charge of ESG

Fig 8: Existence of a designated person for ESG governance, by type of respondent

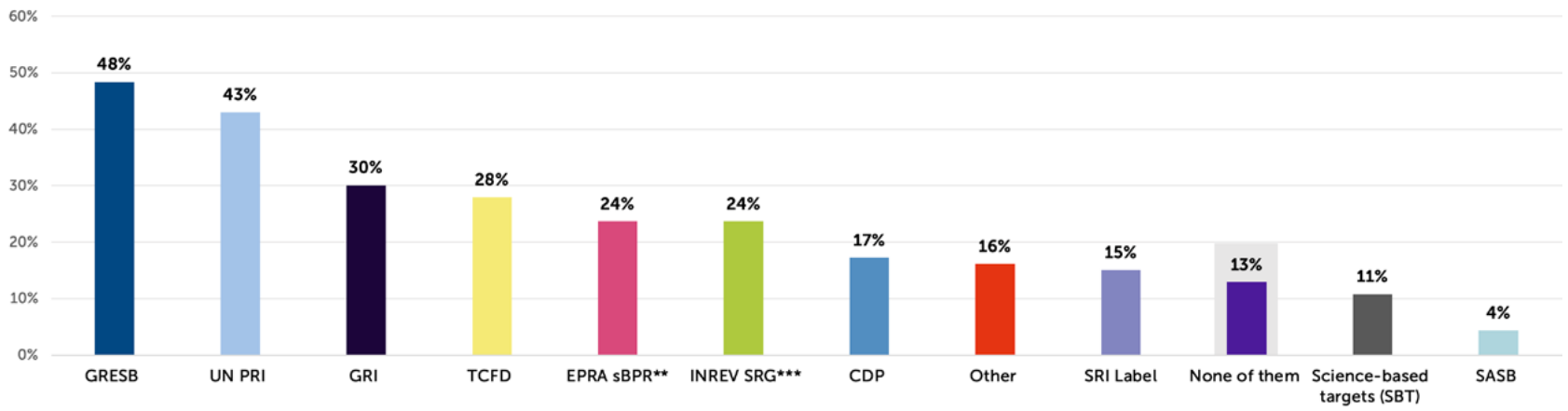


- More than 60% of the surveyed property companies have a **person responsible for ESG matters at the Executive Committee level,** in contrast to 30% of the institutional investors.
- Among institutional investors, **few real estate ESG managers are members of their respective executive committees.** This can be explained by the fact that ESG could be managed across asset classes and that institutional investors may rely on their external fund managers.
- Only 9% of the total respondents do not have a designated person for ESG governance.

GRESB and UN-PRI are the most chosen frameworks by all the entities

- GRESB has become the **reference tool used by real estate investment professionals.** According to some market players interviewed in the third section of the study, the GRESB could still improve its processes to enable a more efficient response to the questionnaire and ensure transparency on the methodology and use of data.
- **UN-PRI** are mainly considered by the institutional investors and fund managers.
- **TCFD and GRI** are used respectively by 28% and 30% of the respondents as reporting standards. They serve the **reporting needs of all participants** - regardless of whether they are institutiona investors, fund managers or property companies.
- 13% of respondents do not use any of these standards.
- Even though the **UN Sustainable Development Goals** (UN SDGs) framework was not mentioned in the "Other" category, more than 55% of the respondents declare they assess their impact across the UN SDGs.

Fig 9: Most used frameworks and reporting schemes by all entities*



** All the frameworks do not apply to all types of entities. Moreover, in this question no distinction was made between frameworks and reporting tools. Please refer to Appendix 8 for a definition of those frameworks.*

*** EPRA Sustainability Best Practices Recommendations (sBPR)*

**** INREV Sustainability Reporting Guidelines*

Institutional investors and fund managers share similar ESG frameworks while property companies have their own standards

- **UN-PRI, GRESB and INREV Sustainability Reporting Guidelines** are the most used frameworks for institutional investors and fund managers.
- Institutional investors use the proposed frameworks and reporting tools, not to report their own ESG performance but as reference frameworks to **assess the level of compliance** of fund managers or property companies with those guidelines, and to **engage with their investees and enhance dialogue.**
- The **lower percentages reported for institutional investors** are not related to their lower acceptance but to the fact that they also use other types of reporting schemes that fall outside real estate reporting, which may explain why their participation is lower than for others.
- UN-PRI are especially acclaimed by fund managers as a benchmark with 55% of respondents being signatories. **It has become a market standard.**

Fig 10: Top 6 frameworks and reporting schemes used by institutional investors

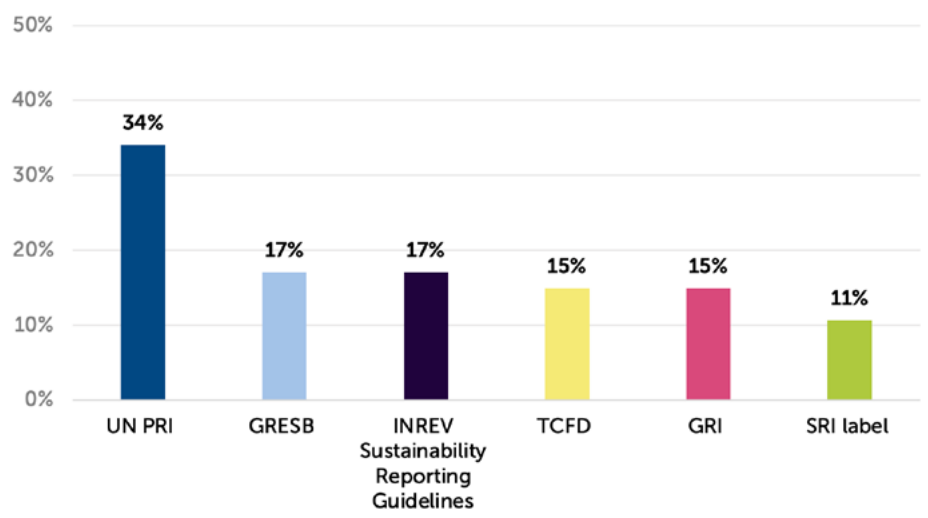
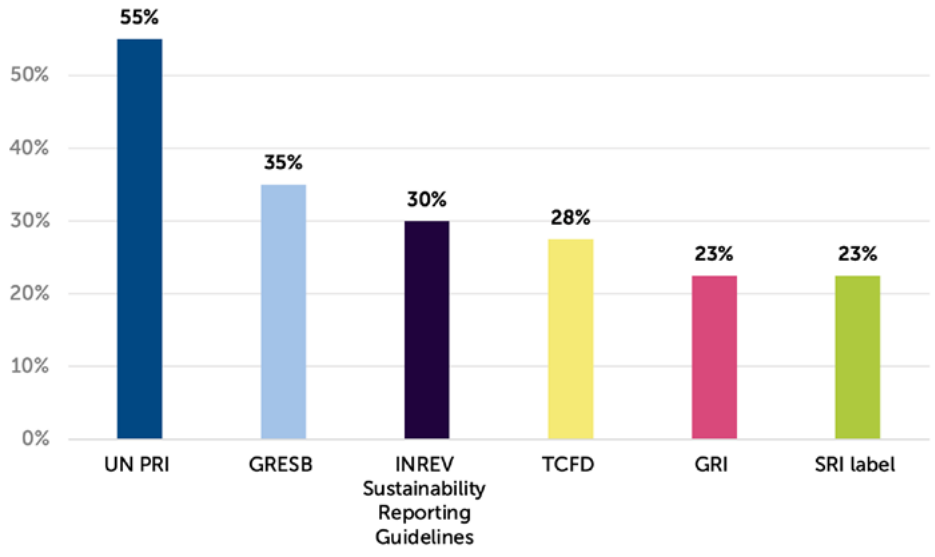


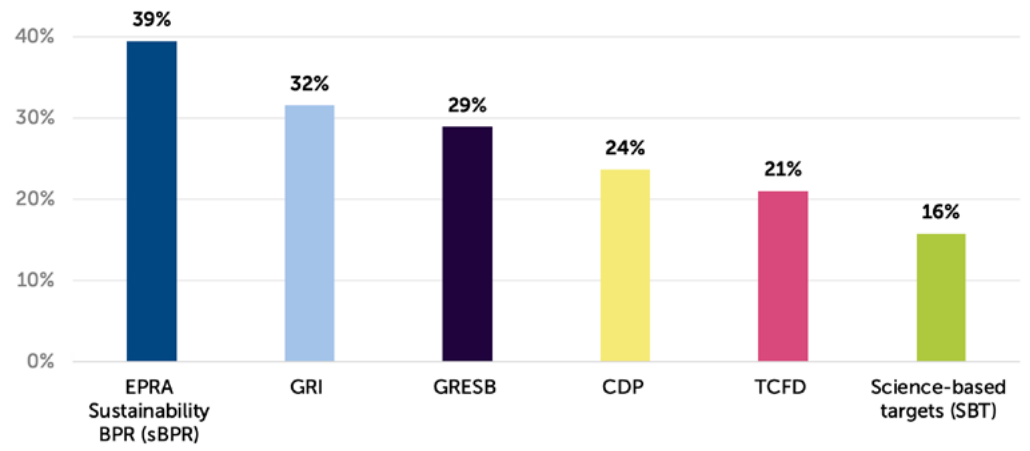
Fig 11: Top 6 frameworks and reporting schemes used by fund managers



Most of the institutional investors do not consider ESG/SRI labels for their real estate investments yet

- **EPRA Sustainability Best Practices Recommendations (sBPR)** is the reference reporting framework for property companies.
- **Property companies include GRI in their top three,** this can be explained by the fact that the GRI construction and real estate sector disclosures are well adapted to listed property companies.

Fig 12: Top 6 frameworks and reporting schemes used by property companies



Focus on ESG/SRI labels for real estate funds

- Most of the institutional investors do not appear to consider **ESG/SRI labels** for the real estate funds they invest in yet. This can be explained because they are not available in their market.
- The French Greenfin, the Austrian FNG-Siegel and LuxFLAG labels were proposed as an option but none of the fund managers selected them.
- The French SRI label is very prominent in the French market, it was selected by around 40% of the French respondents as a relevant ESG/SRI fund label.
- In the "Other" category, Febelfin "Towards Sustainability" and the proposed EU Green Label are mentioned.

B. Sustainable investment strategies

Objectives of the section:

This section focuses on how institutional investors and fund managers integrate ESG issues in their investment strategies at a fund level. Firstly, the survey deals with the breakdown of assets under management or detained in funds being covered by different sustainable investment strategies. The survey then evaluates the fund labels identified as relevant for real estate funds.

Methodology:

Investment categories have been drawn up based on a study analysis and a consultation with the EPRA and INREV.

One asset can contribute to different investment strategies.

The respondents use some of the following investments strategies defined in the survey (see Appendix 7 Glossary):

- **Negative/exclusionary screening:** The exclusion from a fund or portfolio of certain sectors, companies or practices, based on specific ESG criteria.
- **Positive/best-in-class screening:** Investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.
- **Norms-based screening:** Investments aligned with international standards.
- **ESG integration:** The systematic and explicit consideration by investment managers of environmental, social and governance factors into financial analysis.
- **Sustainability themed investing:** Investment in themes or assets that address specific sustainability issues, such as climate change, food, water, renewable energy, clean technology and agriculture.
- **Impact/community investing:** Targeted investments aimed at solving social or environmental problems. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose.

Approach and limits to this section of the study:

A limitation of this section may include the lack of a "best-in-progress" category for funds that are directed towards the improvement of the existing building stock.

The systematic and explicit integration of ESG factors into financial analysis is the most common sustainable investment strategy among institutional investors and fund managers

- **ESG integration is the most common sustainable investment approach,** which may be explained by the fact that this is a very broad concept that encompasses different approaches of ESG analysis. It is a more comprehensive way of **identifying and measuring "materiality" of ESG risks and opportunities** compared to traditional methods where extra-financial issues are not included into the analysis. Since 2018, the use of ESG integration has been spreading among a growing number of market players who are integrating it into their processes.

- **Impact/Community investing** is gaining ground in the strategy investment field accounting for respectively 31% and 17% of the investments of institutional investors and fund managers.

- **Negative screening, exclusion as well as best-in-class approaches** can have a limited impact when it comes to financing the environmental transition of the existing buildings portfolio. **A best-in-progress approach is gaining ground** among sustainable real estate investment strategies in order to facilitate the financing of the **renovation of the building stock.**

Fig 13: Classification of sustainable investment strategies, by type of respondent (average % of assets under management being covered)

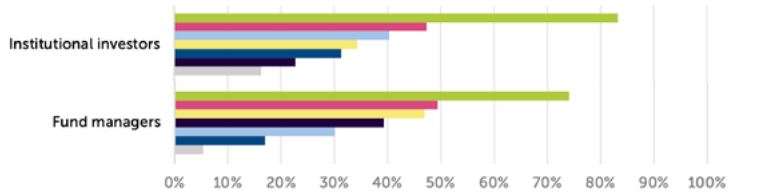
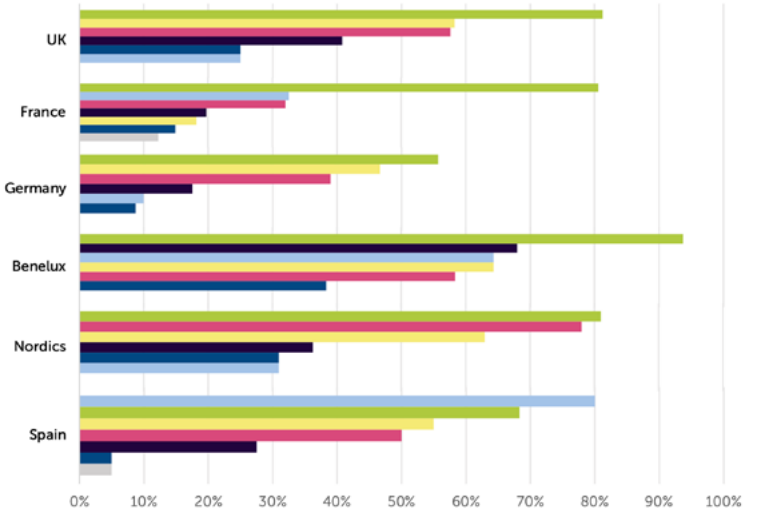


Fig 14: Preference of sustainable investment strategies of fund managers and institutional investors per region (headquarters of the respondent / average of % of assets under management being covered)



- ESG integration
- Norms-based screening
- Negative/exlusionary screening
- Impact/community investing
- Sustainability themed investing
- Positive/best-in-class screening
- Other

C. ESG objectives and KPIs

Objectives of the section:

This section aims to evaluate the ESG issues considered by the surveyed entities and whether they implement objectives and indicators related to those issues. This can provide valuable benchmark information for further ESG policies.

Methodology:

This section is split into three sub-sections: environmental issues, social issues and governance issues. For each sub-section, the information is provided on an aggregated perspective taking into account all responses and then making a distinction between the three types of respondents.

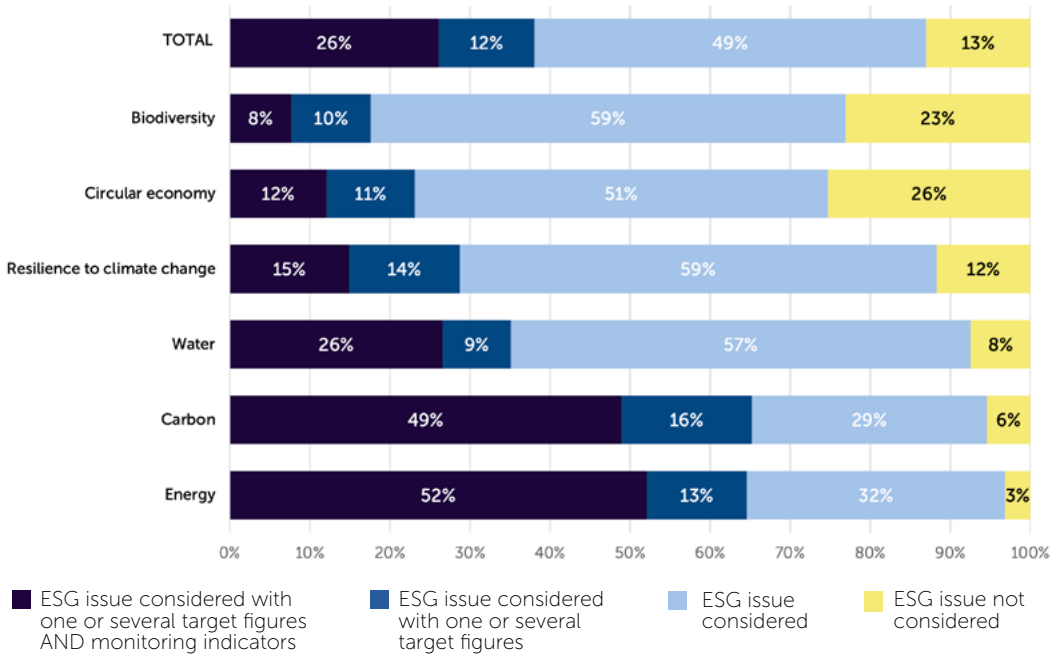
EPRA and INREV have been consulted to select the ESG issues.

Approach and limits to this section of the study:

Although a geographical comparison would be of interest, such a comparison would not be representative as at today, given the limited number of contributions from some geographies. A comparison of this kind could be an objective for inclusion in future editions.

Energy and carbon are clearly the top environmental issues monitored by the market

Fig 15: Integration of metrics for environmental issues, by all types of respondents



- In average, 87% of all types of survey respondents take into account environmental issues.
- More than 60% of the respondents defined **specific target figures for energy and carbon.** This may be explained by the fact that those issues are **highly regulated,** and have been taken into account by market players for years a while.
- Water, resilience to climate change, circular economy and biodiversity are considered by the survey respondents, but **targets are set by a minority of them.**
- **Monitoring indicators** are determined by a low percentage of the survey respondents for resilience to climate change, circular economy and biodiversity.
- Respectively 26% and 23% of the respondents do not consider circular economy and biodiversity in their ESG policy. **Both issues are indeed considered as difficult to implement** according to the market players interviewed in the second part of the study.

> *« Roadmaps for carbon reduction give us very good insights in the many ways to reduce carbon emissions: objectives, savings and investment costs involved. »*
>
> Roel Kalfsvel, Syntrus Achmea Real Estate & Finance

Compared to property companies, the resilience to climate change is more closely monitored by institutional investors and fund managers

- Energy and carbon issues are the two issues on which all types of respondents are most advanced. Property companies are the most advanced in the definition of objectives and monitoring of indicators.
- Around 20% of property companies do not consider the **resilience to climate change** issue. The challenge for them will be to identify the **physical and transitional risks** associated with climate change, to **adapt** their assets to these new constraints and to **mitigate** their impact on environment and climate.
- Institutional investors surveyed do not have any monitoring indicators related to **biodiversity**. The objective to protect and restore biodiversity and ecosystems defined by the **European taxonomy** will probably accelerate their mobilisation to address the topic.

Fig 16: Integration of metrics for environmental issues by the fund managers

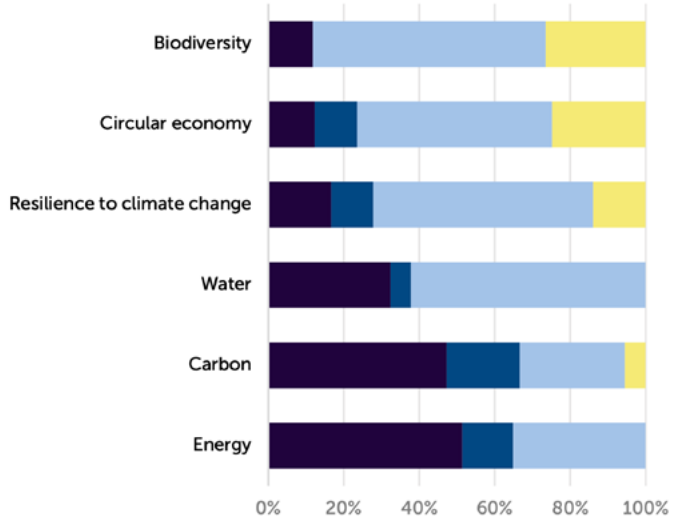


Fig 17: Integration of metrics for environmental issues by the institutional investors

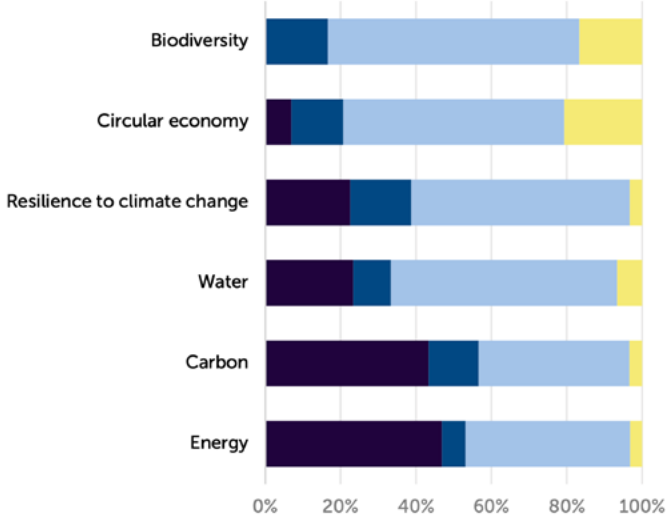
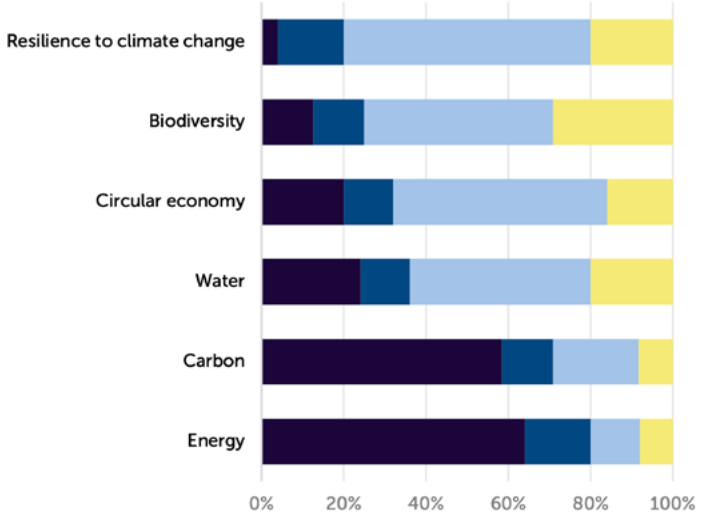


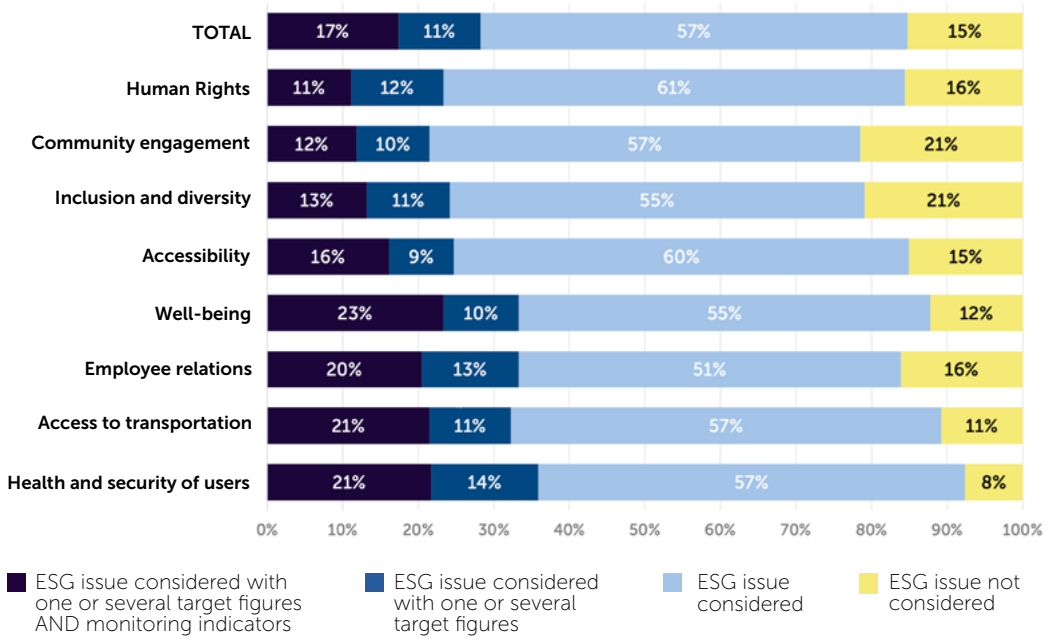
Fig 18: Integration of metrics for environmental issues by the property companies



ESG issue considered with one or several target figures AND monitoring indicators | ESG issue considered with one or several target figures | ESG issue considered | ESG issue not considered

Social issues are taken into account but are poorly monitored so far

Fig 19: Integration of metrics for social issues, by all types of respondents



« The COVID crisis is an opportunity to reinforce our sustainability positioning and engagement on healthy space for users. »

José María Rey, Gmp Property.

- 64% of respondents consider that the **importance of social criteria** will increase in the next year, while 22% do not think so. This may be partly explained by the fact that today's regulations are **very much oriented towards environmental issues** and overlook the social aspects.
- In average, 85% of all types of survey respondents take into account social issues. But they have **little objectives or indicators** associated with these issues.
- **Health and security of users** is the first social issue taken into account by the respondents, being driven by **regulation** and enhanced by the current **health crisis context.** The COVID-19 epidemic seems to have **shaken up the existing schemes,** particularly in the world of work where reduced space available per worker, development of open space and flex office are the opposite of the new health measures required.
- **Human Rights, engagement with communities and inclusion and diversity** are the social issues that the survey respondents consider the least, with respectively 16%, 21% and 21% of respondents not taking this ESG issue into consideration.
- Among the issues not addressed in the questionnaire but that came across the qualitative answers provided to the open question was the issue of **affordability** going forward. Although funds specialising in affordable housing have been developing over the last two years, this topic is **more difficult to grasp** for real estate market players. They seem indeed less advanced in defining and monitoring quantified objectives and indicators.

Health and safety of occupants and access to transportation (public transportation, sustainable mobility solution, etc.) are among the top three social issues closely monitored by all entities

- The health and safety of occupants and access to transport are among the top 3 social issues most closely monitored by all stakeholders.
- Continuous improvement of **users' well-being and comfort** is another social issue widely considered by the real estate market players, especially through improvements in **air quality, access to daylight, sound insulation, or hygrothermal comfort** for example. Some property companies are considering **comfort-related certifications** such as **WELL™** and **OSMOZ®**.
- Property companies have more quantified objectives and indicators for **health and safety and access to transport.**
- Regarding the **affordable housing** issue, some fund managers set up public-private partnerships with local municipalities to enable low-income people to stay in city centres, where housing is very expensive. Another trend is the development of funds specialising in intermediate housing for people whose incomes are too high to qualify for social housing but too low for them to buy a property on the private market.

Fig 20: Integration of metrics for social issues by the fund managers

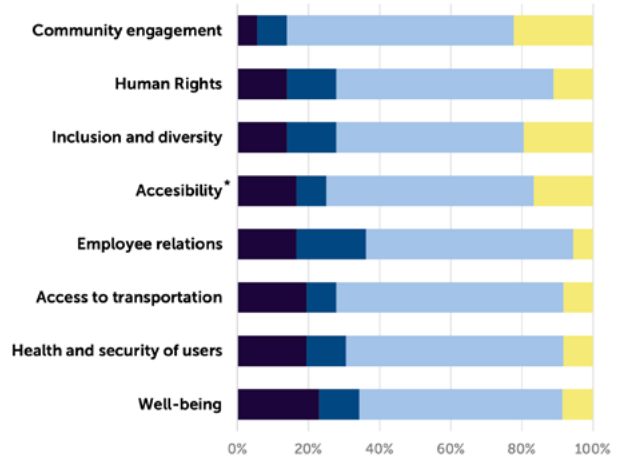


Fig 21: Integration of metrics for social issues by the institutional investors

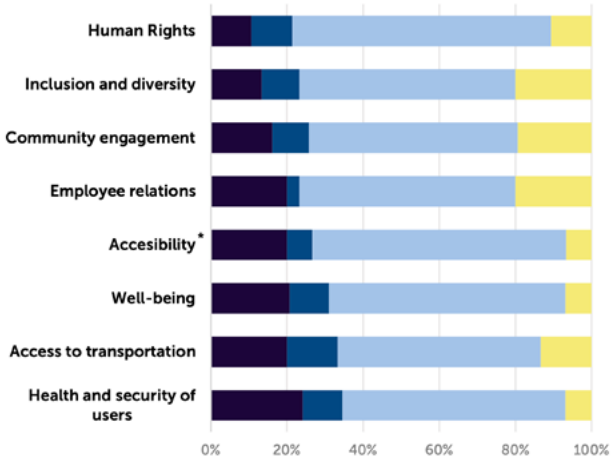
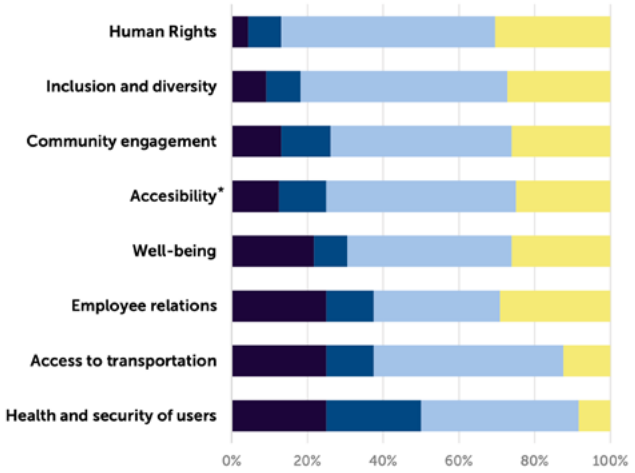


Fig 22: Integration of metrics for social issues by the property companies



ESG issue considered with one or several target figures AND monitoring indicators

ESG issue considered with one or several target figures

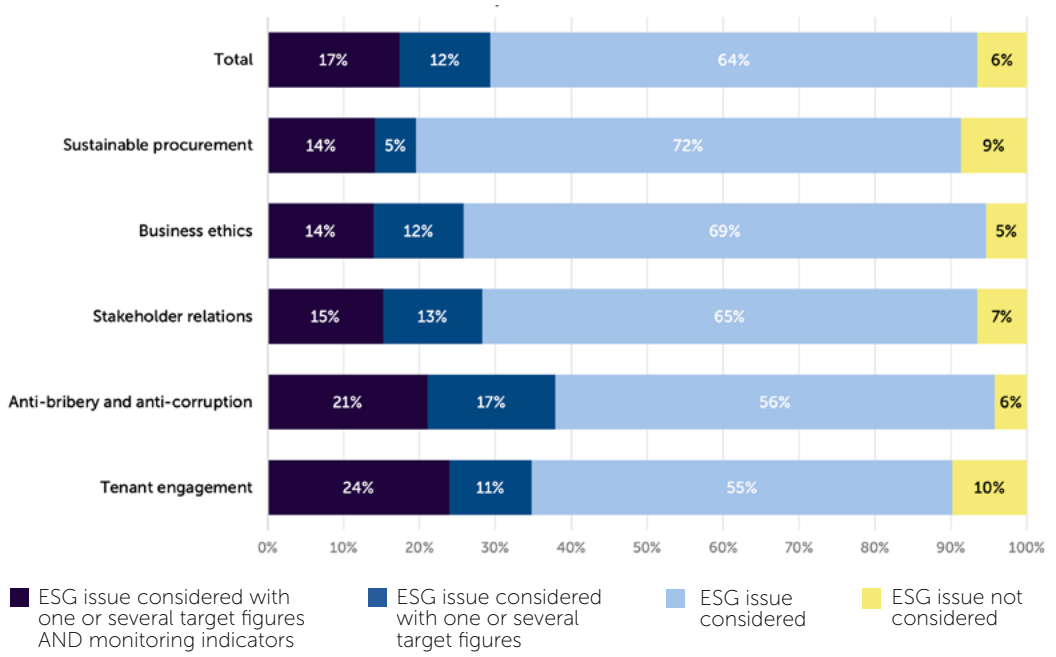
ESG issue considered

ESG issue not considered

** Accessibility is the possibility for people with disabilities to access a physical place or information.*

As with social issues, only a minority of respondents have indicators and targets to monitor governance issues

Fig 23: Integration of metrics for governance issues, by all types of respondents



- 59% of repondents consider that the **importance of governance evaluation criteria** will increase in the next year.
- In average 93% of all types of survey respondents take into account governance issues. But they have **little objectives or indicators** associated.
- **Anti-bribery and anti-corruption,** and tenant engagement appear to be the issues most monitored by the respondents.
- Among the issues not addressed in the questionnaire but that came across in interviews provided to the open question were the issues of **European and national regulations.** Regulation is indeed considered as a **rising issue** by real estate market players especially given the urgency for them to take their share of responsibility for the causes and consequences of **climate change for future generations.**
- It is interesting to notice that even though the **crisis management and business continuity planning** issue has not been addressed in the questionnaire, no respondent referred to this topic in the open question, despite the current health emergency. It will be interesting to see if the consideration of this criterion evolves in the coming years.

Anti-corruption and tenant engagement are among the top three governance issues closely monitored by all entities

- **Sustainable procurement or responsible purchasing policies** are a common market practice for real estate market players with the aim – for example – of identifying the **ESG practices** of their suppliers, getting them to comply with their **charter** or integrating ESG criteria into **tenders and service contracts.** Property companies seem to be more advanced in setting up specific targets and monitoring indicators compared to fund managers and institutional investors, maybe because listed property companies have had legal reporting obligations for longer.

- As **business ethics** is one of the fundamental aspects of good corporate governance, one would have expected market players to be more advanced in terms of targets and monitoring indicators in this area.

Fig 24: Integration of metrics for governance issues by the fund managers

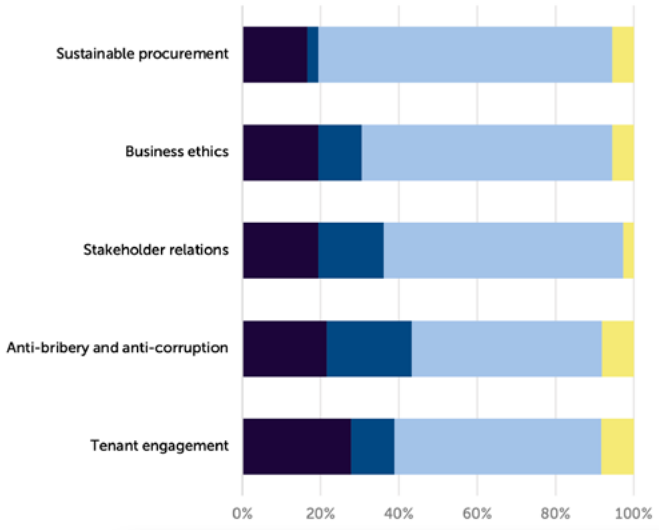


Fig 25: Integration of metrics for governance issues by the institutional investors

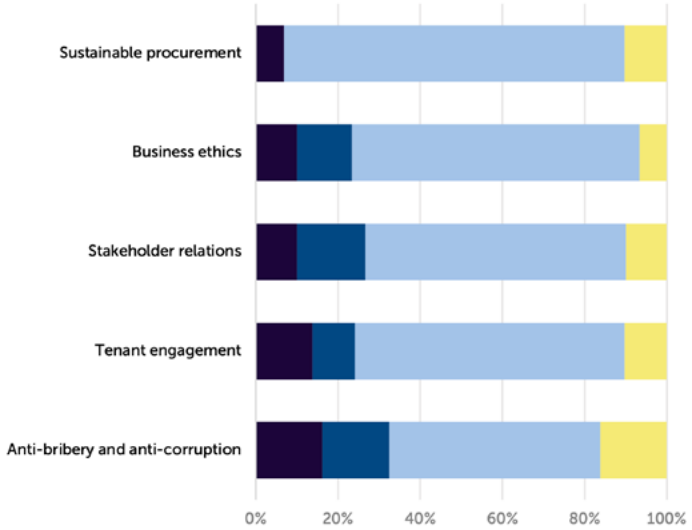
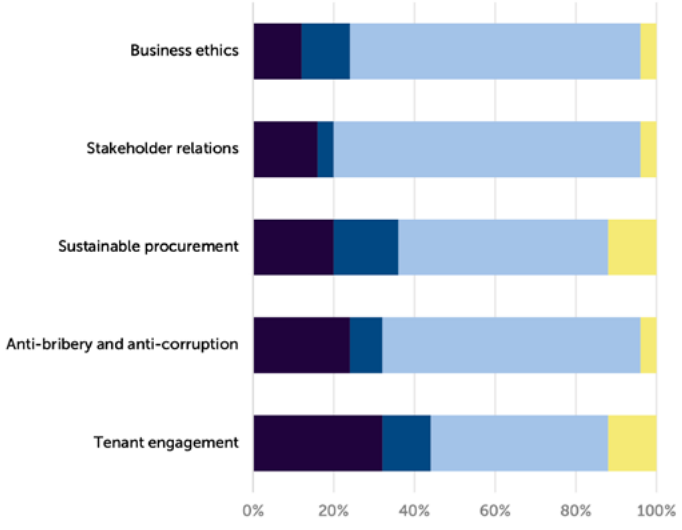


Fig 26: Integration of metrics for governance issues by the property companies



ESG issue considered with one or several target figures AND monitoring indicators | ESG issue considered with one or several target figures | ESG issue considered | ESG issue not considered

SECTION II:
CHALLENGES & DRIVERS

SECTION II: CHALLENGES & DRIVERS

A. Main challenges for ESG integration

Objectives of the section:

This section aims to understand the challenges and drivers for a better ESG integration.

Methodology:

ESG integration is defined as the systematic and explicit consideration of environmental, social and governance factors in investment analysis and investment decisions.

Some questions were open questions. In this case, a qualitative analysis is conducted to make it possible to synthesize the responses. The least interpretation possible has been integrated in this analysis process.

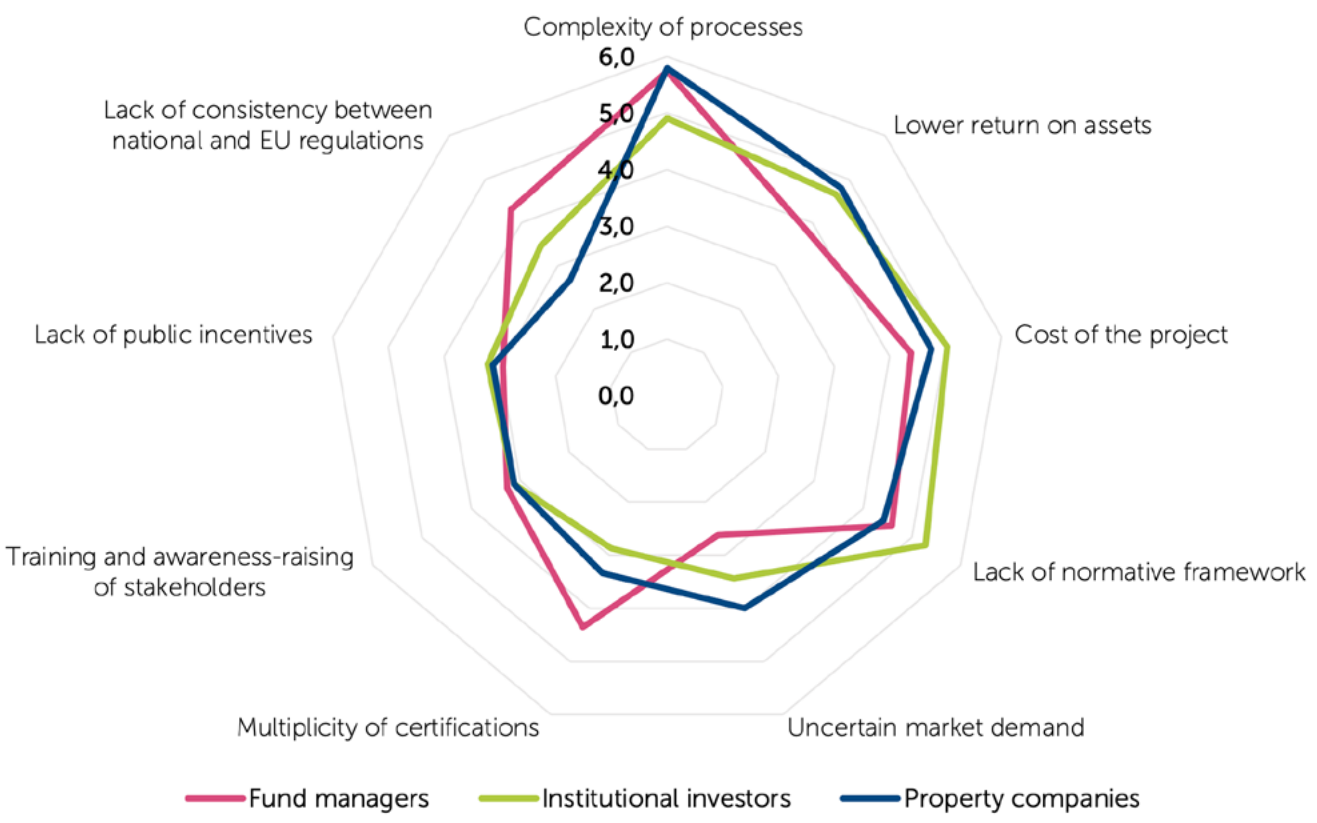
INREV and EPRA have been consulted when defining the challenges and drivers. Respondents had to classify the identified challenges and drivers respectively from 1 to 9 (1 = least important challenges, 9 = most important challenges) and from 1 to 11 (1 = least important drivers, 11 = most important drivers). The synthesis presented in the following pages is an average ranking of the collected responses.

Approach and limits to this section of the study:

Due to a limited number of contributions in some geographies, geographical comparison has not been realized for this first edition.

As with social issues, only a minority of respondents have indicators and targets to monitor governance issues

Fig 27: Classification of main challenges based on the average of answers*



- **Complexity of processes and lack of normative frameworks** are considered as the most important challenges by the respondents. The complexity of processes has also been mentioned during the interviewees, especially with regards to **reporting requirements** and **resources involved.** The interviewees also highlighted the **lack of normative frameworks** in general and also on some specific topics such as biodiversity, circular economy, data management.

- **Cost of the project and lower return on asset** are in the top three barriers for ESG integration of institutional investors and property companies. It underlines that **valuing investments is a major challenge for ESG integration,** especially when it comes to demonstrating a superior risk adjusted return coming from those sustainable buildings.

- Fund managers as a group are the most concerned by the **multiplicity of certifications.** This may be related to the fact that they manage different asset classes in different countries, which means they are confronted with a large number of certifications.

- They also consider **the lack of consistency between national and EU regulations** as one of the main challenges for ESG integration. This is consistent with the information shared during the interviews, especially around **question of definitions.**

Complexity of processes is the main challenge across regions

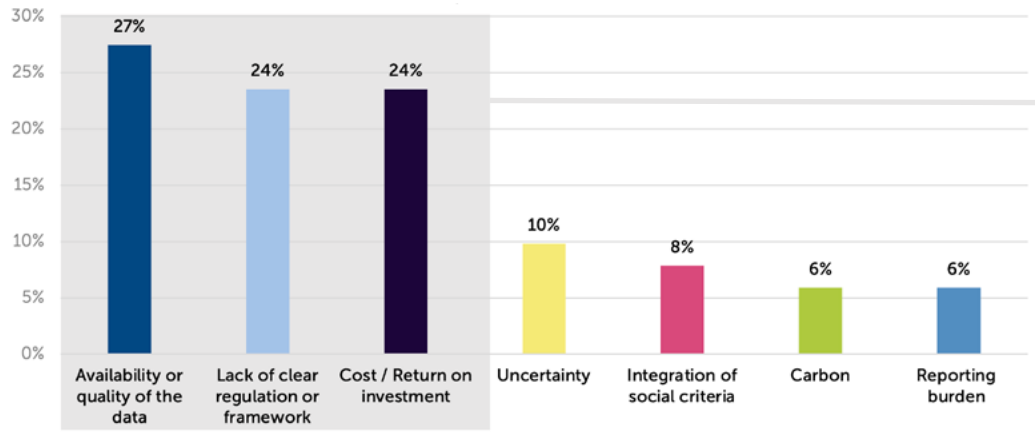
- The **lack of normative frameworks** is also one of the most important challenges in many countries, except France and Spain.
- In **Germany,** the lack of consistency of EU regulations and national regulation is highly underlined.
- In **France,** training and awareness raising of stakeholders ranks in third position

Fig 28: Classification of the top three main barriers for ESG integration for all types of respondents by region

	France	UK	Germany	Benelux	Nordic countries (Denmark, Norway, Sweden & Finland)	Spain
Challenge 1	Complexity of processes	Complexity of processes	Lack of normative framework	Complexity of processes	Complexity of processes	Lower return on assets
Challenge 2	Cost of the project	Lack of normative framework	Lack of consistency between national and EU regulation	Lower return on assets	Lack of normative framework	Complexity of processes
Challenge 3	Training and awareness-raising of stakeholders	Cost of the project	Lower return on assets	Lack of normative framework	Cost of the project	Cost of the project

Even though it was not in the survey, availability and/or quality of data appears to be among the main barriers for ESG integration given it ranks first in the answers provided by the respondents

Fig 29: Percentage recurrence of the challenges for ESG integration provided by the respondents, based on a synthesis of answers (open question)



- **Availability and/or quality of the data** ranks first in the qualitative answers provided to the open question by the respondents over 51 contributions. It seems to be the main current ESG challenge for real estate investment, which is in line with the information shared by the interviewees in the qualitative part of the study.

- It is interesting to see similar outcomes from open and multiple-choice questions, especially regarding the **lack of clear regulation or framework and the cost/ return on investment.**

Examples of the answers provided by respondents for the top 3 challenges for ESG integration:

#1 Availability or quality of the data

- Quality control in the process of data collection
- Consistent and high quality data and consequently insufficient evidence for improved risk/return spectrum

#2 Lack of clear regulation or framework

- Inconsistent regulations
- Harmonisation is required between compliance requirements, benchmarking disclosures and asset level initiatives.
- Lack of standardised reporting and frameworks
- Lack of clear definition of main indicators

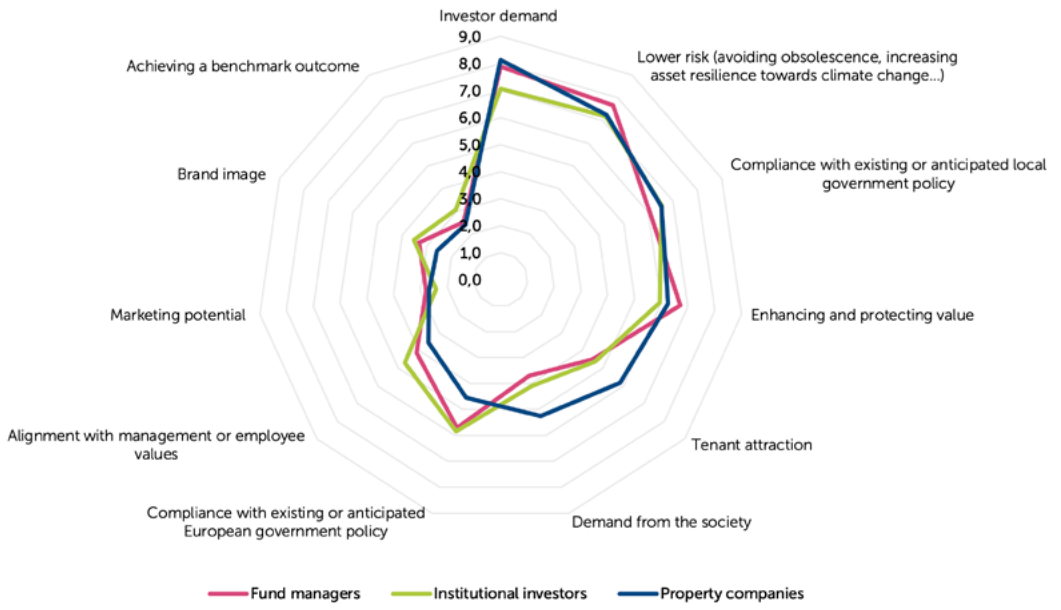
#3 Cost/ Return on investment

- Cost/investment is often higher than what tenants are willing to pay in increased rent, or investors are willing to give discount on financing, or reduced cost of energy
- Insufficient clarity on cost/benefits

B. Main drivers for ESG integration

The different entities share the same view on the top main drivers for ESG integration: investor demand, lowering risks, compliance and value creation

Fig 30: Classification of the main drivers based on the average of answers*



** The drivers have been ranked form 1 to 11 by the respondents (1 = less important , 11 = very important)*

- **Investor demand** is the most important driver for ESG inclusion according to all respondents. It is interesting to note that even though investors wish to integrate ESG into their investment approach, they may fear a **loss of return** as highlighted by the uncertain market demand challenge in figure 27.
- As lowering risk ranks second, we can understand the risk-based approach is now **well integrated** into the approaches of the respondents.
- **Enhancing and protecting value** is more important for fund managers than for other types of respondents whereas **tenant attraction** is more important for property companies.

Investor demand is the leading driver for ESG integration in Europe, followed by lowering risk

- Investor demand is one of the most prevalent drivers for ESG integration.
- Enhancing and protecting value and lowering risk are also among the main drivers.
- **Germany and Spain** appear to have their own specific regional views for ESG integration.

Fig 31: Classification of the top three main drivers for ESG integration per country based on the average of answers

	France	UK	Germany	Benelux	Nordic countries	Spain
Driver 1	Lower risk	Investor demand	Investor demand	Investor demand	Investor demand	Tenant attraction
Driver 2	Enhancing and protecting values	Lower risk	Compliance with existing or anticipated European government policy	Lower risk	Lower risk	Enhancing and protecting values
Driver 3	Investor demand	Enhancing and protecting values	Compliance with existing or anticipated local government policy	Enhancing and protecting values	Compliance with existing or anticipated local government policy	Compliance with existing or anticipated local government policy

SECTION III:
PROSPECTIVE ESG TRENDS FOR REAL ESTATE INVESTMENT

A. Introduction

Methodology:

Five questions were asked to **25 market players** of the real estate sector (fund managers, property companies and institutional investors) during interviews that lasted between 30 to 45 minutes:

1. What are the current ESG priorities of the real estate investment sector?
2. What are the market opportunities/new business models linked to sustainable real estate investment?
3. What obstacles do you identify to sustainable finance applied to real estate? (In particular in relation to legislation / Taxonomy and Certification/Label/Reporting standard)
4. How do you prepare for the EU taxonomy? What public or private sector initiative would accelerate the preparation for its implementation?
5. In your experience, which initiatives bring today the most value to the real estate investment players for ESG integration?

Through these questions we identified **eight key ESG issue**s that we decided to address from the perspective of **key challenges and initiatives** they tackle.

The environmental topics are the most represented among those key ESG issues. The majority of interviewees mentioned carbon, energy, environmental certifications and circular economy as the issues of greatest concern.

Governance and social issues come second and third with data, regulations and revolution of uses. The data issue refers to data management in general and more specifically to data collection, quality, reliability, completeness, consistency and comparability. Revolution of uses embraces all new use cases of the building, whether residential or corporate real estate.

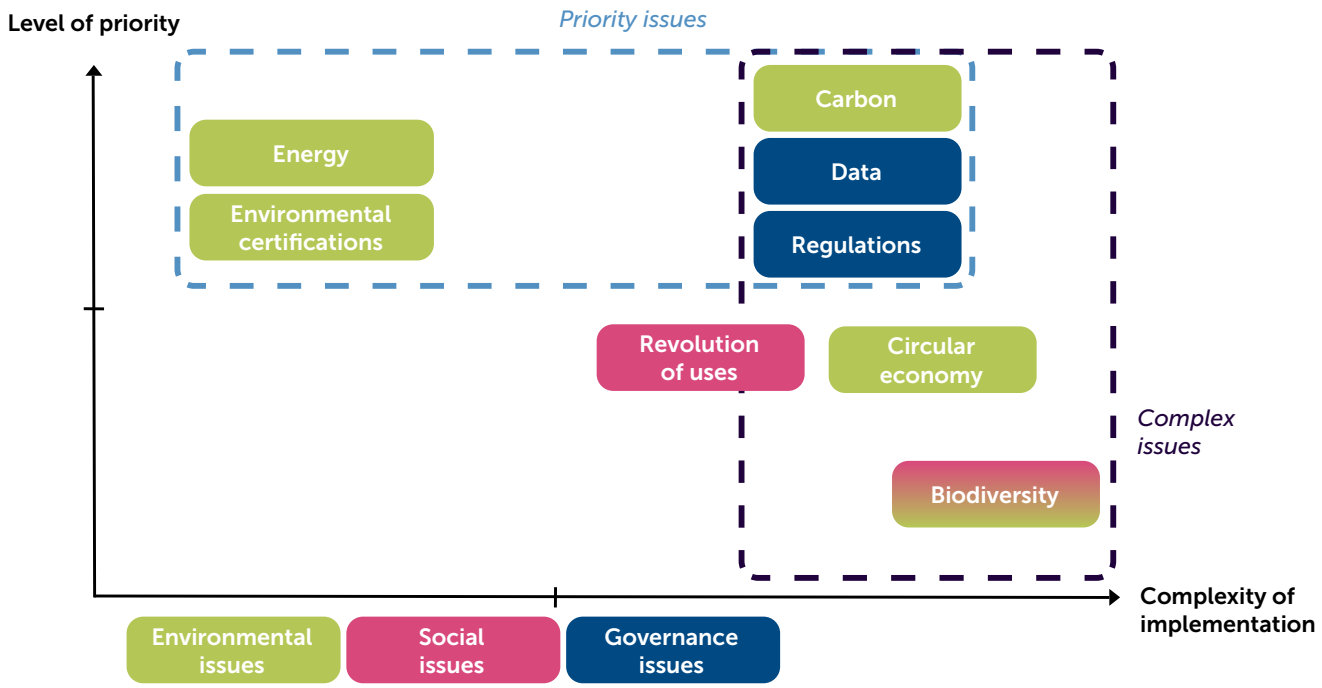
In line with the results of the quantitative survey, biodiversity, i.e. the protection and restoration of biodiversity and ecosystems, is considered as one of the most complex issues to implement by the interviewees. In addition, some of them consider biodiversity as an environmental topic and others as a social issue because the impacts go beyond the environment alone.

Environmental and governance issues are both perceived as the top priorities and the most complex ones to implement

The eight key ESG issues we identified through the various interviews are represented in the **priority issues grid below** according to the interviewees' perception regarding:

- The level of priority of each issue (Y-axis)
- The complexity of implementation of each issue (X-axis)

Fig 32: Summary of the prospective ESG trends for real estate investments in Europe



The ability to upgrade the existing stock is identified as the most valuable initiative to address the carbon issue

There is a consensus among real estate players to make the reduction of GHG emissions and the adaptation to climate change a top priority. The building and construction sector is indeed one of the sectors most concerned by the challenges of carbon emissions reduction.

Key challenges:

- **Reducing embedded carbon** is a crucial issue as construction accounts for 60% of the carbon footprint of a new building. Embedded carbon consists of all the **GHG emissions** associated with building **construction**, as well as the **operational** and **end-of-life emissions** associated with those materials.
- **Reducing GHG emissions** of the building sector to achieve carbon neutrality by 2050 (Net zero carbon) is the most important challenge in the "E" of "ESG".
- **Renovation of the existing real estate stock** in order to reduce emissions of existing buildings: new buildings represent only 1% of the real estate market each year.
- **Stringent regulation and harmonisation at European level,** as regulations differ from country to country. But the **EU Taxonomy** only takes into account the **GHG emissions when the building is used** (i.e. around 40% of the GHG emissions) and not during the construction phase of the building.

Initiatives:

- Decarbonisation solutions for the real estate sector: **renovation of existing buildings** and **restoring assets** with a strong **low-carbon approach,** use of renewable energies, **energy efficiency** solutions (insulation, technical equipment, joinery, metering).
- **Passive solutions** linked to adaptation: insulation of buildings, revegitation, awareness raising and change of uses.
- **An efficient carbon tax,** and a carbon market based on the polluter pays principle (Pigou Tax). The **European carbon tax** is currently perceived as ineffective because it does not provide enough incentives.
- The **EU-funded research project CRREM** (Carbon Risk Real Estate Monitor) provides a view by asset and by portfolio of the level of alignment with a 2°C or 1.5°C trajectory, defines the tipping point towards environmental obsolescence and allows a risk-based approach.
- The **Net Zero Carbon Building*** framework of the WGBC. The goal of this framework is to set in place a path to achieve net zero carbon buildings in both construction and operation.

« If we only focus on new buildings it will take generations in order to make the real estate sector sustainable as approximatively only 1% of the building stock is new each year. »

Magnus Meland Røed, DNB Bank.

« The only initiative missing is the carbon tax. There should be a carbon tax but not at €50 per tonne. For a carbon tax to be effective in the real estate sector, it needs to be at €400-500 per tonne. Economically speaking, as an individual company it is in our interest to have the tax today. »

Olivier Elamine, Alstria.

« What is missing today are unlisted funds that could massively renovate existing buildings as part of a value-add strategy. »

Daniel While, Primonial REIM

According to the WorldGBC, a **net zero carbon building is highly energy efficient with all remaining energy from on-site and/or off-site **renewable sources.***

Real estate stakeholders have made data management a strategic priority

ESG risk assessment and monitoring requires indicators that reflect and describe the ESG issues in the sector in an objective and quantitative way. To date, however, there is no extra-financial rating agency (except for listed property companies), nor general tools or databases specific to real estate assets such as those developed by sustainability rating agencies for listed securities. The control of asset data is then under the **responsibility of the management company,** which requires huge resources to set up. Today, the Global Real Estate Sustainability Benchmark (GRESB) is recognised as the main tool for extra-financial analysis at the scale of real estate portfolios, particularly for unlisted assets. It consists of a **declarative benchmark** in an audit perspective of the ESG performance of real estate funds, REITs, property companies and developers.

Key challenges:

- There are too many **frameworks** with different expectations and too many **contacts** to access the data. Defining **harmonised market practices** and implementing a **single tool** to centralise data appear to be essential.
- There is a real need for **clear guidelines** from the regulator in order to define a procedure for collecting, assessing and reporting the **carbon footprint,** and establish a **clear and reliable vision of the energy consumption** of the portfolio, especially for private parties where data collection is generally more complex.
- The data **collection** (quality, reliability, completeness, consistency and comparability) will vary depending on the **location of the assets,** the **nature of the building,** the **underlying contracts,** and the **nature of the tenants** (collecting data from individual tenants is fragmented and complicated to implement, it is therefore difficult to compare progress from one year to the next).

Initiatives:

- Fund managers and property companies implement systematic environmental **data collection policy** for all assets and **data cross-referencing** to ensure data quality and completeness, especially regarding energy consumption and environmental metrics.
- Fund managers are working with **counterparties** to ensure the reliability of the data and challenging them to improve the quality of the data.
- Some property companies have restructured their innovation, communications and IT teams to **raise users' awareness** of their impact on the building stock's environmental performance with the provision of **integrated real-time data systems and big data technologies** for analysing consumptions and preventive maintenance.
- They also create **digital twins** of their buildings, i.e. a representation of the physical asset in digital form. A digital twin provides a visual overview of performance and preventive maintenance via **continuous data inputs** and allows to forecast the **various use cases** of the building.

ESG Data & Services represent a ~$2.2bn total available market, with blue-sky upside of $5.1bn by 2025.

(Source: UBS Investment Bank)

« Responsibility for the completeness and reliability of the data falls to the management company. »
Virginie Wallut, La Française REM.

« One of the main challenges is to set up a procedure to collect, evaluate and report the data from the E of ESG. »
Burkhard Dallosch, Deka Immobilien Investment.

« The better the data quality is, the more convinced we tend to be about how the organisations manage their portfolio. »
Hans Ot'p Veld, PGGM.

Regulations drive sustainability best practices within the real estate sector

Real estate market players are increasingly considering regulation as an **opportunity to allow convergence within sustainable investment practices** and to drive **ESG best practice approaches,** as opposed to a market impediment. This suggests that they delivered the considerable effort required to achieve the objectives of the Paris Agreement, which cannot be achieved spontaneously by the market without regulation.

In addition, the vote by the European Parliament on January 20th 2021 in favour of a resolution to recognise the crime of ecocide illustrates the urgency for the sector to consider its share of responsibility for the causes but also the consequences of climate change for future generations. As **negative externalities** are not fully taken into account, this raises a new legal risk for the real estate sector.

Key challenges:

- **Harmonisation:** there is a need for **harmonisation and convergence** between local and European regulation frameworks, especially regarding definitions.
- **Time and human resources:** from fund managers' point of view, the increasing **reporting requirements** represent a lot of time and effort that could **damage the extra-financial performance of the funds** and that requires **heavy internal organisational changes.**
- Promote a **positive vision of the regulation:** regulators should reward the **ESG best practices approaches** and support the market players instead of punishment and name and shame, favouring a **partnership approach** rather than a correction-based one.
- Focus the regulation on the **existing stock:** market players should be encouraged to **go beyond regulations** and focus more on projects to **renovate and improve** their existing building portfolio.
- Education: **educational work** has to be done with legislators to explain how the real estate sector works. Indeed, regulations are mainly designed based on listed securities and thus do not include the specificity of real estate assets.

The EU projected decrease in CO_2 emissions for the year 2020 is 6.7% due to the lockdown measures taken in response to the COVID-19 epidemic and the resulting near-stop in the economy.

This figure is particularly significant given that a 7.6% annual reduction in CO_2 emissions of the EU is needed to meet the targets of the Paris Agreement

(Source: Information report on the EU's 2050 climate neutrality objective)

« Regulation creates a sense of urgency. »
Hans Ot'p Veld, PGGM.

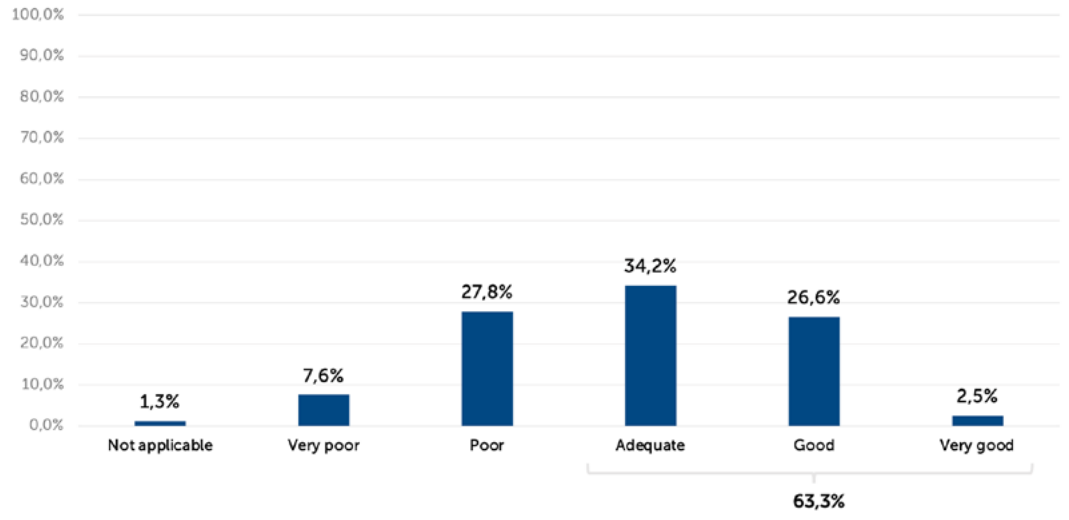
« We appreciate and welcome that "greenwashing" is going to be more difficult for many companies when you have to comply with well-defined standards and regulations. »
Anders Olstad, Entra.

European taxonomy: different levels of understanding

There is a **consensus** among market players that the European taxonomy will **move the real estate sector forward:**

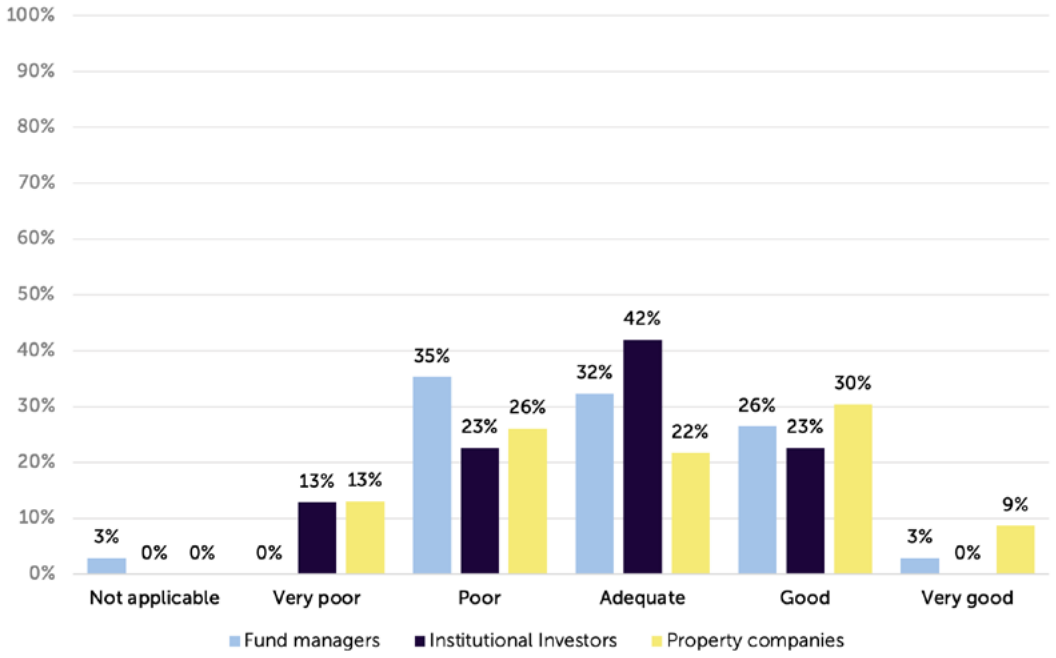
- The European taxonomy will lead to a unified **single market standard,** particularly in the measurement of energy consumption across European countries.
- The European taxonomy will **impact the value** of real estate asset portfolios, which will then be able to list the green portion of their investments on the basis of a **common language.**

Fig 33: Overall level of understanding of the implications for real estate investment of the European taxonomy project



However, to reach **significant impacts,** real estate market players expect the taxonomy to address in priority the issue of the **refurbishment of existing buildings** and to clarify its **application according to local legislation.**

Fig 34: Level of understanding of the implications for real estate investment of the European taxonomy project per typology



European taxonomy: different levels of understanding

Among the 58% of respondents (Fig. 39) that have started preparing for the implementation of the European taxonomy, there are three sub-categories of market players:

1. Those who are on track with a detailed action plan:

- Leverage **existing processes** (French SRI Label, French "Décret Tertiaire", HSE policy, SRI policy ...);
- Perform a **gap analysis** between the existing and the expectations of the taxonomy and define a **proprietary taxonomy** in line with local regulations;
- **Map and score transition risks** on assets held and associate remediation measures, and create a **net zero carbon roadmap;**
- Collect **technical data and risk analysis criteria** for all assets held;
- **Organise internally:** team awareness and involvement, governance, compliance, updating of internal policies.

2. Those who consider their current criteria will meet the requirements of the taxonomy:

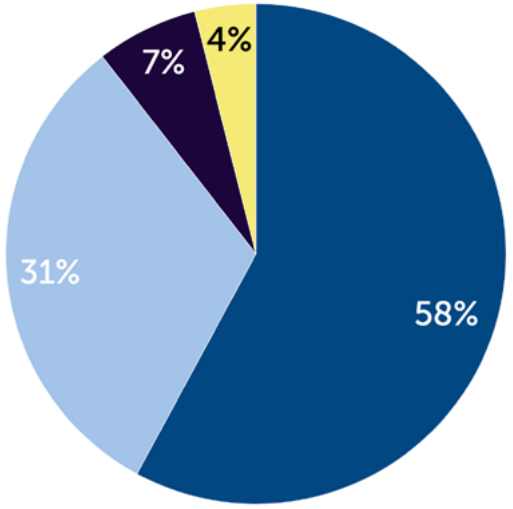
- Environmental **certifications;**
- Measurement of **carbon footprint;**
- Energy, water and waste measures;
- Availability of **data** on all buildings.

3. Those who are at the brainstorming stage within working groups of market place associations:

- Sending **recommendations** to the European legislator;
- Exchanging **best practices** between market players.

31% of respondents have not yet started preparing for the implementation of the European taxonomy. Some of them do not consider the taxonomy as a priority, do not know how to address it or do not fully understand the implications for their business.

Fig 35: Breakdown of respondents according to whether they have started to prepare for the European taxonomy (Yes/No)



« Those who will be better off are those who have anticipated and decided over the years to embark on an energy efficiency approach incorporated in their global management processes. »

Thierry Laquitaine, AEW.

The European taxonomy creates significant differences in the level of requirements, depending on the maturity of the countries and the local requirements already in place

- The European taxonomy does not address a **number of issues:**
  - **Life cycle of the building:** it focuses instead on the **use of the building;**
  - **Carbon:** it does not provide a **simple and clear definition** to calculate and report the **carbon footprint** of an asset as it focuses mainly on energy consumption;
  - **Existing stock:** it focuses on the **financing of new buildings** and does not address the issue of existing buildings, which is in contradiction with the European programme for the renovation of existing buildings;
  - **Innovations:** it focuses on a picture at a given moment and does not take into account the margins for **moving forward** on energy efficiency of buildings.
- The application of the European taxonomy varies according to **local legislation:** key elements defined in the technical review criteria of the taxonomy are not reflected in local regulations.
  - **Definitions:** some European countries do not have a local definition for technical aspects such as «CO_2 energy building» or «primary energy».
  - **EPC ratings:** they differ from one country to another with varying levels of requirements and thus are not comparable. This can create a **major distortion of competition** as the proportion of eligible assets for an EPC "A" may vary significantly according to the legislation in force in the country.
- The taxonomy imposes **high requirements** (EPC "A") and little incentives for real estate players to finance the transition of the sector: in France, **fewer than 100 buildings** have an EPC "A" and **less than 1% of assets** in Norway, according to the key players interviewed.
- Real estate market players are wondering whether the **environmental certifications** will be able to evolve and integrate the requirements of the taxonomy with a view to **providing investors with a meaningful comparative tool.**

180 billion euros. This is the amount of green investment needed per year for the EU to meet the targets for 2030 set at the Paris Summit, including a 40% reduction in greenhouse gas emissions.

(Source: European Commission).

« I think more harmonisation is necessary to use the EU taxonomy as a tool. »
Isak Oksvold, Moller Eiendom.

« The level of requirement of the taxonomy is such that it could slow down a global and massified approach of the refurbishment of the existing building stock. »
Sabine Desnault, Gecina.

C. Environmental priorities

Energy efficiency remains a top priority for market players to address the carbon footprint issue

Among real estate players, the energy issue is still key. The energy consumption issue is directly linked to climate change. The building and construction sector is indeed one of the sectors most concerned by energy issues.

Key challenges:

- Reducing the **energy consumption** of buildings.
- The **energy renovation** of the existing real estate stock (energy efficiency of buildings) is **expensive** and the **return on investment** is **lower** than for new buildings. The cost of financing the energy transition of buildings is also a challenge. How should these costs be shared among fund managers, institutional investors and tenants?
- The **harmonisation of energy-related regulations** between the different European countries and the homogenisation of **energy data** are complicated because the **energy mix of European countries** differs from country to country.
- The challenge of the ability for the different European countries to produce **green energy.**
- **The tertiary decree** (French regulation) **and the EU taxonomy** are currently encouraging energy consumption reductions but **not carbon emissions reductions.**

Initiatives:

- The **EU Taxonomy** is an important regulation to remove the differences between countries on energy and carbon. Some real estate players see the taxonomy as a **good lever to share the same approach.**
- **Proposed passive solutions** linked to adaptation: biodiversity, fight against urban heat islands, **insulation** of buildings, **revegetation...**
- Proven solutions: **energy performance certificates** for buildings and **energy and environmental mapping** of real estate portfolios with **targets on consumption reduction.**
- In France, the **"Décret Tertiaire"** (tertiary decree) set up with the ELAN law, voted in October 2018, redraws the legal basis of the **energy performance objectives for tertiary buildings.** The main objective of this decree is to **reduce the energy consumption of French tertiary sector buildings** by at least -40% in 2030, -50% in 2040 and -60% in 2050 compared to 2010.

Today, around 75% of the EU building stock is energy inefficient.

(Source: 2020 - European Commission)

« The priority among all priorities is monitoring energy. »

Daniel While, Primonial REIM.

« The market focus is carbon footprint, but we also have to work on the reduction of energy consumption. »

Albert Alcober Teixidó, Colonial.

The environmental and more broadly sustainability certification are valued by real estate market players

Although it is a **voluntary process**, the environmental and more broadly sustainability certification of buildings remains a tool widely acclaimed by real estate players because it is the only indicator that makes it possible to define a **benchmark** for performance of the players, regardless of the country. **Special insight** into environmental certifications from The Sustainability Certification Barometer™ 2020 Edition by Green Soluce are provided in appendix 3.

Delivering certified new buildings has now become the norm, it is no longer a differentiating criterion but a **license to operate:**

- Environmental certifications are a very strong **sign of quality** understood by the whole market and make buildings **more attractive.**
- Certification is increasingly used as a **tool for monitoring the quality of a project** than as a marketing tool. It is a **simple, concrete and enforceable tool** that brings real added value to a building and helps define the actions to be implemented to **improve asset performance.**

Key challenges:

- **Certifications** should integrate more global standards than just local ones. Some of them **are preferred in certain countries:** LEED in Spain and Italy, DGNB in the Netherlands and the Nordics, HQE in France, BREEAM in the UK.
- Certification levels **do not guarantee environmental performance** and cannot be compared between different certifications. An equivalent level of certification does not necessarily equal the same environmental performance.
- The **certification of existing buildings** is perceived as **much more complicated to implement** because it involves exchanges with tenants.

Initiatives:

- Some **investors** and **property companies** implement a **roadmap generalising the environmental certification** on the assets held for both existing and new buildings and extend it to cover certifications pertaining to **well-being** like WELL™ or OSMOZ®.
- They also make it common practice to obtain certifications **during the phase of refurbishment works** on existing buildings.
- Some **fund managers** give priority to the certification of **buildings in operation** and complete the certification process with **specific labels** for their funds.

Over 40% of projects were under a green building scheme or a similar methodology in 2019.

(Source: Green Soluce Sustainability Certification Barometer)

« New constructions must be sustainable in essence. Today, it is becoming mainstream to deliver certified assets. »

(Nehla Krir, BNP Paribas REIM)

« Certification measures are not always related to their real impact. For example, a building can have a high rating in energy certificates while the actual energy consumption of the building in operation is still very high. »
(Bernardo Korenberg, Bouwinvest Real Estate Investors)

« Certification is not a marketing tool, it is a roadmap for performance improvement of the asset. »
(Maximilian Kufer, AXA Investment Managers - Real Assets)

Market players consider circular economy as a good lever for decarbonisation but it is still too complex to implement

In March 2020, the European Commission adopted a **new Circular Economy Action Plan** - one of the main building blocks of the European Green Deal, Europe's **new agenda for sustainable growth.** Regarding the construction and building sector, the objective is to define a **comprehensive Strategy for a Sustainably Built Environment** promoting circularity principles for buildings.

As part of the European Green Deal, the **Level(s) initiative** is a new European approach designed to assess and report on the **sustainability performance of buildings throughout their full life cycle,** while speeding Europe's transition towards a more circular economic model.

Key challenges:

- Need to establish **an harmonised approach** as well as a **technical and normative framework** recognised by all in the construction process, including **insurers.**
- **Supply chains** are not yet structured, there is **little synchronisation** between demand and supply and still **significant costs** of the materials.
- Considerations about circularity must be integrated **very early on,** as soon as the works are scheduled at early design stages.
- Some market players consider that the use of reusable materials implies **lower rent** because tenants do not want to pay more for second-hand materials.
- Levers for deploying a circular approach for a **building in operation** must be clarified and made more specific.

Initiatives:

- Investors and property companies **reuse materials** from buildings being taken down, such as doors or false floor for new construction projects.
- They also adopt the **cradle to cradle (C2C) design principles** that support a flexible **positive ecological footprint** of buildings.
- Working groups are being set up to discuss **waste management in construction projects** in Norway with BREEAM certification holders.
- **Alliance HQE GBC France** identified **indicators** and tested **new tools** to promote the **concrete integration** of the circular economy in construction.
- **"Booster du réemploi":** brings together the major project owners, financiers and specifiers in the real estate and construction sectors in France in order to **promote reuse and make demand visible.**

Greenhouse gas emissions from material extraction, manufacturing of construction products, construction and renovation of buildings are estimated at 5-12% of total national GHG emissions. Greater material efficiency could save 80% of those emissions.

(Source: EU Circular Economy Action Plan)

« Today you can't do either energy efficiency or serious energy reduction without talking about the environmental impact of materials and the circular economy. »

Thierry Laquitaine, AEW.

« We can see that tenants and investors are more interested in circularity but for the moment it remains a small part of the market. »

Magnus Meland Røed, DNB Bank.

D. Social challenges

The revolution of uses is leading real estate players to rethink the building as a hub for shared services

At a time when protecting the planet is crucial, as well as saving energy and the quest for sharing, for conviviality and for connectivity, residential and corporate corporate real estate is evolving.

New practices are developing such as the mixed use of buildings, the development of services and the desire to provide an enhanced user experience.

Tomorrow's tertiary building is not only a place to work, but also a place to live that is open, flexible, environmentally friendly and make people feel good.

Key challenges:

- **Mixed uses:** rethinking buildings as **real living hubs** and alternative buildings designed for participative housing. Public authorities are strongly involved in mixed use projects with a particular focus on the **activities' longevity.**
- **Modularity/reversibility** of assets: anticipate **several successive uses** for one and the same building. Integration of a building in relation to its **whole environment** (geographical location, climate).
- **Mobility:** connecting buildings to sustainable transportation solutions (e.g. recharging systems for electric cars), managing the **flow of people** and their mobility.
- **Inclusion and positive social impact:** access to housing, affordable housing, housing for people in difficulty, renting spaces to Social Economy market players, transitional urbanism.
- The management of the **carbon footprint** resulting from new uses.

Initiatives:

- Investors, fund managers and property companies are exploring the **co-living concept** which refers to « new-generation » residences combining uses (housing, offices, shops) with **shared common areas** offering a range of **services** accessible to the public and **community activities** (sports halls, laundry, rooftop, nurseries, amphitheatres, co-working spaces) integrated into a **mixed urban redevelopment network.**
- Fund managers are also looking at the **flexibility and reversibility** of spaces allowing users to adapt their premises to their organisation.
- Investors and property companies are considering **bioclimatic buildings** for which implementation and design take into account **the climate and the immediate environment.**
- Property companies define tools that enable **new mobilities to be visualised** in companies and buildings according to their uses in order to reduce the buildings' energy consumption and GHG emissions (e.g. digital twin).
- They are also restructuring buildings to accommodate **people with disabilities.**

« Buildings are becoming a distribution platform to deliver sustainable shared services. »
Peter Hebin Bruun, ATP Real Estate.

« The real challenge will be to link the revolution in uses and the decarbonisation of the stock. »
Daniel While, Primonial REIM.

« We believe in having assets that are not single focus developments but part of clusters and integrated with the needs of the city. »
Anders Olstad, Entra.

« The user is at the centre of attention. »
Virginie Wallut, La Française REM.

Biodiversity is considered as one of the most complex issues to implement by real estate market players

The rise in importance of biodiversity within the major markets, the loss of green spaces, fauna and flora, and the objective to **protect and restore biodiversity and ecosystems** defined by the European taxonomy could accelerate the mobilisation to address the subject. The years 2020 and 2021 are marked by the holding of **several major events on nature and biodiversity:** the Virtual Biodiversity Summit at the United Nations in September 2020, the One Planet Summit devoted to biodiversity in January 2021, the World Conservation Congress in Marseille in 2021 and the Cop 15 Biodiversity in Kunming in 2021.

Key challenges:

- There is a **lack of an harmonized approach** and guidelines on how to understand and approach biodiversity in a large-scale, concrete and pragmatic manner.
- Real estate players seem to be **less advanced** in defining quantified **objectives and monitoring indicators** than for other issues.
- There are **few action levers for assets in operation** and for real estate projects located in strongly urbanised areas.
- For urban projects, **actions are rolled out at neighbourhood level** rather than for the asset itself.

Initiatives:

- Fund managers are working on **de-artificialisation of soils,** reduction of the soil waterproofing coefficient and creation **of green spaces.**
- They also **engage in a co-construction dialogue** with **local authorities** at the time of construction.
- Investors are careful not to introduce invasive species, to **protect local species,** and to introduce wild nature into the city.
- Some property companies carry out a **biodiversity mapping** and conduct a reflection on more coherent and well-integrated green spaces.

Several European countries like Germany, The Netherlands and France have implemented **regulations to limit soil artificialisation,** based either on **tighter control of building rights** or on the introduction of **dedicated fiscal tools.**

The decline of nature has a cost: the WWF estimates that the economic impacts could amount to more than $479 billion per year, or about $10 trillion by 2050.

(Source: Global Futures Report - WWF)

« The preservation of the living world is the major challenge. »

Sabine Desnault, Gecina.

« We look at not introducing invasive species, protecting the local species, and introducing wild nature in the city which requires less maintenance of the gardens. »

Christian Kahr, Danica Pension.

« It is difficult to have large-scale biodiversity projects. »

Virginie Wallut, La Française REM.

E. Sustainability and long-term value

Green buildings are very attractive to tenants but demonstrating a superior risk adjusted return for those buildings remains difficult

Real estate investors value **green buildings** because there is a **strong tenant demand** for this type of building. Indeed, large companies want to locate their **headquarters** in such buildings, and investors and tenants require **environmental guarantees** on the buildings (certifications) and minimum EPC rating before signing contracts. Rents for those green assets are therefore **higher.**

Those green buildings also incorporate the **latest innovations,** allowing them to be at the **forefront of regulations** and to address increasing specific demands **for environmental and social dimensions** (bicycles, dry cleaning, concierge services, recharging stations for electric cars, etc.), they therefore benefit from a **green premium.**

Key challenges:

- Sustainable construction has become a **prerequisite,** not integrating these new expectations brings a risk of a **brown discount.**
- To prove the link between ESG and value creation and d**emonstrate a superior risk adjusted return.**
- To **reallocate the profit share or the cost share** between occupiers and investors to avoid burdening investors in the short term.

> *« The building cost of energy efficient assets is around 3-5% higher than non-energy efficient assets but it is still a profitable investment taking the full life cycle of the asset into account. »*
> Anders Olstad, Entra.

Initiatives:

- Perform valuations on a regular basis on the properties in order to determine the resale value of the assets.

> *« The buildings with the higher environmental standards (BREEAM Excellent or Outstanding) get higher relative valuations than what they otherwise would get, further underlying the logic of focusing on sustainability. »*
> Anders Olstad, Entra.

- Conduct a survey among investors to understand how they value a BREEAM Excellent certified building compared to a building without certification.

> *« We have our own real estate brokers who undertook a survey asking over 60 investors - on how much lower yield they would require for a BREEAM Excellent building versus a non BREEAM certified building or else equal. It was around 28 basis points lower yield levels on average indicated from these investors meaning 5 to 6 % higher value for the BREEAM Excellent buildings. It is still a theoretical approach but still indicating that the market values for BREEAM certified buildings are higher. »*
> Magnus Meland Røed, DNB Bank.

- At fund manager level, provide systematic and traceable evidence of the ESG approach across all investment vehicles.

> *« Building in a virtuous way must be mainstream. »*
> Nehla Krir, BNP Paribas REIM.

> *« Certain parts of our industry still see ESG as a burden or an obstacle. In 2021 that's an out-dated way of thinking. »*
> Edward Vaughan Dixon, Aviva Investors.

APPENDICES

APPENDIX 1:
PRESENTATION OF GREEN SOLUCE

GREEN SOLUCE

Our mission:
To facilitate and accelerate the sustainability transition: Green Soluce helps private and public organisations transform their activities by imagining, building and implementing innovative and impactful solutions. Green Soluce operates across a variety of areas, among which real assets: real estate and infrastructure, at asset, portfolio and urban level.

Our philosophy:
Three verbs inspire our daily actions: DARE, DO, LEAD

Our methodology:
Green Soluce is a new type of professional services firm: a hybrid structure dedicated to taking action by leveraging on the best of consulting together with digital solutions.
The team at Green Soluce combines strategy, engineering and communications skills as part of a multidisciplinary approach, through four hubs of expertise. Green Soluce is also well-known for its cutting-edge quantitative and qualitative studies such as the Sustainability Certification Barometer, an annual study carried out at the European level in close collaboration with the main international building certification bodies (BRE, US GBC, DGNB, Certivéa).

Advisory
Sustainability and CSR strategy, implementation, project and technical engineering at asset, portfolio, as well as corporate level. Key topics of expertise include: energy, carbon, ressources, biodiversity, climate risk, stakeholder engagement.

Learning
Green Soluce provides two digital products:
- A sustainability awareness-raising app
- A 100% digital multilingual training platform exclusively dedicated to sustainability and CSR issues : from the carbon footprint of buildings and organisations to sustainable finance.

Content
Sustainability content creation and communications
First international collaborative media platform on the city of tomorrow: Urban Chronicles

Sustainable finance
Strategy and operational ESG, SRI and impact consulting pertaining to real assets (real estate and infrastructure) and non listed companies (Private Equity)

For more information on our services and activities visit our website: https://www.greensoluce.com/en/

GREEN SOLUCE IEIF INSTITUT DE L'EPARGNE IMMOBILIÈRE & FONCIÈRE

Sustainable finance

Sustainable investment

Green Soluce supports its customers in the definition and implementation of their responsible investment strategy.

- Defining responsible investment strategies and action plans at the corporate and fund levels for real assets, real estate debt, proptech and smart city fund managers.
- Defining and structuring tailor-made evaluation and ESG / Impact scoring schemes, according to the objectives and the expectations of stakeholders.

Supporting its clients seeking SRI labels for their real estate funds.

Sustainable reporting

Green Soluce assists its customers in the development of their communication and the implementation of their impact reporting tools.

- Defining and implementing ESG / impact reporting in line with the CSR / ESG promise to investors and stakeholders
- Collecting ESG data in several formats (reports, certifications, surveys, internal tools...) and conducting quantitative analysis.

Events & web conferences

Green Soluce regularly organises events and webinars on current and cutting-edge topics, bringing together the ecosystem of the city of tomorrow.

- Climate Risk Event: in 2019, Green Soluce organised a panel discussion with real estate professionals to share their visions and strategies for taking climate risk into account in the real estate sector.
- Responsible property funds event: in 2019, Green Soluce organised a conference dedicated to sustainable finance in order to highlight companies that are already deploying a sustainable approach for their property assets.
- « Décret tertiaire » Event (French Energy law for the tertiary sector): in 2020, Green Soluce organised a conference in collaboration with public authorities, lawyers and data experts, with the aim of helping companies to successfully meet the tertiary decree objectives.

APPENDIX 2:
PRESENTATION OF IEIF

INSTITUT DE L'EPARGNE IMMOBILIÈRE & FONCIÈRE

GREEN SOLUCE

INSTITUT DE L'EPARGNE IMMOBILIÈRE & FONCIÈRE

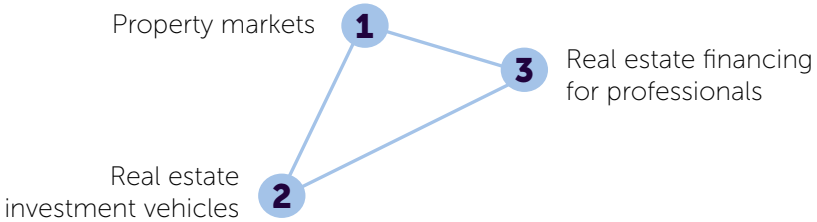
Created in 1986, IEIF is a leading French independent research and forecasting centre specialising in real estate.

It aims is to support real estate and investment players in their activities and strategic thinking, by offering them studies, analysis notes, summaries and working groups.

IEIF's approach integrates real estate into both the economy and asset allocation. It is cross-disciplinary, following both the markets (commercial real estate, housing), property funds (listed: SIIC, REIT; unlisted: SCPI, OPCI, FIA) and financing.

IEIF currently has more than 130 member companies ($^3/_4$ are institutional investors, listed real estate companies and management companies of non-listed real estate funds, French and international, $^1/_4$ are developers, financiers, CRE brokers, etc.). It relies on a team of 23 people, including 7 associate researchers.

3 main sectors of activity :



5 areas of analysis :

Monitoring (press, economic and real estate studies and analyses, legal and tax news, 26 webinars per year featuring recognised industry professionals, with 4,000 participants in 2020).

Studies: statistics, analyses on real estate investment vehicles, real estate markets and players' strategies and on the financing of real estate for professionals.

Publication of benchmark indices: 18 indices on listed real estate companies in Europe, including 2 in real time in partnership with Euronext; 3 indices on SCPIs and OPCIs for the general public, including one in partnership with Edhec Risk Institute.

MyDataviz: a platform of new interactive data visualization tools - 7 applications available.

My DATAVIZ

Working groups :

- Club Analyse & Prévision, a strategic think tank for managers, based on IEIF's research work.
- The Residential Lab, a cross-sectoral think tank on the future of housing products, forms of ownership, and the place of housing in savings.

For more information, visit www.ieif.fr/en

APPENDIX 3:
ADDITIONAL INSIGHTS: SUSTAINABLE CERTIFICATIONS FOR BUILDINGS

Appendix 3 - Additional insights: Sustainability certifications for buildings

Objectives of the appendix:

The survey focuses on ESG practices at corporate and fund level. As the interviewees regularly mentioned environmental certification as a reference tool to manage and communicate on ESG performances at an asset level but also corporate and fund level, we decided to share special insights on environmental certifications from The Sustainability Certification Barometer™ 2020 Edition by Green Soluce.

The Sustainability Certification Barometer has been produced by Green Soluce every year since 2014. Its objective is to better understand the diversity of the environmental certification market in Europe, particularly in the tertiary sector. The current scope of analysis for environmental certifications is: HQE, BREEAM, LEED and DGNB.

Methodology:

This appendix considers that a unit corresponds to a certification delivered by a certification body. Thus, a building with multiple certifications will appear within several certification schemes. The data is based on the information provided by each certification body included in the perimeter of the Sustainability Certification Barometer.

The full Sustainability Certification Barometer is available here: https://www.greensoluce.com/studies-and-publications/

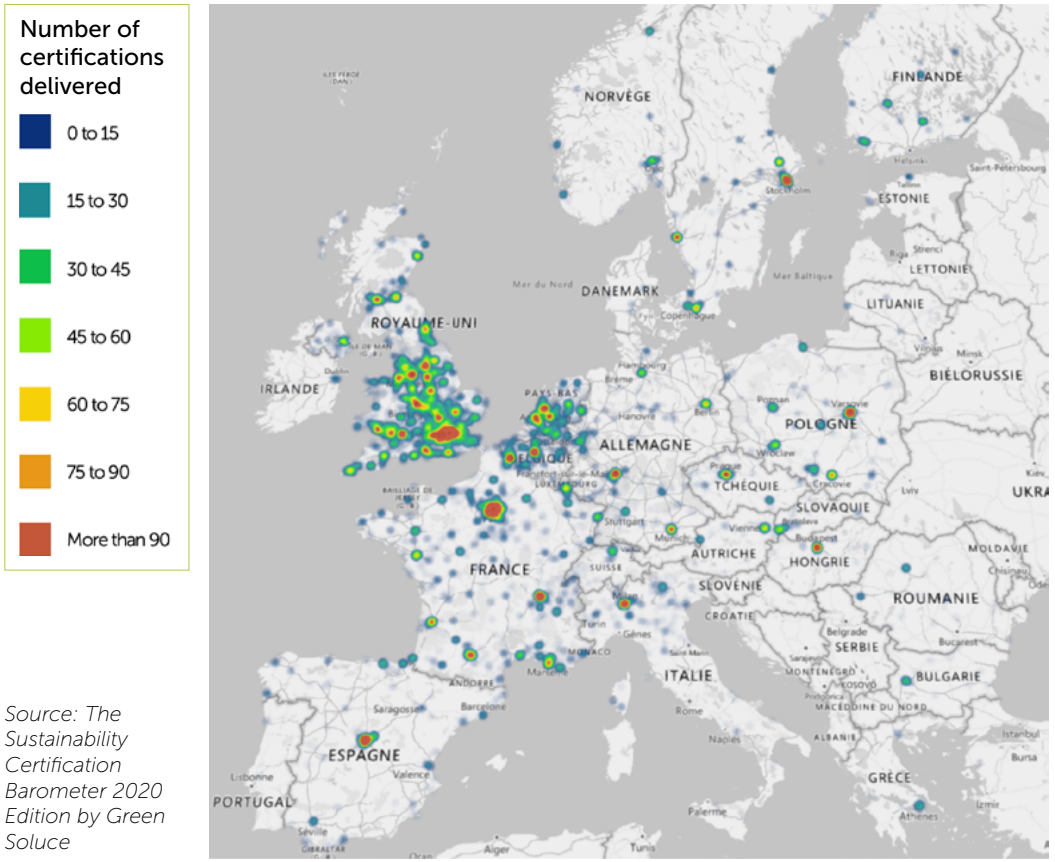
Approach and limits:

The barometer relies on the number of certifications delivered by certification bodies to capture overall trends in the certification market. As such, please note it does not provide information on the certifications delivered for assets that are managed or owned by the different types of respondents – institutional investors, fund managers, property companies – included in the scope of this study.

However, this appendix provides information on the practices of the overall European certification market. It can be further used as a benchmark tool to refer to when implementing a sustainable investment or management policy.

Sustainability certification market practices continue to grow across Europe since 2008

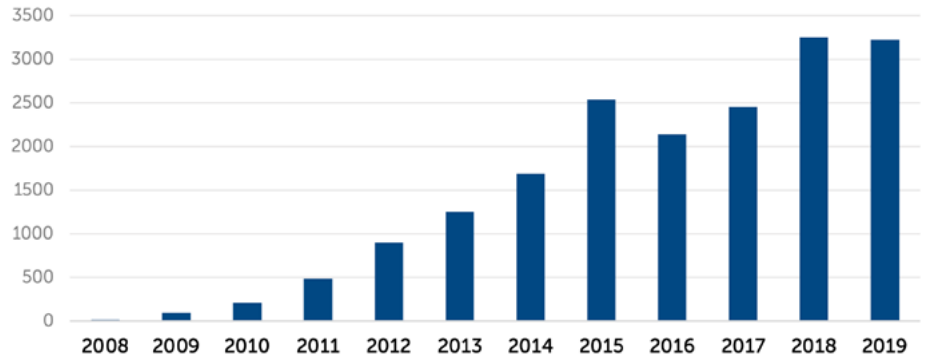
Fig 36: Breakdown of the total number of certifications delivered in Europe until 2019 (Excluding DGNB as information was not available at city level)



Source: The Sustainability Certification Barometer 2020 Edition by Green Soluce

The use of building certification schemes is observed across the United Kingdom, and Europe with significant numbers in large cities. Eastern European countries show an increased activity. Note that there are more than 1200 DGNB certifications delivered in Germany, 200 in Austria and 60 in Denmark. These are not included in figure 31 as the data was provided only at country level.

Fig 37: Breakdown of the number of certifications delivered per year in Europe by BREEAM, HQE, LEED, and DGNB.

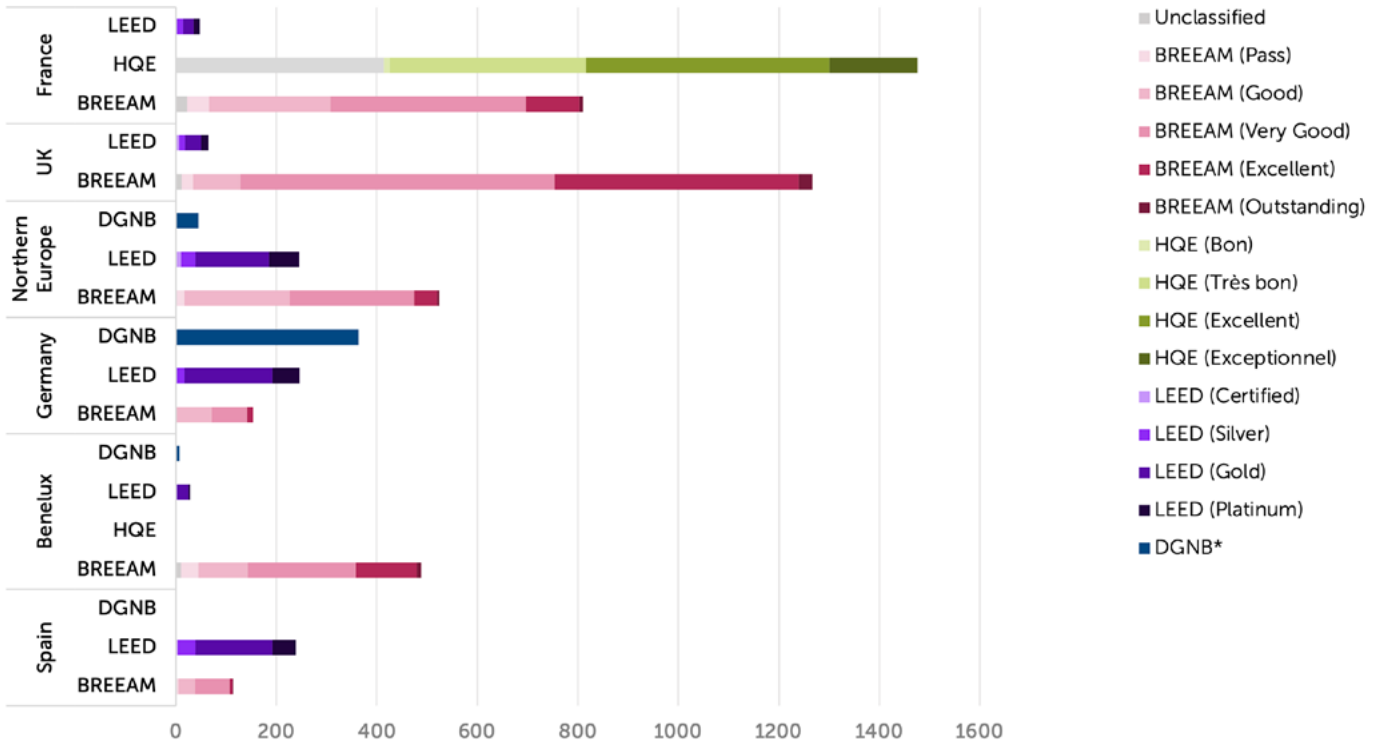


The number of certifications delivered per year is steadily increasing since 2008 in Europe, with a slowdown in 2016. The year 2019 shows a stagnation regarding delivered certifications compared to 2018, this difference could be explained by changes within certification schemes, as reported in the previous edition of the Barometer. In the current edition of the Barometer, the registered projects were not included as there were some missing information in the dataset analysed.

Definition:
A project is considered **certified** once a final certification is delivered, as reported by the certification body. A project can renew its certification, to keep a certified status.

BREEAM and LEED are present across Europe, and HQE and DGNB in specific regions

Fig 38: Comparison of the number of different types of certifications delivered and their performance levels present in Europe from 2008-2019 for office buildings.



** See Notes on limits to the datasets on the methodology*
Northern Europe includes Sweden, Finland, Norway and Denmark

Source: The Sustainability Certification Barometer 2020 Edition by Green Soluce.

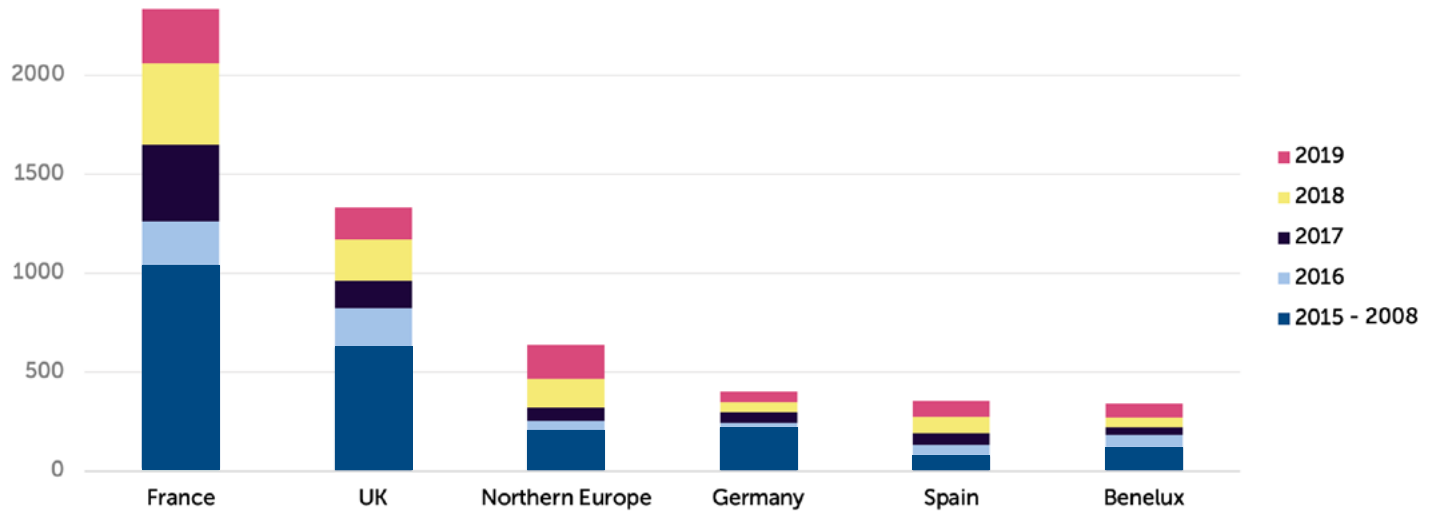
We observe that the international penetration of certification schemes differ between regions. BREEAM and LEED are widely observed in all regions, whereas HQE and DGNB are focused on the French and German speaking regions.

With regards to the performance level of different certifications, we observe:

- BREEAM with a distribution between Very Good and Excellent.
- HQE with a distribution between Very Good and Excellent.
- LEED with mainly a Gold level.

France and the UK lead in number of certifications delivered since 2008. A significant increase is observed in Northern Europe, Benelux and Spain between 2018 and 2019.

Fig 39: Breakdown of certifications issued in office buildings for various European countries from 2008 to 2019



Source: The Sustainability Certification Barometer 2020 Edition by Green Soluce.

The analysis by country shows an interesting dynamic. France, the United Kingdom and Northern Europe lead the group, followed by Germany, Spain and the Benelux with good dynamism. In Germany, the number of certifications delivered is spread in several cities, while for other countries they are concentrated in the capital cities (i.e. Paris, London, Warsaw and Stockholm). Moreover, certifications delivered in the last four years have more than doubled compared to the number of certifications delivered between 2008 and 2015.

APPENDIX 4:
LIST OF THE RESPONDENTS TO THE SURVEY

The list below presents the respondents to the digital survey that agreed to be mentioned. We thank all the respondents for their time and contribution to this study.

- 813 Capital Partners
- Accolade
- Assurances du Crédit Mutuel
- AEW
- AG2R La Mondiale
- Allianz Real Estate
- Alstria office REIT
- Altera Vastgoed
- Apache Capital Partners
- Ardian
- Areim
- Atland Voisin
- ATP Real Estate
- Aviva Investors Real Estate France
- BMO REP
- Bonum Utvikling
- Bouwinvest Real Estate Investors
- Catella
- CBRE Global Investors
- CDC Investissement Immobilier
- Citycon
- Cofinimmo
- Covéa Immobilier
- Covivio
- Deka Immobilien Investment
- Diös Fastigheter
- DNB Næringseiendom
- DNB REIM
- Dora Eiendom
- EDF Invest
- Edmond de Rotschild Reim France
- EQT Group
- ERAFP
- Europa Capital Partners
- Fokus Asset Management
- Foncière INEA
- Gecina
- Generali Investments
- Grosvenor
- Hathon
- Heitman
- Icade
- IDK
- InfraRed Capital Partners
- IPUT
- Ivanhoé Cambridge
- Keys REIM
- KGAL
- Klépierre
- La Francaise REM
- Lar España
- M&G Investments
- MACSF
- Mallin Eiendom
- NN Group
- Norwegian Property
- NSI
- Odfjell Eiendom
- OP Real Estate Asset Management
- PERIAL
- PGGM
- Primonial REIM
- Provinzial Asset Management
- QuadReal Property Group
- Quantum Immobilien
- Real I.S.
- Savills Investment Management
- Schroders REIM
- SCOR Investment Partners
- Selvaag Eiendom
- Société Foncière Lyonnaise
- Sirius Capital Partners
- Société de la Tour Eiffel
- Sonae sierra
- Swiss Life AM
- Unofi gestion d'actifs
- Varma Mutual Pension Insurance Company
- Wihlborgs
- Zambal Spain Socimi

APPENDIX 5:
LIST OF THE INTERVIEWEES

The list below presents the respondents to the interviews. We thank all the respondents for their time and their trust in sharing with us their highly valuable prospective vision.

AEW
Thierry Laquitaine, Head of SRI

Alstria
Olivier Elamine, Chief Executive

ATP Real Estate
Peter Hebin Bruun, Head of ESG

Aviva Investors
Edward Vaughan Dixon, Head of ESG - Real Assets

AXA Investment Managers - Real Assets
Maximilian Kufer, Global Sustainability Manager

BMO Real Estate Partners Germany
Iris Schoeberl, Managing Director Germany & Head of Institutional Clients

BNP Paribas REIM
Nehla Krir, Head of Sustainability & CSR

Bouwinvest Real Estate Investors
Bernardo Korenberg, Head of Sustainability & Innovation

Colonial
Albert Alcober Teixidó, Chief Operating Officer

Covivio
Jean-Eric Fournier, FRICS Chartered Surveyor, Head of Sustainability

Danica Ejendomme (Real Estate)
Christian Kahr, Chief Developer

Deka Immobilien Investment GmbH
Burkhard Dallosch, Managing Director

DNB Bank
Nina Ahlstrand, Head of Sustainable Finance
Magnus M Roed, Department Head, Corporate Banking – Real Estate & Construction

Entra
Anders Olstad, CFO
Trond Simonsen, Head of Sustainability

Gecina
Sabine Desnault, Executive Director R&D, Innovation and CSR

Gmp Property SOCIMI
José María Rey, Maintenance and Sustainability Manager

Great Portland Estates
Janine Cole, Sustainability and Social Impact Director

Groupama Immobilier France
Anne Keusch, Director of Sustainability Development and Innovation

La Française REM
Virginie Wallut, Head of Research and SRI - Real Estate

Moller Eiendom
Isak Oksvold, Director of Environment and Innovation

Norges Bank Investment Management
Christopher Wright, Head of ESG Risk Monitoring

PGGM
Hans Ot'p Veld, Head of Responsible Investment

Primonial REIM
Guillaume Regert, Head of Technical Asset Management
Daniel While, Head of Research and Strategy

Syntrus Achmea Real Estate & Finance
Roel Kalfsvel, Manager Sustainability

Varma
Johanna Haikala, Investment Manager
Anniina Isomäki, Portfolio Manager

APPENDIX 6:
EUROPEAN PARTNERS AND SUPPORTERS

European partners and supporters

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on

https://www.epra.com/

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We are Europe's leading platform for sharing knowledge on the non-listed (unlisted) real estate industry. Our goal is to improve transparency, professionalism and best practices across the sector, making the asset class more accessible and attractive to investors.

https://www.inrev.org/

European partners and supporters

Investment Property Forum (IPF) is one of the leading specialist property industry bodies in the UK. It comprises an influential network of senior professionals all active in the property investment market. The strength of the organisation lies in its diversity of its membership of around 2,000, including fund managers, REITs, investment agents, bankers, lawyers, researchers, academics, actuaries and other related professionals. It operates in London, Scotland, the Midlands and the North of England.

https://www.ipf.org.uk/

ZIA German Property Federation is the leading professional association and regulatory and economic policy interest group for Germany's real estate industry. Through its members, it speaks on behalf of 37,000 companies along the entire value chain. The industry accounts for 20% of total gross value added in Germany in 2020, 837,000 companies and around 3.3 million employees. Acknowledging its responsibility to fight climate change, the German building sector reduced annual CO2-emissions between 1990 and 2020 from 209 to 120 million tons per year.

https://www.zia-deutschland.de/

IVBN looks after the common interests of professional property fund managers. IVBN's objective is to promote a balanced real estate investment climate and good market functioning, particularly in the Netherlands. We do this by promoting professionalism, transparency, integrity, innovation and stimulating sustainability and reuse of the existing property stock. We emphasize the great social significance of investing in real estate to live and work in. By acting as a discussion partner for governments, regulators and other parties, we participate in the development and functioning of cities.

https://www.ivbn.nl/

WIRES is a non-profit association of female directors and board advisors dedicated to support the professional and personal development of all the expert women in the Real Estate sector and to cause an impact and influence the sector in trends including sustainability, digitalization, diversity among others.
WIRES aspires to serve as a meeting point, a networking hub and a promotion instrument for women in the Real Estate sector, contributing to their development and outreach to society. The main goal is to help women of all ages to grow professionally and achieve higher goals as well as to consolidate, secure and give visibility to their presence in the market.
WIRES also aims to be an influential RE body and actively participates in public-private agreements with different organizations and administration.

https://wires.es/

European partners and supporters

Norwegian Property Federation (Norsk Eiendom) is the association of leading commercial real estate businesses in Norway. The members are large and small real estate companies.

The federation organizes real estate companies, property developers and property managers that have formally applied for membership and agreed to the requirements (statutes).

Norwegian Property Federation is member of Confederation of Norwegian Enterprise (NHO).

https://www.norskeiendom.org/

The Danish Property Federation (Ejendom Danmark) is the trade association of the Danish property industry, representing owners, investors and managers of commercial and residential property.

The Federation's role and purpose is to assist its members in their aim to sustain and expand their businesses. The Federation will identify issues of private ownership and management of property, particularly those of legislative or regulatory nature. It will consider their implications, obtain the views of members, agree the industry's response and promote it to Government and other regulatory bodies.

https://ejd.dk/

RAKLI is the most comprehensive association of professional property owners, real estate investors, corporate real estate managers and construction clients in Finland. We represent our member's interests, participate in public debate and promote sustainable living environments. Moreover, RAKLI offers research information to support responsible decision-making and help our members to develop their expertise.

RAKLI has more than 220 members, which are Finland's most prominent owners of residential and commercial properties and infrastructure, property investors, biggest cities, as well as construction clients. The members represent both the private and the public sector.

https://www.rakli.fi/en/

APPENDIX 7: GLOSSARY

Glossary

- **Biodiversity:** Refers to all living organisms and the ecosystems in which they live. The term also includes the interactions of species with each other and with their environment.

- **BREEAM:** BREEAM® is the world's leading sustainability assessment method for master planning, infrastructure and building projects. It addresses all lifecycle stages including New Construction, Refurbishment and In-Use.

- **Circular economy:** An economic system of exchange and production which, at all stages of the life cycle of products (goods and services), aims to increase the efficiency of the use of resources and reduce the impact on the environment while developing the well-being of individuals.

- **CRREM:** The Carbon Risk Real Estate Monitor is a free spreadsheet tool for analysing the environmental and financial risk of environmental obsolescence of real estate assets.

- **DGNB:** The DGNB® certification system is a planning and optimisation tool for evaluating sustainable buildings, interiors and districts. It was developed to help organisations enhance the tangible sustainability of construction projects. The DGNB® System is based on the concept of holistic sustainability, placing equal emphasis on the environment, people and commercial viability.

- **ESG Integration:** The systematic and explicit consideration by investment managers of environmental, social and governance factors into financial analysis.

- **FNG-Siegel:** The FNG-Siegel is the quality standard for sustainable investment funds in German-speaking countries. It came onto the market in 2015 after a three-year development process with the involvement of key stakeholders. The associated sustainability certification must be renewed annually.

- **French Greenfin Label:** Created by the French Ministry of Energy and Ecological Transition, the Greenfin label guarantees the green quality of investment funds and is aimed at financial players who act for the common good through transparent and sustainable practices. The label has the particularity of excluding funds that invest in companies operating in the nuclear and fossil fuel sectors.

- **HQE:** The HQE™ certification (High Environmental Quality) will appeal to building owners, public bodies, users, real estate developers and investors, as well as planners and local authorities. HQE™ is an evaluation and certification tool which gives evidence of a successful commitment to achieving a building or territory in line with sustainability.

- **Impact/community investing:** Targeted investments aimed at solving social or environmental problems. Impact investing includes community investing, where capital is specifically directed to traditionally underserved individuals or communities, or financing that is provided to businesses with a clear social or environmental purpose.

  LEED: Leadership in Energy and Environmental Design (LEED®) is a globally recognized symbol of excellence in green buildings and communities. LEED® certification ensures electricity cost savings, lower carbon emissions and healthier environments

- **LuxFLAG:** LuxFLAG is an independent and international non-profit organisation that aims to promote the mobilisation of capital for sustainable investment. The LuxFLAG ESG label is awarded to investment funds that integrate the analysis of environmental, social and corporate governance ("ESG") considerations throughout their investment process.

- **Negative / exclusionary screening:** The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.

- **Norm-based screening:** Investments aligned with international standards

- **Osmoz:** The OsmoZ® label brings together a set of new and concrete solutions (evaluation, training, label, benchmarking) to improve the comfort and wellbeing of employees and the CSR performance of organizations through the construction design of buildings, interior design, but also HR services and policies.

- **Positive / Best-in class-screening:** Investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers.

- **Sustainability themed investing:** Investment in themes or assets that address specific sustainability issues such as climate change, food, water, renewable energy, clean technology and agriculture.

- **WELL:** The WELL™ Building Standard is the first standard for buildings, interior spaces and communities seeking to implement, validate and measure features that support and advance human health and wellness.

APPENDIX 8:
ESG FRAMEWORKS

ESG Framework

- **CDP:** The CDP (formerly the Carbon Disclosure Project) is an international non-profit organisation based in the United Kingdom, Germany and the United States of America that helps companies and cities disclose their environmental impact. It aims to make environmental reporting and risk management a business norm, driving disclosure, insight, and action towards a sustainable economy. Since 2002 over 8,400 companies have publicly disclosed environmental information through CDP.

- **EPRA Sustainability BPR (sBPR):** EPRA sBPR Guidelines provide a consistent way of measuring sustainability performance in the same way that BPR for financial reporting have made the financial statements of listed real estate companies in Europe clearer and more comparable.

- **GRESB:** The GRESB (Global Real Estate Sustainability Benchmark) is a private for-profit environmental labelling organisation. Created in 2009, it is specifically dedicated to the real estate asset sector. It is the international comparator of the ESG performance of «real» assets and its main target are real estate investors.

- **GRI:** The Global Reporting Initiative (GRI) was established in late 1997 with the mission to develop globally applicable guidelines for sustainable development and to report on economic, environmental and social performance, initially for companies and subsequently for any governmental or non-governmental organisation.

- **INREV Sustainability Reporting Guidelines:** The value of Sustainability Reporting is that it ensures organisations consider their impacts on sustainability issues, and enables them to be transparent about the issues they face. This increased transparency leads to better decision making, which helps build and maintain a sustainable real estate sector.

- **SASB:** The Sustainability Accounting Standards Board (SASB) is a non-profit organization, founded in 2011 to develop sustainability accounting standards. Investors, lenders, insurance underwriters, and other providers of financial capital are increasingly attuned to the impact of environmental, social, and governance (ESG) factors on the financial performance of companies, driving the need for standardized reporting of ESG data.

- **SBT:** The Science Based Targets initiative (SBTi) is a "joint initiative by CDP, the UN Global Compact (UNGC), the World Resources Institute (WRI) and WWF intended to increase corporate ambition on climate action by mobilising companies to set greenhouse gas emission reduction targets consistent with the level of decarbonisation required by science to limit warming to less than 1.5ºC / 2°C compared to preindustrial temperatures".

- **SRI label:** The SRI label («socially responsible investment» label) is a French label created in 2016 by the French Ministry of Economy and Finance. Its objective is to offer greater visibility to French investment funds that comply with the principles of socially responsible investment.

- **TCFD:** The Task Force on Climate-Related Financial Disclosures (TCFD) was created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.

- **UNPRI:** Principles for Responsible Investment (UNPRI or PRI) is a United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as «the Principles». Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system.

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