Results GREEN Engagement

Global Real Estate Engagement Network

Listed Real Estate Program 2022

26 April 2023

Introduction

Environmental factors are becoming increasingly important in real estate. Legislative and regulatory requirements for curbing emissions to ensure net-zero compliance by 2050 at corporate level are ever more likely, while at the other end of the spectrum there is increasing focus on measures that target tenants and owners. Real estate investors too are increasingly required to demonstrate and report on the sustainability of their investments. These developments coupled with the physical risks associate with global warming mean that real-estate portfolios are becoming increasingly vulnerable to climate change on a range of levels.

GREEN is a collaborative engagement network for the real estate industry focused on climate risk management. It is launched in September 2021, and could be considered the first official collaborative engagement initiative in the Industry. So far GREEN has now 21 members, which represents over $ 2 trillion of total AuM.

GREEN's mission is described in the investor statement* and calls for four actions from the real estate industry to enable investors to manage their climate risk. GREEN members ask from listed real estate companies and non listed fund managers to:

1. Disclose relevant data (energy, carbon and asset location),
2. Have a strong governance framework, including (science based) target setting
3. Have transition pathways in place and accompanying asset level plans
4. Promote certified data

To measure whether listed real estate companies and non listed funds are acting in line with the asks in the investor statement, GREEN has developed a dashboard which tracks this per company and fund. This is the first public annual report of GREEN, which will discuss the main engagement findings and results of the engagements of 2022 and lists the outcomes of the dashboard assessments, and finishes with a number of good practice examples. Due to the private nature of non listed funds, this public report only focuses on listed real estate.

If you would like to know more about GREEN, please check our website: www.green-engagement.org

* Note: To view the GREEN Investor Statement, please refer to https://green-engagement.org/#information.

GREEN's listed real estate company engagements in 2022
Executive summary

GREEN's engagement findings

- More than half of large cap listed real estate companies have set a Science Based Target, and a third have set a Net Zero target.
- European companies are more likely to commit to Net Zero targets.
- More than 1 in 2 large cap companies are conducting physical risk assessments.
- Less than one fifth of small cap companies have a Net Zero or Science Based targets.
- The majority of companies are disclosing energy and GHG emissions data, but nearly half do not participate in GRESB.
- Companies are reluctant to adopt building certification, prioritising energy and CO2 efficiency measures on cost grounds.

GREEN's achievements in 2022

- 36 engagement interviews conducted with Large Cap public real estate companies based on Investor Statement asks.*
- GREEN members engaged intensively on Investor Statement topics with another 20 non-listed real estate funds. Findings form these engagements are comparable with findings from listed engagements.
- Developed a monitoring dashboard for tracking companies' climate risk management strategies across Governance, Implementation, Certification and Disclosure.
- 60 climate risk management assessments of the largest real estate companies.
- 77 survey responses from small cap real estate companies

* Note: To view the GREEN Investor Statement, please refer to https://green-engagement.org/#information.

10 findings from GREEN's engagements in 2022

1. Companies are improving their data collection and target setting. There has been progress but it has been insufficient leaving significant transition and physical risks for investors

2. In terms of climate risk management, generally, Europe is ahead of Asia, which is ahead of the US. US companies are more reluctant to commit to Net Zero (scope 3) and to take deep retrofit measures. The office sector is leading, responding to tenant demand, while the triple net sector is lagging

3. The countries, sectors and companies which have made least progress are more likely to focus on green energy procurement and use offsets instead of increasing energy efficiency and adopting heat electrification. As this does not improve the actual performance, the transition risk of investors is not reduced.

4. Stakeholder pressure is key to regional differences in climate risk management efforts. Some US companies see stricter legislation as the only way to achieve deep retrofit investments.

5. Companies' lack implementation plans for reaching targets regardless of region and sector. Companies only report their CO2/energy performance data and current targets and but not their future objectives.

6. CRREM is gaining ground as a tool for assessing transition climate risks, but disclosure among companies is scarce. Companies consider disclosing results as a risk, and have concerns about the quality of the tool

7. In a similar vein, companies are assessing physical risk but are hesitant to publicly disclose results. They will start disclosing when their peers also disclose their assessments.

8. The majority of companies aren't increasing the certification their portfolios. Many of these companies prioritize taking measures to increase energy/CO2 efficiency rather than paying for costly building certifications.

9. Ultimately, GREEN members would like to see companies develop asset level sustainability improvement plans. Although, no company had plans in place, many are currently examining them for the future.

10. Embodied carbon generally gets much less attention from companies compared to operational carbon. However, there are some good examples of companies measuring and reporting embodied carbon emissions, and committing to embodied carbon targets

Large cap company assessments

Highlights from the dashboard assessment

33% have committed to Net Zero on scope 1-3, and 52% have an intermediate science-based target

17% have a high-level implementation pathway. No company has asset level sustainability plans.

52% are conducting physical risk assessments across their portfolio, but only 17% disclose results at the portfolio level.

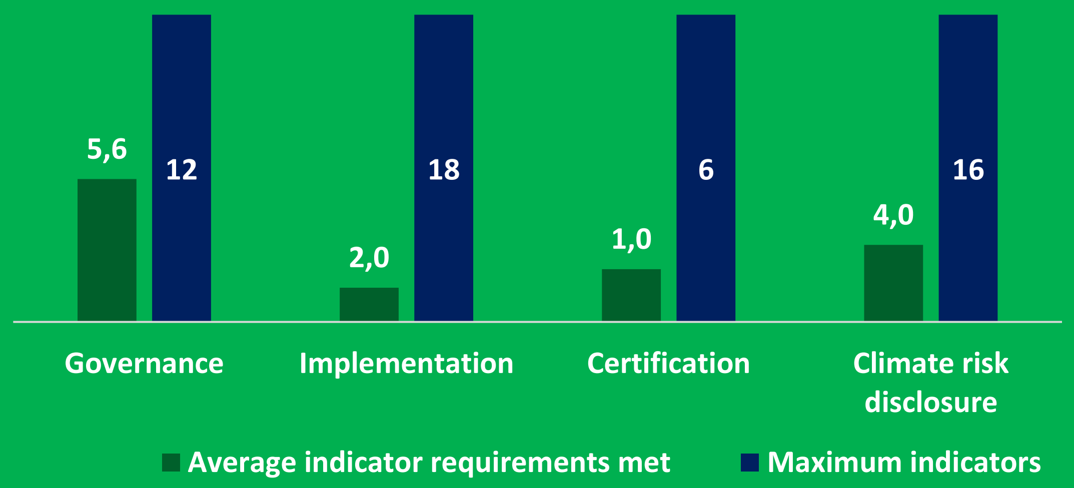
25% appear to be on track according to CRREM decarbonization pathways. The other 75% are not on-track or lack data.

86% of European companies are committed to Net Zero (including scope 3). 50% of Asian and 13% of US companies are committed to Net Zero.

The monitoring dashboard

- GREEN has developed a dashboard that tracks the progress of companies' climate risk management efforts against the Investor Statement.*
- GREEN has set a baseline assessment of 60 listed companies. Next year GREEN will be able to track progress of these companies.
- The dashboard has been academically validated.**
- The dashboard covers 52 indicators, across 4 themes.
- On average, companies currently meet the requirements of 13 indicators.

Average indicator requirements met by dashboard topic



* Note: the dashboard can NOT be interpreted as a score. Therefore, no conclusions can be drawn purely based on the number of achieved indicators by one company relative to another company.

** Note : The dashboard has been independently validated by the University of Maastricht

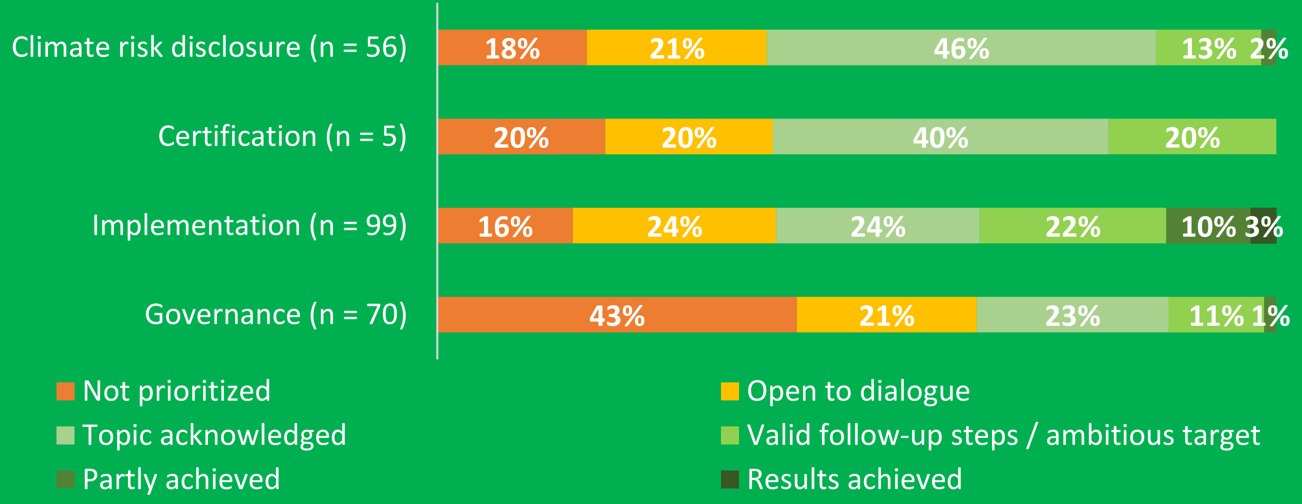
GREEN’s listed real estate company engagements in 2022

36 Engagement meetings

Highlights

GREEN:-

- Members engaged 36 listed real estate companies in one-on-one interviews.
- Surveyed 284 companies, using customised questionnaires, gathering 77 responses.
- Assessed 60 companies across key engagement headings using 52 indicators in a newly developed dashboard to monitors companies.
- Established 230 milestones for the dashboard’s 52 indicators to track progress of conversations*.
- Most often measured the indicator ‘Net Zero target’ as not prioritized, which is also the indicator that was discussed most in general.
- Observed that more acknowledged indicators by companies are about the necessity of carrying out energy audits, increasing data coverage and carrying out physical risk assessments.



* Note: see appendix for explanation of milestones

Some good practice examples within specific sectors and regions

Sector: Retail centres
Region: Europe
Good practice topic: Target setting
Good practice: They have committed to reduce emissions from visitor travel by 40% in 2030 compared to 2015, and have also set a target for reducing embodied carbon emissions (next to targets on energy/CO2/renewable energy). Both embodied carbon and visitor transport are relevant parts of scope 3 emissions. It is commendable that they have set these targets, especially as Unibail is not a development company and it's not mandatory to include emissions from visitor transport or embodied carbon according to most frameworks for target setting. We hope to see other retail, as well as self-storage and logistics real estate companies follow this example.

Sector: Retail centres
Region: APAC
Good practice topic: Carbon Risk Real Estate Monitor (CRREM) tool use and disclosure
Good practice: In 2021 Link REIT, as one of the first Asian companies to do so, piloted the adoption of the CRREM tool to identify stranded assets, stranding year and respective retrofit costs incurred, and disclosed their results. Sharing this information gives investors insight into their transition climate risk exposure. It will be important to know which assets and portfolios have to be improved if stricter regulations were applied to the energy or CO2 efficiency of buildings . This is of course a global phenomenon, which is why it is good to see that Link REIT has shared the results of their assessment. Hopefully more real estate companies will follow globally.

Sector: Diversified (retail, logistics, office)
Region: APAC
Good practice topic: Physical risk dislcosure
Good practice: Stockland assesses not only the gross risk to their assets from physical risk, but also the resilience of their properties. They give resilience scores to their assets based on vulnerability to climate change, particularly their ability to endure severe weather impacts and operate without disruption. It is important for real estate companies to share with investors how exposed their portfolio is to physical climate risks and how they have dealt with or plan to deal with this exposure as investors ultimately bear the costs of damage to an asset. We encourage all real estate companies to share asset level exposure to physical risks, like Stockland.

- **Sector:** Net lease real estate companies
- **Region:** North America
- **Good practice topic:** Tenant engagement
- **Good practice:** Realty Income has limited control of its assets, which is why the company aims to build strong relationships with tenants to achieve a shared long-term goal of reducing the environmental impact of their portfolio. Therefore, the company monitors howhow many tenants set and commit to science-based targets. This is an important, albeit small first step towards a proper climate risk management framework and demonstrates a sense of responsibility for the company's carbon footprint. It will hopefully lead to net lease real estate companies taking full responsibility for their emissions and committing to Net Zero scope 1-3 targets in future.

Small-cap companies survey

To achieve full engagement coverage over the FTSE/EPRA/NAREIT developed, a survey was sent out to 284 small cap companies (Universe) who are within the index but are not part of the top 60 based on market capitalization. Six topics were covered in the survey: target setting, CRREM use, disclosure of energy/GHG data, GRESB participation, asset level plans, and building certification.

Universe		Response group
284	Number of companies	77
56%	Participate in GRESB	66%
77%	Disclose energy/GHG data	84%
66%	Has a target	73%
18%	Has Science-based targets	27%

Highlights from survey response group

Survey — The response rate was 27%. Companies that already have a target were more likely to participate in the survey.

GRESB — 34% are not participating in GRESB. Half of these companies will participate in the next GRESB assessment.

Data — 84% are disclosing data. All companies who are not disclosing data now will also disclose data in the coming year.

Target — 58% of companies with a target will set SBTs in the coming year. 95% of those without target will also set a target.

SBTs — 27% already have Science-based targets (SBTs). 73% of these SBTs includes tenant consumption (leased area) and 43% includes embodied carbon.

Asset plan — 76% aim to formulate asset-level plans. Half of this group aim to formulate asset level plan for above 75% of the portfolio.

Cert. — 13% already achieve building certification for above 75% of the portfolio. 32% also aim to achieve this.

CRREM — 39% use CRREM and half of this group disclose CRREM results. 74% of those not using CRREM are monitoring performance using other tools.

Concluding comments

1 The evidence from the 2022 engagements and discussions with the industry more widely, suggests public real estate :

- companies are progressing towards decarbonisation but not on track to meet Net Zero targets.
- have Net Zero ambitions, in 33% of cases, but even those do not have convincing implementation plans in place.
- over-rely on offsetting and green purchases, which cannot remove transition risks.
- are downplaying risks through non-disclosure of physical and transition risks - which will likely require more and deeper retrofits than currently planned for.

2 It is important that Asset Managers, including generalist equity investors and passive equity managers:

- acknowledge that engaging the listed real estate sector is important, as real estate is responsible for 30-40% of energy use and carbon emissions.
- ask real estate companies to take more tangible steps to lower the financial and non-financial climate risks from real estate and adopt climate risk management measures that meet shareholders' standards.
- consider engaging companies either as a part of GREEN; individually based on principles like those in the GREEN investor statement; or according to their own public statements about managing climate risk.

3 It is important that Asset owners:

- ask general equity and real estate managers to engage listed real estate companies in their portfolios and, whenever possible, collaborate with other investors to reduce costs and increase effectiveness.

GREEN members

ABP
apg
CenterSquare INVESTMENT MANAGEMENT
NEUBERGER BERMAN

Testina
PENSIOENFONDS ACHMEA
BPF Schilders Het pensioenfonds voor de schilderssector
Pensioenfonds Detailhandel

pf STICHTING PENSIOENFONDS HOOGOVENS
pme. pensioenfonds
Nedlloyd Pensioenfonds

PMT pensioenfonds Metaal & Techniek
Philips Pensioenfonds
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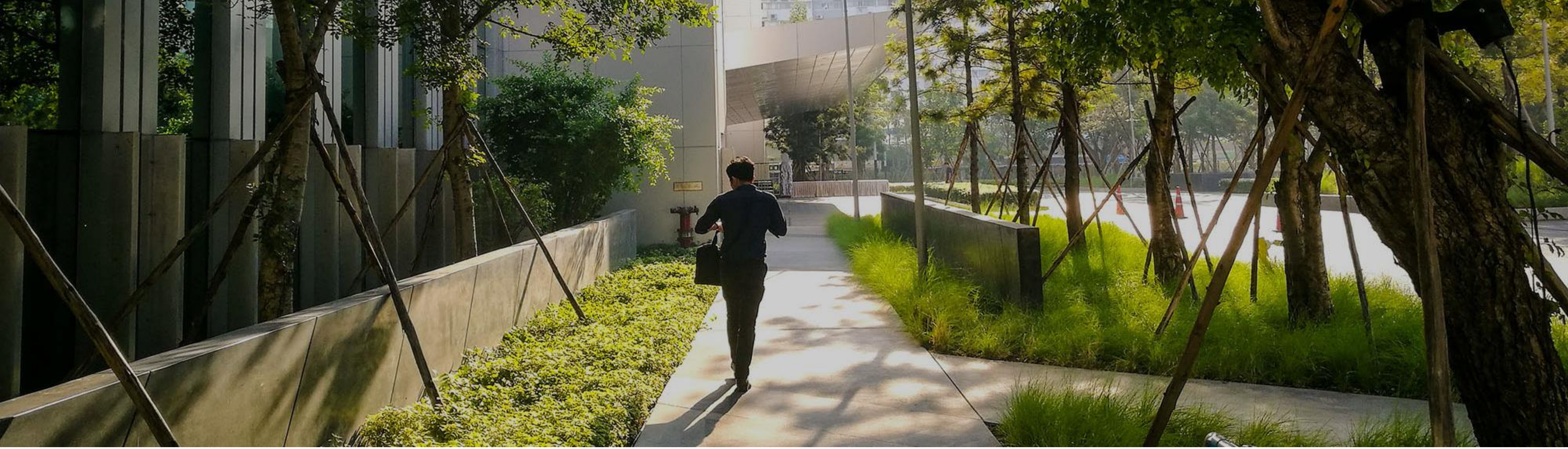
Appendix: Milestones and definitions for monitoring progress of companies' climate risk management efforts

Milestone	Definition	Color code
Not open to dialogue	Fund does not regard the topic as being relevant to them	Not in progress
Not prioritized	Fund will not look at it (for now)	Not in progress
Open to dialogue	Fund is willing to discuss possible approaches to address the topic	In progress
Topic acknowledged	Fund is currently discussing how to approach / has done some background research to determine their approach	In progress
Valid follow-up steps / ambitious target set	Fund is actively taking steps to address the topic currently / has set an ambitious target to address the topic	In progress
Partly achieved	Results are achieved but the quality or ambition is not completely in line with our ask / results are achieved but not disclosed yet	Achieved
Results achieved	Results are achieved and disclosed	Achieved



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