

MARCH 2019

# Global ESG Real Estate Investment Survey Results



## ABOUT THE AUTHORS



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Bentall Kennedy's Vice President, Sustainability & EHS, is a UNEP Finance Investment Committee Member and Co-Chair of the Property Working Group (PWG) with the global mandate to drive adoption of sustainability in real estate investment and property management. Bentall Kennedy shares responsibility for developing and monitoring the UNEP FI sustainability strategy for the investment industry and engaging with leading global investors to address pressing sustainability issues.

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Founded in 1970, REALPAC is a globally active Canadian not-for-profit association dedicated to advancing the long-term vitality of Canada's investment real property sector. The association advances global accounting, tax, market, sustainability, and governance best practices throughout the commercial real estate industry. Its membership includes large public and private companies, and Canadian pension funds, banks, life insurers, and fund managers; and is led by each company's Chief Executive or top real estate officer. REALPAC has become a leader in professionalizing investment real estate in Canada through: collaborations with global platforms such as UNEP FI PWG, GRESB, and MSCI; participation with groups such as the International Property Measurement Standards Coalition (IPMSC), the Royal Institution of Chartered Surveyors (RICS), the Urban Land Institute (ULI), and the Canada Green Building Council (CaGBC); and global partnerships with regional associations in the listed real estate securities space through the Real Estate Equity Securitization Alliance (REESA), and through a global partnership with regional associations in the non-listed real estate space through the Alliance of International Fund Associations (AIFA).

REALPAC's CEO is Advisor to the UNEP FI PWG.

*For more information, visit [realpac.ca](http://realpac.ca).*



### UNEP FI (PWG)

The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 230 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's environmental, social, and governance (ESG) challenges, why they matter to finance, and how to actively participate in addressing them.

The UNEP FI Property Working Group (PWG) is a collection of more than 25 institutional investors, asset managers, and commercial banks committed to enhancing property value by reducing the sector's energy and resource consumption and greenhouse gas emissions, addressing occupant health and well-being, and improving the physical and social environments where its assets lie. The PWG works to: drive innovation in Responsible Property Investment (RPI) so that ESG criteria are systematically applied and integrated into investment; collect and provide evidence to show how RPI can protect or increase financial performance throughout the lifecycle of buildings; and collaborate with policy-makers and the real estate investment community on developing and establishing the appropriate policy and regulatory frameworks for RPI practices to grow.

For more information, visit [unepfi.org/investment/property/](https://unepfi.org/investment/property/)

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La Française  
LaSalle Investment Management  
Link Asset Management Limited  
M&G Real Estate  
Nomura Real Estate Asset Management  
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Asian association for Investors in Non-listed  
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Institute for Market Transformation (IMT)  
Pension Real Estate Association (PREA)  
Real Estate Board of New York (REBNY)  
The Association of Real Estate Funds (AREF)



## FOREWORD



**Eric Usher**  
Head, UNEP FI

The share of global energy use and greenhouse gas emissions attributable to the property sector has been well publicized. Its outsized share against these metrics – approximately one-third of global greenhouse gas emissions and 40% of global energy consumption – means the property sector carries particular responsibility and relevance for achieving the carbon emission reductions necessary to meet the goals set out in the Paris Climate Agreement. In fact, following through on the commitments made in Paris means avoiding 77% in total CO<sub>2</sub> emissions in the buildings sector by 2050 compared with present levels.

In early 2016, the Property Working Group of UNEP FI, along with several collaborators, published a [Sustainable Real Estate Investment Framework](#) to guide property owners, their advisors, and investment managers through the critical and achievable steps they can take to realize these emission reductions while maintaining and enhancing the value of their assets. The publication offered both a call to action and a clear process guide for setting the strategic direction and taking the tactical steps so that real estate investment and management becomes synonymous with low-carbon and climate-resilient built environments. As a major holder of private and national wealth, it is critical that the property sector reaches these goals. As more and more evidence emerges that establishes the correlation between financial gain and environmental performance of real estate assets, there is ample motivation to do so.

In the intervening years since the Framework was published, the need for sustained and accelerated climate action has only grown. While progress has been uneven, the actions of numerous governments, private finance actors, and industry bodies offer a firm foundation for coordinated public and private climate action. For example, the recommendations of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD), which have resonated strongly with lenders and investors worldwide, clearly show that managing the transition to a low-carbon economy and the physical impacts of a changing climate are becoming part of the common language within financial services. The numerous property companies that have committed to and set science-based targets further show the compatibility between aggressive carbon management and financial returns. And the European Commission, as part of its Sustainable Finance Action Plan, is developing metrics and targets for green buildings, demonstrating willingness at the highest regulatory level to support and steer financial markets towards a net zero emission European economy by 2050.

I commend Bentall Kennedy and REALPAC for leading this survey and report that is providing a critical snapshot on investor progress and changes in attitudes since the 2015 Paris Agreement. Their efforts have generated responses from institutions representing over \$1 trillion USD in assets under management from owners and investors across the globe. It provides a unique perspective and evidence base of the progress being made and the even greater positive changes within the sector that are possible. It shows the vast majority of respondents are taking ESG considerations into account for acquisitions and using ESG as a lever to lower risk, and that tenants and owners are presently asking and expected to demand more from asset managers to address climate risk. We look forward to working closely with the participating institutions in the Property Working Group and the many others who added their views to the survey on realizing the enormous climate action potential of the real estate industry.

## EXECUTIVE SUMMARY

There is an incredible opportunity to create value by addressing Environmental, Social & Governance (ESG) risks in the real estate sector – placing investors and fund and asset managers at the forefront of sustainable investing and management.<sup>1</sup> Buildings account for approximately one-third of global greenhouse gas emissions and consume 40% of global energy. Remaining within 2 degrees Celsius of warming compared with pre-industrial levels translates to a need for the global average building energy intensity per unit of floor area to be at least 30% lower in 2030 than current levels.<sup>2</sup> Following the [Paris Agreement](#), the United Nations Environment Programme Finance Initiative (UNEP FI) and its collaborators produced [Sustainable Real Estate Investment – Implementing the Paris Climate Agreement: An Action Framework](#), to support the real estate sector in meeting the low-carbon goals of the agreement.

UNEP FI, Bentall Kennedy, and the Real Property Association of Canada (REALPAC), in their respective capacities as Co-Chair of, and Advisor to, the UNEP FI Property Working Group (PWG), conducted an ESG survey of global real estate investors and fund and asset managers. The survey was conducted to better understand how the attitudes, strategies, and practices of real estate investors and fund and asset managers are incorporating ESG criteria, and the degree to which they may need to strengthen their commitments so that their portfolios are aligned with the objectives of the Paris Agreement.

The survey took place between September 2018 and February 2019 and involved respondents who collectively represent more than \$1 trillion USD of assets under management (AUM).

This report summarizes the survey findings and provides a global perspective on the ESG investment intentions of major investors from three global regions: Asia-Pacific, North America, and Europe.

The survey of global real estate investors and fund and asset managers reveals the following key insights:

93%

include ESG criteria in investment decisions

90%

plan to further analyze ESG criteria over the next 12 months

85%

are highly or very highly motivated to use ESG criteria to lower risk

83%

have experienced an increase in investor demand for sustainability disclosure

There is a clear indication that survey participants are using ESG criteria in their investment decisions and have built up their internal capacity accordingly. For these organizations, ESG integration is core to their investment decision-making and embedded in risk management and value creation processes. Furthermore, these findings suggest a foundation from which the greater ambition and action needed to meet the Paris Agreement's climate objectives can be enacted – in terms of business processes and practices to measure and manage the low-carbon transition, as well as the relationship between low-carbon and resilient portfolios and risk-adjusted financial returns.

<sup>1</sup> UN Environment, "Sustainable Buildings," accessed February 22, 2019, <https://www.unenvironment.org/explore-topics/resource-efficiency/what-we-do/cities/sustainable-buildings>

<sup>2</sup> Global Alliance for Buildings and Construction, "2018 Global Status Report: Towards a zero-emission, efficient and resilient buildings and construction sector," accessed February 25, 2019, <https://globalabc.org/uploads/media/default/0001/01/f64f6de67d55037cd9984cc29308f3609829797a.pdf>

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# 1.0 INTRODUCTION

The purpose of this study is to provide a snapshot of Environmental, Social & Governance (ESG) action in real estate investment decision-making and management. Addressing ESG risks is consistent with investor fiduciary duty to enact due diligence, manage risk, and generate long-term value for clients and stakeholders. Effective ESG integration is critical for investors navigating the risks and opportunities associated with the [transition \(low-carbon\) and physical \(climate impact\) risks](#) of climate change.

Many ESG risks are becoming increasingly material for the real estate sector. According to the United Nations, buildings consume 40% of global energy, making GHG emissions the most material environmental impact of real estate. As physical impacts of climate change affect real estate assets in a variety of ways, from extreme weather to sea level rise, real estate investors and fund and asset managers need to be positioned to proactively address those risks. Examples of other ESG risk categories in addition to climate change (environmental) are contribution to local communities (social), and bribery and corruption (governance).<sup>3</sup> While the survey was conducted to capture views on ESG expansively, most of the questions and results focused on the environmental factors.

The urgency of climate action has been recently reinforced by the Paris Agreement. It aims to keep global temperature rise well below 2 degrees Celsius above pre-industrial levels, and pursue efforts to limit the temperature increase to 1.5 degrees Celsius.<sup>4</sup> To support investors in meeting this challenge, UNEP FI PWG and its collaborators released the [Sustainable Real Estate Investment – Implementing the Paris Climate Agreement: An Action Framework](#) in February 2016. The document is a step-by-step

operational framework that real estate investors can apply systematically to integrate ESG and climate risks factors into their investment processes.

#### THE FRAMEWORK SETS ACTIONS SPECIFIC TO:

- Asset Owners and Trustees, and their Investment Advisors
- Direct Real Estate Investment Managers and Property Companies, and their Real Estate Consultants
- Real Estate Equity and Real Estate Investment Trusts (REITs), Bond and Debt Investors, and their Financial Advisors

#### ACTIONS ARE GROUPED AROUND:

- **Strategy:** developing an ESG and climate strategy based on material risks
- **Execution:** integrating ESG and climate in investment activities, including alignment in mandates and selection, service contracts and agreements, and compensation linked to ESG and climate
- **Feedback loop:** monitoring and reporting through industry benchmarks and standards, and focus on financial value linked to ESG and climate
- **Engagement:** showing active leadership, for example through policy engagement and contribution to research initiatives to improve regulation and market norms for ESG integration and climate action

In the period since the Framework's release, the evidence for greater ambition and action by investors and managers to positively contribute to climate action and avoid risks of stranded assets has grown.

<sup>3</sup> PRI Association, "What is Responsible Investment?," accessed January 20, 2019, <https://www.unpri.org/pri/what-is-responsible-investment>

<sup>4</sup> United Nations, "The Paris Agreement," accessed February 26, 2019, <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

## Breakdown of Survey Participants by AUM (\$1 Trillion + USD)

North  
America



43%

Europe



32%

Asia-  
Pacific



25%

# 2.0 METHODOLOGY

For this study, a [30-question survey](#) was conducted between September and November 2018. The survey contained both multiple choice and open-ended questions. Respondents had the option to answer anonymously or share their identity and company. Eight respondents also participated in a follow-up survey in December 2018 to provide further detail on their initial answers. The [follow-up survey](#) consisted of seven open-ended questions. Data analysis for this study was conducted up until February 2019.<sup>5</sup>

In total, 44 companies were surveyed, representing more than \$1 trillion USD of global AUM. A total of 97 real estate organizations were contacted, thus resulting in a 45% survey response rate. A breakdown of participants by region and AUM can be seen below:

**TABLE 1** Survey Participation by Region and AUM

Region	Responses		AUM (\$USD)	
North America	18	41%	\$468 billion	43%
Europe	14	32%	\$354 billion	32%
Asia-Pacific	12	27%	\$280 billion	25%
<b>Total</b>	<b>44</b>	<b>100%</b>	<b>\$1.1 trillion</b>	<b>100%</b>

The respondents consisted of both investors and fund and asset managers. 58% of respondents identified as fund or asset managers and 22% identified as investors. The remaining 20% identified as “other” which includes REITs and those who chose not to disclose their organization type.

**TABLE 2** Survey Participation by Region and Organization Type

	Global	North America	Europe	Asia-Pacific
Investors	22%	33%	18%	8%
Fund & Asset Managers	58%	44%	61%	75%
Other*	20%	22%	21%	17%

\*Other” includes REITs and respondents who chose not to disclose their organization type

<sup>5</sup> Not all survey participants responded to every survey question. All participants who skipped a question were excluded from the analysis of that particular question. All percentages in this report are rounded to the nearest whole number.



## Integrating ESG in Investment Criteria

The survey revealed:

68%



Take into account  
GHG emissions  
management of  
potential acquisitions

80%



Consider building  
sustainability  
benchmarking  
data in investment  
decisions

91%



Use sustainability  
disclosure  
frameworks

# 3.0 RESULTS

The survey results are analyzed throughout the three main sections of this report. First is the analysis of how the respondents are currently integrating ESG criteria within their organizations. Next is a discussion on the business case for ESG and the drivers that are motivating respondents to use ESG criteria. Finally, there is a look at how the respondents are using ESG criteria to enhance future sustainability performance.

## 3.1 Integrating ESG Criteria

The survey indicates that the majority of respondents understand what ESG is and assess related risks and opportunities in their investment decisions. The survey results described below show the ways and degrees to which ESG integration is captured in respondent strategies; executed in investment activities; and is assessed and reported.

**93%**  
of respondents  
include ESG criteria  
in investment  
decisions.

*“Integrating ESG considerations not only during initial due diligence but throughout the investment management process helps ensure we are identifying and mitigating risks and unlocking value creation opportunities. Having a strong ESG program enables us to manage our investments with integrity, balancing economic goals with good corporate citizenship and helps us ensure that our business model will be sustainable well into the future.”*

**Lisa Brylowski**  
Director, Portfolio Management  
Brookfield Property Group

### Strategy

The Framework states that having an ESG strategy focused on material risks and opportunities will enable investors and fund and asset managers to understand and decide the most appropriate approaches to manage these risks. When respondents were asked which specific issue areas they are addressing through their ESG efforts, the most common answers were energy, GHG emissions, water, waste, and human health and well-being.

TABLE 3

## Percentage of Respondents Addressing Specific ESG Issue Areas

ESG Issue Area	Global	North America	Europe	Asia-Pacific
Energy	100%	100%	100%	100%
GHG Emissions	98%	100%	100%	90%
Water	95%	100%	86%	100%
Waste	90%	100%	71%	100%
Human Health & Well-being	88%	88%	79%	100%
Materials	63%	81%	36%	70%
Biodiversity	45%	50%	29%	60%

\*Other areas that were also mentioned included Resilience,<sup>6</sup> Green Building Certification, and Transportation.

While a majority of the respondents address energy and GHG emissions (as shown in the table above), the survey results indicate that only 68% of respondents have a real estate investment strategy in place that takes into account the GHG emissions of potential acquisitions. When broken down regionally, 100% of Asian-Pacific respondents have a GHG emissions strategy in place for potential acquisitions, followed by Europe at 72%, and North America at 47%.

TABLE 4

## Percentage of Respondents with a GHG Management Strategy for Real Estate Acquisitions

Region	Percentage of Respondents
Global	68%
North America	47%
Europe	72%
Asia-Pacific	100%

## Execution

Under 'Execution', the Framework recommends setting ESG measurement and performance targets and using ESG related benchmarks in asset selection and active management decisions. This can include performance against peer metrics.

The survey data shows that when making investment decisions, 80% of respondents look at how buildings are benchmarked against others using an established sustainability rating tool.<sup>7</sup>

When broken down regionally, 100% of Asian-Pacific respondents, 76% of North American respondents, and 71% of European respondents consider building sustainability benchmarking data in making their investment decisions.

<sup>6</sup> GRESB - The ESG Benchmark for Real Assets defines resilience as "the capacity of companies and funds to survive and thrive in the face of social and environmental shocks and stressors. This encompasses physical, economic, and social dimensions of resilience, including, but not limited to, climate change." GRESB, "The GRESB Resilience Module," accessed February 2, 2019, <https://gresb.com/resilience-module/>

<sup>7</sup> Examples of the sustainability assessment methods, tools, and frameworks that respondents used for their monitoring and reporting included Leadership in Energy and Environmental Design (LEED), the United Nations Sustainable Development Goals (UN SDGs), ENERGY STAR®, Building Research Establishment Environmental Assessment Method (BREEAM®), the WELL Building Standard, Fitwel®, Building Owners and Managers Association Building Environmental Standards (BOMA BEST®), science-based targets, Green Star, National Australian Built Environment Rating System (NABERS), Development Bank of Japan (DBJ) Green Building Certification, and Comprehensive Assessment System for Built Environment Efficiency (CASBEE®).



TABLE 5

### Percentage of Respondents Who Consider Building Sustainability Benchmarking Data in Making Their Investment Decisions

Region	Percentage of Respondents
Global	80%
North America	76%
Europe	71%
Asia-Pacific	100%

In addition, 95% of global respondents stated that they contribute to or support sustainability benchmarking at the portfolio and operational levels and assess performance results.

The Framework also states that building owners and managers should work with tenants to achieve environmental objectives through ESG and climate risk programs. From the survey, 78% of respondents indicated that they work with their tenants to encourage a lower carbon footprint.

### Feedback Loop (Monitoring & Reporting)

The Framework guides all stakeholders to monitor progress against goals and targets for ESG and climate change risks and opportunities, and to use this information for active asset management and improvement. Respondents were asked what specific indicators they use to track their ESG performance. The most commonly used indicators to measure ESG performance are energy consumed, water consumed, GHGs emitted, and waste generated.

TABLE 6

### Percentage of Respondents Using Specific ESG Indicators

ESG Issue Area	Global	North America	Europe	Asia-Pacific
Energy consumed	100%	100%	100%	100%
Water consumed	97%	100%	92%	100%
GHGs emitted	95%	100%	92%	90%
Waste generated	87%	100%	69%	90%
Indoor environmental quality	69%	69%	62%	80%
GHG footprint of materials used	28%	25%	31%	30%
Biodiversity impact screening <sup>8</sup>	23%	19%	15%	40%

The results show 91% of respondents are also using sustainability disclosure frameworks.<sup>9</sup> This figure is highest in Europe (100%), followed by North America (89%), and Asia-Pacific (83%). The top three disclosure frameworks used by respondents are GRESB, Principles for Responsible Investment (PRI), and the Global Reporting Initiative (GRI).

<sup>8</sup> Biodiversity screening is a type of due diligence that assesses potential risks and opportunities from biodiversity in a project's area of interest. The Biodiversity Consultancy, "Briefing note – Biodiversity screening," accessed February 2, 2019, [https://www.thebiodiversityconsultancy.com/wp-content/uploads/2017/01/Biodiversity-Screening-IBN\\_20170123-FINAL-1.pdf](https://www.thebiodiversityconsultancy.com/wp-content/uploads/2017/01/Biodiversity-Screening-IBN_20170123-FINAL-1.pdf)

<sup>9</sup> Examples of sustainability disclosure frameworks used include GRESB, Principles for Responsible Investment (PRI), the Global Reporting Initiative (GRI), CDP, and Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

TABLE 7

## Percentage of Respondents Using Sustainability Disclosure Frameworks

Region	Percentage of Respondents
Global	91%
North America	89%
Europe	100%
Asia-Pacific	83%

*“ [We are experiencing] increased [sustainability disclosure] knowledge and demand from clients. Disclosures include GRESB scores, MSCI benchmarks, impact assessments, carbon footprint, and how we engage with stakeholders. Transparent and detailed sustainability disclosure is no longer just best practice, it is a requirement for world-class businesses.”*

**Calvin Lee Kwan**  
General Manager Corporate  
Development & Strategy  
Link REIT

### 3.2 The Business Case for ESG

There is a strong business case for incorporating ESG criteria into real estate investment and management decisions. This value proposition has been proven through various research publications and summarized alongside case studies in the Framework. The results of this study affirm that informed and active ESG integration is of increasing importance for investors and is a contributor to financial value.

**The majority of respondents are highly motivated to use ESG criteria in investments because of:**

1. Lowered risk
2. Increased investor demand for sustainability disclosure
3. Increased tenant demand for green buildings

*“The results from this survey reflect a rising global awareness of the financial merits of sustainable investing as a means of risk mitigation and long-term value creation. With sustainability factors playing a key role in driving tenant demand and climate resilience, fiduciaries are weighing ESG factors as a critical element in their investment decision-making.”*

**Anna Murray**  
Vice President  
Sustainability & EHS  
Bentall Kennedy



**85% of respondents are highly or very highly motivated to use ESG criteria due to lowered risk.**

Using ESG criteria in real estate investment and management can be an effective risk management tool for investors and fund and asset managers.

TABLE 8

### Percentage of Respondents Highly or Very Highly Motivated to Use ESG Criteria in Investments Because of Lowered Risk

Region	Percentage of Respondents
Global	85%
North America	82%
Europe	93%
Asia-Pacific	80%

#### TYPICAL RISKS CAN BE CATEGORIZED AS FOLLOWS:

**Economic Risk:** When evaluating properties for investment, ESG variables can be incorporated as part of risk, return, and diversification considerations. Addressing ESG issues like climate risk, energy, water, waste, and GHG management, forestalls the risk of building obsolescence and, in turn, may lower operating costs. There is growing evidence showcasing the link between ESG and financial performance. Specifically, findings have demonstrated the potential for enhanced net operating income and an overall improved valuation for green certified buildings relative to their non-certified counterparts.<sup>10</sup> Furthermore, recent research found that sustainable REITs benefited from higher income and lower interest expenses. Lower risk profile was also found to deliver higher premiums in Net Asset Values.<sup>11</sup>

**Physical Risk:** The real estate sector is exposed to the physical impacts of climate change. Extreme weather events can lead to higher insurance premiums, higher capital expenditure and operational costs, and a decrease in the liquidity and value of buildings.<sup>12</sup>

**Regulatory Risk:** As the regulatory landscape becomes more stringent with the adoption of the [Paris rulebook](#), which lays out the implementation guidelines of the Paris Agreement, it is expected that countries will pursue GHG reduction strategies specifically targeting the buildings sector.

<sup>10</sup> Avis Devine and Nils Kok, "Green Certification and Building Performance: Implications for Tangibles and Intangibles," *The Journal of Portfolio Management* Vol. 41, Issue 6 (September 2015): 151-163, accessed March 13, 2019, <https://jpm.ijournals.com/content/41/6/151>

<sup>11</sup> Avis Devine, Eva Steiner, and Erkan Yönder, "Decomposing the Value Effects of Sustainable Investment: International Evidence," (February 2017): accessed February 22, 2019, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2920788](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2920788)

<sup>12</sup> Urban Land Institute, "Climate Risk and Real Estate Investment Decision-Making," (February 5, 2019), accessed February 28, 2019, [https://europe.uli.org/wp-content/uploads/sites/127/2019/02/ULI\\_Heitman\\_Climate\\_Risk\\_Report\\_February\\_2019.pdf](https://europe.uli.org/wp-content/uploads/sites/127/2019/02/ULI_Heitman_Climate_Risk_Report_February_2019.pdf)





**83% of respondents have experienced an increase in investor demand for sustainability performance disclosure.**

*“We note that when we address ESG risks well, the assets generally perform better in terms of financial efficiencies (lower operating costs), customer relationships and revenue (tenants), and are more resilient to shocks.”*

**Davina Rooney**  
 General Manager, Sustainability and Corporate Procurement  
 Stockland

Survey results indicate that many investors are demanding climate change and sustainability performance disclosure as seen in the table below.

**TABLE 9**

**Percentage of Respondents Who Have Experienced an Increase in Investor Demand for Sustainability Disclosure**

Region	Percentage of Respondents
Global	83%
North America	71%
Europe	86%
Asia-Pacific	100%

To respond to this increased demand, 91% of respondents are using various disclosure frameworks to evaluate and communicate asset or portfolio level ESG performance. Reporting on sustainability and climate-related disclosures is one of the major actions that respondents are taking, which suggests convergence between investor strategy and practice and the Paris Agreement’s climate objectives.

When asked about the drivers for this increase in investor demand, respondents said that investors are becoming more sophisticated, knowledgeable, and concerned about ESG due to a number of factors, such as alignment to the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).<sup>13</sup> Respondents also underscored that investor demand should increase as a result of the adoption of TCFD. In addition, they also stated that, in the future, investors will focus not only on what data is disclosed, but the quality, coverage, materiality, and comparability of the data. Finally, respondents also mentioned that the physical risks to real estate assets of climate-related losses from extreme weather events have also sharpened investor focus.

<sup>13</sup> The Task Force on Climate-related Financial Disclosures (TCFD) develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. TCFD, “About the Task Force,” accessed February 2, 2019, <https://www.fsb-tcfid.org/about/>

*“Frameworks such as TCFD are very much pushing investors to demand more detailed disclosures on climate risk. Whilst the level of detail required varies, we have seen increasingly detailed requests.”*

**Nina Reid**  
Director, Responsible Property  
Investment  
M&G Real Estate



**80% of respondents are highly or very highly motivated to use ESG criteria due to increased tenant demand for green buildings.**

TABLE 10

#### Percentage of Respondents Highly or Very Highly Motivated to Use ESG Criteria in Investments Because of Increased Tenant Demand for Green Buildings

Region	Percentage of Respondents
Global	80%
North America	82%
Europe	77%
Asia-Pacific	80%

Tenants are increasingly demanding buildings with improved operational excellence (i.e. energy, water, and waste performance), health and well-being amenities, and active engagement – all of which have now become synonymous with quality buildings.<sup>14</sup> This enhances value for investors, be it through engaged tenants who are more likely to renew, or through lower operating costs that attract and retain tenants and offer the potential for higher rents. Moreover, some respondents pointed to the importance of tenant and landlord collaboration for reducing overall GHG impact.

*“Tenants respond positively to well managed buildings, and their expectations for the breadth of issues the landlord addresses are also increasing.”*

**Jamie Gray-Donald**  
SVP Sustainability & EHS  
QuadReal Property Group

<sup>14</sup> Canada Green Building Council, "Canada Green Building Trends: Benefits Driving the New and Retrofit Market," published 2014, accessed February 28, 2019, <https://www.cagbc.org/cagbcdocs/resources/CaGBC%20McGraw%20Hill%20Cdn%20Market%20Study.pdf>

### 3.3 Looking Forward



*“Every owner and investor should have an ESG strategy. There are four reasons. First, the business case is incontrovertible. Second the expectations from stakeholders, including investors and tenants, will only increase. Third, the pressure from regulators and government will continue to rise. Lastly, it’s the right thing for all corporations to do for their brand, their communities, and their continuing social license.”*

**Michael Brooks**  
CEO  
REALPAC

Respondents demonstrated a clear intention to further investigate ESG criteria over the next year, with 77% of respondents stating that they have set specific ESG targets for their organization to influence future performance. The majority of these targets are reduction goals to be achieved by a specific date (e.g. reduce GHG emissions by 30% from 2005 levels by 2030). Table 11 summarizes the type of ESG targets set by the respondents. Overall, a slight majority of organizations (59%) have set GHG reduction targets.<sup>15</sup>

TABLE 11

**Types of Specific ESG Targets Set by Respondents**

Type of ESG Target	Percentage of Respondents
GHG reduction	59%
Energy reduction	47%
Waste reduction	35%
Water reduction	35%
Green building certifications	24%

*“The global real estate sector should focus on delivering sustainable outcomes through impactful activities. The focus of our impact investing is on meaningful place making, a just climate transition, and health and well-being of communities and occupiers.”*

**Tatiana Bosteels**  
Director Responsibility  
Hermes Investment Management

Respondents were also asked to list the top three to five actions they are taking to align with the Paris Agreement’s climate objectives. Table 12 shows the percentage of respondents who stated that they have taken one of the below actions to align with the Paris climate objectives.

<sup>15</sup> Tables 11 and 12 summarize responses to open-ended questions on ESG targets and ESG actions, respectively. Open-ended text responses were grouped into the categories shown in Table 11 and Table 12. For example, text responses that mention “GHG reduction”, “carbon”, or “science-based targets” would be incorporated under “GHG reduction”.



TABLE 12

## Top ESG Actions Taken by Respondents to Align with the Paris Agreement Climate Objectives

ESG Action	Percentage of Respondents
GHG reductions	76%
Energy reductions	45%
Renewable energy investments	24%
Responsible investment	21%
Resilience measures	15%
Water reductions	15%
TCFD	15%
Green building certifications	12%

Again, a majority of respondents (76%) identified GHG reductions as an action they are taking to align with the Paris climate objectives. Some European and North American companies also stated they intend to start following [science-based targets](#).<sup>16</sup>

Throughout the survey, respondents have demonstrated a focus on reducing GHG emissions and energy consumption, as shown in:

**Table 3:** Percentage of Respondents Addressing Specific ESG Issue Areas

**Table 6:** Percentage of Respondents Using Specific ESG Indicators

**Table 11:** Types of Specific ESG Targets Set by Respondents

**Table 12:** Top ESG Actions Taken by Respondents to Align with the Paris Agreement Climate Objectives

While many respondents are addressing and monitoring GHG emissions, there is an opportunity for more organizations to set specific GHG reduction targets that are aligned with the Paris climate objectives.

In the follow-up survey, respondents were asked what the sustainability priorities of the global real estate industry should be over the next one to three years. Respondents mentioned the need for: greater carbon reduction and resilience; better data that is easily available to investors and stakeholders; stronger tenant engagement and collaboration; stronger executive leadership; and stronger employee engagement.

*“The industry has made significant progress toward establishing benchmarks and surveys to evaluate the sustainability of real estate. However, efforts to improve comparable data collection to better understand the impact of real estate assets should continue. The industry may want to prioritize tenant education and ensuring underlying data collection is universally accepted.”*

**Alison Schneider**

Director, Responsible Investment  
Alberta Investment Management  
Corporation (AIMCo)

<sup>16</sup> Science-based targets are targets adopted by companies to reduce GHG emissions in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures. Science Based Targets, “What is a Science Based Target?,” accessed February 2, 2019, <https://sciencebasedtargets.org/what-is-a-science-based-target/>







# 4.0 CONCLUSION

This global survey of real estate investors and fund and asset managers affirms a clear business case for ESG, and a near consensus view of the importance of weighing ESG criteria as a factor in real estate investment decision-making.

Generally, responding organizations are already assessing material ESG risk and opportunities, and are experiencing a demand from investors for sustainability disclosures. The survey shows that there is an opportunity to increase ambition, strengthen practices to assess GHG emissions in acquisitions, set targets, and reduce emissions to be fully aligned with the Paris Agreement.

These results demonstrate that when using ESG integration as a foundation, institutions are well-positioned to build upon their present practices and processes to address the [physical and transition risks](#) confronting investors and fund and asset managers. The process guidance of the [Sustainable Real Estate Investment – Implementing the Paris Climate Agreement: An Action Framework](#) is a key resource for developing actionable steps for real estate investors and advisors throughout the investment lifecycle.

The survey also indicates the importance of standards and disclosures, including applying the TCFD recommendations so that the physical and transition risks of climate change are captured as material factors in financial value. Increasing the stringency

of ESG targets and working closely across the value chain can accelerate action in line with the Paris Agreement goals.

The survey results confirm the view that ESG integration is core to real estate investment decision-making by enhancing institutional capacity for risk management and long-term value creation.



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