



SUBMISSION: PROPOSALS – ESG METRICS FOR REAL ESTATE

13 April 2022

TO:

UK Financial Conduct Authority (**FCA**)
Taskforce on Climate-related Financial Disclosures (**TCFD**) and
International Sustainability Standards Board (**ISSB**)

FROM:

Association of Real Estate Funds (**AREF**)
British Property Federation (**BPF**)
Commercial Real Estate Finance Council Europe (**CREFC Europe**)
European Association for Investors in Non-Listed Real Estate (**INREV**)
Investment Property Forum (**IPF**)
Pensions for Purpose (**PfP**)
Social Market Foundation (**SMF**); and
The Good Economy (**TGE**)

(together, **the Associations**)

INTRODUCTION

The Associations welcome the FCA continuing to take a leading role on environmental, social and governance (**ESG**) issues. For instance, under FCA regulations, large UK pension funds and fund managers must comply with the TCFD guidelines across all asset classes, and the FCA is looking to expand and broaden the guidelines through proposed Sustainability Disclosure Requirements (**SDR**).

In parallel with the FCA's proposed SDR, the European Commission plans compliance with the disclosure requirements on principal adverse impacts (**PAIs**) under the EU's Sustainable Finance Disclosure Regulation (**SFDR**) by 30 June 2023^{1,2,3,4}. The FCA signals that they have considered the SFDR in its proposals for enhanced climate-related disclosures and plans an ESG sourcebook⁵ relating to ESG compliance.

The Associations recognise that the TCFD has a climate-finance focus, whereas the SFDR and the SDR have a broader ESG remit, and there is a need for appropriate real estate metrics that support robust, transparent and comparable disclosure for investors to understand both climate and holistic ESG performance.

The proposals contained in this document represent the views of the Associations in response to a dialogue with – and request from – the FCA for the real estate industry sectors' views/suggestions/input, principally aimed at a set of best practice principles:

- to inform the development of real estate-specific metrics that enable consistent, transparent, and comparable reporting and disclosure for real estate portfolios and covering all real estate asset classes (committed via equity and/or debt); and
- that are aligned with TCFD guidelines (and intended to supplement the PRI - Technical Guide: TCFD for real asset investors) and the evolving SDR.

These principles and real estate specific metrics aim to facilitate consistency of disclosures both across the EU and UK as well as internationally where the TCFD's recommendations will apply. While the principles are aimed at supporting consistent reporting and disclosure by international asset managers, local supplements may be appropriate or needed for domestic real estate-specific metrics. In the context of realising this aim, the Associations look forward to progressing the dialogue with the FCA and resolving a time framework for appropriate implementation, recognising that some metrics are implementable sooner than other metrics.

For clarification, the position of debt investors in real estate differs from that of equity investors in real estate (for example, in terms of access to data, or which emissions fall within which scopes). These proposals also have the support of associations representing debt investors. Those

¹ Official Journal of the European Union. 27 November 2019. Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance): <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

² ESMA. JC 2021 03. 2 February 2021. Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088:

https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf

³ ESMA. JC 2021 50. 22 October 2021. Final Report on draft Regulatory Technical Standards with regard to the content and presentation of disclosures pursuant to Article 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088:

https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_disclosure_rts.pdf

⁴ European Commission. 25 November 2021. Information regarding regulatory technical standards under the Sustainable Finance Disclosure Regulation 2019/2088:

https://www.esma.europa.eu/sites/default/files/library/com_letter_to_ep_and_council_sfdr_rts-j.berrigan.pdf

⁵ FCA Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers. CP21/17.

associations would look to engage with the FCA to consider whether additional proposals would be appropriate to address the position of debt investors in real estate.

The principles have been shared across a range of real estate industry associations and so reflect cross-industry sector collaboration and input. The principles seek to progress end-to-end solutions to the question of appropriate real estate specific metrics. The Associations have focused on material issues applicable for real estate portfolios and the underlying assets, rather than at the entity level and, therefore, entity level governance and oversight disclosure requirements are not covered in this document. For proposals at entity level disclosure, the Associations suggest reviewing proposals alongside the INREV Governance Guidelines and Sustainability Best Practice⁶.

These principles and suggested metrics have considered issues that are broadly applicable across all real estate asset classes such as climate resilience, mitigation and adaptation, energy and energy efficiency, carbon, water, waste, the circular economy, biodiversity, and social value. However, the Associations acknowledge that individual real estate portfolios and developments may have specific material risks and opportunities not addressed within these proposals and suggest such risks and opportunities should be subject to further disclosure obligations. It is also acknowledged that this is not an exhaustive list of ESG metrics for real estate disclosures. Additionally, it should be noted that the ability to report against these metrics will vary depending on the type of asset class (residential, industrial, office, retail, leisure and specialist asset types such as datacentres), development type (new construction versus retrofit) and debt versus equity real estate funds. Organisations will not be able to report on all of these metrics from day one nor are these proposed as a set of criteria for the four product labels. Therefore, the Associations envision an ongoing dialogue with the FCA on the most appropriate real estate metrics and thresholds for defining the product labels and that these will be aligned to common, external real estate benchmarks.

The Associations take the view that ESG metrics for real estate for SDR and TCFD disclosure and compliance should be freely available (meaning no fee or charge basis applying) for all industry stakeholders to enable consistency of disclosure.

As policy – alongside technological advances and industry ambitions for ESG performance – evolve, ESG metrics for real estate will need to be updated, and accordingly the FCA regulations from time to time revised to reflect the updates.

⁶ INREV. January 2022. Professional Standards: Governance: <https://www.inrev.org/guidelines/module/governance#inrev-guidelines>. Sustainability: <https://www.inrev.org/guidelines/module/sustainability#inrev-guidelines>. INREV will introduce a NEW stand-alone Sustainability module with more information on ESG integration on decision making processes and ESG disclosure (end of 2022 release).

PRINCIPLES

Reporting principles are required to standardise the approach to reporting across a variety of parties. They should include:

- **Transparency:** All parties must be transparent in their approach to reporting and supply complete disclosure of all activities within the stated scope and boundary, the granularity of data reporting, and avoid reporting only on positive results. For context, disclosure should be accompanied by information on the limits of the environmental and/or social resources at the sector, local, regional, or global level.
- **Consistency and comparability:** All parties are encouraged to disclose a minimum set of ESG metrics for real estate applying standardised reporting methodologies, scope and reporting boundaries to support comparability across the market. Comparability needs to be between investment types and between real estate asset classes. It is envisaged that the minimum set of ESG disclosure metrics for real estate would be supplemented with other metrics, as appropriate, for investment portfolios and the different real estate asset classes.
- **Verification:** All parties are encouraged to verify data to an external standard using independent third party verification.
- **Detailed data notes: All parties must disclose emissions factors, estimation methodology,** scope and boundaries, and any limitations, such as use of benchmark/proxy data in the absence of actual portfolio/asset specific data. Details on any acquisitions, divestment, and/or policy changes and how they affect portfolio performance and trends over the reporting period shall be included⁷.
- **Simplicity:** Some reporting metrics involve complex calculations. The aim should be to keep ESG metrics for real estate and data collection as simple as possible to ensure reporting is cost effective, feasible to collect and achieves optimal coverage.
- **Measurement over modelling:** Actual data is preferred over modelled or benchmark/proxy/estimated data. If it is not possible to collect and measure actual data, reasons for using alternative data and the methodology used must be disclosed and justified. This presents practical challenges in a landlord and occupier scenario. Legislative changes will be required to achieve this goal if this cannot be achieved by voluntary action.

For more information, the Associations recommend looking at the INREV Governance and Reporting Principles which set out overarching objectives and obligations and are built based on industry consultation.

The Associations request that these reporting principles will dovetail with standards to be adopted by the International Sustainability Standards Board (**ISSB**)⁸. As noted above, this is not an exhaustive list and that the ability to report these metrics varies depending on the type of asset class (residential, industrial, office, retail, leisure, datacentre, etc.), development type (new

⁷ TCFD. Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (October 2021)

⁸ <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b36-real-estate.pdf>

construction versus retrofit) and debt versus equity real estate funds. The Associations have provided some indicative ESG metrics for real estate disclosures in the Appendix for consideration by the FCA.

LESSONS LEARNED FROM THE EU SFDR AND TAXONOMY

It is widely recognised that there are differences in the calculation methodologies between the TCFD's recommendations and the SFDR, as well as inconsistencies with energy performance certificate (**EPC**) ratings in the UK and among EU member states.

For example, for carbon and GHG reporting, real estate adopts the Operational Control Boundary as described under the GHG Protocol, which includes whole buildings into the footprint rather than the amount of equity invested. This is standard practice for INREV and European Public Real Estate Association (**EPRA**) reporting, as well as the definition of reporting under Global Real Estate Sustainability Benchmark (**GRESB**) and is particularly complicated for residential buildings. This should include tenant emissions from the building, although this is optional under GRESB. The Associations request the FCA take this into consideration to ensure more complete and consistent disclosure, and advocate for tenant emissions to be included where feasible and appropriate.

WEIGHTED AVERAGE CARBON INTENSITY (WACI)

The TCFD WACI metrics are not aligned with current approaches to reporting in real estate where revenue/rents are not considered within reporting; rents are quite variable and can fluctuate, although end investors often ask for this to be reported. The Associations also experience end investors requesting footprint intensity vs Assets Under Management. If real estate uses the TCFD WACI metrics this would represent a large change to reporting, without sufficiently describing ESG risks in an adequate way. It should also be noted that the WACI metric does not align with the metrics employed for building regulation compliance, regulation being a key transitory risk driving change.

The Associations recommend that real estate metrics for carbon intensity be normalised by floor area as this gives a more accurate picture of change for most asset classes than normalising by value⁹.

In addition to facilitating firm-wide reporting, real estate teams may need to calculate WACI using rental income as a denominator for TCFD reporting.

The Associations suggest that investors should be able to compare real estate performance with that of other investment asset classes, and there should also be a consensus that enables real estate reporting metrics between different types of real estate investments.

⁹As alternative normalisation metric to floor area, number of units can be added for asset types where floor areas are not routinely measured and recorded: for example, with residential sector.

CARBON FOOTPRINT

The floor area is typically used as a denominator when measuring the carbon footprint of a real estate asset and the Associations recommend that ESG metrics for real estate continue to be normalised by floor area (see footnote 9). However, to enable aggregation or comparison with other investment sectors, carbon footprint intensity for real estate may also need to be measured by investment value for TCFD reporting.

ENERGY PERFORMANCE CERTIFICATES AND OPERATIONAL/IN-USE ENERGY RATINGS

In the UK, EPCs are a theoretical measure of intended performance and are not considered a good benchmark of actual in-use real estate performance. The diversity of EPC categorisation across member states in the EU also creates disclosure challenges for pan-European investors. While there are some current efforts underway to modernise EPCs, which are to be welcomed, they are not currently an effective metric for comparative analysis beyond a very basic level. The real estate industry is advocating more reporting and disclosure of actual operational performance.

The Associations encourage the FCA and the TCFD to also adopt operational energy intensity metrics and ratings that benchmark against the typical practice, and test whether a building aligns with climate-related and net-zero carbon targets.

In countries where regulation of EPC ratings in both the commercial and residential rented sectors has a trajectory to improve ratings by 2030, this has proved a significant financial motivator for energy efficiency improvements within the wider real estate industry. Many organisations have integrated EPC improvements into their Transition Plans and monitor EPC ratings as a climate-related metric. Coupled with operational energy ratings that drive building management and use improvements, we believe that EPCs have a role to play in real estate energy efficiency and should remain as part of a wider group of ESG performance metrics for real estate.

PRIMARY ENERGY DEMAND AND ENERGY USE INTENSITY

Primary Energy Demand (**PED**) is a metric identified for real estate under the EU Taxonomy for Sustainable Activities (**EUT**) and PAI of the SFDR. Primary Energy metrics will be available for new construction and refurbished projects for both commercial and residential real estate in the UK and Europe.

However, many real estate sector organisations consider PED to be a complex metric to calculate. An additional, reporting real estate metric is Energy Use Intensity (**EUI**) (measured as kWh/m²/year (Gross Internal Area **GIA**)) that is more closely related to building energy use and efficiency.

The FCA should apply the EUI metric alongside the PED.

PRODUCT LABELS

Chapter 3 of FCA DP21/4 contains helpful statements about potential approaches to a sustainable product classification and labelling system. In DP21/4 paragraph 3.11, the FCA recognises *“that many UK firms are subject to SFDR in respect of their EU business and have already invested in systems and processes to classify products according to SFDR provisions”*.

However, the European Commission and European Securities and Markets Authority (**ESMA**) approach – based on their understanding of the SFDR legislation – is that SFDR is only a disclosure regime, and not a basis for classification for product labels. As already indicated in our dialogue with the FCA to date, this creates a mis-connect and the Associations’ general preference is for an alternative approach to that indicated in DP21/4:

- paragraph 3.12: the FCA considers *“it important to explore how products already classified under SFDR can map against the UK framework”*; and
- paragraph 3.14: the FCA envisages an approach that involves mapping to SFDR.

The Associations request that the FCA reviews its suggestion on appropriate labelling as indicated in DP21/4 paragraphs 3.12 and 3.14 and alternatively considers an approach that:

- runs with plain, concise and easily understood product labelling statements, but which could be similar to the descriptions used in SFDR so as to assist UK firms who have established or are establishing processes to report under SFDR; and
- does **not** require *“considerations on how products that are already classified under the EU regime could map across to the UK classification system”*.

For instance in the context of the DP21/4 paragraph 3.12 categories, the FCA could consider and consult on product labels as suggested in bold below:

- Not (fully) meeting disclosure requirements to initially qualify as sustainable, although it could meet the requirements later – which equates to **“Not Currently Sustainable”**
- Sustainable ‘Transitioning’ – which equates to **“Sustainable Transitioning”**
- Sustainable ‘Aligned’ – which equates to **“Sustainable Aligned”**
- Sustainable ‘Impact’ – which equates to **“Sustainable Impact”**

To assist, the Associations clarify – in terms of the distinction between *“Sustainable Transitioning”* and *“Sustainable Impact”* – that the investments/funds which have as their core intention an objective/aim of making an impact through transitioning assets to a more sustainable path should be included in the *“Sustainable Impact”* category. However, this *“Sustainable Impact”* category should not include existing new investment/funds that have a mix of sustainable and unsustainable assets which are improving as part of their investment processes but not as their core intention.

The Associations consider that the use of such labels alongside disclosure criteria will assist with transparency and help comparison between different products. Additionally, this will enable the recognition of the different attributes of assets, including the real estate asset class, and is

particularly relevant for retail investors, at different stages of their life cycles. This will be useful, for example, for funds with stranded assets but which are transitioning to “green” and encourage such transition strategies.

The Associations are making proposals in this Submission that apply initially and as part of an ongoing dialogue with FCA. The proposed metrics are not intended as defining the criteria and thresholds for investments to fit into the different labelling categories. The Associations recommend that the criteria and thresholds be set so that there is a reasonable distribution of investments between labelling categories, in order to provide investors with useful information for decision-making purposes.

REPORTING CHALLENGES

Data coverage, particularly tenant data collection, and quality are key challenges for the real estate sector. It is not always possible to collect the data required as there is no statutory requirement for residential tenants and commercial occupiers to provide energy and other utility data to the property owners. Although contractually in the terms of the leases under which the asset is held or by virtue of a Memorandum of Understanding, many occupiers will be required to share such data, this is generally only in newer leases (i.e., “green” leases) or occupational arrangements. There are significant data protection complexities for institutional residential landlords and operators in collecting energy data even where they can arrange access with the utility company and/or tenants/occupiers. This problem is going to be exacerbated with GHG Scope 3 requirements when data on indirect emissions will need to be collected such as tenant demise, embodied carbon across the life cycle and arguably associated transport emissions.

While technological advances and data management platforms are improving, and there is increasing landlord and occupier collaboration and data sharing, plus increasing application of “green” leases in the commercial sector, there are still considerable data gaps. Ultimately, it is very difficult for a landlord to evict an occupier for not sharing their energy data, despite what may be in the lease. Similarly, even when full reporting is possible in a residential context, there are limits to how much influence landlords can exert over tenants regarding energy use and intensity in their own homes vs the common areas. The ongoing energy crisis presents additional pressures in terms of fuel poverty risks and unfortunately the most energy efficient solutions are still usually the most expensive. The granularity of operational residential real estate is a particular challenge but the institutional and social housing sectors are investing heavily in community engagement programmes as well as retrofitting and new technologies.

Actual data is preferred over modelled or benchmark/proxy data. This presents practical challenges in a landlord-tenant and occupier scenario and raises policy issues on appropriate voluntary or mandatory disclosures. Changes to government regulation will be required to achieve this goal.

ESG BEYOND THE 'E'

Decarbonising the real estate sector is critical, particularly in order to achieve the UK government's legislated target to achieve net zero by 2050. A vast majority of the real estate metrics, benchmarks and analysis focuses on carbon, GHG and energy use reporting but it is important to acknowledge that a huge amount of work and activity is underway across the sector beyond the 'E' of ESG.

Good governance is obviously a vital component of all responsible and effective organisations that represent the Associations' varied membership but through an ESG lens many are undertaking specific additional governance measures, in particular to advance D,E&I (Diversity, Equality and Inclusion) across the industry.

Similarly, many real estate organisations are undertaking detailed analysis around measuring, evidencing and reporting both social impact and social value – the 'S' in ESG. Firms investing at scale and over longer time frames, particularly in regeneration or mixed-use developments, identify these priorities as equally important to monitor and measure as those of environmental performance. While an agreed set of metrics for social impact in real estate is some way off, the government-funded Place-Based-Impact-Investing Project (**PBI**) recently published valuable research on scaling up institutional investment at scale and suggested equity impact frameworks. We would encourage the FCA to keep in mind the importance of addressing all aspects of ESG across real estate beyond the "E"¹⁰.

CONCLUSION

The Associations welcome further engagement with the FCA, TCFD Secretariat, ISSB to expand upon and discuss the contents of our proposals.

They are grateful for the opportunity to be involved at this stage of policy development to deliver a workable outcome for the real estate sector.

¹⁰ The Place-Based Impact Investing (PBI) Project was founded by [The Good Economy, the Impact Investing Institute](#) and [Pensions for Purpose](#) to explore how to scale-up institutional investment into opportunities that enhance local economic resilience, sustainable development and the Levelling Up agenda. A White Paper published in May 2021 sets this out in more detail: [Place-based-Impact-Investing-White-Paper-May-2021-single-page.pdf](#) (thegoodeconomy.co.uk)

WORKING GROUP MEMBERS

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DISCLAIMERS

This document is for information purposes only. The information is believed to be correct, but cannot be guaranteed, and the opinions expressed constitute the views of the Working Group Members in a personal capacity as of this date but are subject to change. The views do not necessarily represent the views of their organisations i.e. named above in relation to relevant Working Group Members.

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APPENDIX

As noted above, the Associations have focused on material issues applicable for real estate investment portfolios and the underlying assets, rather than at the entity level and therefore, entity level carbon emissions associated with activities such as business travel are not included below. Governance and oversight disclosure requirements are also not covered here.

ENVIRONMENTAL AND SOCIAL REAL ESTATE METRICS

The aim of these principles is to achieve consistency, comparability and a holistic ESG view – applying decision-useful, robust, transparent, quantifiable, measurable, objective, trackable, and verifiable thresholds and criteria applicable to real estate and aligned to TCFD, SDR, SFDR reporting and disclosure requirements on climate and sustainability and evidence suitability.

Greenhouse gas (GHG) Scope 1-3 emissions

The scope 1-3 indicator proposed is aligned with real estate reporting. The existing tools and processes being adopted by real estate firms describe risks clearly and have processes already reporting to them. So, we would recommend aligning the ESG metrics for real estate disclosures with these. In particular:

1. Using calculations based on open-source tools such as the Carbon Risk in Real Estate Monitor (**CRREM**) spreadsheet to communicate intensities. Emissions intensities should be reported in Gross Internal Area (**GIA**).
2. In a context of assessing potential values at risk due to poor carbon performance, asset level comparisons should be based on location-based emissions.
3. Maintaining the operational control boundary and making clear the different boundaries within reporting if equities and real estate are reported in a unified way.

Operational GHG reporting should include Scope 3 (in terms of tenant-controlled energy consumption) and sum to the Total Operational Carbon Emissions. Without Scope 3 tenant emissions, the footprint is not an accurate assessment of risk.

Real estate investment portfolios should be developing Scope 3 reporting of embodied carbon. . Several metrics that may be appropriate in light of relevant circumstances, include:

- Purchased goods and services – typically undertaken by mechanical and engineering and property management services (good practice is to undertake a life cycle assessment (**LCA**) on the product, process, or service);
- New construction, major refurbishment, and fit-out work – through an LCA assessment and aligned with industry benchmarks;
- Tenant energy consumption – most tenant consumption data is still estimated by landlords, despite green lease arrangements requiring tenants to share consumption information and the availability of smart data acquisition solutions in the market, it is frequently difficult to

obtain actual tenant energy data. A regulatory requirement for tenants to authorise utilities to share consumption data with landlords would significantly aid the disclosure of carbon real estate risks to investors;

- Water, waste, and refrigerant (fugitive emissions) related emissions and associated emissions factors (including Scope 1 – Landlord; and Scope 3 – tenant emissions) – calculated from a combination of utility consumption data and benchmark modelling regarding GHG emissions:
 - Report portfolio absolute Scope 1, 2 and 3 emissions (kg CO₂-e/yr) and carbon intensity (kg CO₂-e/sqm/yr)
 - Refer also to UK- Green Building Council (**UKGBC**) guidance on Scope 3 reporting in commercial real estate (Several metrics that may be relevant to Scope 3 emissions include Whole Life Carbon and embodied carbon, waste, water, and refrigerants (fugitive emissions) etc).

Whole Life and Embodied Carbon

As noted above, embodied carbon of real estate falls under Scope 3. Evaluation and reporting of whole life cycle impacts of real estate, including upfront embodied, operational, and end of life impacts should be the norm across the real estate sector. The EU Taxonomy also signals that embodied carbon will be integrated into the taxonomy criteria for the activity 'Construction of new buildings' as an additional threshold to be met by 2025.

The Associations encourage that new construction and major refurbishment projects within a fund/portfolio report the 'upfront' embodied carbon (Stages A1-A5 Cradle to Practical Completion) in line with the RICS Professional Statement 'Whole life carbon assessment for the built environment and International Construction Measurement Standards V2, and BS EN 15978:2011.

Embodied carbon reporting associated with the property maintenance, landlord and Cat B tenant fit-outs, and deconstruction works is not currently standard practice but should be a goal for ESG metric for real estate disclosure in the medium-term (2025 or later).

Whole Life Carbon metrics

Evaluation and reporting of whole life cycle impacts of real estate, including upfront embodied, operational, and end of life impacts.

- Report the % of developments/major refurbishment projects and the area (e.g. sqm or sq ft) that have undertaken a Whole Life Carbon assessment in line with the RICS Professional Statement 'Whole life carbon assessment for the built environment and International Construction Measurement Standards V2, and BS EN 15978:2011.
- Report the % of developments/major refurbishment projects and the area (e.g. sqm or sq ft) with embodied carbon being estimated using benchmarks such as CIBSE.

- For the proportion of assets in a portfolio with calculated embodied carbon, report the 'upfront' embodied carbon (Stages A1–A5 Cradle to Practical Completion) in kgCO₂e/m² GIA and aligned with industry benchmarks.

Energy

The Associations recommend that ESG metrics for real estate for energy be normalised by floor area as this gives a more accurate picture of change than normalising by value. Organisations may also choose to normalise by value in order to support their stakeholders in aggregating reporting across multiple investment types. They also recommend including a submetric of “percentage that is estimated” for energy metrics. This is in line with multiple existing sustainability reporting standards’ approach to energy and carbon including INREV, GRESB and the Carbon Emissions Template produced by the Association of British Insurers, the Investment Association, and the Pensions and Lifetime Savings Association. Taking into account the Better Building Partnership’s Climate Commitment guidance and the UK Green Building Council’s net zero carbon hierarchy, they recommend that the primary energy metrics should be for whole building operational energy consumption (occupier and landlord) to drive improvements in energy efficiency and that this should be reported for all assets under management.

The Associations recommend the use of the following primary metrics for energy for real estate disclosures:

Primary metrics

- **Whole building operational energy consumption** (kWh/yr) and percentage of consumption that is estimated (%)
- **Whole building operational energy intensity** (GWh/m²/yr) and percentage of energy consumption that is estimated (%)
- **Landlord operational energy consumption** (GWh/yr) and percentage of consumption that is estimated (%)
- **Occupier operational energy consumption** (GWh/yr) and percentage of consumption that is estimated (%)

Secondary metrics

Secondary metrics should be optional rather than mandatory. Secondary energy metrics that organisations should consider reporting for real estate support the goals of domestic energy policy that aims to eliminate fossil fuels from heating, and the net zero carbon hierarchy goal for buildings to maximise on-site renewables and renewable energy procurement. These secondary energy metrics could include, but are not limited to, the following:

Secondary energy metrics

- **Assets under management with an Energy Performance Certificate rating of B or above** by floor area (% of floor area)
- **Assets under management that do not use fossil fuels as their main heat supply**, reported as a percentage of floor area (% of floor area). This can be extrapolated from Energy Performance Certificates' "Main heating fuel" field.
- **Generation of on-site renewable energy** (kWh/annum)
- **Renewable energy procured** (kWh/annum) There are a variety of views on what constitutes renewable energy procurement. It is suggested that portfolios report the proportion of landlord controlled renewable energy that is backed by Guarantees of Origins (**GoOs**) (EU) or Renewable Energy Guarantees of Origin (**REGO**) (UK), as the minimum standard. It may also be of value to break this down into further detail in terms of sleeved or non-sleeved Power Purchase Agreements, bundled REGOs, etc.

Climate Resilience

Climate resilience is a material risk for real estate. Many of the metrics detailed hereafter align with the TCFD guidance as defined by "[Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans](#)", published October 2021.

ESG metrics for real estate disclosures to be considered include:

- **Transition risk metrics: Transition Plans:** Transition risk exposure is a material risk and opportunity identifying the potential for real estate assets to adapt in support of a low carbon economy, and a key component of TCFD guidance.
 - **Disclose scenarios and inputs** e.g. parameters, timelines, real estate-specific metrics, and methodologies¹¹
 - **Assets under management:**
 - Report both the % of underlying assets¹² and the area (e.g. sqm or sq ft) of properties that have **a science-based, 1.5C aligned Transition Plan** undertaken and aligned with TCFD guidance for real estate¹³ and the metrics outlined below for physical and transition risks. In addition to flood and overheating risks, the Transition Plans should address a range of acute and chronic physical risks and have clear mitigation strategies.

Tools/resource include (but not limited to): Carbone 4 Climate Risk Impact Screening; 427 Physical Climate Risk Application; GRESB/Munich Real Estate

¹¹ TCFD. Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (October 2021)

¹² 'Underlying assets' refers to all the RE properties/assets held within the reporting portfolio.

¹³ Principles for Responsible Investment (PRI). Technical Guide: TCFD For Real Assets Investors. Available from: <https://www.unpri.org/download?ac=13337>

Climate Risk Platform, ClimateWise/CISL Physical Risk Framework; and Swiss RE Climate Risk Score Framework.

- **Transitional risk analysis:** report % of underlying assets and the area (e.g. sqm or sq ft) of properties that have been analysed using analysis such as CRREM. Separately report the % of underlying assets and the area (e.g. sqm or sq ft) of properties that are at risk of stranding, and the proportion and area that have asset level improvement plans/strategies aligned with the 1.5C target.
 - **Acquisition:** Organisational policy requirement that physical climate risk and the use of risk assessment models such as CRREM analysis – should be undertaken as part of the due diligence process.
 - **New construction:** new construction should report on its alignment to the World GBC and local equivalent e.g. UKGBC definition of Net Zero targets.
- **Physical climate risk metrics:** report the % of underlying assets that has been subject to a:
 - Physical climate risk assessment
 - Climate adaptation and transition plan with supporting evidence.

Circular Economy

Waste and use of raw materials are material ESG risks, and the EU Taxonomy includes Circular Economy (**CE**) objectives, although the criteria is currently focussed on waste. It should be noted that GRESB currently focuses on operational waste and does not request construction and demolition waste or CE in construction reporting. However, CE objectives should be broader than simply waste metrics, and should include information on the use of sustainable materials and embodied carbon; recycling, reuse, and repurposing of existing materials and components within a retrofit or construction project.

The real estate sector is increasingly developing CE strategies for properties and developments, and leading organisations are developing inventories of a property's construction materials to enable the future proliferation of Buildings As Material Banks (**BAMB**).

The Associations encourage the consideration of broader CE metrics for real estate to be adopted in portfolio reporting and disclosure for both standing assets and development projects, including retrofit.

Biodiversity

With work on the Taskforce on Nature-Related Financial Disclosures (**TNFD**) framework, it is appropriate that a holistic goal for ESG disclosure will incorporate biodiversity disclosure metrics for real estate. The FCA should engage with TNFD in due course.

Social Aspects

The goal is for a holistic set of ESG metrics for real estate disclosure, and therefore the S of ESG should be considered. Social value has two dimensions: 1) value creation with social impact e.g. affordable housing 2) in the scope of ESG risk management e.g. health and safety, tenant engagement, etc. Furthermore, social value or impact metrics can vary depending on portfolio composition and strategy (including asset class), geography and local needs, and portfolio specific ESG objectives. Social value or impact metrics can also include more qualitative metrics.

Several metrics that may be relevant to real estate in the UK and the EU, both in the short and medium term, include:

- Affordable housing – additional units per yr (additional meaning newly built dwellings and excluding standing assets acquired into a portfolio)
- Local pound spent/local procurement
- Proportion of property management and indirect asset operational staff (including security, cleaning, catering) paid the Real Living Wage
- Proportion of underlying assets offering community groups and not-for-profits free access to use space for regular and/or one-off activities
- Proportion of underlying assets offering occupier and/or public access to a defibrillator
- Proportion of portfolio tenant/occupier engagement – % of floor area coverage and weighted by property type (aligned with GRESB)
- Health and wellbeing is a material ESG issue for real estate investors and occupiers. As such, internal air quality (**IQA**) is a quantifiable and comparable metric and IQA metrics should be considered as a secondary and voluntary disclosure metric. For example, as a proportion or floor area with verifiable indoor air quality data that complies with industry best practice.