



SUBMISSION: PROPOSALS – ESG METRICS FOR REAL ESTATE

13 January 2023

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**) 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**) regulatory issues. For instance, under FCA regulations, large UK pension funds and fund managers must comply with the TCFD guidelines across all asset classes. The FCA is now proposing a package of measures including sustainable investment labels, disclosure requirements and restrictions on the use of sustainability-related terms in product naming and marketing, under the Sustainability Disclosure Requirements (**SDR**)¹,

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

¹ Financial Conduct Authority (FCA) 25 October 2022. CP22/20: Sustainability Disclosure Requirements (SDR) and investment labels: <https://www.fca.org.uk/publications/consultation-papers/cp22-20-sustainability-disclosure-requirements-sdr-investment-labels>

Regulation (**SFDR**) by 30 June 2023^{2,3,4,5}. The FCA has signalled that it has considered the SFDR in its proposals for enhanced climate-related disclosures and plans an ESG sourcebook⁶ relating to ESG compliance. The FCA also notes in the SDR proposals that it has sought, as far as possible, to achieve international coherence with other disclosure regimes notably the SFDR in the European Union (EU) and proposals by the Securities and Exchange Commission (SEC) in the United States (US).

While the SDR propose that sustainable investment labels are mandatory for UK investment funds marketed to retail investors, detailed disclosure requirements will impact institutional investors and at this stage the FCA proposes not to mandate the use of a template but signals industry may develop one if useful. 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 a working group (**Working Group**) 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 in support of consistent reporting and disclosure transparency:

- 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, where the Working Group understands no industry template for real estate is proposed.

These principles and real estate specific metrics aim to facilitate consistency of disclosures 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 Working Group looks forward to progressing the dialogue with the FCA and

² 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>

³ 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

⁴ 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

⁵ 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

⁶ FCA Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers. CP21/17.

resolving a time frame 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), as do those of different types of debt investor (consider for example, a fund that lends directly to real estate firms in the same way that a bank might, compared to a fund that invests in senior rated bonds issued by listed property firms or securitisation vehicles). The Working Group understands that (i) these proposals also have the support in principle of associations representing debt investors, and (ii) those 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. At this stage, it has not been possible to develop specific recommendations for how SDR should affect real estate lenders and debt investors.

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 Working Group has 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 product level disclosure, the Working Group suggests considering relevant guidelines produced by industry bodies, such as the INREV Governance and Sustainability Guidelines⁷.

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 Working Group acknowledges that individual real estate portfolios and developments may have specific material risks and opportunities not addressed within these proposals and suggests 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, as mentioned above, 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 three sustainable investment labels under the SDR. Therefore, the Working Group puts forward these principles and suggested metrics on the basis that they are not mandatory but voluntary metrics that provide investment and asset managers, and other industry stakeholders with freely available, material and comparable real estate specific metrics that support consistent and transparent disclosure.

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

⁷ INREV. January 2023. Professional Standards: Governance: <https://www.inrev.org/guidelines/module/governance#inrev-guidelines>. Sustainability: <https://www.inrev.org/guidelines/module/sustainability-2023#inrev-guidelines>.

PRINCIPLES

Reporting principles are required to standardise the approach to reporting across a variety of parties.

They should include:

1. **Transparency:** Relevant stakeholders should 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.
2. **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.
3. **Verification:** All parties are encouraged to verify data to an external standard using independent third party verification. Nevertheless, the Working Group acknowledges the practical challenges for landlords associated with the verification of occupier data.
4. **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 included⁸.
5. **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.
6. **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.

The Working Group requests that these reporting principles will dovetail with standards to be adopted by the International Sustainability Standards Board (**ISSB**)⁹. 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 construction versus retrofit) and debt

⁸ TCFD. Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (October 2021).

⁹ <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/industry/issb-exposure-draft-2022-2-b36-real-estate.pdf>

versus equity real estate funds. The Working Group has provided some indicative ESG metrics for real estate disclosures in the Appendix for consideration by the FCA and industry stakeholders.

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 and will be an applicable reporting, although this is optional under GRESB. Note under the updated INREV Sustainability Reporting Guidelines¹⁰, tenant controlled energy consumption and renewable energy generated/purchased by tenants have become required disclosure KPIs, applicable after the transition period. The Working Group recognises the practical challenges of obtaining occupier data but as outlined in Principle 4 **Detailed data notes**, parties should disclose and justify data gaps clarifying the proportion of floor area for which actual, proxy and/or no data is provided.

Therefore, regardless of whether emissions fall into Scope 1, 2 or 3, the Working Group advocates whole building emissions are disclosed, and tenant emissions should be included where feasible and appropriate.

WEIGHTED AVERAGE CARBON INTENSITY (WACI)

The Working Group recognises that the TCFD WACI metrics are not universally applied for real estate where revenue/rents are not considered within reporting; also if rents are variable. However, end investors often ask for the TCFD WACI metrics to be reported and many asset managers have adopted this as a disclosure metric and consider it useful as an indicator of investment risks. 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 Working Group also experiences end investors requesting footprint intensity vs Assets Under Management. If real estate uses just the TCFD WACI metric this may not sufficiently describe ESG risks. It should also be noted that the WACI metric does not align with the metrics employed for building regulation compliance, which is a key transitional risk driving change.

As such the Working Group recommends that besides allowing parties to apply the WACI metric, real estate metrics for carbon intensity normalised by floor area should also be presented, as this gives a more accurate picture of change for most asset classes than normalising by value¹¹. The Working Group

¹⁰ The updated INREV sustainability reporting guidelines became available on INREV website in January 2023.

¹¹As 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.

reiterates the importance of disclosing whole building data, including occupier data, and clarifying data gaps, to ensure data normalised by floor area accurately reflects intensity.

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

CARBON FOOTPRINT

The floor area is typically used as a denominator when measuring the carbon footprint of a real estate asset and the Working Group recommends that ESG metrics for real estate continue to be normalised by floor area (see footnote 11). 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 have been subject to criticism on the accuracy of benchmarking actual in-use performance of buildings. 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, the Working Group advocates the reporting and disclosure of actual operational performance using 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. This recommendation aligns with the proposals by BEIS for the introduction of a performance-based policy framework applicable to large commercial and industrial buildings¹².

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.

¹² BEIS. March 2021. Consultation: Introducing a performance-based policy framework in large commercial and industrial buildings: <https://www.gov.uk/government/consultations/introducing-a-performance-based-policy-framework-in-large-commercial-and-industrial-buildings>

PRIMARY ENERGY DEMAND AND ENERGY USE INTENSITY

Primary Energy Demand (**PED**) is a metric identified for real estate under the EU Taxonomy (**EUT**) for Sustainable Activities and PAI of the SFDR¹³. 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**, or Gross Floor Area **GFA** or Net Lettable Area **NLA**¹⁴)) that is more closely related to building energy use and efficiency.

The Working Group recommends the application of the EUI metric alongside the PED.

REPORTING CHALLENGES

As noted above, data coverage, particularly occupier 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 or 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.

¹³ The EUT also makes reference to a Nearly Zero-Emission Building (NZEB) as part of the criteria for real estate assets. The EU has also proposed to move from the current nearly zero-energy buildings to zero-emission buildings (ZEB) by 2030. For a definition of a NZEB and a ZEB, and more information on EU proposals refer to: [https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings_en#:~:text=Nearly%20zero%2Demission%20building%20\(NZEB,produced%20on%2Dsite%20or%20nearby](https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/nearly-zero-energy-buildings_en#:~:text=Nearly%20zero%2Demission%20building%20(NZEB,produced%20on%2Dsite%20or%20nearby)

¹⁴ The Working Group acknowledges there may be challenges when applying GIA, and data may be presented using NLA. GRESB also applies to Gross Floor Area (GFA): GRESB – Real Estate Reference Guide. Appendix 3a – Property Types Classification. Stakeholders should clearly state the floor area metric applied.

In line with Principle 6, 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. Legislative changes 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. We would encourage the FCA to address all aspects of ESG across real estate beyond the "E".

In relation the 'S' in ESG, we refer to the Appendix to this Submission pages 19 to 23 inclusive.

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.

CONCLUSION

The Working Group welcomes 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.

WORKING GROUP

Many have contributed to our Working Group in drafting and settling these proposals. These proposals would not have been possible without their support. We would like to acknowledge the support from key members:

- Alex Notay – PFP Capital: Chair, BPF ESG/Residential Working Group, AREF ESG & Impact Investing Committee Member
- Bahar Yay Celik – INREV
- Georgie Nelson – abrdn: Head of ESG, Real Estate: AREF ESG & Impact Investing Committee Member
- Helen Newman – CBRE: CIBSE Knowledge Panel Member, CREFC ESG Working Group Member, ULI UK Sustainability Product Council Vice Chair
- Julie Townsend – PGIM Real Estate, Director of ESG, Europe & Asia: ULI UK Sustainability Product Council Member
- Lora Brill – Orchard Street: IPF ESG Committee Member
- Melville Rodrigues – Apex Group: AREF Public Policy Committee Member
- Oliver Light – Carbon intelligence: AREF ESG & Impact Investing Committee Member
- Vivienne King – The Good Economy: Head of Real Estate Social Impact

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 or the Associations

Reliance should not be placed on the information and opinions set out in the document for the purposes of any particular transaction or advice.

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APPENDIX

As noted above, the Working Group has 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:

- Using calculations based on open-source tools such as the Carbon Risk in Real Estate Monitor (**CRREM**) spreadsheet to communicate intensities. It should be clearly stated whether intensities are reported in Gross Internal Area (**GIA**), or Gross Floor Area (**GFA**) or Net Lettable Area (**NIA**)¹⁴.
- In a context of assessing potential values at risk due to poor carbon performance, it is proposed that asset level comparisons be based on location-based emissions.
- 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 whole life carbon (WLC) emissions, including embodied and operational 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 WLC 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 (tonne kg CO₂-e/yr) and carbon intensity (tonne CO₂-e/sqm/yr)
 - Align with an accepted framework (such as the GHG Protocol and the UK Green Building Council (**UKGBC**)) 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 Carbon – Operational 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 Technical Expert Group (TEG) advising on the EU Taxonomy also signal that embodied carbon will be integrated into the taxonomy criteria with a threshold defined by the mid-2020s¹⁵.

The Working Group encourages 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 are encouraged as follows:

- 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.

¹⁵ RICS. April 2020. News & Opinion: RICS explains next steps on EU Taxonomy & low carbon Buildings: <https://www.rics.org/de/news-insight/latest-news/news-opinion/rics-experts-talk-on-eu-taxonomy--low-carbon-buildings/>.

- 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/NLA)¹⁴ and aligned with industry benchmarks.

Energy

The Working Group recommends 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 Working Group recommends the use of the following primary metrics for energy for real estate disclosures:

ENVIRONMENTAL PRIMARY METRICS RECOMMENDED FOR ANNUAL DISCLOSURE

Primary metrics are all voluntary but highly recommended for industry stakeholders to adopt. These are aligned to the required KPIs under INREV Sustainability Reporting Guidelines¹⁶ and support the net zero carbon hierarchy goal for buildings to reduce energy demand, maximise on-site renewables and renewable energy procurement.

Environmental factor	INREV aligned indicator ID	Indicator	Units of Measure
Energy consumption ¹	ENV1	Energy consumption, for the proportion of portfolio that is in landlord's control	kWh
	ENV2	Energy consumption, for the proportion of portfolio that is in tenant's control	kWh
	ENV3 ²	Estimated energy consumption (separate disclosure for the proportion of portfolio that is in landlord's and tenant's control)	kWh
	ENV4	Total energy consumption (ENV1 + ENV2 + ENV3)	kWh
	ENV5	Total energy consumption data coverage, by area ³	% of m2
	ENV6	Energy intensity (based on ENV4) (SFDR Annex 1 Table 2 Additional Real Estate PAI - 19) ³	kWh / m2
	ENV7	Energy intensity (based on ENV4), by property type ³	kWh / m2
Renewable Energy ⁶	ENV8	Generated and consumed on-site by landlord (SFDR Annex 1 Table 1 Universal PAI - 5)	kWh
	ENV9	Generated on-site and exported by landlord (SFDR Annex 1 Table 1 Universal PAI - 5)	kWh
	ENV10	Generated and consumed on-site by third party or tenant (SFDR Annex 1 Table 1 Universal PAI - 5)	kWh
	ENV11	Generated off-site and purchased by landlord (SFDR Annex 1 Table 1 Universal PAI - 5)	kWh

¹⁶ The INREV Sustainability reporting guidelines include a list of required and recommended KPIs that are categorised as: 1) data and disclosures which are required to be included in a vehicle's annual report to comply with INREV guidelines and 2) a recommended dataset comprising a more comprehensive list of metrics which provide a more granular view of a vehicle's ESG performance across a wide range of aspects. The updated guidelines became available on INREV website in January 2023.

Environmental factor	INREV aligned indicator ID	Indicator	Units of Measure
	ENV12	Generated off-site and purchased by tenant (SFDR Annex 1 Table 1 Universal PAI - 5)	kWh
	ENV13	Renewable energy data coverage, by area ³	% of m2
Greenhouse Gas Emissions (GHG) ⁷	ENV14 ²	Direct emissions – Scope 1 (SFDR Annex 1 Table 2 Additional Real Estate PAI – 18)	tonne CO2e
	ENV15 ²	Indirect emissions – Scope 2 (SFDR Annex 1 Table 2 Additional Real Estate PAI – 18)	tonne CO2e
	ENV16 ²	Indirect emissions – Scope 3 ⁴ (SFDR Annex 1 Table 2 Additional Real Estate PAI)	tonne CO2e
	ENV17 ²	Estimated emissions, by scope 1, 2, 3	tonne CO2e
	ENV18	Total operational carbon (SFDR Annex 1 Table 2 Additional Real Estate PAI – 18) ⁸	tonne CO2e
	ENV19	Total operational carbon data coverage, by area ^{3&8}	% of m2
	ENV20	Operational carbon intensity (based on ENV18) (SFDR Annex 1 Table 1 Universal PAI - 3) ³	tonne CO2e / m2
	ENV21	Operational carbon intensity (based on ENV18), by property type ³	tonne CO2e / m2
Climate Change – Transition Risks and Opportunities	ENV22	Exposure to fossil fuels through real estate assets (SFDR Annex 1 Table 1 Real Estate PAI – 17)	% of AUM
Climate Change – Physical Risks and Opportunities	ENV23	Proportion of assets that fall into low / medium / high physical risk categories accompanied by explanation of methodology applied and definitions of risk categories ⁹	% of AUM
Water	ENV24	Water consumption, for the proportion of portfolio that is in	m3

Environmental factor	INREV aligned indicator ID	Indicator	Units of Measure
Consumption		landlord's control	
Waste Management	ENV25	Waste generated, for the proportion of portfolio that is in landlord's control	tonne
Building Certificates	ENV26	Percentage of assets with a certificate ⁵ , by area ³	% of m2
Energy Ratings	ENV27	Percentage of assets with an energy rating ⁵ , by area ³	% of m2
	ENV28	Exposure to energy-inefficient real estate assets (SFDR Annex 1 Table 1 Real Estate PAI 18)	% of AUM

Notes:

1. Energy consumption figures include total of different energy types used, including the renewable energy sources).
2. Explain the methodology used to calculate this indicator and/or to determine the components used.
3. Recommended unit of measure for data coverage is by area; investment managers may identify and report an additional KPIs on value (AUM basis).
4. Scope 3 emissions in the INREV sustainability reporting guidelines are calculated as the emissions associated with tenant areas, unless they are already reported as Scope 1 or Scope 2 emissions. Scope 3 emissions do not include embodied carbon as it is listed separately as a recommended KPI under Appendix 1. Scope 3 emissions cover only operational activities of the portfolio of the vehicle and do not include emissions generated through the organisation's operations or by its employees, or upstream supply chain emissions.
5. For the full list of certificates/energy rating schemes refer to GRESB Real Estate Reference Guide.
6. 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.
7. To align with TCFD asset managers may present KPIs as a proportion of fund value.
8. Taking a whole building approach and justifying data gaps, and clearly reporting use of estimated/proxy data.
9. Recommended unit of measure for data coverage is by area; investment managers may identify and report an additional KPIs on rental value (AUM basis) to identify risk of non-compliance with proposed MEES legislation in England and Wales, and legislation current (e.g. France) or proposed for EU countries (e.g. EPBD).

SECONDARY METRICS

Secondary metrics should be optional rather than mandatory. Secondary metrics that organisations should consider reporting for real estate support the goals of domestic energy policy that aims to eliminate fossil fuels from heating. These secondary metrics could include, but are not limited to, the following:

Secondary energy metrics

- **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.

Secondary 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 methodologies¹⁷
 - **Assets under management:**
 - Report both the proportion of underlying assets¹⁸ by area (e.g. sqm or sq ft) (and additionally by value if required) of properties that have **a science-based, 1.5C aligned Transition Plan** undertaken and aligned with TCFD guidance for real estate¹⁹ and the metrics outlined below for physical and transition risks. 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 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

¹⁷ TCFD. Proposed Guidance on Climate-related Metrics, Targets and Transition Plans (October 2021)

¹⁸ 'Underlying assets' refers to all the RE properties/assets held within the reporting portfolio.

¹⁹ Principles for Responsible Investment (PRI). Technical Guide: TCFD For Real Assets Investors. Available from: <https://www.unpri.org/download?ac=13337>

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 both the proportion of underlying assets²⁰ by area (e.g. sqm or sq ft) (and additionally by value if required) that has a 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 Working Group encourages 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

Aligned with INREV reporting guidelines and SFDR (Annex 1 Table 2 Additional Real Estate PAI – 22) report:

- **Land artificialisation** – Share of non-vegetated surface area compared to the total surface area of the plots of all assets.

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.

²⁰ 'Underlying assets' refers to all the RE properties/assets held within the reporting portfolio.

SOCIAL METRICS FOR REAL ESTATE

This guidance is concerned with delivering positive social impact in real estate as a means of responding to the **local needs** of people and place. Any evaluation of social impact or social value should be focused on the metrics which evaluate an organisation's objectives or help drive certain outcomes corresponding to those needs. Social impact metrics necessarily vary depending on portfolio composition, nature of the asset, geographical context and corporate strategy. Whilst the level of intent may vary, the expectation in this guidance is for **intentionality, additionality and measurement** to be integrated into impact strategy as defined below.

The goal is for a holistic set of example social impact metrics for real estate which reflect the spectrum of impact objectives and goals/outcomes being adopted by funds and other real estate investors including enterprises.

This guidance sets out the considerations for addressing social impact using the recently published SDR 'labels' in the FCA consultation document as a framework. It is not a mandated interpretation of the SDR, nor does it attempt to be an exhaustive list of metrics for all scenarios. The metrics are suggested examples of what a fund or enterprise may consider, pending metrics being detailed within the SDR framework, itself.

Distinguishing between social impact and social value in real estate

Social value refers to buildings, places and infrastructure supporting environmental, economic and social wellbeing, **and in doing so** improving the quality of life of people. [UKGBC adaptation]

Social impact refers to investments made with the **intention** to generate positive, **measurable** social and environmental impact **alongside** a financial return, in response to a local or wider societal **need**. [GIIN adaptation]

Integrating process principles

The expectation in this guidance is for the four principles below to be integrated into strategic design.

Intentionality: Stated intention to have a defined positive social impact through investments, assets and activities. Impacts are defined as part of strategy and investments are assessed against social impact criteria as well as financial return thresholds.

Local needs: Needs analysis should be undertaken based on primary or secondary data including stakeholder engagement, to reveal local needs which the asset/ scheme /purpose/ activity is responding to, with the overall performance aggregated at fund level.

Additionality: The positive impact that would not typically have occurred without the investment. It should be driven by an identified local or broader societal need. **Impact measurement and management:** The processes used by an organisation to measure impact performance against appropriate metrics and collect data against the metrics and to identify, assess and manage performance.

Scope of this guidance

The metrics in this guidance:

- Relate to all funds not only impact funds and also for these purposes, enterprises, notwithstanding enterprises are not captured by the proposed SDR at present
- Do not claim to represent a definitive proposition. They are examples of metrics which could be considered where a fund or enterprise is seeking to align with the proposed SDR labels, 'sustainable focus' 'sustainable improver' and 'sustainable impact' in order to inform the categorisation, whilst no baseline metrics currently exist under SDR.
- Include both quantitative and qualitative metric suggestions in order for an holistic view of impact to be reflected
- Can be applied or adapted to be either objective driven, i.e. apply to impacts which an organisation can directly control or outcome driven: impacts which an organisation cannot claim sole responsibility for e.g. because of the counterfactual.

Framework

Adoption of an existing framework is recommended to help structure the evaluation of what can legitimately be expected from the market in achieving positive social impact. A number of existing frameworks are relevant to real estate, e.g. Impact Management Platform, Global Impact Investing Network, United Nations Environment Programme Finance Initiative Positive Impact Real Estate Investment Framework.

For current purposes, we have taken the three Labels proposed by the FCA's SDR Consultation as the adopted structure – 'Sustainable improver' 'Sustainable Focus' and 'Sustainable Impact'. In applying labels or classifications, the SDR also refers to these channels, 'labelling of sustainable investment products should emphasise the actions that the firm takes in the product's investment policy and strategy to contribute to positive outcomes for the environment and/or society. This would include:-

- the value that the firm adds through asset selection, portfolio construction and investor stewardship:
- active investor stewardship and engagement,
- influencing asset prices and the cost of capital,
- seeking a positive sustainability impact by allocating capital to underserved markets or addressing market failure'.

This guidance also suggests channels which may apply to each label.

This guidance assumes minimum legal obligations are already being performed. Minimum legal compliance does not therefore form part of the metrics framework to support assessment of impact creation²¹.

Example legal compliance metrics:

- Minimum wage pertaining to the asset jurisdiction is paid to operational staff (i.e. security, cleaning, catering and maintenance personal) and construction workers.
- Labour standards pertaining to the asset jurisdiction are observed for all onsite employees (including supply chain). (UK labour law or International labour standards)

Social Metrics Framework

Sustainable Improvers. Invests in assets that may not be sustainable now, with an aim to improve their sustainability for people and/or planet over time²²

Primary channel: Investor stewardship – directed towards encouraging and accelerating improvements in sustainability performance

Secondary channel: Influencing asset prices, through asset selection of products best-placed to improve sustainability performance

Example metrics

- **OBJECTIVE: Affordability** – % site value to be converted to affordable work/ living space for SMEs/low and middle- income households.
- **OBJECTIVE: Placemaking** – % of AUM intended for placemaking which is adjacent to or connected to a scheme which capitalises on local cultural assets and potential to improve mental and physical health and wellbeing.
- **OBJECTIVE: Occupier health & wellbeing** –
 - introducing a systematic process for measuring occupier health and wellbeing with physical and mental health facilities designed into schemes including air quality natural light and noise exposure strategies
 - number of health safety & wellness programmes run for different stakeholders e.g. employees, tenants, customers etc. (per asset) with the aim of improving health and wellbeing standards in the asset over time.

²¹ See instead the EU Platform on Sustainable Finance’s draft report on minimal safeguards in relation to the Taxonomy Regulation Art. 3c./18.

²² Strict definition: Products with an objective to deliver measurable improvements in the sustainability profile of assets over time. These products are invested in assets that, while not currently environmentally or socially sustainable, are selected for their potential to become more environmentally and/or socially sustainable over time, including in response to the stewardship influence of the firm

Sustainable Focus. Invests mainly in assets that are sustainable for people and/or planet²³

Primary channel: influencing asset prices (i.e. reducing cost of capital for sustainable activities)

Secondary channel: responsible stewardship to influence improvements in sustainability performance

Example metrics

- **OBJECTIVE: Blended uses** – % portfolio value to affordable housing/specialist care places which are meeting local need in an otherwise mid-market /build to rent/private healthcare portfolio
- **OBJECTIVE: Placemaking** – %of AUM with objectives aimed at targeting local issues by type – improving community health and wellbeing, reducing crime, tackling homelessness, which the market has to date failed to address.
- **OBJECTIVE: Skills development** –Number of skills development opportunities for disadvantaged groups and % undertaking supported ongoing training for over 12 months
- **OBJECTIVE: Thriving economy** – Proportion of additional jobs created through development/AUM where operational staff i.e. security, cleaning, catering and maintenance personal and construction workers are paid at least the London Living Wage / Real Living Wage (jurisdictional equivalent).

Sustainable Impact. Invests in solutions to problems affecting people or the planet to achieve real impact²⁴

Primary channel: Allocating capital to underserved markets or to address market failures

Secondary channel: Investor stewardship to influence improvements in sustainability performance

Example metrics

- **OBJECTIVE: Specialist care provision** – Number of specialist care units provided for those earning less than a predefined percentage of local median income, including people on very low to low household incomes, older and/or disabled people.
- **OBJECTIVES: Affordable housing:**
 - Number of affordable homes in underserved locations for those earning less than a predefined percentage of local median income.
 - Number of individuals projected to be housed in underserved locations as a result of affordable housing investments for those earning less than a predefined percentage of local median income.

²³ Strict definition: Products with an objective to maintain a high standard of sustainability in the profile of assets by investing to (i) meet a credible standard of environmental and/or social sustainability; or (ii) align with a specified environmental and/ or social sustainability theme

²⁴ Strict definition: Products with an explicit objective to achieve a positive, measurable contribution to sustainable outcomes. These are invested in assets that provide solutions to environmental or social problems, often in underserved markets or to address observed market failures

'Affordability' is interpreted as a maximum percentage of gross income which may differ from country to country and also depend on whether it is a percentage of net, gross, individual or household income. In the UK, no more than c. 35% of net household income spent on housing costs is considered to be affordable, i.e. a person is not overburdened by their costs relative to their net income.

- **OBJECTIVES: Community cohesion** –% AUM in assets whose primary purpose is by managing social issues by type – reducing crime, tackling homelessness, improving community health and wellbeing which the market has to date failed to address.
- **OBJECTIVES: Skills development** –Creating skills development opportunities for disadvantaged groups and % undertaking supported ongoing training for over 12 months

OBJECTIVE: Dynamic economy – % AUM invested with a primary purpose of creating local jobs paid at least the London Living Wage / Real Living Wage (jurisdictional equivalent) where job opportunities have previously been underserved.