AREF
The Association of Real Estate Funds

AREF GUIDE

ESG Definitions

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A

Active ownership

An asset manager engages with investee entities and leveraging their influence, either unilaterally or in partnership with other investors and entities, advocates for positive change. Comprising engagement and (with corporates) voting, active ownership can generate outcomes that benefit clients and in many cases society, the environment and the broader economy.

Adaptation

Climate change adaptation refers to actions that help reduce vulnerability to the current or expected impacts of climate change like weather extremes and natural disasters, sea-level rise, biodiversity loss, or food and water insecurity.

Local level adaptation measures include planting crop varieties that are more resistant to drought and practicing regenerative agriculture, improving water storage and use, managing land to reduce wildfire risks, and building stronger defences against extreme weather like floods and heat waves.

Adaptation also happens at national and international levels, with governments developing the policies needed to guide adaptation as well as considering large-scale measures such as strengthening or relocating infrastructure from coastal areas affected by sea-level rise, building infrastructure able to with stand more extreme weather conditions, enhancing early warning systems and access to disaster information, developing insurance mechanisms specific to climate-related threats, and creating new protections for wildlife and natural ecosystems.

Adverse impacts

Adverse impacts are the negative environmental and social effects of investment decisions. There is a wide range of factors to consider, from climate-related impacts such as pollution and carbon emissions to potential societal damage from poor human rights practices in investee companies. Various techniques can be used to identify adverse impacts caused by the investment process. These can include quantitative metrics and qualitative assessments. SFDR mandates disclosure of principal adverse impacts statements from 30 June 2021 and requires asset managers to disclose how the principal adverse impacts of investee companies on sustainability factors are taken into account in the investment process.

Afforestation

Afforestation is the process of planting trees in areas that have not been forested in recent history. Afforestation helps restore abandoned and degraded agricultural lands, prevent desertification, create carbon sinks, and generate new economic opportunities for local communities.

Article 6, 8 & 9

The EU Sustainable Finance Disclosure Regulation (SFDR) aims to increase transparency in sustainable investment, partly to address the serious issue of greenwashing. The SFDR provides a framework for the disclosure of investment funds' sustainability characteristics and distinguishes between three types of funds, as laid out by Articles 6, 8 and 9 of the SFDR.

Article 6 funds do not integrate any kind of binding sustainability controls into their investment process.

Article 8 funds have binding environmental or social characteristics (i.e. these must be considered as part of the investment process), or a combination of the two. Companies in which investments are made must also follow good governance practices.

Article 9 funds have binding environmental or social characteristics and target a specific sustainability goal.

B

Biodiversity

This is the variety of life on earth and the term is often used interchangeably with 'nature'. Biodiversity is crucial to the efficient functioning of ecosystems.

BNG: Biodiversity Net Gain

Biodiversity Net Gain (BNG) refers to the process of enhancing the overall biodiversity value of a development site, ensuring that the fauna and flora (i.e. biodiversity) is left in a better state than before. BNG aims to preserve and enhance ecosystems by mitigating against the potential adverse effects of a new development. Since February 2024, for all major developments it is mandatory for developers to demonstrate that their projects will boost biodiversity by at least 10% and maintain this for 30 years or more, either on site or off-site (see below Biodiversity Gain Hieracrchy). Developers must submit BNG plans as part of their planning applications before schemes can be approved. This requirement also applies to smaller development sites from April 2024.

Biodiversity gain hierarchy

Developers must follow the biodiversity gain hierarchy. Developers can combine all three options but must follow the below steps in order:

1. Create biodiversity on-site (within the red line boundary of a development site).
2. If developers can only achieve part of their BNG on-site, they can deliver through a mixture of on-site and off-site. Developers can either make off-site biodiversity gains on their own land outside the development site or buy off-site biodiversity units on the market.

3. If developers cannot achieve on-site or off-site BNG, they must buy statutory biodiversity credits from the government. This should be a last resort. The government will use the revenue to invest in habitat creation in England.

Blue economy

The 'blue economy' concept seeks to promote economic development, social inclusion, and the preservation or improvement of livelihoods while at the same time ensuring environmental sustainability of the oceans and coastal areas. The blue economy has diverse components, including established traditional ocean industries such as fisheries, tourism, and maritime transport, but also new and emerging activities, such as offshore renewable energy, aquaculture, seabed extractive activities, and marine biotechnology.

BREEAM: Building Research Establishment's Environmental Assessment Method

The Building Research Establishment's Environmental Assessment Method– is a leading sustainability assessment method for master planning projects, infrastructure and buildings. BREEAM certification is an internationally recognised scheme and comprises several categories that address key sustainability factors, including carbon emissions reduction, low-impact design, design durability, and adaptation to climate change. There are specific BREEAM assessment methods for various building types, such as BREEAM New Construction, BREEAM In-Use or BREEAM Refurbishment and Fit-out.

Brown discount

Brown discount refers to any negative differential in a valuation metric derived specifically from poor sustainability credentials, such as high emissions or necessary capex to meet legislative requirements.

C

Carbon footprint

The mass of greenhouse gas (normally consisting principally of CO_2) produced by a particular person, organisation, product or activity. Other greenhouse gases such as nitrous oxide and methane are included, measured as the mass of CO_2 equivalent.

Measuring an entity's carbon footprint entails looking at both the direct emissions resulting from the burning of fossil fuels for energy production, heating, and land and air travel, and indirect emissions resulting from the production and disposal of all food, manufactured goods, and services they consume. Carbon footprints can be reduced by shifting to low-carbon energy sources like wind and solar, improving energy efficiency, strengthening industry policies and regulations, changing purchasing and travel habits, and reducing meat consumption and food waste.

Carbon intensity

In finance, carbon intensity can be defined as either carbon emissions divided by revenues, carbon emission divided by m^2, or carbon emissions divided by dollar invested. It has a different meaning in the context of, for example, electricity generation. It is used as a metric to compare emissions performance within a sector and at the portfolio level.

Carbon neutral

Achieving parity between emissions created and offsets. Carbon neutrality does not involve a commitment to reduce overall emissions. A business can achieve carbon neutrality even if the emissions it creates are increasing. In contrast, net zero is achieved by reducing the level of emissions a company creates with any residual amounts emitted matched by removal.

Carbon pricing

Putting a price on emissions of greenhouse gases to 'make the polluter pay' for the negative externality of pollution. The two most frequently used approaches are emissions trading schemes and carbon taxes. The first mandatory emissions trading scheme came into being in 2002, while the first carbon taxes were introduced in 1990.

Carbon capture

Carbon capture and storage is the process of trapping carbon emissions produced by fossil fuel power plants or other industrial processes before they can enter the atmosphere by storing them deep underground. It has been proposed as a way to tackle emissions from sectors that are difficult to decarbonise, particularly heavy industries like cement, steel, and chemicals.

Carbon removal

Carbon removal is the process of removing greenhouse gas emissions from the atmosphere, through natural solutions such as reforestation and soil management or technological solutions like direct air capture and enhanced mineralization. Carbon removal is not a substitute for cutting greenhouse gas emissions, but it can slow down climate change and is necessary to shorten any period during which we temporarily overshoot our climate targets.

Carbon sink

A carbon sink is any process, activity, or mechanism that absorbs more carbon dioxide from the atmosphere than it releases. Forests, oceans, and soil are the world's largest natural carbon sinks. Oceans absorb carbon dioxide from the atmosphere through marine ecosystems and the plant and animal life they harbour. Sequestering carbon in marine ecosystems is generally referred to as blue carbon. Forests and soil are the other main natural carbon sinks of the planet, storing carbon in trees and vegetation, wetlands and peat bogs, and plant litter.

Carbon markets

Carbon markets are trading schemes that create financial incentives for activities that reduce or remove greenhouse gas emissions. In these schemes, emissions are quantified into carbon credits that can be bought and sold. One tradable carbon credit equals one tonne of carbon dioxide, or the equivalent amount of a different greenhouse gas reduced, sequestered or avoided.

Carbon credits can be bought by countries as part of their Nationally Determined Contributions (NDCs) strategy, by corporations with sustainability targets, and by private individuals that want to compensate for their carbon footprint. The supply of carbon credits comes from private entities or governments that develop programmes to reduce or remove emissions. These programmes are certified by a third party and registered under a carbon market standard.

Circular economy

Circular economy refers to models of production and consumption that minimise waste and reduce pollution, promote sustainable uses of natural resources, and help regenerate nature. They can be employed in a number of different sectors from textiles to buildings and construction, and at various stages of a product's lifecycle, including design, manufacturing, distribution, and disposal.

Climate

Climate is the average of weather patterns in a specific area over a longer period of time, usually 30 or more years, that represents the overall state of the climate system.

Climate Act

Climate Act in the context of UK regulation refers to the Climate Change Act 2008, a law that sets legally binding targets for reducing greenhouse gas emissions. It aims for a reduction of at least 100% of 1990 levels (net zero) by 2050. The Act also establishes a framework for setting carbon budgets, which cap emissions over five-year periods, and mandates the government to develop policies that promote energy efficiency, renewable energy, and climate resilience. This legislation underscores the UK's commitment to addressing climate change and transitioning to a low-carbon economy.

Climate change

Climate change refers to the long-term changes in the Earth's climate that are warming the atmosphere, ocean and land. Climate change is affecting the balance of ecosystems that support life and biodiversity, and impacting health. It also causes more extreme weather events, such as more intense and/or frequent hurricanes, floods, heat waves, and droughts, and leads to sea level rise and coastal erosion as a result of ocean warming, melting of glaciers, and loss of ice sheets.

Climate risk

Climate risk refers to risk assessments based on formal analysis of the likelihood, consequences and responses to the impacts of climate change and how societal constraints shape adaptation options. There are two types of climate risks: physical and transitional. In a nutshell, physical climate risks relate to the physical impacts of climate change. These risks can be event driven (examples: increased severity of extreme weather events such as cyclones, hurricanes, floods etc.) or related to longer-term shifts in climate patterns (examples: sustained higher temperatures, sea level rise). Transitional risks represent the risks related to the transition to a lower-carbon economy and are associated with the pace and, at business level, refers to the extent at which an organisation manages and adapts to the internal and external pace of change to reduce greenhouse gas emissions and transition to renewable energy. Transitioning requires policy/legal, technology and market changes to address adaptation requirements related to climate change. Refer to definitions “Just transition” and “Localised physical risks” for further details.

CO_2e (or CO_2-eq): Carbon dioxide equivalent

Also known as carbon dioxide equivalent. There are a number of greenhouse gases which warm the earth at different intensity levels such as water vapour (H_20), carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrochlorofluorocarbons (HCFCs), ozone (O_3), hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs). Rather than providing metrics for each gas they are converted into $C0_2e$ for reporting.

Community

Community refers to a group of individuals or entities that share common interests, values, or geographic locations. In a broader sense, it involves fostering social connections, support networks, and a sense of belonging and collective well-being.

COP: The Conference of the Parties

The annual United Nations conference dedicated to climate change, called ‘the Conference of the Parties’ or ‘COP’, has been organised under the UN Framework Convention on Climate Change (UNFCCC) since 1995. At the 21st COP, or COP21, which took place in 2015, the Paris Agreement was signed. The conference brings together all nations who are parties to the Paris Agreement to discuss their next steps to combat climate change and further establish legally binding agreements to support climate action.

Corporate governance

The systems and processes by which companies are controlled. Good corporate governance creates and maintains processes and controls to enable fair treatment of all key stakeholders, including employees, shareholders, customers, supply chain and local communities.

CRREM: Carbon Risk Real Estate Monitor

CRREM is the Carbon Risk Real Estate Monitor, widely considered to be the industry standard for decarbonisation pathways in the commercial real estate investment market. It is used to assess stranding horizons based on Greenhouse Gas Intensity.

D

Disclosure

Disclosure refers to the practice of providing transparent and comprehensive information about an organization's activities, performance, and risks. It enables stakeholders to make informed decisions and promotes accountability and trust.

E

Embodied Carbon

Embodied carbon refers to the emissions released during the creation of a product or asset, such as the emission of the concrete that goes into constructing a building.

ETS: Emissions Trading Scheme

The most common form of ETS is a 'cap and trade' system. The government running the ETS provides industrial businesses with allowances which enable them to release a certain level of emissions. The EU Emissions Trading Scheme resulted in over 12,000 industrial sites across Europe having their emissions limited in this way. Allowances are tradable and each company must submit allowances equal to its emissions to the government. A less common structure is the 'baseline and credit' approach, which sets an emissions limit for each business and awards tradeable credits to those whose emissions over the period in question are lower than their stated limit.

EUI: Energy Unit Intensity

The EUI measures the amount of energy used per unit of space or output. It is a key indicator of energy efficiency and helps organisations track and reduce their energy consumption and environmental impact. It usually expressed as kWh/m2.

Engagement

Contact between an asset manager and a current or potential investee entity and key stakeholders on matters relating to ESG factors with the aim of improving practice, disclosure or both. For corporates, this can involve discussions with management teams, filing shareholder proposals and voting.

Escalation

The process through which investors can apply increasing levels of pressure on companies. It takes place beyond initial engagement but prior to divestment. Escalation efforts must be credible, being seen as potential precursors to the ultimate sanction of divestment.

EPC: Energy Performance Certificate

The Energy Performance Certificate (EPC) is an asset rating system which aims to standardise the theoretical energy efficiency of buildings. They are typically per demise. There are different rating scales for domestic (residential) and non-domestic (commercial) property. There are separate EPC rating systems in Scotland and Northern Ireland. EPCs were established by the EU’s Energy Performance in Buildings Directive, so all EU countries have implemented EPCs, albeit national frameworks and ratings can vary considerably.

ESG: Environmental, Social and Governance

ESG is an investor analysis framework for recognising non-financial environmental, social and governance risks. The term is relevant to all forms of investing. Note that governance risks are typically corporate issues (for example board diversity or executive remuneration) and may be felt to be less applicable in the analysis of commercial property.

EU Taxonomy

The EU taxonomy for sustainable activities is a classification system established to clarify which investments are environmentally sustainable, in the context of the European Green Deal. The aim of the taxonomy is to prevent greenwashing and to help investors make greener choices.

Exclusions

Removing securities from a fund's investible universe due to their failing to meet certain criteria. To exclude a company in this way means engagement to try and improve features of concern has already been or is likely to be unsuccessful due to the very nature of the company's business being at odds with basic principles of sustainability. Exclusion lists often comprise companies that produce controversial weapons, firearms and tobacco.

F

Financed Emissions

A category of Scope 3 emissions defined by the Greenhouse Gas Protocol that refer to the emissions associated with investment or finance. These would be the emissions associated with the assets which lenders are securing their finance against. Lenders would likely include these emissions within decarbonisation targets, so will seek to calculate, report, and reduce them.

Fossil Fuel Free Building

Fossil Fuel Free Building is a structure designed and operated without the use of fossil fuels for heating, cooling, or power. It relies on renewable energy sources and energy-efficient technologies to minimise its carbon footprint and environmental impact.

G

Global warming

Global warming is an increase in the Earth's average surface temperature that occurs when the concentration of greenhouse gases in the atmosphere increases. These gases absorb more solar radiation and trap more heat, thus causing the planet to get hotter. Burning fossil fuels, cutting down forests, and farming livestock are some human activities that release greenhouse gases and contribute to global warming.

Green bonds

Bonds where the proceeds are exclusively used to finance/re-finance green projects, as defined by the Green Bond Principles (GBP). Green bonds may be standard 'use of proceeds' in nature, which gives bondholders recourse to the issuer's business and cashflows, or revenue/project bonds, which provide bondholders with recourse only to specific cash flows.

Green certificates

Certifications such as BREEAM or LEED which aim to provide an overview of green features within a building.

Green finance

Any financial instrument or investment - including equity, debt or derivatives - used to finance projects and activities that deliver environmental benefits.

GHG: Greenhouse gases

Greenhouse gases are gases that trap heat from the sun in our planet's atmosphere, keeping it warm. Since the industrial era began, human activities have led to the release of dangerous levels of greenhouse gases, causing global warming and climate change. The main greenhouse gases released by human activities are carbon dioxide, methane, nitrous oxide, and fluorinated gases used for cooling and refrigeration. Carbon dioxide is the primary greenhouse gas resulting from human activities, particularly from burning fossil fuels, deforestation, and changing the way land is used. Methane is another important greenhouse gas that is responsible for 25 percent of global warming. Methane is released during the extraction and transport of coal, gas, and oil, and by waste landfills and agricultural practices.

Greenhouse Gas Protocol

The 'accounting standard' for calculating greenhouse gas emissions (aka carbon footprints). The Greenhouse Gas Protocol is used for reporting emissions, categorised as Scope 1 (direct, such as natural gas for heating), Scope 2 (indirect usage, such as electricity) and Scope 3 (value chain, where the Scope 1 or 2 is reported by another party, such as emissions from tenant purchased energy).

Greenhushing

Greenhushing refers to situations where a company chooses not to publicise details of its science-based targets for fear of scrutiny and allegations of greenwashing.

Green lease

A lease that incorporates clauses whereby the owner and the occupier undertake specific responsibilities/obligations with regards to the sustainable operation/occupation of a property, for example: energy efficiency measures, waste reduction/ management and water efficiency, and related data sharing.

Green premium

Green Premium is the additional value or cost associated with sustainable and environmentally friendly products, practices, or properties. It reflects the market's recognition of the benefits of reduced environmental impact and enhanced sustainability.

Greenwashing

Greenwashing refers to situations where a company makes misleading claims about its positive environmental impact or the sustainability of their products and services to convince consumers that it is acting on climate change. In some cases, greenwashing can be unintentional, because of lack of knowledge on environmental issues. However, it can also be carried out intentionally as a marketing and public relations exercise, exploiting public support towards environmental policies for profit. Greenwashing can erode public confidence in sustainability and allow negative environmental impacts to continue unabated.

GRESB: Global Real Estate Sustainability Benchmark

The Global Real Estate Sustainability Benchmark is a global ESG benchmark for real assets (real estate and infrastructure), providing validated ESG performance data and peer benchmarks for investors and managers to improve business intelligence, industry engagement and decision making.

H

Habitat

Habitat refers to the natural environment in which a particular species lives and thrives. In a broader sense, it encompasses efforts to preserve and restore ecosystems, promoting biodiversity and ecological health. The UK Habitat Classification system (also referred to as UKHab) is a coding system used for surveying and classifying habitats when conducting a habitat assessment.

Health and wellbeing

Health and Wellbeing encompasses the overall physical, mental, and social health of individuals. It involves creating environments and practices that promote healthy lifestyles, reduce stress, and enhance quality of life.

I

Impact investing

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Additionality is a key concept for impact investing to ensure the investment is adding a positive impact that was not there in the first place. The impact should be measured both quantitatively and/or qualitatively.
Impact investments can be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on the investors' strategic goals.

IPCC: Intergovernmental Panel on Climate Change

The Intergovernmental Panel on Climate Change (IPCC) is an independent body founded under the auspices of the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP). The IPCC's main role is to assess the scientific literature and findings on climate change and provide vital scientific information and evidenced-based recommendations to policymakers and the public. It is widely recognised as the most credible source of information related to the science of climate change and its complex analysis of impacts, risks, and adaptation and mitigation options.

J

Just transition

In the context of climate change, transitioning to a low-carbon or net-zero economy requires a massive transformation of economic systems. Such transformation runs the risk of further increasing social inequality, exclusion, civil unrest, and less competitive businesses, sectors, and markets. As countries work to meet their climate goals, it is vital that they ensure the whole-of-society – all communities, all workers, all social groups – are brought along and part of the structural change that takes place.

Ensuring a just transition means that countries choose to green their economy through transition pathways and approaches that reinforce equality and inclusivity. This means looking at the impacts of the transition on different groups of workers across the economy and providing opportunities for training and reskilling that support decent work and aim to leave no one behind.

L

LEED: Leadership in Energy and Environmental Design

Leadership in Energy and Environmental Design, governed by the US Green Building Council, is the American counterpart to BREEAM, and the most widely adopted green certification in the world. It is relevant to new construction, interior fit-out and operation and maintenance. Ratings are Platinum, Gold, Silver or Certified.

Living Wage

Living Wage is a wage rate that is high enough to maintain a normal standard of living. It ensures that employees receive fair compensation to meet their basic needs, such as housing, food, and healthcare, thereby promoting economic stability and well-being.

Localised physical risks

These are physical risks to the asset, such as flooding. The term ‘localised’ is applicable where the risks may notably vary within a given market (for example, a city). Most defined physical climate risks (such as water stress) would apply more or less uniformly across a market and not have any specific implications to a building compared with another building in the same market.

Long-term strategies

Under the Paris Agreement, countries are invited to communicate long-term strategies (LTS) for emissions reductions that envision a whole-of-society transformation over several decades, usually up to 2050. LTS documents align to the long-term objectives of limiting global warming and achieving net-zero by 2050. When countries officially communicate their LTS to the UNFCCC, it is called a Long-Term Low Emission Development Strategy (LT-LEDS).

M

Macro stewardship

This is engaging with governments, regulators and supranational organisations, such as the UN, with the aim of correcting market failures and mitigating systemic risks to put markets on a more sustainable footing.

Micro stewardship

This is engaging with investee entities and leveraging influence, unilaterally or in partnership with other investors and entities, to advocate for positive change. It comprises engagement and (with corporates) voting, active ownership can generate outcomes that benefit clients and in many cases society, the environment and the broader economy.

MEES: Minimum Energy Efficiency Standards

Regulations in England and Wales which impose minimum standards of energy efficiency in buildings based on the EPC. As of April 2023, MEES requires any demise of non-domestic property with a lease in place to have an EPC of E or better.

Mitigation

Climate change mitigation refers to any action taken by governments, businesses, or people to reduce or prevent greenhouse gas emissions, or to enhance carbon sinks that remove these gases from the atmosphere.

Reducing or preventing greenhouse gas emissions can be achieved by transitioning to renewable energy sources like wind and solar, using energy more efficiently, adopting low carbon or carbon-free transportation modalities, promoting sustainable agriculture and land use, and changing production and consumption models and diet behaviours. Enhancing carbon sinks can be achieved by restoring forests, wetlands, and marshlands, maintaining soil health, and protecting terrestrial and marine ecosystems.

In order for mitigation actions to be successful, it is crucial that countries develop supportive environments through legislation, policies, and investments. To limit global warming to 1.5° C, which is the critical goal of the Paris Agreement, the world must implement climate change mitigation actions to reduce greenhouse gas emissions by 45 percent before 2030 and reach net-zero greenhouse gas emissions by mid-century.

Modern Day Slavery Policy

Modern Day Slavery Policy is a framework implemented by organizations to prevent and address forced labor, human trafficking, and exploitation within their operations and supply chains. It includes measures to ensure transparency, conduct due diligence, and enforce strict standards among employees, contractors, and suppliers. The policy aims to uphold human rights, ensure ethical practices, and promote a fair and just working environments for all individuals involved.

N

NABERS: National Australian Build Environment Rating System

The National Australian Built Environment Rating System – created in Australia & New Zealand. It is a sustainability rating for the built environment which focusses on in-use energy performance and provides an annual six-star rating. NABERS was introduced to the UK in 2020 as NABERS UK.

NAPs: National Adaptation Plans

NAPs are strategic frameworks developed by countries to manage and reduce vulnerability to climate change impacts while strengthening adaptive capacity and resilience. In the context of real estate, NAPs assess vulnerabilities, propose adaptation measures, and integrate climate resilience into development plans. They link to Nationally Determined Contributions (NDCs) and other national and sectoral policies, ensuring cohesive action. For NAPs to be successful, they must be participatory, inclusive, gender-responsive, and transparent, evaluating the specific needs of different groups, especially those most vulnerable to climate change. This collaborative approach helps protect property values and promote sustainable development by mitigating climate risks to buildings and infrastructure.

NDCs: Nationally Determined Contributions

NDCs are climate pledges and action plans that each country is required to develop in line with the Paris Agreement goal of limiting global warming to 1.5° C. NDCs represent short to medium-term plans that are updated every five years with higher ambition on climate. NDCs outline mitigation and adaptation priorities a country will pursue to reduce greenhouse gas emissions, build resilience, and adapt to climate change, as well as financing strategies and monitoring and verification approaches.

Natural capital

Natural capital is the world's stock of renewable and non-renewable resources, which include geology, soil, air, water and all living things, that combine to yield a flow of benefits to people.

Negative emissions technologies

These are technologies that enable carbon to be removed from the atmosphere e.g. machines that capture carbon dioxide from the air and sequester it.

Net Zero target

Net zero is achieved by reducing the level of emissions a company or country creates with any residual amounts emitted matched by removal. An entity commits to make net zero carbon emissions by a specific date (often 2050), at which point having reduced emissions as much as possible, any carbon dioxide which continues to be released into the atmosphere is balanced by an at least equivalent amount being removed.

O

Operational Carbon

Operational carbon refers to the emissions released from the running or sustaining of a product or asset, such as the fossil fuels burned to create electricity to light a building.

Offset

Offsets refer to carbon offsetting. It is the process whereby a company or individual can purchase Carbon Credits in order to offset their unavoidable emissions. A criticism of the offsets market is that it is not regulated, and the offsets being purchased can be unreliable and vary in price considerably.

P

Paris Agreement

The Paris Agreement, often referred to as the Paris Accords or the Paris Climate Accords, is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation, and finance.

R

REDD+: Reducing Emissions from Deforestation and Forest Degradation

REDD+ is a framework agreed by countries in the international climate negotiations that aims to curb climate change by reducing deforestation and forest degradation, and sustainably managing and conserving forests in developing countries. REDD stands for ""Reducing Emissions from Deforestation and Forest Degradation”. The “+” signifies the role of conservation, sustainable management of forests and enhancement of forest carbon stocks.

Reforestation

Reforestation is the process of replanting trees in areas that had recent tree cover but where forests were lost, due to wildfires, drought, disease, or human activity such as agricultural clearing.

Regenerative agriculture

Regenerative agriculture is a way of farming that nurtures and restores soil health, and therefore reduces water use, prevents land degradation, and promotes biodiversity. By minimising land ploughing, practicing rotating crops, and using animal manure and compost, regenerative agriculture ensures that the soil stores more carbon, conserves more moisture, and is healthier due to thriving fungal communities. Regenerative agriculture helps lower greenhouse gas emissions, conserves water, and restores land. Moreover, healthy soil produces more food and better nutrition and has other positive impacts on ecosystems and biodiversity.

REGO: Renewable Energy Guarantees of Origin

Renewable Energy Guarantees of Origin (REGO) certificates are issued to renewable energy providers as proof that a proportion of the energy they generate comes from renewable sources. The regulator (called Ofgem) gives one REGO certificate to a renewable energy provider for every 1000 units (or 1 megawatt hour) of renewable energy they generate. This certificate is essentially evidence telling the energy consumer that the energy that is provided is from renewable energy sources.

Responsible Investing

Responsible Investing involves making investment decisions that consider environmental, social, and governance (ESG) factors. It aims to generate long-term financial returns while also contributing to positive societal and environmental outcomes.

Rewilding

Rewilding is the mass restoration of ecosystems that have been damaged by human activity. More than conservation, which focuses on saving specific species through dedicated human intervention, rewilding refers to setting aside large areas for the natural world to regenerate in on its own terms. This sometimes requires the reintroduction of key species that have been driven extinct in a particular region, such as beavers, wolves, or large herbivores, who help shape entire ecosystems. It helps combat climate change by removing more carbon dioxide from the atmosphere through healthy natural processes such as natural woodland regeneration. It also helps prevent species extinction by creating nature-rich habitats that allow wildlife to adapt to climate change and migrate as warming intensifies.

S

SBTi: Science Based Targets initiative

A set of science-based goals developed to provide a clearly defined pathway for companies to reduce greenhouse gas (GHG) emissions, helping prevent the worst impacts of climate change and future-proof business growth. An emissions reduction target is defined as 'science-based' if it is in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above preindustrial levels and pursuing efforts to limit warming to 1.5°C.

Scope 1, 2 and 3 emissions

Greenhouse gas emissions are categorised into three groups or 'Scopes'. Scope 1 covers direct emissions e.g. burning of natural gas and company-owned vehicle emissions. Scope 2 covers indirect emissions from the generation of purchased electricity, steam and heating. Scope 3 includes 15 other categories of indirect emissions in a company's value chain, including use of a company's products by customers (highly relevant for fossil fuel producers), as well as emissions in the supply chain (highly relevant for food manufacturers). Scope 3 emissions are key for asset managers as this is where the impact of investments is accounted for.

SDR: Sustainability Disclosure Requirements

Sustainability Disclosure Requirements (SDR) have been developed by the UK Financial Conduct Authority (FCA) and comprise of a package of measures including rules addressing anti-greenwashing, naming and marketing, fund labelling, disclosures and distribution. It is broadly principles based, which allows asset managers flexibility to innovate and tailor products to meet specific client requirements.

The SDR regime has introduced sustainability labels for products who are seeking solely to achieve a positive sustainability outcome. The four labels are:

- Sustainability Impact: fund objective is to invest in assets to achieve a positive environment and/or social impact
- Sustainability Focus: fund objective is to invest in assets that are environmentally and/or socially sustainable
- Sustainability Improvers: fund objective is to invest in assets that can become more environmentally and/or socially sustainable over time
- Sustainability Mixed Goals: fund objective is to invest in assets that are or can be come more sustainable over time, and/or with a positive impact.

SFDR: Sustainable Finance Disclosures Regulation

The Sustainable Finance Disclosures Regulation (SFDR) is EU legislation which has been in force since 1 January 2022 and aims to create more transparency and prevent greenwashing (purposeful or not). It places a requirement on financial services providers and owners of financial products to assess and disclose ESG considerations publicly.

Social impact

Social impact refers to the social outcomes and changes resulting from real estate activities (including property development, management and investment) on communities and individuals alongside generating a financial return. These outcomes are intentional from making impact investments and include changes in living conditions, economic opportunities, health outcomes and overall quality of life.

Social value

Social value is the quantification of targeted benefits to society as part of existing real estate activities, including creating a sense of community, enhancing social cohesion, fostering inclusivity and improving the local environment. Social value has specific metrics across procurement, construction and Local Authorities. Examples include number of apprentices hired, number of local people employed, percentage paid the Living Wage, number of community events held, community infrastructure delivering through Section 106, volunteering hours undertaken and initiatives to promote health and wellbeing.

Stewardship

The UK Stewardship Code 2020 defines stewardship as ‘the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society’.

Stranded assets

A stranded asset is anything, e.g. a piece of equipment or a resource, that once had value or produced income but no longer does. This is usually due to some external change, including developments in technology, markets or societal habits. This is an issue of particular concern as regards climate change given that changing government regulations, increasing carbon prices, emerging clean technologies scaling up and becoming profitable without subsidies, litigation and evolving business and social norms can all lead to assets becoming stranded. Coal mines are a typical example of a stranded asset.

Supplier Code of Conduct

Supplier Code of Conduct is a set of guidelines that outlines the ethical standards and practices expected from suppliers. It covers areas such as labor rights, environmental impact, and business integrity, ensuring that suppliers operate responsibly and sustainably.

SDGs: Sustainable Development Goals

These are 17 global goals designed to be a ‘blueprint to achieve a better and more sustainable future for all’. They were set in 2015 by the United Nations, cover mainly environmental and social issues and are meant to be achieved by 2030. Many firms use them to orient their initiatives on issues relating to sustainability.

T

TCFD: Taskforce on Climate-related Financial Disclosures

The Taskforce on Climate-related Financial Disclosures (TCFD) was established in 2015 and is a body of market leading professionals which has released recommendations on financial disclosures in relation to key climate risks. While the recommendations are voluntary, many countries are looking to make them mandatory for their largest businesses, including the UK, France and Japan, where it has been mandatory since early 2022.

Tenant Engagement

Tenant Engagement involves actively involving tenants in decision-making processes, fostering communication, and promoting collaboration. It aims to enhance tenant satisfaction, improve property management, and create a sense of community.

TNFD: Taskforce on Nature-related Financial Disclosures

The Taskforce on Nature-related Financial Disclosures (TNFD) was established in 2019 and is an additional group which follows on from the TCFD. However, the recommendations of the TNFD are linked to nature related disclosure and biodiversity as opposed to climate related disclosure and risk.

U

UNFCCC: United Nations Framework Convention on Climate Change

It is an international environmental treaty adopted in 1992 to combat dangerous human interference with the climate system. It entered into force in 1994 and enjoys near universal membership, having been signed by 198 parties. It is the parent treaty of both the Paris Agreement and the Kyoto Protocol. The UNFCCC secretariat is the United Nations entity tasked with supporting the global response to the threat of climate change. The secretariat facilitates intergovernmental climate change negotiations by organizing between two and four negotiating sessions each year, the largest and most important of which is the Conference of the Parties (COP). It also provides technical expertise and assists in the analysis and review of climate change information and maintains the registry of Nationally Determined Contributions (NDC).

UNGC: United Nations Global Compact

A corporate sustainability initiative that calls on businesses to align with universal principles on corruption, human rights, labour and environmental issues and to take strategic action to advance broader societal goals, such as the UN Sustainable Development Goals. It is a collaboration between a growing number (currently c.13,000) of companies. Investors can use the UNGC for investment by determining whether companies are following them or in breach. Data providers will provide data and analysis that can be used for this purpose and investors should do additional due diligence to determine if firm behaviours are in line with the principles.

UNGP: United Nations Guiding Principles on Business and Human Rights

This is a set of guidelines for states and companies to prevent, address and remedy human rights abuses committed in business operations. They are also called the Ruggie Principles and were created to encourage the practical implementation of the Universal Declaration of Human Rights and its related conventions by countries and companies. Investors can use these principles for investment by determining whether companies are following them or in breach and data providers will provide data and analysis that can be used for this purpose. However, investors should do additional due diligence to determine if firm behaviours are in line with the principles. They were endorsed by the UN Human Rights Council in 2011. They are split into three sections, covering: 1) the state duty to protect human rights; 2) the corporate responsibility to respect human rights; and 3) access to remedy.

UN PRI: United Nations Principles for Responsible Investment

UN PRI (United Nations Principles for Responsible Investment) is a set of six principles that provide a framework for integrating ESG factors into investment practices. Signatories commit to adopting and implementing these principles to promote a more sustainable global financial system.

W

Weather

Weather refers to atmospheric conditions at a particular time in a particular location, including temperature, humidity, precipitation, cloudiness, wind, and visibility. Weather conditions do not happen in isolation, they have a ripple effect. The weather in one region will eventually affect the weather hundreds or thousands of kilometres away.