



ESG & the Built Environment

May 1st , 2024

Discussion on Environment, Social & Governance

San Diego Environmental Professionals (SDEP)

What is ESG?

Forbes

Here's a closer look at the three criteria used to evaluate companies for ESG investing:

- **Environment.** What kind of impact does a company have on the environment? This can include a company's carbon footprint, toxic chemicals involved in its manufacturing processes and sustainability efforts that make up its supply chain.
- **Social.** How does the company improve its social impact, both within the company and in the broader community? Social factors include everything from LGBTQ+ equality, racial diversity in both the executive suite and staff overall, and inclusion programs and hiring practices. It even looks at how a company advocates for social good in the wider world, beyond its limited sphere of business.
- **Governance.** How does the company's board and management drive positive change? Governance includes everything from issues surrounding executive pay to diversity in leadership as well as how well that leadership responds to and interacts with shareholders.

At MSCI, we define ESG Investing as the consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process.

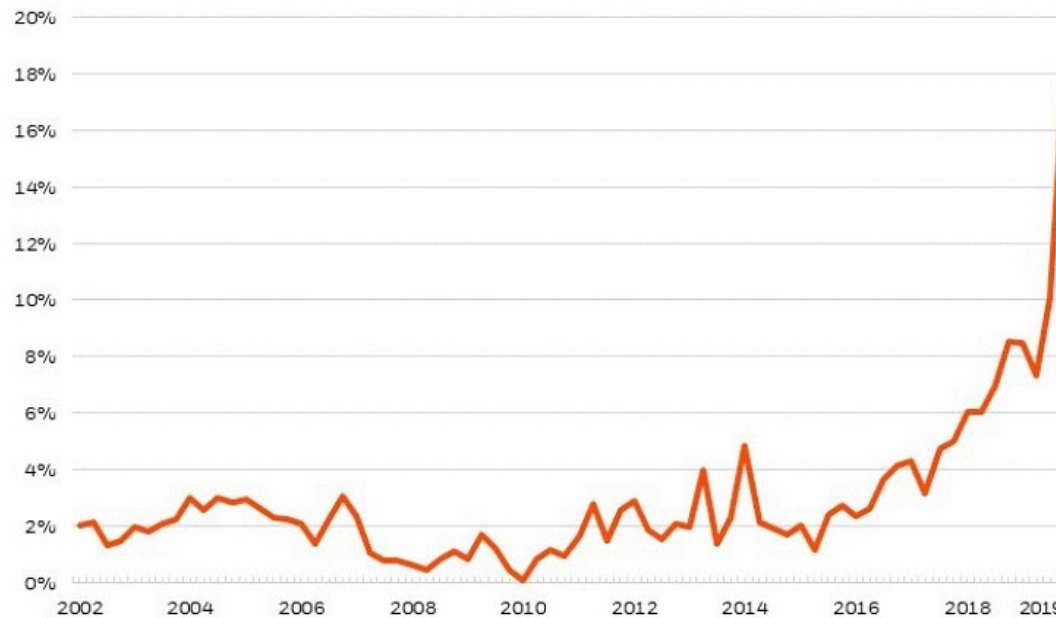
Remy Briand, Managing Director, MSCI ESG Research

MSCI 



ESG: AN ENDURING MARKET THEME

Percentage of firms with at least one broker report that mentions ESG.



This graph shows the percentage of firms with mention of "ESG" (ex. "ESG score") using available BTAP data and shown as a percentage of Russell 1000 Index constituents.

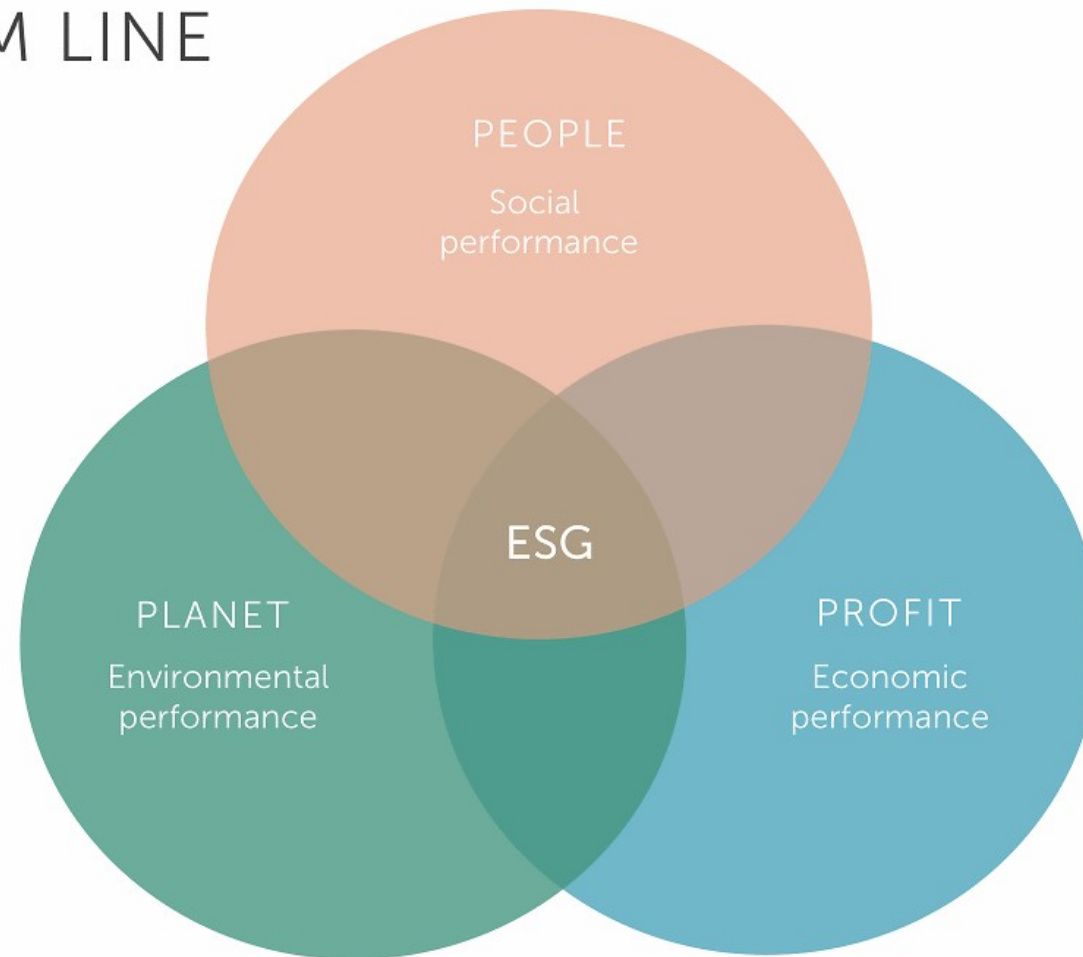
The Russell 1000 is an unmanaged index of the 1,000 largest U.S. stocks by market capitalization.

BlackRock and BTAP, Dec 31, 2019. As referenced in How A Global Pandemic Could Accelerate The ESG Imperative. Retrieved March 3, 2020 from <https://seekingalpha.com/article/4335794-how-global-pandemic-accelerate-esg-imperative>

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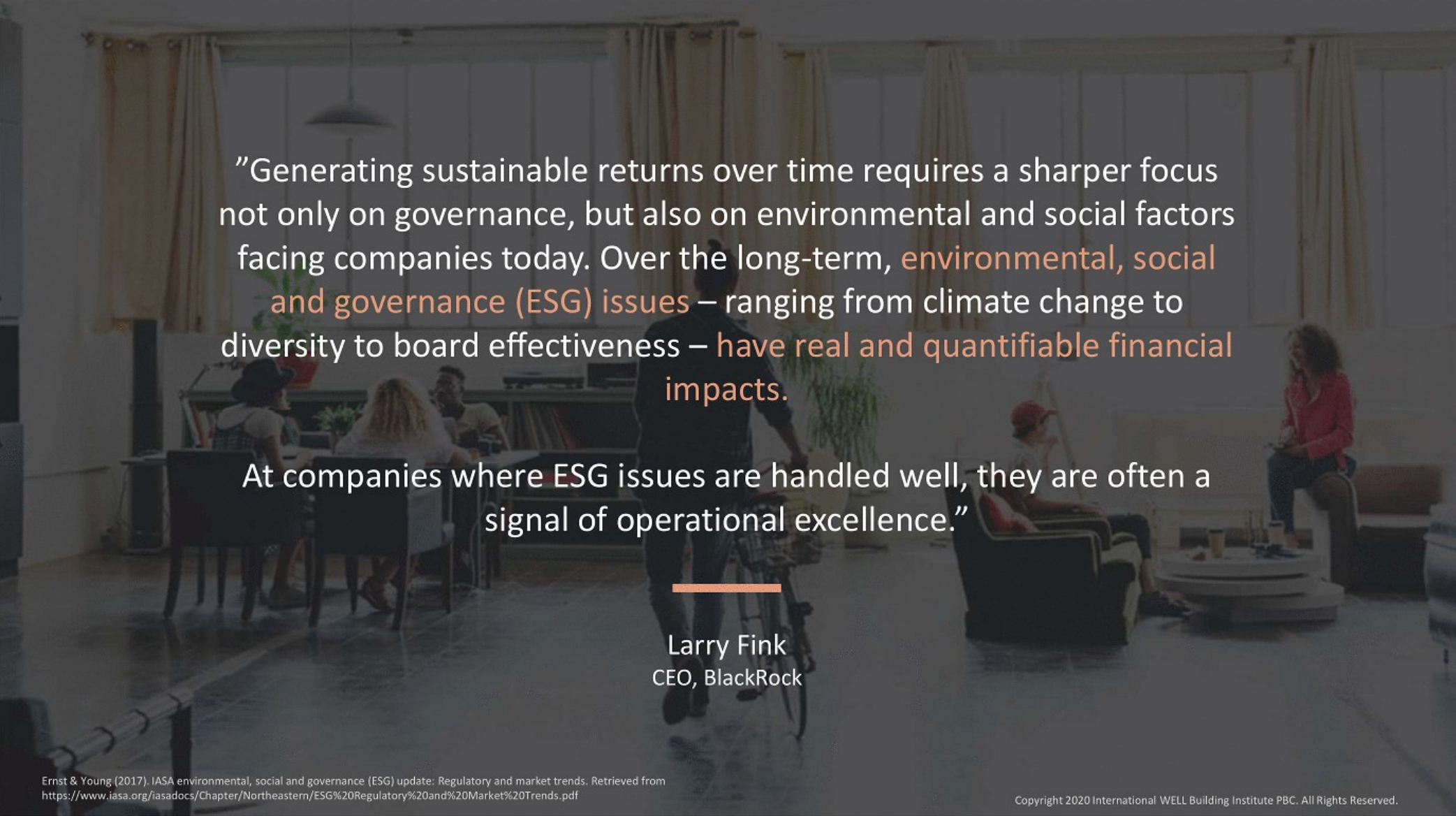
▶ THE TRIPLE BOTTOM LINE

Including ESG factors in investment processes paints holistic investment rationales geared to capture long-term value and generate positive impact.



Graphic based on figure in Little, A. (Feb 21, 2020). How Sustainable Investing Can Create Long-Term Value. Global X. Retrieved from <https://www.globalxetfs.com/how-sustainable-investing-can-create-long-term-value/>

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“Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies today. Over the long-term, **environmental, social and governance (ESG) issues** – ranging from climate change to diversity to board effectiveness – **have real and quantifiable financial impacts.**”

At companies where ESG issues are handled well, they are often a signal of operational excellence.”

Larry Fink
CEO, BlackRock

Ernst & Young (2017). IASA environmental, social and governance (ESG) update: Regulatory and market trends. Retrieved from <https://www.iasa.org/iasadocs/Chapter/Northeastern/ESG%20Regulatory%20and%20Market%20Trends.pdf>

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Risk Management & Continuous Improvement



Finding a way to look ahead...

Clarifications

Environmental, Social and Governance (ESG) Investing and How to Get Started

ESG, or environmental, social and governance investing, is a way to build a more ethical portfolio.

Written by Alana Benson | Reviewed by Michael Randall | Aug 18, 2022



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ESG Targets Are Great, but How Can Real Estate Reach Them

February 8, 2022



...od-intents side where everything possible will be done to make a difference, and the reality side as limitations. The real estate industry has reached the point where the intents side has been for results. People want to know if things are changing or if it's all just [greenwashing](#), when substantiated claims about how what they're doing is making a difference.

Why Report, and what it can look like

Reporting is a *Journey* and it often aligns to CR maturity:

Compliant: *The Bare Essentials*

Responsive: *Answering Stakeholder Interest*

Strategic: *CR as a Component of Business Strategy*

Leading: *Creating New Business and Societal Value*



LEED as an Example

0	0	0	Location and Transportation	16	
			Credit	LEED for Neighborhood Development Location	16
			Credit	Sensitive Land Protection	1
			Credit	High Priority Site	2
			Credit	Surrounding Density and Diverse Uses	5
			Credit	Access to Quality Transit	5
			Credit	Bicycle Facilities	1
			Credit	Reduced Parking Footprint	1
			Credit	Green Vehicles	1

0	0	0	Sustainable Sites	10	
Y			Prereq	Construction Activity Pollution Prevention	Required
			Credit	Site Assessment	1
			Credit	Site Development - Protect or Restore Habitat	2
			Credit	Open Space	1
			Credit	Rainwater Management	3
			Credit	Heat Island Reduction	2
			Credit	Light Pollution Reduction	1

0	0	0	Water Efficiency	11	
Y			Prereq	Outdoor Water Use Reduction	Required
Y			Prereq	Indoor Water Use Reduction	Required
Y			Prereq	Building-Level Water Metering	Required
			Credit	Outdoor Water Use Reduction	2
			Credit	Indoor Water Use Reduction	6
			Credit	Cooling Tower Water Use	2
			Credit	Water Metering	1

0	0	0	Energy and Atmosphere	33	
Y			Prereq	Fundamental Commissioning and Verification	Required
Y			Prereq	Minimum Energy Performance	Required
Y			Prereq	Building-Level Energy Metering	Required
Y			Prereq	Fundamental Refrigerant Management	Required
			Credit	Enhanced Commissioning	6
			Credit	Optimize Energy Performance	18
			Credit	Advanced Energy Metering	1
			Credit	Demand Response	2
			Credit	Renewable Energy Production	3
			Credit	Enhanced Refrigerant Management	1
			Credit	Green Power and Carbon Offsets	2

0	0	0	Materials and Resources	13	
Y			Prereq	Storage and Collection of Recyclables	Required
Y			Prereq	Construction and Demolition Waste Management Planning	Required
			Credit	Building Life-Cycle Impact Reduction	5
			Credit	Building Product Disclosure and Optimization - Environmental Product Declarations	2
			Credit	Building Product Disclosure and Optimization - Sourcing of Raw Materials	2
			Credit	Building Product Disclosure and Optimization - Material Ingredients	2
			Credit	Construction and Demolition Waste Management	2

0	0	0	Indoor Environmental Quality	16	
Y			Prereq	Minimum Indoor Air Quality Performance	Required
Y			Prereq	Environmental Tobacco Smoke Control	Required
			Credit	Enhanced Indoor Air Quality Strategies	2
			Credit	Low-Emitting Materials	3
			Credit	Construction Indoor Air Quality Management Plan	1
			Credit	Indoor Air Quality Assessment	2
			Credit	Thermal Comfort	1
			Credit	Interior Lighting	2
			Credit	Daylight	3
			Credit	Quality Views	1
			Credit	Acoustic Performance	1

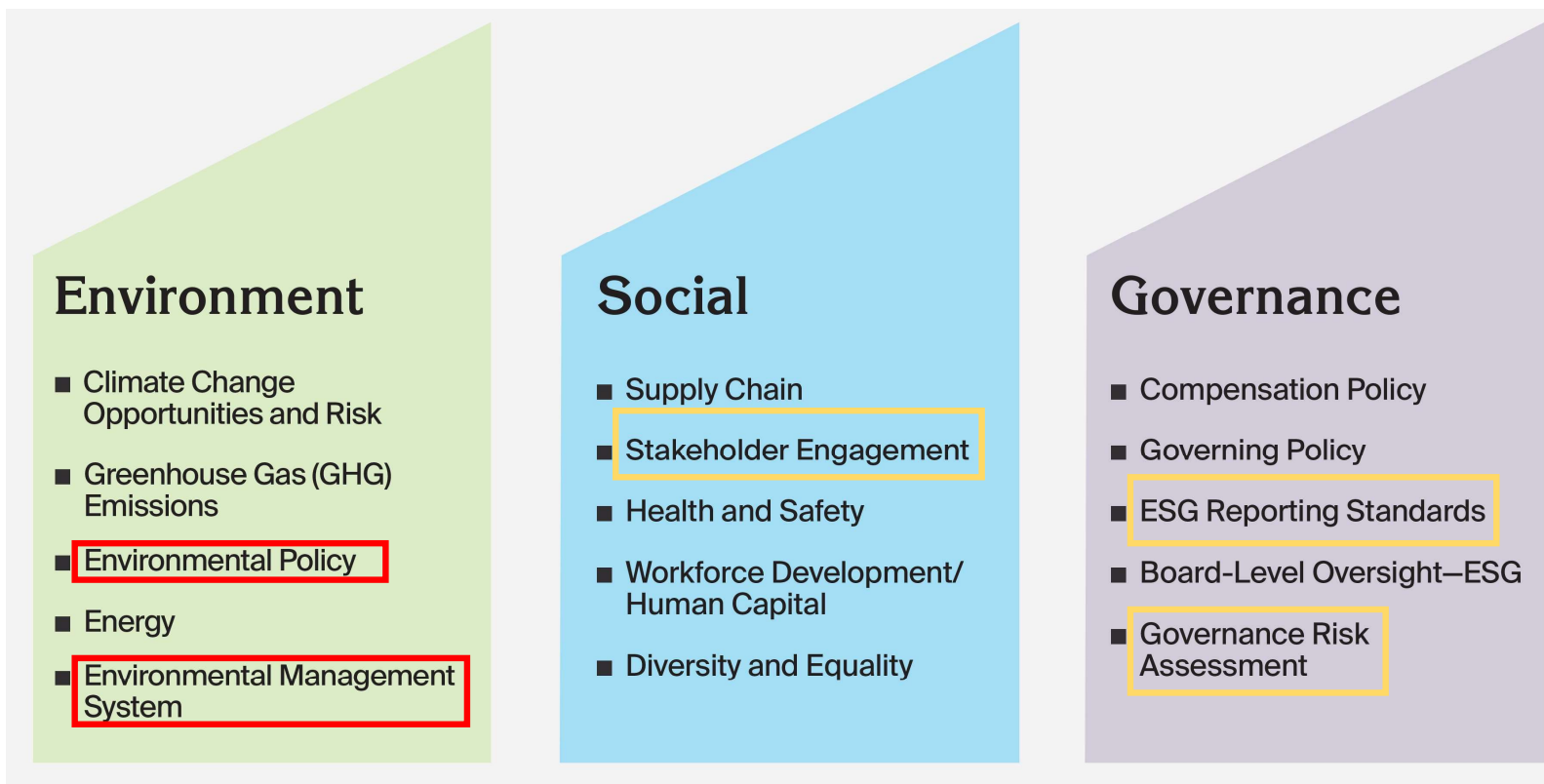
0	0	0	Innovation	6	
			Credit	Innovation	5
			Credit	LEED Accredited Professional	1

0	0	0	Regional Priority	4	
			Credit	Regional Priority: Specific Credit	1
			Credit	Regional Priority: Specific Credit	1
			Credit	Regional Priority: Specific Credit	1
			Credit	Regional Priority: Specific Credit	1

0	0	0	TOTALS	Possible Points: 110
Certified: 40 to 49 points, Silver: 50 to 59 points, Gold: 60 to 79 points, Platinum: 80 to 110				

Top 5 Key Performance Indicators

A 2019 Nareit study identified the following most frequently cited KPIs for environmental, social, and governance reporting criteria.



Source: [Nareit Guide to ESG Reporting Frameworks](#)

Types of Frameworks

Voluntary disclosure frameworks are frameworks through which a company might actively disclose its sustainability-related policies, practices, and performance data and information. These may take the form of questionnaires used for evaluation and ranking.

Guidance frameworks are those that provide recommended methodologies and guidance as to how organizations might identify, manage, and report on sustainability performance.

Third-party aggregator frameworks are frameworks which assess performance based on aggregated, publicly available data, including company-sourced filings and publications, such as company websites, annual reports, and/or sustainability or CSR reports.

Categories of Reporting Frameworks

- Voluntary Disclosure Frameworks
You Choose



- Standards and Guidance Frameworks
You Use



- Third-Party Aggregators
Ignore and you may Lose



Investors Cite SASB Standards and TCFD Guidelines as the Tools Companies Should Use



- 77 sector-specific enterprise ESG disclosure standards, developed based on extensive stakeholder engagement
- Connects businesses and investors on the *financial impacts of sustainability*
- Supporters include BlackRock, Bloomberg, Vanguard Group, State Street Global Advisors, and more



- Focused on climate-related disclosure to inform investment, credit, and insurance underwriting decisions
- 32 international members, led by Michael Bloomberg and include providers of capital such as BlackRock, insurers, large non-financial companies, accounting and consulting firms, and credit rating agencies

What are ESG-Focused Investors' Objectives and What Do They Need to Achieve It?

Objectives

- 1 Increase risk-adjusted return
- 2 Incorporate asset owner preferences / values
- 3 Invest in companies aligned to growth trends
- 4 Drive corporate sustainability performance and impact

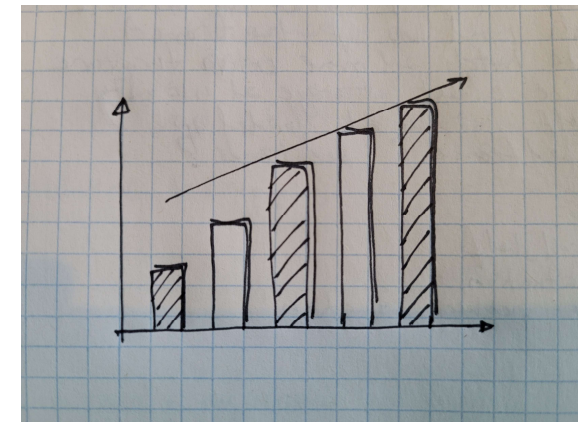
What is required

Data, data, data.....

- Decision useful
- High quality
- Comparable
- Consistent
- Relevant / financially material

Data Underlies it All

- No matter who you report to or how you report, data collection & consistency is key
- Importance of data collection – a job in itself:
 - Internal stakeholders – there are many who *have what I want* for CR data
 - Utilities – terribly complex, opaque and hard to get right
 - What you gather, you may not want to report
- It all takes a great deal of time...
- And then there's 3rd party verification – To Verify or Not to Verify?



SEC Proposed Disclosure



GHG Emissions

“ Proposed Item 1504 of Reg. S-K would require companies to disclose Scope 1, Scope 2 ~~and, in some cases, Scope 3~~ “GHG emissions ... for [their] most recently completed fiscal year, and for the historical fiscal years included in [their] consolidated financial statements in the filing, to the extent such historical GHG emissions data is reasonably available.” The Commission based the GHG emissions disclosure requirements in the Proposed Rules on the GHG Protocol, which is a leading accounting and reporting standard for GHG emissions.

The Proposed Rules include a limited safe harbor from liability for Scope 3 disclosures, providing that such disclosures will not be deemed fraudulent, “unless it is shown that such statement was made or reaffirmed without a reasonable basis or was disclosed other than in good faith.” “

Climate-Related Risks

“ Proposed Item 1502 of Reg. S-K would require companies to describe “climate-related risks reasonably likely to have a material impact on the registrant, including on its business or consolidated financial statements, which may manifest over the short, medium, and long term.” Based on the definition of “climate-related risks” in the Proposed Rules, companies would need to consider not only the direct impact of climate change on their financial statements and business, but also the indirect impacts on their “value chains.” These “climate-related risks” would be categorized as either a “physical risk” (*i.e.*, related to physical impacts of climate change) or “transition risk” (*i.e.*, related to the transition to a lower-carbon economy). “

CA SB 253 and 261

SB 253, Wiener. Climate Corporate Data Accountability Act.

The California Global Warming Solutions Act of 2006 requires the State Air Resources Board to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with the act. The act requires the state board to make available, and update at least annually, on its internet website the emissions of greenhouse gases, criteria pollutants, and toxic air contaminants for each facility that reports to the state board, as provided.

This bill would require the state board, on or before January 1, 2025, to develop and adopt regulations requiring specified partnerships, corporations, limited liability companies, and other business entities with total annual revenues in excess of \$1,000,000,000 and that do business in California, defined as "reporting entities," to publicly disclose to the emissions reporting organization, as defined, and obtain an assurance engagement on, starting in 2026 on a date to be determined by the state board, and annually thereafter, their scope 1 and scope 2 greenhouse gas emissions, as defined, and, starting in 2027 and annually thereafter, their scope 3 greenhouse gas emissions, as defined, from the reporting entity's prior fiscal year, as provided. The bill would require the state board to review during 2029, and update as necessary on or before January 1, 2030, these deadlines to evaluate trends in scope 3 emissions reporting and to consider changes to the deadlines, as provided. The bill would require a reporting entity to obtain an assurance engagement, performed by an independent third-party assurance provider, of the entity's public disclosure as provided. The bill would require the state board, in developing these regulations, to consult with the Attorney General, other government stakeholders, investors, stakeholders representing consumer and environmental justice interests, and reporting entities that have demonstrated leadership in full-scope greenhouse gas emissions accounting and public disclosure and greenhouse gas emissions reductions. The bill would also require the state board to ensure that the assurance process minimizes the need for reporting entities to engage multiple assurance providers and ensures sufficient assurance provider capacity, as well as timely reporting implementation, as required. The bill would further require the state board to contract with an emissions reporting organization to develop a reporting program to receive and make publicly available the required disclosures. The bill would authorize the state board, starting in 2033 and every 5 years thereafter, to assess the global greenhouse gas accounting and reporting standards and to adopt an alternative standard if it determines that using the alternative standard would more effectively further the goals of the bill.

SB 261, Stern. Greenhouse gases: climate-related financial risk.

The California Global Warming Solutions Act of 2006 requires the State Air Resources Board to adopt regulations to require the reporting and verification of statewide greenhouse gas emissions and to monitor and enforce compliance with the act. The act requires the state board to make available, and update at least annually, on its internet website the emissions of greenhouse gases, criteria pollutants, and toxic air contaminants for each facility that reports to the state board, as provided.

This bill would require, on or before January 1, 2026, and biennially thereafter, a covered entity, as defined, to prepare a climate-related financial risk report disclosing the entity's climate-related financial risk and measures adopted to reduce and adapt to climate-related financial risk. The bill would require the covered entity to make a copy of the report available to the public on its own internet website.

The bill would require the state board to contract with a climate reporting organization, as defined, to biennially prepare a public report that contains specified information, including a review of the disclosure of climate-related financial risk contained in a subset of publicly available climate-related financial risk reports and an analysis of the systemic and sectorwide climate-related financial risks facing the state. The bill would require the state board to adopt regulations that authorize it to seek administrative penalties from covered entities for failing to make the report publicly available on its internet website or publishing an inadequate or insufficient report, as specified.

EU Corp Sustainability Reporting Directive (CSRD)

Topical standards		
Environment: ESRS E	Social: ESRS S	Governance: ESRS G
Climate change E1	Own workforce S1	Business conduct G1
Pollution E2	Workers in the value chain S2	
Water and marine resources E3	Affected communities S3	
Biodiversity and ecosystems E4	Consumers and end-users S4	
Resource use and circular economy E5		

Cross-cutting standards
General requirements: ESRS 1
General disclosures: ESRS 2
Coming later:
Sector-specific standards
SME's proportionate standards



Relevant Metrics for ESG Integration are Industry Specific...



SASB materiality map (now part of IFRS sustainability standards)

← Sectors →

		Consumer Goods	Extractives & Minerals Processing	Financials	Food & Beverage	Health Care	Infrastructure	Renewable Resources & Alternative Energy
Dimension	General Issue Category ¹	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Environment	GHG Emissions		█		█			
	Air Quality		█					
	Energy Management	█	█		█	█	█	█
	Water & Wastewater Management	█	█		█		█	█
	Waste & Hazardous Materials Management		█		█	█	█	█
	Ecological Impacts		█		█		█	█
Social Capital	Human Rights & Community Relations		█			█		█
	Customer Privacy	█		█				
	Data Security	█		█	█	█		
	Access & Affordability			█		█	█	
	Product Quality & Safety	█			█	█	█	
	Customer Welfare				█	█		
Human Capital	Selling Practices & Product Labeling			█	█	█		
	Labor Practices	█	█		█		█	
	Employee Health & Safety		█		█	█	█	█
	Employee Engagement, Diversity & Inclusion	█		█		█		

↑
ESG factors
↓

Source: SASB

CRE, DEVELOPMENTS AND GRESB



| ASSESSMENT COMPONENTS

What the real estate assessment entails

The Management Component measures an entity's strategy and leadership; policies and processes; risk management; and its stakeholder engagement approach. It is drawn from information collected at the organizational level.

The Performance Component measures an entity's asset portfolio performance, drawn from information collected at the asset and portfolio levels. It is suitable for any real estate company or fund with operational assets and includes information on performance indicators, such as energy consumption, GHG emissions, water consumption and waste.

The Development Component measures an entity's efforts to address ESG issues during a building's design, construction and renovation phases. This component is suitable for entities with completed or ongoing projects in new construction (building design, site selection or construction) or under major renovation.

- GRESB Data Validation Process
- Reporting Scope and Boundaries
- Entity & Reporting Characteristics
- Management: Leadership
- Management: Policies
- Management: Reporting
- Management: Risk Management
- Management: Stakeholder Engagement
- Performance: Reporting Characteristics
- Performance: Risk Assessment
- Performance: Targets
- Performance: Tenants & Community
- Performance: Energy
- Performance: GHG
- Performance: Water
- Performance: Waste
- Performance: Data Monitoring & Review
- Performance: Building Certifications
- Development: Reporting Characteristics
- Development: ESG Requirements
- Development: Materials
- Development: Building Certifications
- Development: Energy
- Development: Water
- Development: Waste
- Development: Stakeholder Engagement

RM4 ESG due diligence for new acquisitions

Does the entity perform asset-level environmental and/or social risk assessments as a standard part of its due diligence process for new acquisitions?

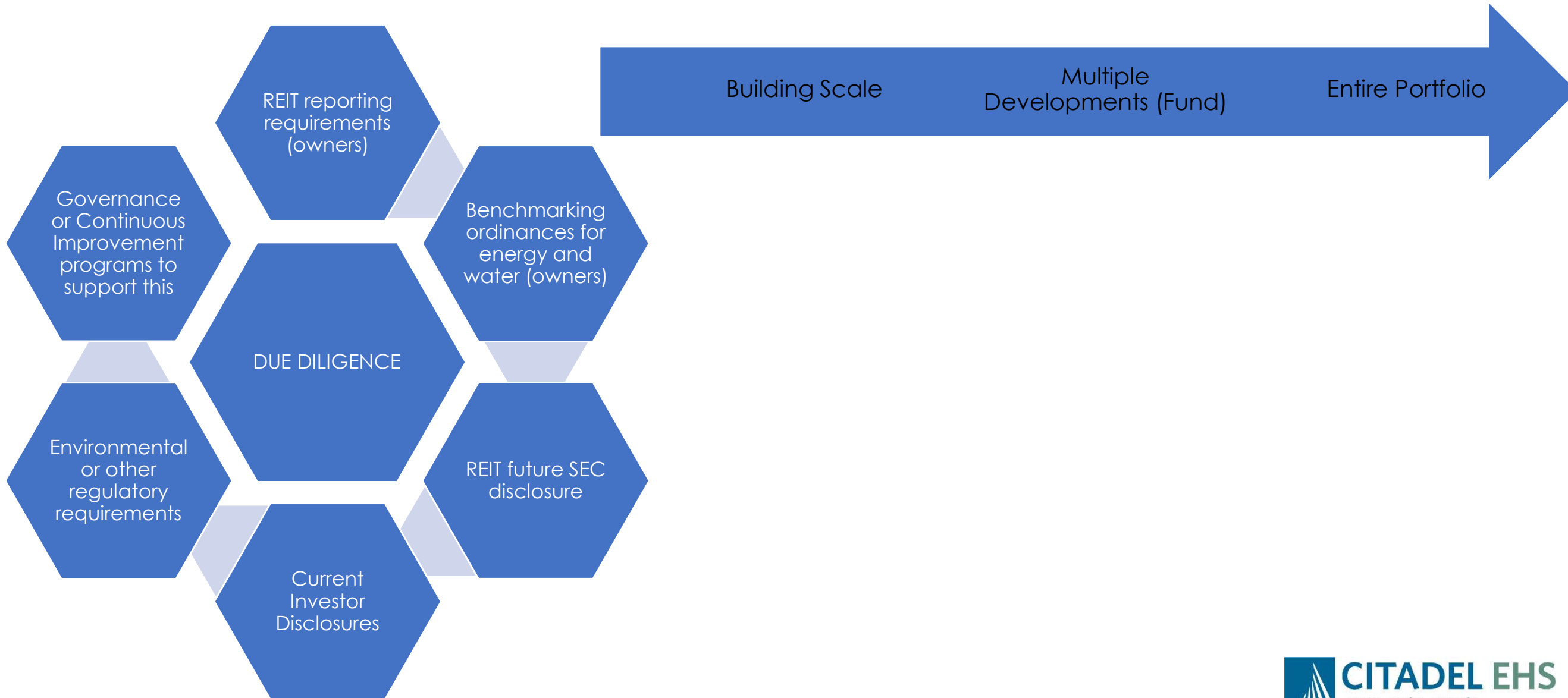
- Yes
 - Select all issues included (multiple answers possible)
 - Biodiversity and habitat
 - Building safety
 - Climate/Climate change adaptation
 - Compliance with regulatory requirements
 - Contaminated land
 - Energy efficiency
 - Energy supply
 - Flooding
 - GHG emissions
 - Health and well-being
 - Indoor environmental quality
 - Natural hazards
 - Socio-economic
 - Transportation
 - Waste management
 - Water efficiency
 - Water supply
 - Other: _____

P01 Policy on environmental issues

Does the entity have a policy/policies on environmental issues?

- Yes
 - Select all environmental issues included (multiple answers possible)
 - Biodiversity and habitat
 - Climate/climate change adaptation
 - Energy consumption
 - Greenhouse gas emissions
 - Indoor environmental quality
 - Material sourcing
 - Pollution prevention
 - Renewable energy
 - Resilience to catastrophe/disaster
 - Sustainable procurement
 - Waste management
 - Water consumption
 - Other: _____

DISCLOSURES AND OPPORTUNITIES





↑ EASIEST ROUTE

THANK YOU

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