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Rating

Sustainable Development Goals: challenges and perspectives for real estate companies with the 2030 Agenda

OPINION COLUMN

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The Sustainable Development Goals (SDGs) were adopted in September 2015 by the 193 Member States of the United Nations. These 17 goals set the '2030 Agenda for Sustainable Development' with 169 targets aimed at ending poverty, fighting inequality and tackling climate change over the next 15 years.

In June 2017, two years after their adoption, UN Secretary-General António Guterres issued the second Sustainable Development Goal progress report, which found that "while progress has been made over the past decade across all areas of development, the pace of progress has been insufficient and advancements have been uneven to fully meet the implementation of the SDGs[1]" .

In a publication on real estate investors and environmental sustainability principles, the World Economic Forum estimates that buildings account for around 40% of the world's consumption of primary energy and produce around a third of all anthropogenic CO2 emissions[2]. The application of sustainability criteria to buildings is therefore becoming increasingly important in facing environmental, social and economic challenges. These criteria can be expected to become the most important benchmark not only for green properties, but also for profitable real estate investments in general.

Contributing to 'End Poverty' (Goal 1), 'Build resilient infrastructure, promote sustainable industrialisation and foster innovation' (Goal 9), 'Make cities inclusive, safe, resilient and sustainable' (Goal 11), and 'Take urgent action to combat climate change and its impacts' (Goal 13) are certainly part of the role that real estate companies are expected to play in promoting sustainable development.

Vigeo Eiris' key findings

Environmental and climate change agendas have already been integrated into the core business of many European real estate companies. All companies under analysis commit to combatting climate change. Nevertheless, further efforts are required to reach targets set by the 2015 United Nations Climate Change Conference and disparities are observed among companies, partly explained by the influence of national regulations.

In terms of promotion of social and economic development of local communities, 32.4% of real estate companies have made significant efforts to foster economic development, contributing to learning, training or employability of local suppliers.

As to the social accessibility of properties, 40.6% of companies commit to integrating sites' connectivity in their investment decisions. 52.6% of companies operating in the residential segment implement specific support programs to promote the affordability of property portfolio.

1 "Pace of progress must accelerate to achieve the Sustainable Development Goals, finds latest UN progress report" – UN Department of Economic and Social Affairs – 17/07/2017

2 Environmental Sustainability Principles for the Real Estate Industry - World Economic Forum - 01/2016

Vigeo Eiris Rating

Vigeo Eiris questioning and findings

Questioning

The Sustainable Development Goals 1, 9, 11 and 13 are considered in Vigeo Eiris' current evaluation of the Financial Services - Real Estate sector in the Community Involvement and Environment domains, under the following sustainability criteria:

1. **Properties' social accessibility:** we assess how real estate companies address properties' social accessibility and we analyse how companies foster the accessibility and connectivity of their buildings. This can be achieved with initiatives promoting affordable housing, the construction of social housing, targeted support for low income residents, the inclusion of connectivity in investment decision guidelines and the promotion of site connectivity through infrastructures and cooperation with local authorities and stakeholders. In addition we look at how real estate companies deal with people experiencing financial difficulties, for example tenant support programs. These actions are in line with Goal 1 ('End poverty') and Goal 11 ('Make cities inclusive, safe, resilient and sustainable').

2. **Promotion of social and economic development:** we assess how real estate companies contribute to the social and economic development of the countries or areas in which they operate. In particular the analysis focuses on how companies support local employment, how they invest in place-making facilities, whether they help finance local development projects and support small businesses, how they assess the social development needs and monitor the social and economic impacts of their projects, and how they contribute to the re-development of marginalised urban areas. Policies and initiatives under assessment are in line with Goal 9 ('Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation'). Further indicators of sustainable growth and development are addressed in this criterion by assessing the level of fair tax payments and the distribution of tax to communities in which real estate companies operate.

3. **Energy efficiency of buildings:** we look at the steps real estate companies take to reduce energy consumption. This includes monitoring energy use and adopting energy-efficient technologies, developing low-energy buildings and the purchase of green electricity to further reduce CO2 emissions. Policies and initiatives under assessment are in line with Goal 13 'Take urgent action to combat climate change'.

Findings

As highlighted in our most recent sector survey of 37 European Real Estate Investors conducted in August 2017[1], companies under review split into two main groups, with an increasing 'sustainability gap':

- **On both the promotion of property accessibility and the promotion of economic development, only 27% of companies seem to be aware of the challenges and associated responsibilities** raised by the Sustainable Developments Goals; the majority still fail to report on these issues. The average overall score of businesses in this sector stands at 39.9/100 for Promotion of social and economic development, and 31.6/100 for Properties' social accessibility.
- **Companies under analysis perform better on environmental issues** within the Sustainable Development Goals. Environmental and climate change agendas have already been integrated into the core business of many European real estate companies, reflected by an overall score of 50.7/100 on these issues. Nevertheless, further efforts are required to reach targets set by the 2015 United Nations Climate Change Conference, COP 21.

1 Vigeo Eiris sector survey- Financial Services- Real Estate Europe- August 2017

1. **Sustainable Development Goal 1** ('End Poverty') **and Goal 11** ('Make cities inclusive, safe, resilient and sustainable'):

   – 40.6% of real estate companies under review commit to integrating sites' connectivity in their investment decisions, as well as promoting site proximity and multi-modal transport, while only 26.3% of companies active in the residential segment reference or commit to developing social housing and promoting affordable housing.

   – Measures promoting the connectivity in real estate investors' property portfolios mainly consist of including connectivity in guidelines for investment decisions, promoting site connectivity through infrastructures, cooperating with local authorities and stakeholders and monitoring connectivity and transport data. 51.4% of real estate companies display such efforts, but only 16.2% of them disclose associated performance indicators.

Examples of best practice:

Unibail Rodamco has allocated significant innovative measures to promote the connectivity of its property portfolio:

1 The Company's **development projects** should be undertaken **on assets located in major cities with good connections to sustainable and resilient public transport.** For assets already in operation, short-distance carpooling, car-sharing solutions, autonomous electric transportation, parking spaces fitted with free charging points for electric vehicles, access by bike and availability of electric bikes are being tested and introduced in investment decisions. The Company also states that mobility indicators will be integrated into any new investment and development budgeting templates as well as annual 5-year budgeting templates.

2 Unibail Rodamco has installed **charging stations at its shopping centres throughout Europe.** UR Delivery, a shared logistics service developed for small shops in urban shopping centres, enables deliveries to be grouped in remote storage locations meaning a single truck delivers the goods to the shopping centre.

3 The Company **cooperates with local and national authorities as well as transport companies** to conduct studies early in the process **evaluating opportunities to connect centres to sustainable transport networks.** A European partnership was signed at the end of 2016 with Tesla for installing charging stations at shopping centres managed by the Group. Unibail-Rodamo also works with Deret, a logistics company, to offer retailers in its developed, owned and managed shopping centres an efficient and environment friendly pooled logistics service.

4 Finally, Unibail Rodamco **monitors mobility indicators.** These include the breakdown of Shopping Centre visits by means of transport, the share of assets located less than 200 metres from public transport and assets with public transport connections with intervals not exceeding 15 minutes, during weekdays and office hours, proportion of visitors travelling to assets by a sustainable means of transport, percentage of development projects connected to at least one significant sustainable transport solution, percentage of new developments and existing shopping centres equipped with Electric Vehicle charging infrastructure etc. as well as the modal share, connections with public transport and the ratio of asset surface/ parking unit, among others.

Klepierre has allocated significant and innovative measures to promote the connectivity of its property portfolio:

1 The Company adopted a **strategic repositioning on more central assets with better local transport connections.**

2 **98% of the companies' centres are accessible by public transport,** with at least one stop located less than 500 meters from an entrance, with services at least every 20 minutes. All the sites developed, extended or renovated are accessible by public transportation. Likewise, 95% of Klepierre's centres are suitable for cyclists. Innovative modes of transport are also being examined. Electric cars are the main area of interest for the Company and 54% of parking facilities are suitable for such vehicles and equipped with chargers for them;

3 Klepierre seeks to increase and diversify the transport methods used to visit its centers. This is evident in the initial design stages, with very early contact with public authorities that continues throughout the operation of the building;

4 The Company **monitors the property's public transport accessibility and the breakdown of visits by mode of transport.**

– 52.6% of Real Estate companies operating in the residential segment report specific support programs to promote the affordability of property portfolio. 36.8% have adopted initiatives to promote the affordability of housing, such as low-cost ownership units, homes for the elderly, students or a combination of both. 21.1% of them are developing social housing and the same proportion have adopted targeted support for low income residents. Support programs for tenants in financial distress are less common (10.5%). Finally, none of the Real Estate companies in the panel face allegations during the period under review.

Examples of best practice:

Icade has developed significant measures to promote the affordability of its property portfolio:

a Icade developed **new programmes dedicated to the centre of small and medium-sized cities, combining several complementary products** (such as **social housing, low-cost ownership units, homes for the elderly, students or both combined, facilities for dependent elderly persons, medical services** etc.) sharing common areas and services.

b Icade develops **projects to promote inter-generational diversity.** The Property Development Division is developing new urban neighbourhoods proposing mixed-use, as well as social and age diversity. In the 77 projects under construction, 45% implemented social diversity measures, 18% implemented functional diversity measures and 17% implemented age diversity measures. Icade reports that its customers have socially diverse profiles: Home buyers (20.9%), Individual investors (39.7%), Social housing institutional investors (ESH), Social landlords (21.9%) and Institutional investors (17.5%).

Deutsche Wohnen has developed significant measures to promote affordability of its property portfolio:

a Since 2012, Deutsche Wohnen has been collaborating with 'Hestia e.V.' in Berlin, a specialist accommodation agency funded by the Senate, which provides support to women who have been victims of domestic violence. The company has also been a member of the DESWOS (the German Institute for Development Aid with regard to Social Housing and Settlement Matters) from the outset with a view to combatting poverty and housing shortages in developing countries.

b The Company operates an in-house claims management system, offering different solutions to tenants finding themselves in financial difficulty. The company ensures that payment reminders are issued in good time and it offers affected tenants the opportunity to attend one-to-one meetings with advisers with a view to finding alternative solutions to eviction. Outstanding rent can be paid off in instalments and tenants can be put in touch with debt counsellors on-site. In addition, where tenants find themselves in financial difficulty through no fault of their own, they can apply to the GSW social fund for financial aid.

2. Sustainable Development Goal 9 ('Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation')

– 86.1% of companies support social and economic development, but only 8.1% of them have set up targets in this respect. 32.4% of companies under review have made significant efforts to foster economic development, contributing to learning, training or employability of local suppliers. Supporting small businesses (43.2%) and guidelines to promote local employment (32.4%) are the programs the most frequently observed. Finally, 75.7% of companies provide a significant corporate tax report, showing a geographical breakdown of their tax payments in addition to operational figures. Nevertheless, 29.7% of companies operate in locations considered by the IMF as 'offshore financial centres' or in jurisdictions considered by the OECD as insufficiently compliant on tax transparency rules.

Example of best practice:

Unibail Rodamco has allocated extensive resources to address social and economic development:

a Public consultations are held for development and extension projects. During the planning phase of a project, the issuing of building permits is subject to a public inquiry with an online web page facilitating the consultation. The Company also has departmental commissions involving stakeholders such as local authorities and experts from different fields including land use planning, sustainable development and consumer protection.

b The Company offers direct employment through construction and operations, indirect employment by tenant's sales and activities and suppliers' activities. Job offers are published in real time from the centre's retailers and service-providers. In 2016, the Company launched the 'UR for Jobs' initiative to help unskilled young people find a job in Parquesur (Spain), Almere (The Netherlands) and Rosny 2 (France).

c Unibail Rodamco provides support to small business through partnerships with entrepreneurs and regional networks, encouraging short distribution channels and promoting a circular economy.

d The Company invests in services such as rest areas and smart Traffic Management Systems (parking which guides cars in real-time towards free slots, saving both time and fuel).

e The Company reports to have measured its local socio-economic footprint annually since 2013 directly through shopping centre operations and indirectly through tenants' business activities. The study estimates the total amount of salaries paid related to shopping centre activities, the number of jobs created within the area and the taxes paid through the activities of the shopping centres.

f The Company has developed a 'Unibail-Rodamco Green Bond' framework to finance brownfield sites and existing assets which meet strong, specific social, environmental and sustainabllity criteria during both the construction and operating phases.

3 **Sustainability Goal 13** ('Take urgent action to combat climate change and its impacts'):

- 56.7% of companies demonstrate robust or advanced performance, while 21.6% of companies display weak performance. All companies under analysis commit to combatting climate change, and 70.2% of them have set quantifiable targets to reduce the energy consumption or GHG emissions of their portfolio.
- 94.6% of companies adopted energy efficient technologies, with updates to lighting and energy efficient boilers being most common. The use of renewable energy sources also appears widespread in the sector. Only 2 companies (5.4%) do not make sufficient efforts to improve the energy efficiency of their properties.
- Eight companies (21.6%) either do not provide Key Performance Indicator information (such as the energy efficiency of their building portfolio) or the information provided is insufficient to determine a trend; whereas nine of them (24.3%) show reduced energy consumption over the last three years. Similarly, seven companies (18.9%) do not disclose the carbon efficiency of their property portfolio whilst nine companies (39.4%) show a decrease in emissions over the past three years.

Examples of best practice:

Segro has set up systems to monitor the energy consumption of its portfolio and has adopted new technologies to improve energy efficiency:

a Segro uses a solar photovoltaic (PV) system to generate clean energy in some of its UK sites. The energy generated by the solar PV panels is consumed onsite by the buildings' occupiers and any excess energy is exported. Solar water heating and air source heat pumps are also used in the Company's portfolio.

b The Company uses LED lighting controlled by light and motion sensors and upgrades internal and external lighting including street lighting across its portfolio. The Company reports light upgrading projects in the United Kingdom, France, Italy and Poland.

c The Company uses a higher level of cement alternative in concrete, in addition to high U-Value building fabric, cladding and ceiling tiles with low carbon intensity. In addition, the Company's 'Green Building One' office building in Milan was awarded LEED Platinum and its Navigation Park development, a carbon neutral industrial scheme, has achieved an 'Exellent' BREEAM rating.

Derwent London's CO_2 emissions (both direct and indirect) linked to energy consumption of its property's portfolio, have continuously decreased over the five year period 2012-2016, from 0.030 tCO_2/m^2 in 2012 to 0.024 tCO_2/m^2 in 2016.

Gecina offices' energy output decreased continuously over the five year period 2012-2016, from 385 ($kWhPE/m^2$) in 2012 to 324 ($kWhPE/m^2$) in 2016. The energy output of Gecina's residential properties decreased continuously over the five year period 2012-2016, from 196 ($kWhPE/m^2$) in 2012 to 166 ($kWhPE/m^2$) in 2016.

Forward

More than two thirds of the European population currently live in urban areas. Cities play a fundamental role in our society and economy: they are incubators of ideas, innovation, culture, art, science and business. But they are also places where issues such as unemployment, social segregation and poverty are most concentrated. The real estate industry has significant responsibility in urban development - a major current issue. Yet real estate companies can effectively contribute to the promotion of local development throughout their business cycle. During the planning process, initiatives such as the redevelopment of urban brownfield sites can be undertaken, as well as partnerships with local governments, direct consultation with local communities, and social and community impact assessments. As part of their management activity, real estate companies are expected to undertake initiatives to enhance local employment and business development, revitalise urban areas, and measure their indirect impact on local social and economic development.

Demand for affordable housing in Europe is significantly higher than the supply. Housing vulnerability no longer only affects the most disadvantaged, but also lower to middle-income households which have increasing living costs, especially in urban areas. According to Eurostat, in 2015 11.3% of the EU-28 population lived in households that spent 40% or more of their disposable income on housing[1]. This shortage of affordable housing for vulnerable and middle-income people is influencing a longer term move into residential housing by investors and new government initiatives[2]. Decent housing at an affordable price and in a safe environment is a basic right. Meeting this need, which is likely to also help reduce poverty and social exclusion, is still a significant challenge in a number of European countries. Real estate stakeholders are expected to play a crucial role in promoting properties' social accessibility, both in terms of location and connectivity of buildings and the economic affordability of properties in the residential sector.

1 Housing conditions - Statistics Explained - Europa EU – 04/2017

2 Urban Agenda for the EU: four new partnerships on the economy, digital transition, jobs, and transport Additional tools" - European Commission - 12/01/2017

Finally, buildings account for approximately a third of the world's energy consumption and greenhouse gas emissions. In recent years, the outcomes of the UN Climate Change Conference (COP21), stricter energy efficiency requirements, higher demand for green buildings and higher investor expectations have significantly contributed to the development of a culture of responsibility. To stay beneath the 2°C threshold, the real estate sector requires more exacting targets. According to World Bank estimates, a 36% reduction in total CO2 emissions in the real estate sector is required by 2030 in order to stay within the 2°C threshold. This translates into a 1.25% reduction in annual energy consumption and a 3% reduction in annual emissions[3]. Achieving the goal of carbon neutrality by 2050 will require new non-CO2 emitting energy for the built environment. Governments all around the world will necessarily have to adopt, sooner or later, stricter regulations on buildings' energy efficiency. Major efforts are required to ensure the climate change agenda is integrated into the core business of real estate companies. The percentage of new 'green' commercial properties is expected to rise to around 55% in 2020 as new construction regulations are enforced.

3 "Sustainable Real Estate Investment Framework" - UNEP FI Property Working Group - 02/2016

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Rating

Enterprise

Vigeo Eiris is a global provider of environmental, social and governance (ESG) research to investors and public and private corporates. The agency evaluates the level of integration of sustainability factors in the strategy and the operations of organizations and undertakes a risk assessment to assist investors and companies in decision-making.

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