



Real Estate Insights 2022 | Article #5  
SBTi: decarbonizing real estate in line  
with climate science



With buildings being responsible for 38 percent<sup>1</sup> of global CO<sub>2</sub> emissions and growing societal demand for addressing environmental issues, the Real Estate sector is on the front line of combating the climate change.



Each year, an increasing number of companies consider the impact that their offices, warehouses, and other premises have on the environment – therefore, they evermore require their buildings to have minimal or zero carbon footprint. This trend, combined with stakeholders' demand for addressing environmental issues and considerable risk of physical damage caused by climate change, puts pressure on realtors to decarbonize their ventures. As a result, Real Estate's interest in science-based targets is growing rapidly: during the last two years the number of companies engaged in the SBTi nearly quadrupled. There's good rationale for that – joining SBTi and actively working on reaching decarbonization targets makes the future of the business sounder and safer, both through keeping up with customers' expectations and by curbing climate change and its effects.

Decarbonizing a business is not an easy process. Technical difficulties aside, quantifying carbon footprint and setting up a strategy to reduce it create many challenges. To help companies with the decarbonization process, the Science Based Targets initiative (SBTi) was established. SBTi is a globally recognized organization founded as a joint venture between climate-oriented organisations – such as United Nations Global Compact and World Wide Fund for Nature – and tasked with creating standardized approach for decarbonizing companies in line with latest developments in climate science. Currently nearly 3000 companies around the world have joined the initiative, ranging from heavy industries and petrochemical sector to financial institutions and IT industry. SBTi is vital for mitigating climate changes, as it provides companies and their stakeholders with clear methodology and detailed guidance for defining decarbonization targets consistent with the Paris Agreement, thus allowing for auditing, monitoring, and revising decarbonization strategy.



**1.5° C target**

decarbonization strategy, that would allow to keep the global warming below 1.5° C above the pre-industrial level. To achieve that global CO<sub>2</sub> emissions must be cut by 48 percent by 2030 and reach net zero by 2050.



**Scope 1 emissions**

direct emissions from owned or controlled sources, such as natural gas or transportation fuels.



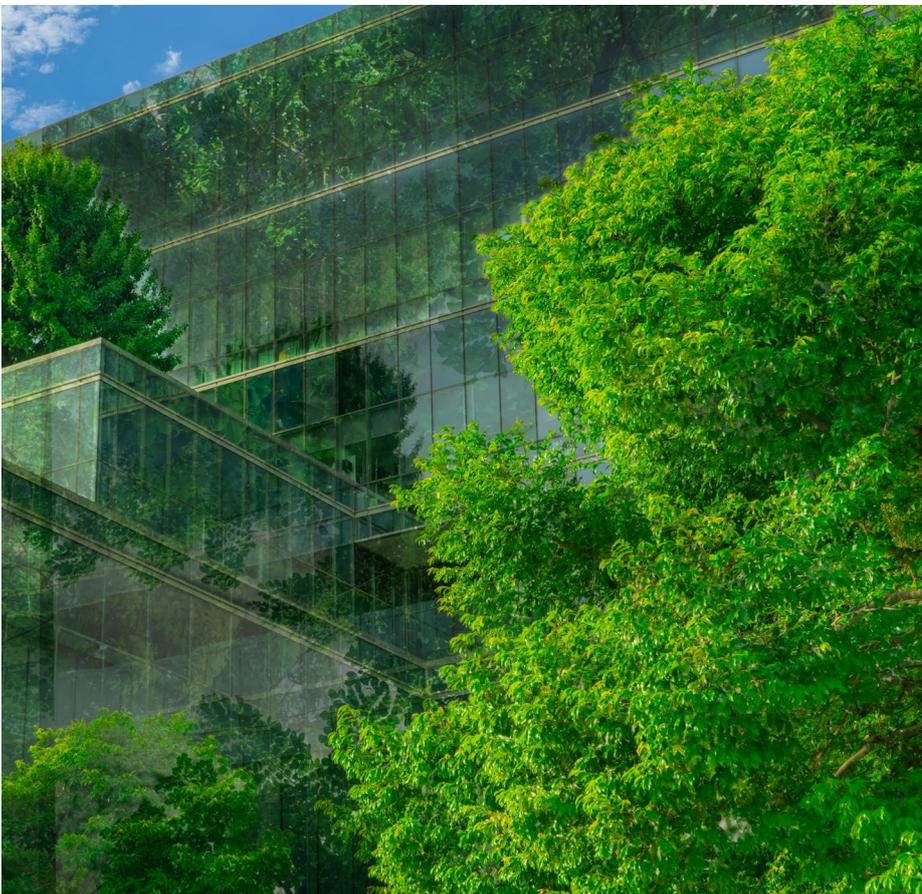
**Scope 2 emissions**

indirect emissions associated with usage of electricity, district heat, steam or district cooling.



**Scope 3 emissions**

emissions outside organization's scope 1 and 2 boundary, resulting from assets not owned or controlled by the organisation, but connected with its value chain (i.e., business travels or purchased goods).



SBTi has been experiencing extraordinary growth during the last few years: since the initiative was established in 2015, the number of participants rose from just 13 to 2940<sup>2</sup>. The Real Estate sector took part in this, as in the last two years, the number of companies from this sector engaged in the SBTi nearly quadrupled and currently totals 156. The combined market share of real estate companies involved in this initiative amounts to approximately 40 percent<sup>3</sup>.

Moreover, Real Estate companies enrolled in SBTi are ahead of the curve: 61 percent of them have SBTi targets already approved – against only 46 percent of other committed SBTi participants – and out of those 72 percent decided on the most ambitious 1.5° C target, which is also above the average. Speaking of targets, Scope 3 was included by 89 percent of realtors, and in case of Scopes 1 and 2, 75 percent of companies set absolute reduction targets.

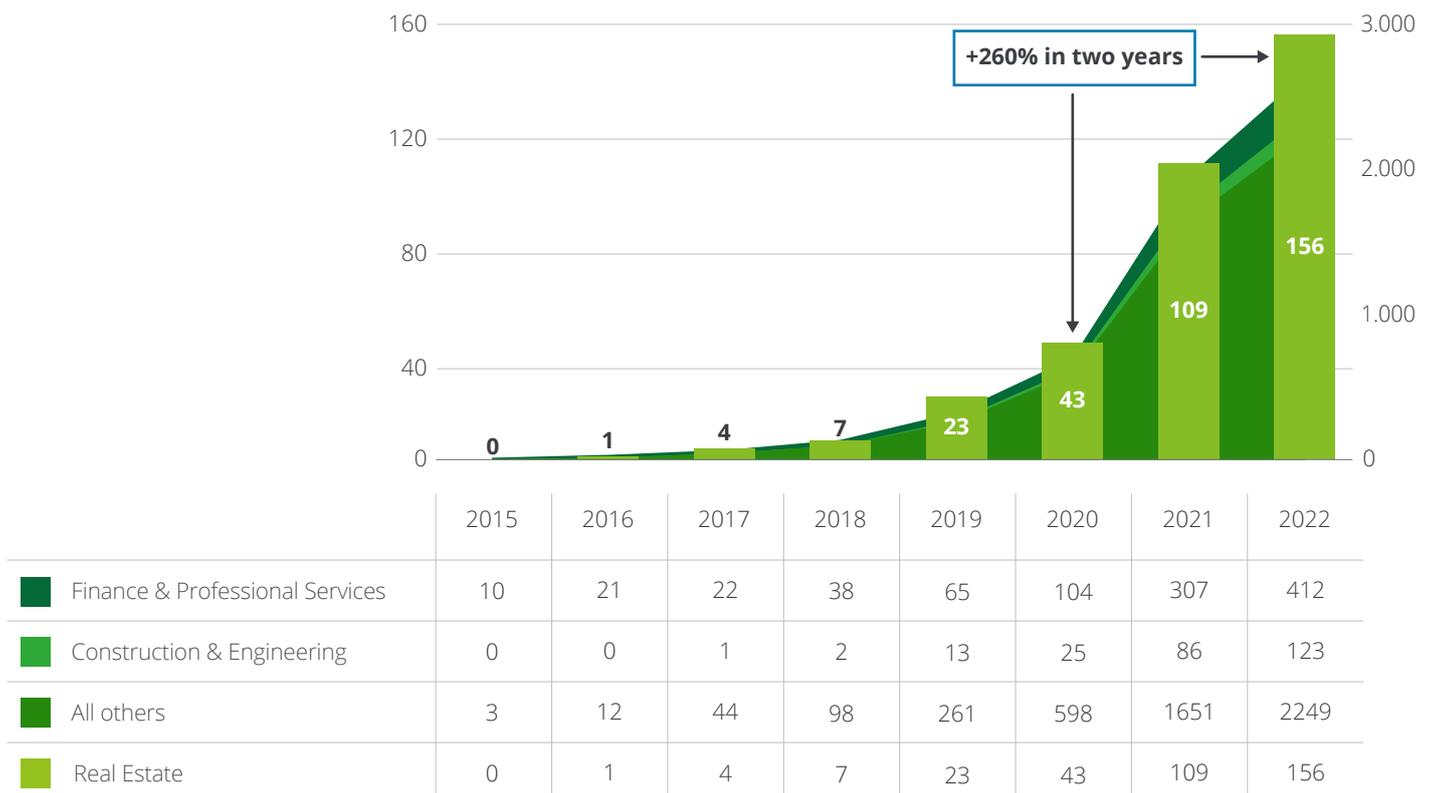
In case of sector suppliers (construction & engineering sector) and clients (companies from finance and professional services sectors) steady increase in SBTi participants can also be observed. Currently 412 compa-

nies from finance and professional services sectors, and 123 engineering and construction companies are taking part in the SBTi. Respectively 43 percent and 33 percent have targets already set. However, their ambitions differ as financial sector and professional services chose 1.5° C pathway in 86 percent of the cases, while only 63 percent of construction and engineering companies did so<sup>4</sup>.

It is evident, that the SBTi is gaining momentum and more companies will be joining the initiative in the future. Those companies will also be setting targets in Scope 3, which in turn will force them to look for greener suppliers, including greener options in leased spaces. This is further amplified by very active and ambitious approach of the financial and professional services sectors, which are key customers of the real estate market. A relative smaller and less ambitious approach of the engineering and construction sector may be an obstacle to reach the target, as companies active in this sector are part of Real Estate’s Scope 3 emissions.

Finding greener suppliers is not the only challenge when enforcing SBTi targets. The process is complicated and consists of several steps: calculating the baseline emissions, determining the level of ambition, setting targets and their timeline, submitting the targets to SBTi, and finally creating optimal strategy to achieve them. Calculating the baseline emissions might be difficult due to lack of actual and readily available data. Secondly, a company must set operational boundaries (up to 5% of Scope 1 & 2 emissions can be excluded from the calculations, given well-argued reason) and decide on allocating emissions between the Scopes (assuming operational control over an asset often depends on the company’s decision). This determines the initial level of emissions, from which a company will be reducing its carbon footprint – set it too low and reduction targets will be hard to meet. It also determines the volume of emissions to be reduced in each of the Scopes – targets for Scope 1 and 2 must be much stricter and ought to be met sooner than the targets for Scope 3 (i.e., targets in Scope 3 can rely on supplier engagement).

**Fig. 1 – Number of Real Estate Companies and their peers engaged in the SBTi**





However, companies should refrain from moving as many emissions to Scope 3 as possible, as it might be disputed during an audit and counters the real effect of decarbonization efforts.

Despite those challenges, the SBTi should be viewed as an opportunity. Setting up a decarbonization target and actively working on emission reduction makes the future of the business sounder and safer – both through keeping up with customers' expectations and by curbing climate change and

its effects, that can cause financial or physical damage to the enterprise. Apart from that, improved efficiency means not only less emissions, but also lower operational costs. Moreover, increased amount of data on consumed energy carriers means better understanding of the business, which can lead to further financial savings. And looking at the aforementioned involvement of Real Estate companies in the SBTi, it seems many are well aware of those possibilities and are taking full advantage of them.

## Sources

- <sup>1</sup> „Zerowy Ślad Węglowy Budownictwa – Mapa drogowa dekarbonizacji budownictwa do roku 2050”, Polish Green Building Council, June 2021, page 4.
- <sup>2</sup> [sciencebasedtargets.org/companies-taking-action](https://sciencebasedtargets.org/companies-taking-action) (as of May 10th 2022).
- <sup>3</sup> Calculated as sum of reported annual revenue of Real Estate companies engaged in the SBTi, divided by value of global Real Estate market, which was based on the report “Real Estate Market Size, Share & Trends Analysis Report By Property”, Grand View Research, 2022.
- <sup>4</sup> [sciencebasedtargets.org/companies-taking-action](https://sciencebasedtargets.org/companies-taking-action) (as of May 10th 2022)

## Your Contacts

**Tomasz Gasiński**

**Director**

Sustainability Consulting Central Europe  
[tgasinski@deloittece.com](mailto:tgasinski@deloittece.com)

**Maciej Kempny**

**Senior Consultant**

Sustainability Consulting Central Europe  
[mkempny@deloittece.com](mailto:m Kempny@deloittece.com)



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