Deloitte.

The importance of ESG Data Management

Challenges and opportunities for the real estate ecosystem

MAKING AN IMPACT THAT MATTERS since 1845

Summary 03
More and more real estate organisations incorporate ESG in their strategy 04
Motives for ESG data collection 05
ESG data sharing in the real estate ecosystem 06
Ambitions on improving ESG data management 07
Trends & Observations 08
Challenges of ESG data management 09
Opportunities for real estate ecosystem 10
Participants round table sessions 12
Writers 12

Summary

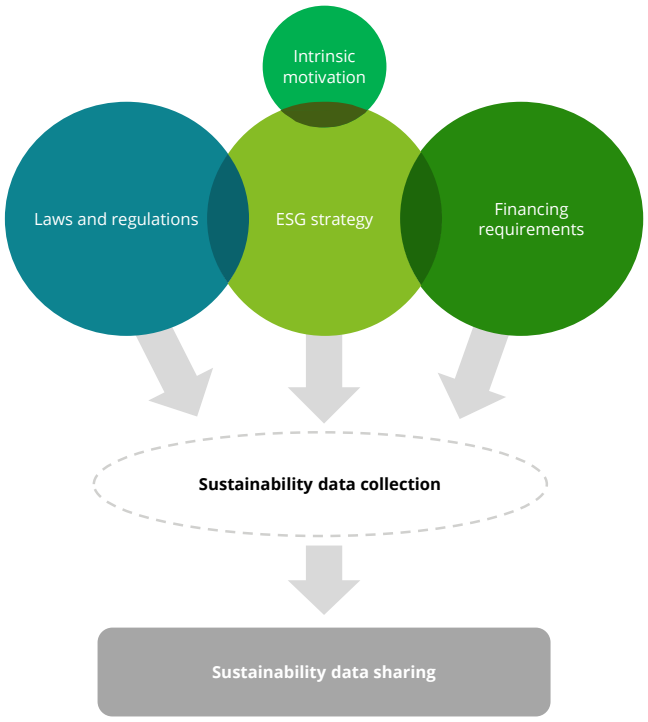
Driven by laws and regulations, Environmental, Social and Governance (ESG) strategy and financing requirements, the importance of ESG data management in the real estate industry can no longer be ignored. In order to assure future viability of real estate organisations, effective ESG data management and disclosure are crucial. However, a series of round table sessions with key stakeholders in the Dutch real estate industry has indicated some major challenges: a lack of alignment on ESG data and ESG performance standards, hurdles in sharing ESG data, unclear incentives for ESG data management and disclosure, and a lack of coordination. Opportunities lie in introducing ambitious and enforceable regulation, creating clear incentives between players within the ecosystem, making ESG performance transparent by means of standardised incorporation in valuation reports, shifting the focus also to the Social and Governance components of ESG data management, and coordinating ESG data management throughout the ecosystem.

More and more real estate organisations incorporate ESG in their strategy

Buildings are responsible for 40% of the energy consumption and 36% of the CO2-emissions in the EU[1]. Therefore, the required contribution of the real estate industry to reach climate neutrality in 2050 is enormous. More and more real estate organisations incorporate Environment, Social and Governance (ESG) components in their long-term sustainability strategy, driven by regulation, intrinsic behaviour or requirements from investors and debt providers. This fuels the need for ESG disclosure and data management in order to measure relevant KPIs, define strategy, perform benchmarks between assets and portfolios, and report on ESG performance.

In the real estate industry, the Environmental component is relatively straightforward, because of its rather quantitative nature. For instance, water and electricity use, degree of circularity, CO2 emission and waste processes can all be measured quantitatively. The Social component (e.g., tenant satisfaction, labour standards, working conditions, health & well-being of employees, tenants and contractors) requires a more qualitative approach and might be more subjective. The Governance component concerns policy requirements regarding themes such as bribery and corruption, data protection and privacy, and other internal business processes. Incorporation of ESG in real estate strategies rapidly increases the amount of underlying data. ESG reporting in this industry is complex, due to its various stakeholders, who collect and report on ESG differently. Also, the collection of data is often difficult. Data sharing is essential to enable all stakeholders within the real estate ecosystem to execute their ESG strategies.

In order to create an understanding of the perspective of the Dutch real estate market regarding ESG data management and disclosure, Deloitte Real Estate and SBR Nexus facilitated a series of round table sessions with key stakeholders. During these sessions, ambitions, challenges and opportunities in ESG data management and disclosure were examined. This publication reports on the insights that were generated from these sessions.



1. European Commision - In focus: Energy efficiency in buildings (2020)

Motives for ESG data collection

There are roughly three motives that drive the current need for ESG data management:

1. Laws and regulations

2. ESG strategy

3. Financing requirements

1. Laws and regulations

Laws and regulations often result in an obligation for ESG data collection and disclosure. Three programs have been composed, based on the EU action plan on sustainable finance:

- Non-Financial Reporting Directive (NFRD), an EU law that requires large companies (500+ employees) to disclose ESG information.
- EU Taxonomy, an EU-wide classification system to identify the degree in which economic activities are environmentally sustainable.
- Sustainable Financial Disclosure Regulation (SFDR) - also known as the Disclosure Regulation – requires the disclosure of sustainability-related data and policies at entity and product level

Even though these regulations mainly affect the reporting obligations of large organisations, these requirements will likely have a trickle effect for other organisations in the real estate ecosystem. Also, more stringent reporting requirements will probably significantly increase the requirement for adequate ESG data management throughout the ecosystem.

Additional regulations and agreements such as the Dutch Climate agreement, EU green deal and the Dutch energy agreement will further fuel sustainable reporting and therefore the need for the availability of ESG data.

2. ESG Strategy

Furthermore, ESG data management can be driven by the ESG strategy of real estate companies. ESG is considered as the next step regarding Corporate Social Responsibility (CSR) policies. ESG makes CSR policies more measurable and comparable. A transparent ESG strategy makes an organisation more future-proof and could increase the competitive advantage on various levels.

ESG strategy also encompasses the war for talent, as many employees take an organisation's impact on sustainability into account while orienting on their next job. From an investor's point of view, transparency of sustainability is demanded. Tenants can increasingly demand more from the landlord in the field of sustainability, such as green energy, but also social cohesion in the neighbourhood. ESG strategy is often also driven by intrinsic motivation.

3. Financing requirements

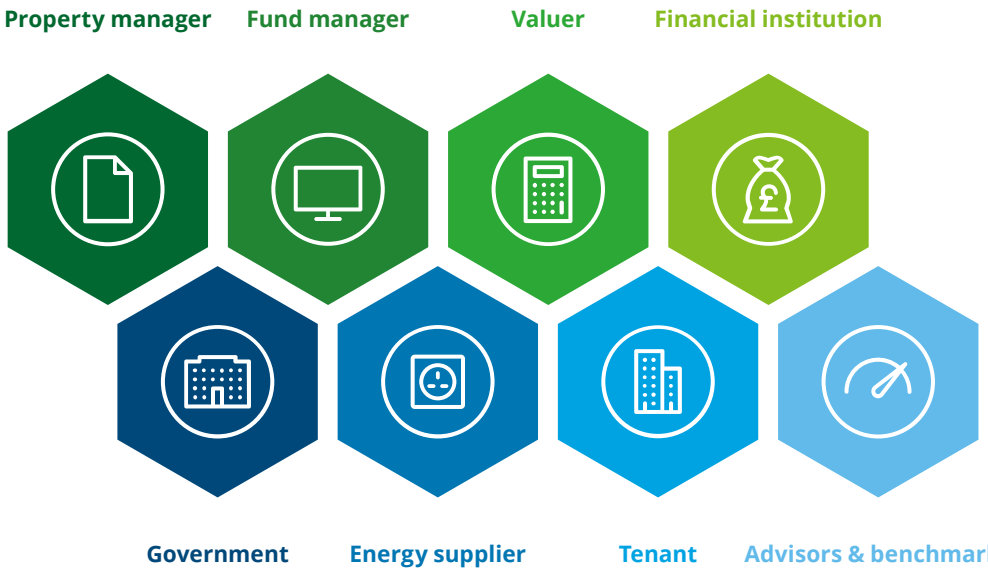
The third motive consists of financing requirements. This is strongly connected to the laws and regulations motive. Financiers are increasingly demanding when it comes to sustainability reporting, in order to comply with laws and regulations and their own ESG strategy. This applies both to banks and private investors.

ESG data sharing in the real estate ecosystem

In the real estate ecosystem, the stakeholders involved in data collection and sharing are plentiful. Data is being collected and shared according to different standards and on different aggregation levels throughout the ecosystem, while stakeholders depend on each other's ESG data for their own reporting.

To improve comparability of sustainability data throughout the ecosystem, standards and benchmarks (e.g., BREEAM, GRESB) exist. These are used to rate the sustainability of real estate and thereby support the standardisation of ESG reporting.

Standardising ESG reporting improves data sharing in the ecosystem, but data still does not flow freely between the many stakeholders in the ecosystem. For instance, only the users or owners of real estate have access to actual operational energy consumption data. Other stakeholders in the ecosystem, such as banks and valuers, can generally not access this data and thus rely on the willingness of owners or users to share.



Ambitions on improving ESG data management

The real estate ecosystem is increasingly committed to reporting on sustainability in order to assure the future viability of their organisations. Labels, benchmarks, standards and certifications are important means.

Some players in the ecosystem are intrinsically motivated to contribute to the Paris Climate ambitions. Others are merely driven by financing requirements or laws and regulations. In the round table sessions, we have observed differences between stakeholder groups with respect to maturity and ambitions:

Institutional investors are relatively advanced in the field of integrating ESG data into their organisation, compared to the rest of the market. Serving a collective interest, their ambition lies not only in the Environmental component, but also increasingly in the Social component. By measuring social impact, they aspire to add value to the social environment.

Fund managers and property managers play a crucial role in ESG data management. They oversee buildings throughout their life cycles and aspire to use ESG data for the optimisation of asset operations.

Trends & Observations

The real estate industry has a strong focus on the assets itself, including ESG. Considering the Environmental component, the focus can be either on the environmental performance of the asset itself (e.g. circularity, heating system, energy production, insulation), or on the environmental performance based on the actual usage (for instance, water and energy, and waste management). Data management around the performance of the asset itself is often easier to collect and more stable over time, which also makes it more suitable for benchmarking. However, the actual operational energy consumption of real estate highly depends on the use of the building. It can be difficult to obtain actual performance data on energy consumption, because of the dependence on cooperation of tenants and restrictions of privacy regulation like the General Data Protection Regulation (GDPR).

Generally, the participants of the round table sessions claim to focus mostly on the Environmental component of ESG. They still pay relatively little attention to the Social and Governance components. This can be explained by the massive investment risks involved with environmental change, the large societal understanding of its urgency, and by the fact that the Environmental component is more quantifiable than the Social and Governance components.

Incentives for taking ESG measures are increasing. However, some of the round table participants claim that the business case is still not viable in some cases. Reflection of ESG performance in the market value of real estate, particularly in a bullish market, is still limited. Incentives created by financing terms, ambitious and enforceable legislation and increased transparency on ESG performance are important drivers for improving the business case.

Banks rely heavily on the availability of ESG data at their clients and the ability of valuers to gather and report on it. A clear financing policy, which creates strong incentives for their clients to provide comprehensive insights in ESG performance, is not there yet. Banks agree that ESG performance should and will have a more significant impact on financing terms in the foreseeable future. Software development companies want to make a difference by collaborating to create a standard for the sustainability paragraph in valuation reports.

Challenges of ESG data management

According to participants of the round table sessions, there are four main challenges for the optimal use of ESG data within the industry:

1. Incomplete/inconsistent ESG standards

2. Hurdles in ESG data sharing

3. A lack of incentives

4. Missing coordination

1. **Incomplete/inconsistent ESG standards**
   The incompleteness and inconsistency of ESG standards complicates the use of ESG data. For instance, energy labels are calculated analytically and do not necessarily describe the actual energy performance of a building. Actual operational energy usage, however, depends on the use of a building and not by definition on the sustainability of the building itself. For a part of the market, benchmarks of actual operational energy usage exist, but mostly, standards are lacking.

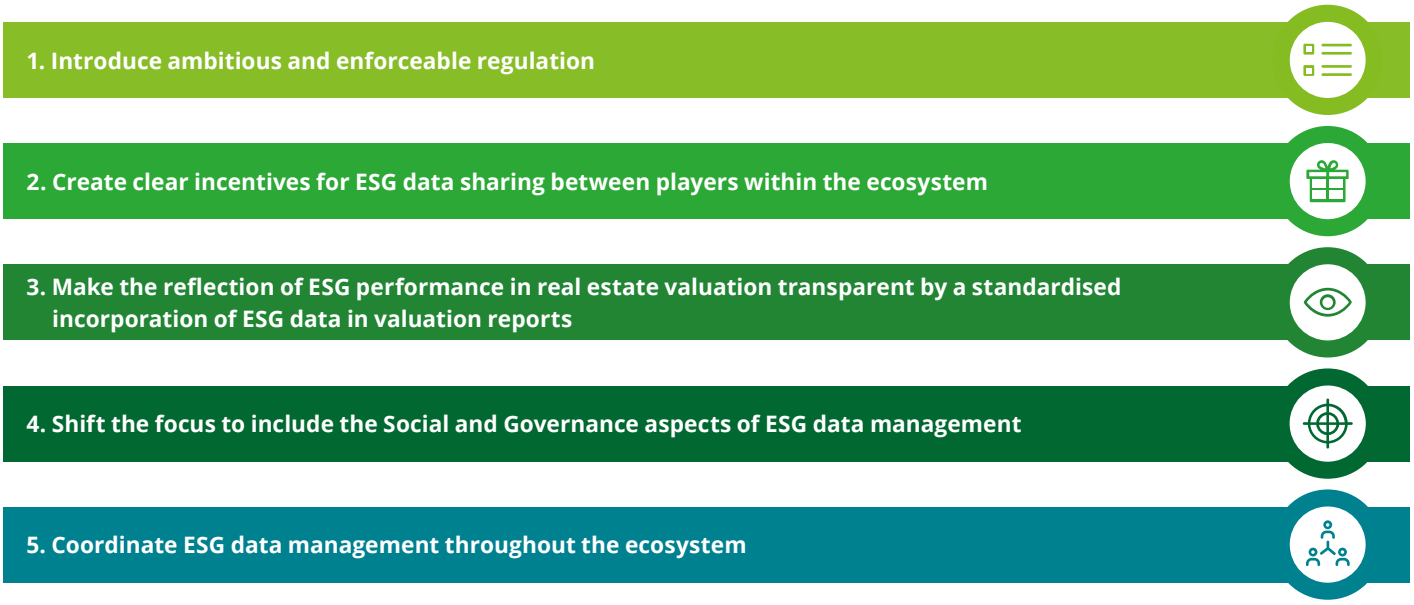
2. **Hurdles in ESG data sharing**
   Data does not move freely throughout the whole ecosystem. Stakeholders are sometimes unwilling to share ESG data to mitigate the risk that others obtain a competitive advantage from their ESG data. Consequently, the ecosystem as a whole cannot optimally benefit from available information. Privacy laws (i.e., GDPR) further complicate sharing.

3. **A lack of incentives**
   Incentives for improving ESG performance are not strong enough when compared to other factors in the real estate market. For instance, in the current Dutch housing crisis, the ESG performance is not a differentiating factor for new homes, as participants of the round table sessions would like to see. With limited green discounts on financing, energy expenses forming only a small portion of the total cost of ownership and no strict government measures, the importance of ESG in decision-making still remains (too) small.

4. **Missing coordination**
   The real estate ecosystem lacks coordination that drives players to collect and share their ESG data. Standardisation and synchronization, that are necessary for efficient and effective data management, require proper coordination. This is best illustrated by the impact institutional investors are already making today: some of the round table participants claim to already be at 95% of their ambition level with respect to ESG data insight. However, institutional investors only have a small portion of the entire real estate market in the Netherlands. The question is: who is going to push the rest of the market?

Opportunities for real estate ecosystem

Considering the ambitions and challenges in the market, five opportunities were identified:



1. Introduce ambitious and enforceable regulation

The government is a key stakeholder in ESG-data sharing. It is committed to climate agreements, which are measurable based on actual operational energy usage. Therefore, there could be an opportunity for the government to enforce sharing of actual operational energy usage by law.

In addition, stricter sustainability requirements can contribute to improving the business case of ESG. The Paris Agreement and alike merely have the nature of aspiration statements and are not enforceable yet. Reflection in ambitious and enforceable legislation is needed. The dialogues at the round table sessions have indicated that intrinsic motivation is there, but it is frustrating to see that a lack of ESG data management generally remains without serious consequences.

Currently, the only clear obligation in the Netherlands is the required C label for office buildings by 2023. However, the enforceability of this obligation is doubtful. It is expected that Dutch municipalities – which will have to enforce this rule – will not be able to comply themselves[2].

2. Create clear incentives for ESG data sharing between players within the ecosystem

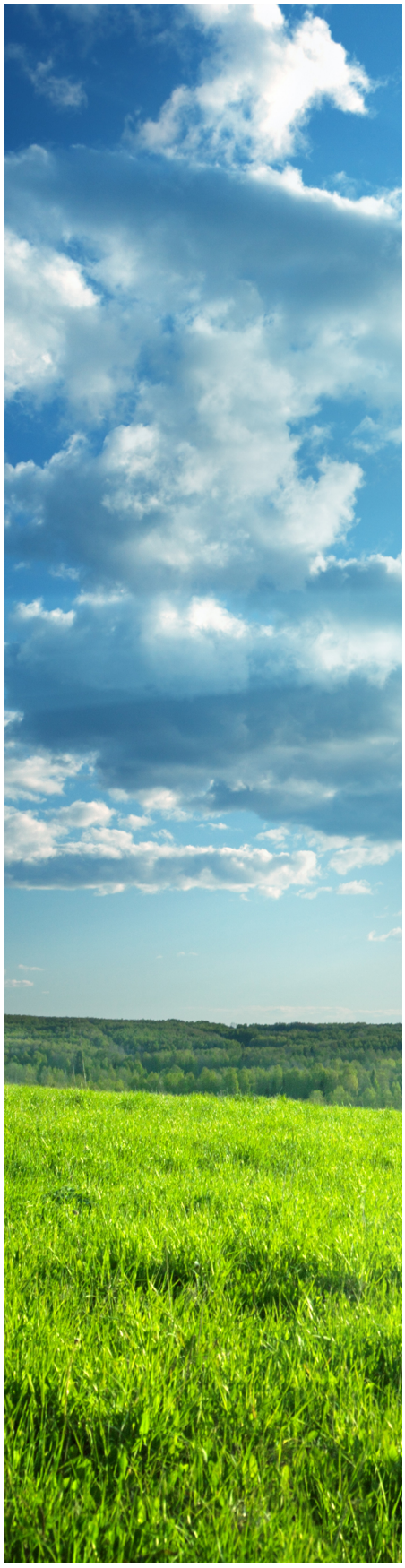
It is crucial that players within the real estate ecosystem create clear incentives for each other to collect and share ESG data. For instance, if banks require ESG data from their customers, the latter will have to be awarded with an appropriate benefit.

2. Kadaster & Binnenlands Bestuur – Is de gemeente label C vergeten? (2020)

3. **Make the reflection of ESG performance in real estate valuation transparent by a standardised incorporation of ESG data in valuation reports**
   Incorporation of standardised ESG data in valuation reports will create transparency of ESG performance in valuations. This should also improve ESG performance benchmarking. Another opportunity is to take the circular value of assets into account in real estate valuations. Currently the circularity of assets is hardly a factor in valuations. For such an extension of valuation reports, integration in sector-wide policies is required, as well as financial agreements between the valuers and their clients.

4. **Shift the focus to include the Social and Governance aspects of ESG data management**
   The Social and Governance components of the ESG triad are yet to be explored. Creativity in assessing these can yield competitive benefits both in steering and communicating these components. For instance, involving the users of real estate by measuring tenant satisfaction or setting societal goals such as the creation of affordable housing and fostering social cohesion. Institutional investors lead the way here, but adoption by other players is to be expected

5. **Coordinate ESG data management throughout the ecosystem**
   Considering the complexity of the real estate ecosystem and the dependence of all players on improved ESG data, leadership is required to coordinate data collection, sharing and reporting. In order to reach the whole ecosystem, a player or group of players with a large range is required. Institutional investors have proven that such a coordinating role can have a significant effect on the quality of ESG data management. There is room for a consortium of stakeholders to take up that role. Key success factors of such a consortium would be significant market share, collaboration instead of competition with respect to ESG data management, maximum transparency on ESG data, and lastly, commitment and enforceability.



Participants round table sessions

The whitepaper is based on the output of the round table sessions, as interpreted by SBR Nexus and Deloitte Real Estate NL. A word of thanks to the participants of the round table sessions:

- a.s.r. real estate – Lizzy Butink
- Aareon CRE – Marion Gootzen
- ABN AMRO bank – Reinier Mijsberg & Sebastiaan van Diepen
- CBRE Investment Management – Henny van Woerkom
- Cushman & Wakefield - Chris Tolsma
- Dutch Green Building Council – Martin Mooij & Peter Gabriëls
- Enven – Alex van der Avoort & Prosper de Bever
- FluX – Conrad Hagemans
- GRESB – Roel de Weerd
- ING Real Estate Finance - Bas Bordewijk
- Kate Innovations – Erik Schlooz
- MVGM - Michele Kalverla
- Rabobank Real Estate Finance – Bart Jan Holleman
- Sustainable Housing Platform – Marco Witschge
- Sweco – Bert van Renselaar
- Syntrus Achmea Real Estate & Finance – Boris van der Gijp
- Taxatie Management Instituut - René Klotz
- Movin'U – Maarten Arts

Writers

Gerben Sinke
Senior Consultant Deloitte Real Estate NL
gsinke@deloitte.nl

Gijsbert Duijzer
Director Deloitte Real Estate NL
gduijzer@deloitte.nl

Hugo Wouda
Product Manager Real Estate SBR Nexus
hugo.wouda@sbrnexus.nl

Jesse Eppink
Data Analyst Deloitte Real Estate NL
jeppink@deloitte.nl

Mathijs Pott
Business Analyst Deloitte Real Estate NL
mpott@deloitte.nl

Maurits Cammeraat
CCO SBR Nexus
maurits.cammeraat@sbrnexus.nl

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.nl/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 264,000 people make an impact that matters at www.deloitte.nl.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2021 Deloitte The Netherlands

Designed by CoRe Creative Services. RITM0871457