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ESG REPORT

BREEAM annual ESG survey results 2022

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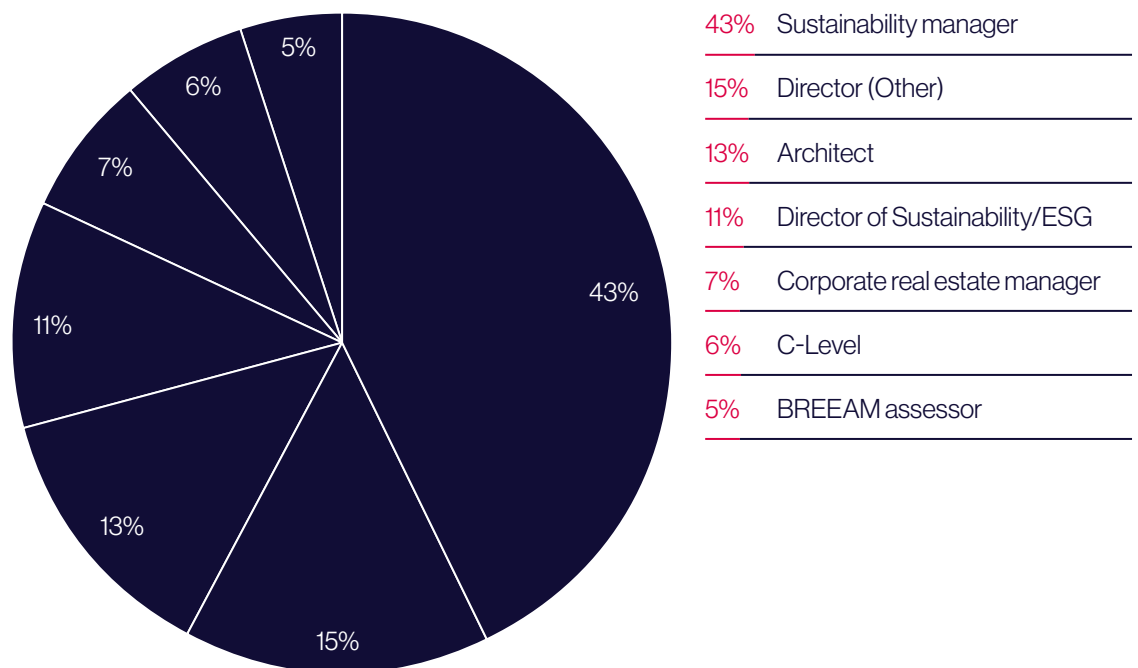


Net zero and climate change reinforced as a priority for assets: the BREEAM annual ESG survey results

Developing and implementing effective ESG strategies is a top priority in real estate. As we adjust to life in the COVID-19 pandemic, and with the increasing speed of the race to net zero, ESG megatrends are set to continue as a key priority in 2022 and beyond. Following COP26, it's important that climate change and net zero challenges are tackled with urgency.

The purpose of the BREEAM annual ESG survey is to understand key challenges faced by ESG and sustainability professionals in their decision making and implementation of ESG frameworks. What do you need to know about challenges faced by ESG and sustainability professionals in their ESG decision making and implementation?

The survey received responses from a diverse range of respondents from over 35 countries. The respondents came from a range of roles including Sustainability Director, Corporate Real Estate Manager and CEO. The respondents came from numerous organisation types including banks, investment firms and assessor organisations.



Key Takeaways

1. Climate change & net zero carbon are the most important considerations for successful ESG strategies.
2. Perceived increased capital is the biggest obstacle to achieving net zero.
3. Green financing schemes are sometimes misunderstood and must adapt to the changing requirements of organisations.



What are the most important factors to consider when implementing ESG strategies?

Climate change & net zero carbon was identified as the most important consideration when implementing ESG strategies. This was followed by health and wellbeing. Given the growing emphasis on health and wellbeing, along with the fact that about half of any waking workday is spent in 'the office' (equating to approximately 35% of our total waking hours over a 50-year working life), it is vitally important that health and wellbeing are a priority.



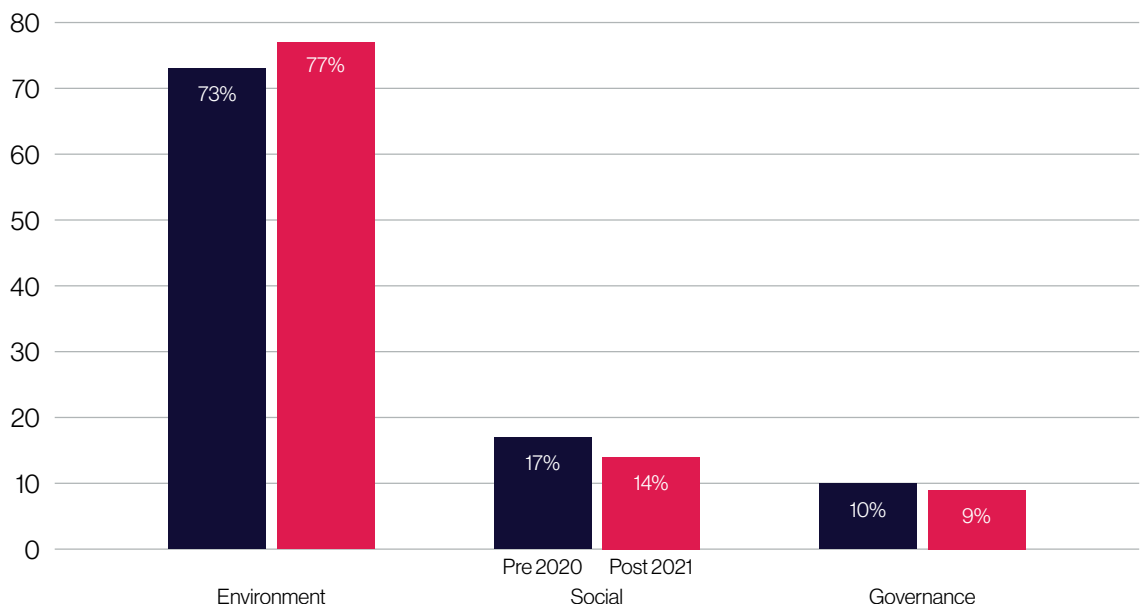
61%

61% of sustainability leaders said climate change and net zero carbon are the most important factors when implementing ESG strategies

E, S or G?

It is no surprise that the majority of respondents (77%) rated environmental (E) issues as their top priority. This includes the company's utilisation of natural resources and the effect of their operations on the environment, direct and across supply chain. When comparing the importance of each in 2020 vs 2021, the focus on environment increased. Social (S) and Governance (G) followed with 3% and 1% decrease respectively. This reflects the general importance attributed to the environmental factors of ESG across the market. A 2020 study by the Climate Disclosure Standards Board found that out of the 40 key ESG issues to corporate sustainability, 60% were environmental in nature.

What is at the forefront of your ESG strategy?





Net zero

The majority (64%) of respondents have pledged to achieve Net Zero Carbon by 2025 or 2030, ahead of the goal set by Paris to achieve Net Zero by 2050.

Several barriers to achieving net zero persist:

1. Increased capital
2. Data collection and measurement
3. Defining 'net zero'

Financial hurdles can present a significant barrier to achieving net zero, as evidenced by the investors surveyed who identified increased capital as a barrier. However, following COP26, it seems that there is now an opportunity for increased capital to accelerate the net zero agenda. The sum of global capital committed to achieving net-zero greenhouse gas emissions has surged to over \$130 trillion, up from only \$5 trillion when the UK and Italy assumed the COP26 Presidency in 2019. It will be interesting to see if perceptions of green finance and increased capital will change following this significant pledge.

Data collection/measurement and defining net zero were also identified as key barriers. To achieving net zero. A considerable amount of work is taking place trying to define net zero, and it is widely acknowledged that this is not an easy task. This is for a number of reasons, one notable reason being, notably the contention over the inclusion of scope 3 emissions. It is no surprise that the survey results support this finding. This is because when scope 3 emissions are included, it is very difficult to collect the data required to take action to minimise or offset the emissions. This is evidenced by a PWC study which found that just 10% of organisations who have made net zero pledges have addressed their scope 3 emissions.

Green financing

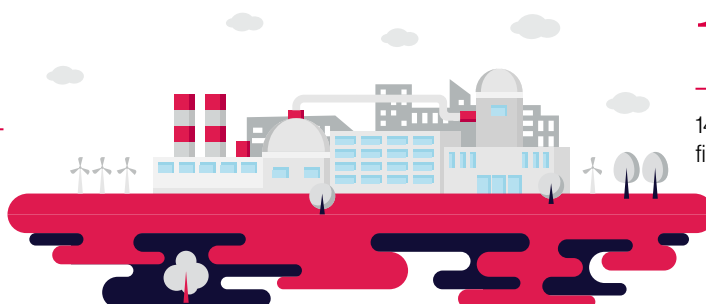
The majority of professionals surveyed (59%) do not currently use green financing and are not yet considering using green financing in the future. The green financing market is still new and activity levels are low. Historical data on green finance assets is beginning to emerge but remains patchy. Therefore, it is unsurprising that portfolio owners may be cautious when approaching the market. With that being said, green bonds and sustainability linked loans are used (or considered being used) by 15% of respondents and green mortgages 5%.

This can be explained by general scepticism about the success of green financing. 50% of respondents identified green financing as somewhat or extremely successful, whilst 36% said they were unsure of the success, and 14% find it to be unsuccessful or extremely unsuccessful. This could be a reflection of infancy of the green financing market, or the lack of awareness of its current success.. Further education is required to ensure higher uptake in the future.

Green financing is yet to be embraced by ESG and sustainability leaders

59%

59% do not use green financing and are not considering using it in the future.



14%

14% think that green financing is unsuccessful.

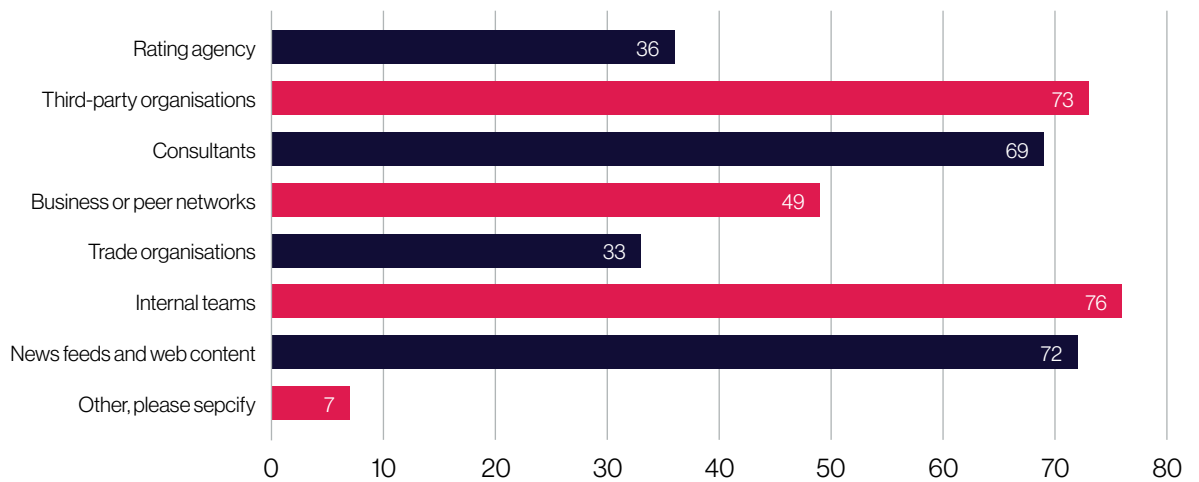


Do ESG frameworks need harmonisation?

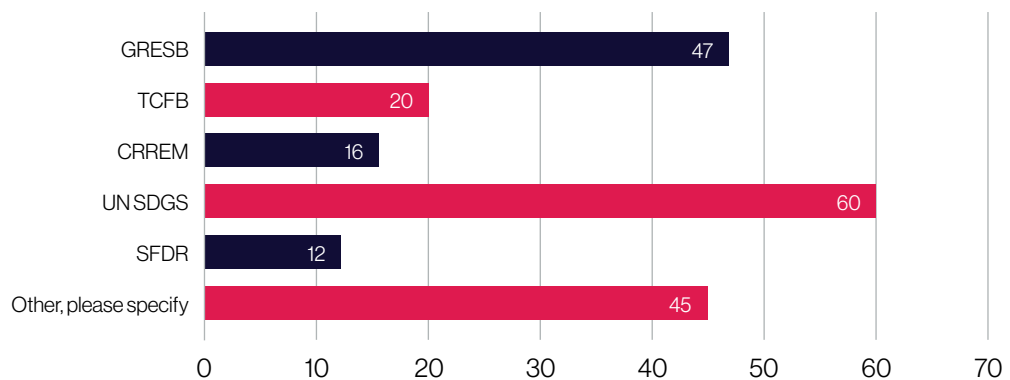
There is a distinct lack of harmonisation between ESG rating frameworks. We know that it is important to follow a framework, but there's not a single way to define what ESG factors should be measured. We asked what frameworks and data sources respondents currently use. 15 different frameworks were cited and 9 different ESG data sources were identified. These sources ranged from university data to ratings agencies.

There is a healthy debate in the industry as to whether ESG frameworks need to be harmonised, or if a one-size-fits-all framework is unnecessary. ESG covers a vast array of issues, and not everyone strives to achieve the same indicators. It will be interesting to see how the various frameworks develop as the ESG market matures further. This will be discussed in the next ESG report released by BREEAM.

What ESG data sources are you using?



Which report framework are you aligned with or reporting to?





COVID adaptation priorities

In order to understand the real estate market in a world adapting to COVID 19, we asked respondents to identify the priorities for their assets in the COVID adaptation. The top 3 priorities identified by respondents were-

1. Healthy spaces (41%)
2. Resilient assets (30%)
3. Adaptable assets (24%)

The 3 priorities identified indicate that the real estate market is prioritising assets that protect occupants. The word resilient has been strongly utilised in pandemic adaptation strategies. Although many respondents work in the financial sector none mentioned financial goals as a priority for their assets. This identifies a shift in values taking place and that the real estate sector should be aiming for sustainable, resilient assets that also support commercial success.



41%

41% of real estate professionals said that creating healthy spaces is their top priority now

As the buzz around ESG grows, the BREEAM annual ESG survey has provided us with valuable insights into the implementation of ESG strategies, barriers presented to achieving ESG goals and where ESG priorities will lie in a post-pandemic world. How can BREEAM address this?

1. BREEAM helps you accurately measure the asset's energy demand as well as direct and indirect carbon emissions
2. BREEAM helps you focus on minimising the asset's energy demand and carbon emissions by encouraging best practice design and on-site operation (widely acknowledged as the most effective way to reduce carbon emissions overall)
3. BREEAM helps you align with existing energy performance standards and regulations e.g. EU taxonomy, SDFD's
4. BREEAM allows you to treat any subsequent, external carbon solutions that relate to current tenant/owner/asset manager procurement (e.g. offsetting) separately from the BREEAM assessment