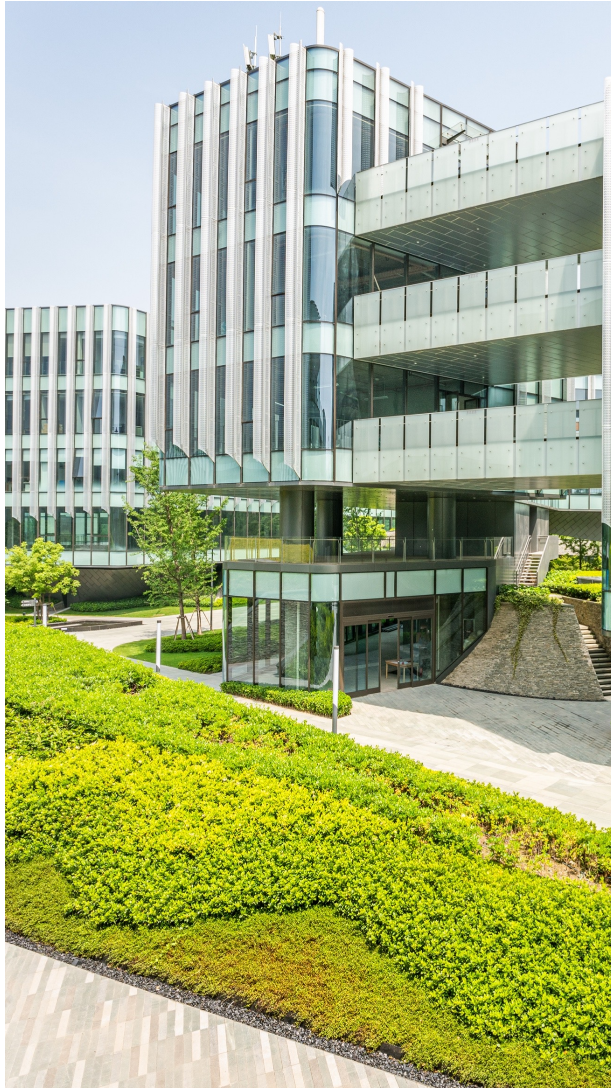
Creating Resilience

Strengthening Value Through ESG

SURVEY OF GLOBAL PROPERTY PROFESSIONALS

CBRE RESEARCH
FEBRUARY 2023

Contents



Introduction

The real estate industry is uniquely positioned to positively impact our society and the value of the built environment through Environmental, Social and Governance (ESG) initiatives. How this is taking place was the subject of a recent CBRE survey of more than 500 commercial real estate professionals worldwide, revealing the most common and impactful ESG initiatives in their overall real estate strategies. Despite increased economic uncertainty since this survey was conducted in the fall of 2022, it’s clear that the value and importance of ESG will endure.

Key Findings

CBRE's ESG survey reveals the following trends among global real estate investors and occupiers:

Focus on ESG Intensified in 2022

Nearly 70% of survey respondents reported a heightened focus on ESG strategies in 2022, mostly due to higher energy prices and government-imposed ESG disclosure requirements. This sentiment is more prevalent among investors, although occupiers plan to meet net-zero targets sooner and under a more robust set of principles.

Reducing Energy Consumption a Priority

Three-quarters of all respondents say that reducing energy consumption and carbon emissions is the top ESG consideration most likely to impact property value. Investors and occupiers are most often willing to pay a premium for buildings with on-site renewable energy generation and/or smart technology to monitor and adjust energy usage.

Emphasis on Tenant/Employee Well-Being

More than 80% of respondents indicate that proximity to public transit (or lack thereof) impacts property value because easier commutes are associated with better employee well-being. Nearly half are willing to pay a premium for buildings that support the physical and mental health of their employees.

Lack of Data a Barrier to Achieving ESG Goals

More than half of respondents say that lack of quality data is the most concerning impediment to achieving ESG goals. This is especially true among investors, who are focused on determining the most impactful cost benefit for their portfolio.

01

ESG Priorities in Focus

Focus on ESG intensified in 2022

67% of all respondents increased their focus on ESG in 2022.

Sixty-seven percent of survey respondents reported more focus on ESG strategies in 2022. The two biggest reasons for this, particularly among investors, were government-imposed ESG disclosure requirements and higher energy prices. Government-mandated disclosure requirements was cited more often by those in Europe, where ESG-related regulation is advancing more quickly.

FIGURE 1: Yes, our ESG focus intensified in 2022

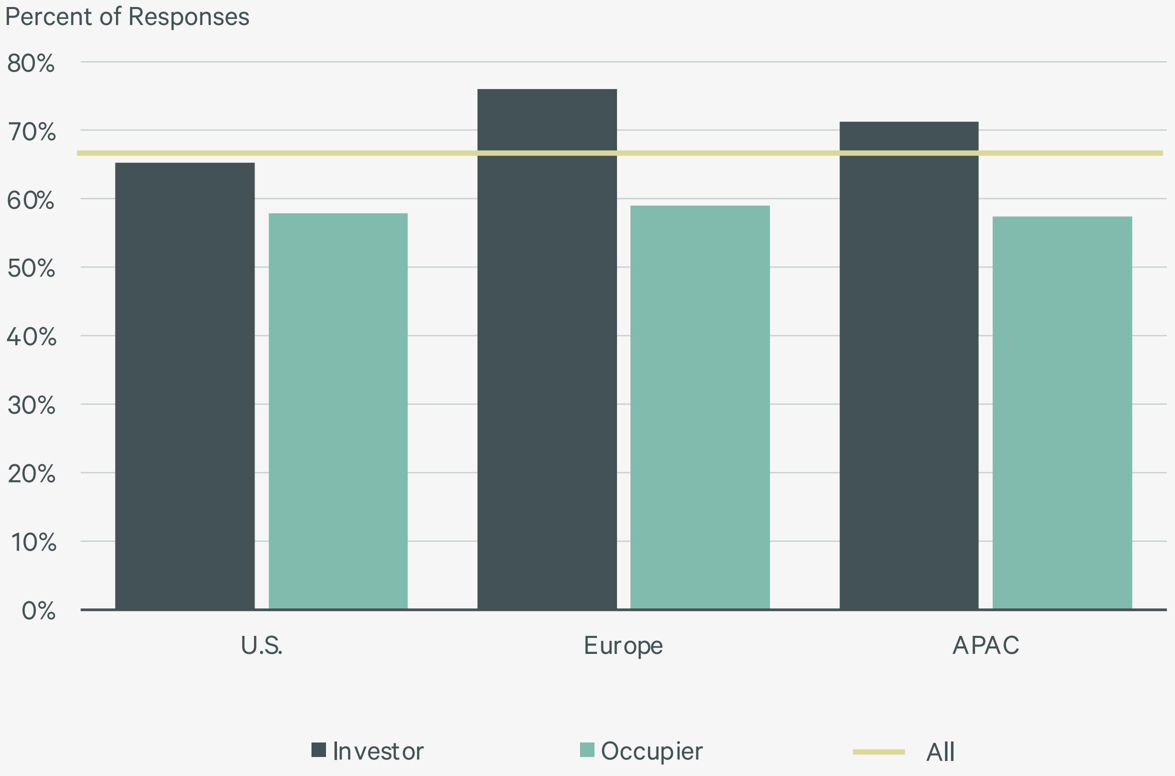
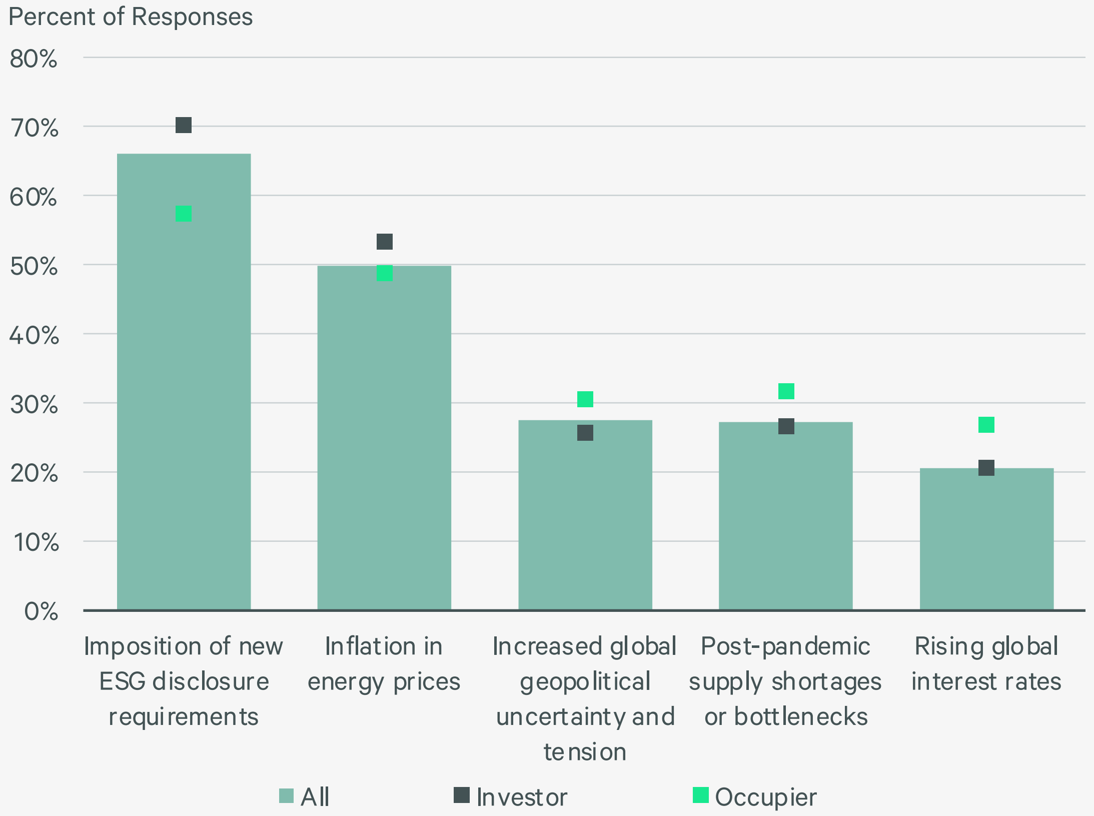


FIGURE 2: Economic and geopolitical factors influencing focus on ESG



Globally, organizational goals aligned

ESG initiatives cited as most important in organizational goals:

67%
Reducing greenhouse gas emissions

58%
Improving people's health and well-being

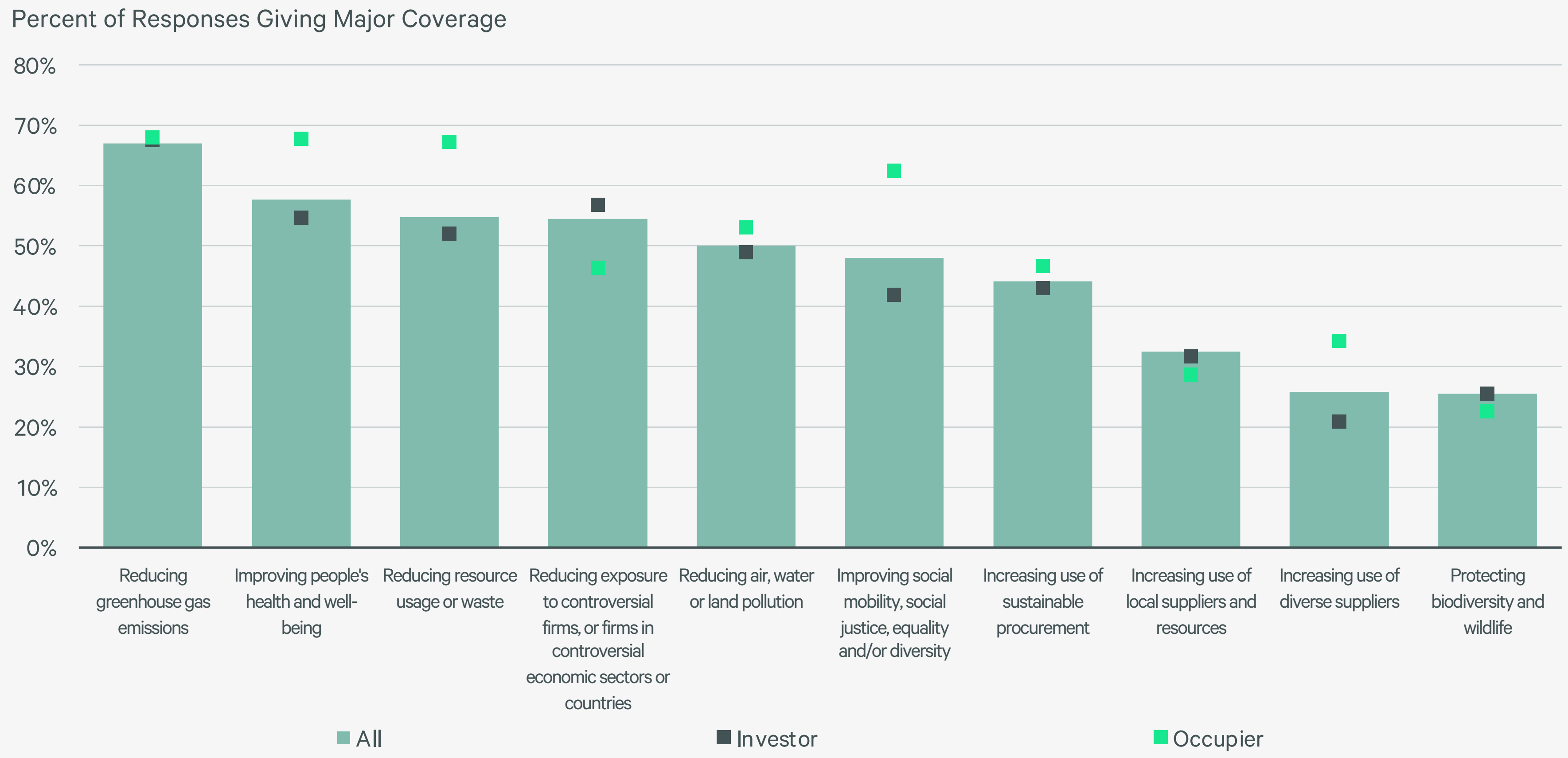
55%
Reducing resource usage or waste

Although there were no big regional differences in the ESG initiatives that companies are focused on, differences between occupiers and investors were evident.

Occupiers are focused on a more diverse set of ESG initiatives than investors. In addition to the top-three initiatives, 53% of occupiers cite “reducing air, water or land pollution” and 62% cite “improving social mobility, social justice, equality and/or diversity” as very important. The range of ESG initiatives cited by occupiers demonstrates commitment not only to environmental causes but also to bettering employees and society.

Additional ESG initiatives that are most important for investors include reducing any association with companies that are socially controversial (57%), reflecting their priority to reduce overall risk and preserve asset value in any way possible.

FIGURE 3: Major ESG initiatives within organizational goals



> "Organizations often seek ways to make an impact and to measure the ensuing change. Accounting for greenhouse gas emissions is a straightforward approach to achieving this. Decarbonization is a top-down, bottom-up approach that organizations can take to reduce their carbon footprint and their environmental risk."

—**Sarah Spencer-Workman**

LEED AP & WELL AP,
Global Director of Decarbonization,
Global Workplace Solutions, CBRE

Net-zero goals creating urgency

65% of respondents say their companies have made a public net-zero pledge.

Sixty-five percent of respondents reported that their companies have made a public net-zero pledge, making it no surprise that reducing greenhouse gas emissions is most often cited as part of organizational goals. Occupiers plan to achieve their targets more quickly than investors, aided by the fact that lease terms are generally shorter than the average holding period for investors.

Half of occupier respondents said they are establishing science-based targets (SBTs) versus 39% of investors. The Science-Based Target initiative (SBTi) has developed an ambitious guide for companies to reduce greenhouse gas emissions. Setting SBTs aligns with what the latest climate science deems necessary to meet the goals of the Paris Agreement, which seeks to limit global warming to no more than 1.5°C above pre-industrial levels.

FIGURE 4: Which of the following commitments has your company made to reduce greenhouse gas emissions?

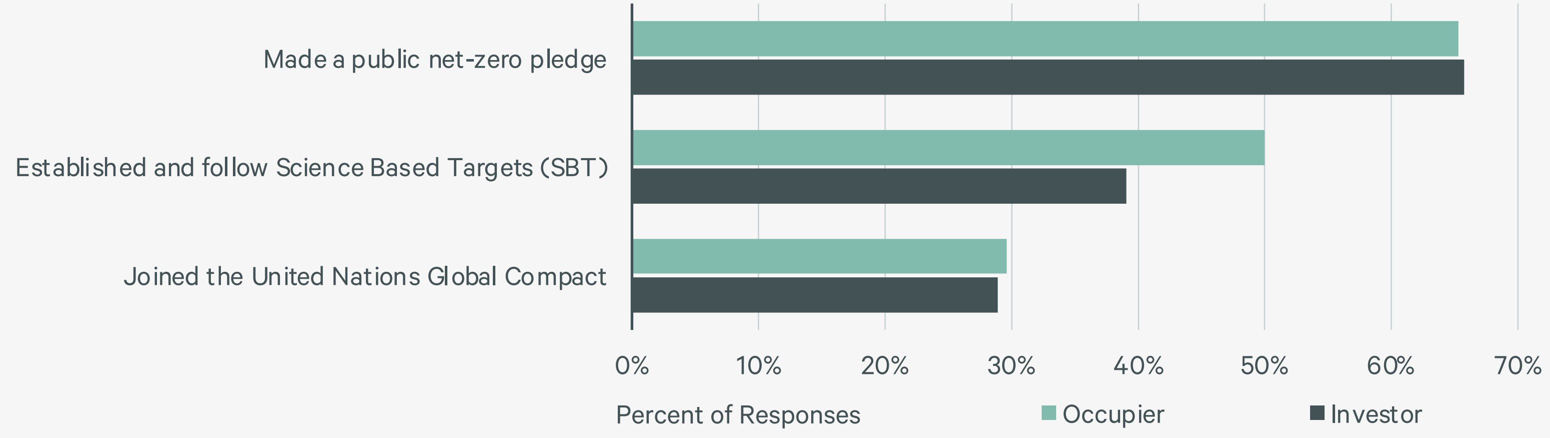


FIGURE 5: If you have a public net-zero pledge, which year have you set for achieving it?

2030

Occupiers 53%

Investors 29%

2040

Occupiers 16%

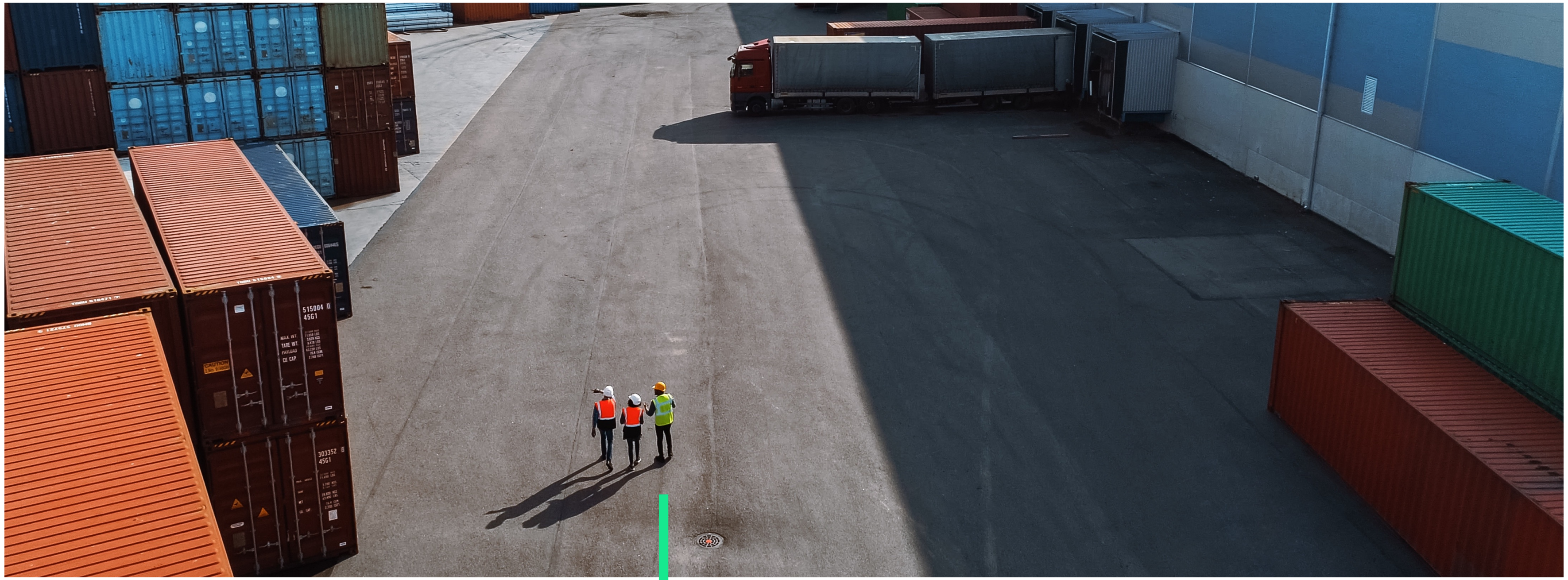
Investors 28%

2050

Occupiers 19%

Investors 29%

Tracking emissions not uniform



56% of respondents categorize their emissions into scopes.

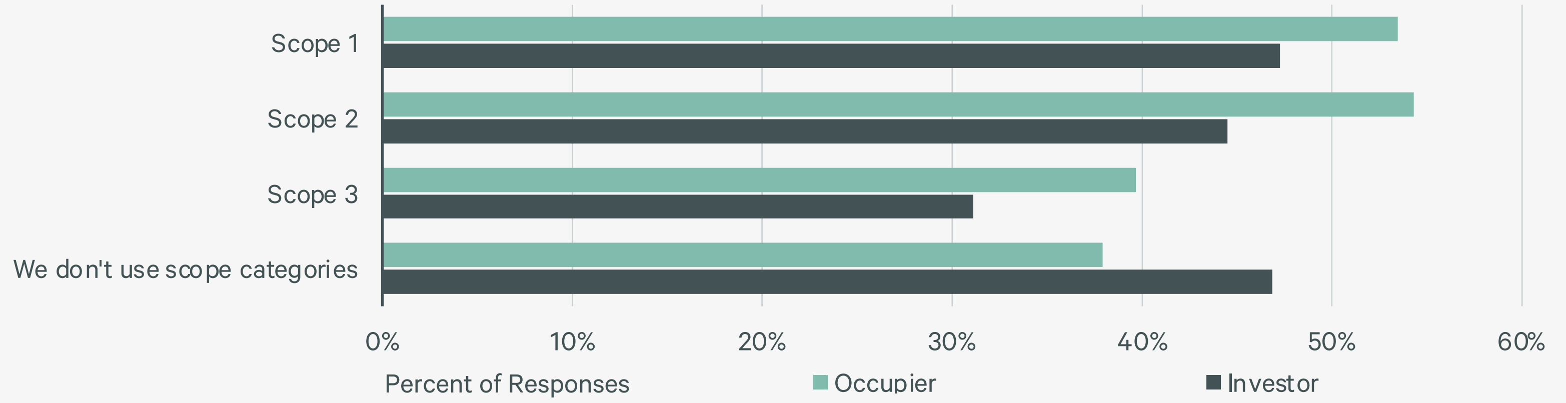
The Greenhouse Gas Protocol has established a widely adopted framework to measure and manage greenhouse gas emissions, categorized by "scopes." Most occupiers (62%) and investors (53%) say they use these categories. More than half of occupiers categorize emissions into scopes 1 or 2, which are emissions that the company can most directly control. Less than 40% categorize emissions into scope 3, which are more difficult to measure. Not all companies that have made public net-zero pledges categorize their emissions into scopes, suggesting that further best practices could be adopted to truly commit to reaching net zero.

> There is a big divergence in occupier understanding of their carbon footprint as it relates to real estate and options to cost-effectively mitigate this. Mapping emissions to real estate and in some cases relocating to lower-emission premises will send a strong signal of ambition.

—**Sameer Chopra**

Head of Pacific Research &
Asia-Pacific ESG Research, CBRE

FIGURE 6: What categories or "scopes" of emissions does your organization track?



What are scopes?[1]

Scope 1
Carbon emitted directly from a company's building systems and vehicle fleets.

Scope 2
Carbon emitted indirectly through electricity or fuel consumption for heating and/or cooling buildings.

Scope 3
Carbon emitted indirectly through the products and services provided by building suppliers.

[1] "Decarbonizing Commercial Real Estate" CBRE, Nov. 11, 2022.

Organizational ethics and values still set the tone

Top cited drivers of ESG goals :

63%
Aligns with our own ethics, values or purpose

47%
Customer or shareholder demand for more ethical investment or products

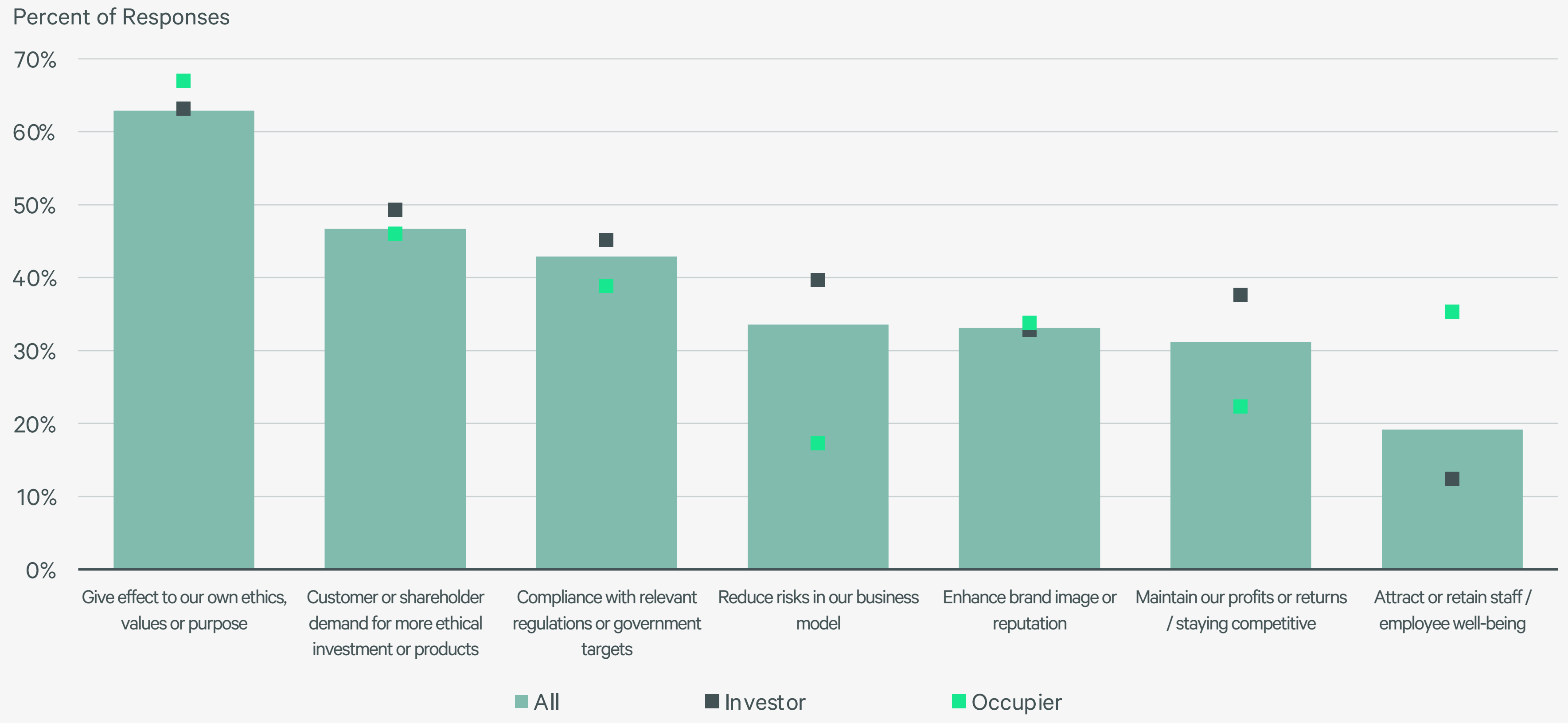
43%
Compliance with relevant regulations or government targets

Although government regulation and higher energy prices are contributing external factors, one internal factor—company ethics, values or purpose—remains the main driver behind ESG priorities (63%). Customer or shareholder demand for more ethical investment or products and compliance with government regulations or targets round out the top three drivers for occupiers and investors.

For investors, the fourth and fifth biggest drivers are reducing risk and protecting profitability. This suggests investors also see ESG commitments as a means to achieve better performance and maintain profit and returns.

Occupiers, on the other hand, cite employee well-being and enhanced brand image or reputation as their fourth and fifth biggest drivers, respectively. Improving employee well-being was almost three times as important for occupiers than investors. Occupiers see opportunities in ESG strategies to attract and retain customers and a quality workforce.

FIGURE 7: What are the three main drivers of your organization's stated ESG goals?



02

Value of Environmental Building Features

CBRE's survey revealed the importance of certain environmental building features on property values and transaction decisions. Our goal was to determine what features that occupiers and investors would pay a premium for, or the absence of which would cause them to seek a discount or reject a transaction altogether.

FIGURE 8: How environmental building features impact a real estate transaction

	Pay a Premium (if present)	Seek a Discount (if absent)	Reject Building (if absent)	Total Impact
Features that reduce energy consumption	35%	31%	18%	**84%**
Green building certification	45%	21%	13%	**79%**
On-site renewable energy generation	58%	15%	4%	**77%**
Smart technology that adjusts building operations to reduce environmental impact	53%	18%	5%	**76%**
Superior resilience to effects of climate change (e.g., flooding)	37%	22%	16%	**75%**
Features that reduce building water consumption	41%	20%	7%	**68%**
Uses a green or renewable electricity tariff	38%	16%	9%	**63%**
Electric vehicle charging points	38%	17%	7%	**62%**
On-site facilities to reduce and recycle waste	36%	20%	6%	**62%**
Use of sustainably sourced building materials (e.g., timber)	44%	13%	4%	**61%**
Green lease clauses to enforce action	33%	17%	8%	**58%**
On-site biodiversity or protection of local wildlife	32%	13%	3%	**48%**
Building is refurbished, renovated or converted rather than brand new	30%	12%	5%	**47%**

Note: Total Impact = If present, we'd consider paying a premium + If absent, we'd seek a discount + If absent, we'd exit from or reject the building.

Reducing energy consumption a priority

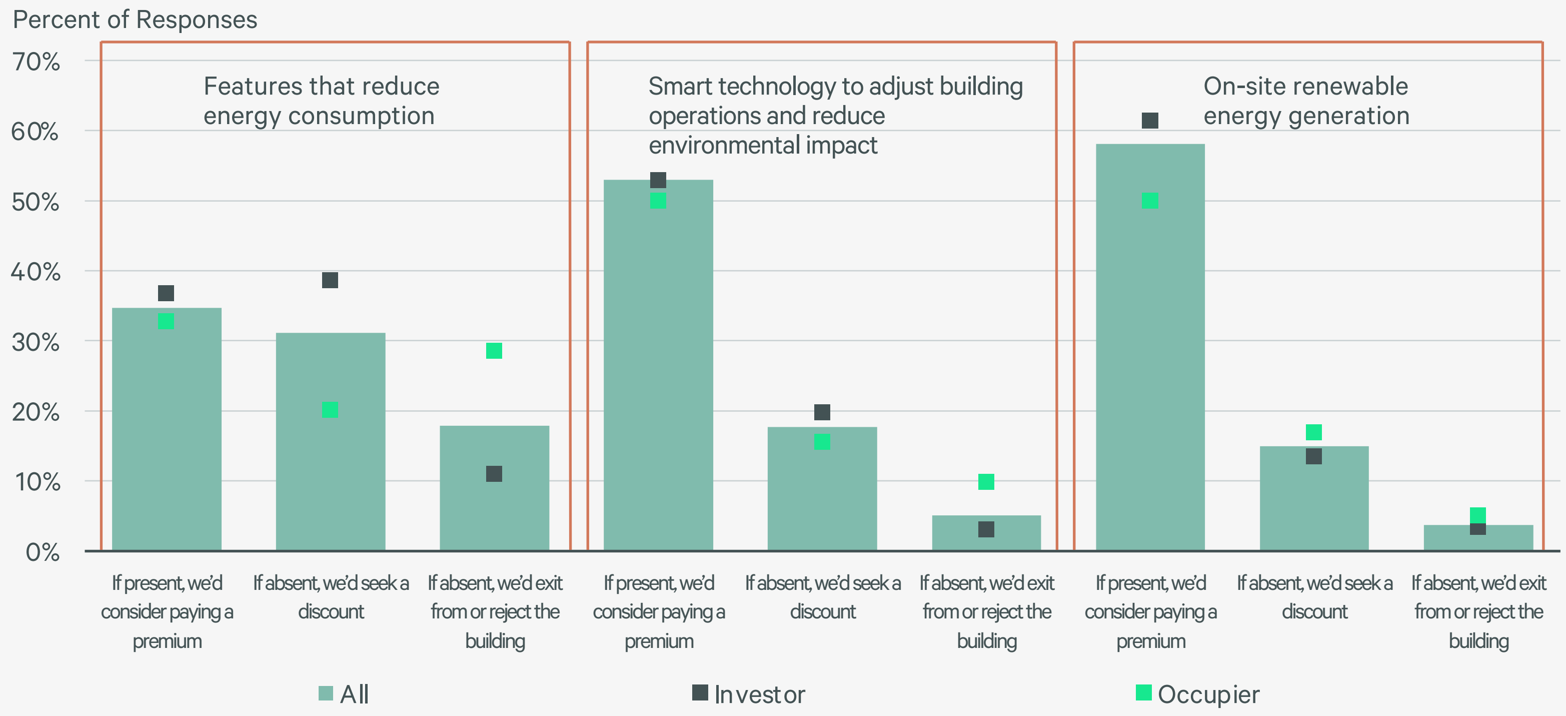
84% of respondents cite features that reduce energy consumption as having an impact on real estate decisions. Almost half of respondents would seek a discount or walk away from a deal altogether if a building lacked these features.

Features that reduce energy consumption are most important when evaluating a property transaction. Investor and occupier sentiment is somewhat split between respondents who would pay a premium vs. seek a discount if a building had or lacked features that reduce energy consumption. Occupiers appear most likely to reject buildings without such features, likely because of less ability to demand them once a lease is signed.

More than half of survey respondents are willing to pay a premium for buildings that already have on-site renewable energy generation and/or smart technology that adjusts building operations to reduce environmental impact. This sentiment is led by investors who might have to invest significant capital to make these improvements if they were not already present.

As they did for instituting ESG initiatives, rising energy prices and government regulation most likely influenced respondents' choices of which environmental features they consider most important when valuing a transaction.

FIGURE 9: How would the presence or absence of the following energy-related green building features change your company's real estate decisions?



> Over 85% of the EU existing buildings will still be in use in 2050. Renovating the existing building stock is an essential action to meet Paris Agreement goals. To ensure assets remain desirable in the future, owners need to plan on the renovation of their assets. Renovation will reduce the carbon emissions of their properties and will enhance the quality of life for occupants.

—**Ludovic Chambe**

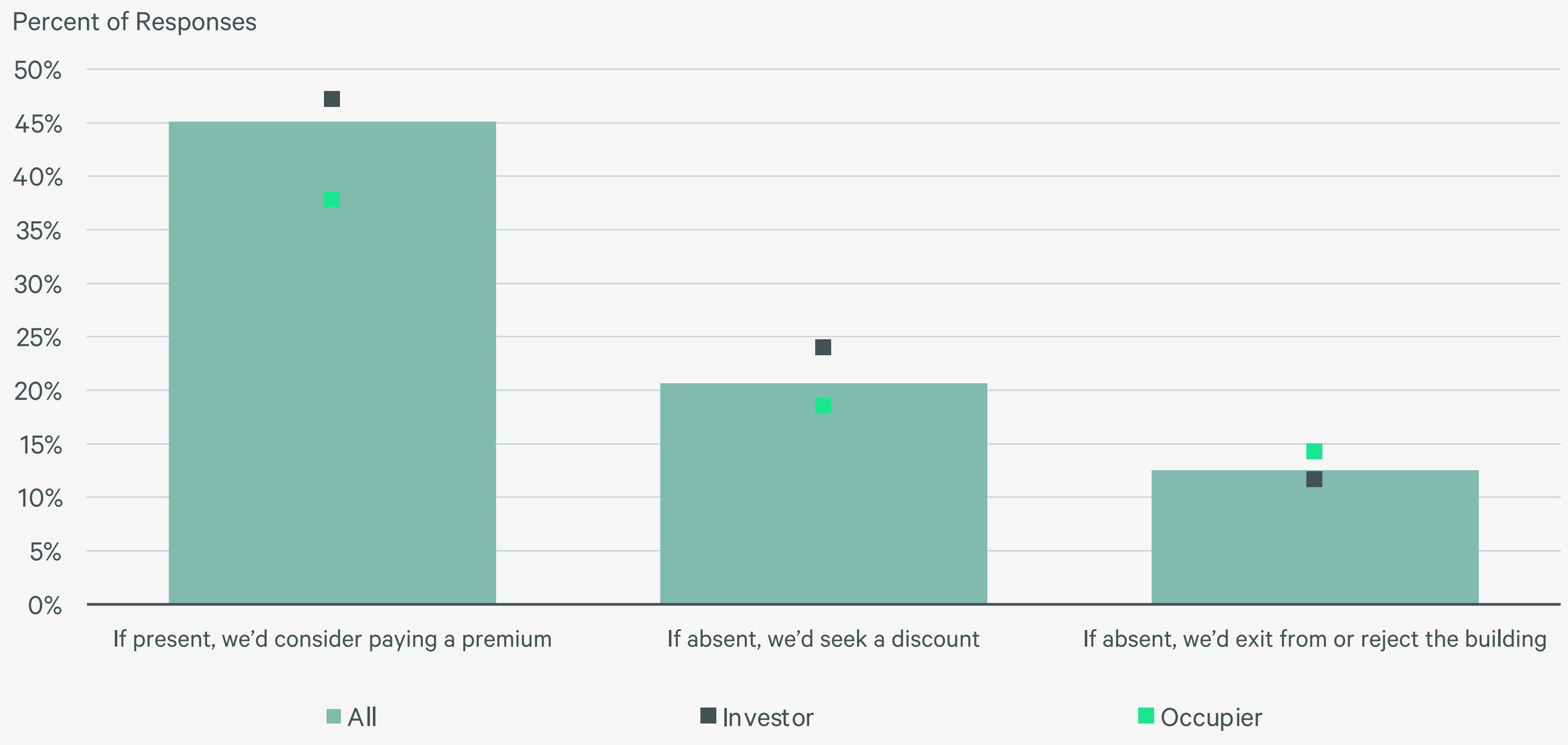
Head of ESG & Sustainability Services,
CBRE, Continental Europe

Green building certifications draw premiums

79% of respondents cite green building certifications as having an impact on real estate decisions. Almost half of respondents would pay a premium for green certified buildings.

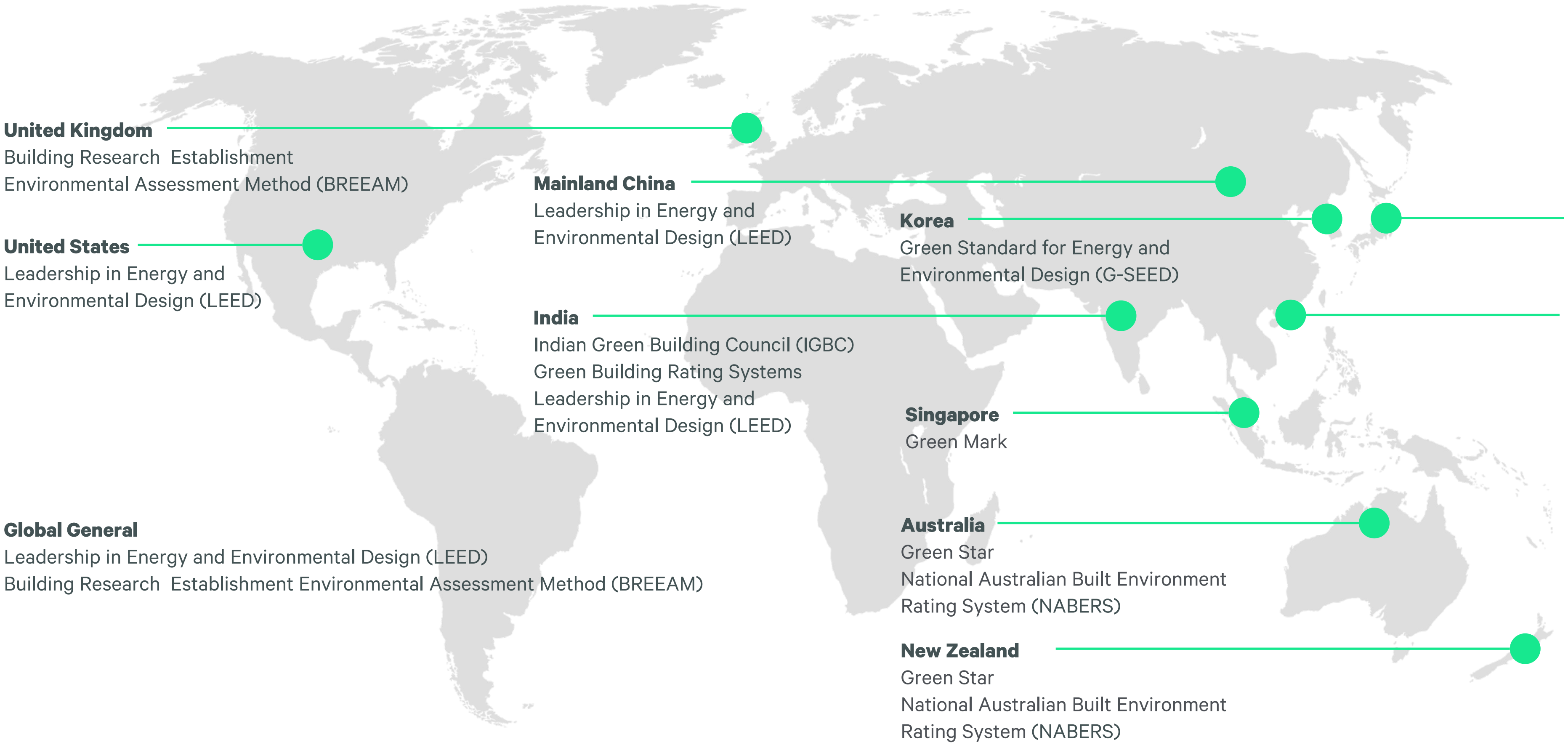
Green building certification is cited as a top factor that could positively impact a real estate transaction. This is especially true in Europe and Asia-Pacific, where green certification is also required for regulatory purposes. In the U.S. these certifications result in buildings commanding office rent premiums. After controlling for age, size, renovation and location, LEED-certified buildings generally earn a 3.7% rent premium over their non-LEED-certified peers. In Europe, the premium is 5.5% for office buildings with sustainability certifications.

FIGURE 10: How would the presence or absence of green building certification change your organization's real estate decisions?



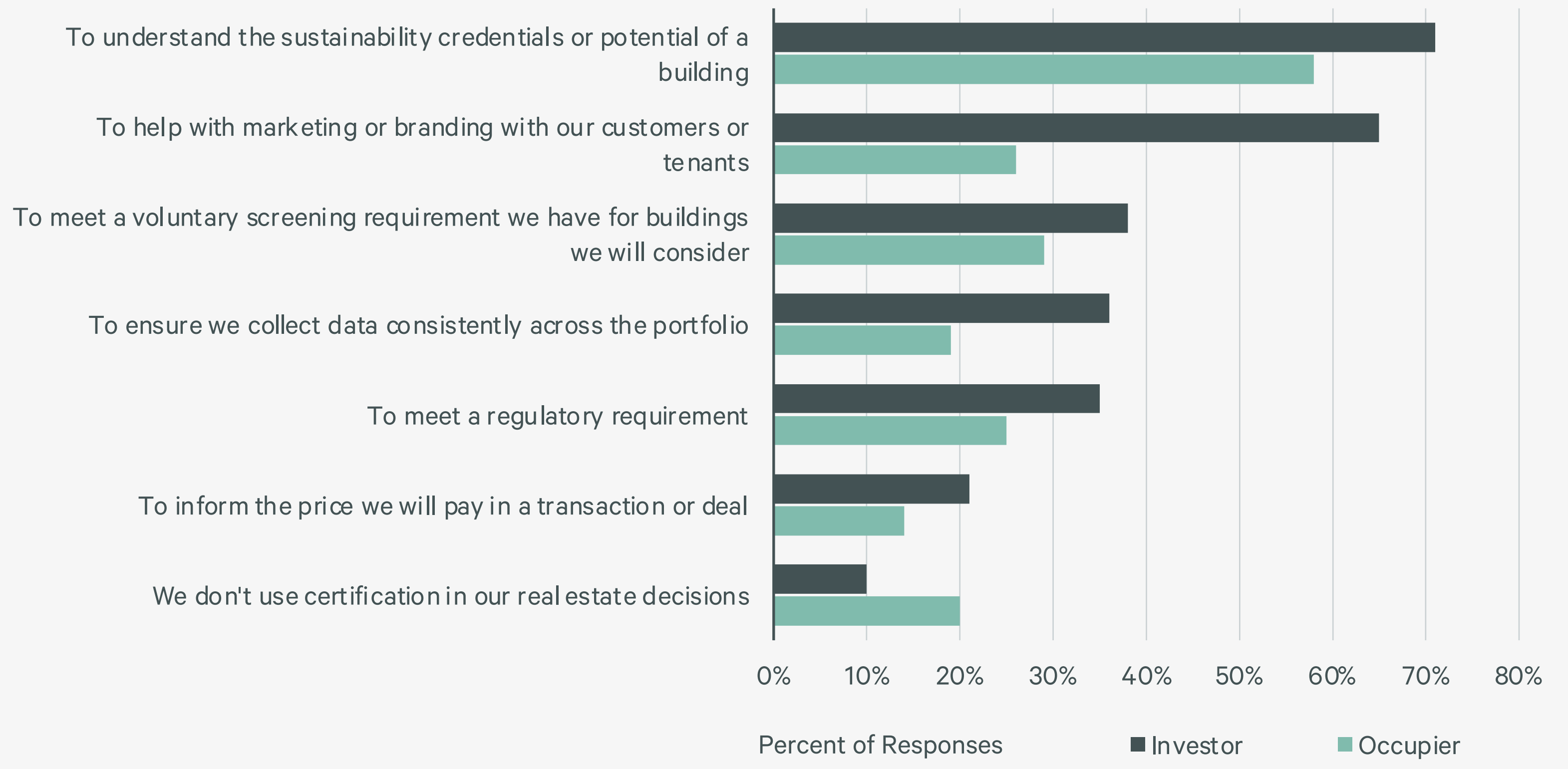
Role of sustainability certifications

FIGURE 11: Sustainability certifications across the globe



Seventy-one percent of investors and 58% of occupiers say that green building certification programs are important to benchmark building performance. Investors also reported using these certifications to enhance their building's brand and marketability to prospective tenants. Asian and European respondents more heavily rely on these certifications for regulatory purposes.

FIGURE 12: How do you use sustainability certification programs (e.g., LEED, BREEAM, NABERS) in your decisions?



Building resilience to climate change

75% of respondents cite a building's resilience to effects of climate change as having an impact on real estate decisions. Nearly 40% would pay a premium for a building with superior resiliency.

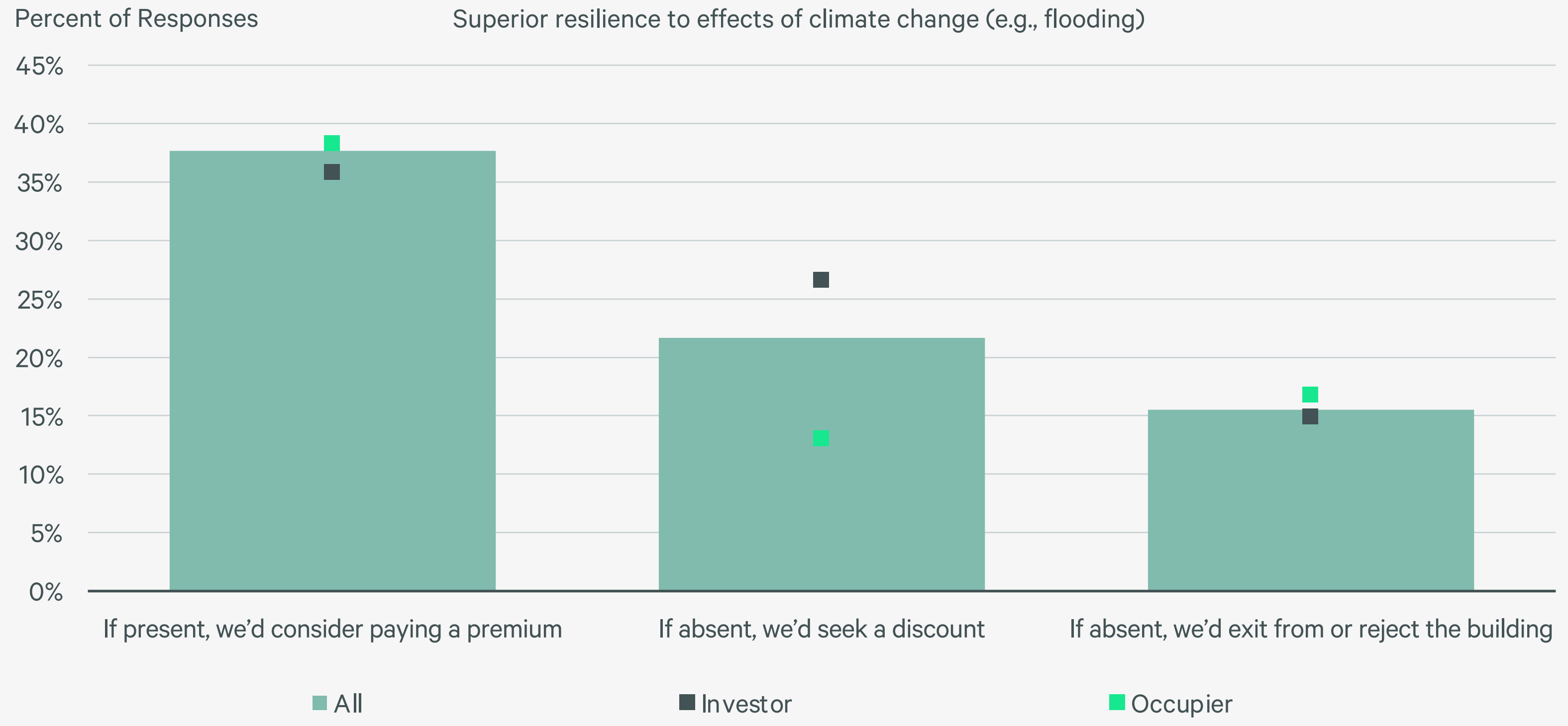
Three-quarters of respondents said that they would consider the effect of climate change on a building they were investing in or leasing. Nearly 40% would pay a premium for a building with superior resiliency, while 22% would seek a discount for a building without superior resiliency. With natural disasters becoming more of a common occurrence, building resiliency is a growing concern.

> Investors need to take a holistic approach to climate change by incorporating both transition and physical climate risks into their strategies; otherwise, they will likely incur a substantive financial impact on their real estate investments.

—**Dennis A.J. Schoenmaker**

PhD, Executive Director and Principal Economist, CBRE, Econometric Advisors & Global Research

FIGURE 13: How would a building's resilience to effects of climate change impact your organization's real estate decisions?



Although many respondents would pay a premium for climate-resilient buildings, current decision-makers don't seem primarily focused on future-proofing their asset. Those making climate-related decisions about buildings in the past year are more focused on how building performance can help mitigate climate change vs. how the building will be affected by climate change. Almost 75% made decisions in the past year based on the building's potential to meet regulatory requirements for energy, followed by 58% who cited a focus on improving energy consumption data and 58% on commissioning voluntary building certifications.

These decisions directly correlate to the high value placed on building features that reduce energy consumption. The six most common decisions by occupiers and investors have been prioritized in the same order, suggesting that their ESG priorities are closely aligned. More investors report acting on these decisions than occupiers over the past year, signaling the heightened focus investors put on ESG priorities in 2022.

This presents an opportunity for collaboration between occupiers and owners to achieve their mutual priorities through expanded use of green lease clauses which include operational procedures that advance efficient and carbon neutral buildings.[2]

Most important climate-related building decisions:

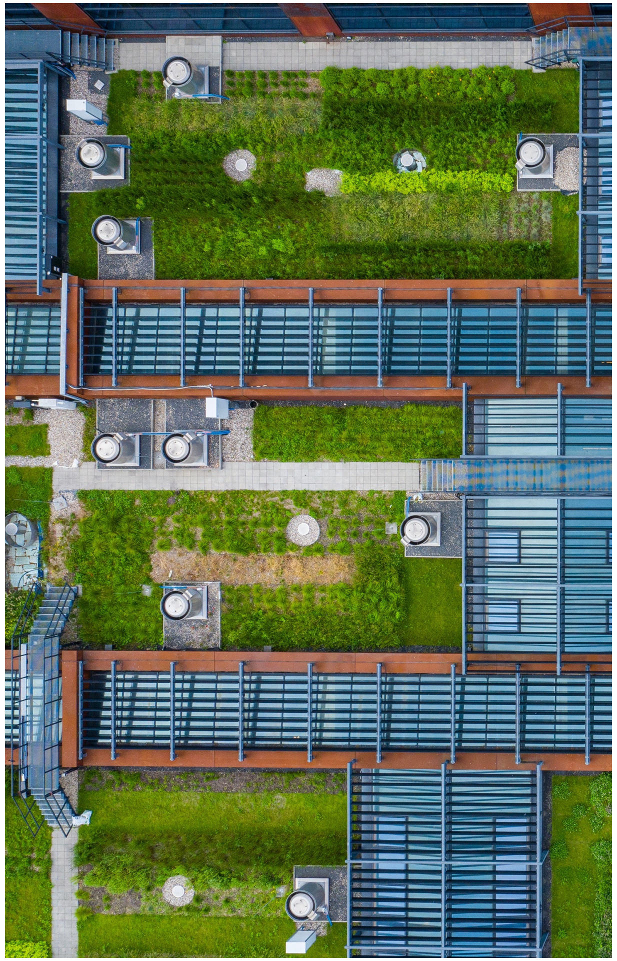
74%
Meeting regulatory requirements for energy.

58%
Improving the flow of data about energy consumption.

58%
Commissioning voluntary building certifications.

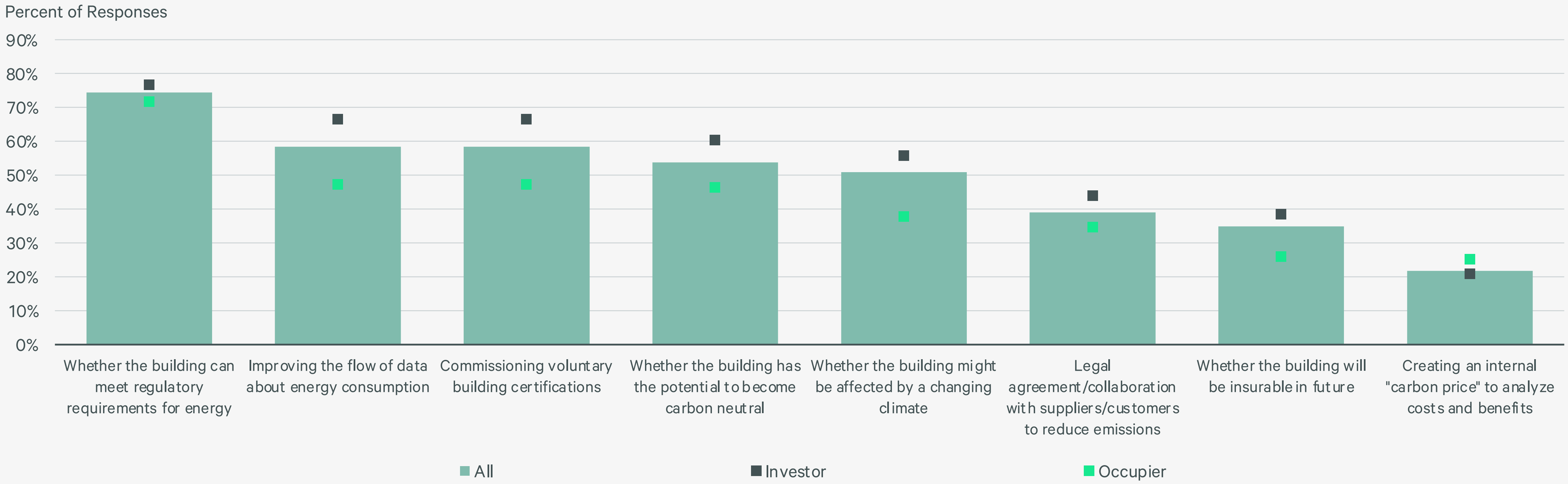
54%
Potential for carbon neutrality.

51%
Mitigating exposure to effects of climate change.



[2] Green Lease Leaders

FIGURE 14: Regarding climate change, which of the following types of decisions about buildings has your organization made in the past year?



03

Value of Social Building Features

CBRE's survey reveals which social building features that occupiers and investors would pay a premium for, or the absence of which would cause them to seek a discount or reject a transaction altogether.

FIGURE 15: How social building features impact a real estate transaction

	Pay a Premium (if present)	Seek a Discount (if absent)	Reject Building (if absent)	Total Impact
Proximity to public transport	43%	20%	19%	**82%**
Features that improve physical and mental health of building users	49%	12%	6%	**67%**
Facilities that support cycling and walking	40%	19%	7%	**66%**
Health and well-being certifications (e.g., WELL)	47%	14%	2%	**63%**
Inclusive building design (e.g., accommodating ability, age or neurodiversity)	37%	15%	6%	**58%**
Proximity to an area that the organization can assist socially or economically	31%	9%	4%	**44%**

Note: Total Impact = If present, we'd consider paying a premium + If absent, we'd seek a discount + If absent, we'd exit from or reject the building.

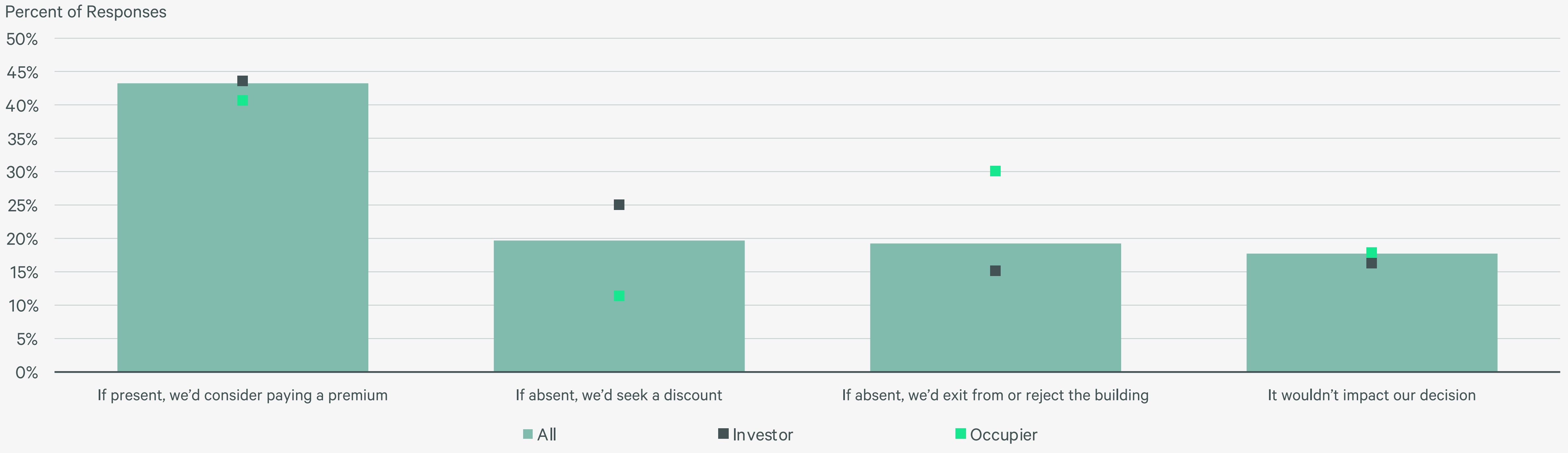
Proximity to public transit important

82% of respondents cited proximity to public transport as having an impact on real estate decisions.

Buildings with convenient access to public transportation systems led the list. Nearly 40% of respondents would seek a discount or walk away from a deal altogether if a building is not near public transport. This is likely due to less tolerance for long commute times, especially from suburban to downtown locations.[3]

Buildings that support cycling and walking and those with inclusive design that meet the needs of all employees also made the top five list. Nearly half of respondents are willing to pay a premium for building features that improve the physical and mental health of employees and for buildings that have health and well-being certifications.

FIGURE 16: Proximity to public transport



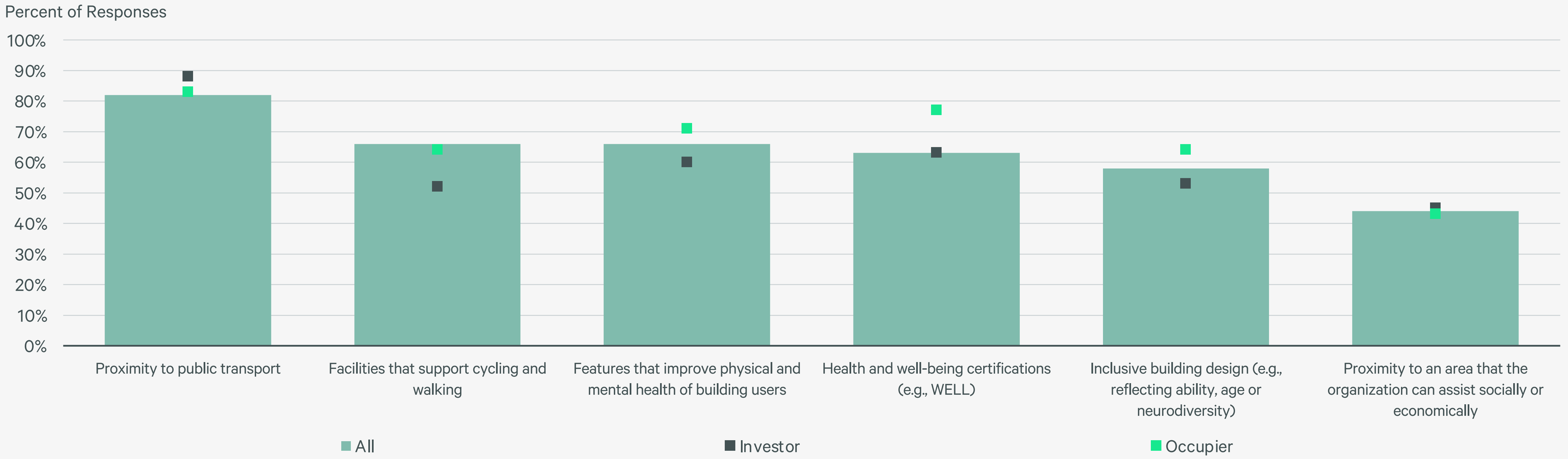
[3] "Cross-Generational Attitudes That Will Transform the Built Environment," CBRE Research, Nov. 28, 2022.

Social building features focus on tenant benefits

60% respondents agreed on the top five social building features that impact the value of real estate transactions—all focused on tenant health and well-being.

While investors and occupiers appear aligned on the top social features of buildings, occupiers more commonly agree on the importance of features that promote employee health, wellness and inclusiveness.

FIGURE 17: Building-related social features with most impact on real estate decisions

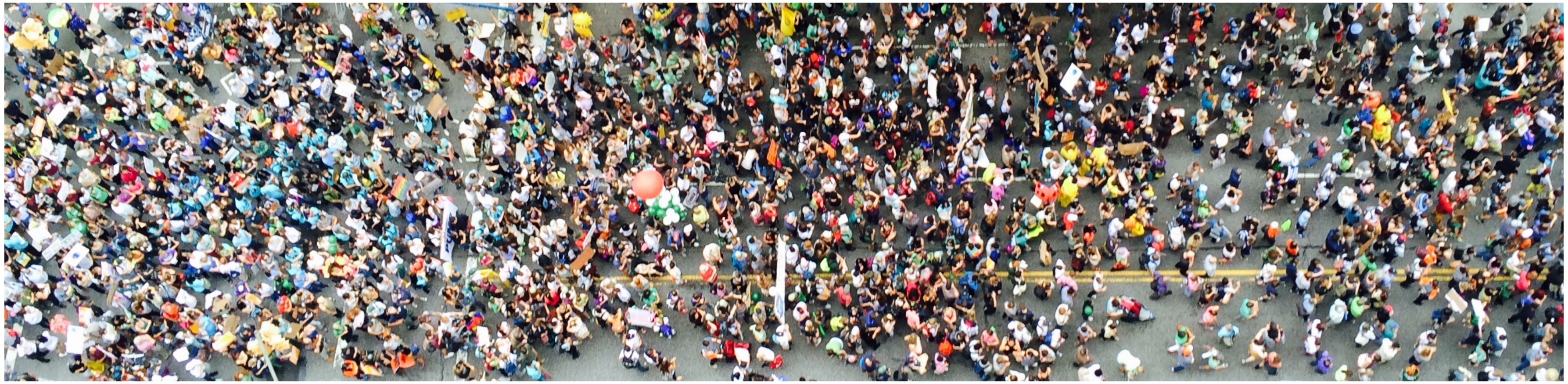


"We're finding that investors and occupiers are now increasingly seeking to ensure that the buildings they own or occupy deliver employee health, well-being and engagement, alongside a broader benefit to their local communities. We believe that socially responsible real estate addresses not just reputational risk but establishes how best to deliver positive impact."

—Kaela Fenn-Smith

Managing Director,
Sustainability & ESG Consultancy,
UK & Ireland

Threat of controversy has significant impact



49% of respondents would reject a building involved in any controversy.

Social controversy is also a top consideration in all regions, with 49% of all respondents indicating they would reject a building involved in any controversy.[4] This is significantly higher than the percentage of respondents who would reject a building for the presence or absence of any other social feature.

FIGURE 18: Some owners, tenants or building uses can be socially controversial. How are your real estate decisions typically affected by any controversy?

49%
Exit from or reject a building outright because of the presence of controversy.

16%
It wouldn't change our decision.

12%
Ask for a price or rent discount because of the presence of controversy.

11%
Be willing to pay a price or rent premium for a building without controversy.

[4] Note: What investors and occupiers consider "controversial" is subjective and likely impacted by their location and industry type.

04

Challenges

ESG benefits unclear due to lack of data

Lack of quality data and uncertainty about benefits are the biggest challenges for ESG goal implementation. Lack of data was the most common challenge across all regions. Costs exceeding benefits and benefits being unknown or uncertain were the second and third most common challenges. The opinion that costs exceed benefits may be driven by the lack of data.

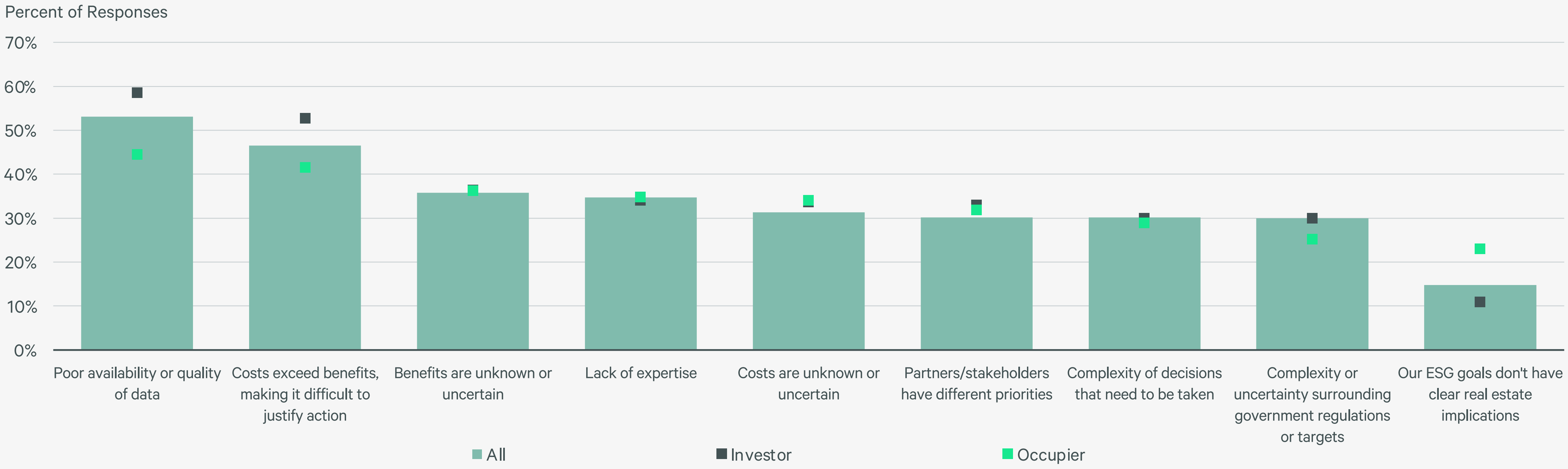
The most likely reason why investors ranked ”lack of data” as their top challenge is because they are highly concerned about returns, protection of capital and disclosure regulations that make access to quality building data very important.

Occupiers also ranked ”lack of data” as their top challenge. Nearly one-quarter of occupier respondents also said their ESG goals didn’t have clear real estate implications. This could suggest a lack of awareness and understanding by occupiers about the role real estate can play in achieving their ESG goals.

Top three challenges for implementing ESG goals:

1. Poor availability or quality of data (53%)
2. Costs exceed benefit, making it difficult to justify action (47%)
3. Benefits are unknown or uncertain (36%)

FIGURE 19: What are the main challenges in implementing your organization's ESG goals?



05

Key Considerations

“ESG initiatives present an opportunity for investors, owners and occupiers to focus on value creation and mitigate risks. Much of this opportunity is centered around the management, retrofit and refurbishment of existing real estate assets.”

—**Carl Brooks**

Global Head of ESG,
Property Management , CBRE

Survey results indicate four key ESG elements that need improvement:

Dialogue and transparency with counterparties

Occupier and investor priorities and timeframes for ESG goals can differ substantially. Be clear with your stakeholders and counterparties about your objectives to find common ground for collaboration. Widespread use of green lease clauses will support both transparency and improved sharing of relevant data. Alignment on ESG priorities can help mitigate the risk of buildings becoming obsolete and undesirable to occupants.

It's not just about emissions

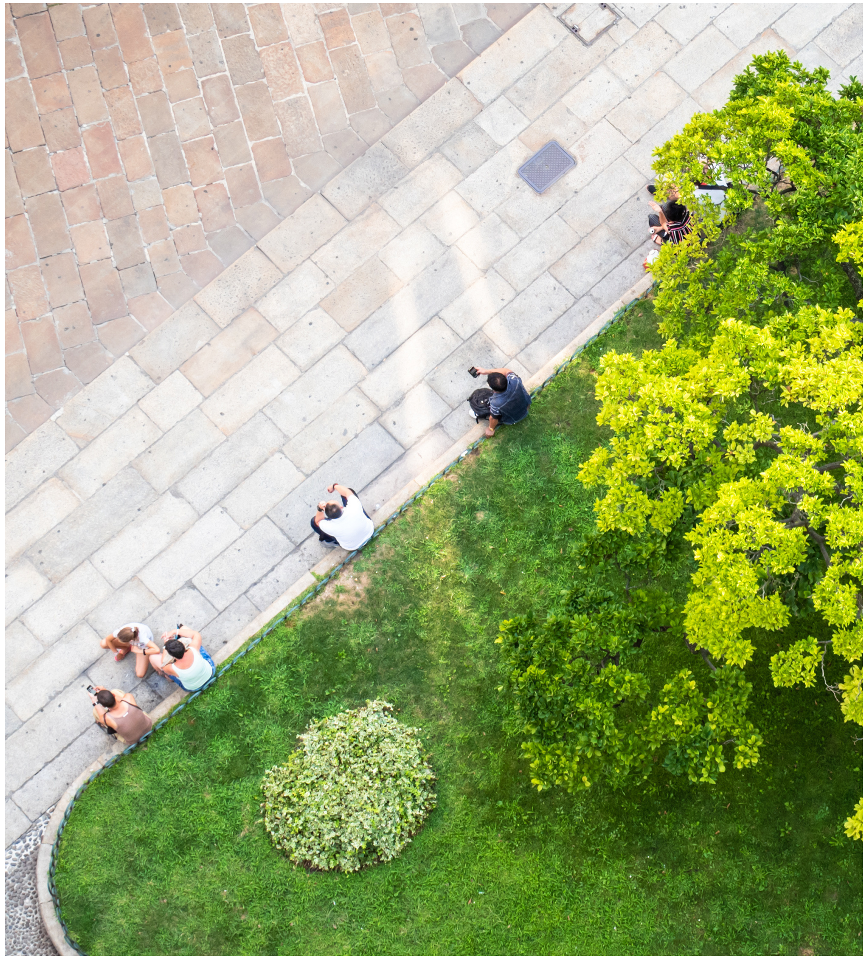
ESG strategies should cover all issues relevant to real estate decision-making. Reducing greenhouse gas emissions was the top ESG priority for survey respondents. However, it is demonstrably clear that other issues such as health and well-being, pollution and exposure to controversial companies are very important to real estate decision-makers. Therefore, the best performing real estate likely will incorporate features covering a range of both environmental and social issues supported by clear governance.

Data collection and performance measurement

High-quality building data is required to show progress toward many ESG goals and is critical to many of the issues cited as having the most impact on transactions. Both investors and occupiers are eager for more information, so leveraging operational building performance data to offer insight into the costs and benefits of green building features should be a priority. Utilizing technology and digital solutions to automate data collection is becoming essential.

Retrofitting vs. new build

Just 15% of real estate assets worldwide currently align with the Paris Agreement's goal of net-zero emissions to limit global warming to no more than 1.5°C above pre-industrial levels by 2050.[5] Assessing building data can help identify which assets are candidates for retrofitting versus those that are nearing obsolescence. While the carbon offset of new construction and retrofits can vary greatly, retrofitting a building generally saves over 50% of embodied carbon, according to the Institute for Market Transformation.



[5] "Building Performance Standards aim to reduce carbon emissions across the U.S.," CBRE Econometric Advisors, Nov. 3, 2022.

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