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THE SUSTAINABILITY LEADER'S INSOMNIA

Four Top-of-Mind ESG Challenges
In the Quest for Net Zero

The urgency of the task and scale of the challenge are matched only by the tremendous opportunity to reinvent how the built environment ... can achieve net-zero GHG emissions in this lifetime.

If this moment in time—when the world’s fixation on environmental, social, and governance (ESG) issues touches every facet of life—feels different, it’s because it is. For all the motivations that should have led to an urgent response on the climate crisis decades ago, one catalyst has energized public and private stakeholders into collective action: obsolescence. Citizens are prompting change with their ballots and consumers with their wallets against outdated stances, apathy, and the inaction exacerbating an already-daunting climate change predicament.

In the case of real estate, consider how the threat of obsolescence becomes the root of so many problematic reverberations: A building that fails to demonstrate its sustainability credentials struggles to attract high-quality and progressive tenants, which in turn cripples local supply chains and microeconomies that rely on the full presence of local businesses to generate growth. People no longer view the property and its surroundings as desirable, and employment opportunities become depressed. Institutional investors with debt or equity exposure to the building and its neighborhood assets are unable to deliver returns to their constituencies, resulting in further losses, and the dominoes fall faster and harder with the buck always stopping with everyday, working families. This is how the economic cost of obsolescence ends up at a crossroads with climate change—where buildings with substandard environmental footprints add a fresh layer of hurt to the increasingly fragile ecosystems and atmosphere that sustain life. Human health, biodiversity, social welfare, and economic opportunity become casualties when the weight of obsolescence becomes too much to bear.

Investment management firms from across the commercial real estate landscape are turning to their sustainability leaders to chart courses of action to steer their investor-clients’ capital clear of these dangers. The urgency of the task and scale of the challenge are matched only by the tremendous opportunity to reinvent how the built environment—presently responsible for an estimated one-third of the world’s greenhouse gas (GHG) emissions—can achieve net-zero GHG emissions in this lifetime.



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To say the responsibility to lead this charge is keeping some sustainability leaders up at night is an understatement. These four insomnia-provoking challenges are the critical hurdles that must be overcome to achieve net-zero commitments:

1. Utility of ESG data
2. Scalability of efforts
3. Proliferation of standards
4. Diversity of perspectives

The Utility of ESG Data

The data revolution is in full effect in commercial real estate, and advanced analytics reveal useful market- and asset-level insights to inform investment decision-making like never before. As most firms can attest, getting to a place in which data

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acquisition, quality, and distillation is consistent and accessible is no simple feat. The availability, quality, and utility of ESG data similarly challenge sustainability and ESG teams; a deep abyss of data is still in the early stages of developing sound governance and management structures. These are early but promising days in the net-zero journey, and reliance on data will be key to determining how companies live up to their commitments.

The challenge is to build adaptable systems that enable teams to pull quality data from across asset classes and regions and establish benchmarks that produce timely and consumable insights. ESG data

should be delivered to either investment management or operations teams in a manner that is consistent and easy to understand in terms of materiality, risk, and opportunity. This means taking into consideration how real-time ESG-based data can inform strategy from across the investment management process, including development, acquisitions, and operations. As greater consistency with data-driven insights is established, a view into the carbon intensity of an asset's activities can be used to drive better investment and asset management decisions.

BentallGreenOak (BGO) has invested heavily in the development of proprietary information systems and programming tools to advance environmental efficiency, enhance climate resiliency, and add value to its portfolios. The company's annual Benchmarking Survey, tailored to each asset, tracks data from property-level sustainability management activities and achievements. Drawing on external data sources, the survey benchmarks BGO's performance against international best practices. To inform property-level ESG strategy and support continual improvement, teams at the property level are equipped with an annual "diagnostic" containing a set of actionable recommendations, customized to each asset, to improve ESG performance. Property teams use the diagnostic to plan and manage activities for the current year and to inform the upcoming annual property budget. These tools require continuous enhancements and employee training, and the search for verifiable sources of external data will be an ongoing exercise in BGO's quest to move the needle closer to its net-zero goal.

Scalability of Efforts

One of the biggest challenges ESG professionals face is how to scale strategic efforts beyond pilot projects and into portfolio-wide action. The delivery of net-zero initiatives cannot be relegated to a single team. To be successful, the organization needs to go through the patient, meticulous work of building capacity and know-how, thus enabling key members of other teams to become ESG foot



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The creation of ESG-focused tools has been a preoccupation for my team, with the recognition that developing these resources correctly allows for mass application across any given portfolio. The undeniable reality of today's sustainability leader in a net-zero-driven world is the importance of becoming comfortable with information technology while becoming deeply embedded in the investment management function to understand investor motivations and decision-making factors. Only then can companies develop tools that inform capital allocations and assess the environmental implications to investing.

The investment management process is equal parts offense and defense, and volatile weather activity and changing environmental factors add new dimensions for portfolio-wide risk mitigation. In response to these growing risk factors, BGO developed a tool that—through a series of inputs at the asset management and operations level—churns out bespoke, asset-level strategies to safeguard against climate risk, including actionable recommendations to enhance resilience. This proprietary climate resilience tool combines on-the-ground surveying, predictive climate modeling, and adaptive algorithms to deliver tailor-made climate resilience adaptation plans for more than 430 properties totaling 98,250,000 square feet across BGO's global portfolio. Acquisitions, operations, and asset management teams can use the tool to help inform strategy, budgeting, and management planning. The result is a scalable tool that provides an aligned understanding of risk, actionable recommendations, and a repeatable process across global markets.

Proliferation of Standards

Staying on top of the proliferation of ESG standards can be exhausting. Often such standards can feel like a moving target. However, despite human expectation, progress is seldom linear. This has been the case with the evolving attempts at standardizing ESG efforts through frameworks, initiatives, and reporting requirements. The alphabet soup is



flavorful, including initiatives and frameworks such as TCFD (Task Force on Climate-Related Financial Disclosures), SASB (Sustainability Accounting Standards Board), NZAM (Net Zero Asset Managers initiative), PRI (United Nations–supported Principles for Responsible Investment), SDGs (UN-supported Sustainable Development Goals), to name only a few.

The investment industry has a way to go to best align the industry's approach to climate risk and measurement of social impact—specifically regarding language, metrics, and resiliency benchmarks. This includes further clarity about the more technical elements of evaluating climate risk, such as modeling climate value-at-risk and assessing overall portfolio risk.

Picking the “right” pledge, framework, or reporting standard is a major undertaking. The good news is that alignment is starting in the methodology that will ultimately contribute to a more harmonized, industry-wide approach. The proliferation of net-zero definitions, standards, and methodologies makes comparing approaches and progress across companies and benchmarks difficult. My team spends considerable time assessing BGO's commitments across different methodologies and approaches to ensure comparability.

Sustainability leaders must look to emerging multilateral initiatives to bring order to a relatively new domain. Recent collaborative, investor-led



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net-zero initiatives, such as NZAM, have helped achieve this alignment across the broader investment ecosystem. As part of the NZAM initiative, signatories commit to engaging with asset owners to push for net-zero commitments and align actions to fulfill the Paris Agreement.

Standards set crucial goalposts for organizations on their net-zero journey, but an equally important task for sustainability leaders is maintaining an active involvement in the various global frameworks, multilateral organizations, regulatory environments, and political developments to understand the movement of the industry consensus and consciousness.

Diversity of Perspectives

On the path to pursuing net zero, sustainability leaders have an opportunity to build a brain trust for the commercial real estate industry unlike anything it has seen before. Net-zero strategies must be informed by diverse voices with varied life experiences, expanded perspectives, and divergent views to ensure that leaders clearly see the challenge that lies ahead. For all the data, tools, and global standards and frameworks that BGO adopts, there is a human element to climate change that is qualitative and unbalanced, often along socioeconomic and racial strata. Failure to examine and comprehend these differences represents a glaring blind spot and creates the high potential for a costly miscalculation in any strategy.

Getting this right starts with an introspective analysis of the team that BGO leaders are building today for tomorrow. Does BGO have the right blend of racial and ethnic diversity, age/seniority, gender, academic diversity, and functional expertise? Has the company built the right processes to attract, retain, and cultivate the diverse talent that can deliver winning outcomes for the firm? Has BGO leadership established the right internal mechanisms to draw on those diverse views when needed and, in turn, created the right forums for those views to find an audience? If the blend of talent BGO has assembled to achieve its net-zero commitment does not mirror today's societies, the company is missing the bigger picture.

BGO has set a bold goal to be a diversity, equity, and inclusion leader by implementing a range of programs, including a diversity hiring rate of 67% and a near-term goal to increase female representation at the senior leadership level (managing director and above) to 30%.

BGO's global reach offers many important advantages to building relationships with community networks, social justice movements, and social welfare organizations to get closer to the issues that impact the cities and regions where it invests. Activating those relationships helps build alliances, goodwill, and a direct pipeline to on-the-ground knowledge, which helps BGO deliver the more practical elements of its net-zero strategy.

Conclusion

The preoccupations of sustainability leaders stretch across time zones and geographies, but across the stakeholder map, there is unified momentum to target and achieve net zero for GHG emissions in the built environment. BGO's investors are looking to the company to demonstrate ESG leadership and accountability. The tenant-landlord relationship has become symbiotic in the low-carbon economy, and BGO employees want to be a part of a net zero mission that feels attainable, inclusive, innovative, and empathetic to social realities. As days turn to nights and months pass into years, the frequent task of recalibrating strategies to achieve net zero in this lifetime will grow more challenging and increasingly rewarding with every milestone attained that replaces obsolescence with future proofing, risk with resilience, and fear with hope. ■

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