

2013 GRESB Survey Consultation Response

INTRODUCTION

The Better Buildings Partnership (BBP), a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock, welcomes the growing influence GRESB is having on the global commercial real estate sector and the increasing support from investors in its use as a benchmark for sustainability best practices and performance.

The BBP believes that over the coming years GRESB can act as an important tool in driving real change across the sector. However, in order to achieve GRESB's aims of providing a "dynamic benchmark [which] is used by institutional investors to engage with their investments with the aim to improve the sustainability performance of their investment portfolio, and the global property sector at large," a number of changes should be made in order to ensure that GRESB incentivises the right actions and conveys information that is consistent with the messages it delivers to its key stakeholders.

The BBP feels that GRESB is at a critical point in its development, where a number of simple refinements can be made which will serve to make its outputs far more meaningful and therefore useful to its participants and users. In this light, BBP members who participate in GRESB have provided the following recommendations for GRESB's consideration as part of its 2013 consultation process which we hope is viewed in a positive and constructive light.

TRANSPARENCY

This section is considered to be by far the most useful and important recommendations to be implemented in advance of the 2014 survey.

Recommendation 1: Provide greater clarity and transparency on the Assessment Methodology and ensure it is released in advance of the 2014 survey.

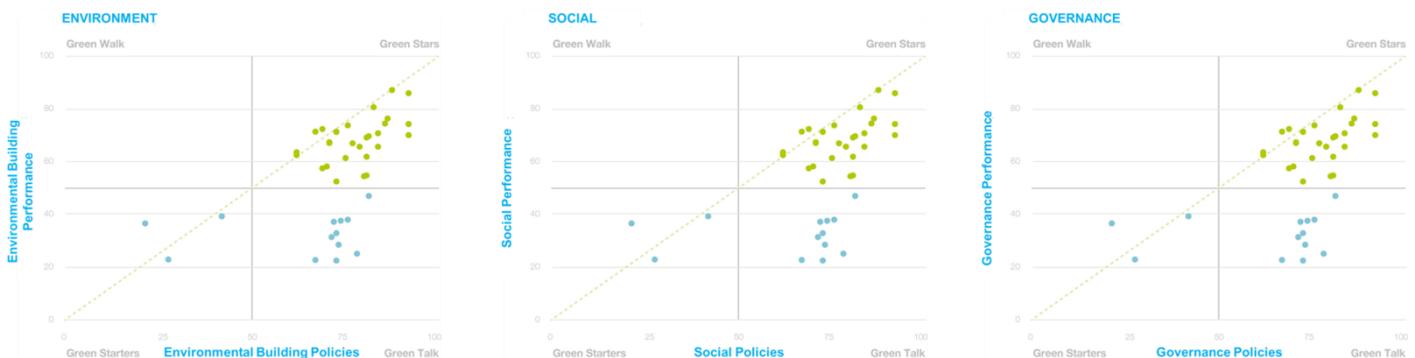
Rationale: Providing explanatory details on the scoring process is fundamental to improving the credibility and acceptance of GRESB within the industry. It allows users to understand what is meant by achieving a Green Star rating and in turn a recognition that achieving a Green Star is a result of implementing best practise and demonstrating improvements. The BBP welcomes the release of the 2013 GRESB Guide, however this was released after the close of the 2013 survey. To be of use to participants such guides should be released in advance of each survey launch. Additionally, the BBP feels that GRESB can go further still in increasing transparency as there are still elements where scoring is not clear e.g. the performance indicators section.

The BBP appreciates that an argument against releasing the scoring process before the survey has opened could lead to participants trying to 'game' the system by focusing on areas with the highest weighting. However, the BBP feels that this could actually be of benefit to GRESB for the following reasons: Firstly, participants can already 'game' the system if they so desire as there are little or no auditing procedures and secondly, by clarifying and publishing the scoring system and through carefully considered weightings GRESB can ensure that it influences the specific areas of focus and actions undertaken by participants. By incentivising participants to focus on the areas which will have the greatest impact in improving sustainability best practices and environmental performance,

GRESB will be more effective in steering the industry in implementing the most effective policies and reductions strategies.

Recommendation 2: Related to Action 1, and without resulting in the need for any additional survey questions, GRESB may wish to consider over time the move to provide a greater level of granularity of high level scoring which reflects a split between Environmental, Social and Governance issues. This could result in the use of the overall GRESB score as it stands but with the addition of three underlying scores which reflect results based in the implementation of policies and resulting performance through actions on Environmental, Social and Governance issues. These could also easily be displayed using the GRESB quadrant model. Categories could be split as such and presented in the following way:

- 1) Environmental
 - a. Environmental Building Policies
 - b. Environmental Building Performance
- 2) Social
 - a. Social Policies
 - b. Social Performance
- 3) Governance
 - a. Governance Policies
 - b. Governance Performance



Rationale 1: Most of the current aspects would naturally fall into one of these categories. This approach has a more natural fit with more typical ESG categories, for which investors are increasingly asking for details. This approach would help all stakeholders better differentiate between the individual E, S and G categories and specifically between environmental policies/actions and actual building environmental performance. There are numerous inputs into the “Implementation & Measurement” score – which is being communicated as an indicator of resource efficiency and being understood by the industry as environmental performance – which are based on what is being done as opposed to what is actually being achieved from a performance perspective. The reality is that from the 2013 GRESB Guide only 10% of scoring is allocated to making reductions in environmental impacts. As GRESB and the industry develop over time, it is felt that recognition and reward will need to shift from policy implementation to tangible achievements.

Rationale 2: This will help investors to more easily understand and incorporate scoring results into their investment processes and allocation decisions. Separating out E, S and G would dovetail more closely with how ESG ratings are provided across other asset classes (real estate weighting is typically 8-10% for institutional/pension fund investors).

CHALLENGES WITH LEVELS OF MANAGEMENT CONTROL

Recommendation 3: Allow the survey and scoring to reflect the varying levels of management control an owner has across differing asset types within a fund depending on the lease structure and how utilities are purchased.

Rationale: Currently scoring of the performance indicators section and the overall Implementation & Measurement dimension is significantly influenced by the level of management control an owner has for assets within a fund irrespective of the work being undertaken by the owner. For example, if a participant has a high percentage of properties that are FRI/NNN within a fund many of the questions are not applicable as an owner has little or no control over improvements or an ability to gather data compared to a fund with a high percentage of properties where the owner has management control and is responsible for the purchasing of all utilities. Where it is not possible to influence behaviour or collect data the GRESB survey needs to recognise this so that scores are based on actions taken and outcomes achieved where there is management control. Currently, the survey appears to discriminate against funds with predominantly FRI type leases.

By way of example, using the 'Example calculation performance indicators' diagram on p77 of 2013 GRESB Guidance:

The fund has 60% of its assets in high street retail (by GAV) - this asset class would therefore carry a significant weighting in the scoring against performance indicators. However, if the fund does not purchase any energy, water or manage waste for these assets and this is all undertaken by the tenant, it is not clear on how this section is scored in relation to like-for-like performance and target setting. As there is no management control performance improvements cannot be made and performance targets cannot be set. It is not clear whether this part of the fund is scored at all for this section or automatically scored zero?

Looking at the remainder of the fund, Offices account for 40% of the GAV, however could account for 85% of the GHG emissions and 99% of water used by the fund (directly purchased). By weighting according to GAV it means that GRESB are essentially suggesting through its current scoring methodology that funds should focus on sectors where we have limited or no control, and ignoring the assets where we can make the biggest reductions. It also means that assets where owners purchase relatively little energy/water can have a large impact on overall performance. This does not mitigate against the need to drive reductions across the whole portfolio but does raise questions about whether implicitly GRESB is asking fund managers to concentrate efforts in the wrong place. The BBP believes that owners should first focus on what they can manage directly and then engage with tenants or look at less significant supplies rather than spreading effort too thinly and not achieving results.

This example can also be used to demonstrate how diversified funds with a high proportion of GAV in assets that are FRI will score worse than funds with a high proportion of properties where the owner has management control. GRESB has previously made the point to a number of BBP members that this is not an issue as they compare performance by sector and therefore similar asset types are likely to have similar issues – whilst this may be true for some sectors e.g. high street retail, there is likely to be considerable diversity in some sectors – e.g. two funds may have 50% of NAV in offices but one may have 100% management control and the other 25% management control. These funds will be compared in the same manner but are very different in their ability to manage sustainability performance in their office portfolios.

Linked to Recommendation 1, above, providing appropriate weightings to incentivise and reward action where an owner has the greatest level of control and responsibility will have the greatest impact in driving change and bringing about improvements, rather than requiring owners to spend

significant resources in engaging with FRI tenants and achieving little success as a result of their limited control/influence.

ASSURANCE

Recommendation 4: Introduce a process for quality assurance as an additional incentive to ensure that participants provide accurate and valid data. This could be the assurance of a small percentage of responses at random or the guarantee everyone will be audited to some extent every five years.

Rationale: Without a level of quality assurance there will always be a certain level of doubt as to the robustness and validity of the data included in the GRESB survey and the resulting outputs. As the GRESB survey becomes more important to investors and the funds they invest in, actions taken to ensure the credibility of the survey should be seen as a necessary requirement.

Recommendation 5: Share full results/report from PwC which is examining GRESB processes with all GRESB stakeholders.

Rationale: GRESB is a strong believer in transparency and disclosure. With participants committing significant time and organisational resources to GRESB it is appropriate that the audit report is made available to all participating organisations.

USEABILITY

Recommendation 6: Enable settings within in the survey to allow a participant to identify a number of questions and responses that will remain the same across regions and portfolios. When completed once, the survey should then automatically pre-populate the answers throughout the rest of the survey to avoid duplication of effort.

Rationale: Repeating the entry of data for multiple funds is a frustrating and time consuming process for participants. The amount of time spent entering repeat/redundant answers across multiple portfolios is estimated to be 50% of the total time spent entering the information into the online survey tool. Simplifying the process and adding functionality to allow repeat questions to be automatically pre-populated will save a considerable time for participants and reduce the resources required to participate in GRESB.

Recommendation 7: Enable the ability to upload multiple documents and the ability to explain how the attached file is evidence.

Rationale: This is currently not possible but is necessary to provide the requested level of evidence.

Recommendation 8: Include the [Real Estate Environmental Benchmark](#) as a Benchmarking Scheme within the GRESB

Rationale: Question 28.2 'Please specify the percentage of the portfolio benchmarked using an internationally recognised scheme in the last 3 years up to the end of the reporting period' provides the following options: International Sustainability Alliance (ISA), IPD EcoPAS, Greenprint and Green Rating Alliance (GRA). The BBP feels that the Real Estate Environmental Benchmark is more than appropriate for inclusion within this list. The Real Estate Environmental Benchmark is the largest voluntary benchmarking commercial property benchmarking initiative in the UK measuring operational energy, water and waste data.

Recommendation 9: Select one methodology for the purchase and sale of assets within a portfolio

The BBP welcomes the fact that GRESB has published a clear methodology for factoring the purchase and sales of assets within a portfolio during the assessment time frame, however believes offering two separate options reduces consistency and results in funds being incomparable depending on the different options they choose. The BBP's preference would be for the use of one methodology to ensure consistency and recommends consulting with GRESB participants in determining the most appropriate methodology.

Recommendation 10: Continue the development of glossary of definitions.

Clarity on data requirements has greatly improved with the introduction of a 'Definitions and Interpretation' section and improved specifications for each question, however the list is not exhaustive and it is vital that definitions are included so as to reduce the level of ambiguity when answering those questions. The BBP recommends open discussions with GRESB participants to support the identification ambiguous terms and agreement of definitions.

