

2014 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.

Given the growing rate of participation, the BBP believes that GRESB has a significant opportunity to drive market transformation across the real estate sector at a global scale. The BBP provided its first consultation response in 2013 and welcomes many of the changes GRESB has implemented and the progress which has been made over the past 12 months.

As the GRESB evolves, we feel there are opportunities for continued development and improvement, both in terms of the value which it provides for its stakeholders, and its ease of use to participate by property companies and fund managers. In this light, BBP members who participate in GRESB have provided the following recommendations for GRESB's consideration as part of its 2014 consultation process which we hope are viewed in a positive and constructive light.

Recommendations have been split into two categories:

- Strategic Direction: Recommendations relating to the future development and direction of the Survey, supporting refinement of the scoring methodology and enhancing the value to stakeholders.
- Practical Improvements: Recommendations relating to specific questions and improvement opportunities to support participants in providing information to the Survey.

STRATEGIC DIRECTION

Recommendation 1. Each question (and its weighting within the survey) should have an investment rationale behind it.

An overarching issue which the BBP believes must be addressed in order for GRESB to develop as a valuable tool for both property companies/funds and investors is that the investment rationale for a number of questions, both in terms of the resources required for collection/submission of data and the value investors receive from their investor reports, should be articulated to a much greater extent. This would ensure both participants and investors are fully aware of the reasoning for asking each question and why it relates to the sustainability performance of the company/fund. This idea of 'investment rationale' i.e. the human and financial resources borne by property companies and real estate funds balanced against the benefit received by the companies/funds themselves and in turn their investors, should also be used as a guiding principle for the future evolution and refinement of the Survey. This principle should also be applied to the weighting of the questions within the survey.

Rationale: GRESB is a particularly resource intensive process for participants. A huge amount of resource is spent by BBP members on in-house personnel and/or external consultants to collect, verify, format, gather evidence and submit the information required by the Survey. Therefore, from a cost benefit perspective, any prudent investor should want to ensure that companies/funds are directing their resources towards gathering data and driving performance in areas that will have a material environmental/social impact and/or manage risk.

However, in our view, this is currently not the case and the decision making process by which investor's shape and rationalise the Survey to ensure that it provides precisely the information they

need in order to make appropriate investment decisions, and associated weightings attributed to questions, is not transparent enough. For example, it is unclear what benefit investors receive by property companies/funds spending a significant amount of resource requesting tenant energy data for NNN/FRI leases or where the tenant procures their own energy supply, when the property company/fund has no control over the performance of that space. Additionally, there appears to be little or no benefit to investors from the fact that property companies which have funds which are predominately comprised of NNN/FRI properties are penalised by not being able to provide such data. Anecdotal feedback has been provided by a number of BBP members that their tenants are becoming increasingly frustrated with the inconvenience of a number of different property companies/funds asking for their energy data for different properties and this is having a detrimental impact on owner and occupier relationships – an issue which should be of far greater importance to investors.

We would therefore welcome a review of the Survey in order to ensure that it is clear to both participants and investors on the rationale and benefit of each question, and how they are weighted accordingly. This would ensure that the Survey is appropriately structured to provide investors with the information they need to make well considered investment decisions at the lowest cost to the property companies/funds which they wish to or are investing in. Such a review would also provide an opportunity to reduce the number of Survey questions. For example, there are a number of questions that do not relate to the sustainability performance of a fund e.g. policies on I.T security, bribery and corruption. If these issues were of interest to investors, details would be requested and answered at the RFP stage and they therefore do not need to be repeated within the Survey.

Recommendation 2. The principle of ‘managed’ and ‘indirect’ assets should be used more widely throughout the Survey, and clarification on how the level of a participant’s management control affects the scoring methodology within the Performance Indicators section should be provided.

We welcome the introduction of a separation of ‘managed’ and ‘indirect’ assets within the Performance Indicator section (although we question the language used – see Practical Improvements Recommendation 3), however believe the principle of the impact of management control should be used more widely throughout the Survey.

Rationale: The Survey asks for information where the answers, and resulting performance, are significantly impacted by the degree of management control a participant has over the building i.e. whether it is an asset where the property company/fund procures some portion of the energy supply or a NNN/FRI lease where the tenant is responsible for the procurement of energy supplies. In the UK, the average lease length is 6 years (and higher for some funds). For FRI/NNN assets the principle opportunities to make improvements is prior to letting during refurbishment. Once the unit is let, it is then the responsibility of the tenant to fit-out, maintain and improve the asset. Furthermore, occupiers will often renew a lease which further extends the time before a participant may have an opportunity to make any improvements to the asset. Therefore assessing whether a FRI/NNN assets have implemented certain measures within a three year period (e.g. Question 16, 17 and 18); or assessing the level of the portfolio that is covered by an EMS, the data management processes in place and the way in which it monitors energy consumption (Questions 20, 21, 22 and 23) is penalising this asset class purely on the nature of how that asset is leased and occupied.

We believe it would be more appropriate to ask such questions for the ‘managed’ assets and then have a more comprehensive set of questions for ‘indirect’ assets that measure a property company/fund’s performance during refurbishment opportunities.

With regards to the Performance Indicators section, GRESB appears to have taken on board comments from our 2013 Consultation Response that the scoring of the Performance Indicators section was significantly influenced by the level of management control a property company/fund has over its assets and introduced new criteria for collecting data, namely splitting assets into

‘managed’ and ‘indirect’ and for ‘managed’ assets adding an additional layer of granularity by breaking down data collection to ‘base building’, ‘tenant space’ and ‘whole building’.

Whilst this is a welcome approach, it is unclear whether there are different weightings given to ‘managed’ and ‘indirect’ assets as well as the breakdown of ‘base building’, ‘tenant space’ or ‘whole building’ within ‘managed’ assets, thereby providing a fair, apportioned scoring based on the level of management control a property company/fund has. The Performance Indicator section is one of the most resource intensive sections to complete. It is essential that the scoring methodology fairly reflects the degree of management control in order to warrant the resources required to collate and submit data.

We feel that through the implementation of carefully considered weightings, GRESB can ensure that it appropriately recognises specific areas of focus and actions undertaken by participants, thereby encouraging property companies/funds to place greater emphasis on making improvements where they have management control over collecting tenant consumption data for FRI/NNN assets. By incentivising participants to focus on the areas which will have the greatest impact on improving sustainability best practices and environmental performance, GRESB will be more effective in steering the industry to implement the most effective policies and improvement strategies. However, this is currently not possible without the appropriate level of transparency in the scoring methodology.

Recommendation 3. Develop a scoring methodology which reflects the split between Environmental, Social and Governance issues.

Without resulting in the need for any additional survey questions, we recommend that GRESB considers a move to provide a greater level of granularity of high level scoring which reflects a split between Environmental, Social and Governance issues. This would result in the overall GRESB score remaining as it currently stands but with the addition of three underlying scores which reflect results based on 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 Survey areas would naturally fall into one of these three categories. This approach has a more natural fit with typical ESG categories, for which investors are increasingly asking for details. The 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. As GRESB and the industry's understanding of ESG issues develop over time, it is felt that recognition and reward will need to shift from policy implementation to tangible achievements.

Rationale 2: This change 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.

Recommendation 4. Joint venture (JV) assets where a property owner has no management control should not be included within the reporting boundaries.

Rationale: Including the reporting of JVs where a property company/fund has no management control does not align with typical real estate practice, where one party will be assigned management control and there is no formal arrangement in place for other parties to be provided with any data/information. As with Recommendation 1, it is inappropriate for a participant to spend resources collecting data or to be scored on an asset's performance when the ability to make improvements does not exist. We feel that JV assets should only be reported where the property company/fund has contractually been assigned full management control. This approach follows one of the two recommended approaches set within the GHG Protocol (Operational or Financial Control), which currently the approach taken by GRESB does not.

Recommendation 5. The principle of analysing information as a ratio to value rather than floor area should be used more widely throughout the Survey

Rationale: As with Recommendation 1, it is far more relevant from an investor's perspective, as well as a property company/fund's, to understand risk relating to sustainability issues and legislative compliance as a ratio of value rather than floor area. This would align with standard financial reporting and the more common way data and risks are analysed internally by participants. The Performance Indicators section, however, is one area where performance should remain as being normalised by floor area. Information for sections 'Monitoring Consumption'; 'Green Building Certifications'; 'Energy Ratings' should be requested as a ratio of value rather than floor area.

Recommendation 6. Provide greater transparency on the auditing and quality assurance processes

Rationale: The BBP welcomes the introduction of an auditing process in the 2014 Survey which was recommended in our 2013 consultation response. It would be helpful to understand in greater detail the selection process for those being audited. For example, is a random percentage of participants audited or is sampling weighted by performance e.g. a higher proportion of Green Stars winners are audited compared to non-Green Stars? The latter option is considered the most appropriate. Also, once participants have been audited are they just as likely to be audited the following year or are they removed from selection for a defined period of time?

PRACTICAL IMPROVEMENTS

Recommendation 1. As far as possible, maintain the way data points are requested.

Rationale: We appreciate that the Survey is evolving over time, however participants are typically collecting data based on the previous year's Survey. Therefore, if significant changes are made in the latest edition of the Survey, it must be appreciated that some participants are already some way through the reporting period and may be unable to collect data in the required new format until the following year. In addition collating data retrospectively once the Survey has opened is much more expensive than collecting it as part of normal business process through the year. Hence participants should be made aware of any forthcoming changes at least 12 months before they are implemented to allow them to adjust their management systems accordingly. Any changes proposed for the 2016 survey should be published before the 2015 survey opens.

Recommendation 2. Consider a staggered response for submitting data dependent on a participants' reporting period.

Rationale: For participants who have a 'year-end' of 31st March, providing data that has been checked, reviewed and in the format required for submission by 1st July is extremely challenging, particularly if a participant has multiple funds. Participants who report on a calendar year basis will have the advantage of having more time to collect and submit data. GRESB should consider staggering the submission deadlines depending on the time period which a participant is reporting against e.g. an April deadline for those using a calendar year and a mid-July deadline if a financial year. This may also support GRESB staff, particularly in light of the growing number of participants, as they could stagger the checking process over a longer time period.

Recommendation 3. Consider changing the term 'indirect' to 'no management control'.

Rationale: GRESB define 'indirect' properties as those where property companies/funds do not have management control. However, this is not the common use of the term within the industry, which may lead to confusion of participants. For the real estate community, 'indirect' assets are those where a property company/fund has an indirect relationship with the property e.g. joint ventures (JVs) and part equity ownership. The term 'no management control' would be far clearer.

Recommendation 4. Provide clarification on the scoring methodology when 'not applicable' is the appropriate response to a Survey question.

Rationale: It is currently unclear how answers of 'not applicable' are treated i.e. whether these are scored as zero or are removed from the total score. The latter would be most appropriate as it is clearly unfair for a participant to be penalised simply because the questions are not applicable to their property portfolio/fund.

Recommendation 5. Provide clarification on the approach which should be used for the sale and acquisition of assets.

Rationale: The 2013 Survey set out two clear methodologies for participants to follow. It was a recommendation of the BBP that one methodology be selected and used by all participants. However, in the 2014 Survey there does not appear to be any reference as to how sales and acquisitions should be treated.

Recommendation 6. Request green building certificate ratings in addition to the existence of a certificate.

It is recommended that, in Q29.1, participants are asked to provide details of the green building certificate rating rather than simply the percentage of their portfolio which has ratings e.g. asking the % which have achieved a BREEAM 'Excellent' rating rather than simply asking the % which have achieved a BREEAM rating.

Rationale: Providing the additional detail of the green building certificate rating is a relatively simple process for participants and would allow for an appropriate differentiation of credits for specific rating levels e.g. a greater number of credits awarded for a BREEAM 'Outstanding' compared to a BREEAM 'Very Good'. GRESB can thereby incentivise positive action across the industry by encouraging participants to strive for higher ratings.

Recommendation 7. Provide, for Question 30, a methodology for calculating EPC 'weighted score'.

Rationale: The purpose of Question 30 is to provide an assessment of a property portfolio/fund's level of compliance in terms of mandatory energy ratings, as well as an overall performance score. Examples are provided to explain how 'weighted scores' should be calculated for NABERS and Energy Star ratings, however, there is no explanation as to how a 'weighted score' should be calculated for EPCs, and it must be assumed, therefore, that different methodologies are being used by different participants. For example, the EPC number rating could be used, however each building will have a different score which wouldn't allow assets to be grouped together in clusters and would therefore take a significant amount of resource to calculate a weighted average. An alternative option is for EPCs to be grouped and then averaged by banding to provide a simpler process e.g. A-G for the UK. However, each European country has a different banding system and some have no banding system, preferring a sliding scale, e.g. Germany. With these issues open to interpretation, it is unclear how results from Survey participants can be comparable. Further clarification and guidance is, therefore, needed to ensure that all participants are using the same methodology/approach.

Recommendation 8. Make the 'Information Sharing Template', which provides the ability to store and share question responses that are identical across multiple participating entities, available to all participants rather than just GRESB members.

Rationale: Participating in GRESB is a resource intensive process, as highlighted in Recommendation 1. If GRESB is to continue to grow and reach a greater number of property companies/funds the Survey will need to become as streamlined and as simple to complete as possible. It is also necessary for investors to view it as a valuable resource and an appropriate cost for a property company/fund to bear. Therefore, it is in investors' best interests that the information sharing template is made available to all participants to limit the time and cost required to complete the Survey.

Recommendation 9. Remove the time frame restriction when asking whether energy and water efficiency measures have been installed across the portfolio.

Rationale: Questions 17 and 18 ask for information regarding the types of energy and water efficiency measure that have been installed across a property company/fund's portfolio, however, it restricts the time frame to the last three years. This automatically excludes properties where measures may have already been installed over three years prior to completing the survey. This is particularly true for recent developments e.g. a building which is 5 years old. It is therefore recommended that the time frame is removed from the question.

Recommendation 10. Consider the development of a document library

Consider the development of a document library which can be used by participants as a central reference point for providing their evidence base for specific Survey questions, thereby avoiding the need to upload the same document multiple times.

Rationale: It is often the case that a single document is needed to be uploaded multiple times to provide evidence when answering Survey questions e.g. sustainability policies, procedures or checklists that apply across a property company/fund, rather than being fund specific. The use of a document library would allow participants to upload a document once and reference it as evidence when answering specific questions and avoid having to repeat uploads of the same document. This is

a similar approach to the [Dow Jones Sustainability Indices](#). The document library could remain in place and be updated whenever new evidence is required.

Recommendation 11. Provide a comment box on each occasion a document can be uploaded as evidence.

Rationale: A comment box is a particularly useful tool to allow participants to articulate how the uploaded document provides the required supporting evidence as well as the ability to reference specific page numbers, however these are currently not available in every instance where a document can be uploaded as supporting evidence.

Recommendation 12. Continue to improve the online training sessions

Rationale: The provision of online training sessions is appreciated and these were particularly beneficial to participants. Their continued development, particularly in covering the Performance Indicators section, would be most welcome.

