BBP | BETTER BUILDINGS PARTNERSHIP

2019 GRESB SURVEY CONSULTATION RESPONSE

Introduction

The Better Buildings Partnership (BBP) is a strong advocate of GRESB. Since its introduction, the GRESB Surveys have brought Environmental, Social and Governance (ESG) considerations onto the agenda of the real estate investment market on a global scale and at an unprecedented rate. It is one of the few ESG initiatives that has truly transformed the way in which the global real estate industry approaches sustainability.

As the weight of influence GRESB has grows, so too does the pressure of accountability. Namely, in the Survey's ability to fairly reflect ESG performance, the transparency and rigor of scoring, and encourage the behaviours from both investors and participants that will result in improved ESG performance.

As the GRESB surveys evolve, the BBP feels there are opportunities for continued development and improvement, both in terms of the value which it provides for stakeholders, as well as the level of trust placed on the outputs. In this light, BBP members and their advisors who participate in the 2019 Real Estate Survey have provided the following recommendations for GRESB's consideration, which they hope are viewed in a positive and constructive light.

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Real Estate Survey Recommendations

Overarching Message

Review opportunities for the Survey to reflect 'performance' within future iterations

The BBP believes strongly that actual performance of property companies and funds should be the most important aspect of any ESG rating and there is a growing recognition and acceptance of this principle within the UK real estate market.

It is acknowledged that the actual performance of property portfolios is measured to a degree within the Survey (with Performance Indicators being the most obvious area); however, scores are much more related to data coverage and the ability to provide information as opposed to the performance of the properties within the portfolio.

It is also appreciated that GRESB is aware of this and is implementing changes, one being the move to asset-level reporting for the Performance Indicators. The BBP welcomes such a move, one that is taken in a considered and measured approach. However, we wish to highlight that without this move, there is a potential risk that the Survey will fall out of alignment with wider industry activities. There is a growing movement across the real estate sector towards committing to achieving net zero carbon. Twenty-four of our members have already made such a commitment. As the Survey stands, GRESB scores do not necessarily reflect a participant's performance on a net zero carbon trajectory.

If GRESB is to maintain its position as the principle ESG survey for the global real estate sector, then the GRESB Survey will need to evolve to be able to reflect this. To this end, the BBP would welcome a discussion to hear GRESB's longer term view in how they see the survey developing over time to align itself to the way the industry is addressing ESG performance.

Transparency

Continue to develop and improve the data validation process

An open and transparent data validation process is crucial for GRESB to remain a benchmark of quality and credibility that the industry can trust. The GRESB Survey has become an important set of investment criteria and assessment tool for investors, and the rigor in data quality and validation processes applied should be treated as such.

The BBP welcomes the changes and improvements that GRESB have made to the validation process over the past few years. However, with current weight given to GRESB scores by investors, the validation process has become one of the most critical elements of the Real Estate Survey and our members have found its practical application to be insufficient in providing the level of trust they would expect.

Specific concerns include the:

- **Review process of uploaded documentation and the discrepancy of interpretation.** Completion of the Survey requires participants to upload an extensive evidence base to the online portal. The BBP is sympathetic to the fact that, due to the sheer volume of evidence required, it is impossible for all the evidence to be reviewed in detail. However, the approach has resulted in inconsistencies within the review process.

  Members have experienced instances where evidence, which had been accepted in previous years and received full points, did not receive full points this year. In addition, they have experienced instances where the review does not properly interpret the detail within the evidence provided, but instead requires exact wording and phrasing. For example, for MA5, Does the organization include ESG factors in the annual performance targets of the employees responsible for this entity? One company ticked "All Employees", "Senior Management Team" and "Board of Directors". The supporting evidence stated

that ESG factors were included for all employees but did not explicitly state Board of Directors as the company includes Board of Directors within the scope of their definition for all employees; the company thus lost points. This marking is counterintuitive and is not an accurate reflection of performance. Furthermore, had the entity not ticked 'Board of Directors' it would have received full marks based on the way the scoring works, but by ticking an additional box the participant lost marks.

Other examples include PD1, where evidence of policies that were in place were required to be individual policies, rather than single policies that covered multiple areas. Such an example demonstrates a failure to review the evidence requested in the level of detail required. This issue, coupled within how tightly participant scores are banded, resulted in many companies within our membership losing stars as a result of such misinterpretations.

The BBP feels that the Survey places far too great a weight on the requirement to upload evidence and that the resource to then review and interpret this evidence is too great. The BBP would like to understand if GRESB has considered other options, for example, the opportunity for accredited assessors to review the data on GRESB's behalf, or reducing the requirement to provide evidence but increasing individual auditing.

- **Lack of ability to highlight challenges or disputes.** Guidance states that that disputes should be raised directly with GRESB for consideration. However, our members view this process as insufficient. As mentioned above, given the subjective nature of the way in which evidence is interpreted and the weight that investors place on scores, our members feel participants should have the opportunity to, within the portal, flag any scores that have been challenged and or have had a difference of opinion / interpretation between the participant and GRESB.

- **Lack of ability for Response Checks to flag failed evidence.** Members have noted that the questions where Validation Plus assessments were undertaken were also usually the areas where points were lost compared to previous years. A concern from members is that a number of them paid for Response Checks which then failed to pick up areas where evidence was insufficient. This caused considerable frustration from those paying members, with such an experience causing them

to question the value of such services.

- **Outliers identified and confirmed for accuracy still excluded.** Members understand the need for the GRESB database to try to identify outliers. The BBP has its own process when collecting data for the Real Estate Environmental Benchmark. Within the Refence Guide GRESB acknowledge that outliers are not necessarily untrue, and that they can be included if a suitable explanation is provided by the Participant. However, experience from members is that they have had a significant number of outliers identified and their explanation rejected, even when they have a very high level of confidence in the accuracy of the data submitted. This is a concern for members, as data is being considered an outlier when true, and provides further evidence for the aforementioned inability to highlight disputes / challenges within the system.

✅ RECOMMENDATION 3

Provide the ability to separately state the fund/company investment strategy classification, in addition to the automated peer group classification

Members have noted that the automated peer group classification does not always align with a fund's strategy. This can be frustrating for fund managers who cannot explicitly compare themselves to funds they consider peers in terms of their investment strategy and can also be confusing for investors. In addition, peer groupings can change between years based on the acquisition and disposal strategies of participating entities, making it very challenging to monitor progress overtime.

It is acknowledged that bespoke benchmark reports can be generated for additional fees; however, feedback from members is that one of the most significant requests they receive from investors is regarding how the entity performs in comparison to its typical financial peer group. Our members feel the ability of participants to be able to select its own peer group to both compare performance against and support discussions with investors should also be a free function of the Survey, in addition to the automated peer group classification.

✅ RECOMMENDATION 4

Remove the Green Star rating to avoid confusion

The GRESB Real Estate Survey currently uses two parallel star-based rating systems: the Green Star and the 5-star GRESB rating. The BBP has previously welcomed introduction of the GRESB rating. However, as mentioned last year, the BBP also recommended that only one primary rating KPI is used to assess performance and the continued use of two simply increases confusion amongst stakeholders.

✅ RECOMMENDATION 5

Assess opportunities to evolve the scoring methodology to increase the distribution spread of Entity scores and therefore the spacing between GRESB Rating thresholds.

Overtime, average Entity scores are increasing with the global average now at 72/100. With an increasing average, there is a clustering of Entities towards to top and of possible scores, which in turn, means the thresholds for the GRESB scores based on quintile distributions are very close together. This is becoming a challenge for Participants were GRESB ratings can change on the basis of one or two points difference to previous years. The BBP would like to understand if GRESB plans to address the issues brought about by ever increasing average scores by amending the scoring system in a way to increase the distribution spread of Entity scores.

✅ RECOMMENDATION 6

Continue to support investor understanding and develop guidance on how to interpret participants' results.

Following feedback from the BBP's 2018 Consultation Response, the work GRESB has undertaken over the past 18 months increasing resources and training for the investor community is very welcome. The

BBP hopes this activity will continue as our members' experience is that investors are asking increasingly sophisticated questions with regards to the details of the Survey results, and the guidance provided by GRESB will support investors in their understanding and interpretation of results.

Materiality

✅ RECOMMENDATION 7

Emsure that scoring is not unfairly impacted as a direct result of an entity's level of management control.

The Survey asks for information where the answers, and resulting performance, are significantly impacted by the degree of management control a participant has over its properties. This specifically true for triple net and full repairing and insuring (NNN/FRI) leases (what were previously termed an 'indirectly managed' assets within the Survey) where the tenant is responsible for management of the property or those where the tenant directly purchase utilities are penalised based on their ability to provide information.

The BBP is also aware that incentivisation to provide tenant data that is not purchased by the landlord is leading to a perverse behaviour from participants: property companies/ funds are spending significant amounts of resources requesting occupier energy data for NNN/FRI leases or where the occupier directly procures their own energy supply. It is unclear what benefit investors receive from such information when time and effort that could have been better spent focussing on making ESG improvements within their control.
This is not to say that the collection of occupier data should not be rewarded, but that the weighting should not be set in such a way that it unfairly penalises those companies/funds due to the nature of the properties' leasing and management arrangements, rather than ESG performance. It should also not encourage participants to prioritise the collection of inconsequential data over actual ESG improvements.

This issue has been repeatedly raised by the BBP over several years and GRESB have responded that is not inclined to account for the issue as it could open the opportunity for participants to game the system by overclaiming the percentage of their portfolio that is

FRI/NNN. The BBP's perspective is that this risk should not discourage action in trying to address the issue, and participants looking to game the system would be at risk of an audit just the same as attempting to game any other area of the survey.

✅ **RECOMMENDATION 8**

Provide further clarity and guidance on the scope and type of floor areas to use when calculating portfolio coverage for Performance Indicators.

Floor area is an important KPI used to determine data coverage and maximum coverage figures at an asset and portfolio level within the Performance Indicators section. It is understood that for the 2020 Survey all participants will be required to provide asset-level consumption data rather than portfolio-level data. It is appreciated that such a shift will make it easier to assess changes year-on-year; however, there is currently a lack of clarity regarding the floor area and consumption scope by property type for the breakdown in which GRESB requests the data, which makes it challenging for participants to accurately complete the Survey.

This issue relates to the complexities in how services can be procured within different property types and what floor areas are best suited when calculating coverages. The current examples provided within the Guidance, whilst useful, do not sufficiently cover the types of utility and waste management arrangements typically found within the full breadth of property types that commercial property companies and real estate funds invest in. As a result, participants have to decide for themselves how coverage should best be calculated, which has caused an inconsistency of approaches used by participants when completing the Survey.

Specific issues where further clarification from GRESB would be useful include:

- **Details on the scope requested when calculating floor areas and utility based on the breakdown requested by GRESB for Base Building (common areas and shared services), tenant space and whole building.** GRESB advises participants to follow the International Property Measurement Standard for calculating floor area; however, this advice is insufficient as it does not provide definitions for Base Building and Tenant Space. For example, is the term Base Building following the NABERS definition of Base Building, by including all energy consumption for

HVAC, lifts and hot water?

- **The level of estimation or proposed methodology that should be used to calculate floor area when exact figures are unknown.** A common challenge throughout the commercial real estate investment industry is the ability to obtain accurate floor area data. This predominately relates to areas that do not have a rental income associated to it e.g. common areas / plant rooms etc. The significance of this issue will also vary by property type.

Based on the point above on the need for further detail on the types of floor area that should be provided for different property types, it would be helpful to provide an acceptable methodology for estimating floor areas where they are unknown. For example, if NLA is known for offices and shopping centres but common areas are unknown and GRESB deems that intensity should be calculated by GIA, an acceptable conversion factor should be provided to ensure consistency in approaches by participants. These conversation factors can also be set to be conservative and incentivise participants to actively collect accurate floor area data.

- **How the Floor Area Covered and Maximum Floor Area values by fuel type should correspond to the total reporting level for Whole Building, Base Building and Tenant Space.** The way in which data is requested can easily lead to double counting, depending on how the building is serviced, so figures will not necessarily align. For example, in a multi-let office consumption could be reported as:

  - Base building – shared services gas consumption covering 100% of the floor area

  - Base building – shared services electricity consumption covering 100% of the floor area

  - Tenant spaces – Landlord-controlled electricity covering 60% of the area

  - Tenant spaces – Tenant-controlled electricity covering 10% of the area

It is unclear whether the total of these floor areas should align to the figures provided in the Reporting Level section or the asset reporting tool, or whether the exercise is to compare for each fuel type the data coverage vs the maximum data coverage.

- **How data coverage should be calculated for waste, whereby certain waste streams may be collected by the landlord and other waste streams may be**

collected by the tenant. For example, clarity is needed where a landlord collects general waste for 100% of the shopping centre and recycling for 75% of retail units by area but 25% of the retail space manage their own recycling.

- **How like-for-like performance will now be calculated by the system where data coverage for a property changes overtime.** It is helpful to understand the methodology that GRESB will implement to determine whether a property should be included within any like-for-like analysis. The BBP is happy to share its own REEB methodology for like-for-like calculations.

✅ RECOMMENDATION 9

Ensure clear definitions and guidance is provided for new mandatory questions.

As for any mandatory data point is it important clear and detailed guidance is provided to ensure participants provide information in a consistent manner. The BBP is aware of the following new mandatory data points and hopes that sufficient guidance will be provided within the 2020 Reference Guide:

- Vacancy Rate: the BBP collects Vacancy rates via REEB as an annual average percentage the building is let by floor area. However, some companies may collect this by rental value. It would be important to clarify exactly how this should be calculated, as well as the level of estimation allowed.

- Building Age: Will this need to be an exact date or will an estimate be suitable? The BBP's own experience is that building age is not a distinguishing factor in relation to a buildings operational performance and would argue the date of the last major refurbishment would be a more accurate indicator of "age" and environmental performance. It would therefore ask if perhaps building age or date of last major refurbishment would be appropriate. This would also ease pressures for property owners, where for some properties, exact construction dates are unknown.

The BBP also questions the need to collect the data for the purpose of a participant's GRESB score as we would argue the performance is the key ESG assessment criteria, not the average age of a portfolio.

✅ RECOMMENDATION 10

Remove Questions RO5-RO8 relating to whether energy efficiency, water efficiency and waste management measures have been installed across the portfolio.

Questions RO5-RO8 ask for information regarding the types of energy efficiency, water efficiency and waste management measures that have been installed across a property company/ fund's portfolio during the last four-year period. It has been noted that these questions have been removed from the 2020 Survey question list and moved into the asset level reporting template. This move still does not address a number of issues our members have in requesting this information:

- Commercial property owners do not generally collect information on the timeframes at which energy and water efficiency measures were installed. Rather, at most, they simply note whether they exist or not. This is especially true for companies where churn within their portfolio is high and new properties entering the portfolio are unlikely to have information on installation dates of efficiency measures readily available, or for a new build where there will be no need to install additional measures during the specified timeframe.

- From both an ESG performance and an investors' perspective, what is important is that such measures exist within the property portfolios they invest in, rather than whether they have been installed over the past three years. Nearly all of the efficiency measures requested have operational lives well beyond three years, it therefore counterintuitive to continually ask if they've been installed within the past three years. Examples of this include: AMR, PV installations, leak detection, and recycling provisions. If a property has such features but installed them over three years ago the participant would need to state "No" when answering.

- This is an example of the type of question that should only be applied to 'Managed Assets'. Firstly, it is very challenging for a property company/fund to know what efficiency measures a tenant has installed in an FRI property and therefore to report that information. Typically, the landlord's opportunity to upgrade the property is when a vacant property/space is returned to them.

It is therefore recommended that the questions are changed to state whether they exist, rather than installed in the last three years, or that they are simply removed from the asset level spreadsheet.

✅ RECOMMENDATION 11

Provide details of the acceptable evidence requirements for "portfolio composition confirmation."

Last year GRESB introduced a new question RC5.2, where the stated intent was to ensure that participants were accurately representing the makeup of their portfolio reported to GRESB. At the time, BBP expressed concern regarding the evidence requirements for this particular question. It was noted that internal asset lists typically include sensitive information (e.g. valuation data) which cannot be shared externally.

It has been noted that in the 2020 Pre-release GRESB have communicated that this question (now incorporated to R2) will become part of the validation scope, which may result in submissions being rejected.

With the importance of this point increasing significantly for the 2020 Survey, there is a need for GRESB to clarify in sufficient detail the evidence requirements that they would deem acceptable, taking into the consideration of commercial sensitivities and what is realistically possible for participants.

✅ RECOMMENDATION 12

Provide further clarity on the scoring of GHG emissions for property types that have no Scope 1 or 2 emissions.

When providing GHG data for a property where the landlord does not procure any energy, e.g., a Retail High Street, all emissions are classified as Scope 3. It currently appears that this property type would be penalised for not including Scope 1 and 2 emissions when there are none. It would be helpful to understand how data for this property type should be reported to avoid this scenario.

✅ RECOMMENDATION 13

Provide further detail on the calculation and use of energy / carbon intensity metrics and proposed relationship with CRREM in tracking a trajectory, as well as how this will fit into future scoring methodology.

The BBP has significant experience in and understanding of the challenges of intensity performance benchmarking, in particular the challenge of appropriately aligning numerators with appropriate denominators. Given that intensity calculations will now be calculated automatically by GRESB, our members would be keen to understand the detail and methodology used for these calculations. The BBP would be happy to share details of how we calculate intensity figures for different property types within our Real Estate Environmental Benchmark Project.

Beyond the detail of calculating intensities, the BBP would like to understand how these intensity KPIs will be scored. In particular, details of how work being undertaken by CRREM may feed into this would be welcome.

Acknowledgments

Better Buildings Partnership
1 Fore Street, London, EC2Y 9DT

info@betterbuildingspartnership.co.uk
www.betterbuildingspartnership.co.uk

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