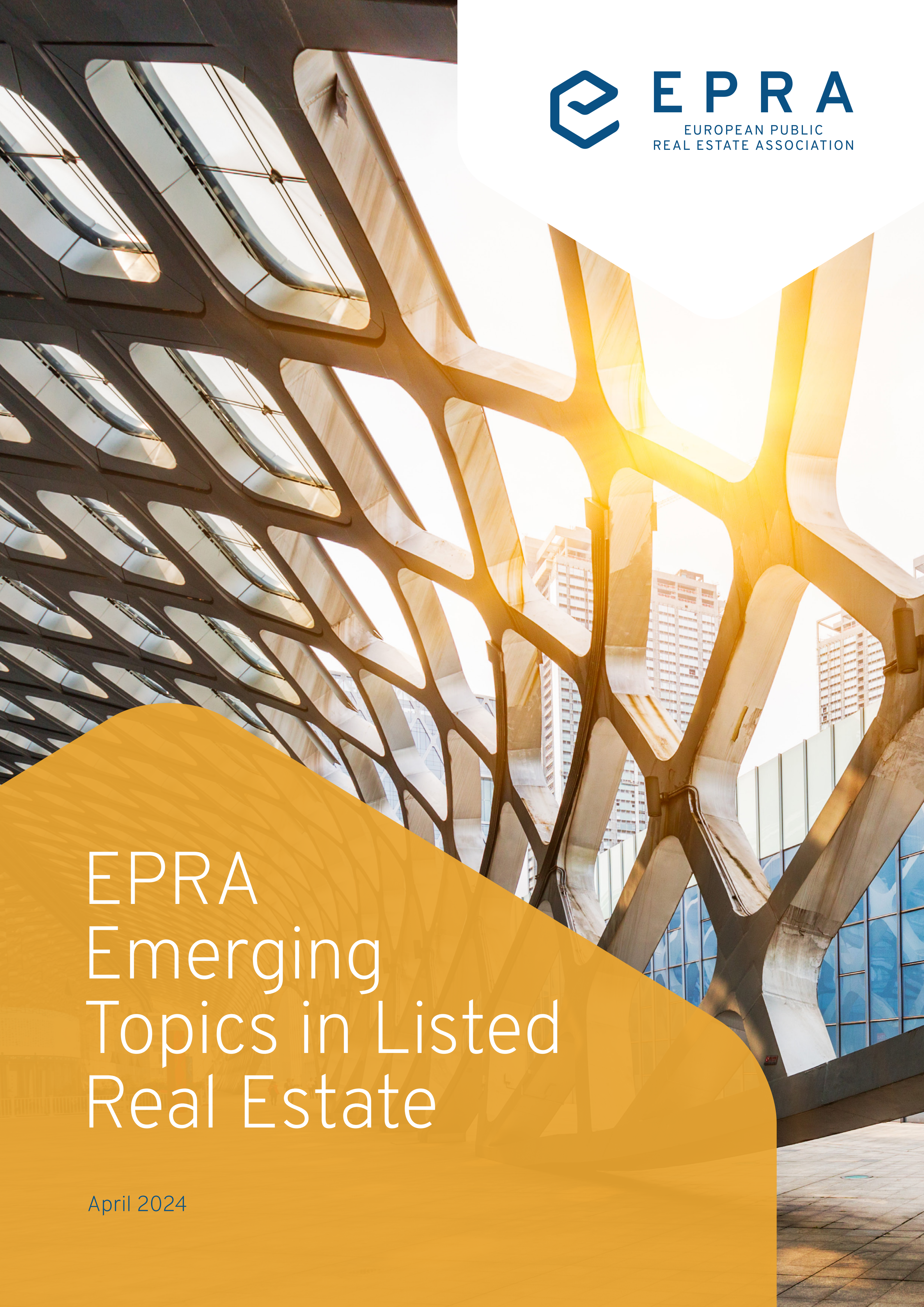

EPRA Emerging Topics in Listed Real Estate

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As the non-financial reporting landscape for listed real estate companies continues to evolve, organisations are facing increasing pressure to address sustainability issues. As reporting trends and stakeholder expectations continue to progress, it is essential to remain ahead of the curve in understanding emerging topics and incorporating them into sustainability reporting and operations.

This document explores several key emerging topics in listed real estate that do not currently warrant their own Sustainability Performance Measures in the EPRA Sustainability Best Practice Recommendations (sBPR) guidelines. However, these topics do represent important issues to consider in the future, across a broad array of subjects with an ever-increasing importance within sustainability and annual reporting.

Through the consideration of these measures, listed real estate companies can future-proof their reporting frameworks, enhance sustainability performance and transparency, and effectively respond to changes in voluntary and mandatory non-financial reporting.

8.1 Diversity, Equity, and Inclusion (DEI)

Issue

The principles of DEI include respecting and valuing individuals from all backgrounds, ensuring fair access to opportunities, promoting an inclusive and collaborative environment, and continuously improving DEI practices. These principles aim to foster a culture of equality, belonging, and growth within organisations.

In recent years, DEI has gained significant importance among listed real estate companies due to the increasing pressure from stakeholders, including investors and employees, for companies to demonstrate their commitment to DEI through initiatives, such as the promotion of diversity on corporate boards and within executive management. Furthermore, as regulatory and legislative pressures are adopted across jurisdictions, companies embracing DEI can mitigate the various risks associated with discrimination, bias, and inequality. Through the adoption of an inclusive environment, organisations can reduce the likelihood of legal disputes and reputational damages.

Ultimately, DEI is not only a matter of reporting. The principles are also about real, transformative change driven by actionable plans that can be applied across the business. From recruitment processes to personal development strategies and beyond, it will require concerted effort and commitment from the industry to make this topic a priority and address a history of issues.

Likely future direction

The real estate industry must recognise that creating conditions for all employees to thrive is the broader goal that is needed to address business issues of talent attraction, retention, progress, job satisfaction and engagement. As companies continue gather data, they will need to integrate key performance indicators to create accountability against which there is a strategy for moving towards truly inclusive and equitable environments. Furthermore, investor and stakeholder demands are likely to require more comprehensive and transparent reporting on DEI efforts, resulting in companies aligning with standards and frameworks, such as the ESRS, and providing data-driven insights into DEI strategies. Moreover, companies may seek to go above and beyond such standards and frameworks to generate market distinction and exceed stakeholder demands. This may be achieved by addressing DEI issues outside of internal practices, such as prioritising partnerships with diverse and minority-owned businesses within the value chain. This can contribute to further economic empowerment and equitable access to opportunities within the real estate industry.

EPRA will continue to closely monitor the reporting trend on DEI and future versions of the EPRA sBPR may incorporate updated guidance on reporting DEI.

8.2 Socio-economic indicators related to sustainability performance

Issue

Socio-economic indicators seek to quantify the impact of a company's operations on surrounding communities and wider society. Previously, the social impact of an organisation's operations has often been overlooked. This issue has been especially pertinent in the built environment where urban redevelopment projects have contributed to displacement of local businesses and communities as a result of rising rental costs, thus contributing to the removal of the cultural heritage of an area.[1] Consequently, assumptions have been drawn between real estate organisations prioritising profit-making opportunities over community interests. However, growing stakeholder pressure has encouraged real estate organisations to address the social impact of their operations and invest time and resources into strategies aimed at improving the communities which commonly form the foundation of the built environment. Understanding and monitoring socio-economic indicators can provide crucial insights into the performance and impacts of sustainability initiatives, allowing for targeted interventions and future evidence-based decision making.

Likely future direction

There is still significant variation in the metrics and indicators used to calculate the total value (inputs and outputs) of an organisation's social contribution or social return on investment (SROI). Given the interest these metrics are receiving from planning authorities and an increasing social conscience from investors, it is likely that socio-economic metrics will become more widely reported. More sophisticated models and calculation tools are expected to be developed in the coming years, with some becoming standard practice within the sector. In addition, real estate is likely to follow other sectors where companies are starting to report their 'total contribution', which includes not only the value of the inputs but the value created. As this happens, metrics are likely to evolve so that they focus more on the outcomes of investments and initiatives rather than the scale of contributions.

[1] https://ncrc.org/gentrification/

8.3 Transport

Issue

Increasing legislative action is being taken across Europe to limit greenhouse gas (GHG) emissions associated with transport. To align with 2050 net zero targets the European Union's (EU) Green Deal denotes action must be taken to reduce transport-related emissions by 90%, illustrating a notable requirement for all sectors to investigate and mitigate transport emissions to reach such binding targets. However, emissions from employee commuting and business travel patterns, and emissions arising from the end users of assets (e.g., visitors or occupiers) can often be significant although difficult to measure accurately on an ongoing basis, as such there is currently no widely used method to calculate and disclose transport-related emissions.

Likely future direction

Transport emissions arising from a company's activities, such as staff travel, as well as emissions arising from the users of the buildings (e.g., visitors or occupiers) should be accounted for in the company's GHG statements as they cause indirect emissions. The GHG Protocol provides clear guidance on understanding and calculating emissions associated with business travel and employee commuting.[2,3] Companies looking to report on transport emissions should consult the GRI Standards Total direct (305-1) and indirect (305-2) greenhouse gas emissions by weight.[4]

As the increase of private and commercial electric vehicle use also continues to rise, buildings, such as homes, workplaces and distribution centres, are becoming hubs for power interchange. Furthermore, there is a diversity of operating models when managing electric vehicle charging between the building owners, charge point operators and tenants, as well as location of charge points and source of energy supply (e.g., on-site renewable). When assessing the building energy intensity of the portfolio, building owners may consider excluding electricity consumption associated with electric vehicle charging, thereby selecting a numerator based on the operational energy of the building only and an associated denominator of the indoor floor area. Appropriate disclosure of GHG emissions by scope will depend on the organisational boundaries defined by a reporting company informed by the GHG Protocol.

EPRA will continue to closely monitor the reporting trend on transport emissions and future versions of the EPRA sBPR may incorporate guidance on reporting transport-related issues.

[2] https://ghgprotocol.org/sites/default/files/2022-12/Chapter6.pdf

[3] https://ghgprotocol.org/sites/default/files/standards_supporting/Chapter7.pdf

[4] GRI 305_ Emissions 2016.pdf

8.4 Refrigerant gases

Issue

Refringent gases, commonly used in commercial HVAC systems, heat pumps, fridges and freezers, can have a significant atmospheric and global warming impact if accidently released due to their chemical composition. Therefore, release of such gases can contribute heavily to a building's total whole-life carbon emissions. However, accurately measuring fugitive refrigerant gas emissions on a continuous basis remains incredibly difficult. As a result, there is currently no standardised method in place to calculate and report on such emissions.

Likely future direction

Fugitive emissions arising from a company's activities, such as building operation, should be accounted for in the company's GHG statements as they cause direct emissions. Companies looking to report on refrigerant gases should consult the GRI Standards on Total direct (305-1) and indirect (305-2) greenhouse gas emissions by weight, which provides commentary on common fugitive emissions from real estate, including refrigerant gas from HVAC equipment.[5]

EPRA will continue to closely monitor the reporting trend on refrigerant gases and future versions of the EPRA sBPR may incorporate guidance on reporting refrigerant gases.

[5] GRI 305_ Emissions 2016.pdf

8.5 Biodiversity

Issue

Wildlife population sizes have decreased by 69% globally between 1970 and 2022, and current figures estimate one million plant and animal species are currently threatened with extinction.[6,7] Consequently, the United Nations (UN) has determined current and projected biodiversity loss a 'Nature Crisis', with land use change reflecting the biggest threat to biodiversity globally.[8] Increasing legislative action has been taken to tackle the issue. In the built environment this is predominantly illustrated by the UK's mandatory Biodiversity Net Gain requirements, in which developments must have a 10% biodiversity net gain to ensure a natural habitat of greater quality is established post-development. From a non-governmental standpoint, the Taskforce on Nature-Related Financial Disclosures (TNFD), a global, market-led, science-based initiative, is working with an increasing number of companies and financial institutions to aid the encompassing of nature in internal decision-making frameworks. Such action is supported through a range of recommended disclosures covering nature-related dependencies, impacts, risk and opportunities, to encourage sustainable investment decisions and promote nature-positive business practices, further illustrating growing action to protect nature from a non-regulated perspective.

Likely future direction

As the nature crisis rises in governmental and social prevalence, requirements for organisations to disclose data regarding their interface with nature may become increasingly widespread. Actively disclosing information relating to biodiversity changes can demonstrate adherence to local or national regulations, whilst providing greater transparency to stakeholders regarding an organisation's wider ecological footprint. Therefore, it may be beneficial for organisations to account for the impacts arising from building construction or operation on biodiversity within annual sustainability reports. Organisations seeking to report on biodiversity should consult the GRI Standard 101: Biodiversity 2024, which outlines suitable disclosures regarding an organisation's biodiversity-related impacts, and management of such impacts.[9] European Sustainability Reporting Standards (ESRS) E4 can also support organisations through specific disclosure requirements that allow users of the sustainability statements to understand the undertakings impacts on biodiversity and ecosystems and the actions that can be taken to prevent or mitigate negative impacts and protect biodiversity.[10] Additionally, organisations may consider the adoption of the Science Based Targets initiative's Targets for Nature (SBTN) to further guide efforts in constructing a nature positive future and disclosing information on such actions. The targets, which draw upon best available science and feasibility studies, equip organisations to individually assess and disclose their environmental impacts when working towards protecting and restoring terrestrial ecosystems and improving freshwater quality.[11]

EPRA will continue to closely monitor the biodiversity reporting trend and future versions of the EPRA sBPR may incorporate guidance on reporting on biodiversity.

6 https://livingplanet.panda.org/en-GB/

7 https://files.ipbes.net/ipbes-web-prod-public-files/ipbes_global_assessment_report_summary_for_policymakers.pdf?file=1&type=node&id=35329

8 https://www.unep.org/facts-about-nature-crisis

9 GRI 101_ Biodiversity 2024 (1).pdf

10 https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772

11 https://sciencebasedtargetsnetwork.org/how-it-works/the-first-science-based-targets-for-nature/

8.6 Climate-related risk and opportunities

Issue

The physical and transition risks and opportunities associated with climate change present major disruption to organisations financially, operationally, and reputationally. As Europe experiences increasing extreme weather events, tightening legislation, and shifts in market dynamics, organisations need to proactively assess and disclose climate-related risks and opportunities to inform decision-making, provide transparency, attract investors, and ensure future resilience.

Likely future direction

Companies will likely face increasing pressure to disclose their exposure to climate-related risks and opportunities. This includes more detailed reporting on carbon emissions, climate-related policies and strategies, capital allocation, physical risks, transition risks, and the application of scenario analysis.

There has been good progress in standardisation of reporting, with frameworks like the Task Force on Climate-related Financial Disclosures (TCFD) having gained prominence and now the International Sustainability Standards Board (ISSB). Listed real estate companies may continue to adopt these frameworks voluntarily to demonstrate leadership or face regulatory requirements as the standards are adopted by financial authorities.

Similar legislation could extend across Europe and to smaller businesses as governments require companies to consider and disclose the potential financial impacts of climate change on their organisation. The ESRS E1 topical standard covers disclosure requirements relating to climate-related hazards that can lead to physical climate risks for an organisation and its adaptation solutions to reduce such risks.[12] It also covers transition risks arising from the needed adaptation to climate related hazards. The need for comparable outcomes of climate scenario analysis will encourage further standardisation on the methodology or articulation of methods for determining a climate value at risk.

The use of technology, such as AI and data analytics, will enable companies to collect, analyse, and report on climate-related data more efficiently and accurately. This will likely lead to more robust and insightful reporting, allowing companies to identify and address climate risks and opportunities more effectively. Actively reporting on climate risk will allow organisations, investors, and stakeholders to effectively understand, manage, and communicate their exposure to the impacts of climate change.

EPRA will continue to closely monitor the climate risk reporting trend and future versions of the EPRA sBPR may incorporate guidance on climate-related disclosures.

[12] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772

8.7 Circular economy

Issue

Policy support for circular economy principles has gained traction across Europe, demonstrated most significantly by the EU's Circular Economy Action Plan (2020), acting as one of the key components of the EU Green Deal. The plan aims to minimise waste generation, make circularly work for people, regions and cities, and ensure sustainable products become the norm across Europe, with a focus on resource intensive sectors, including the built environment.[13] Moreover, the importance of circular economy principles has grown in popularity among organisations within the built environment due to the potential for increasing productivity, reducing material costs, and minimising waste.[14] However, circular economy impacts remain difficult to measure, resulting in no current standardised reporting approach to accurately disclose information directly related to an organisation's circular initiatives.

Likely future direction

Given the rise of policy and industry interest in circular economy principles it is likely that reporting information regarding an organisation's circular economy initiatives may become increasingly widespread. In doing so, more sophisticated and standardised methods of measuring and disclosing such information may be developed in the coming years. Currently, organisations may look towards the World Business Council for Sustainable Development's Circular Transition Indicators as a quantitative framework to evaluate circularity in a consistent and reliable manner.[15] Through measuring and reporting circularity companies can identify opportunities, establish actionable steps to enhance circularity initiatives, and quantify the impact of circular practices on climate and nature. Other materials, such as ESRS E5, can help organisations understand its impact relating to resource use and the circular economy, the actions taken to mitigate negative impacts and the organisation's capacity to adapt its strategy in line with circular economy principles.[16]

EPRA will continue to closely monitor the circular economy reporting trend and future versions of the EPRA sBPR may incorporate guidance on circular initiative reporting.

[13] https://environment.ec.europa.eu/strategy/circular-economy-action-plan_en

[14] https://www.arup.com/-/media/arup/files/publications/c/arup_circulareconomy_builtenvironment.pdf

[15] https://www.wbcsd.org/Programs/Circular-Economy/Metrics-Measurement/Resources/Circular-Transition-Indicators-v4.0-Metrics-for-business-by-business

[16] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772

8.8 Human rights in the value chain

Issue

Increased governmental, regulatory, customer, and investor pressure has caused the protection of human rights to rapidly rise up the corporate agenda. The EU's recent proposal of the Corporate Sustainability Due Diligence Directive (CSDDD), acting in line with the Corporate Sustainability Reporting Directive (CSRD), aims to expand reporting and due diligence standards to identify and prevent human rights abuses within a company's operations, subsidiaries, and value chains. It is therefore becoming increasingly clear that to adhere to rising legislative and stakeholder pressure, companies must dedicate time and resources to understand, report on, and actively prevent human rights issues in their global value chain.

Likely future direction

Legislation regarding protecting and reporting on human rights within an organisation's supply chain is set to increase across Europe. If raised into EU law, the Corporate Sustainability Due Diligence Directive (CSDDD) will apply to EU companies with more than 500 employees and a net turnover of EUR 150 million in the latest financial year, and EU companies with more than 250 employees and a net turnover of more the EUR 40 million, provided the turnover was generated in a 'high-impact' sector.[17] Requirements will include, integrating due diligence into policies, identifying actual or potential adverse human rights impacts, preventing or mitigating potential impacts, monitoring the effectiveness of the due diligence policy and measures, and publicly communicating on due diligence.[18] Currently, organisations should proactively monitor developments in human rights reporting and preventing legislation whilst seeking to adopt current internationally recognised standards, such as the UN Guiding Principles on Business and Human Rights, to ensure best practice is embedded in organisational strategy.[19] Similarly, the objective of the ESRS S2 standard is to specify disclosure requirements that allow organisations to understand the impacts on workers in its value chain.[20]

EPRA will continue to closely monitor the human rights in the value chain reporting trend and future versions of the EPRA sBPR may incorporate guidance on human rights reporting.

[17] https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

[18] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1145

[19] https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

[20] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772