



## **Integrating Asset-Level Decarbonization and ESG Reporting in Real Estate**

In the face of the global climate crisis, the real estate sector plays a crucial role in reducing greenhouse gas emissions and mitigating the impacts of climate change. Asset-level decarbonization, which focuses on abating carbon emissions from existing buildings and properties, is a key strategy for the real estate sector to contribute to the zero-carbon transition. However, the success of asset-level decarbonization efforts is closely tied to the ability of companies to effectively measure, report, and comply with environmental, social, and governance (ESG) standards and regulations.

### **Understanding Asset-Level Decarbonization and Climate Risk Assessment**

Asset-level decarbonization refers to the process of reducing the carbon emissions associated with individual buildings and properties within a real estate portfolio. This approach recognizes that the carbon footprint of a real estate portfolio is ultimately determined by the performance of its individual assets, and targeted interventions at the asset level can have a tremendous impact on overall emissions reductions.

To develop an effective asset-level decarbonization strategy, companies must first assess and subsequently establish a carbon baseline of their individual assets. This involves collecting data on energy consumption, emissions sources, and using standardized tools and methodologies to calculate the carbon intensity of each asset. The Carbon Risk Real Estate Monitor (CRREM) and the Global Real Estate Sustainability Benchmark (GRESB) are two widely recognized frameworks that provide guidance on assessing and benchmarking the carbon performance of real estate assets.



Once the carbon footprint of individual assets has been assessed, companies can prioritize and implement a range of interventions to reduce emissions. These may include energy efficiency measures, such as upgrading building envelope insulation, lighting, and HVAC systems; renewable energy installations, such as rooftop solar panels or zero carbon thermal energy systems; and the use of low-carbon building materials and construction techniques. By targeting the most carbon-intensive assets and implementing cost-effective decarbonization measures, companies can establish a targeted plan to decarbonize their portfolio.

In addition to decarbonization, asset-level assessments should also consider climate risk, which involves evaluating the vulnerability of the asset to hazards such as heat stress, water stress, and flood risk.

By conducting a comprehensive survey of the asset, property managers can gather the necessary data to inform both decarbonization strategies and climate risk assessments. This information can then be aggregated at the portfolio level to provide a complete picture of the organization's environmental impact and risk exposure.

## **Integrating Asset-Level Decarbonization into ESG Reporting and Regulatory Compliance**

While asset-level decarbonization is a critical component of sustainable real estate and building management, it is only one piece of the larger puzzle. To fully realize the benefits of decarbonization efforts, companies must also ensure that their actions are aligned with broader ESG reporting and regulatory compliance requirements.

These frameworks increasingly include specific indicators related to carbon emissions and climate risk, and companies that fail to report on these issues may face reputational and financial risks.

The data collected through asset-level assessments is crucial for meeting ESG reporting requirements and regulatory compliance. Two important frameworks for ESG reporting in the real estate sector are the International Sustainability Standards Board (ISSB) and the Climate Transition Plan Taskforce (TPT).

These frameworks increasingly include specific indicators related to carbon emissions and climate risk, and companies that fail to report on these issues may face reputational and financial risks.

The data collected through asset-level assessments is crucial for meeting ESG reporting requirements and regulatory compliance. Two important frameworks for ESG reporting in the real estate sector are the International Sustainability Standards Board (ISSB) and the Climate Transition Plan Taskforce (TPT). These frameworks increasingly include specific indicators related to carbon emissions and climate risk, and companies that fail to report on these issues may face reputational and financial risks.



The ISSB, established by the International Financial Reporting Standards (IFRS) Foundation, aims to develop a comprehensive global baseline of sustainability-related disclosure standards. These standards will provide investors and other stakeholders with transparent, consistent, and comparable information about companies' sustainability-related risks and opportunities, including their environmental impact and greenhouse gas emissions.

On the other hand, the Transition Plan Taskforce (TPT), announced at the COP26 Climate Summit in Glasgow in 2021, focuses on developing the 'gold standard' of transition planning for organizations to move towards a net-zero economy.

By leveraging the data collected through asset-level assessments, organizations can ensure that their ESG reporting is accurate, consistent, and aligned with the requirements set forth by the ISSB and TPT. This data forms the foundation for disclosing the organization's current environmental impact, as well as its long-term decarbonization plans and progress towards net-zero emissions. Compliance with these reporting frameworks not only demonstrates a commitment to sustainability but also helps attract investors who increasingly prioritize ESG factors in their decision-making processes.

## **The Role of Financial Institutions and Regulatory Bodies**

Financial institutions and regulatory bodies also have an important role to play in supporting and incentivizing asset-level decarbonization through ESG reporting and compliance mechanisms. For example, banks and investors can use ESG criteria to assess the carbon performance of real estate portfolios and direct capital towards low-carbon assets and projects. Regulators can also use ESG reporting requirements and building performance standards to drive decarbonization efforts and to create a level playing field for companies that are acting on climate change.

## **From Asset-Level Insights to Portfolio-Wide Strategy: Optimizing Decarbonization Efforts**

One of the main challenges in integrating asset-level decarbonization into ESG reporting is communicating the information effectively and developing a comprehensive portfolio-level strategy. This requires aggregating the data from individual assets and determining the most cost-effective and impactful interventions across the portfolio.

Undertaking these respective studies 'in-house', with a firm that provides an integrated asset-level decarbonization and ESG reporting approach is a powerful tool that unlocks complexity and affords the luxury of robust and repeatable data management and reporting capacity.

However, this challenge also presents an opportunity for organizations to develop a more strategic approach to decarbonization. By analyzing the data at the portfolio level, organizations can identify trade-offs and optimize their investments to achieve the greatest impact. For example, an organization may choose to delay certain interventions at the asset level in order to allocate resources more effectively across the portfolio.



## **Fostering Collaboration and Alignment: The Key to Unlocking the Potential of Asset-Level Decarbonization and ESG Reporting**

To fully realize the potential of asset-level decarbonization and ESG reporting, it is essential for the real estate sector and broader financial institutions to collaborate and align their efforts. By working together to develop standardized approaches to carbon accounting, data management, and reporting, these stakeholders can create a more transparent and efficient market for low-carbon real estate investments.

One key area of focus for real estate managers is the development of an internationally standardized approach to asset-level decarbonization that can be used across portfolios. This could involve the adoption of a common set of metrics and methodologies for assessing the carbon performance of individual assets. By adopting a standardized approach, companies can ensure that their decarbonization efforts are consistent, comparable, and aligned with industry best practices.

Another important area of focus is the integration of asset-level decarbonization data into ESG reporting and compliance processes. This may involve the development of new data management solutions and platforms that can streamline the collection, validation, and reporting of asset-level data. By leveraging technology and data analytics, companies can reduce the complexities of ESG reporting and ensure that their decarbonization efforts are properly recognized and rewarded by investors and regulators.

Ultimately, the success of asset-level decarbonization and ESG reporting will depend on the ability of real estate portfolios, financial institutions, and regulators to work together towards a common goal of a low-carbon, sustainable built environment. By aligning their strategies, standards, and incentives, these stakeholders can create a powerful force for change that drives innovation, investment, and impact in the real estate sector.

## **The Path Forward: Aligning Asset-Level Decarbonization, ESG Reporting, and Regulatory Compliance for a Sustainable Future**

In conclusion, aligning asset-level decarbonization with ESG reporting and regulatory compliance is essential for driving meaningful progress in the real estate sector's efforts to address climate change. By leveraging the data collected through asset-level assessments, organizations can develop a more strategic and impactful approach to decarbonization, while also meeting the growing demands for transparency and accountability in ESG reporting.

However, achieving this alignment requires a collaborative effort between property managers, financial institutions, and regulatory bodies. By working together to develop standardized approaches, provide guidance and support, and close the gap between regulations and compliance, these stakeholders can create a more sustainable and resilient real estate sector for the future.



# TERRA INSTINCT

unlocking the value in sustainability