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Blue Skyre IBE
Innovating the Built Environment

A Colliers Strategic Partner

Occupier Services

Building an Impactful ESG Program for Occupiers

Important Questions to Consider

As the importance of Environmental, Social and Governance (ESG) continues to gain steam, many trends and commonalities are beginning to drive corporate strategies.

According to the Governance & Accountability Institute Inc[1], as of 2021, 96% of S&P 500 and 81% of Russel 1000 companies had sustainability reports. Furthermore, according to Insider[2], some 60 other large companies have agreed to adopt a new ESG reporting framework as of Q1 2021. Each of the three components of ESG are witnessing specific areas of focus emerging within their category – with many pertaining to commercial real estate.

1 Environmental Areas of Focus

- The increased interest and investment in green building certifications (e.g., LEED, BREEAM, Green Globes, Energy Star, etc.) and higher emphasis on sustainability aspects
- Companies conducting environmental analysis on portfolios to help facilitate the reduction of environmental impacts
- Green leases/green lease clauses to financially incentivize tenants to participate in energy conservation, waste reduction or other sustainable practices
- Performance-based regulation/scoring for CRE properties
- Emerging reporting regulations for climate risk - both physical (vulnerability to extreme weather) and transition (risk of a building becoming obsolete as energy and carbon requirements become more restrictive)
- Net-zero climate impact and decarbonization in efforts to lower the carbon footprint

According to Forbes[3], "At least one-fifth of the world's 2,000 largest public companies have committed to meet net-zero targets. These environmental considerations and net-zero commitments are important inclusion to ESG strategies".

Sources:

[1] G&A - All-Time High of Sustainability Reports Among U.S. Publicly-Traded Companies

[2] Insider - Bank of America, KPMG, Mastercard, and some 60 other top companies adopt new ESG metrics

[3] Forbes - A Fifth Of World's Largest Companies Committed To Net Zero Target

2 Social Areas of Focus

- Higher emphasis and importance on workplace health, well-being, and fitness, which could potentially increase or shift the amenities offered at office buildings
- Greater focus on community impact consideration for new and future developments (site selection is key)
- Changing the way offices are designed to promote wellness (e.g., air ventilation systems, increasing amount of natural light), and related certifications such as WELL and Fitwel
- Attracting and retaining a diverse workforce and aligning the facilities' services to support the company's way of working to consistently reflect its corporate brand and culture across work sites

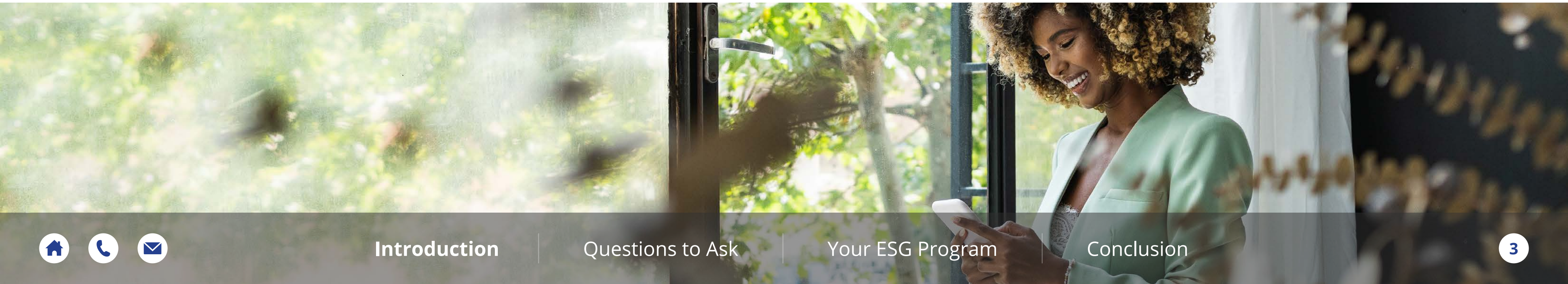
The social portion of ESG heavily emphasizes attracting and retaining talent and vendor and supplier considerations and relationships. To stay competitive with hiring, companies must focus on DEI&B (Diversity, Equity, Inclusion and Belonging), work-life balance, and mental health benefits for all employees. Furthermore, the younger generations place higher importance on social justice and companies that incorporate this into their ESG strategies. The Social portion also includes vendor and supplier considerations and relationships.

3 Governance Areas of Focus

- Companies incorporating net-zero commitments from the board/executive level (PwC[3], Salesforce[4] and Boeing[5] are prime examples)
- Including climate change risks in a company's Environmental Resource Management (ERM)
- Enhanced ESG disclosure (boards need to leverage the audit committee's financial disclosure oversight expertise by assigning them the responsibility to oversee the ESG disclosures)
- Boards becoming more diverse, including the representation of women (30% of all S&P 500 directors are women)

Stakeholders play a vital role in ESG strategies – especially the Governance portion. Companies should involve stakeholders and communicate why ESG is important to the company and its business. Specific to commercial real estate, ESG should be integrated and embedded across all CRE initiatives (e.g., lease negotiations and facility operations). Companies should find ways for the owner (stakeholder) and occupier to work together on ESG goals.

Sources:
[3] PWC - Committing to Net Zero by 2030
[4] Salesforce Achieves Net Zero Across Its Value Chain and 100% Renewable Energy
[5] Boeing - Sustainability



With the shift to hybrid work, there are many impacts on ESG strategies to consider. Remote work could increase or decrease an organization's carbon footprint, depending on the commuting patterns of its employees and decisions on the amount of space required. Hybrid work can make companies more environmentally sustainable by taking on less leased space and reducing emissions through decreased business travel and daily commutes. On the other hand, employees may now be consuming more energy at home. With fewer office employees, companies may be reducing the amount of new construction and related materials in their premises (embodied carbon). They can use less energy on lighting and temperature control, lowering their carbon footprint. Buildings will need to become more energy-intelligent to ensure they appropriately monitor the lighting and temperature control usage while still providing occupants with the expected elements of a healthy building environment.

A social consideration in the ESG strategy is the potential for hybrid work to increase employees' work-life balance. With hybrid work posing these new questions, companies must find ways to cater to their ESG strategies to accommodate this new way of working.

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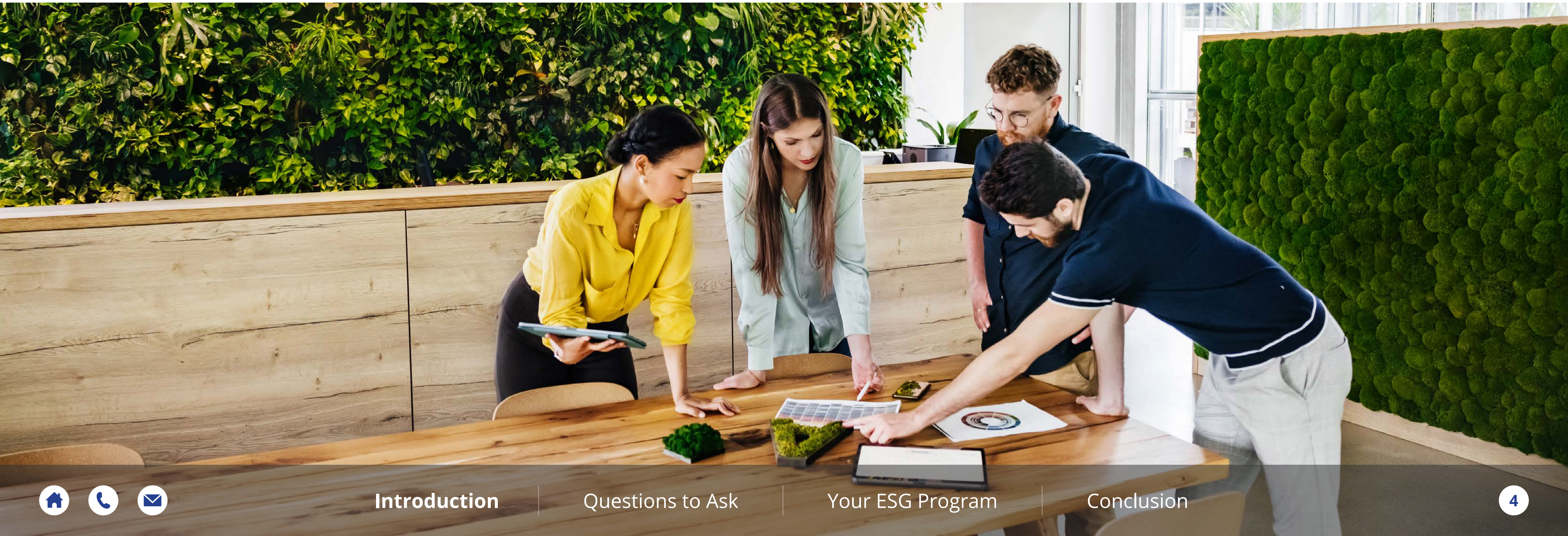

Questions You Should be Asking

There are certain questions you should be asking to gauge your company's level of commitment to putting in place a real estate focused ESG program.

1. Have your champions and stakeholders asked you for information on your ESG program or carbon footprint?

2. Have you calculated your carbon footprint?

3. Have you already produced, or do you plan to produce, a Corporate Social Responsibility (CSR) Report?

4. If you have an ESG program, does your program include "S" (Social) and "G" (Governance) goals and/or initiatives (beyond sustainability or the typical "E" initiatives: energy, waste and water)?

5. Are you aware of the environmental risks of your locations (e.g., resiliency score, regulatory requirements, supply chain, etc.)?

6. Do you know if your program achieves the greatest impact given the resources and aligns with your corporate objectives? If so, what technology or process did you implement to ensure scientific decision-making and consistent management of the program initiatives over time?

7. Do you calculate a return on investment or know the business value of your ESG plan?

8. Do you have a means for easily tracking performance and regularly re-evaluating your initiatives based on performance?

9. Can you accurately measure your ESG performance outcomes, and is your organization's program, approach, process and supporting structure governing initiatives - and ensuring that new initiatives are integrated and adopted into workflows to ensure ongoing progress?

10. Do you have a data plan that includes data governance and reporting?

11. Do you have the processes and resources to manage an auditable ESG program?

Is Your CRE ESG Program Built for Success?

Colliers' strategic partner, Blue Skyre IBE, has developed six-steps to help clients define their priorities for a successful ESG program.

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The six-steps takes an end-to-end approach to the program's design, build, and operations. It guides where to start, how to set up the program, reporting, and ongoing program operation, including periodic adjustments and improvements. Whether your organization is focused on initiatives that align to the UN Sustainable Development Goals (SDGs) or financial performance and risk management that align to ESG efforts, or both, having a holistic program and considerations beyond environmental (E of ESG) which are areas such as energy consumption, waste, and water usage, and are also looking at Social and Governance (S and G of ESG), the six steps outlined in this report are designed to help CRE departments and organizations with their ESG efforts.

Figure 1. Six Steps for ESG Success

1 Structure for Success

ESG can start as a top-down team effort that crosses many functional departments or as a bottom-up grassroots effort pushed by a single person. In whatever form the program begins in an organization, for it to sustain, evolve, and thrive over time, the advocates for its success must ensure the following structural and operational elements are addressed:

- Governance Structure
- Team Members
- Program Scope
- Policies and Processes
- Performance Monitoring

The initial step at the corporate level usually includes a materiality assessment, which involves engaging the appropriate stakeholders (internal and external) to help identify ESG risks and opportunities. This also includes identifying the starting point for goal development – e.g., the environmental baseline (such as energy, gas and water usage) and other ESG-related efforts (such as a supplier diversity program, volunteer programs or community initiatives) that are currently in place.

2 Identifying Goals and Opportunities

Once the most material issues to your organization and its stakeholders are understood, and your current state has been captured, you are able to determine in what areas your goals should focus, and what metrics would constitute achievable targets. The process of determining these targets should include everyone who will be involved in meeting them, to ensure that they are realistic and that there is real commitment to achieving them. If an organization has not completed a materiality assessment, CRE departments can still proceed with developing an ESG program aligned to organizational goals.

Terminology can be a source of confusion, so it is also critical in the goal-setting process to be explicit on key terms so that everyone shares a common understanding of what is being committed to. The accompanying box shows how the term Net Zero, and related term Carbon Neutral, can mean a number of quite different things (see *Carbon Target Terminology* to the right).

Being clear on terminology will ensure that not only the people responsible for achieving the goals, but also external stakeholders, understand what the organization has committed to.

3 Prioritizing Initiatives

Once your goals and opportunities have been identified at the corporate or department level, it is important to outline what actions need to be taken to accomplish them - particularly those that will provide the greatest impact and can be successfully implemented. This can be challenging for many organizations. *[Continued on next page]*

Carbon Target Terminology (example):

Net Zero Energy (building)
The building produces as much energy as it consumes

Net Zero Carbon
Elimination of all carbon emissions (one of several Greenhouse Gases)

Net Zero (Science-Based target)
The company's operations, its suppliers and clients eliminate their emissions of GHGs (Scope 1, 2 and 3).

Carbon Neutral
Company offsets same amount of carbon they emit (specific to carbon, not all GHG)

*Terminology may change by global location and future considerations

Emissions need to be reduced by 45% by 2030 and net zero by 2050.

For example, a popular goal in the E category is around GHG reductions. According to the United Nations[6], to meet the 1.5°C in global warming limitation (as set out in the Paris Agreement), emissions need to be reduced by 45% by 2030 and eliminated by 2050. Science Based Targets (SBTs)[7] are corporate commitments aligned with the Paris Agreement. The number of different project possibilities that can be implemented is voluminous, from behavioral (turning off lights) to controls (temperature settings) and through investments small (lighting) and large (HVAC). They could be low-cost or no-cost, or could require investment, technology or process changes. The cost is not necessarily correlated to the magnitude of the potential impact or return to your organization. A process or tool is required to compare costs to benefits.

The complexity increases when all the potential opportunities that are available in the Social and Governance areas are added. For some companies, a Social or a Governance initiative might be more important than GHG reductions. One does not have to look far to find a public company's stock being impacted based on a low governance score (the G category) or to find a company facing scrutiny on its employee turnover or supplier practices around the globe (the S category).

Sources:
[6] United Nations - Net Zero Coalition
[7] Science-Based Targets - How it Works

Many involved in the capital planning of initiatives and their associated investments typically take the following steps:

- Develop a rationalized portfolio strategy that aligns to their hybrid work strategy and has a roadmap identified for space reduction.
- Identify existing projects and their capital needs. Usually, with a 12-month projection period unless they are larger capital projects such as a new location or manufacturing plant buildout.
- Quantify the resources needed.
- Determine the business case factors or screening criteria to evaluate different opportunities.
- Select projects that satisfy the business requirements and monitor performance.
- Hope that they have made the right decisions.

It is commonplace that an Excel spreadsheet is the only tool used for project planning and management. Evaluating numerous projects simultaneously can be intimidating and tedious because of the amount of data that must be organized and tracked. Manual project tracking can lead to imbalanced project spend, implementation performance risks, and flawed project evaluation processes. Biases can also infiltrate project decision making processes and create a lack of diversity amongst project types and project contributors. Establishing an initiative prioritization process streamlines decision making, helps eliminate redundancies, and promotes projects that better align with the organization's values and goals.

"Manual project tracking can lead to imbalanced project spend, implementation performance risks, and flawed project evaluation processes."

There is a better way.

Once a company understands its material issues or has conducted a materiality assessment and established its goals, it is easier to align capital decisions.

Determining which projects to fund and implement amongst the thousands of opportunities available is critical. Technology can accelerate evaluation and accuracy and assist with identifying additional projects to consider for each category. Using scientific methodology for prioritization is a logical and unbiased way to pursue initiatives.

Blue Skyre IBE has partnered with Allovance, a recognized leader in dynamic decision-making software, to create a technology-driven ESG Prioritization Tool called ESG Focus™ that guides actions, maximizing impact and affecting change. Driving value and creating impact are benefits of taking an approach that allows you to weigh which potential initiatives will be the most effective given your specific company parameters.

ESG Focus™ powered by Allovance
An intelligent way to create and implement an ESG program:

- Utilizes a proprietary algorithm to allow a company to make informed ESG decisions
- Incorporates science into the art of decision-making by using strategic prioritization software
- Features a Strategic Value Scorecard that enables the identification of priorities & objectives
- Embraces a proven, structured technique that aligns investments with business goals

4 Implementation

The best-intentioned plans can fail without proper execution. Visibility to ongoing performance and selecting the right experience and talent are critical to success. Many times, this includes internal talent supported by external subject matter experts.

Bring in the experts: most internal real estate teams benefit from tapping subject matter experts (SMEs) in areas such as portfolio certification, Health & Safety programming, and Solar & Renewable programming across multiple sites. A SME with the time, resources, and experience in program implementation is invaluable to the ESG team and can provide the team with the focus to execute right, the first time, on time, and within budget.

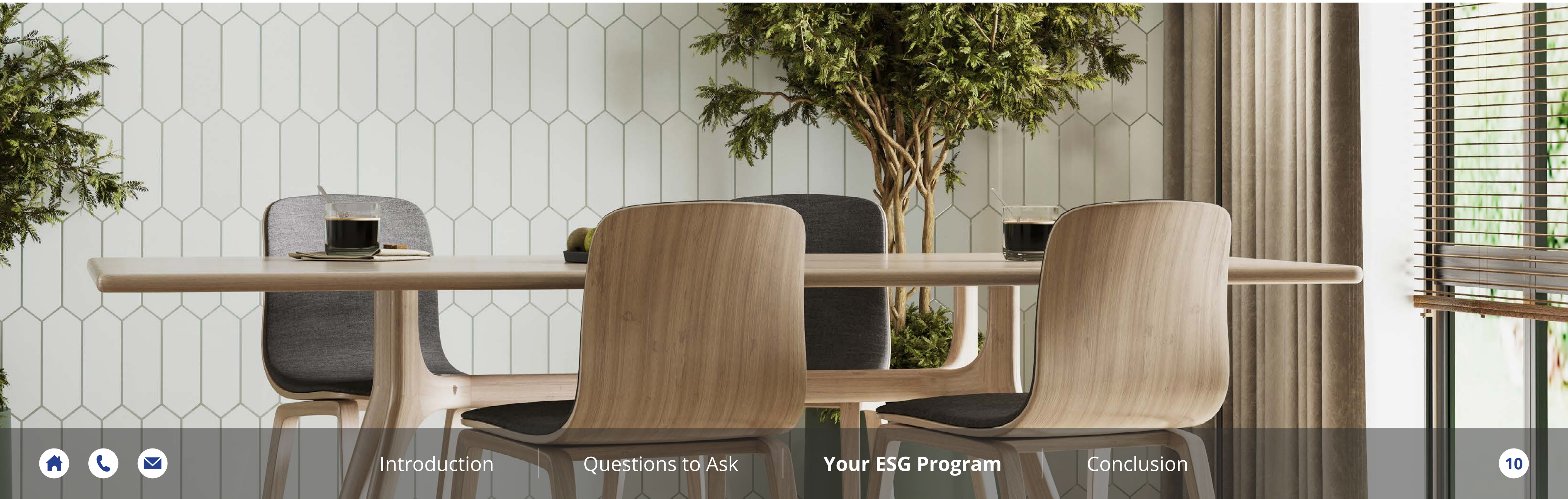
Partnering or subcontracting can be a very cost-effective and expedient way to approach implementation.

5 Measuring Performance

ESG initiatives require quantifiable data and measurement to substantiate the outcomes of objectives that a company is striving to achieve. Developing an auditable program to track, manage and operationalize data is essential when forming an ESG strategy.

Performance visualization is a useful tool for companies to analyze past and present data. For example, data is fed into dashboards that generate graphics illustrating performance results, and the data is also measured against Key Performance Indicators (KPIs) pertinent to the ESG program.

Tracking performance progress also allows for necessary adjustments or changes if an initiative is not performing as planned. A company should outline a data governance plan to curate this data accurately and thoroughly. Data governance plans outline where, when, and how data is collected and whether it is automated or manual.



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Performance management remains essential as companies focus on achieving their goals and objectives. Many companies measure performance through financial objectives (e.g., earnings, profit, shareholder value, etc.), although companies increasingly focus on the triple bottom line (people, planet, and profit) and ESG ratings. The Balanced Scorecard is an example of setting goals beyond financial measures to align with such areas as customer satisfaction, organization, and business processes.

Company departments, such as corporate real estate or asset management, align their goals with the company's objectives. Typically, these goals flow to the departments, and the departments flow operational performance back to the enterprise level. While shareholders may use similar performance measures across companies, such as earnings, how companies achieve success differs based on their business and operating performance. Thus, operating performance is critical to a company's financial success and brand reputation.

Measuring Performance

Aligning Objectives

Figure 2 is an example of linking and aligning a real estate goal to a company objective. The action or initiative to positively influence the outcome happens between the CRE departmental goal and metric.

Figure 2 | Aligning Corporate & CRE Department Goals

Company Objective: Increase Earnings

- Increase Revenue
- Reduce Costs

CRE Department Goal: Reduce Cost

- CRE Operating Costs *(e.g., FM Services, Utilities)*
- Rent

CRE Initiatives

- Reduce Utility Consumption
- Portfolio Footprint/Rationalization Plan

CRE Metric: Operating Costs Per Square Footage

- Data
- RE Operating Costs
- Square Footage

KPIs measure the initiative's performance and streamline the data which needs to be collected, tested for accuracy, and consolidated to measure the established metrics. When mapping KPIs, it is essential to determine the intervals for the data calculations. For example, will data be captured in real-time or in intervals (i.e., monthly)?

Measuring performance is only part of overall performance management. A phrase often attributed to Peter Drucker is "You can't manage what you can't measure." Performance management metrics must encompass more than past performance. A CRE goal and its subsequent metrics need to consider how to ensure continuous improvement. The data captured can also lead to business intelligence, predictive analytics, and overall execution improvements. This concept is the difference between KPI dashboards and performance management.

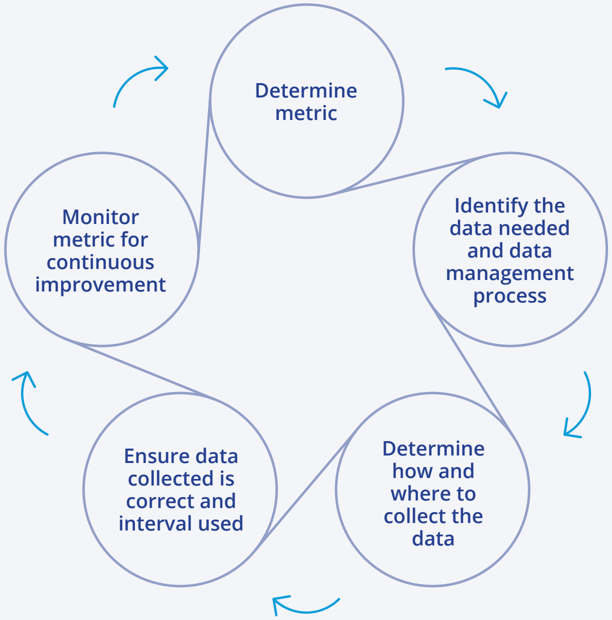
Measuring Performance

Choosing the Metric

A department can choose various KPIs for real estate, and Blue Skyre can help you determine the correct measurements that align with your organization. Once the metrics are identified, there are specific steps to consider in the performance management process; however, following the continuous improvement step, a department should consider adjusting the metric accordingly (e.g., 95% vs. 85%), increasing performance.

Identifying and monitoring the data is also helpful when redesigning and automating workflows. Automating workflows and processes ensures the best use of resources. One does not have to look far to recognize that Agile, Lean, Total Quality Management (TQM), Just in Time, and Six Sigma, are all examples of process improvement programs to help increase performance. Having data insights as they pertain to workflows and processes helps teams execute more efficiently.

Figure 3. Choosing the Right ESG Metric



Measuring Performance

Connecting the Data

Digital transformation supports the automation of data collection and provides opportunities to make better decisions that will drive better performance. The ongoing challenge is accessing the generated data and organizing it to be used to manage real estate and achieve the enterprise's goals.

For many companies, achieving their goals includes the full ecosystem of in-house and outsourced resources, aligning the data from service providers and the continuous improvement process.

Data flow for reporting and measuring the operational performance is at the tactical level, even down to how a vendor performs on a particular work order. Having these operational insights can help ensure a company reduces or eliminates equipment downtime that impacts performance, or it can help to ensure that the temperature of a building is not so high that it impacts the performance of the employees.

Our Solution

Synergy Park Hub™ | Colliers360

The solution we deliver, Synergy Park Hub™, connects data from a customer's facility operations and its supporting suppliers under a single performance management and operating platform. Our solution is in sync with our client's needs: contractor alignment, digital transformation, operational and service consistency across a portfolio of sites and vendors, ESG goal attainment, compliance, and risk mitigation. In addition, it integrates with our innovative tool and analytics platform, Colliers360, enabling you to visualize your portfolio data to make informed business decisions.

6 Reporting

Determining the standards on which the company will report and the data it will share for those reports will help map its goals and initiatives. For example, a company may elect to participate in the Global Real Estate Sustainability Benchmark (GRESB) or the Carbon Disclosure Project (CDP). This should drive data collection, in addition to operational improvement requirements. Technology can also simplify data collection and sharing.

There are many ESG drivers, such as brand or reputation, regulatory requirements, client/customer focus, etc. Whatever a company's drivers are for implementing an ESG program, there are many preferences for how it shares its efforts, progress, and successes. Having standards can simplify the process. However, these standards can be confusing today, and expert external support can help clarify them. Figure 4 is a sample of the complexity surrounding ESG reporting.

Figure 4 | Example ESG Drivers

Governing Principles

- UN Global Compact
- Sustainable Development Goals (SDGs)
- Principles for Responsible Investment (PRI)
- World Economic Forum
- Greenhouse Gas Protocol

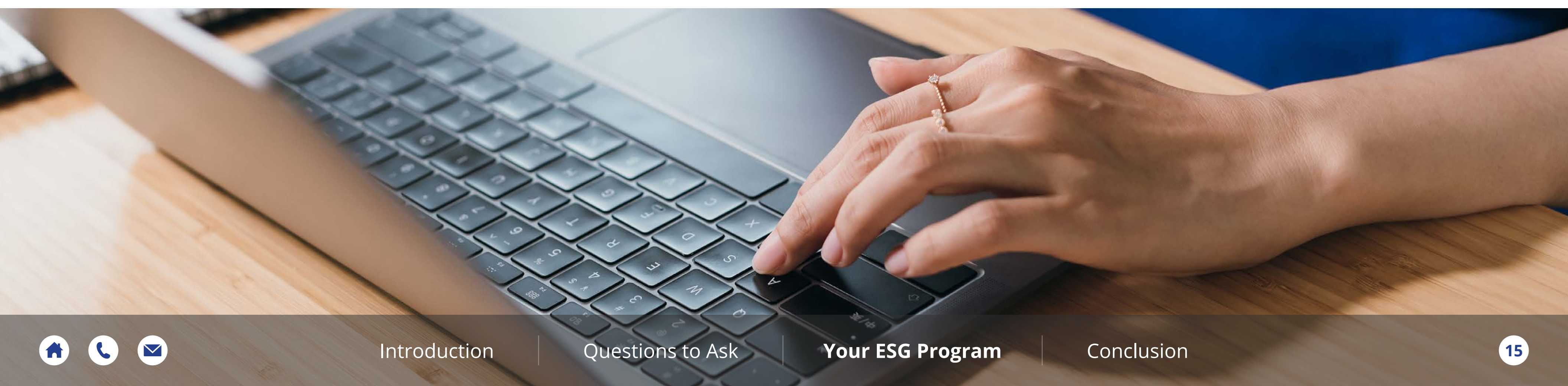
Reporting, Standards & Guidance Framework

- Carbon Disclosure Project (CDP)
- Global Real Estate Sustainability Benchmark (GRESB)
- Science Based Targets (SBTi)
- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- Integrated Reporting
- Task Force on Climate-Related Financial Disclosures (TCFD)
- International Organization for Standardization (ISO)
- etc.

Rating Agencies

- Sustainalytics
- S&P Global
- MCSI
- FTSE Russel
- Dow Jones
- Sustainability Indexes
- Bloomberg
- etc.

Drivers: Reputation, Cost Savings, Regulatory, Clients/Customers



Conclusion

Once your organization chooses to launch its ESG program, for it to be successful, it must be sustainable over time and evolve.

Following the six-step process outlined above will help you establish your ESG program and assist you in launching a successful, holistic ESG program, but true success will be gauged over time. A robust, circular process of continuous improvement and innovation is necessary to position your organization to manage its risks and opportunities and effectively and accurately measure and report ESG impact and performance.

Access to expertise and additional resources will equip you to manage your various program workstreams. It will help you identify and launch specific initiatives and quantify if they require additional staffing, tools, funding, as well as resources with the expertise and experience of having completed similar projects successfully in the past.

Initiative prioritization will be critical as you establish your strategy and approach. Programming, process development, identification of team members and additional experts, implementation resources and performance management metrics are examples of factors that must be considered. Selection and management of the initiatives to be considered and weighed against the organization's ESG goals are fundamental to the program's success, endurability and impact.

Taking a science-based approach to evaluating and prioritizing initiatives with a tool like ESG Focus™ powered by Allovance provides an unbiased measurement that ensures all initiatives and alternatives are considered. That way, your ESG program will drive value and create impact for the portfolio.

Connect with our consulting team

We provide everything from ad hoc services to long-term project support with dedicated, on-site resources, depending on the client need.

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