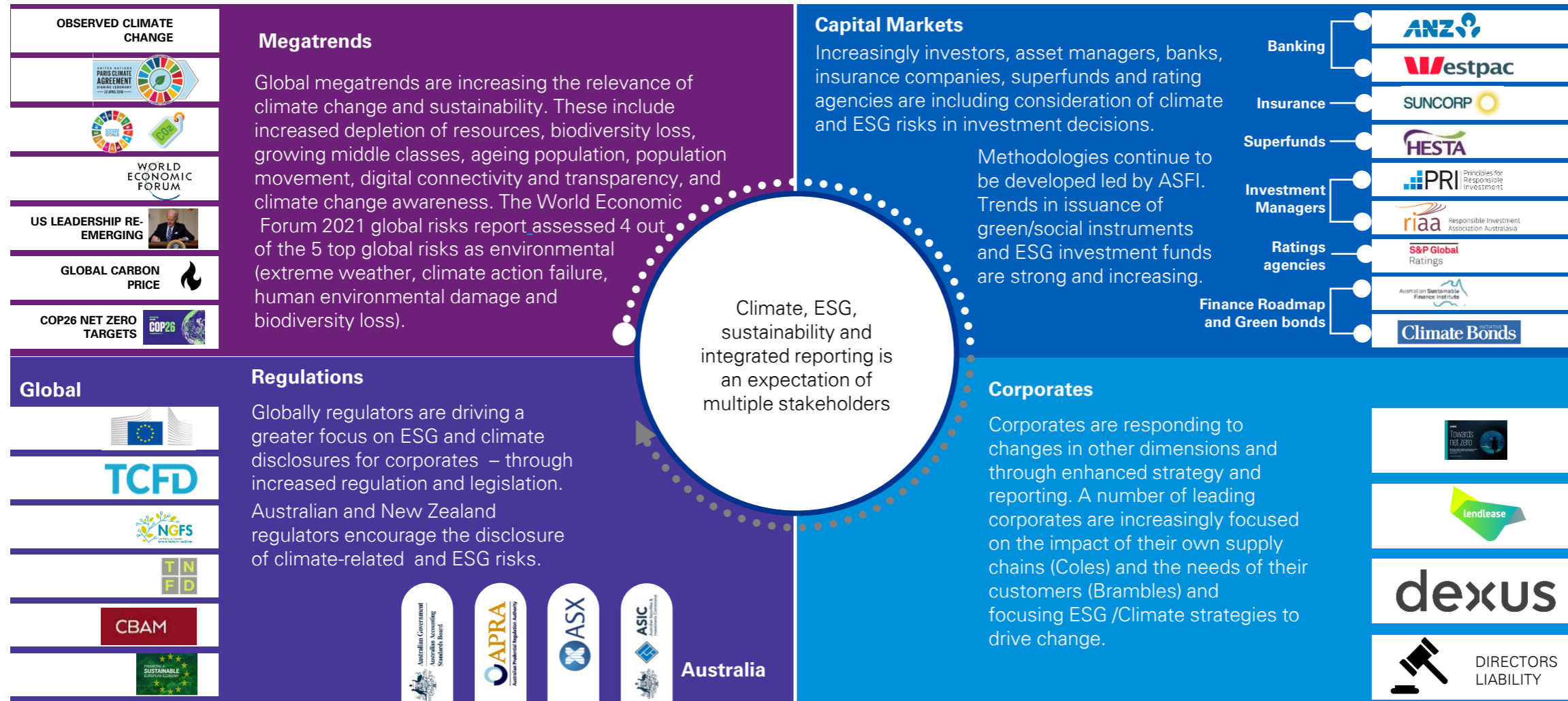


ESG in Real Estate



ESG market drivers



ESG market drivers - Megatrends

OBSERVED CLIMATE CHANGE

PARIS CLIMATE AGREEMENT

UN SDGs

WORLD ECONOMIC FORUM

US LEADERSHIP RE-EMERGING

GLOBAL CARBON PRICE

COP26 NET ZERO TARGETS

Megatrends

Global megatrends are increasing the relevance of climate change and sustainability. These include increased depletion of resources, biodiversity loss, growing middle classes, ageing population, population movement, digital connectivity and transparency, and climate change awareness. The World Economic Forum 2021 global risks report assessed 4 out of the 5 top global risks as environmental (extreme weather, climate action failure, human environmental damage and biodiversity loss).

ESG market drivers - Regulations

Regulations

Globally regulators are driving a greater focus on ESG and climate disclosures for corporates – through increased regulation and legislation.

Australian and New Zealand regulators encourage the disclosure of climate-related and ESG risks.

Global



TCFD



CBAM



Australia

ESG market drivers - Capital Markets

Capital Markets

Increasingly investors, asset managers, banks, insurance companies, superfunds and rating agencies are including consideration of climate and ESG risks in investment decisions.

Methodologies continue to be developed led by Australian Sustainable Finance Institute. Trends in issuance of green/social instruments and ESG investment funds are strong and increasing.



ESG market drivers - Corporates

Corporates

Corporates are responding to changes in other dimensions and through enhanced strategy and reporting.

A number of leading corporates are increasingly focused on the impact of their own supply chains (Coles) and the needs of their customers (Brambles) and focusing ESG and/or climate strategies to drive change.



dexus



DIRECTORS
LIABILITY

ESG in Real Estate

Governance

Is there board oversight over ESG risks and opportunities?

What is the frequency and type of reporting to the Board?

What role does Management have in assessing ESG risks and opportunities?

What targets are set and are they linked to Management remuneration?

Is ESG embedded in standard business practices?

Are your disclosures appropriate for your stakeholders, including regulators?

Environment

How have you considered the impact of physical climate change on assets?

Do you have an understanding of emissions across operations and design?

Can you provide tenants with a green opportunity through improved efficiency or more sustainable design?

Are your assets well-suited to a decarbonised economy?

How can you align to market expectations of emissions reduction?

Are environmental risks understood and managed appropriately across the business?

Social

Do you have a process to identify social risks across business functions?

Do you have appropriate grievance mechanisms in place?

Do your assets provide social wellbeing to your users?

How are social policies monitored and implemented?

How do you actively monitor and manage modern slavery risks?

What social targets have you set to provide value to your internal and external stakeholders?

The ESG journey from strategy to reporting

Assess

Identify current state of ESG and prioritize critical areas

Design

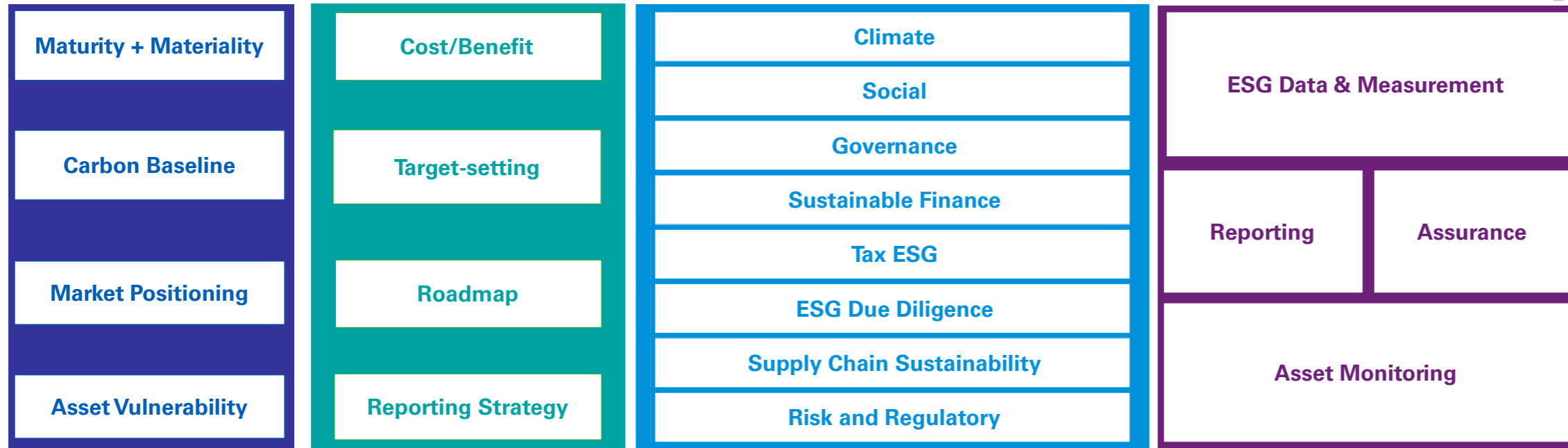
Integration of current & future state into goals that feed strategy

Operationalize

Tangible initiatives to make progress against specific areas identified as ESG focal points

Measure & Report

Continuously review performance and future ESG-related decisions that need to be made



Technology Enablement, Data Sources, Control Infrastructure, Policies & Procedures, and Governance Framework

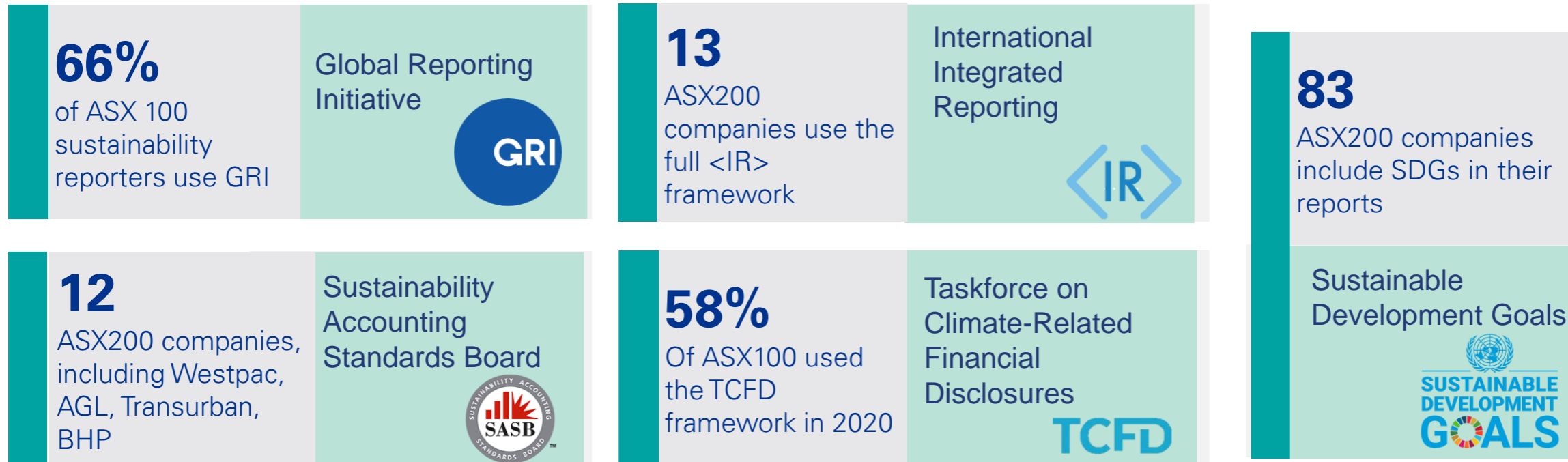
Program & Change Management

Value Creation

ESG Reporting

The ESG reporting landscape is cluttered with a large number and variety of reporting frameworks. Those listed below are widely used and referenced by organisations globally or flagged as supporting good practice by market and corporate regulators.

5 preferred global standards and frameworks



<https://home.kpmg/au/en/home/insights/2020/11/sustainability-reporting-survey-2020.html>
<https://home.kpmg/au/en/home/insights/2021/10/asx200-corporate-reporting-trends-2021.html>

Existing Asset Case Study

Overarching Target

Reduce greenhouse gas emissions

- Conduct energy audits to AS 3598
- Identify opportunities for improvement including
 - Use of energy efficient LED lighting
 - Replacement of old chiller plant equipment
 - Upgrade of boilers with high efficiency condensing boilers
- Implement efficiency opportunities and recertify under NABERS
- Additional longer term opportunities identified with lift upgrade

Outcomes

- NABERS rating increased from 3 stars to 5.5 stars over years
- Scope 1 and 2 emissions have almost halved over 4 years
- Building's capital value appreciated by almost 50% with increased efficiency
- Additional opportunities expected to increase NABERS rating to 6 stars

NABERS STAR RATING GUIDE

★ ★ ★ ★ ★ ★	MAKING A START
★ ★ ★ ★ ★ ★	OPPORTUNITIES FOR UPGRADES
★ ★ ★ ★ ★ ★	MARKET STANDARD
★ ★ ★ ★ ★ ★	HIGH PERFORMANCE
★ ★ ★ ★ ★ ★	SUPERIOR PERFORMANCE
★ ★ ★ ★ ★ ★	MARKET LEADER

Technical Due Diligence Case Study

Traditional Technical Due Diligence Processes

- Structure and fabric assessment
- Building services assessment
- Building code compliance
- Environmental assessment
- Hazardous materials assessment
- Development of a capex forecast

Expanded Technical Due Diligence Process

- Traditional suite of service PLUS
- Sustainability assessment – general energy, water and waste and market position
- Client specific sustainability assessment – how does the asset compare to your goals, what is needed to bring up to your standard?
- Climate change risk assessment and identification of adaptation opportunities to increase resilience
- Embodied carbon assessments – develop or uplift?
- ESG focused capex forecasting – building ESG targets into capex and removing the like-for-like traditional approach

Business Acquisition Case Study

Summary

- Sale of a business that comprised a portfolio of retirement properties and the operations and management functions.
- Overarching goal - **To Create a Healthy Community**

Environment

- Contamination issues
- Environmental incidents
- Adherence to industry standards and best practice
- Impacts to ecology, biodiversity, wildlife and threatened species
- Waste management
- Resource efficiency
- Greenhouse gas inventory – detailing scopes 1 & 2
- Physical climate change risks
- Readiness for low-carbon transition
- Physical resilience to natural disasters
- Business contingency plans

Social

- Stakeholder management
- Human rights breaches, modern slavery, industrial relations
- Archaeological and heritage risks
- Security management plans
- Labour and working conditions

Governance

- Alignment of values
 - Structure of Boards – independence
 - Incentives and reward for leadership team - sustainability KPIs
- Accountability
 - Processes to ensure independence in decision-making
 - Systems in place and assurance for reporting, eg against GRESB and PRI

Corporate Case Study - ESG Framework

Summary

- Conduct a materiality assessment & stakeholder engagement process and set targets
- Establish processes to develop Sustainability Reports
- What's the overarching goal? - **To Create Healthy Communities**

Environment



- Climate Action
 - Transition to net carbon zero by 2028
 - Consider environment at acquisition, development and maintenance
 - Adopt renewable energy sources and technologies
- Green Future
 - Reduce waste and promote water efficiency/reuse
 - Use environmentally friendly building materials, where available
 - Restore and enhance the natural environment within and in the surrounds of assets

Social



- Connection
 - Conduct initial community needs assessment for acquisitions
 - Work with tenants to serve community needs
 - Provide safe, clean & inclusive spaces for communities to connect
- Respect
 - Work with suppliers, tenants & partners to promote responsible business practices
 - Achieve 50% gender representation by 2025
 - Provide safe working spaces for staff, tenants and operators

Governance



- Alignment
 - Build independent Boards
 - Incentivise and reward the leadership team with sustainability KPIs
- Accountability
 - Ensure independence in decision-making
 - Performance updates rated against GRESB and PRI



SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

1 NO POVERTY 	2 ZERO HUNGER 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	5 GENDER EQUALITY 	6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY 	8 DECENT WORK AND ECONOMIC GROWTH 	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 	10 REDUCED INEQUALITIES 	11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION 	14 LIFE BELOW WATER 	15 LIFE ON LAND 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 	17 PARTNERSHIPS FOR THE GOALS 	



Contacts:

Nicola Woodward

Partner | Property &
Environmental Services

T: 0429 587 705

E: nicwoodward@kpmg.com.au

KPMG.com.au



©2022 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Document Classification: KPMG Confidential