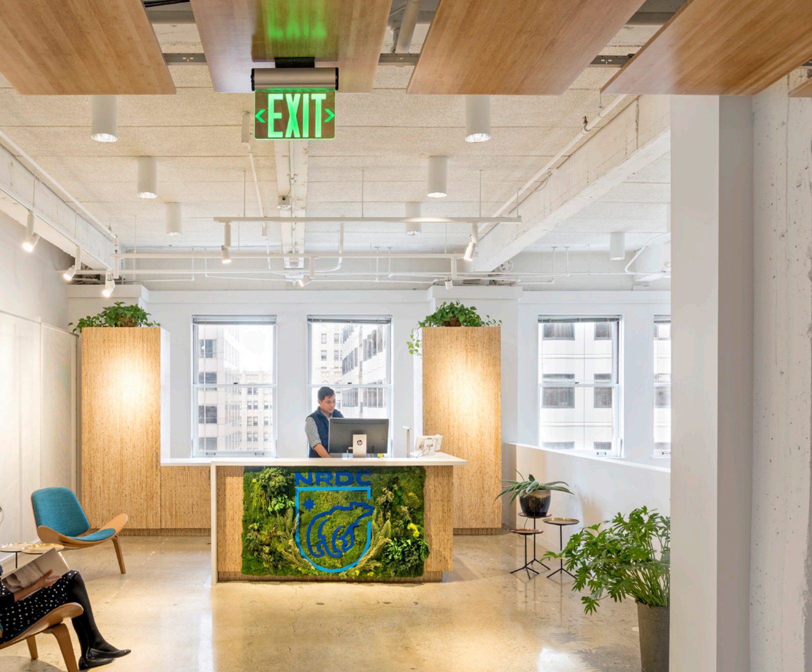
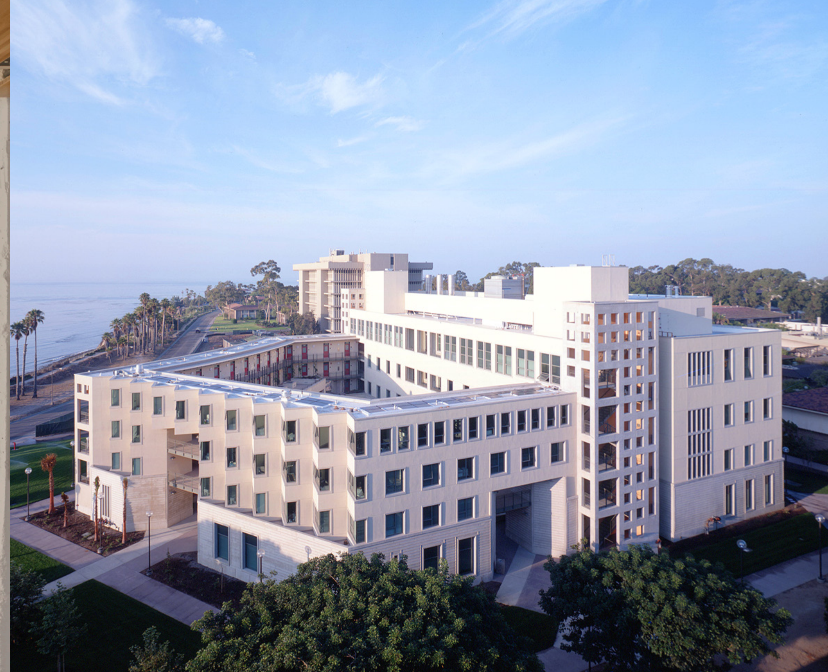
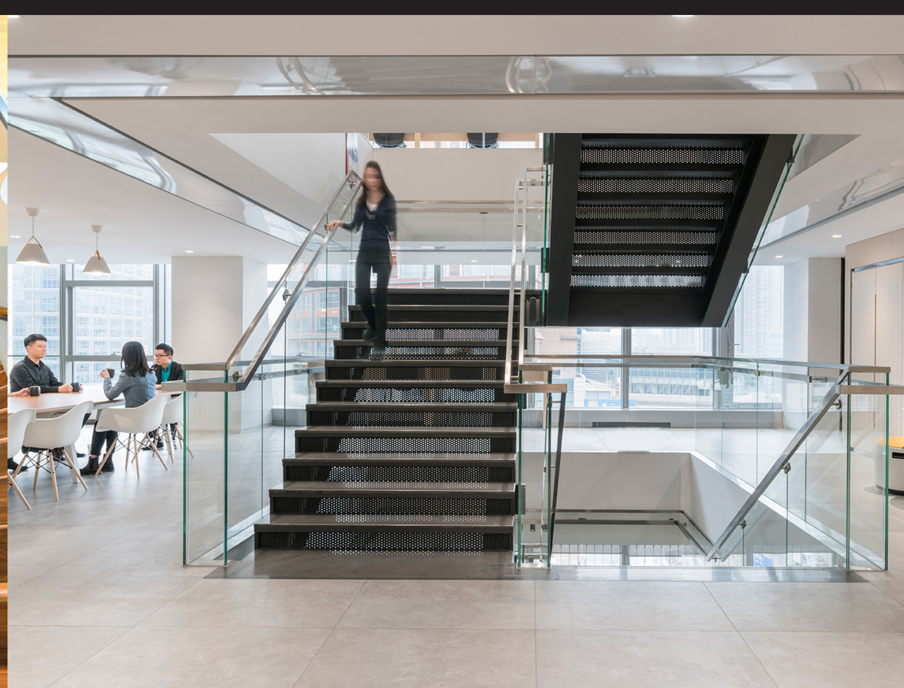




# USGBC
# **Green Building and ESG**
## What You Need to Know

2022

ESG – or Environmental Social Governance – is everywhere you look these days. What does ESG mean, and why does it matter? Recent current economic, public health, and social justice crises have intensified the already surging interest in ESG.

In the Harvard Law School Forum on Corporate Governance, ESG is defined as how companies can be evaluated across various socially desirable ends. It describes factors used to measure the non-financial impacts of particular investments and companies.

When we talk about ESG, we mean how a company is managed, invested, and run to a set of governance, social, and environmental criteria.

ESG and green building practices have experienced massive growth over several years. The global market has seen the emergence of new products, low carbon strategies, and more. At the same time, green building has experienced continued growth – even during a pandemic – and has developed into a multibillion-dollar industry.

For more than 25 years, green building has provided a framework to define leadership and drive market transformation. The result is thousands of certified green building projects that are more efficient, less polluting, and healthier for their occupants. This track record has earned LEED an important place in the rapidly evolving ESG reporting and sustainable finance world. LEED-certified assets provide the basis for new exchange-traded funds, define the use of proceeds for green bonds, and earn points on the GRESB ESG benchmark.

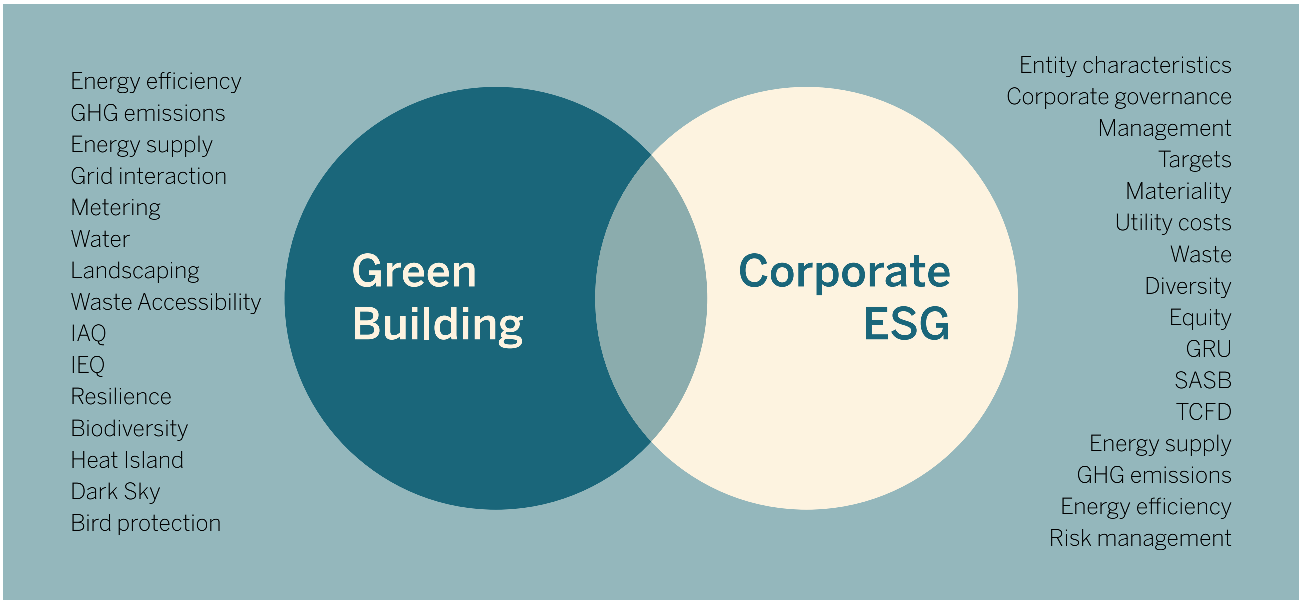
Today, the bar for "green" is rising among institutional investors, property companies and funds. This includes new targets for greenhouse gas emissions and new requirements for supply chain management, accompanied by a growing emphasis on social equity and justice. Moreover, companies, funds and individual assets are increasingly being asked to back up their aspirations with real-world measured performance.

## HOW DO GREEN BUILDING AND ESG WORK TOGETHER?

Essentially ESG provides a framework to describe governance, business strategy, and expectations. Green building does the work and provides the evidence. Green building is where the rubber meets the road, and companies can demonstrate that they are walking to talk. ESG provides information about organizational governance and management. Stakeholders use this information in their investment decision-making and asset management.

According to Sarah Neff, Lend Lease: "You can't have an ESG program and do all of the reporting unless there's something you're reporting about. For Lend Lease, we're reporting about buildings and how green they are."

Both ESG and green building goals are to make something "better." In terms of green building – it's better spaces. For ESG – it's better companies. And, of course, the overlap in those two areas is significant. Topics including asset valuation, resilience, performance, social goals and environmental impact are the foundations for ESG and green building.




Both ESG and green building rating systems, like LEED, have a few things in common. First is the importance of transparency for stakeholders at every level: shareholders, building owners and occupants, and the community. Second, they offer differentiation – both for leaders and for laggards. And they also provide opportunities such as asset improvement and innovation.

## Synergies Between Green Building & ESG

**Transparency**
Data about management and performance

**Differentiation**
Distinguish leaders and laggards

**Opportunities**
Identify and prioritize opportunities to improve entities and assets

## WHAT SHOULD GREEN BUILDING PROFESSIONALS KNOW ABOUT ESG?

Green building pros already know about the E – it's what we do all day every day, but don't forget about the S and the G! When thinking about your own company, are ESG metrics part of your executive compensation? Are your assets aligned with your social goals around health and equity? These are essential factors in the ESG conversation.

Institutional investors are both the recipient and the driver of ESG reporting. Investors consider ESG information in investment decisions because they consider it financially material to investment performance.

According to recent Price Waterhouse Coppers research:

Investors are paying more attention to the ESG risks and opportunities facing the companies they invest in and are poised to take action. Nearly 80% of survey respondents said ESG was an important factor in their investment decision-making; almost 70% thought ESG factors should figure into executive compensation targets. About 50% expressed willingness to divest from companies that didn't take sufficient action on ESG issues.

Said one investment firm's head of ESG, "We're at a tipping point where ESG has gone mainstream. You can't walk into a financial institution now to talk about long-term themes without mentioning ESG."

Kennedy Wilson's Alexander Spigler says, "If I was talking to an investor, I'd say give more weight to education and accreditation. I think more investors would benefit from understanding things like LEED...at a deeper level."

## WHAT YOUR COMPANY CAN DO TODAY

Getting started as an

- Investor
- Property company – sector-specific reporting
- Corporate occupier – supporting corporate reporting

Additionally, consider establishing a formal ESG team and ESG rules. Support from the highest levels organizationally will ensure integration into your company's entire culture. Under the premise "you can't manage what you don't measure," company leaders need to think about what they want to measure.

| STEP 1 | STEP 2 | STEP 3 |
|---|---|---|
| The first step to building an ESG program is to assess the current state of your organization, identify potential risks, and map metrics to corporate goals. | Once you understand what you'd like to accomplish, engage with key internal stakeholders and establish priorities around strategy, goals and metrics. | Collect and consolidate information for reporting. It is essential to consolidate auditable, accurate data submitted through questionnaires and made public through Yahoo Finance, Bloomberg terminals and other financial institutions. |

Another metric that is becoming increasingly important is climate risk. A proposed SEC rule calls for the enhancement and standardization of climate-related disclosures.
The new proposed rule on the Enhancement and Standardization of Climate-Related Disclosures by the U.S. Securities and Exchange Commission (SEC) boils down to three important conclusions:

1. Climate risks can be material for investors.
2. Investors need clear, consistent communications about greenhouse gas emissions (GHGs) and potential impacts on business and financial statements.
3. Companies should report on actions and outcomes to manage these risks.

There are many thoughtful takes on the implications of this milestone rule. The question is, what will it mean for property and infrastructure companies? Here are three impacts to watch:

1. Companies will need to understand climate risks in the short, medium and long term. This means quantifying and benchmarking GHGs and assessing the physical impact of climate change. It also means backing creating a documented risk assessment process, potentially including scenario analysis.
2. Companies will need to translate climate risks into bottom-line impacts. This includes threats of stranding, obsolescence, or compliance costs for buildings and infrastructure.
3. Companies setting climate-related goals will need to document targets, milestones and real-world performance metrics.

Right now, the SEC rules are just a proposal—albeit an impressively well-documented and internationally aligned proposal. It is reasonable to expect the details to evolve.

Here are five things property and infrastructure professionals can do today to keep up with rising expectations:

1. Read the guidance or SEC's summary.
2. Quantify greenhouse gas emissions and physical climate risks with Arc.
3. Assess for individual assets and entire companies and funds.
4. Develop a plan to reduce GHG emissions and physical risks with LEED.
5. Execute the plan and measure real-world outcomes with Arc.

These are specific, actionable steps that any property or infrastructure company can take to meet the moment. This will give investors the information to understand risks, differentiate companies and set expectations for risk-adjusted returns—the foundation of efficient markets.

No company wants to be identified as greenwashing, so it's essential to think about the tools that can make an impact. The tools need to be real, and they need to be measurable for both the planet and the bottom line.

## WHAT TOOLS DO USGBC AND GBCI OFFER TO HELP WITH ESG REPORTING AND METRICS?

According to Stuart Kaplow, real estate and environmental law attorney, "There may be no better third party verification in the realm of environmental disclosures (the E of ESG) than a third party certified LEED green building. I posted about the concept in 2018, and today, still with no accepted criteria, the widely recognized LEED seal provides some sustainable panache, but most important mitigates risk from the modern scarlet letters ESG." [1]

LEED-certified buildings save money, improve efficiency, lower carbon emissions and create healthier places for people. They are critical to addressing climate change, meeting ESG goals, enhancing resilience, and supporting more equitable communities.

Companies certify their projects to LEED both at the single project and the entire portfolio level.

## START WITH PERFORMANCE

Getting more buildings focused on performance means making the tools that track and measure it more accessible. Not all buildings are ready to pursue LEED, but all buildings can start measuring and tracking progress. By doing so, facility teams can see how small decisions can take them one step closer to the leadership standards LEED outlines.

During a pandemic, the ability to track and report on building systems and performance has never been more critical. Health has been a central part of green building for many years because good strategies for the environment often have important individual and global health benefits. In LEED v4.1, nearly two-thirds of the credits relate to health and wellness. The rating system has been a framework that helps teams understand how sustainable decisions also support people. The pandemic has catapulted these strategies into a new spotlight and revealed areas where new guidance is needed to support owners and building teams as they work to reassure people that these spaces are safe and healthy.

To support facility teams and owners in those efforts, USGBC introduced Safety First pilot credits. The credits outline sustainable best practices aligned with public health and industry guidelines. It outlines approaches for cleaning and disinfecting, workplace re-occupancy, indoor air quality and water systems. The credits can be used by LEED projects that are certified or are undergoing certification.

LEED also addresses myriad issues beyond ESG: "There are good things that we care about in green building—bird strikes, passive survivability—that are legitimately good and don't have ESG expression," Dr. Chris Pyke, USGBC. "Meanwhile, the organization of corporate boards doesn't have expression at the building level. That's not a bug! For the good of humanity, we need them both to exist."

1 https://www.greenbuildinglawupdate.com/2020/03/articles/leed/leed-can-help-mitigate-legal-risks-in-esg-disclosures/

## LEED

To achieve LEED certification, a project earns points by adhering to prerequisites and credits that address carbon, energy, water, waste, transportation, materials, health and indoor environmental quality. Projects go through a verification and review process by GBCI. They are awarded points that correspond to a level of LEED certification: Certified (40-49 points), Silver (50-59 points), Gold (60-79 points) and Platinum (80+ points).

The goal of LEED is to create better buildings that:

- Reduce contribution to global climate change
- Enhance individual human health
- Protect and restore water resources
- Protect and enhance biodiversity and ecosystem services
- Promote sustainable and regenerative material cycles
- Enhance community quality of life

LEED is for all building types and phases, including new construction, interior fit-outs, operations and maintenance, and core and shell. LEED is a holistic system that doesn't simply focus on one building element, such as energy, water or health; instead, it looks at the big picture, factoring in all of the critical elements that work together to create the best building possible. 35% of the credits in LEED are related to climate change, 20% of the credits directly impact human health, 15% of the credits impact water resources, 10% of the credits affect biodiversity, 10% of the credits relate to the green economy, 5% of the credits impact community and 5% of the credits impact natural resources. In LEED v4.1, the latest version of the rating system, most of the LEED credits are related to operational and embodied carbon.

To achieve LEED certification, a project earns points by adhering to prerequisites and credits that address carbon, energy, water, waste, transportation, materials, health and indoor environmental quality. Projects go through a verification and review process by GBCI. They are awarded points that correspond to a level of LEED certification: Certified (40-49 points), Silver (50-59 points), Gold (60-79 points) and Platinum (80+ points).

LEED v4.1 shifted the focus to data and metrics and set projects up to track and report sustainability performance using Arc continually. The Arc technology platform allows teams overseeing the sustainability of buildings and spaces to benchmark and track progress. The ability to encourage ongoing measurement and ensure a space continues to operate as intended is critical to helping businesses decarbonize and demonstrate improvement to tenants and stakeholders.

## LEED FOR CITIES AND COMMUNITIES

LEED for Cities and Communities helps local leaders create responsible, sustainable and specific plans for natural systems, energy, water, waste, transportation and many other factors that contribute to the quality of life—revolutionizing the way cities and communities are planned, developed and operated to improve their overall sustainability and quality of life.

The LEED framework encompasses social, economic and environmental performance indicators and strategies with a clear, data-driven means of benchmarking and communicating progress.

## LEED VOLUME CERTIFICATION

Volume certification was created to meet the needs of companies and organizations looking to institute green building at the portfolio scale. Using this option streamlines the LEED certification process by focusing on building design, operations, and delivery similarities. It also serves to integrate sustainable policies and ESG principles at the organizational level.

## ARC

Arc is a state-of-the-art digital platform for measuring and tracking building performance.

Arc allows buildings and spaces to compare performance metrics across the globe and connect them to green building strategies.

In 2019, Arc became available for free to all buildings and spaces. Now, any space anywhere can start benchmarking and tracking energy, water, waste, transportation-related emissions, occupant experience and indoor air quality. Arc provides reports and category-level performance certificates that become a steppingstone to a LEED certification.

LEED-certified buildings can use Arc to improve and benchmark with their peers and verify LEED performance on an annual basis to keep their certification up to date.

Projects that are not yet certified can also use Arc to improve sustainability over time to achieve LEED certification eventually.

## ARC CLIMATE RISK TOOLS

Arc recently introduced Climate Risk tools that allow users to understand, track and manage climate risks associated with their buildings and portfolios. The Climate Risk tools help asset managers, owners and other stakeholders comply with new reporting expectations, such as recommendations from the Financial Stability Board Task Force on Climate-Related Financial Disclosure (TCFD).

Arc has partnered with Moody's ESG Solutions, bringing additional capabilities to the Arc Climate Risk. Moody's ESG Solutions, an affiliate of Moody's and a leading publisher of data and analysis related to physical climate and environmental risks, helps organizations navigate climate change's financial and social impacts and seize new opportunities for value creation. Arc Climate Risk users can use the Climate on Demand web service to evaluate exposure to floods, heat stress, hurricanes and typhoons, sea-level rise, water stress, wildfires, etc.

These new capabilities allow Arc Climate Risk to serve as a global platform for understanding transition and physical risk. Any facility anywhere in the world can use Climate Risk to understand its progress toward decarbonization and receive detailed, site-specific information about multiple current and future hazards. This information is accompanied by national and global benchmarks that help analysts understand and interpret relative risks and opportunities.

## ARC SOLUTIONS FOR GRESB PARTICIPANTS

Arc helps GRESB participants understand, analyze and improve the ESG performance of their assets, companies and funds. Arc provides three complementary solutions for GRESB participants: Easily load GRESB asset data into Arc; Enhance stakeholder engagement and data management and Increase building certification coverage. Arc has many solutions to keep in mind for those managing entire portfolios of buildings to help measure and manage your ESG reporting needs: arcskoru.com/arc-portfolio-management

## WHAT IS THE FUTURE OF ESG AND GREEN BUILDING?

It is estimated that only 21% of the current U.S. building stock is green. ESG may be precisely the spark needed for green building programs to make the kind of game-changing impact needed in today's climate. Think of LEED as one of the currencies in ESG.

The climate crisis has also propelled the reshaping of finance. Yahoo Finance added a sustainability tab on their website where anybody can find out what the ESG performance of a company is and how that compares to its competitors.

Many speculate that ESG and green building will become more streamlined and aligned in the future. There may also be greater clarity around what is and what isn't good performance. There will also be fewer opportunities for greenwashing.

Another factor that is becoming more important is the supply chain. Just as companies must figure out how to stay in business by meeting the demands of their customers, so too must companies balance that with what has become an emerging compliance issue, hewing to ESG standards. What started as optional for many global corporations is now steadily becoming a requirement. Industries will be required to make profit for their shareholders and demonstrate they care about their customers, employees, and members of the communities in which the business operates. In thinking about the supply chain and our buildings, there will be a greater emphasis on what kinds of materials went into the building, what the nature of the company is and its social impact.

This table outlines the synergies between ESG performance metrics (via the 7 Core Principles of ISO:26000) and three leading building certifications: LEED, WELL, and the WELL Health-Safety Rating. It illustrates a new layer of value certifications beyond reducing the built environment's impact on climate change. The table is organized by Good, Better, and Best observations.

The bottom line is that ESG isn't going anywhere anytime soon, and green building is a powerful mechanism for companies to meet their ESG goals. LEED helps investors meet their ESG goals by providing the robust and globally recognized green building framework to measure and manage their real estate performance. LEED helps investors implement management practices to prioritize building efficiency, decrease operational costs, increase asset value, and ensure occupants' productivity, comfort, health, and well-being.

At the end of the day, as USGBC's Pyke says, "Green buildings must be superior assets, and ESG must distinguish superior companies." I think this statement is something we can all get behind.

**Cover Images:**

**Top left:** Natural Resources Defense Council, San Francisco. Image credit: Jasper Sanidad Photography.

**Top right:** Bren Hall, University of California, Santa Barbara. Image credit: Bren School of Environmental Science and Management.

**Bottom left:** Colorado Health Foundation Headquarters. Image credit: Frank Ooms.

**Bottom right:** Cummins Beijing New Office. Image credit: Derryck Menere Photography