Press release

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Real Estate ESG Analysis: Only 15% of listed real estate companies have set targets for scope 1-3 net zero carbon emissions by 2050

Listed real estate sector has made progress over past 12 months but accelerated action is needed from the industry to meet net zero targets.

- **Targets**: Only 15% of listed real estate companies have set net zero targets on all three scopes (externally verified), up from 10% last year.

- **Regions**: Europe leads the way with 31% of listed real estate companies setting net zero targets on all three scopes compared with 14% in Asia and only 8% in North America.

- **Measurement**: 39% of listed real estate companies report on scopes 1 and 2 emissions, unchanged from our inaugural report last year, although the proportion which measure and report across all 3 scopes (externally verified) has risen from 15% to 20%.

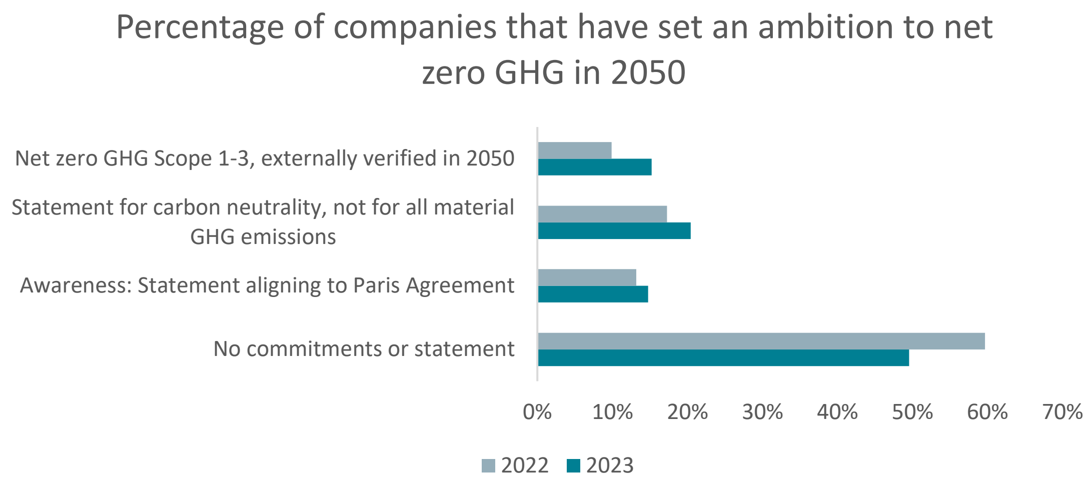
- **Governance**: 34% of listed real estate companies have appointed board-level oversight for greenhouse gas emissions targets. This is up 13 percentage points year on year.

Van Lanschot Kempen Investment Management analysed the environmental pathway frameworks of listed real estate companies globally in order to assess how the sector is progressing towards the Paris Climate Change goals[1]. The analysis represents 92% of the total listed real estate market capitalisation constituting almost $2 trillion worth of real estate worldwide[2].

The wordwide real estate sector (both listed and privately owned) contribute to approximately 40% of total greenhouse gas (GHG) emissions[3], but only 15% of the listed real estate companies worldwide have set comprehensive targets to achieve net zero greenhouse gas emissions on all three scopes (externally verified) by 2050, according to research by Van Lanschot Kempen's Real Assets Team.

While this represents an improvement from 12 months ago, when only 10% had set such targets, accelerated action is needed from the sector if it hopes to meet its net zero ambitions. This year we see progress, but its still from a very low starting base.

Slow progress on setting comprehensive GHG emissions targets



Real estate companies have made progress on setting GHG emissions targets over the past year, though it is insufficient to meet net zero goals as set by the the Paris agreement. The percentage of companies which have set an ambition to reach net zero GHG by 2050 has risen from 40% to 51% year on year based on our internal analysis. That means that almost half of the listed real estate universe still has no publicly stated targets as of today. In order to reach the Paris agreement all real estate owners need to commit to scope 1-3 net zero targets. A lower ambition level does not suffice.

Amongst those which have taken action, 15% have publicly stated alignment to the Paris Agreement but given no detail on how this will be achieved. Additionally, 20% have publicly stated an aim to achieve carbon neutrality but not for all material greenhouse gas emissions. These numbers remain relatively flat year on year.

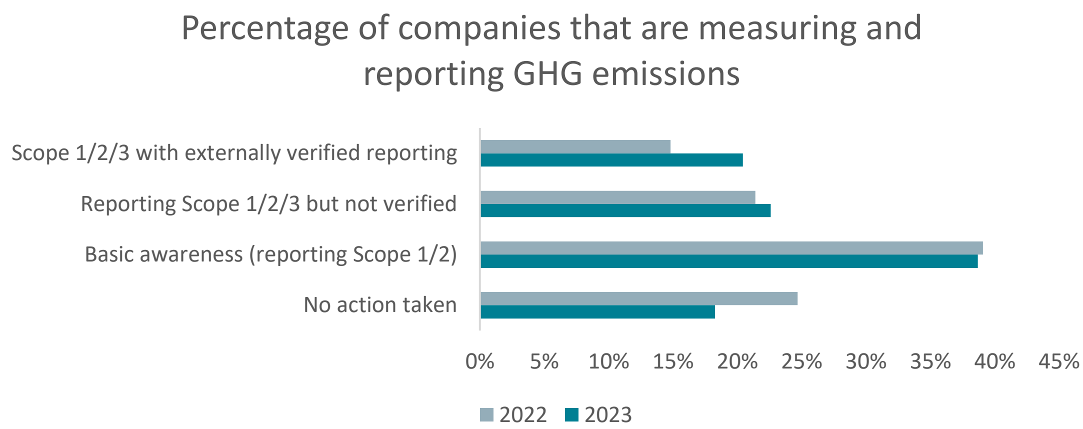
Only 15% of companies analysed have committed to becoming net zero by 2050 across all material greenhouse gas emissions and have their targets externally verified. For Van Lanschot Kempen this is the complete approach every company should strive for with the bulk of GHG emissions coming from scope 3.

Europe leads the way
Segmented by market, Europe leads the way with 31% of listed real estate companies setting net zero targets on all three scopes. This compares to 14% in Asia and 8% in the U.S. Europe's first place position is driven by a number of factors, including a supportive policy landscape.

Egbert Nijmeijer, Co-Head Real Assets, said: *"Limited progress has been made by the listed real estate sector in setting greenhouse gas emissions targets and measuring progress. However, while we believe that externally verified measurement of Scope 1-3 emissions is the best way a company can get a true picture of its environmental impact, the complexity of the real estate value chain presents significant challenges to achieving this."*

"Decarbonization of Scopes 1-2 is relatively straight forward. Real estate companies can, for example, transition to using LED lighting in buildings or electric vehicles for staff. However, Scopes 1 and 2 account for only the minority of total emissions. Reaching Scope 3 targets relies on, for example, a step change in government policies to green the energy grid and decarbonising development projects. As such, real estate companies are, understandably, cautious about taking the admittedly huge leap of faith required by signing up to targets they cannot completely control, especially given the threat of litigation if they fail to meet these goals. However, it remains vital that the entire sector must continue to take major steps to reduce emissions in the short term. The fact that we have seen an increase in companies committing to Scope 3 targets is a positive sign."

Similar trends emerge when measuring and reporting GHG emissions



Encouragingly, the percentage of listed real estate companies which have taken no steps to measure GHG emissions has fallen from 25% to 18% in the past 12 months. Equally, the proportion which have adopted a complete approach to measuring and reporting GHG emissions (including external verification across all 3 scopes) has risen from 15% to 20%[4].

However, a far higher proportion (39% flat year on year) still take a basic approach whereby they only report scopes 1 and 2 emissions. Just under a quarter (23%, up from 21% last year) report on scopes 1-3 but do not ensure these results are externally verified.

Notable rise in board oversight for greenhouse gas emissions targets
The percentage of listed real estate companies which have appointed board-level oversight for greenhouse gas emissions targets has risen by 13 percentage points from 21% in 2021 to over a third (34%) in 2022. The analysis also shows a notable rise in the proportion of companies which ensure meeting emissions targets is reflected in board compensation, from 7% to 14% over the past 12 months.

Europe is also ahead of the curve regarding sustainability oversight and incentives. Nearly half (47%) of companies have appointed board-level oversight for greenhouse gas emissions (compared to 32.5%

in Asia and 29% in the U.S.) and 23% have these targets reflected in their compensation (compared to 12% in Asia and 10% in the U.S.).

Egbert Nijmeijer, Co-Head Real Assets, added: *"While doubling from an albeit low base, board-level oversight for greenhouse gas emissions targets has demonstrably increased over the past year concluded on the basis of our analysis. Boards are now increasingly incentivised to debate and action ways to decarbonise.*

"This is a step in the right direction, but remuneration is still highly tilted towards financial rather than sustainable metrics. We are often asked what the right split is. For our real estate investment strategies, ESG accounts for 30% of our total investment decision making; we call on listed real estate firms to raise their non-financial compensation metrics to 30% (up from an average of 10%) in order to accelerate long-term progress."

Ends

Notes to editors

[1] The data-analysis is based on the annual reports and sustainability reports 2020/2021 and 2021/2022 from listed real estate companies.

[2] The 2022 analysis covers 230 companies, or 61% of the listed real estate universe and 91.7% of its market capitalization. The 2021 analysis covers 243 companies, or 64% of the listed real estate universe and 92.3% of market capitalization. The discrepancy is due to rebalancing of the benchmark year over year which reduced the number of companies from 381 to 376. Where percentages are given, this refers to the proportion of companies analysed out of the total universe of 230 for 2022 data, and out of the total universe of 243 for the 2021 data. Van Lanschot Kempen sees the two datasets as similar enough to allow statistically robust year on year comparison.

Both data sets refer to the companies in the global benchmark (FTSE EPRA Nareit Developed Index). Microcap companies (market cap < €300m) which are not liquid enough to be appropriate to Van Lanschot Kempen's investment strategy are not monitored in this research.

[3] World Energy Outlook 2021 – Analysis – IEA

[4] To measure GHG emissions, the terms Scope 1, 2 and 3 are often used. Scope 1 are the direct emissions of a building (on site power or heating production e.g. boilers), Scope 2 are the indirect emissions (e.g. off site purchased electricity or heating for common areas in a building) and Scope 3 are all other indirect emissions including off site purchased electricity or heating by tenants for leased tenant space and embodied carbon of real estate development. Scope 3 emissions are by far the largest within real estate.

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Van Lanschot Kempen Investment Management is a specialist investment manager with a focused approach and a clear investment philosophy. We believe in long-term stewardship for our clients and other stakeholders. Van Lanschot Kempen Investment Management provides sustainable returns, fiduciary management services, manager selection, portfolio construction and monitoring, alongside a number of actively-managed investment strategies. As of 30 June 2023, Van Lanschot Kempen Investment Management had a total of €94.0 billion in client assets.

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About Van Lanschot Kempen NV
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For more information, please visit vanlanschotkempen.com

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