



# Pathway to a sustainable base

Sustainability in Action | July 2023

## Engagement

### Strategy

Global Real Estate

### Companies

American Homes, Omega Healthcare, Allied Properties, Sun, Tag

### Theme

Climate, Human and Labour rights, Governance

### SDG



Anna Ferschtman, Sustainability writer

From prefab homes to skyscrapers, real estate is a major polluter and responsible for some 40%<sup>1</sup> of CO<sub>2</sub> emissions worldwide. To better achieve climate goals, the entire sector needs to become significantly more sustainable. Members of our real estate team are among the most active engagers within Van Lanschot Kempen. They regularly discuss the need to speed up the sustainability efforts with the companies and real estate funds in which they do or do not (yet) invest. Their engagement is especially active with the laggards.

1 Source: World Green Building Council

## Transparency and objectives

'We always engage with the companies that belong to the 50% highest emitters in our portfolios, the laggards one might say', **Andreas Welter** explains, Senior Portfolio Manager Global Real Estate at Van Lanschot Kempen. 'Here there is more room for progress, our engagement can have greater impact and this can have a positive effect on the sustainability of the sector as a whole.'

The portfolio managers, engaging with companies themselves, ask for transparency and clear targets. Welter: 'We want a company to report on its emissions: at least on Scope 1 and 2 emissions and ideally also on Scope 3.<sup>2</sup> We also want companies to set targets for the reduction of emissions. Sometimes we're starting at the very beginning with companies, but we are also engaging with companies which are already doing well, but could do even better.'

## Sustainable progress rewarded by higher expected share price return

Measuring and reporting on Scope 1 to 3 emissions is also what we asked from **American Homes (AMH)** when we started our engagement in 2022. This company has a market capitalization of \$12 billion and owns over 57,000 homes, making it one of the largest owners of single-family rental homes in the United States. AMH reported little on its emissions and barely had any existing targets. Welter: 'In 2022, we discussed our concerns with AMH and explained to them that any progress they would or would not make on sustainability would directly affect the price we were willing to pay for their shares.'

<sup>2</sup> Scope 1 emissions are direct emissions from owned or controlled sources of company. Scope 2 are indirect emissions for the generation of purchased energy. Scope 3 emissions are all indirect emissions that occur in the value chain of the reporting company.



**Andreas Welter**  
Senior Portfolio Manager Global Real Estate

Fast forward a year and the company has greatly improved reporting on Scope 1, 2 and 3, with their reporting now also being externally verified and in-line with the standards set by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD). AMH also now reports to GRESB, the independent sustainability benchmark which rates real estate funds worldwide. In addition, the company launched a renewable energy program. 'These improvements translated into a ca.4% higher expected share price return or a value creation we calculate of more than \$500 million,' Welter said. 'The next step is setting tangible emission reduction targets. Our engagement with AMH therefore still continues.'

## Pathway to Environmental goals

Back in 2022, AMH scored low on our proprietary **Environmental Pathway Framework** compared to its U.S. peers. Now, they have made great progress lifting their ranking significantly. The framework provides a pathway towards the Paris 2050 climate change goals, and a checklist against which we can compare the existing environmental efforts against ultimately aligning with the Paris agreement. We look at a company's commitment to sustainability. This is made up of its willingness to become more sustainable, its ability to do so and how this is translated into managerial action: the company's commitment.

Our analysis of the current situation in the industry shows that there is still a long way to go. For example, only 15% of real estate companies or funds measure greenhouse gas emissions adequately, and 90% don't yet have net-zero targets set for 2050.

## Companies value our expertise

We have refined our Environmental Pathway Framework over the past two years during our successful engagement with **Allied Properties**. Since the Van Lanschot Kempen team addressed the Canadian company in 2021 and 2022 on framework items such as climate policy, measurement of emissions, reporting and targets, Allied Properties has improved the data in its ESG report, and part of their emissions reporting is now externally verified. The company has also set short-term targets for greenhouse gas emissions, resulting in a 12.4% reduction over the year.

This year we are continuing engagement with Allied Properties to ensure that targets are also set for the medium and long-term, and that these goals are reflected in the remuneration of the board. Another topic under discussion is the measurement of Scope 3 emissions and options for doing so.

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Exclusion of the laggards or focusing exclusively on the leaders ('impact') are not enough. Engagement with the laggards to bring them to a higher level of ambition is what has the most impact for the planet



Egbert Nijmeijer  
Co-Head Real Assets Van Lanschot Kempen

'Our expertise makes us an attractive partner,' Welter notes. 'Companies like to discuss their plans with us. For example, **Omega Healthcare** came to us to talk about their carbon offset plans. Omega owns more than 900 nursing and care homes in 42 different U.S. states, but does not do the operational management of these properties. Their ability to reduce emissions through their own operations is therefore very limited. Hence, Omega is exploring options to offset their emissions by buying carbon credits. They have made progress in selecting carbon offset projects, but have yet to make a final decision.'



## Besides the E, also the S and the G

In addition to climate considerations, social issues and good governance also provide important topics for discussion. We systematically conduct these discussions using our inhouse Social Framework. Recurring themes within this framework are safety, inclusion and resilience. The latter refers to issues such as employee and resident well-being, affordability and waste management. For example, this year we spoke with **Sun Communities** - owner of lower-cost rental housing in the U.S. - about employee, tenant and community well-being, housing affordability, the gender pay gap, and waste issues.

The topic of good governance - the G in ESG - also comes up in our conversations. We conducted an engagement with **TAG**, a German residential company focused on affordable housing in eastern and northern Germany, and recently also in Poland, after the company received a non-investment grade rating from credit rating agency Moody's. The rationale of our dialogue was to get the company to improve on capital allocation and corporate governance, by creating a more independent governance structure. Progress was made on both topics over the past year and we were able to close our discussions with TAG recently.



## Real world results

Engagement can seem not that heroic at times; holding companies accountable and urging them to do better on sustainability. But this is how real results are achieved - when companies accelerate and perpetuate their sustainability efforts. There are many companies which are not yet on the path to becoming climate neutral by 2050 at the latest. Encouraging these 'laggards' to improve their sustainability today and even lead the way tomorrow, will have the greater impact in creating a better world.

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Beethovenstraat 300  
1077 WZ Amsterdam  
Postbus 75666  
1070 AR Amsterdam

T +31 20 348 80 00  
[vanlanschotkempen.com/en/sustainability](https://www.vanlanschotkempen.com/en/sustainability)