VAN LANSCHOT KEMPEN

Sustainability in Action

May 2025

Decarbonising Real Estate

Progress and Challenges

Over the past five years, significant strides have been made in decarbonising the real estate sector. This progress is evident even in the United States, where many companies continue to advance despite the political climate. However, the Van Lanschot Kempen Real Estate team which actively engages with companies emphasises that concerns remain. While improvements are being made, a major issue is still being widely ignored.

"The emissions of both the investment strategies and the broader market are now clearly below the EU Climate Transition Benchmark

Egbert Nijmeijer
Listed Real Estate Manager

Climate and Investor Value

From apartments to offices and data centres, real estate accounts for nearly 40% of global carbon emissions; more than any other sector.[1] At the same time, real estate is central to the climate change discussion, as it significantly influences how and where people can build, and live. Rising sea levels and areas with an increasing risk of wildfires, are just a few examples of how climate change can impact real estate. These factors also affect the value, insurance costs, and maintenance expenses.

Reducing emissions is critical from both a climate perspective and for protecting investor value. The ultimate goal should be 'net zero' by 2050, as envisioned by the Paris Agreement. The process of decarbonisation – reducing CO_2 emissions – is central to our discussions with real estate funds, and the companies in which Van Lanschot Kempen Investment Management invests.

1 40% of emissions come from real estate; here's how the sector can decarbonise – United Nations Environment – Finance Initiative.

Good Progress, but Stalling

'We are certainly making progress,' says Egbert Nijmeijer, Listed Real Estate Manager. The graphs below show the carbon intensity of the two listed real estate strategies of Van Lanschot Kempen Investment Management and their benchmark (according to the Weighted Average Carbon Intensity).[2] This is compared to the EU Climate Transition Benchmark, the reference benchmark to which the strategy is committed.

Nijmeijer adds: 'The emissions of both the investment strategies and the broader market (the benchmark of the strategies) are now clearly below the EU Climate Transition Benchmark. However, the WACI of the benchmark seems to have remained stable over the past three years. Decarbonisation within the broader market is no longer progressing as strongly. This may be due to an increase in energy-intensive data centres within the benchmark, or the IPOs of cold storage facilities, which are also very energy-intensive.'

An Inconvenient Truth

However, there is an important caveat to the progress made over the past few years: 'About 70% of the total emissions of the real estate sector come from the operation of buildings, i.e., their use, maintenance, etc. The remaining 30% comes from construction, such as the emissions from the production and transport of building materials and the production and use of construction machinery,' says Neijmeijer.[3]

'While the first part falls under Scope 1 and 2 emissions, the second part falls under Scope 3.[4] All benchmarks, including the calculations for our strategy, only consider emissions in Scope 1 and 2. The progress you see, therefore, only applies to 70% of the real estate sector. The rest is largely ignored – an inconvenient truth, as Al Gore once called it.'

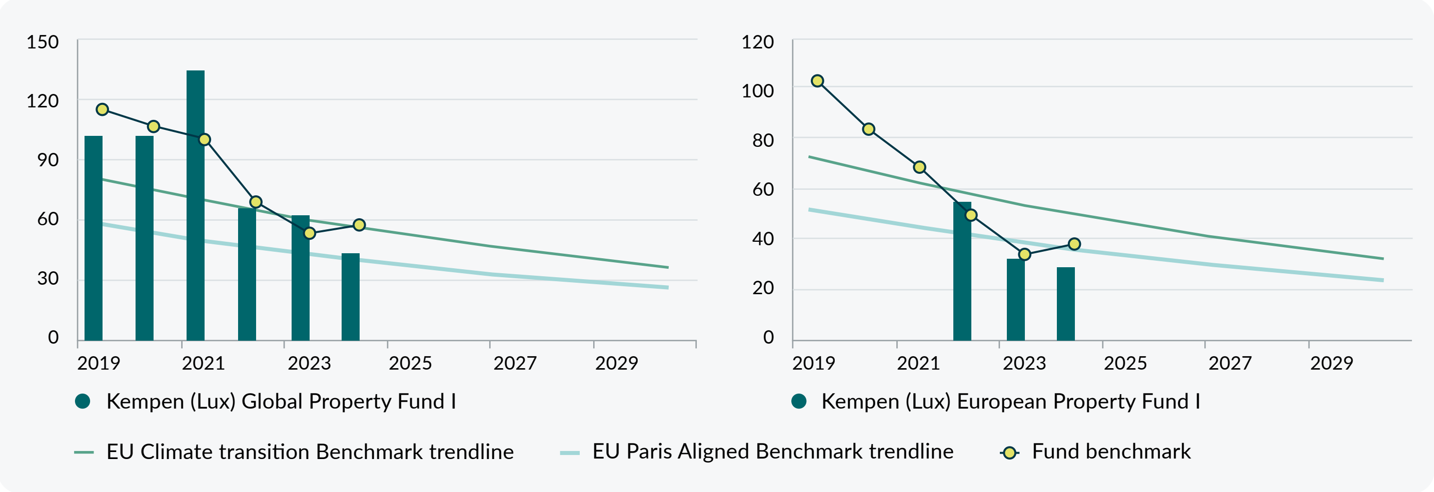
According to Nijmeijer, it is indeed possible to address Scope 3 emissions as well. 'There are construction and real estate companies that focus on the extensive reuse and recycling of building materials. However, these are just a few real estate companies leading the way. Far too few. Most real estate companies continue to emit significant amounts of carbon with project development and then claim with a straight face that they have developed energy-efficient real estate with low emission values in Scope 1 and 2.'

Still Reason for Optimism

Despite this, there is also reason for optimism, according to the portfolio manager. 'We see that American companies are also continuing to make progress, despite the current political climate that does not, necessarily, prioritise sustainability.

These are often relatively simple measures aimed at reducing emissions: for example, energy-efficient lighting and lifts, installing double glazing, etc. These are maintenance measures that any good owner can take, but they are still steps in the right direction. American real estate funds have made significant progress in this area over the past few years.'

Carbon intensity (Waci) Real Estate funds Van Lanschot Kempen and benchmarks



2 WACI measures a portfolio's exposure to carbon-intensive issuers and serves as a proxy for a portfolio's exposure to climate transition risks.
3 40% of emissions come from real estate; here's how the sector can decarbonize – United Nations Environment – Finance Initiative.
4 Greenhouse gas (GHG) emissions are typically split into three categories. Scope 1 emissions are direct emissions from sources owned or controlled by an entity. Scope 2 emissions are indirect emissions, generated by purchased energy. Scope 3 emissions are indirect emissions, not included in Scope 2, that occur in the value chain of the entity.

Compensating carbon Emissions

Some companies are also exploring how to address the emissions they cannot eliminate. A good example is Omega, which owns over 900 nursing and care homes across 42 different US states. In 2022, the company approached Van Lanschot Kempen Investment Management to discuss their emission reduction plans. Omega owns real estate, but does not manage it operationally. Therefore, their ability to reduce emissions within their own organisation is limited, and Omega wanted to explore how they could compensate for emissions by investing in projects which aim to reduce emissions.

During our discussions with Omega, we jointly established the requirements for the compensation projects. Andreas Welter, senior portfolio manager, led the engagement with Omega: 'The chosen projects must sequester carbon for at least 40 years and demonstrate that the reduction of greenhouse gases would not occur without the compensation project. The projects must also be verified by an independent agency.

Our advice was also to create a good mix: Omega ultimately selected projects in North America and the United Kingdom through an external provider; projects within the real estate industry, and the production of sustainable building materials; projects which help avoid carbon emissions and projects that remove them. We are concluding our engagement with Omega.'

Net Zero Intention

Significant progress has also been made by Alexandria, which owns laboratories, research centres, and offices. Since the beginning of our discussions in 2023, the company has set a carbon reduction target of 30% by 2030 – including Scope 3 emissions. 'A big step in the right direction,' says Welter.

Andreas Welter
Senior portfolio manager Global Real Estate

Alexandria has unveiled plans to reduce Scope 3 emissions. Welter adds: 'While this is a good start, the company was not willing to commit to a fixed net-zero target for 2050. However, they have committed to following the 'net zero' emission reduction path and thus have the intention to move towards net zero.'

Pressure from Insurers

Welter also sees room for such steps regardless of the current political climate. 'Politics does not determine everything. Often, sustainability measures are simply driven by business interests. Insurers are also now pushing companies to make more sustainable choices, including regarding their location and environment.'

'Companies in high-risk areas that do not take measures to make their operations more sustainable and resilient, just pay significantly higher insurance premiums. We hear from companies in Florida, for example – where there are significant risks of flooding, wildfires, and hurricanes – that they are being pushed by insurers to take action. Companies are no longer keen to publicise their sustainable plans, but our impression is that these have not been completely shelved despite Washington beating a different drum.'

These shifts reflect a broader trend: market forces are advancing sustainability where policy may fall short. For real estate companies and investors, aligning with these expectations is not just prudent; it is essential for long-term value creation.

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The value of your investment may fluctuate. Past performance provides no guarantee for the future.

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