



Real Estate

Alignment targets

- **Asset alignment target:** A 5-year target for increasing the % of AUM (or financed emissions) in material sectors that are 'aligning' or 'aligned' to a net zero pathway, or achieving net zero'.
- **Engagement threshold target:** A minimum proportion of financed emissions are assessed as achieving net zero or 'aligned' to a net zero pathway, or are subject to engagement.

Scope

- Include individual direct investments, investments in assets pooled through a fund or trust structure, investments in listed real estate companies, and real estate debt.⁸⁵
- Include all types of real estate: retail, office, industrial, residential, hotel, lodging, leisure & recreation, education, and technology/science.
- Include existing real estate assets and those in development.

Criteria underpinning alignment assessment

Key ✓ Green ticks represent when a criterion is required to be fulfilled for a particular alignment category to be obtained.

Criteria	Committed to aligning	Aligning to a net zero pathway	Aligned to a net zero pathway	Achieving net zero
Asset with emissions and energy intensity required by the sector and regional pathway for global net zero by 2050 and whose operational model will maintain this performance.				✓
Emissions performance: Current absolute or emissions and energy intensity is at least equal to a relevant net zero pathway.			✓	✓
Decarbonisation plan: Development and implementation of a quantified plan setting out a decarbonisation strategy for scope 1, 2, and material scope 3 emissions.		✓	✓	✓
Governance: Governance/management responsibility for targets and/or decarbonisation plan.		✓	✓	✓
Disclosure: Disclosure of scope 1 and 2 emissions, and disclosure of material scope 3, in line with regulatory requirements where applicable or the PCAF Standard.		✓	✓	✓
Targets: Short and medium term targets for scope 1, 2 and material scope 3 emissions in line with science-based 'net zero' pathway. These may be absolute, or intensity based: a) where available, a sectoral decarbonisation/ carbon budget approach should be used; b) minimum for other assets is a global or regional average pathway.		✓	✓	✓
Ambition: A long term goal consistent with the global goal of achieving net zero by 2050.	✓	✓	✓	✓

Over time funds or assets may move between 'aligned' and 'aligning' on the maturity scale, depending on a fund's or asset's decarbonisation plan (for example, undertaking renovation at future lease expiry).



Additional notes on alignment

Carbon reduction pathways should include scope 1, 2 and material scope 3 emissions. When assessing the alignment of assets, investors should consider:

- Current and forward-looking alignment based on carbon emissions and energy intensity in line with net zero pathways.
- For projections of future alignment, investors should account on a best-case basis:
 - Assumptions about the energy mix and demand in different buildings and locations.
 - Potential for, and plans relating to, retrofit, renovations, refurbishments and other investments to address emissions and energy use.
 - Fugitive emissions and transmission losses associated with the relevant energy system.

Methodologies used to assess the alignment of assets should include the above features. Currently, the recommended methodology for the assessment of this asset class is:

- The Carbon Risk Real Estate Monitor (CRREM).

In regions or countries where CRREM is currently less applicable due to market-specific differences, investors may use other equivalent 1.5° aligned methodologies or tools, but should disclose when this has occurred, explaining what tool has been used and how it is suitable.⁸⁶

Embodied carbon

Investors may consider setting targets for and disclosing embodied carbon emissions of new construction and major retrofits and include this in their decarbonisation plan.⁸⁷ Embodied carbon emissions performance against a net zero pathway should be accounted for when methodologies become available.





Approaches to achieve asset level targets

The approaches below can be used to achieve asset alignment targets. However, they are presented agnostically (regarding their efficacy) as this will depend on the context an individual investor operates within.

Portfolio construction

- Collect necessary data to assess a portfolio using the relevant decarbonisation pathway, e.g. CRREM tool or equivalent standard, using estimations and approximations for missing data.
- Screen all new investments (direct, listed, and non-listed) using the CRREM methodology or equivalent standard to assess current and future asset alignment and incorporate into decision-making in order to achieve targets over time.
- Consider real estate impact investments where changes in governance, ownership or management can drive swift decarbonisation actions.

Management

- Develop a clear timebound management and investment strategy supported with strong decarbonisation plan and commitments that, over time, achieves a portfolio consistent with CRREM pathways, or equivalent standard.
- Develop strategies to address and manage whole life carbon emissions across the property life cycle.⁸⁸
- Translate strategies and plans adopted and implemented by all relevant stakeholders into agreements with relevant parties involved in the management of real estate assets.
- Align direct investments (and own buildings) via investment/management plans to improve energy efficiency and increase renewable energy use.

Engagement and stewardship

- Prioritise engagement based on transition risk and exposure.
- For listed real estate companies, follow the Listed Equity and Corporate Fixed Income engagement guidance⁸⁹ and for unlisted real estate funds, use either the listed equity and corporate fixed income or private equity engagement guidance.
- For directly held assets, engage with tenants, prioritising engagement based on the level of alignment and size of exposure to assets, in order to:
 - Improve the data collection process for energy use by encouraging or even requiring tenants to share energy use data with building owners (where possible).
 - Facilitate actions and investments that reduce energy costs for tenants and owners and reduce emissions in line with net zero pathways.
- Address any split incentive between building owners and tenants and allow the costs of retrofits to be shared through building service charges.
- Encourage corporate tenants to adopt corporate emissions reduction targets consistent with net zero.
- Strengthen the role of green leases.
- Strengthen cooperative policy engagement to improve the policy framework around investments in building retrofits.
- Report and disclose on GRESB tenant engagement indicators related to climate and energy use, with the objective of achieving a positive scoring.