

Environmental / Social / Governance



CRE Finance Council®
The Voice of Commercial Real Estate Finance

CREFC ESG Survey
May 2022

Executive Summary

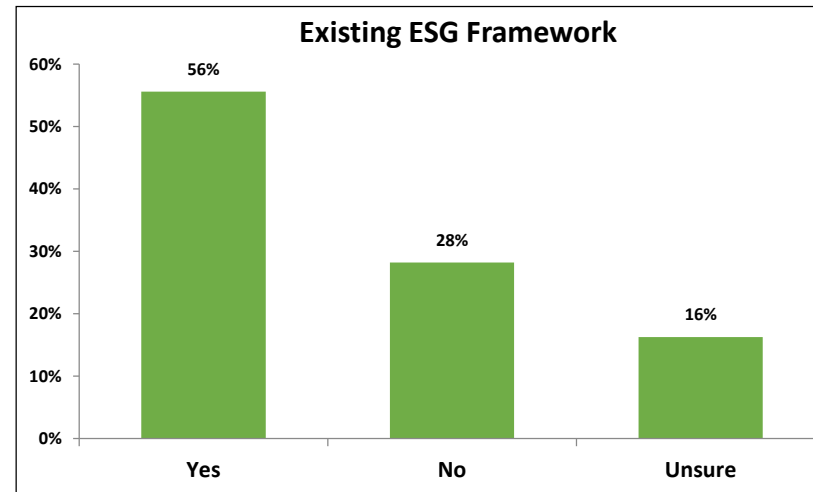
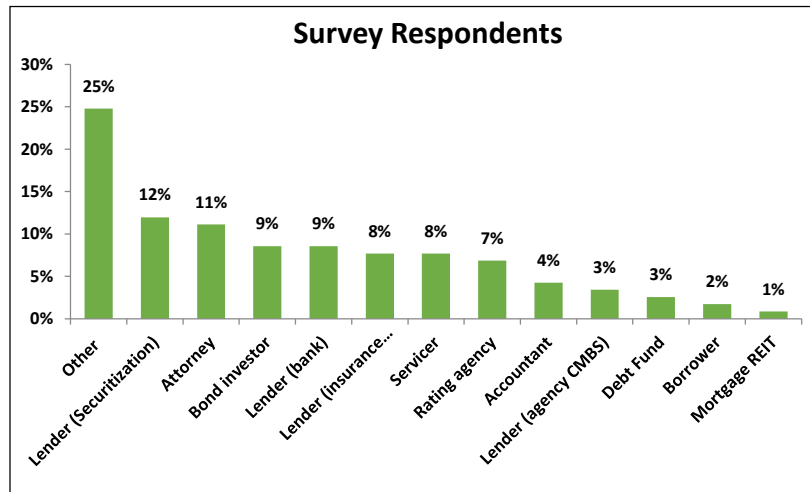
- In March 2022, CREFC issued its second annual ESG member survey, receiving 115 responses, more than twice as many as last year
- The percentage of respondents reporting the existence of a commercial real estate (CRE) ESG framework rose from 47% to 56%
 - **Regulatory compliance became a more significant driver** of respondents' ESG efforts, now in third place (42%) behind responsiveness to client demand (58%) and adherence to firm values (53%) and ahead of reputation enhancement and risk management
 - While respondents indicate a strong desire for additional CREFC webinars on both environment and social considerations, **Environmental concerns still far outstrip a focus on Social and Governance concerns** within respondents' ESG frameworks
- The importance of individual metrics within the Environmental and Social considerations appear to have ceded ground to a more holistic approach (e.g., third-party certification and energy efficiency measures were less significant individually, while an “all of the above” option ranked significantly higher)

Executive Summary (*continued*)

- Property-level data remains by far the most important information sought when making investment decisions according to 67% of survey respondents, up from 50% last year – this finding supports CREFC's focus on property data when identifying key ESG measures for the CRE finance industry
- Two findings run counter to the current regulatory direction in the U.S.:
 - Only a relatively small (although growing) proportion of respondents use the Task Force on Climate-Related Financial Disclosures (TCFD) framework for their ESG plans, while the Securities and Exchange Commission (SEC) and regulators and policymakers cite the TCFD as the bedrock of solid ESG frameworks
 - While greenhouse gas (GHG) emissions reporting is a key feature of the SEC's climate disclosure proposal, respondents seem less focused on this metric than in the past

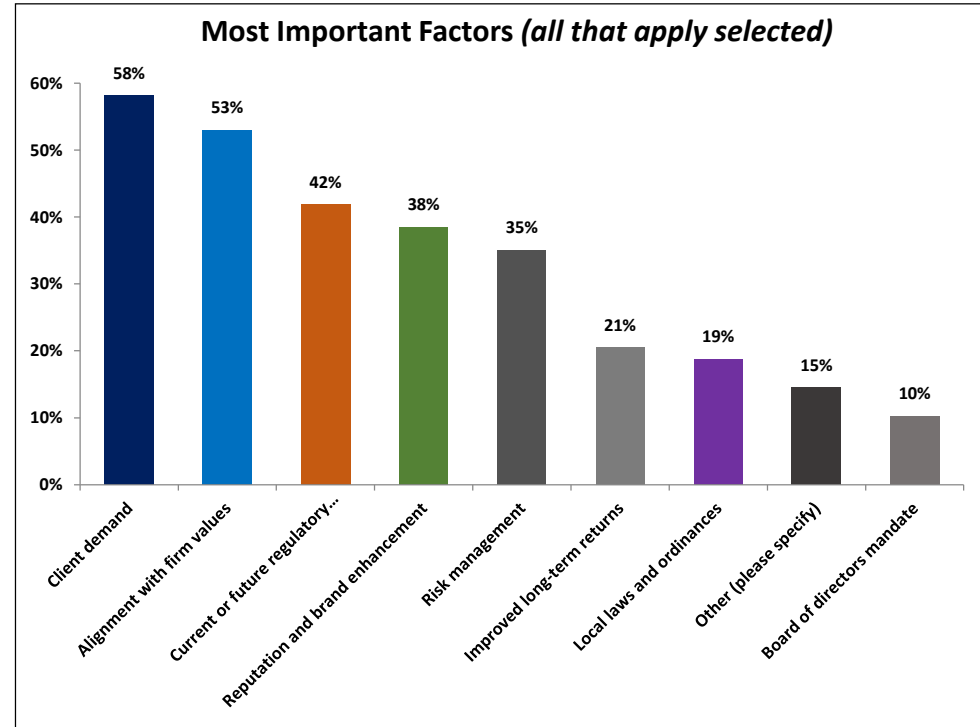
CREFC Distributed an ESG Survey among Its Members in March 2022

- The CREFC ESG survey received over 115 responses, more than doubling the 2021 survey sample size
 - Over 55% of those who responded already have an ESG framework in place for CRE lending and investments, while nearly 30% do not and 16% are unsure
 - In 2021, 47% of respondents reported having an established ESG framework



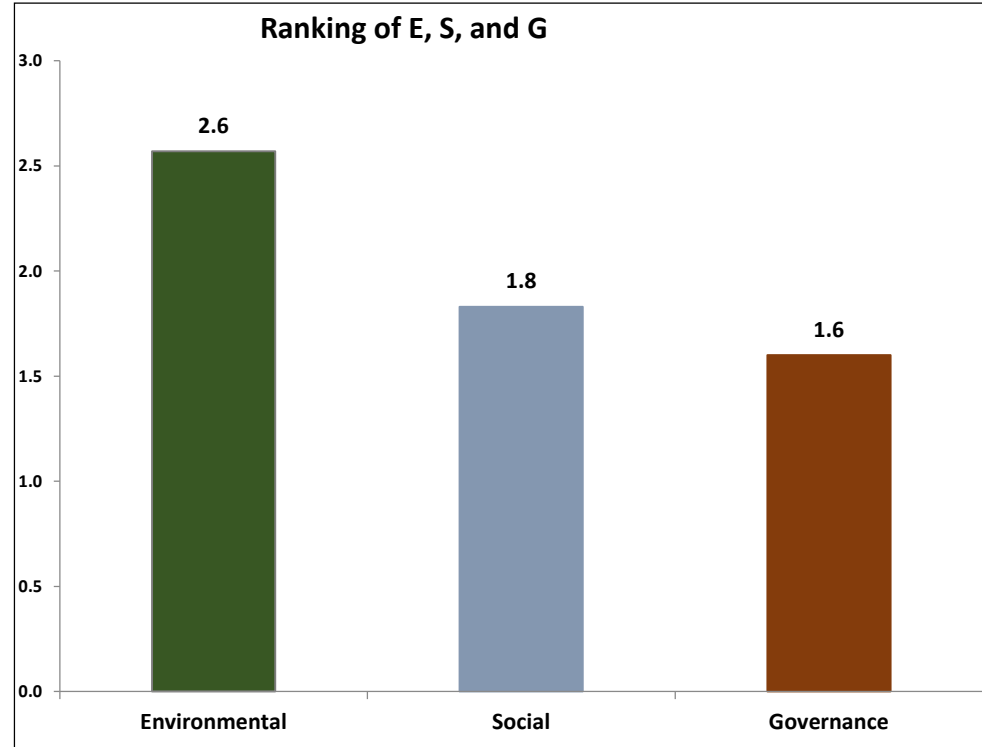
Key Drivers of ESG Frameworks

- Survey respondents cited the following as the top reasons behind the development of their ESG frameworks:
 - Client demand
 - Firm values
 - Current or future regulatory compliance
- Regulatory compliance rose from fifth place in the 2021 survey to third in the current one, eclipsing reputation and risk management



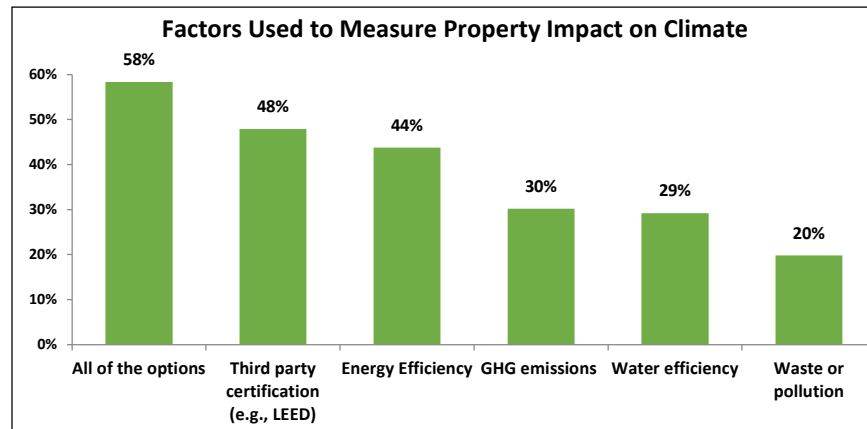
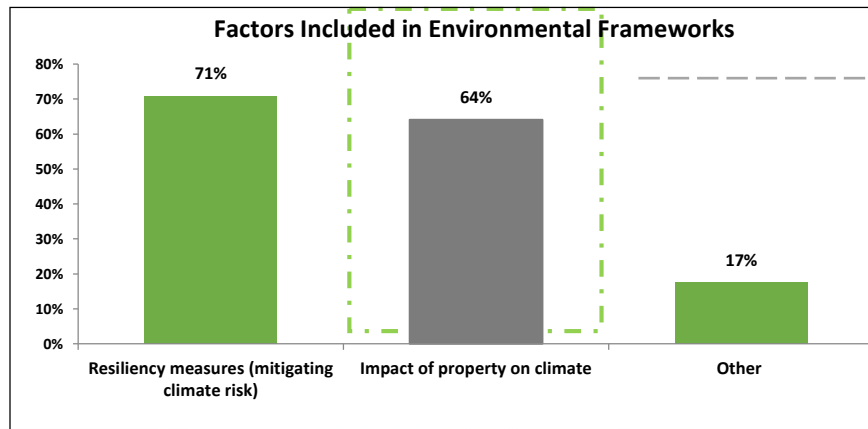
Environment Still Most Important Factor in Respondents' ESG Frameworks

- These results are nearly unchanged from last year
 - The “**Environment**” continues to rank highest in respondents' ESG priorities
 - “**Social**” and “**Governance**” fairly evenly split as second and third highest priorities



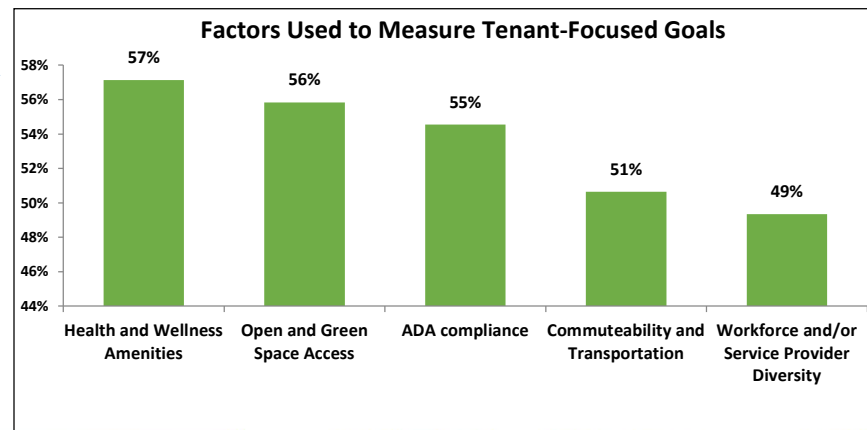
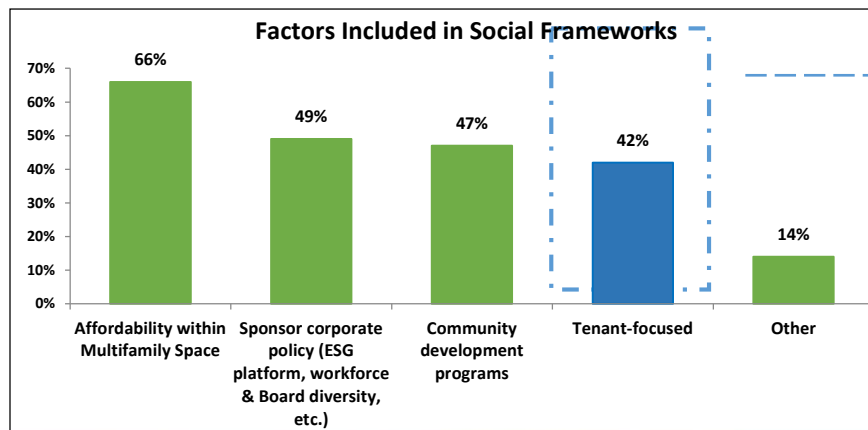
Respondents Identified Factors Key to Their ESG Assessments: Environmental

- A focus on property resiliency (71%) edged out impact of property on climate (64%), but both sides of the climate coin remain important
 - Third-party certification (48%) and measures of energy efficiency (44%) remained top metrics, but less individually important than reported in last year's survey where they were ranked as 76% and 71% respectively
 - The trend appears to point to more of a holistic approach where a combination of metrics, rather than a couple of “most-valuable-players,” is viewed as significant
 - Monitoring GHG emissions ranked lower in importance, both relative to other metrics and when compared to last year (57%), an interesting contrast to the SEC's current focus on emissions disclosures



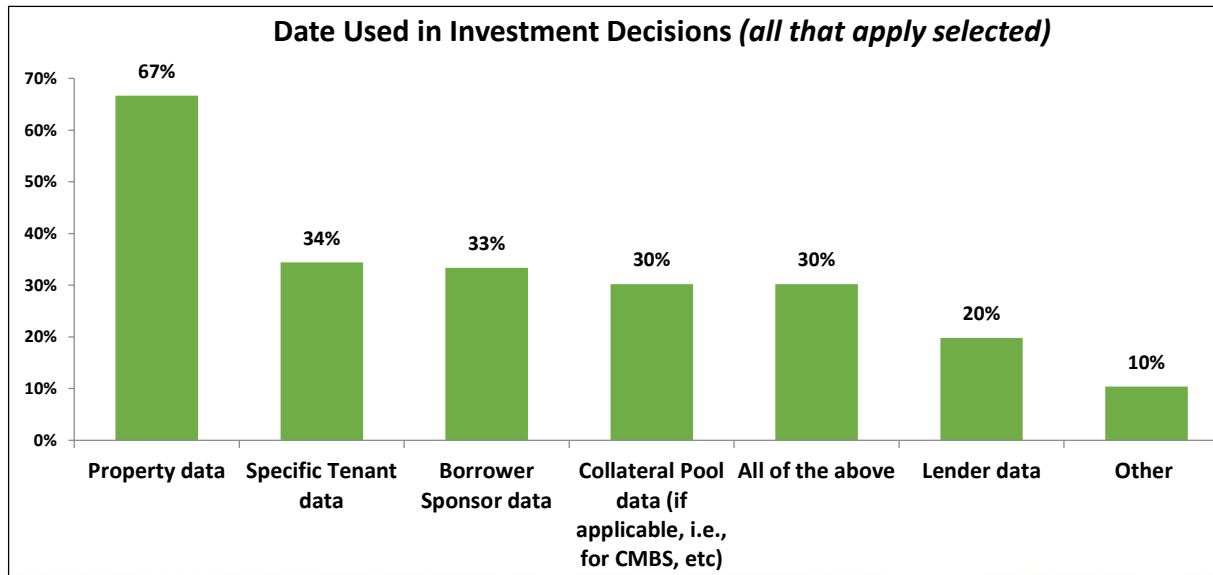
Respondents Identified Factors Key to Their ESG Assessments: Social

- **Affordability continued to dominate Social considerations, although down 10 percentage points from 76% in the 2021 survey; other individual metrics, including sponsor policies, also declined by over 10 percentage points**
 - It's unclear what is driving this decrease, but perhaps respondents are looking at Social from a more holistic perspective and less so on an individual metric basis
- **All tenant-based factors had similar rankings, although access to health/wellness amenities appears more significant than workforce/service diversity**



Respondents Continue to Prioritize Property-Level Data

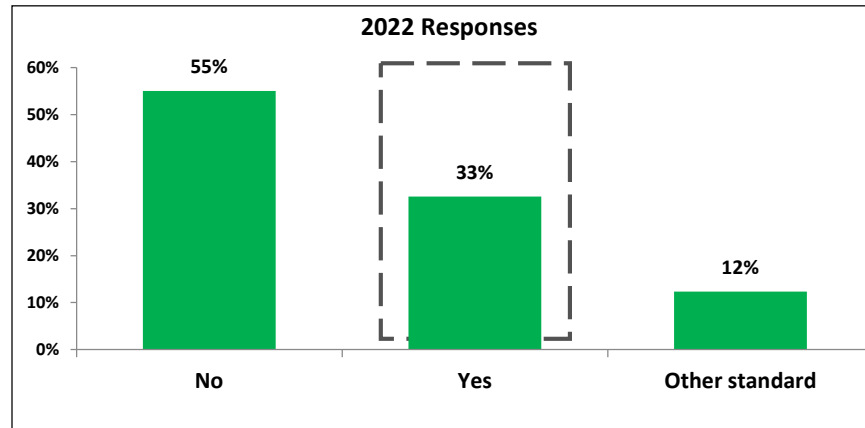
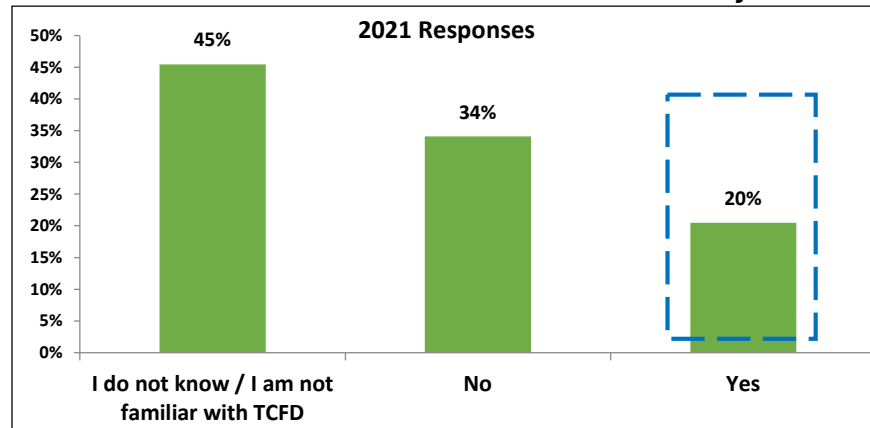
- Focus on property-level data remains by far the most important information sought when making investment decisions according to 67% of survey respondents, up from 50% last year
- Tenant data rose in significance from 26% last year to 34% in the current survey



Majority of Respondents Do Not Yet Use Disclosure Framework Promoted by Regulators

- Globally, many regulatory agencies are building on the Task Force on Climate-Related Financial Disclosures (TCFD) framework for sustainability disclosure requirements
 - In the U.S., policymakers including Treasury Secretary Janet Yellen have pointed to the TCFD as a potential cornerstone for disclosure. The SEC acknowledges that its proposed climate disclosures are similar to those based on the TCFD
- The percentage of survey respondents who indicated familiarity with or use of the TCFD framework rose significantly from 2021 to 2022, but more than half still do not base disclosures off this template
 - Given the regulatory direction, we would assume that additional organizations will start to move to a TCFD reporting framework

Use of TCFD Disclosure Framework



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