

HANDBOOK

VOLUME II:

RESEARCH



NCREIF PREA
Reporting Standards

Approved

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ESG Principles of Reporting for
Private Real Estate



NCREIF

PREA
pension real estate association

INTRODUCING: ESG & DEI PRINCIPLES OF REPORTING

Given heightened interest in Environmental, Social, and Governance (“ESG”) related matters throughout the real estate industry (including, but not limited to, Diversity, Equity, and Inclusion (“DEI”) topics), a need for reporting guidance for relevant stakeholders has become increasingly important. As such, the NCREIF PREA Reporting Standards (“Reporting Standards”) solicited volunteers to form a Think Tank and Task Force to provide its member firms with additional guidance. The Think Tank and Task Force are comprised of investors, consultants, and investment managers with varying degrees of expertise who are well-qualified to embark on this project. The mission of the project is to facilitate the establishment, management, and promotion of transparent and consistent private real estate industry best practices related to ESG reporting in order to incorporate ESG as a part of global investment operations. Additional information can be found within the project prospectus available on the Reporting Standards [website](#).

We are pleased to present the ESG Principles of Reporting (“Principles”). *The Principles presented herein are best practices only and should not be considered requirements in order to claim compliance with the Reporting Standards.* The Principles are intended to capture all relevant reporting aspects and are not intended to be prescriptive on how they are used and implemented. Over time, it is envisioned that as more organizations implement the Principles and/or as regulatory and reporting requirements emerge, certain aspects will eventually become recommended or required topics within Volume I of the Reporting Standards.

When developing the Principles, the Think Tank and Task Force considered several factors, including, but not limited to existing standards or guidelines; differences among firms and investment strategies (e.g., core versus value-added or opportunistic strategies); vertically integrated versus third-party management; and varying levels of resources of member firms. In light of these factors, we understand that not all investment managers will be able to address every aspect of the Principles. As such, we encourage users of these Principles to address Section 1 at a minimum.

Implementing a new reporting framework, especially on a topic with significant complexity, can be a daunting task. The members of the Think Tank and Task Force should be considered a resource as several have created ESG reporting frameworks within their respective organizations¹. We encourage investors to use these Principles as a starting point to engage with investment managers and their fellow investors on the topic of ESG.

In the coming months, the members of this project will work on the development of an accompanying excel template which will include examples of ESG key performance indicators (“KPIs”) that can be used alongside these Principles. Furthermore, it is envisioned that over the following 18 months, additional materials (e.g., an ESG Best Practices Manual) to facilitate implementation of the Principles will be developed and included within Volume II of the Reporting Standards. In all endeavors, the members of this project will strive to collaborate with other industry initiatives and organizations.

¹ Members of the Think Tank and Task Force are listed on the project prospectus.

The following sections are meant to guide a firm on practices and areas of reporting. ESG programs will evolve and progress and thus responses will do the same. The sections are grouped into firm and vehicle information. Firm aspects apply to information and initiatives for firms (i.e., investment firms, subsidiaries, or divisions held out to the public as a distinct business entity). Vehicle aspects apply to information and initiatives for specific investment structures, including funds, joint ventures, club deals and separately managed accounts.

ESG & DEI PRINCIPLES OF REPORTING SECTIONS

1. Firm ESG Information
2. Vehicle ESG Overview
3. Vehicle ESG Strategy and Objectives
4. Vehicle ESG Performance

SECTION 1: FIRM ESG INFORMATION

Section 1 contains topics that are encouraged to be included in due diligence questionnaires (DDQs) or other due diligence materials provided to/by investment managers to assist investors and consultants with underwriting a potential investment in the investment manager. It is envisioned that information within this section should be provided at the time of initial interest and updated upon material changes within periodic reporting to investors.

DDQ Firm Information

1. **Firm Overview (Governance):** Provide high level overview of the firm.
2. **Boundaries/Disclosures (Governance):** Describe any report boundaries or provide disclosures that identify any nuances associated with the information collected herein.
 - a. For example, ESG program exemptions or restrictions: Are any vehicles not included in the firm-level ESG program or only participate in certain elements of the program? Explain why these vehicles are not included.
3. **Firm ESG Structure (Governance):** Include information on ESG leadership, committees/taskforces, integration into organization, objectives, and commitments. Please indicate when committees/task forces were created, and which individuals are members. How does ESG leadership report to senior management? Include relationships with sustainability consultants and other third parties utilized to help shape ESG strategy.
4. **Firm ESG Policy (Governance):** Indicate and describe policies in place to integrate ESG into the investment process and the latest date of the ESG policy. Please indicate when policies were created and how often they are updated/revised. If no policy is in place, note reasons why and if there are intentions of adopting a policy.
5. **Firm Culture (Social):** Describe firm mission, vision, and work culture.
6. **Firm Employee Engagement (Social):** Expand on employee engagement practices and health & wellness programs. Discuss if there is a process to collect employee satisfaction, promotion rates, retention metrics, and exit interview information. Are results of trend analysis on promotion and retention rates shared with employees?
7. **Firm DEI Efforts (Social):** Describe DEI initiatives and any policy, statement, or strategy designed to address DEI. What programs are in place to attract, retain, mentor, and promote diverse employees? Comment on pay equity gap analysis, hiring and recruiting practices, internship programs that facilitate DEI, diverse hiring panels etc.
8. **ESG Training:** Explain how employees are trained on ESG topics and responsibilities and monitored on resulting ESG performance. Include any training certifications such as LEED Green Associate.
9. **Firm ESG Goals:** Indicate firm-level ESG goals, (including DEI goals), indicating both short-term and long-term goals. Is any portion of senior management compensation structure tied to achieving these goals, including DEI goals?

10. ***As applicable, Firm Industry Participation on ESG Initiatives:*** Describe the firm's involvement, participation, or support of promoting ESG initiatives, including DEI efforts, within the private real estate industry. These could include, but are not limited to, NCREIF PREA Reporting Standards, Institutional Limited Partners Association ("ILPA"), Urban Land Institute ("ULI") Greenprint, Global Reporting Initiative ("GRI"), Task Force on Climate-Related Financial Disclosures ("TCFD"), Global Real Estate Sustainability Benchmark ("GRESB"), Sustainability Accounting Standards Board ("SASB"), United Nations Sustainability Development Goals ("UN SDGs"), United Nations Principles for Responsible Investment ("UN-PRI"), the PREA Foundation, the Robert Toigo Foundation, Sponsors for Educational Opportunity ("SEO"), CFA Institute's ESG and DEI initiatives, etc.
11. ***As applicable, Firm ESG Innovation/Thought Leadership:*** Describe the firm's implementation and/or involvement in innovative ESG practices and/or thought leadership, case studies or similar publications to provide information to the wider industry.

SECTION 2: VEHICLE ESG OVERVIEW CONSIDERATIONS

Section 2 includes topics that could be included directly within, or supplemental to, vehicle formation documents. It is envisioned that information within this section should be prepared upon vehicle formation and updated upon material changes within periodic reporting to investors.

Vehicle ESG Overview

12. **Boundaries/Disclosures:** Describe any report boundaries or provide disclosures that identify any nuances associated with the information collected herein.
 - a. For example, ESG program exemptions or restrictions: Are certain properties in a vehicle not included in the ESG program or only participate in certain elements of the program? Explain why these assets are not included.
 - b. For example, insights into performance data: Is the vehicle sharing common area or whole building data (or a mix), is data normalized (occupancy/weather/etc.), is any data estimated, is any data missing?
13. **Vehicle Information:** Describe the vehicle's overall strategy and objectives. Include the composition of the Investment Committee or investment decision makers.
14. **Vehicle ESG Goals and Targets:** Describe the overall approach to setting the ESG strategy for the vehicle. If any, describe specific, measurable, time-based targets of ESG KPIs and specify ESG commitments (e.g., carbon neutrality) and objectives. Indicate how progress is measured to these commitments and how results are communicated to investors. Additionally, describe any financial objectives with the implementation of ESG strategies.
15. **ESG Responsibility:** Describe how ESG is integrated into the vehicle such as through expanded responsibilities of existing staff, dedicated ESG staff(s) and/or external ESG consultants.
16. **Joint Venture, Third-Party Management and Responsible Contractor Strategy/Policy:** Describe the alignment of ESG goals, (including DEI), between joint ventures and third-party property management companies, if applicable (i.e., ESG-specific requirements for partners, vendors, or contractors).
 - a. Describe how partners and service providers address and manage ESG risks and opportunities.
 - b. Explain how diversity is considered when hiring joint venture partners, vendors, contractors, or other third-party service providers (e.g., property management, investment banking, leasing, brokerage, accounting, etc.).
17. **Vehicle Compliance:** Detail the vehicle's approach for ensuring compliance for current and future legislation relating to ESG issues (Securities and Exchange Commission ("SEC") / Sustainable Finance Disclosure Regulation ("SFDR"), etc.,). Indicate how the firm has integrated ESG into fund formation contracts, Limited Partnership Agreements or in side letters.
18. **Vehicle Reporting:** Explain how ESG results and case studies are communicated to investors on an ongoing basis (GRESB, Internal ESG evaluation, Annual ESG report, quarterly updates, etc.).

SECTION 3: VEHICLE ESG STRATEGY AND OBJECTIVES

Section 3 includes topics that could be included directly within, or supplemental to, vehicle formation documents and/or included within annual investor reports, as applicable. It is envisioned that information within this section should be provided upon vehicle formation and updated upon material changes on an as needed basis, or annually, as applicable.

Vehicle ESG Objectives

19. **Acquisitions/Due Diligence:** Indicate how and what ESG-related risks, opportunities, and financial impacts are assessed prior to acquisition and if ESG is included in Investment Commitment memos. Please identify who (i.e., internal teams or external resources) are responsible for this task.
 - a. With regards to environmental and climate change issues, describe the asset level due diligence required to evaluate environmental/climate risks and opportunities. Describe the process to focus on physical and transition risks and opportunities caused by environmental/climate change concern and assess the financial risks.
 - b. With regards to social considerations, describe the asset level due diligence required to evaluate social risks and opportunities (i.e., supply chain, tenant engagement, and affordability).
20. **New Construction/Development:** Describe the integration of ESG policy/principles into new construction and major renovations planning. Also identify who (what internal teams or external resources) are involved in for this integration.
 - a. If applicable, specify any qualitative/quantitative targets for new construction aligned with green building standards and/or certifications, minimum energy efficiency requirements, etc.
21. **Asset Management:** Describe how ESG is integrated into asset management. Include if ESG aspects are part of asset level (or group of assets) business plans. Describe whether minimum standard metrics are set across the portfolio and if ESG-related targets and metrics are set. Indicate if and what ESG key performance indicators ("KPIs") are regularly collected and analyzed. Also identify who (what internal teams or external resources) are responsible for this task.
 - a. For example, ESG Annual Property Action Plans (Business Plans): Overview of ESG action plans including the percentage of assets with an individual ESG action plan, describe the scope of these action plans, and detail the communication and information flow with asset management.
22. **Data Collection:** Identify any portfolio or asset level tracking systems, including data management tools used, internal protocols, and/or online platforms. Identify who (internal teams and/or external resources) is responsible for managing data collection. Describe quality control procedures and/or data assurance procedures employed to ensure the accuracy of the data collected.
23. **Ratings/Certification Goals:** Identify any green building rating/certification goals (LEED, IREM, Fitwel, WELL, ENERGY STAR, etc.). Describe your specific measures or metrics of success.

24. **Exit ESG Metrics:** Identify how ESG impacts hold/sell analyses and how often those analyses are conducted. Indicate if investments are positioned for disposition using ESG KPI metrics and what metrics are communicated. Also identify who (which internal teams and/or external resources) are responsible for this task.

25. **As applicable, detail any additional key material aspects for the ESG strategy for the vehicle.** Some examples of possible considerations include, but are not limited to:

- a. **ESG Property Guidelines and Policies (Governance):** Indicate what ESG guidelines or policies are in place at the properties within the fund.
- b. **Environmental Impact (Environmental):** Indicate active management approach to measure and reduce environmental impact (energy, GhG emissions, and water and waste) and/or climate risk (Physical, Transition, Stranding, etc.) throughout hold period. Explain the cost and, if available, the return on investment, of implementing such measures.
- c. **Tenant Engagement (Social):** Indicate stakeholder activities such as tenant liaison and satisfaction measurement strategy, as well as green leases. Explain if/how tenant engagement is used to improve energy efficiency.
- d. **Health & Well-Being (Social):** Describe material strategies to integrate health and well-being at the assets and how success is measured.
- e. **Supply Chain (ESG):** Describe guidelines/policies related to supply chain. Examples include any of the following: responsible contractor policies, contractor codes of conduct, green cleaning, DEI efforts, building materials, human rights issues & scope 3 emissions/embodied carbon tracking, etc. Describe how compliance is monitored.
- f. **Community Engagement (Social):** Describe community engagement and social impact strategy; policies/strategies/guidelines for how assets connect to the community and how they are intended to benefit the community.
- g. **As applicable, Affordability (Social):** Describe activities, strategies, and/or guidelines for Affordable Housing.

SECTION 4: VEHICLE ESG PERFORMANCE

Section 4 includes topics that could be included within annual investor reports. It is envisioned that information within this section should be updated annually, as applicable.

Vehicle ESG Performance

26. **ESG Vehicle Results:** Report against ESG objectives and associated targets set for the vehicle which were described in the previous section. What was the vehicle's ESG performance? How did the vehicle perform relative to goals and targets? How might processes or procedures be adjusted to ensure successful achievement of goals and targets? Include explanation on why certain target(s) have not yet been met and expected timeline to achieve them. Provide performance of any ESG transparency scores obtained (i.e., GRESB, UN-PRI, etc.) and explain how performance has changed over time.