Making it Happen:
Building Sustainable Capital

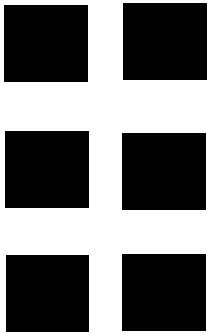**Leader in the Light Working Forum**
January 27, 2016

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REITs: Building Dividends and Diversification®

Methodology – 2016

EMPOWER

ENGAGE

MAKING IT HAPPEN

LEADING PRACTICES TOOLKIT

TOOLKIT REVIEW: ENABLERS & BARRIERS

MATERIALITY ASSESSMENT: FOR REITS & FOR NAREIT

IMMEDIATE STEPS FOR REITS

NAREIT 2016 PLAN: PROVIDING SUPPORT & GUIDANCE

NEAR-TERM COLLABORATION: REITS & NAREIT

REIT LONG TERM PLANS & GOALS

IMPROVED PERFORMANCE
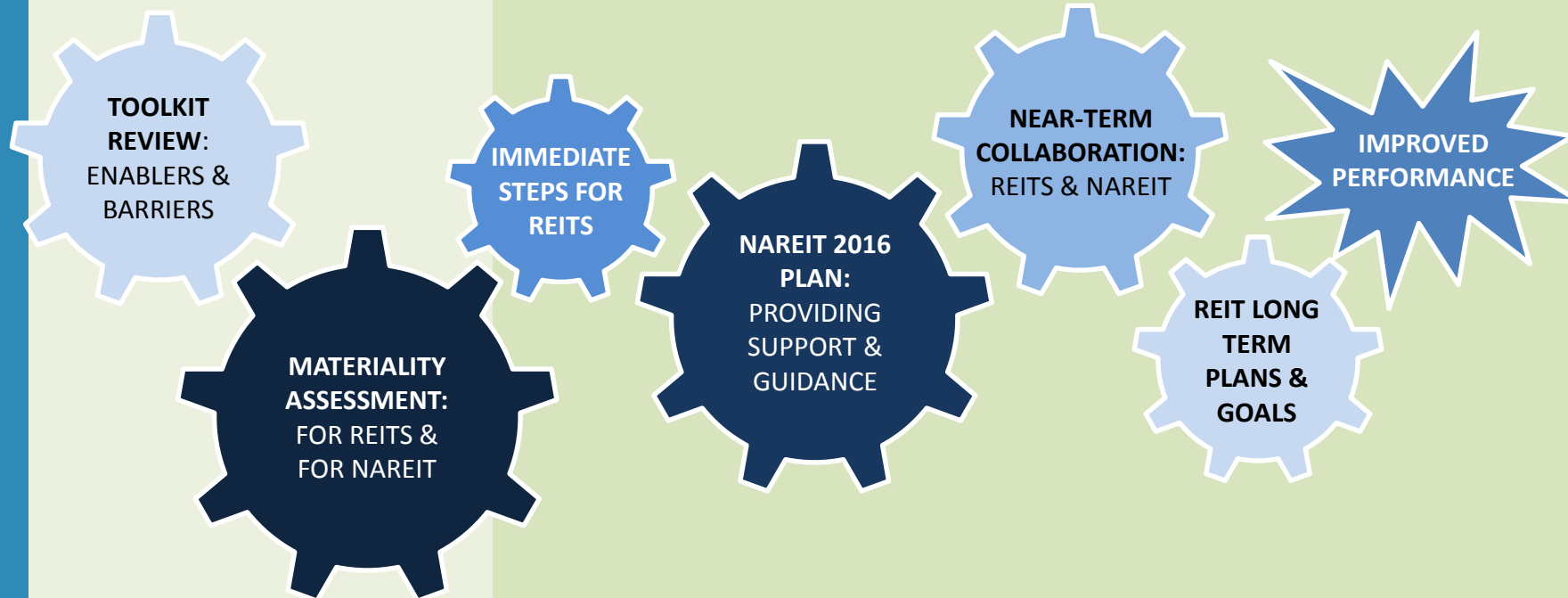
Source: AccountAbility Institute, 2015

Methodology – 2016
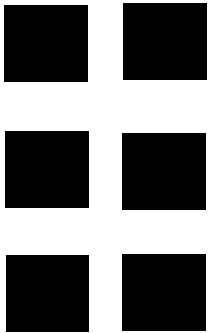
EMPOWER

ENGAGE

MAKING IT HAPPEN

LEADING PRACTICES TOOLKIT

Leader in the Light Working Forum **Day 1**

TOOLKIT REVIEW: ENABLERS & BARRIERS

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Leader in the Light Working Forum **Day 2**

Source: AccountAbility Institute, 2015

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3

You said.

Critical Success Factors

EXTERNAL

INTERNAL

Occupant Health and Wellbeing

Materiality

Resilience

Organizational Structure

Standards, Ratings, & Frameworks

Data Collection & Analytics

Goal-Setting

Spending

Stakeholder Engagement

Collaboration

AccountAbility

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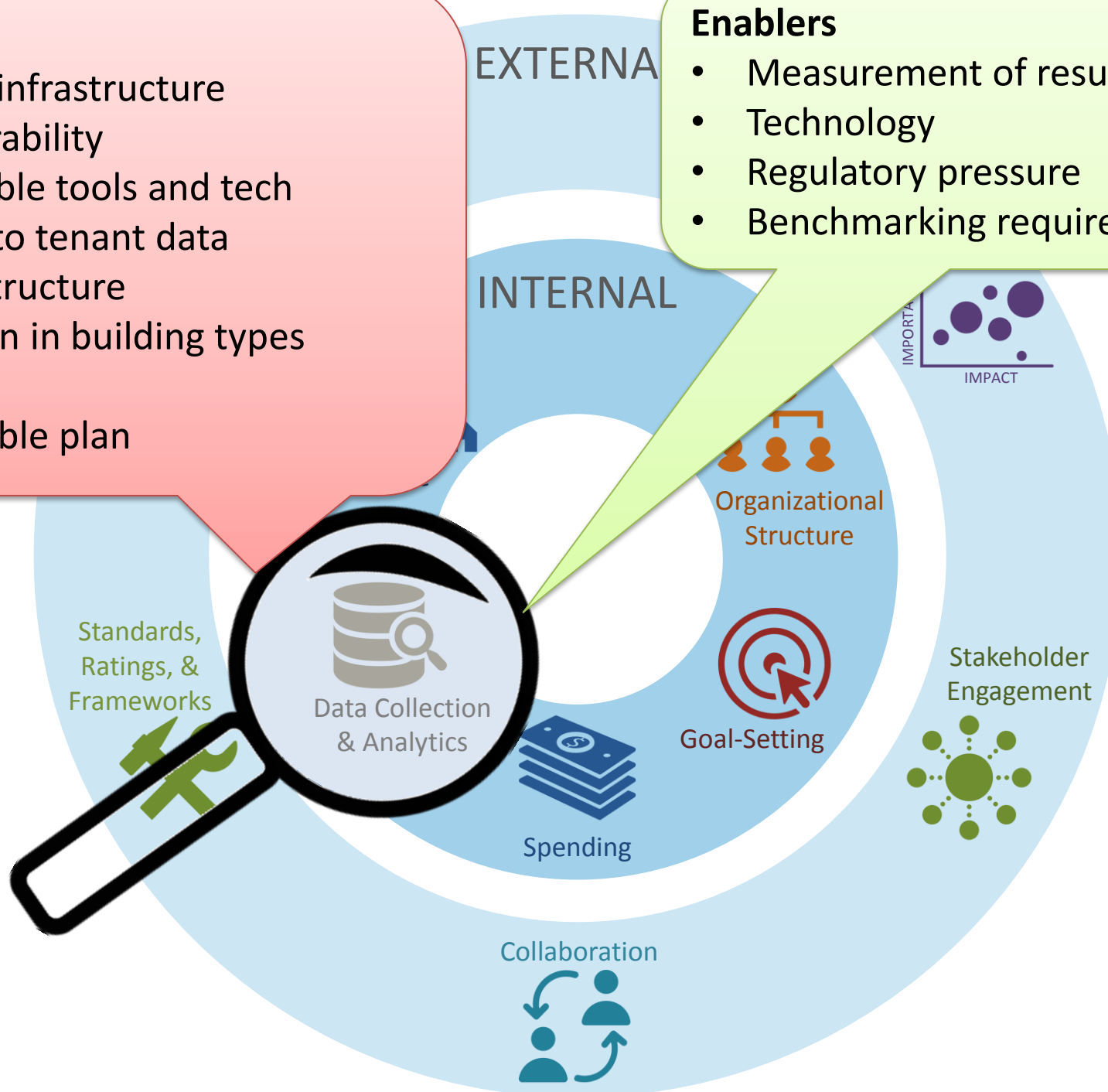REITi: Building Dividends and Diversification®
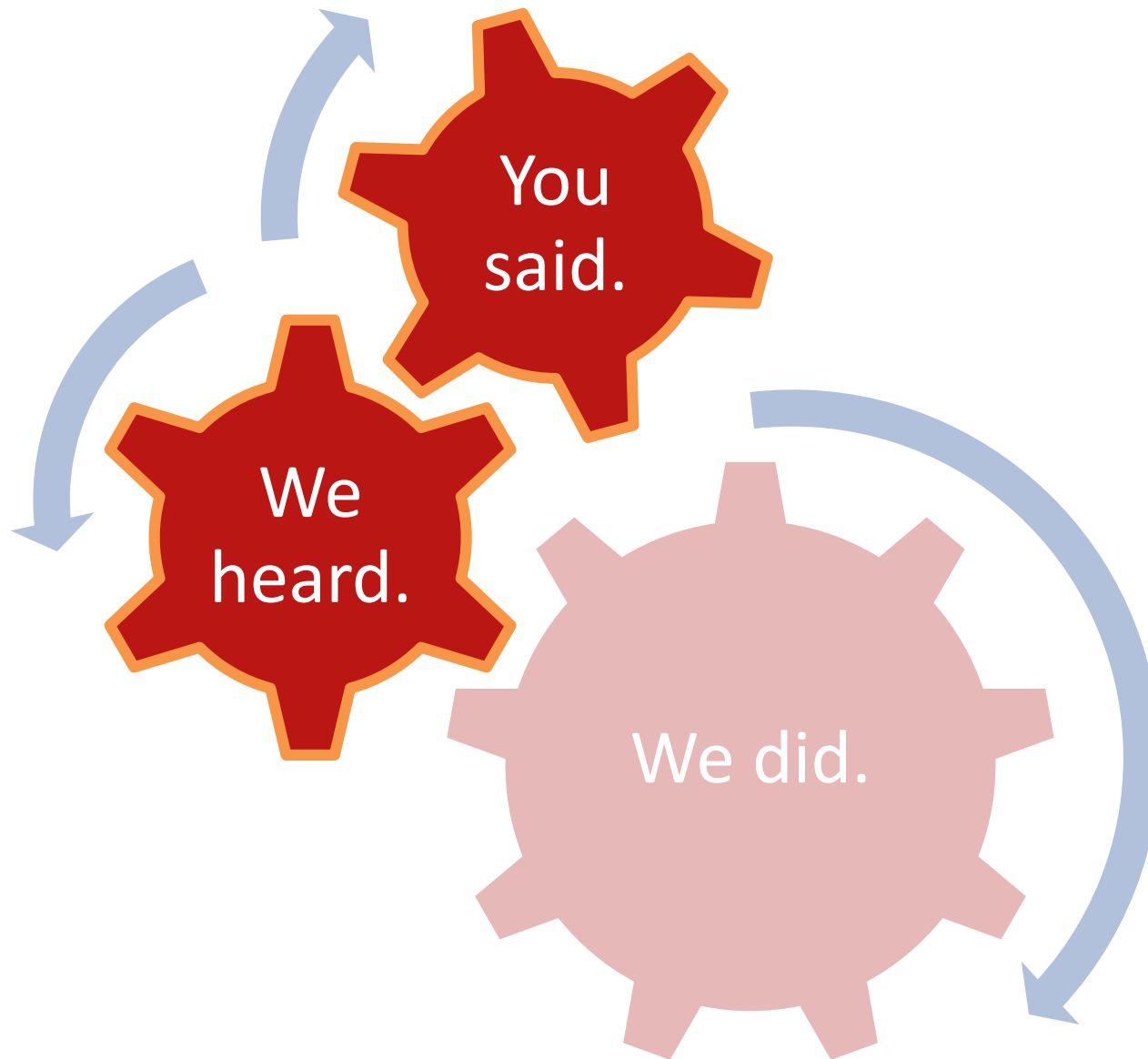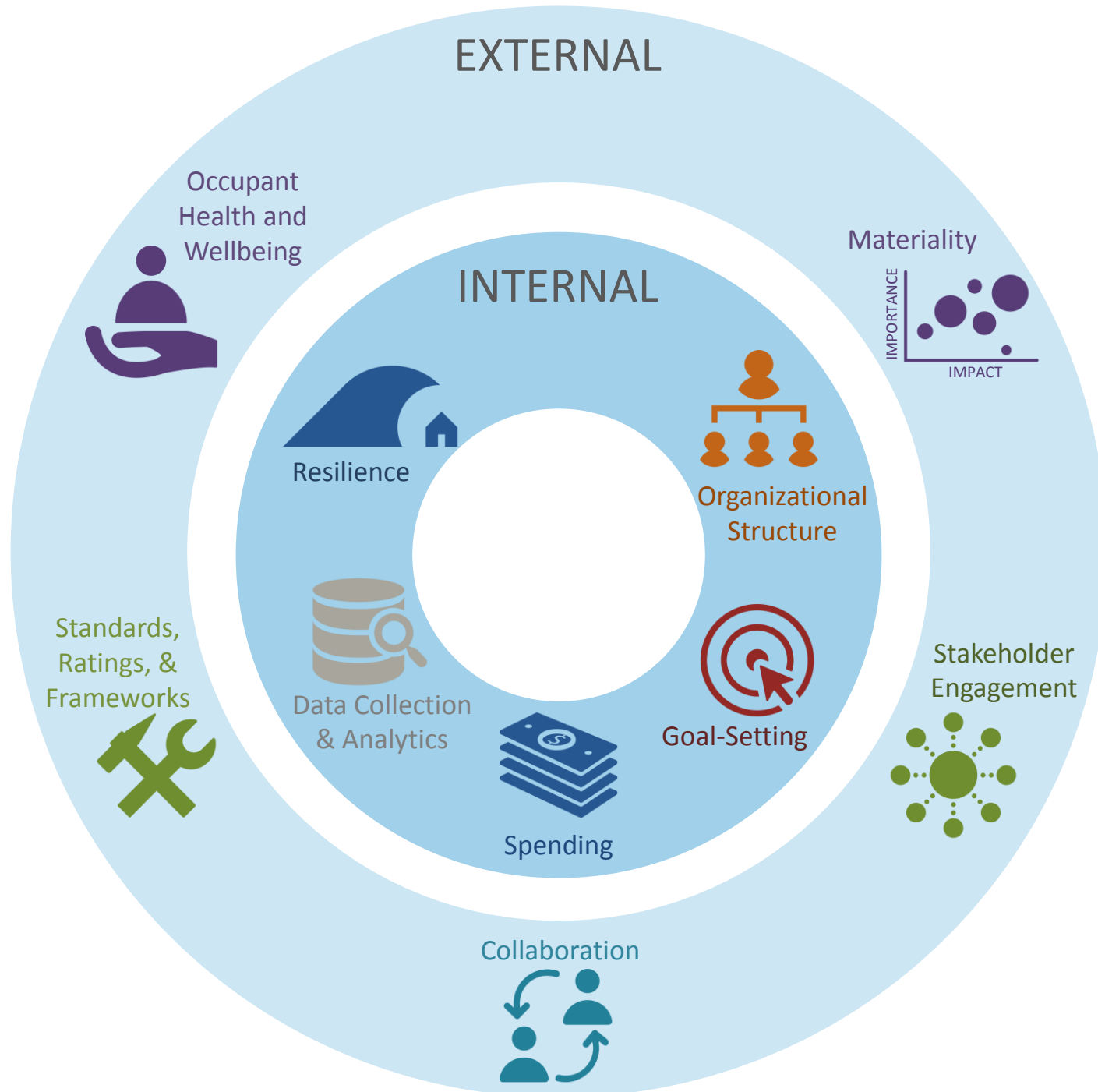
Critical Success Factors

Barriers
- Lack of infrastructure
- Comparability
- Affordable tools and tech
- Access to tenant data
- Lease structure
- Variation in building types
- Storage
- Actionable plan

Enablers
- Measurement of results
- Technology
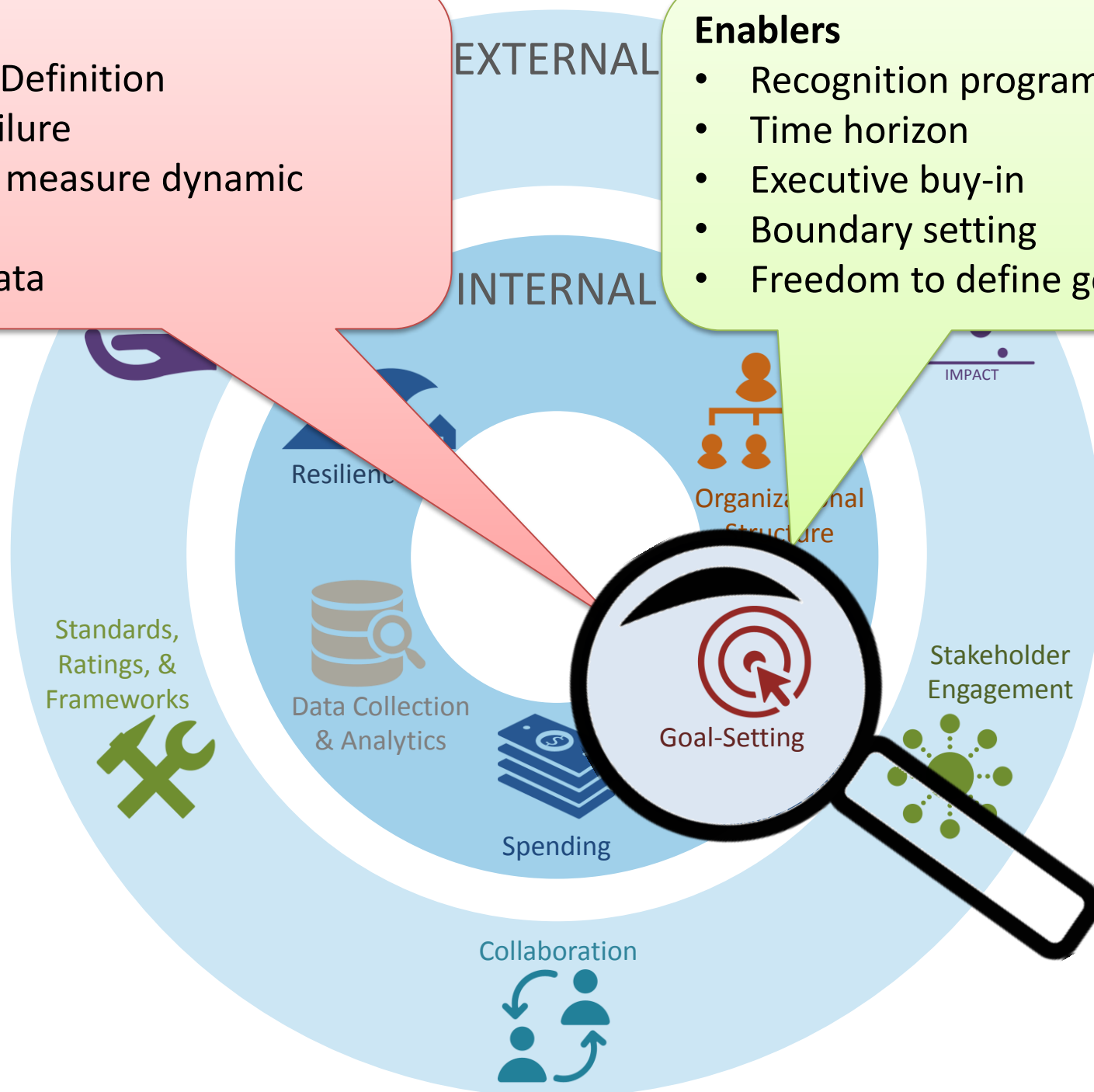- Regulatory pressure
- Benchmarking requirements

EXTERNAL

INTERNAL

Standards, Ratings, & Frameworks

Data Collection & Analytics

Organizational Structure

Goal-Setting

Spending

Stakeholder Engagement

Collaboration

IMPORTANCE

IMPACT

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Critical Success Factors

Barriers
- Clarity & Definition
- Risk of failure
- Ability to measure dynamic portfolio
- Lack of data

Enablers
- Recognition programs
- Time horizon
- Executive buy-in
- Boundary setting
- Freedom to define goals

EXTERNAL

INTERNAL

IMPACT

Resilience

Organizational Structure

Standards, Ratings, & Frameworks

Data Collection & Analytics

Goal-Setting

Stakeholder Engagement

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Collaboration

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STAKEHOLDER OBSERVATIONS

When asked about leading practices in sustainability, several stakeholders identified goal-setting as critical:

> *"Create standards and goals that can be tracked."*
>
> *"Company targets."*
>
> *"Need reporting targets."*
>
> *"Goal-setting."*

CURRENT PRACTICES

▬ *AccountAbility Stakeholder Survey: "In which of the following categories have you set management goals or KPI targets?"*

▬ *Research: Goals held by 126 companies determined to be top performers on sustainability. Source: Sustainability Goals 2.0, PwC, 2012*

Category	Survey	Research
Energy	71%	54%
Water	47%	45%
Waste	44%	51%
Diversity	29%	
Occupational H&S	29%	
Stakeholder Engagement (Internal)	27%	27%
Assurance	24%	
Renewables and Carbon	22%	96%
None of the above	20%	
Stakeholder Engagement (External)	20%	25%
Suppliers	13%	39%

50% of CDP respondents have intensity emission reduction targets (21% in 2010)

44% respondents have absolute emission reduction targets (27% in 2010)

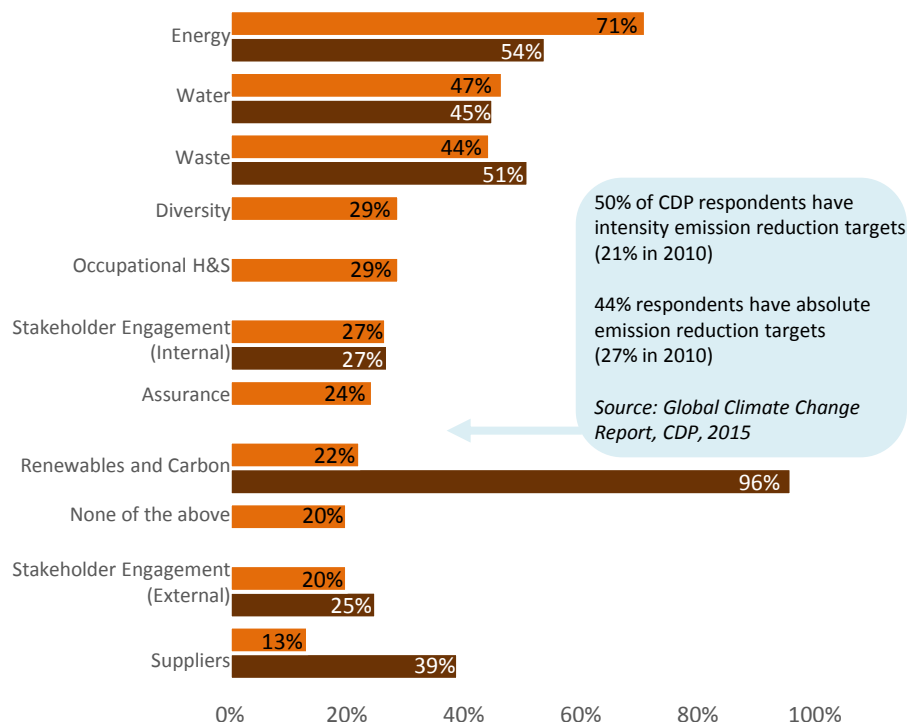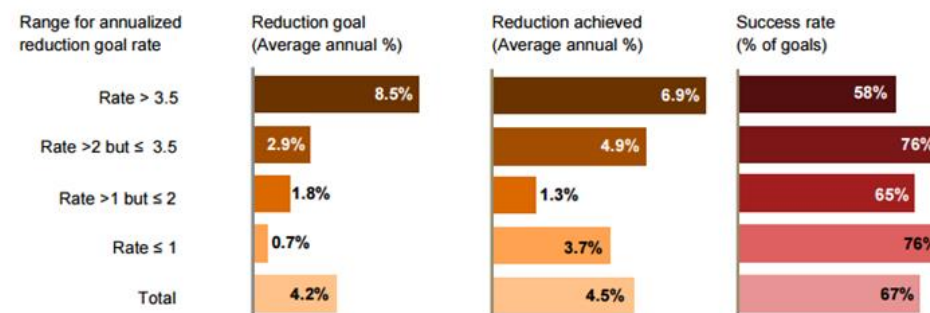*Source: Global Climate Change Report, CDP, 2015*

Aiming High

CONCEPT

Setting goals sets and solidifies priorities across the organization, increasing performance, accountability, and visibility.

U.S. REITs have begun the work of shaping the future through setting sustainability goals. The types of goals being set by REITs mirror other industries for the most part. However, other industries are farther along with goals for renewables, carbon, and supplier CR performance.

LEADING PRACTICES

🌿 Focus goal-setting efforts on criteria that are both material (based on a formal ESG materiality assessment) AND measureable with data currently available

🌿 Set goals even if they must be modest at first, to focus functions across the company that are critical to reaching goals

🌿 Create clear-cut short-term (quarterly, or annual) and long-term (2-5 years) goals to lead a systematic business strategy

🌿 Communicate goals in language that is aligned with company strategy

🌿 Ensure support and ownership through transparent communication – internal and external – of goals and progress toward them

RATIONALE

Companies generally achieve impact reduction goals two-thirds of the time, regardless of the level of ambition reflected in the goal set. The most ambitious goal-setters have a lower success rate, but larger absolute reductions.

Range for annualized reduction goal rate	Reduction goal (Average annual %)	Reduction achieved (Average annual %)	Success rate (% of goals)
Rate > 3.5	8.5%	6.9%	58%
Rate >2 but ≤ 3.5	2.9%	4.9%	76%
Rate >1 but ≤ 2	1.8%	1.3%	65%
Rate ≤ 1	0.7%	3.7%	76%
Total	4.2%	4.5%	67%

Source: Sustainability goals 2.0: An evolving landscape, PwC, 2012
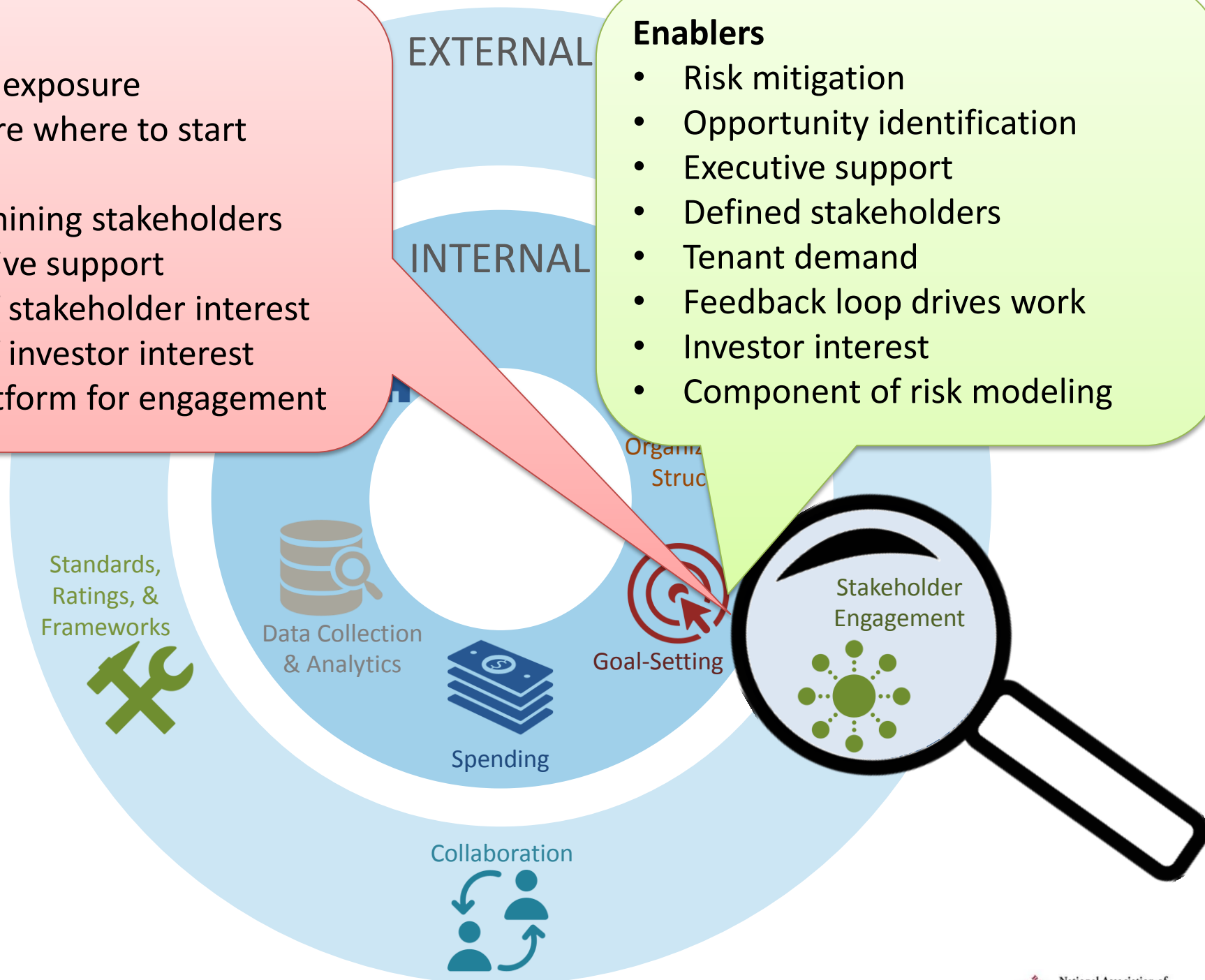
Critical Success Factors

Barriers
- Risk of exposure
- Not sure where to start
- Time
- Determining stakeholders
- Executive support
- Lack of stakeholder interest
- Lack of investor interest
- No platform for engagement

Enablers
- Risk mitigation
- Opportunity identification
- Executive support
- Defined stakeholders
- Tenant demand
- Feedback loop drives work
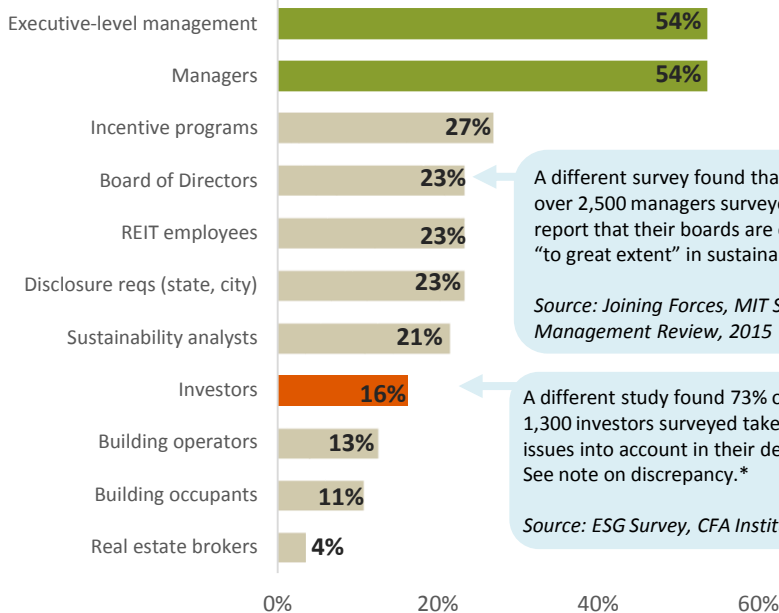- Investor interest
- Component of risk modeling

EXTERNAL

INTERNAL

Standards, Ratings, & Frameworks

Data Collection & Analytics

Spending

Goal-Setting

Organiz... Struc...

Stakeholder Engagement

Collaboration

AccountAbility

CURRENT PERCEPTIONS

The "Tone at the Top" is viewed as the strongest driver of sustainability initiatives by REITs, which is consistent with other industries. More surprising, investors are currently not viewed as a powerful force, which contradicts findings from other industries. This may reflect the relative maturity of sustainability in the real estate industry. *

To what extent do these factors drive sustainability at your organization?

Strong Positive Drivers of Sustainability

Factor	%
Executive-level management	54%
Managers	54%
Incentive programs	27%
Board of Directors	23%
REIT employees	23%
Disclosure reqs (state, city)	23%
Sustainability analysts	21%
Investors	16%
Building operators	13%
Building occupants	11%
Real estate brokers	4%

(Scale: 0% to 60%)

A different survey found that 22% of over 2,500 managers surveyed report that their boards are engaged "to great extent" in sustainability

Source: Joining Forces, MIT Sloan Management Review, 2015

A different study found 73% of over 1,300 investors surveyed take ESG issues into account in their decisions. See note on discrepancy.*

Source: ESG Survey, CFA Institute, 2015

Fostering Support

CONCEPT

Maximizing success requires developing new champions, fostering the encouragement of existing supporters, and managing the relationship with all stakeholders.

POSITIONS REFLECTED IN JOB TITLES OF SURVEY RESPONDENTS

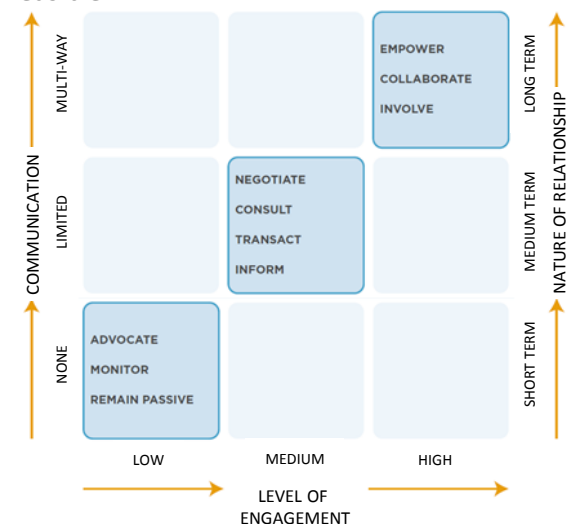| #	Position
25	VP
16	Director
11	SVP
6	Manager
3	EVP
3	Senior Director
2	CEO
2	Head of Function
2	General Counsel
1	Executive Director
1	First VP
1	President
1	CFO

LEADING PRACTICES

- Identify stakeholders in an inclusive manner, including all those on whom the REIT has an impact and who have an impact on the REIT

- Define the purpose and scope of engagement with all stakeholder groups identified

WHY (Purpose)

Organisational Objectives

WHAT (Scope)

WHO (Stakeholders)

Improved Performance

Source: AA1000 Stakeholder Engagement Standard, AccountAbility, 2015

- Utilize a formal process of engagement, explicitly choosing the level of engagement (below) that is maximizes responsiveness while remaining feasible


COMMUNICATION — MULTI-WAY / LIMITED / NONE

NATURE OF RELATIONSHIP — LONG TERM / MEDIUM TERM / SHORT TERM

EMPOWER / COLLABORATE / INVOLVE

NEGOTIATE / CONSULT / TRANSACT / INFORM

ADVOCATE / MONITOR / REMAIN PASSIVE

LEVEL OF ENGAGEMENT — LOW / MEDIUM / HIGH

Source: AA1000 Stakeholder Engagement Standard, AccountAbility, 2015

STAKEHOLDER OBSERVATIONS

PRESENTATIONS & CONVERSATIONS

42% of stakeholders identified meeting presentations and conversations as the most effective form of communicating about sustainability with other functions.
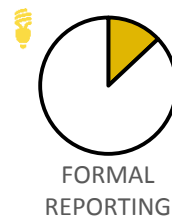
FORMAL REPORTING

13% of stakeholders identified formal reporting as the most effective form of communication with other functions.

"The REIT survey shows the push for sustainability coming from management, when in fact the original driver may be investors asking questions of those executives. If more of the survey respondents had been executives, or others in direct contact with investors, perhaps the survey results would show a stronger perceived influence from investors." [see table above]

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Critical Success Factors

Barriers
- Time Requirement
- Relevance
- No Roadmap
- Prioritizing across asset types
- Companies assume they already know
- Lack of understanding
- **"What the heck is it?!"**

EXTERNAL

INTERNAL

Materiality

IMPORTANCE

IMPACT

Organizational

Standards, Ratings, & Frameworks
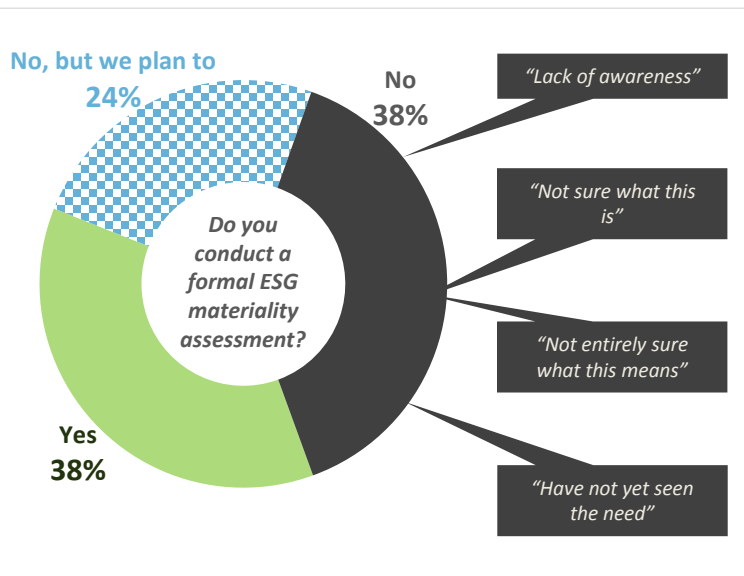
Data Collection & Analytics

Spen...

Collab...

Enablers
- Quantifiable benefit
- GRI Focus
- Upper management support
- Clear definition of Sustainability Materiality
- Priority setting
- External stakeholder pressure
- Sustainability as an opportunity, not an external requirement

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CURRENT PRACTICES

Materiality assessments are becoming more common among REITs, reflecting the increased role materiality plays in sustainability strategy.

No, but we plan to 24%

No 38%

Do you conduct a formal ESG materiality assessment?

Yes 38%

"Lack of awareness"

"Not sure what this is"

"Not entirely sure what this means"

"Have not yet seen the need"

MATERIALITY FRAMEWORK

The Materiality Framework (below) has helped and continues to help countless companies better understand and successfully integrate ESG issues into their business strategy and performance.
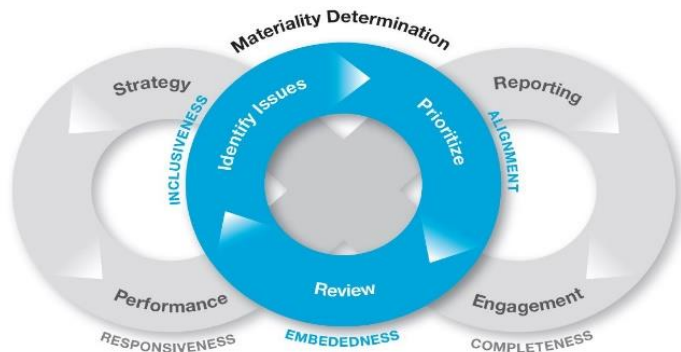
Source: AccountAbility Institute, 2010

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Prioritizing Key Issues

IMPORTANCE / IMPACT

CONCEPT

Materiality relates to identifying and prioritizing the most relevant sustainability issues, taking into account the effect each issue has on the organization and its stakeholders.

STAKEHOLDER OBSERVATIONS

- Even similar stakeholders can have widely differing views of what's material. At NAREIT's 2015 stakeholder event, 80 stakeholders placed 91 different issues on materiality maps.

- Prevalence of consensus does not increase for the most material issues. Of the issues NAREIT members mapped as important to business and stakeholders, none were consistent among participant groups. (see graphic below)

Location | Compliance | Local Communities | Products & Services
Energy | Governance | Tenants
Corruption | Water | Waste | Ethics

All groups in consensus
Some groups in agreement
Differing views

- "In conducting a materiality assessment, layer the different stakeholder inputs and weight them by how much the business affects them."

- "Consider the value opportunities identified in the materiality assessment to develop priorities around value-added activities."

LEADING PRACTICES

- Conduct a formal ESG materiality assessment to prioritize sustainability issues that affect the business and are important to stakeholders

- Consider both internal and external stakeholders

- Weigh each stakeholder's input based on collaboratively-determined criteria

- Update the materiality assessment annually, or more frequently

- Communicate materiality findings publicly

RATIONALE

Organizations & external sustainability ratings agencies are asking companies to demonstrate a more rigorous and consistent methodology for prioritizing 'material' issues, similar to their financial reporting counterparts.

Frameworks focusing on Materiality:

Global Reporting Initiative | INTEGRATED REPORTING <IR> | SASB

GISR Global Initiative for Sustainability Ratings

CDP DRIVING SUSTAINABLE ECONOMIES | FTSE4Good | Dow Jones Sustainability Indexes

Firms with good performance on material issues significantly outperform firms with poor performance. Such firms with concurrently poor performance on *immaterial* issues perform the best.

Source: Corporate Sustainability: First Evidence of Materiality (working paper), Khan, Serafeim, and Yoon, 2015

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Materiality: Panel Discussion

Leader in the Light Working Forum
January 27, 2016

AccountAbility's Materiality Framework

AccountAbility has worked in the area of Materiality **since its inception in 1995**, doing **in depth analysis** and **extensive research** on the topic and creating the **Materiality Framework** (right) helping many companies **better understand** and **successfully integrate** their **ESG issues** into their business **strategy and performance**.
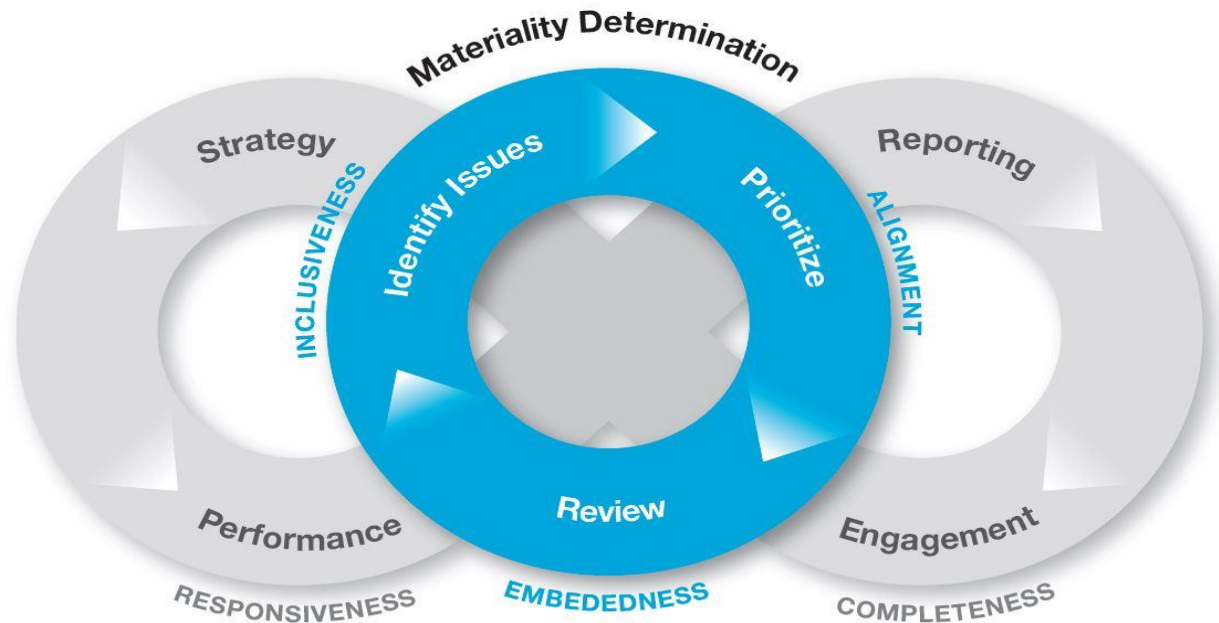
- In-depth knowledge of sustainability

- Robust and rigorous analytics

- Comprehensive stakeholder review

Materiality: The Changing Landscape

What?

Materiality, in this context, relates to **identifying** and **prioritizing** the **most relevant sustainability issues,** taking into account the **effect** each issue has on the **organization** and on its **stakeholders**.

Traditionally, materiality was only defined through the lens of financial reporting. It now includes **disclosure of the risks and opportunities** posed by sustainability issues **affecting environmental, social and governance (ESG) domains** that have impacts on corporate performance and on its stakeholders in the long term.
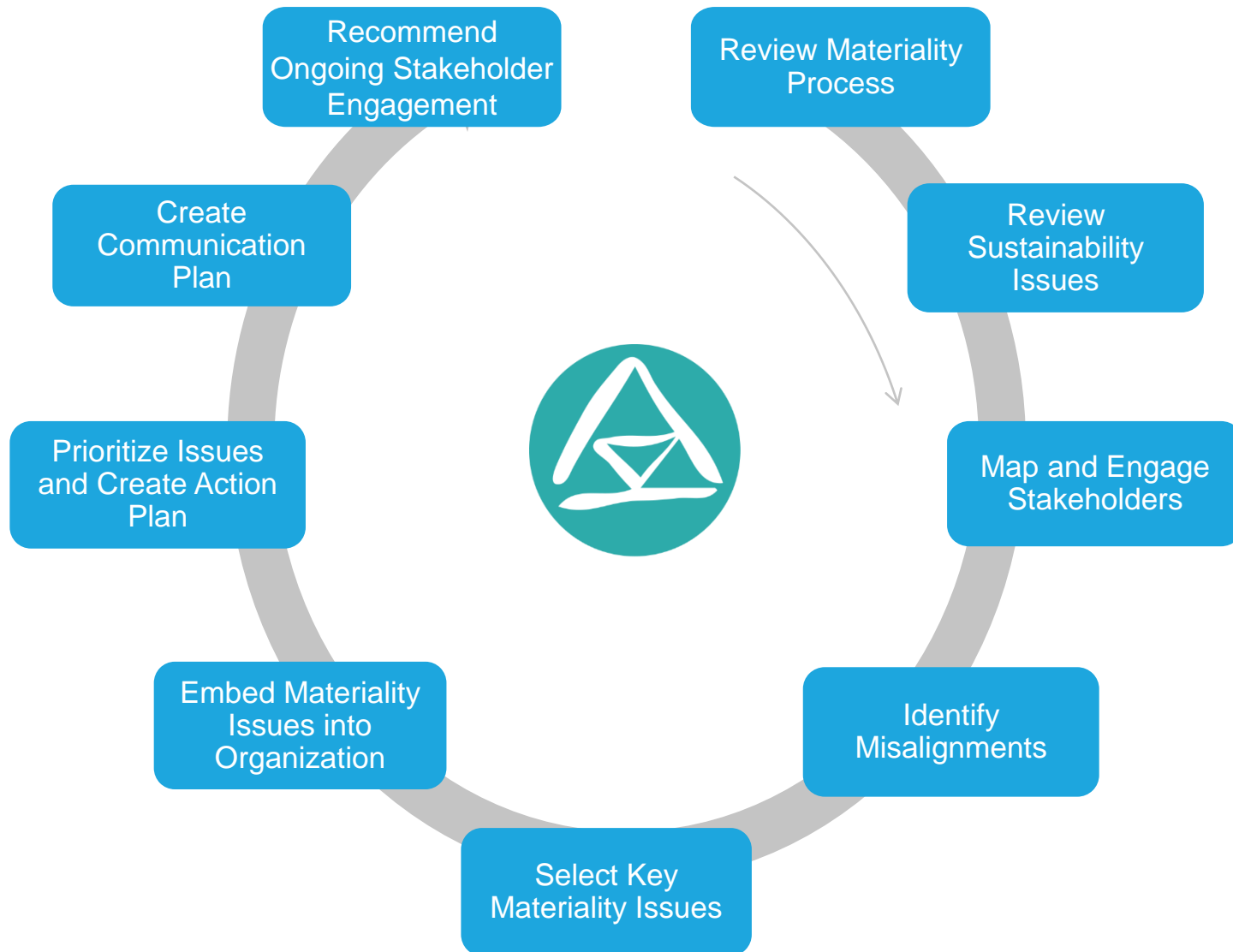
Why?

Internal and external Stakeholders are more active than ever, voting increasingly in favour of sustainability – including organizations such as the *GRI, IIRC, SASB, GISR* & external sustainability ratings agencies *(DJSI, CDP, FTSE4GOOD)* – asking companies to **demonstrate a more rigorous and consistent methodology for prioritizing 'material' issues,** similar to their financial reporting counterparts.

Key Steps

1. **Discern** which issues are most material to the company, its stakeholders, industry and the wider operating environment

2. **Develop** appropriate mechanisms and processes to continuously understand and assess materiality priorities

3. **Manage** materiality so it is embedded into the company's operating system

4. **Disclose** on a timely and transparent basis both the progress and impacts of sustainability commitments within a wider context

AccountAbility Materiality Process

- Recommend Ongoing Stakeholder Engagement
- Review Materiality Process
- Create Communication Plan
- Review Sustainability Issues
- Prioritize Issues and Create Action Plan
- Map and Engage Stakeholders
- Embed Materiality Issues into Organization
- Identify Misalignments
- Select Key Materiality Issues

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Materiality Assessment for REITs

Leader in the Light Working Forum
January 27, 2016

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An Actionable Plan for Materiality Assessment

Part 1 – Discussion
Overcoming Barriers

Instructions: *Please have a discussion with your table about how to initiate a formal ESG materiality assessment at your organization. You can use the questions below as a guide.*

Question 1
How would you initiate a formal ESG materiality assessment at your organization?

Question 2
Following yesterday's activity, how would you address some of the common barriers to conducting a formal ESG materiality assessment?

Question 3
How can your organization foster some of the enablers discussed yesterday?

Question 4
How do you convince your organization that a formal ESG materiality assessment is worthwhile? What points from the Leading Practices Toolkit might help build the business case?
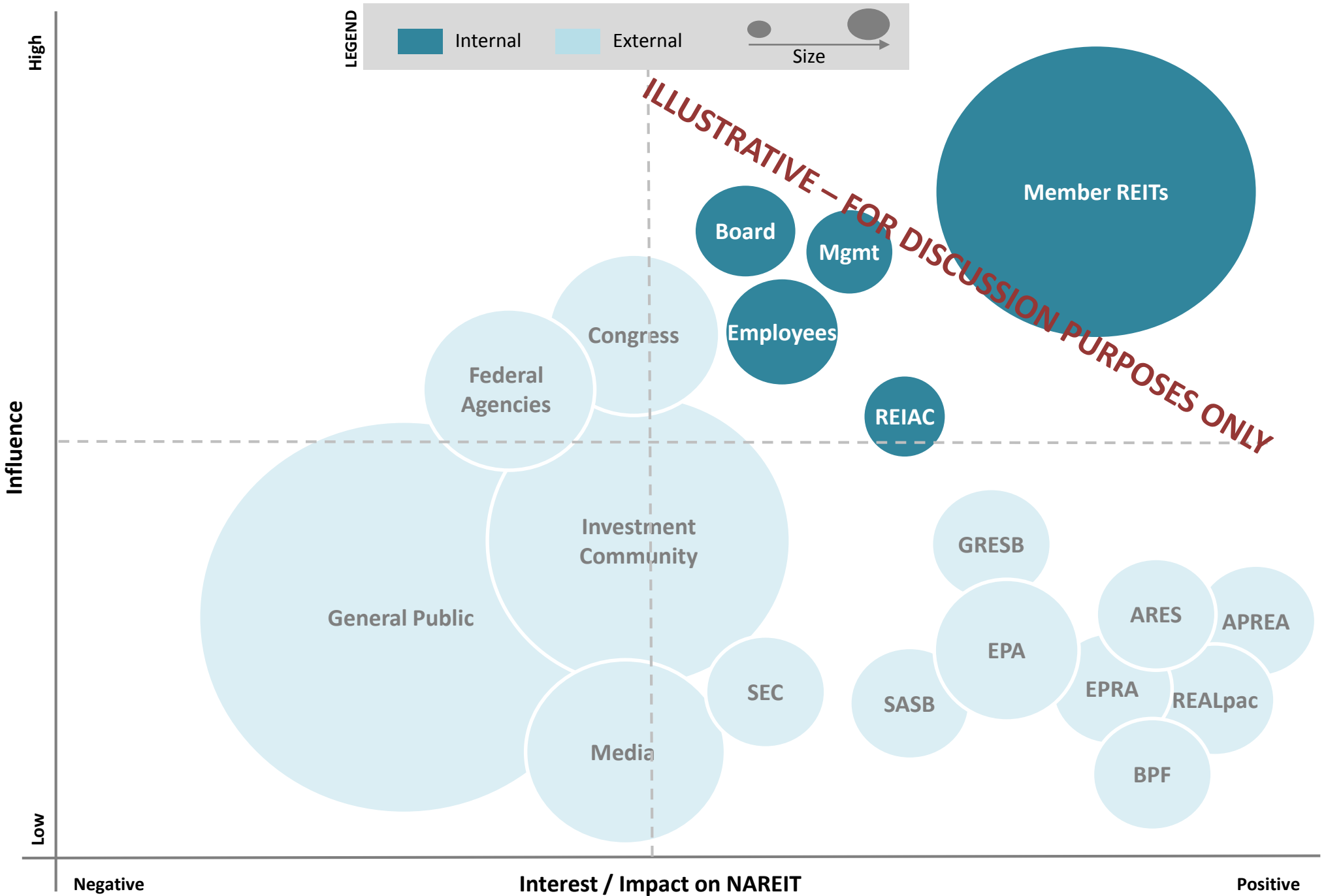
Notes:

ACTIVITY

DISCUSSION AT TABLE,
INDIVIDUAL PACKETS

40-45
minutes

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Materiality Assessment for NAREIT

Leader in the Light Working Forum
January 27, 2016

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Stakeholder Mapping for NAREIT (Illustrative)

Legend: Internal (dark) / External (light) / Size

High — Low (Influence, vertical axis)

Negative — Positive (Interest / Impact on NAREIT, horizontal axis)

ILLUSTRATIVE – FOR DISCUSSION PURPOSES ONLY

Stakeholders plotted:
- Member REITs (Internal)
- Board (Internal)
- Mgmt (Internal)
- Employees (Internal)
- REIAC (Internal)
- Congress (External)
- Federal Agencies (External)
- Investment Community (External)
- General Public (External)
- GRESB (External)
- ARES (External)
- APREA (External)
- EPA (External)
- EPRA (External)
- REALpac (External)
- SASB (External)
- SEC (External)
- Media (External)
- BPF (External)

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Methodology – 2016

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IMPROVED PERFORMANCE

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Source: AccountAbility Institute, 2015

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Appendix

**Leader in the Light Working Forum
January 27, 2016**

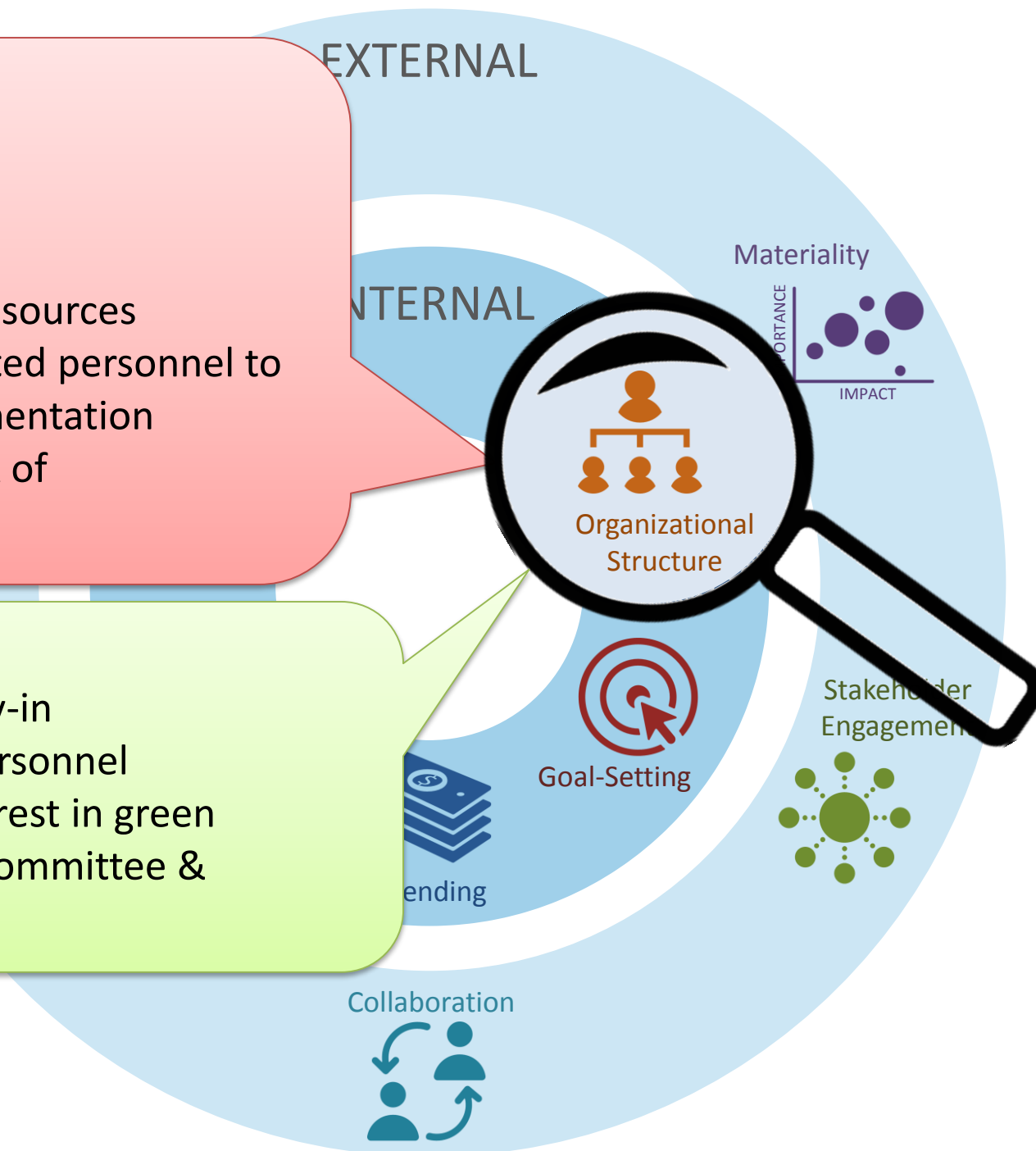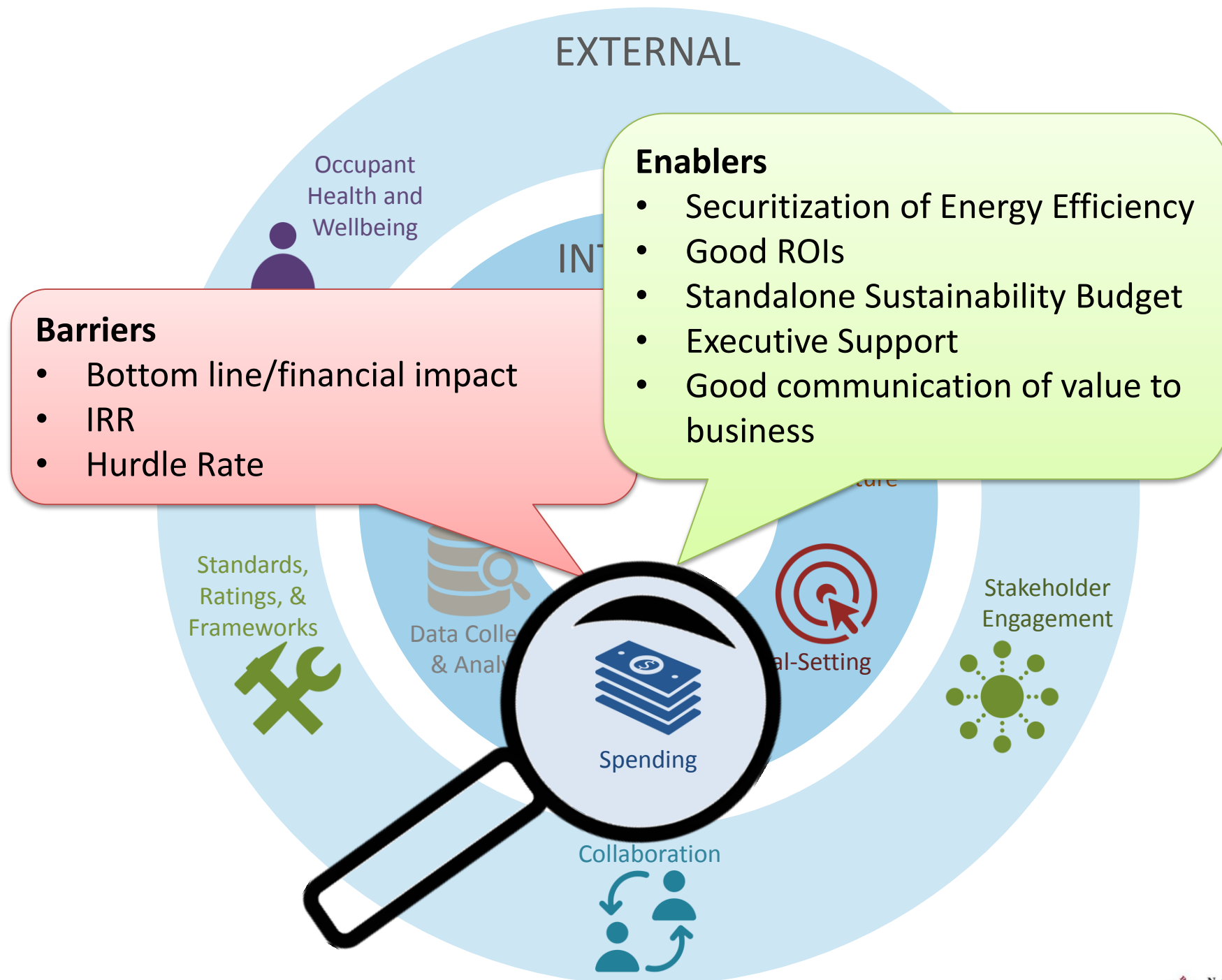**Barriers**
- Who are they?
- Siloed structure
- Lack of access
- No dedicated resources
- Lack of designated personnel to manage implementation
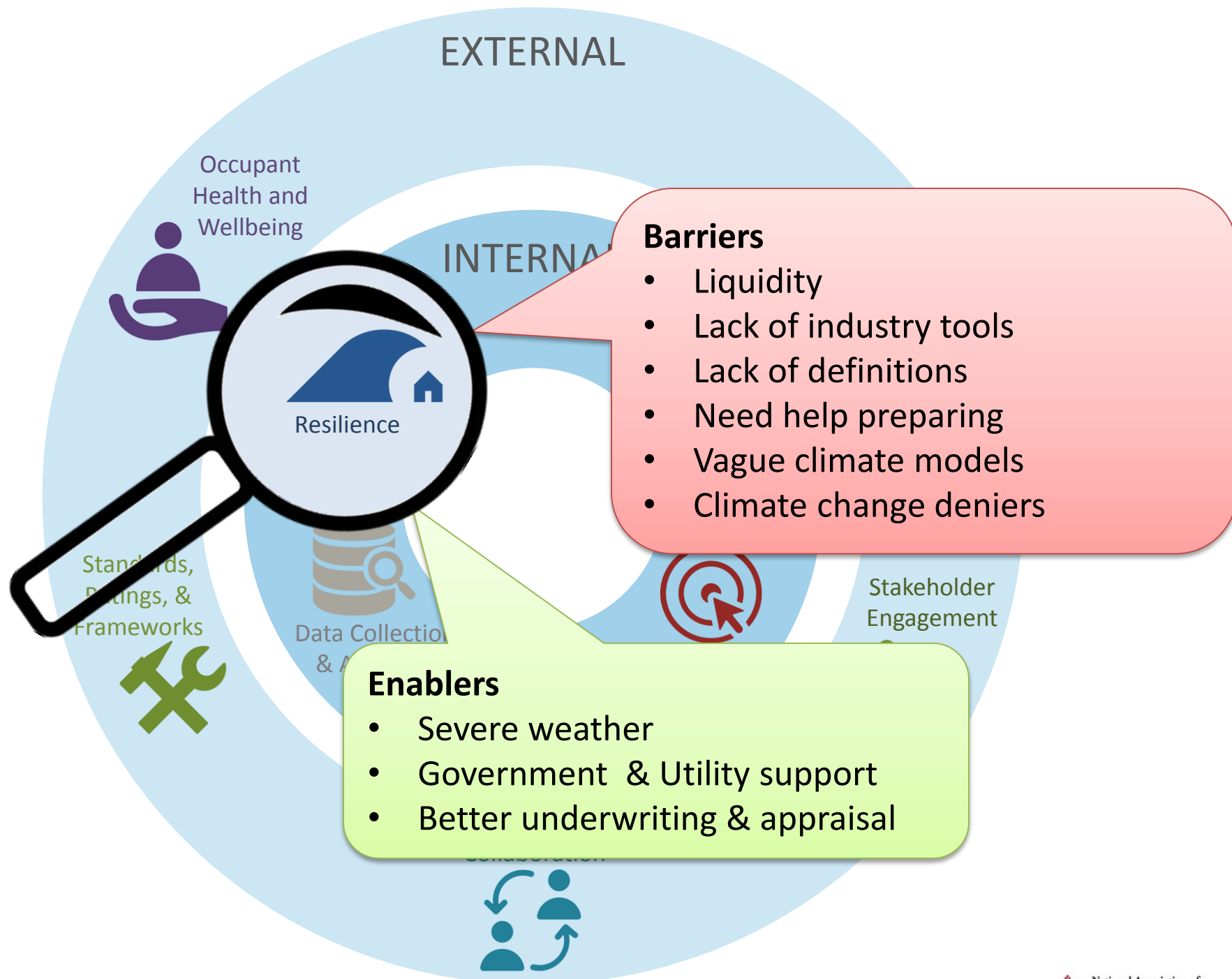- Disconnect/lack of communication

Enablers
- Executive buy-in
- Dedicated personnel
- Personal interest in green
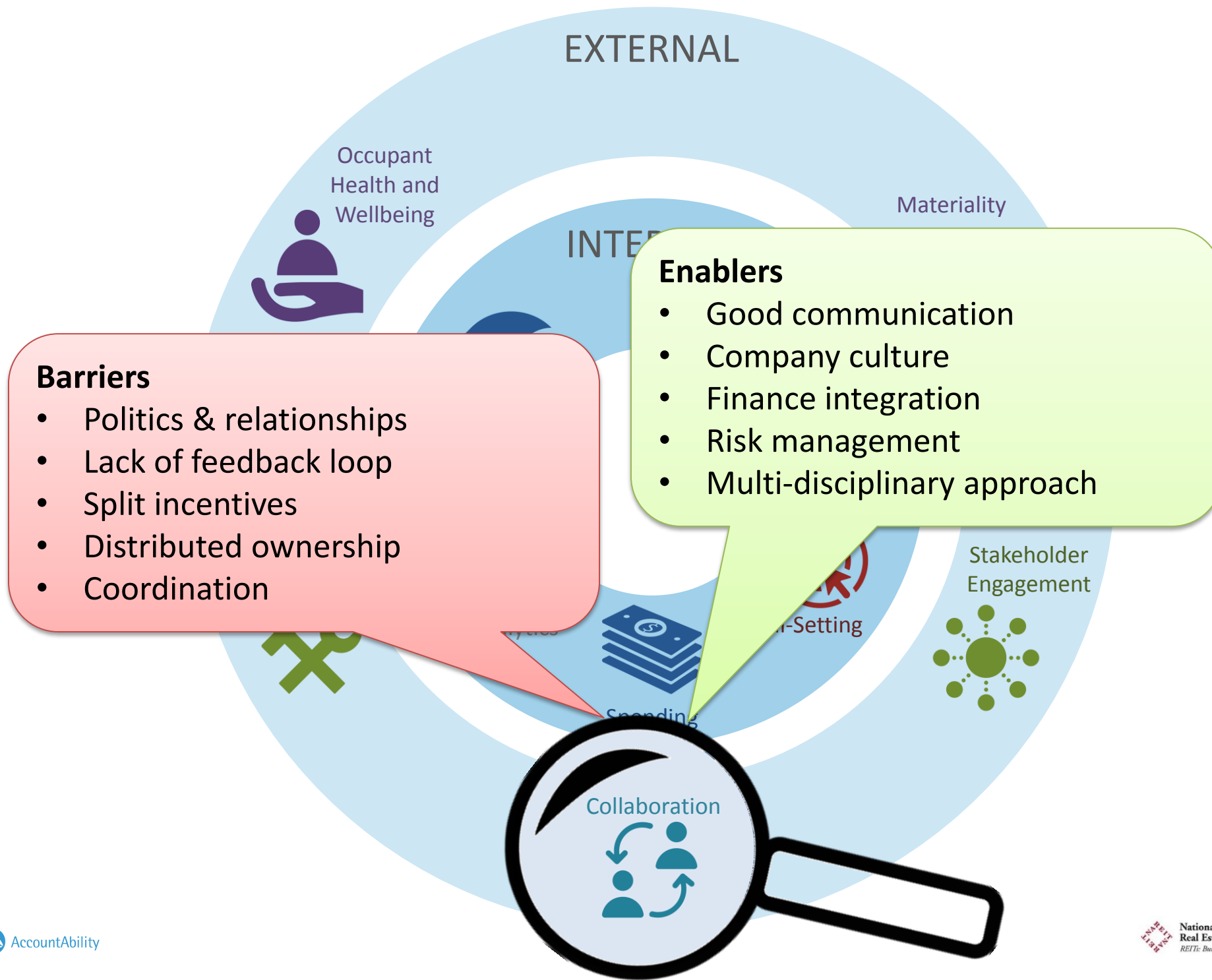- Board-level committee & engagement

EXTERNAL

INTERNAL

Materiality

IMPORTANCE

IMPACT

Organizational Structure

Goal-Setting

Stakeholder Engagement

ending

Collaboration

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Critical Success Factors

Critical Success Factors

EXTERNAL

INTERNAL

Occupant Health and Wellbeing

Barriers
- Standards
- Operational Control
- Inability to measure
- Difficult to define

Enablers
- Broker interest
- Legal pressure
- Technology
- Occupant Health = Productivity

Standards, Ratings, & Frameworks

Organizational Structure

Stakeholder Engagement

Spending

Collaboration

IMPACT

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Critical Success Factors

Occupant Health and Wellbeing

Standards, Ratings, & Frameworks

Data & Analytics

Collaboration

Barriers

- Too many
- Capacity to analyze
- Overly complex
- Accuracy
- Time
- Understanding
- "Going public" with data
- Lack of clarity
- Inconsistent
- No direction – where to start

Enablers

- Market driven
- Regulatory pressure
- Investor alignment
- Organized data
- Consistent format