Purpose-driven: Corporate real estate’s role in the environmental, social and governance (ESG) agenda
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Introduction

The past two years have seen an unprecedented degree of disruption—from the pandemic to climate-related events to social justice protests. This convergence of global challenges has heightened focus on the environmental, social and governance (ESG) issues on a whole new scale, and trained a spotlight on corporate real estate (CRE) leaders' purpose and mission.

CRE leaders have an unprecedented opportunity—if not an obligation—to take a big step back to ask an even bigger question of our industry:

What is our Why?

01 Companies that are making progress on ESG perform better. The NYU Stern Center for Sustainable Business examined the relationship between ESG and financial performance from 2015–2020. Fifty-eight percent of the studies revealed a positive relationship between performance-based ESG measures and financial performance.¹

02 Employees want to work for companies that have a purpose. CBRE’s Global Live, Work and Play study found that millennials are highly attuned to the culture and practices of a company (including its environmental credentials) when deciding whether to join or remain employees.

03 Public commitments to meet zero-carbon targets are increasingly common. Just over 30% of global Fortune 500 companies have either achieved a climate goal or are publicly committed to doing so by 2030—a significant increase from just 6% in 2016.²

04 Regulatory pressure, led by Europe, continues to build. Under a new law, the EU aims to cut carbon emissions by at least 55% by 2030; The U.K. government announced that it would aim to reduce U.K. carbon emissions by 78% by 2035; The U.S. has pledged to cut carbon emissions by 50–52% by 2030.³

05 The events of 2020 created a catalyst for environmental and social change. Institutional investors globally (54%) have highlighted that their primary driver to invest sustainably is the desire to positively impact society and the planet.⁴

CBRE believes this is the moment for the CRE industry to look holistically at real estate operations and make meaningful contributions to ESG performance in lockstep with the companies’ business strategies.

The following insights provide ESG considerations and actions that will help CRE leaders uncover opportunities to move towards a more sustainable future. These opportunities exist at each stage of the occupier lifecycle and can only be optimally achieved when coordinated across a broad spectrum of organizational stakeholders. While environmental considerations are the most obvious, we also explore the social impact that CRE leaders can make through their organization. The implications of ESG form a broad agenda for CRE leaders, and the following pages will introduce the concepts under most discussion today.

¹ NYU Stern Research Initiative. ESG and Financial Performance
² Visualizing the Climate. Strength of Fortune 500 Companies
³ What does the new UK climate change target mean for real estate?
⁴ Schroder Institutional Investor Study 2021
01

What is ESG?
Defining ESG

ESG is the consideration of Environmental, Social and Governance factors in how businesses are managed and operated, both internally and throughout their supply and value chains. ESG is often associated with issues such as climate change and pollution; however, these relate specifically to the Environmental pillar, while the term ESG itself encompasses more far-reaching goals. The Social pillar covers areas including a company’s labor practices, talent management and contractor relations, while the Governance pillar covers areas such as reporting, ethics, leadership diversity and the provision of liveable wages.

More investors want to better understand a company’s impact beyond revenue and profit. This entails a holistic assessment of a business’ strategy and approach to management that offers a comprehensive consideration of long-term risk and opportunity. The following table demonstrates how the enterprise might consider its ESG approach. Achieving an organization’s ESG goals requires effort across the enterprise with real estate being an important, but not singular, pillar of the overall strategy.

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<tr>
<th>Environmental</th>
<th>Social</th>
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<tr>
<td>• Minimizing contributions to climate change</td>
<td>• Improving Diversity, Equity and Inclusion (DE&amp;I)</td>
<td>• Developing clear corporate governance</td>
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<tr>
<td>• Managing for increased climate risk</td>
<td>• Implementing policies that impact people (employees, clients and consumers)</td>
<td>• Modeling responsible corporate behavior</td>
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<td>• Developing climate resilience</td>
<td>• Understanding the social impact of the company’s products</td>
<td>• Committing to improve board diversity</td>
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<td>• Providing products with environmental benefits</td>
<td>• Diversifying contractor relationships</td>
<td>• Instituting whistleblower protection policies</td>
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<td>• Reducing resource consumption</td>
<td>• Enhancing &amp; supporting stakeholder engagement</td>
<td>• Enhancing transparency in reporting</td>
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<td>• Protecting natural resources and biodiversity</td>
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<td>• Making a commitment to a living wage</td>
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A framework for environmental considerations across the tenant lifecycle

According to the World Green Building Council, buildings are currently responsible for 39% of global energy-related carbon emissions: 28% from energy needed to heat, cool and power them (operational carbon), and the remaining 11% from materials and construction (embodied carbon). A focus on reducing and ultimately eliminating both types of carbon is critical as building stock continues to grow around the world and embodied carbon—especially that generated before the built asset is used (upfront carbon) becomes a larger factor.

With this in mind, corporate real estate leaders have a clear priority to integrate the direct and indirect impact of real estate on their company’s ESG agenda. Across the real estate lifecycle, occupiers have different decision points at which they may be able to take actions that progress their ESG goals. We use a Plan-Transact-Build-Operate-Measure framework to explore environmental considerations occupiers should keep top of mind throughout their property lease or ownership cycle, many of which have downstream and ongoing portfolio implications. This section specifically focuses on some of the environmental considerations corporate real estate leaders can think about as they create a purpose-driven agenda around ESG.
Plan

Planning sets the stage for ESG impacts across the real estate lifecycle. During the planning phase, occupiers should conduct due diligence around the environmental factors that will either help or hinder their business operations and ESG goals. Understanding these factors up front, as well as the associated risks, can help occupiers make educated decisions at a market and property level that will make it easier for them to do business in the future.

The number of companies that acknowledge the risk of climate change in their financial reporting has increased significantly since 2017. From a macro perspective, occupiers can take climate change risk into account when choosing what market, and even submarket, in which to locate operations. The frequency and severity of natural disasters can have vast implications on building operations and is part of the risk profile that occupiers aim to understand before choosing a location. Being educated about, and mitigating against, these risks is a critical factor in planning to ensure continuity of operations in the future.

From a micro perspective, considerations and risks can also be addressed when choosing a specific property within a target market that also aligns with the goal of the business. Proper location planning can help a firm achieve initial success even before the lights are turned on. Examples can include moving into a building which has achieved energy-efficient certification or locating in a property with access to renewable energy sources. Additionally, understanding eco-friendly commuting and renewable energy options early on will allow occupiers to locate in areas that support, not impede, ESG initiatives. Other opportunities might exist within special business improvement districts that seek to achieve sustainability goals and to align their efforts with those of local businesses. The bottom line is that incorporating sustainability criteria into location selection decisions creates the building blocks of a strong strategy.

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<td><strong>Climate change risk profile</strong></td>
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<tr>
<td>The interruption of business operations from severe weather-related events is of increasing concern, making climate change a key factor when companies are looking to open facilities in new locations.</td>
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<tr>
<td><strong>Renewable-energy strategy</strong></td>
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<td>Sourcing renewable energy is a key factor in reaching energy efficiency goals. Buying renewable energy through a third party (traditional power supplier or other independent clean-power generator) or self-generating renewable energy (i.e. solar panels) are viable options to consider before resorting to buying renewable-energy credits.</td>
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<tr>
<td><strong>Green commute options</strong></td>
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<td>Urban transportation infrastructure is rapidly changing and is an important factor in understanding how a chosen location supports green modes of transportation, from pedestrian access to electric transit.</td>
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<td><strong>Sustainable business improvement districts</strong></td>
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The number of companies that acknowledge the risk of climate change in their financial reporting has increased significantly since 2017.
**Transact**

Occupancy decisions, whether leased or owned, have implications across the real estate lifecycle. Maintaining focus on sustainability priorities during the transaction phase of the tenant lifecycle is important to creating a solid starting point for achieving goals. From portfolio optimization measures and green leases to building selection based on energy requirements, occupiers are taking a more proactive stance early in the process to ensure they can meet long-range sustainability goals.

Investors and landlords are often taking steps to make their assets more sustainable in ways that appeal to their tenants and communities at large. A recent survey by KPMG revealed that 83% of investors surveyed expect growing demand for sustainable buildings from tenants; 54% of those surveyed indicated they will be changing their portfolio strategy toward ESG. Partnering with landlords who have a shared ESG vision is a key element to ensure that tenants can succeed in this space.

Moving to an on-demand space model may allow tenants with inconsistent or uncertain headcount requirements to reduce underutilized space in their traditional portfolio, therefore reducing waste. Determine if new workplace policies (e.g., Hybrid) will drive a different portfolio strategy more reliant on flexible office space, allowing the tenant to stay agile in the future.

The landlord-tenant relationship is critical to ensure shared goals around ESG efforts related to the building today and in the future through ongoing engagement between both parties. Conduct due diligence on any potential landlord partner to understand the role they play in tenant engagement and sustainability-related activities today and in the future.

A green lease includes smart, energy-aligned clauses that unlock win-win investments that incentivize energy efficiency and sustainability for both the landlord and tenant. By adding green principles to a lease, landlords and tenants collaboratively transform buildings into higher-performing ones. Explore establishing a “green lease,” as the move to net zero could make this a long-term requirement. Along with promoting the implementation of sustainable building operations, these leases can specifically realign energy cost structures, allowing both the occupier and landlord to benefit financially by conserving resources and ensuring the efficient operation of a building.

Understand the sustainable certifications that are most important to your ESG goals and determine how essential that criteria is in your site selection process. This will add incentive to track progress and could encourage greater reward for good performance.

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**High-Impact Opportunities**

**Traditional lease vs. Flexible space agreement**

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**Sustainable building certification**

Although green building certifications can sometimes be limited as a point-in-time measure, they can still make an excellent starting block for seeking a landlord who can act as a partner for an occupier’s ESG goals. Understand the sustainable certifications that are most important to your ESG goals and determine how essential that criteria is in your site selection process. This will add incentive to track progress and could encourage greater reward for good performance.

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*Source: Real Estate in the New Reality, KPMG 2020.*
83% of industry executives surveyed expect growing demand for sustainable buildings from tenants; 54% indicated they will be changing their portfolio strategy towards ESG.
Build

The commencement of building projects—whether it be tenant fit-outs, retrofits or even build-to-suit construction—is the optimal time to incorporate sustainability criteria. During this phase there are myriad opportunities to favorably impact ESG and improve ongoing operational performance. Defining sustainability goals upfront is crucial to establish the appropriate measures and ensure that suppliers and partners are engaged to achieve these targets. On large-scale projects, the first decision involves the assessment of whether a build-to-suit is more sustainable than a retrofit.

In general, renovating an existing building produces less greenhouse gas emissions than building a new one, so a retrofit may be the best choice. Embodied carbon resulting from the construction, maintenance, renovation and disposal of buildings represents 11% of global energy-related carbon emissions today. The World Green Building Council warns that embodied-carbon emissions released before the built asset is used—referred to as upfront carbon—needs to be mitigated and eventually eliminated as building stock continues to grow over the next thirty years.

In Europe, 85-95% of the building stock will still be in use in 2050, yet three-quarters of it is energy inefficient today. The European Green Deal—a roadmap to achieving net zero greenhouse gas emissions by 2050—can only be met if a focus is put on retrofitting existing buildings to reduce emissions. EU ministers have emphasized the need to double the current annual rate of renovations from one to two percent of stock; however, many industry experts suggest the rate should be tripled. This same dynamic is true of buildings in markets around the world with similar targets, whether a legislative roadmap is recognized or not.

Energy efficiency is the foundation of achieving carbon goals, minimized business interruptions, and reduced operational costs. Retrofitting existing building systems can create more efficient energy consumption.

Material selection

Evaluate materials, furnishings, and equipment that meet technical specifications for form and function while minimizing the environmental impact to produce and operate.

Implement responsible sourcing principles and work with suppliers to choose materials that are durable, sustainably sourced, low-carbon and designed for adaptability in the future.

Role and impact of your partners and suppliers

The sometimes-substantial activities of other parties in the Build process, (developers, building contractors, designers, fit-out specialists etc.) can produce hidden environmental costs.

Consider adoption of a Charter or Code of Conduct among partners to establish common best practice standards and performance-based contracting.

High-Impact Opportunities

Sustainable building certification

Depending on the procurement route chosen and the rigor of local certification systems, these may provide sufficient assurance around sustainability, but it is worth evaluating certification plans against specified aims.

Action Items

Determine how your sustainability goals and actions in the new project apply to various certifications and if attaining those certifications should be an objective.

Energy-efficient opportunities

Energy efficiency is the foundation of achieving carbon goals, minimized business interruptions, and reduced operational costs. Retrofitting existing building systems can create more efficient energy consumption.

Understand which strategies will help minimize the need for energy use in buildings (especially for heating and cooling) through Energy Conservation Measures (ECMs), asset performance, and potentially adopt renewable-energy technologies (RETs), such as locally-sited solar generation and energy storage, to meet the remaining energy needs. Explore potential for ratings such as NABERS and Energy Star.

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7 Source: Buildings Performance Institute Europe.
6 Source: Buildings Performance Institute Europe.
2 Source: Buildings Performance Institute Europe.
Operate

The operation of a portfolio is the most obvious connection point to influence a more sustainable future. As mentioned earlier, operational carbon contributes to 28% of global energy-related carbon emissions. To make the biggest impact, the full range of building occupants—from employees and visitors to facilities managers—need to consistently have sustainability efforts front of mind. The remit for sustainable operations even reaches beyond those who are responsible for the facility or inhabit it regularly, including vendors and suppliers, through agreements and codes of conduct.

Sustainable operations are also becoming more sophisticated and may require facility managers and engineers to upskill their education in this area. Perhaps the most key consideration in this area is simply understanding how the facility measures up to best practices in terms of sustainability, creating measurable actions in turn and monitoring those actions to pave the path for a more sustainable future.

To that end, understanding the carbon emissions of a building will become a requirement. Regulations will play a critical driver in building compliance to emission level standards. On an ongoing basis, facility managers and engineers will need to ensure a building is emitting at the lowest possible level.

High-Impact Opportunities

**Improve operational management and enhance asset performance**

Assessing how the facility measures up with sustainability practices and benchmarks around energy, water and waste is an essential starting point to uncovering the opportunities to increase sustainability.

**Promote and support sustainable travel patterns**

From bike racks to electrical vehicle charging stations, buildings have more accessible measures that allow their employees to use more sustainable ways of commuting to work.

**Inform and influence organizational behaviors**

Individual and collective behaviors are a major part of achieving sustainability goals, especially around recycling, water usage and lighting. In turn, employees often value seeing visible actions, which reduces their own skepticism of their employer’s efforts.

**Role and impact of your partners and suppliers**

Gain visibility into the Tier 1 and downstream suppliers of facilities management with the goal of decarbonizing the operational supply chain.

Action Items

**Conduct a sustainability audit to compare your practices with the best practices of sustainability, and identify potential operational opportunities and capital improvements. Prioritize an ESG strategy or Net Zero Carbon (NZC) action plan and require a budget based on findings.**

**Based on your employees’ commuting habits, preferences and available options, identify ways that your building can support them to commute in a more sustainable fashion.**

**Take steps to inform and influence the behaviors you desire from your occupant population through transparent reporting, gamifying and general education on sustainability actions and targets.**

**Engage, measure and monitor current and future suppliers on environmental sustainability initiatives—unify goals through vendor selection criteria and/or by instituting a sustainability code of conduct.**
Measure

Given the increasing importance of ESG, organizations must set and develop measurable goals and benchmarks. While investors and other stakeholders are keen to disclose targets for greenhouse gas emissions and diversity and equity, they deeply value performance metrics. These metrics allow them insight into how a company’s business strategy and ESG initiatives are mitigating risks and driving company success.

Tying actions to strategy and positive outcomes represents a critical connection point that many companies miss. Statistics suggest that companies that make this connection transparent have positive impacts on their financial performance.8

Taking a comprehensive end-to-end approach to measuring ESG initiatives across the occupier lifecycle will yield the most meaningful impact when reporting. The whole of ESG reporting is greater than the sum of the parts, so taking a holistic view is key to maximizing performance in this area.

High-Impact Opportunities

Business strategy & resources

Incorporating ESG into the overall business strategy and operational plan enables companies to demonstrate their ESG performance as well as evaluate their future resiliency. Additional resources will likely be required across the organization.

Action Items

- Align targets with business strategy and CRE decisions.
- Establish measurements that are regular and ongoing.
- Determine resources needed to make an impact, including technology and tools that advance ESG initiatives.

Metrics & specific/measurable goals

Setting specific and measurable targets is critical to supporting ESG initiatives and the increasing need for reporting.

Adopt existing or new frameworks that track a variety of ESG metrics:

- People: Diversity reporting, wage gaps and health and safety metrics
- Planet: Greenhouse gas emissions, land protection and water use
- Prosperity: Employment and wealth generation, taxes paid and research and development expenses
- Portfolio Optimization: plan and metrics, minimization of space and gap analysis

Materiality, consistency and transparency

Standardized reporting continues to evolve for ESG initiatives. Occupiers need to identify methods and frameworks best suited to ensure consistency and transparency in reporting on issues that are material to their stakeholders.

Adopt frameworks from key organizations that identify and report on material issues. These frameworks also ensure consistency and transparency in reporting.

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8NYU Stern Research Initiative: ESG and Financial Performance.
A spotlight on Social

The social element of ESG criteria is growing in importance as the events of 2020 thrust key social issues to the forefront of corporate agendas. Large corporations are now adding or expanding their strategies and operations to address social disparities, including their corporate real estate (CRE) strategies.

Many corporate real estate leaders typically focus solely on the environmental elements of ESG. But there are many ways in which CRE can make tremendous contributions within the communities they serve—by intentionally designing solutions that embed social values and community commitments.
Diversity, Equity & Inclusion (DE&I)

It is firmly established that organizational diversity and inclusion promote different perspectives and new ideas—ultimately improving the company for all. CRE teams can impact the diverse makeup of their own internal CRE teams and that of their suppliers. The 2021 issue of PwC’s “Emerging Trends in Real Estate” survey underscored the importance of DE&I to the real estate industry: Over 70% of respondents agreed that “the real estate industry can address and help end racism.” Examples such as seeking out real estate investments that address racial inequality in our communities or providing real estate career opportunities to underrepresented demographics within the workforce have become more common strategies.

On a broader scale, real estate strategy and site selection can foster diversity for the entire company. Locating in a market where there is access to a diverse labor pool of talent can be a fundamental step to supporting diversity, equity and inclusion. CBRE’s 2021 North American Tech Talent report illustrates how the tech industry could become much more diverse by expanding operations into different geographies. The report analyzed the diversity of tech workforces and identified underrepresented populations to pursue and develop. Today, U.S. tech talent professions are predominantly white, Asian and male. Conversely, Hispanics, Blacks and women are underrepresented in tech talent ranks. Markets with diverse labor pools exist around the world, and tech companies that deliberately locate in these markets can proactively promote diversity in their workforce.

CRE ACTIONS

- Set KPIs focused on social enterprise goals such as sourcing talent from DE&I-focused organizations and establishing global spending targets with diverse suppliers.
- Develop site selection criteria, in tandem with HR, to ensure consideration of new markets that provide a more diverse base of talent to source and develop skills from within.
- Consider accessibility, commute time, public transportation, parking and childcare during site selection, based on the needs of the talent base the company is trying to attract.
Community Impact

Companies and CRE leaders can revitalize and transform communities by being deliberate with a real estate strategy that not only encompasses facilities and space, but also incorporates the community. The recognition that well-capitalized businesses have a shared responsibility in the communities where they operate is common today. These companies can support the strength of their community by creating an interconnection with local leaders and businesses to drive positive outcomes.

As a leading example, Microsoft’s Supported Employment Program targets underserved communities around the globe. This program, which is available for any company worldwide to leverage, promotes employment diversity and inclusion by partnering with vendors and employment agencies, creating job opportunities for people with intellectual or developmental disabilities at Microsoft facilities across the globe. This connection Microsoft is building with their communities is making an outsized impact on the communities where they operate.

CRE ACTIONS

- Help to strengthen the local economy by partnering with local businesses to serve the needs of the organization whenever possible.
- Take an active role in enriching the community by sponsoring public events and supporting leaders working towards positive change.
- Advocate for or build neighborhood amenities to serve the local community, such as grocery stores, health facilities, bank branches and green space.
- Ensure potential development sites are analyzed for the environmental, social and economic impacts to the surrounding communities.
- Be intentional with supporting employment of disadvantaged populations of talent and consider establishing a Fair Wage Framework to ensure employees are earning appropriate wages (not simply the minimum wage).
Health & Well-Being

Connecting employee health to the built environment is now a business essential. According to AON’s 2021 Global Wellbeing Survey, “Wellbeing” is a people and performance strategy and is on its way to becoming the ethos of organizations with 82% of organizations globally believing wellbeing is important within their companies.” It is generally recognized that employee engagement, and even medical costs, are impacted positively by a focus on well-being. For many, long-term strategies are underway to optimize employee health and comfort through activation of the physical environment as well as implementing well-being programs and policies. This drive has been further heightened by a company need to demonstrate their commitment to wellness as the pandemic wears on.

Although physical health is an obvious area of impact, mental health and well-being have increased in visibility and will need to be addressed more specifically in the workplace going forward. While the long-term effects of the pandemic remain to be seen, the built environment will play a key role in promoting and maintaining healthy behaviors. Organizations like WELL and Fitwel and principles like Harvard’s “The 9 Foundations of a Healthy Building” help owners and occupiers assess and improve the health of their building environment.

CRE ACTIONS

- Assess and optimize building health, focusing on the way that systems, design principles and programming impact well-being in the workplace.
- Establish on-site health and wellness programs, in partnership with Human Resources, which focus on mental, physical, emotional, social and financial wellness and resilience.
- Set zero-accident policy goals for Employee Health & Safety.

The Social pillar of ESG is poised to be a point of discussion and action going forward for many organizations. Social responsibility not only positively impacts communities and workforces—it also creates strong outcomes for the companies that deliver these strategies. Competition for talent is of real concern right now and demonstrating your company is driven by purpose could be the difference in attracting and retaining sought-after talent today and in the future.

82% of organizations globally believe well-being is important within their companies.
What does the future hold?

Measuring organizational success is evolving to include not just financial performance, but also how companies perform against ESG objectives. The task of fully integrating these issues into corporate business strategy is complex and will require the commitment of time and resources, as well as partnership with multiple stakeholders.
Ten years ago, sustainability was all about corporate social responsibility. For the last five years, it’s been about how to integrate sustainability into core business strategies. The next five years are all about how we integrate it into capitalism.”

Peter Bakker
President and CEO of the World Business Council for Sustainable Development

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The framework we have proposed—Plan-Transact-Build-Operate-Measure—contains specific recommendations for action at each stage of a typical building lifecycle from an occupier’s perspective. Not all of these will be applicable in every instance and, even where they are, it is important to retain the flexibility to adapt actions to each unique set of circumstances. The recommendations further reinforce the need for measurement precision to assess the cost-benefit characteristics of different actions when resource constraints prevent pursuing them all.

As we look to the future of ESG and the corporate real estate agenda, additional considerations for occupiers might surface:

01  Technology & Data
Measurement is a critical starting point to any ESG program but accessing the technology to cohesively approach metrics can be a constraining factor for occupiers. Yet, as international reporting standards evolve, this data will be crucial. From HR-related data to apps and smart buildings, the future is ripe with opportunity for tech solutions to enhance and support ESG initiatives and collect and aggregate data for occupiers and investors alike.

02  Opportunities Created by Remote/Flex Work and Other Employee Practices
The convergence of a more pressing ESG agenda with new working arrangements represents both a challenge and an opportunity for corporations. As new norms around working patterns and business travel start to become established, the role of remote and flexible work arrangements will evolve for occupiers. One consideration for the future will be whether these arrangements will offset carbon footprints and have a positive impact on energy management.

03  Standardization of Methodologies and Certifications
One of the biggest challenges to ESG today is a lack of common reporting standards and widely accepted frameworks. Leading ESG organizations like the IFRS Foundation, CDP, the World Economic Forum and others are working to establish such universal metrics and standards. We expect their efforts to intensify as more and more occupiers, investors and stakeholders embrace ESG.
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