ARCHIVE | Real Estate

ESG Evaluation
Key Sustainability Factors

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(**Editor's Note:** This article is no longer current. S&P Global Ratings has discontinued its ESG Evaluation and Green Evaluation.)

S&P Global Ratings

Approach

Our key sustainability factors identify the most material environmental and social risks assessed in our ESG Evaluation. We assess the materiality[1] of those risks across the industry's value chain and reflect them in the weighting of our environmental and social factors. We also provide the quantitative indicators[2] used to assess a company's performance relative to its industry peers on each of those factors. For further information, please refer to our "Environmental, Social, And Governance Evaluation: Analytical Approach."

Scope

The scope of this article includes real estate operating companies (operators, including REITs) and real estate developers. Real estate developers develop and sell single- and multi-family residential or commercial properties. Developers either construct buildings themselves or contract out these activities. Operators majority-own a portfolio of real estate properties and derive a substantial majority of their EBITDA from property rental incomes.

Material Environmental Risks

Real estate companies are exposed to material environmental risks across their value chain:

- **Environmental impact during building use phase:** Greenhouse gas (GHG) emissions, waste and pollution, and land and water use during the life of the building expose real estate operators to regulatory, operational, and reputational risks.
- **Environmental impact of construction:** Building construction is energy-intensive and generates large quantities of waste. It can also be very land-intensive and may impact biodiversity, especially where development is on greenfield sites.
- **Environmental impact in the supply chain:** Property developers who perform construction activities and operators who maintain buildings source raw materials from the construction materials, forestry, and chemicals value chains, which can have significant land, water, emissions, and pollution effects.
- **Physical climate risks:** The sector is inherently highly exposed to physical climate risks given that it derives value from physical assets in fixed locations. Physical climate events can result in damage to assets, thereby diminishing their value, increasing repair costs, and causing the relocation of tenants (as well as reputational damage for companies). Climate change will likely exacerbate these risks.

Environmental Factors: Weighting And KPIs

The weighting of our environmental factors varies by subsector. We also use different quantitative performance indicators to inform our opinion of an entity's management of its environmental impact relative to peers in the same subsector. Our opinion under our ESG Evaluation is also informed by an entity's qualitative indicators such as its green building strategy.

Factor	Property developers	Property operators
Greenhouse gas emissions	30%	40%
Waste and pollution	30%	20%
Water	10%	25%
Land use and biodiversity	30%	15%

Property Developers

The higher weighting of land use and biodiversity reflects our view that greenfield development and the associated impact on local biodiversity is among the industry's primary environmental impacts. The weighting on GHG emissions primarily reflects high energy consumption over the lifetime of buildings and the embodied emissions from building materials. We apply the same weighting to waste and pollution to capture externalities including air emissions and hazardous and nonhazardous waste generated during construction and the building-use phase.

Factor	Weight	Key performance indicators	Other performance indicators
Land use and biodiversity	30%	– % of projects in areas with a protection or conservation status – Number and duration of project delays related to biodiversity impacts	% of projects in areas with threatened, vulnerable, endangered, and critically endangered species – Proportion of suppliers assessed and audited on their biodiversity performance
Greenhouse gas emissions	30%	– Scope 1 emissions intensity (tonnes [t] of carbon dioxide equivalent [tCO2e], by floor area in cubic meters [m3] or revenue in US$) – Scope 2 emissions intensity (tCO2e, by floor area in m3 or revenue in US$) – Energy intensity (by floor area in m3 or revenue in US$)	– Renewable energy in energy mix (% total energy used) – % of projects meeting green building standards
Waste and pollution	30%	– Total waste (t of waste, by floor area in m3 or revenue in US$) – % of construction waste that is recycled / reused / recovered	– % of recycled raw materials sourced for projects
Water	10%	– Water use intensity (m3 by floor area in m3 or revenue in US$) – % of revenue from sites operating in water-stressed areas (%)	– % of water that is recycled

Property Operators

Property operators' most material environmental exposure is GHGs and energy use occurring over the life of the building. Water use is slightly more material than waste & pollution as water stress can exacerbate impacts from tenant consumption, including industrial properties. We view land-use & biodiversity to be less material as most operators' greenfield expansion is limited.

Factor	Weight	Key performance indicators	Other performance indicators
Greenhouse gas emissions	40%	– Scope 3 emissions intensity (tCO2e, by floor area in m3 or revenue in US$) – Scope 2 emissions intensity (tCO2e, by floor area in m3 or revenue in US$) – Energy intensity (MWh by floor area in m3 or revenue in US$)	– Scope 1 emissions intensity (tCO2e, by floor area in m3 or revenue in US$) – % of portfolio that has an energy rating – Renewable energy in energy mix (% total energy used) – % of portfolio certified by green certifications
Water	25%	– Water use intensity (floor area in m3 or revenue in US$) – % of assets operating in water-stressed areas (%)	– % of water that is recycled
Waste and pollution	20%	– Total waste (t of waste, by floor area in m3 or revenue in US$) – % of waste that is recycled/reused/recovered	
Land use and biodiversity	15%	– % of assets in areas with a protection or conservation status – % of production or assets from areas with threatened, vulnerable, endangered, and critically endangered species	– Proportion of suppliers assessed and audited on their biodiversity performance

Material Social Risks

Real estate companies are exposed to material social risks across their value chain:

- **Customer and community engagement:** Maintaining positive relations with local communities and customers is a significant factor for both real estate developers and operators. Issues such as affordable housing, gentrification, and green buildings are critical when navigating changing consumer preferences, supporting brand value, and maintaining high levels of customer satisfaction and retention.
- **Workforce and building safety:** Building construction entails significant workplace safety risks as well as potential workplace and building safety issues during the lifetime of the property, which can result in substantial reputational and financial costs.

Social Factors: Weighting And KPIs

The weighting of our social factors varies by subsector. We use similar indicators across the subsectors to inform our opinion of an entity's management of its social impacts relative to peers in the same subsector, although some may vary. Our opinion under our ESG Evaluation is also informed by qualitative indicators. Examples of qualitative indicators include the quality and effectiveness of an entity's policy on community engagement.

Factor	Property developers	Property operators
Workforce and diversity	20%	10%
Safety management	40%	20%
Customer engagement	20%	40%
Communities	20%	30%

Property Developers

For property developers we place the highest weight on safety management to reflect significant workplace safety risks and building safety. We apply equal weight to the remaining factors to capture the impacts of maintaining a skilled and diverse workforce in a high-turnover industry, mitigating effects on existing communities during property development, and ensuring high customer satisfaction.

Factor	Weight	Key performance indicators	Other performance indicators
Safety management	40%	– Number of fatalities per millions of hours worked – LTIFR (lost time injury frequency rate)	– TRIFR (total recordable injury frequency rate) – Amount of safety-related legal and regulatory fines and settlements
Workforce and diversity	20%	– Voluntary/involuntary turnover rate (%) – % of woman in total workforce, junior and senior management positions, and in revenue-generating functions – Average amount spent per full-time-equivalent (FTE) employee on training and development	– Gender pay gap – % of employees represented by an independent trade union or covered by collective bargaining agreements

Factor	Weight	Key performance indicators	Other performance indicators
Customer engagement	20%	– % satisfied customers (out of total customers responding to company's survey) – Net promoter score	– R&D spending as % of revenue
Communities	20%	– % of employees from local communities – Number and cost of project delays and cancellations as a result of community opposition	– Amount of cash contributions, employee volunteering, and in-kind giving converted into the reporting currency

Property Operators

Customer engagement and communities carry the highest weighting for property operators to reflect the importance of maintaining positive relations with local communities, who often form the primary customer base. Tenant retention is an important financial driver, while community impacts such as affordable housing and gentrification are increasingly being factored into housing regulation and can have reputational implications for operators.

Factor	Weight	Key performance indicators	Other performance indicators
Customer engagement	40%	– Customer retention rate (%) – Vacancy rate (%) – % satisfied customers (out of total customers responding to company's survey)	– Number of data privacy breaches and number of customers affected – Net promoter score
Communities	30%	– Amount of cash contributions, employee volunteering, and in-kind giving converted in reporting currency – % of employees from local communities	
Safety management	20%	– LTIFR (lost time injury frequency rate)	– TRIFR (total recordable injury frequency rate) – Number of building safety-related notices
Workforce and diversity	10%	– Voluntary/involuntary turnover rate (%) – % of woman in total workforce, junior and senior management positions, and in revenue-generating functions	– Gender pay gap – Average amount spent per full-time-equivalent (FTE) employee on training and development

Submit Feedback

You can submit your feedback **online** or by **email**.

Please specify which sector you are commenting on when submitting feedback.

We would particularly like to hear from you regarding:

1. Which risks are missing or not relevant?
2. Which KPIs are missing, could be enhanced, or are not relevant?
3. What views do you have on the suggested factor weights for the environmental and social analysis?
4. Do you have additional feedback(s) on this document?

Endnotes

[1] Events and issues are material for the ESG Evaluation when in our view they could meaningfully affect the entity's business operations, cash flows, legal or regulatory liabilities, access to capital, reputation, or relationships with key stakeholders and society more generally, either directly or through its value chain (upstream or downstream).

[2] We are mindful that some may be produced using different methodologies and scopes.

Related Research

- "The ESG Risk Atlas: Sector And Regional Rationales And Scores," published July 22, 2020
- "Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide," published July 22, 2020
- "Environmental, Social, And Governance Evaluation: Analytical Approach," published Dec 15, 2020
- "How We Apply Our ESG Evaluation Analytical Approach: Part 2," published June 17, 2020
- "ESG Evaluation LINK Real Estate," published January 26, 2021

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