Why ESG Matters: A Guide for Occupiers

Section 1: Introduction to ESG

ESG comprises three pillars – Environmental, Social and Governance – all of which collectively contribute to the effective performance of corporate occupiers, positively benefitting the wider markets, societies, and the world.

Table 1: ESG Considerations for Occupiers

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Discloses and measures the effort, data, and target that a company contributes to the environment, natural resources, and climate change, such as carbon emissions</td>
<td>- Considers employees and occupants’ well-being and communities’ connections</td>
<td>- Top management oversight in ESG, such as by a committee</td>
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<tr>
<td>-</td>
<td>-</td>
<td>- Creates a sustainable value chain with upstream and downstream stakeholders</td>
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<td>-</td>
<td>-</td>
<td>- Accountability</td>
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</tbody>
</table>

With the built environment contributing to 40% of the world’s carbon emissions, as well as the consumption of 40% of energy and 30% of drinking water globally, the real estate industry is coming under increasing pressure to address the climate emergency at a global level. As significant stakeholders, occupiers can play a part and include ESG strategies in their real estate decisions. Some have already started, while many have not. This paper aims to help occupiers kickstart their ESG journey from the real estate perspective by providing insights into the areas that they should look out for. Landlords can also use this paper as a reference to better cater to the ESG needs of occupiers.

1.1 How does ESG mitigate risks and create opportunities for occupiers

Large institutional investors have publicly declared their support for using ESG criteria to guide their investment decisions, especially when their real estate portfolio is susceptible to climate risk. Investors are also holding companies responsible for providing greater clarity and accountability measures in their ESG efforts.

To remain competitive and not miss out on new opportunities, companies must implement ESG initiatives and align them with industry standards. Occupiers can also benefit from having a better reputation and building a stronger proposition for their brands, aiding them in attracting talent and investors. Companies can apply for sustainable financing by setting ESG targets.

In acknowledgement of this, our Knight Frank (Y)OUR SPACE 2021 survey responses from our occupants revealed that Asia-Pacific (APAC) respondents regarded the main benefits of occupying ‘green’ accredited real estate as supporting CSR strategy (40%), enhancing their branding (39%), and cost savings (39%).

Figure 1: Summary of Benefits to Tenants and Landlords

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Why would I want to lease a sustainable building?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Health and well-being</td>
<td></td>
</tr>
<tr>
<td>• Increased productivity</td>
<td></td>
</tr>
<tr>
<td>• Reduced downtime</td>
<td></td>
</tr>
<tr>
<td>• Lower operating costs</td>
<td></td>
</tr>
<tr>
<td>• Corporate image and prestige value</td>
<td></td>
</tr>
<tr>
<td>• Meet ESG KPIs from investors/group level</td>
<td></td>
</tr>
<tr>
<td>Landlord</td>
<td>Why would I want to own a sustainable building?</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>• Increased occupancy rate/reduced vacancies</td>
<td></td>
</tr>
<tr>
<td>• Quicker sales</td>
<td></td>
</tr>
<tr>
<td>• Lower exit yield/increased market value</td>
<td></td>
</tr>
<tr>
<td>• Ability to secure green financing</td>
<td></td>
</tr>
<tr>
<td>• Compliance with legislation and CSR requirements</td>
<td></td>
</tr>
<tr>
<td>• Potential green premia</td>
<td></td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
## 1.2 Commitment to ESG – Key Areas of Consideration

### Carbon Management & Data Provision
- **Presence of submeters** for occupiers to monitor their utility usage for electricity, fuel/gas, heating/cooling, and water
  - Willingness of owner to install submetering
- **Data collection platform/dashboard**

(Our 2021 [YOUR SPACE] survey of global occupiers found that 58% of the 400 executive respondents believe their Net Zero commitments will influence future real estate choices.)

### Sustainability Ratings & Certificates
- Building is certified with one or more **sustainability accreditations** (e.g. LEED, BREEAM, WELL, Green Star, Green Mark, Fitwel, Edge, BEAM Plus)
- Building has an **Energy Performance certificate**, which may impact rental/sales
- Building has achieved other environmental or sustainability awards
- Measurement by **ESG ratings**, such as GRESB

### Energy Use
- **Energy efficiency technologies** incorporated into the building or facilities management systems, such as:
  - Building fabric and materials
  - Building services, e.g. HVAC, lighting system, controls.
- Presence of **certified energy efficiency** products and/or equipment
- Presence of **on-site low carbon/renewable technology**, e.g. solar photovoltaics, solar thermal, wind turbines, biodiesel generators
- Energy consumption of the building is being **supplied/procured from Green Energy supplier** (or occupiers are allowed to procure their own Green Energy)
- Implementation of **energy conservation plan**

### Water Use
- **Water conservation technologies** incorporated into the building or facilities management systems, such as:
  - Rainwater harvesting, water-efficient toilet facilities (low flush/flow), water-efficient faucets/taps
- **Highly efficient irrigation technologies**

### Waste Management
- Presence of **waste-reduction policy** and on-site management systems for recycling common items such as toner cartridges, fluorescent tubes
- **Waste monitoring**, audits, and campaigns
- Fit-out waste management

### Building Management & Wellness and Occupier Management
- **Tracking, reporting, and sharing** GHG emissions with tenants
- Presence of equipment installed to monitor Indoor Environmental Quality, including **conducting regular air quality tests**
- Access to ecological/green amenity spaces and/or views of **outdoor/nature**
- Implementation of Occupier/Building Management Forum (also known as **Tenant Awareness Program**) to review the property’s performance and exchange ideas on how to improve its operational and occupational efficiency

### Transportation
- Provision of **special charging stations** to cater to alternatively fuelled cars, such as electric vehicles
- Presence of **secure bike storage**, and hence shower/change facilities and lockers, for occupiers
Summary of Your ESG Journey

(Requires the help of marketing to do a better version)

**Environmental**
- Prioritisation of ESG Targets
- ESG Certifications & Frameworks
- Renewable Energy Sources
- Green Leases
- Sustainable Fit-out & Refurbishment

**Social**
- Wellness Certification
- Building Aspects to Consider

**Governance**
- Task Force on Climate-related Financial Disclosures (TCFD)
- Assessing Landlords’ Governance Issues
Section 2: Facets of ‘Environment’ important to occupiers

Amongst the ESG elements, the Environment aspect is the most measurable, as it involves physical changes to precincts and building owners have a variety of options to make their buildings green. With the upgrades done, these owners can then apply for any form of green building certification so long as the building alterations meet the sustainability criteria. Environmentally savvy occupiers are likely to be familiar with the various green certificates available in the market, and will be aware that a building can have more than one accreditation.

On the occupiers’ end, they can enter into green leases and green performance pledges with landlords to further drill in on their sustainability efforts. Government authorities in cities like Singapore have even standardised a green lease agreement which landlords and tenants can utilise to enhance their sustainability efforts. Even without such a push by the authorities, we have seen landlords take the initiative to provide green leases to tenants.

2.1 Prioritisation of ESG Targets

In the same Knight Frank (Y)OUR SPACE 2021 survey, 78% of APAC respondents recognised that occupying and utilising real estate differently is a key contributor to achieving their ESG targets. However, the majority of the respondents’ current global portfolio does not consist of sustainable real estate, with 55% of them having only a proportion of less than 10%. In essence, even though occupiers assent that real estate is essential to attaining their ESG goals, they do not have a clear direction on how to better manage their occupancy decisions.

Correspondingly, occupiers can (re)prioritise their ESG targets by conducting a Materiality Assessment to derive an explicit plan regarding their real estate needs. The objective is to provide a recognised procedure for identifying and ranking ESG issues that are most important to internal & external stakeholders. The six basic steps below illustrate this process. Figure 2 shows a simple Materiality Assessment.

6 Basic Steps:

1. Determine and reach out to your internal and external stakeholders
2. Define material topics
3. Create and commence your materiality survey
4. Collect and examine the survey insights
5. Act and set target based on your findings
6. Disclose your results and insights with your stakeholders
As part of Governance, successively disclosing your materiality assessment can maintain stakeholder engagement and accountability with your sustainability initiatives.

It is an invaluable tool to prioritize and formulate your ESG strategy.

### 2.2 ESG Certifications and Frameworks

The onset of climate issues as a result of building energy consumption has prompted government authorities everywhere to establish comprehensive frameworks to evaluate a building’s environmental impact and assess its overall environmental performance. To date, there is a proliferation of ratings and certifications available to guide, illustrate, and document the efforts of sustainable, high-performing buildings. Although they vary in their approach and focus, they are great indicators of how sustainable a building is.

Ratings are becoming increasingly significant to occupiers looking for facilities that support and complement their sustainability initiatives by enhancing resource efficiency and lowering their carbon footprint. Moreover, when tenants are aware of the degree of sustainability standards that the owners of these facilities are aiming for, they can make early and informed lease selections.

In APAC, most markets have their own local green certifications, and the more well-established ones have even been adopted by buildings in other markets. For instance, Me Linh Point Tower in Ho Chi Minh City, Vietnam, was retroactively awarded the Green Mark Platinum Certification following a refurbishment of the building – the highest level of recognition for environmentally-friendly buildings conferred by Singapore’s Building and Construction Authority (BCA). For markets without a local accreditation or in their infancy, they would usually adopt a global rating, such as LEED (Leadership in Energy and Environmental Design). Figure 3 provides a snapshot of the types of green certifications and the proportion of the level of certification in select APAC markets.
While we do not currently see a preference for type of accreditation or tier of award (as inferred from the variation in proportion of tiers from Figure 2), multi-national companies (MNCs) tend to prefer and set their ESG goals based on their country of origin or agreement with banks. For markets where premium Grade A green buildings are lacking, particularly in the emerging countries in the region, we observed that MNCs’ decision-making is also guided by other attributes such as the amount of green spaces that are available around the buildings. Some might opt for a green-certified Grade B building instead of a Grade A equivalent with the same credentials to enable them to have a more spacious office with lower budget constraint.

Going forward, we believe that striving for buildings with the top accreditations will be the trend, and we encourage occupiers to start setting a realistic and achievable target for it.

**Case Study: Wells Fargo**

Wells Fargo, an American multinational financial services company, was aware of the imminent climate threat and established a set of operational and financial sustainability goals in 2016 to play a part in curbing the issues over a five-year period. In committing to achieving its goals, the conglomerate would regularly review and modify its processes to ensure that its targets were met. Stakeholders were then updated about the progress towards achieving the goals via ESG reports, displaying accountability by the firm (a Governance feature).

One of the goals established was to achieve LEED certification for 35% of its buildings (by leased and owned sqft), and a summary of its progress is reflected in Table 2.

**Table 2: Summary of progress towards 35% LEED certification of buildings**

<table>
<thead>
<tr>
<th>LEED Building</th>
<th>Unit</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sqft of LEED-certified projects*</td>
<td>sqft</td>
<td>42,180,638</td>
<td>43,111,577</td>
<td>44,521,605</td>
</tr>
<tr>
<td>Total number of LEED-certified projects</td>
<td># Projects</td>
<td>817</td>
<td>834</td>
<td>907</td>
</tr>
</tbody>
</table>
Although the result in 2020 fell short of their goal by a mere 2%, Wells Fargo was able to inculcate green building requirements into design, construction, and operations of not just the newest buildings, but also the older ones, regardless of Grades.

Going into the future, Wells Fargo will continue to lease or own LEED certified buildings, in line with its goal of achieving net zero greenhouse gas emissions by 2050. It will also be establishing an Institute for Sustainable Finance to support clients in their climate transitions, including occupier decisions and how that influences their ESG efforts.

2.3 Renewable Energy Sources

Renewable energy is defined by the United Nations as “energy derived from natural sources that are replenished at a higher rate than they are consumed”. Renewable energy and technologies related to buildings can be found in Table 3 below.

<table>
<thead>
<tr>
<th>Electricity Generation</th>
<th>Solar Heating &amp; Cooling Systems</th>
<th>Passive Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar Photovoltaic (PV) systems or Building Integrated PV systems - solar panels are integrated into the building envelope. The latest technologies include flexible solar panels, printable solar panels, solar tiles, and sun-tracking systems. The efficiency of mono-crystalline panels reaches 22% or more</td>
<td>Solar desiccant dehumidification – solar energy to reactivate the desiccant for cooling. It also optimizes the IAQ.</td>
<td>Passive’ design solutions – cooling by natural ventilation provision, solar chimneys, and solar responsive façade design</td>
</tr>
<tr>
<td>Biodiesel/Landfill gas generator - It can be integrated to tri/co-generation system that simultaneously generates electricity, heating, and cooling, reaching 90% efficiency</td>
<td>Solar heating systems – heat exchange for space or water heating. The efficiency of solar thermal collected can reach 70%.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Photovoltaic thermal collectors – Electricity and usable thermal hot water at the same time from one panel. Extra electricity production of up to 25% per year with cooled PV cells</td>
<td></td>
</tr>
</tbody>
</table>

Generating renewable energy produces significantly lower emissions than combusting non-renewables like fossil fuels, and is crucial to responding to the climate emergency. The countrywide Feed in Tariff scheme (FiT) encourages people to use renewables. For example, the FiT scheme in Hong Kong has boosted PV panel installation in Hong Kong since 2017. The payback period of the installation has dropped from an unaffordable 30 years to an average of 6 years. Occupants in Hong Kong can purchase Renewable Energy Certificates (REC) to offset their carbon emissions. A study from the International Renewable Energy Agency (IRENA) has shown that renewables could be the world’s cheapest source of energy in the future.

Source: Australian Renewable Energy Agency (ARENA), Knight Frank Research
Buildings have the greatest potential to achieve the shared objective of sustainable development because they are the primary energy-consuming sectors in the world that contribute to energy inefficiency. Needless to say, tenants who are occupying spaces in buildings operating on non-renewables might experience energy inefficiencies too, which will not help them in achieving their ESG goals. Therefore, for organisations targeting net zero or negative carbon emission, selecting an office building that utilises purely renewable energy is imperative.

To further prove that the two factors go hand in hand, we note that Schroders, a global investment manager, has committed to the United Nations Global Compact (UNGC), the world’s largest corporate sustainability initiative. As part of the UNGC, the conglomerate has set forth to achieve 100% renewable electricity by 2025, and to only own and occupy buildings which are Net Zero Carbon by 2030, amongst other initiatives.

In another instance, DBS Bank completed the refurbishment of its DBS Newton Green office building, Singapore’s first net zero building by a bank. This marks a significant move for the bank in achieving operational net zero by end-2022. Other than being certified by BCA as a Green Mark Platinum Zero Energy development, the building has also replaced diesel oil in its backup generator with biodiesel produced from used cooking oil. Indeed, biodiesel or Hydrotreated Vegetable Oil (HVO) can contribute to 60-90% GHG saving, depending on the feedstocks and process.

2.4 Green Leases

Green leases are a framework between tenants and landlords that promote partnership to improve building performance and to achieve ESG goals. Specifications of the lease can be discussed to focus on more rigorous targets, and penalty mechanisms to be applied if any party fails to comply. Clauses include both easily quantifiable (e.g. data sharing, energy performance optimisation) and less quantifiable (e.g. workplace productivity) benefits.

Such lease agreements should work in tandem with current green building rating systems, where there is already a list of performance indicators to strictly monitor. This aids in addressing the issue that may arise between the building design and site operation by setting targets, explicitly delegating roles and responsibilities, and arbitrating disputes.

Uptakes of such green leases may improve if mandated by government authorities as it is now mostly offered by landlords voluntarily. Building owners are prompted to enter into such leases by the need to minimise Scope 3 emissions since it accounts for tenants’ emissions as well.

Globally, Knight Frank has been involved in landlords’ and tenants’ green lease requirements, and we have seen the following:

- The landlord and the tenant will establish a sustainability forum or taskforce
- The landlord and the tenant commit to procure gas and electricity from renewable sources
- Tenants’ alterations must not adversely affect the energy efficiency of the property / EPC
- The landlord will consider the adequacy of and improvement in data sharing on energy and water use, waste production, and recycling
- Alienation – the Landlord reasonably refuses to lease a space to a prospective Tenant’s based on the latter’s ESG reputation
- The tenant allows the landlord entry to the premise to carry out energy efficiency improvements. The costs, if any, for these works are recoverable from the tenant.

Case Study: Green Performance Pledge in Hong Kong
Launched in August 2021, Swire Properties’ proprietary Green Performance Pledge (GPP) is a part of its Sustainable Development (SD) 2030 Strategy and longstanding commitment to fighting climate change. Established on the fundamentals of a green lease, the objective is to maximise reduction in energy, water, and waste. Tenants also benefit from having access to a slew of ‘green’ tools while reinforcing tenant-landlord cooperation under this performance-based program.

Under the GPP, tenants can utilise a variety of tools and support services to help them run in a more sustainable manner. Highlights include data sharing, customised SD offerings like free energy audits and smart water meters, access to cutting-edge green technologies like smart waste reduction program, performance benchmarking, action planning and recognition.

With the improvements in tenants’ energy use intensity alongside other initiatives, Swire Properties recorded a 34.6% reduction in Scope 3 emissions in 2021. Likewise, occupiers registered drops in their energy consumption as well. In continuation of its success, Swire Properties aims to have 50% of office tenants (by occupied lettable floor area) sign up to its Green Office Pledge in Hong Kong and the Chinese Mainland by 2025.

Figure 3: Swire Properties 2021 progress against science-based targets Scope 3 – Downstream Leased Assets target for 2030

Source: Swire Properties Sustainable Development Report 2021

Case Study: Rewards to tenants in Hong Kong

New World Development Launches Industry-First Creating Shared Value Lease to Reward Tenants with K Dollar Rewards and Drive Carbon Neutrality Goals

On signing a Creating Shared Value (CSV) Lease initiated by New World Development (NWD), tenants will join like-minded peers in contributing to carbon reduction, and they will be encouraged to participate in a variety of sustainability initiatives, such as waste recycling programmes and wellness workshops. To facilitate knowledge exchange, NWD will also engage CSV Lease tenants via regular communication on sustainability news, trends sharing, and networking opportunities. Upon reaching agreed sustainability milestones such as energy saving targets, CSV Lease tenants will earn K Dollars, which can be redeemed as instant cash at over 450 participating merchants across NWD’s expansive ecosystem.

Source: New World Development Company Limited

Henderson Land Launches ESG Partnership Programme at “The Henderson” — a Tri-party Collaboration Empowering Tenants and Their Employees to Strive towards Sustainability Goals
Participating tenants’ and individual employees’ ESG-positive actions and contribution will be evaluated by four key drivers, namely Carbon Neutrality, Health and Wellbeing, Partnership for Good, and Integrated Culture, all of which are easily tracked and managed through the “Smart Office” mobile app, a one-stop platform that leverages bespoke big data systems and records tenants’ overall ESG performance. Upon reaching specific sustainability milestones, participants will be rewarded with “HEND COINS”, which are tokens for direct rewards and benefits.

Source: Henderson Land Development Company Limited

2.5 Sustainable Fit-out or Refurbishment

The office refurbishment or fit-out process ranges from selecting materials and making individual purchases to contracting the full project, which can have a major environmental impact on the manufacture, use and disposal of some of these products. For occupiers with ESG targets to achieve, this will undoubtedly hamper both their environmental and social progress. Hence, they should opt for sustainable fit-outs or refurbishments.

Some government authorities and real estate developers in APAC have published green fit-out guides to aid tenants in this process. After adopting a guide, occupiers can then decide on the areas they want to focus on. Depending on their sustainability goals, some key considerations during refurbishing or fitting-out could be (but not limited to):

- Using resources efficiently
- Minimising waste (such as energy, water, electronics, and stationery supplies)
- Choosing sustainable products/materials
- Prioritising occupants’ health

With these factors in mind, occupiers might still have reservations about carrying out a sustainable fit-out or refurbishment for fear that environmentally friendly materials will lead to higher costs. This is not true as they should account for the increased capital expenditure, such as for better-quality appliances being offset by energy and other cost savings over the course of the product’s lifetime by using a whole-of-life approach.

To illustrate, international law firm, Simmons & Simmons' Bristol building significantly minimised its environmental footprint in several ways after completing its sustainable fit-out. The bulk of the process concentrated on responsible sourcing of materials. All timber was either FSC or PEFC certified, plasterboard was BES 6001, and all carpets were from suppliers who are ISO 14001 certified (Environmental Management System). Combined with other sustainable considerations like reducing waste and reusing packaging,
the fit-out achieved a BREEAM Outstanding rating, the highest tier of certification. On top of that, the building also achieved top-class BREEAM and LEED ratings for its construction.

One common misconception that people might have about ESG is that it is purely just environmental since it is the most visible and easily implemented. Fortunately, people are now starting to look more into ESG and recognise that it is beyond just the environmental factor. In the following two sections, we will discuss more about the Social and Governance aspects for occupiers.
Section 3: What does ‘Social’ mean to occupiers?

If “E” in ESG advocates responsibility to the environment, “S” for Social represents the same attitudes of accountability to its workforce and the societies in which a business operates. The built environment is an inevitable part of the neighbourhood in which a building stands and exerts an impact on the value of its surroundings as well as the activities and well-being of its occupiers. As such, it is vital that players along the entire real estate value chain be cognizant of its potential impact.

Issues connected to well-being and health have also been heightened by the outbreak of the Covid-19 pandemic. With the E mostly figured out, the Social pillar in ESG is emerging as a critical point for the industry to address and its trends will likely underpin the continued evolution of ESG. While the idea also includes organisational policies such as diversity and inclusion, for now, the focus is mainly on the design, operation, and maintenance of buildings.

For occupiers in business spaces, this mostly boils down to the relationship between employees’ health and the built environment. Properties with wellness features will attract stronger demand in the long term and hasten the development of more wellness-certified buildings. Stronger occupier demand for properties that provide high-quality air, ventilation systems and other indoor environmental features will require landlords and investors to recalibrate their strategies accordingly.

3.1 Wellness Certification

The approach to the Social aspect has generally been formalised by standards, of which the International WELL Building Institutes’ WELL Performance and Health-Safety Ratings, as well as the Centre of Active Design-administered Fitwel – mainly in the US – are the most prominent. Wellness certifications are pursued along the concepts of a healthy building which spans 10-12 criteria and can be applied to different types and aspects of a development.

Figure 4: Foundations of a Healthy Building

Certification of spaces and buildings is couched in the principles of a healthy building, particularly related to the interior features of a development, such as indoor air quality, ventilation, and other indoor environmental features to improve employee comfort.

Source: forhealth.org
The WELL certification is currently more common in Asia-Pacific, with those applying WELL programs across the region doubling to nearly 80 million square meters in 2021. The Greater China region has the largest proportion of certified projects forming close to half of the estimated 1.2 billion sq ft in the region. Notably, India’s enrolment in WELL Certification increased from four million square meters to nearly nine million square meters in the same period.

### Consideration for Occupiers

- **Does your building have a sustainability rating?**
  - WELL and Fitwel certifications do overlap with, and complement established green ratings such as LEED and BREEAM particularly in the areas of Air Quality, Lighting and Energy and Construction Pollution Management.

- **Does your building have a wellness certification in its core/shell?**
  - Wellness certification in Base and Building or Core and Shell enables occupiers to more easily pursue wellness certification for their interior spaces.

### Case Study: Swire Properties

Since 2003, Swire Properties has been disclosing its health and safety information and has maintained zero work-related deaths. Each Swire regional office designs programs and sports programs tailored to local conditions. In 2018, Swire Properties successfully raised US$500 million from a green bond incorporating WELL certification. Part of the proceeds was used to fund the development of a prime office project at One Taikoo Place.

### NOTABLE FEATURES

- Implemented additional measure in accordance with WELL Health-Safety Ratings during pandemic
- Air handling units equipped with ultraviolet germicidal lamps
- Escalators equipped with ultraviolet handrails with sterilisation devices
3.2 Building Aspects to Consider

**Better Air**: Standards for indoor air quality as it relates to particulate matter and inorganic gases can be met by installing high-quality HVAC systems. High-Efficiency Particulate Air filters that can filter pollutants under 0.1 microns can help mitigate the spread of airborne viruses.

**Well Located**: Inculcating green spaces into the urban environment makes cities liveable and is a key factor in Knight Frank's Sustainably Led Cities Index. Well-connected offices to public transport nodes, proximity to green and blue spaces, which promotes walkability are core components considered in Fitwel and WELL certification.

**Healthy Workers Are Better Workers**: A study\(^1\) in New Zealand equated indoor environmental quality to a 5-15% increase in productivity.

**Green Power**: Green buildings are associated with improvements in environmental quality. Some studies\(^2\) found that employees experienced significant improvement in both air quality and lighting after they moved from a conventional facility to a newly built green facility.

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Section 4: How can ‘Governance’ drive sustainability for occupiers?

Our Knight Frank Active Capital 2021 report highlighted that Governance has the most significant contribution to a firm’s performance out of multiple ESG benchmarks (read more: link). It is also the foundation of TCFD. Along the same vein, 33% of the respondents to the Knight Frank survey mentioned chose ‘Leadership’ as the most influential stakeholder group in driving their business towards sustainable real estate.

While ‘Governance’ usually examines how a company is run and how the board-level oversees, one of the most important aspects that occupiers should take note of is accountability. For occupiers that are listed companies, a set of financial reporting standards by the applicable Stock Exchanges must be complied with. Increasingly, these Exchanges are also adopting sustainability reporting frameworks to allow all stakeholders to better understand the climate-related risks of the portfolio of these conglomerates and prevent green-washing.

More recently, we also observed a growing number of voluntary sustainability disclosures by non-listed companies, such as Singapore LNG Corporation Pte Ltd (SLNG), a liquefied natural gas company. In its first voluntary sustainability report in 2021, SLNG highlighted the imminent need to reduce their carbon footprint at both their corporate office and their terminal. The Hong Kong University of Science and Technology is another example that publishes annual sustainability reports.

4.1 Task Force on Climate-related Financial Disclosures (TCFD)

Task Force on Climate-related Financial Disclosures (TCFD) is one of the fast-growing and well-recognized disclosure frameworks that emphasizes and quantifies governance as the fundamental action.

Created by the Financial Stability Board in 2015, the TCFD was in place to “develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change.” It is currently supported by more than 3,500 individual businesses globally and from all industries. In APAC alone, 13 Stock Exchanges adopted the TCFD (Table 4), with the earliest adopter being the Singapore Stock Exchange in June 2017.
Table 4: Stock Exchanges in APAC that support TCFD

<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>Chittagong Stock Exchange, Bangladesh</th>
<th>Ho Chi Minh Stock Exchange</th>
<th>National Stock Exchange of India</th>
<th>Bursa Malaysia Exchange Group</th>
<th>Japan Exchange Group</th>
<th>Hong Kong Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore Exchange Limited</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source: TCFD, Knight Frank Research

The adoption of TCFD is a promising sign that more listed companies are being held accountable for their actions since these conglomerates have a significant impact on our environment. By being liable, they can have more positive influences on society. Many countries have set targets for listed company to disclose TCFD by 2025 or earlier. The TCFD is also supported by many non-listed companies, such as the case study we will explore below.

The final of the 4 pillars of TCFD is metrics & targets. For example, setting carbon emissions reduction target covering Scopes 1, 2 and 3 (Table 5). In general, office-based companies will have to cater for emissions from city gas, company vehicles, electricity use, refrigerants, water-use, paper, and other material scope 3 emissions. If sustainability features are not present in the building, occupiers would have a challenging time curbing their carbon emission from their working space. For example, sub-metering provision, EV chargers, high performance HVAC systems, etc.

Table 5: Definitions of Scopes 1, 2 and 3 Carbon Emissions

<table>
<thead>
<tr>
<th>Scope 1</th>
<th>Direct</th>
<th>Direct emissions from owned or controlled sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 2</td>
<td>Indirect</td>
<td>Indirect emissions from the generation of purchased energy, steam, heat, and cooling purchased by a company</td>
</tr>
<tr>
<td>Scope 3</td>
<td>Indirect</td>
<td>Other indirect emissions that occur in the value chain of the company, including both upstream and downstream</td>
</tr>
</tbody>
</table>

Source: GHG Protocol Corporate Standard

Case Study: Nikko Asset Management

Headquartered in Tokyo, Japan, Nikko Asset Management (AM) is a globally acclaimed fund manager with USD 243.2 billion worth of assets under management as of March 2022. The firm recognised climate change as one of the biggest threats the world is facing and supports global initiatives, like the Paris Agreement, to mitigate the issues. Thus, to take action and be accountable to its investors and clients, Nikko AM adopted the TCFD.

In their latest publication, we observe that there is a significant improvement in their environmental performance ever since the company adopted the TCFD initiatives in 2018.

Table 6: Environmental Performance of Nikko AM Tokyo Headquarters

<table>
<thead>
<tr>
<th>Power Usage</th>
<th>Units</th>
<th>FY2016</th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>% change from previous FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousand kWh</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-13.7%</td>
</tr>
</tbody>
</table>
## Total Energy Consumption

<table>
<thead>
<tr>
<th></th>
<th>GJ</th>
<th>13,441</th>
<th>13,807</th>
<th>15,191</th>
<th>13,710</th>
<th>12,149</th>
<th>-12.8%</th>
</tr>
</thead>
</table>
## Copy Paper Purchases Per Capita

<table>
<thead>
<tr>
<th></th>
<th>Sheet</th>
<th>614</th>
<th>548</th>
<th>496</th>
<th>457</th>
<th>114</th>
<th>-75.1%</th>
</tr>
</thead>
</table>
## Stationery Green Purchasing

|                      | %    | 65 | 58.8 | 54.5 | 13.6 | 9.5 | -30.2% |

Environmental performance of Nikko AM Headquarters in Tokyo, Japan, during the one-year period between April to March of the following year.

*Source: Nikko AM Task Force on Climate-related Financial Disclosures 2020 Report*

Although data for FY2020 illustrated great sustainability progress, the firm acknowledged that it was due to COVID-19 restrictions when most employees worked from home, and that carbon emissions are still an issue that needs to be tackled as work resumes in the office.

Nikko AM’s headquarter office in Tokyo, Midtown Tower, offers building facilities that monitor the performance of the building. It actively manages energy consumption through the recycling of rainwater and wastewater, the use of natural and efficient lighting, and the promotion of solar power generation. The building owner also has the intention to allow tenants to opt for renewable energy electricity, which is being highly considered by the fund manager to reduce their carbon footprint from onsite electricity.

As such, by adopting the TCFD or other forms of sustainability disclosure framework, occupiers of both listed and non-listed companies can better manage their sustainability efforts from a real estate perspective and mitigate issues that may arise from their occupying spaces. All stakeholders of these companies, investors, clients, or employees, will be kept in the loop about the sustainability efforts the company has made.

### 4.2 Assessing Landlords’ Governance Issues

Other than entering into green leases and green pledges as mentioned in Section 2.4, occupiers are also assessing and putting more pressure on landlords’ governance issues since ESG is a combined effort. Many landlords have started to adhere to ESG requirements by occupiers. On the other hand, some of Knight Frank’s MNC clients are now proactively requesting their landlords to co-sign green leases. To assist them, we are currently designing the terms, including setting up a committee and different renewable energy and reduction targets. Sure enough, we expect to see more green/climate leases to come in the future.

As many buildings were completed sometime ago, their building specifications might not be up to date with what occupiers are looking for currently. Hence, tenants might have certain requirements that need the help of landlords to fulfil. For instance, some of our tenants have asked whether landlords buy or import renewable energy if they are not able to provide any form of renewable energy. Another common request is for the provision of electric vehicle (EV) charging points as more governments encourage EV uptake and people switch to this mode of transport.

In view of this shift in mindset, landlords need to be willing to cater to occupiers’ requirements if they are reasonable and feasible.

### Section 5: Next Step for the Industry

The benefits reaped from ESG being inculcated into buildings have been widely documented by organisations of various sizes globally. It also depicts a firm’s approach to business and association with its brands. However, even with evidence being displayed, many occupiers remain hesitant and
continue to underinvest in ESG in their real estate space for fear of the high costs involved or are apprehensive about how troublesome the process might be.

Furthermore, occupiers might be more concerned with the current unfavourable macroeconomic climate and divert their focus back to their main business. As shown by our Q2 2022 Knight Frank Cresa Corporate Real Estate Sentiment Index, there was a significant reduction in sentiment around ‘increasing the number of sustainably accredited buildings within portfolios’, which is now marginally negative.

All the above factors will inevitably cause occupiers to regress in their ESG efforts as they take a more cautious stance. Nevertheless, long-term corporate goals are still imperative to achieve, and efforts should gain pace once the economy stabilises. We are also certain that more corporates will integrate ESG and climate considerations into their office space requirements going forward.
Create an ESG strategy for your occupancy needs

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