



The ESG Era: New Sustainability Metrics for Commercial Real Estate

From “Green” to “ESG”

**Voluntary >
Compliance**

**Data Quality >
Investment Grade**

**OPEX >
Capital Markets**

**Thematic >
Transactional**

**Plaques >
Performance**

**Manual >
Automated**



Environmental // Social // Governance



Speakers



Katherine Sherwin

*Vice President, Sustainable
Investing Manager*
BlackRock Real Assets



Gunnar Branson

CEO
AFIRE



Michael Orzano

*Senior Director, Global
Equity Indices*
S&P Dow Jones Indices



Matt Ellis

Founder and CEO
Measurabl



AFIRE

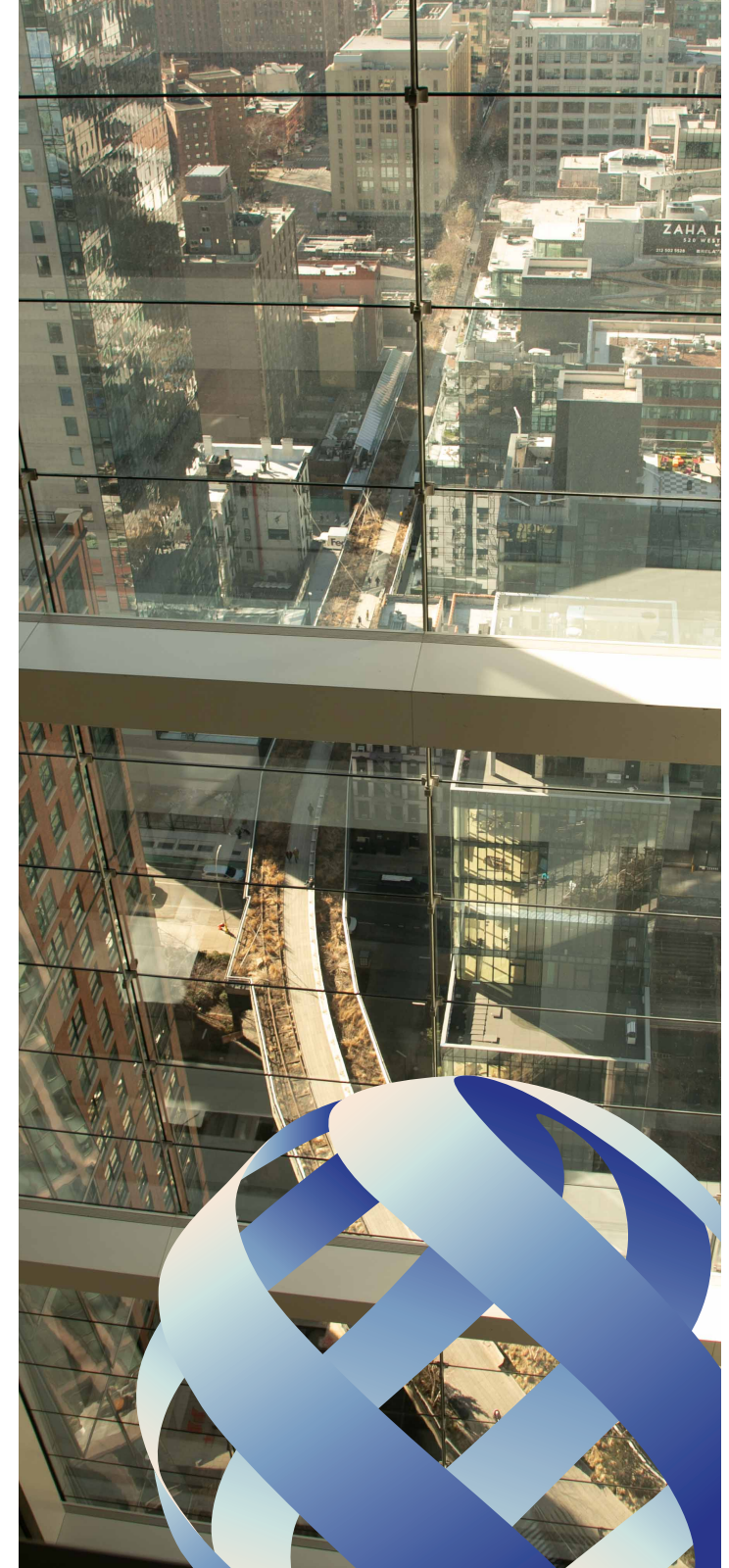
AFIRE is an association for international real estate investors focused on commercial property in the United States.

Established in 1988 as an essential forum for real estate investment thought leadership, AFIRE members gather throughout the year to help each other become Better Investors, Better Leaders, and Better Global Citizens through conversations, research, and analysis of real estate capital markets, cross-border issues, policy, economics, technology, and management. AFIRE members oversee approximately \$3 trillion of U.S. commercial property assets.

Dialogue fostered by AFIRE is designed to help members gain competitive advantage through strategic and operational thought leadership, and to help improve the global real estate investment industry as a whole.

Evolving Institutional ESG Attitude

- 1990 BREEAM standard started
- 1992 Energy Star started
- 2000 LEED standard started
- 2005** **Institutional POV – green nice, but not responsible**
- 2008** **Lehman Brothers declares bankruptcy**
- 2009 GRESB started
- 2010 Healthy food demand continues to rise through recession
- 2011** **Institutional POV – ESG is a strategic advantage**
- 2014 In Los Angeles:
 - non-green average rent: \$2.16 psf
 - Energy Star average rent: \$2.69 psf
 - LEED average rent: \$2.91 psf (Co-Star)
- 2018 73% of global consumers would change their consumption habits to reduce impact on environment (Nielsen)
- 2019 83% of AFIRE survey respondents incorporate global warming risks in their investment decisions
- 2020** **Institutional POV – ESG is the responsibility of a fiduciary**



BlackRock Real Assets: ESG is actively integrated into our investment and asset management activities

- Accurate, complete and reliable data plays a critical role throughout



Source: BlackRock as at 30 June 2019

Dow Jones Green Real Estate Indices

Michael Orzano, CFA
Senior Director, Global Equity Indices
Product Management

July 2019

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**S&P Dow Jones
Indices**

A Division of **S&P Global**

Dow Jones Green Real Estate Indices

Key Attributes

- Constructed from the Dow Jones Select Real Estate Securities Indices (RESI), a widely used listed real estate index series with approximately \$29bn in index-linked assets*
- Utilize data from GRESB – a leader in evaluating the ESG performance of real estate companies
 - Incorporate property level data that measure such criteria as energy and water usage, carbon emissions and leasable area covered by green building certifications
- Index methodology is designed to improve the overall sustainability profile of the index without significantly altering its investment characteristics
 - Green indices have historically had low tracking error vs conventional real estate benchmarks

*Source: S&P Dow Jones Indices; Evestment; Morningstar. ETF data as of 2/28/2019. Index fund and other investment vehicle data as of 12/31/2017.

Index Methodology Overview

Each DJ Green Real Estate Index is the result of re-weighting its parent index by relative GRESB ranking, as indicated in the following steps:

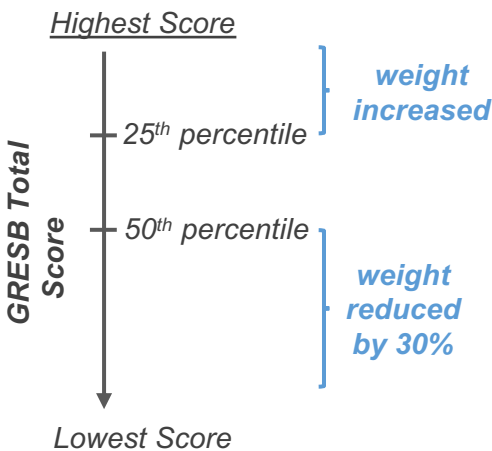
1) All constituents of each relevant Parent Index are included :

Dow Jones Select RESI

- DJ Global Select RESI
- DJ Global ex-U.S. Select RESI
- DJ U.S. Select REIT
- DJ Japan Select RESI

2) Within each parent index, constituents are ranked by GRESB Total Score and relative weights are redistributed :

- The weight of stocks in the lowest 50th percentile by GRESB score are reduced by 30% from their current weight in the parent index*
- The weight of stocks in the highest quartile are increased in order to redistribute the relative weight that was reduced in the prior step



3) Re-weighted constituents of each parent index form the new indices :

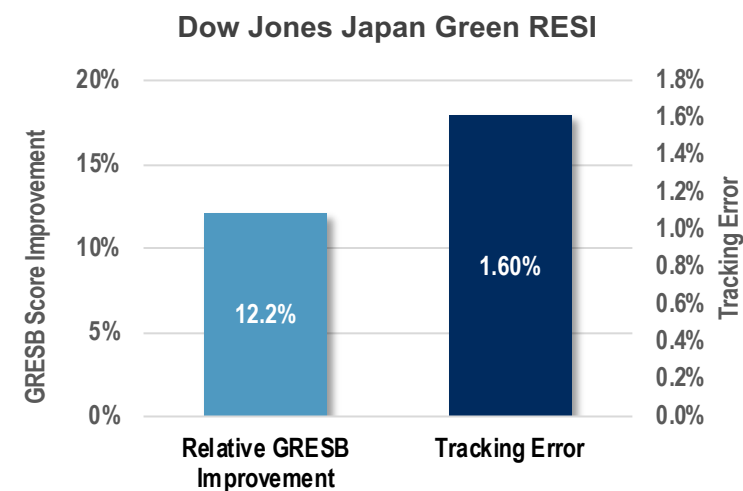
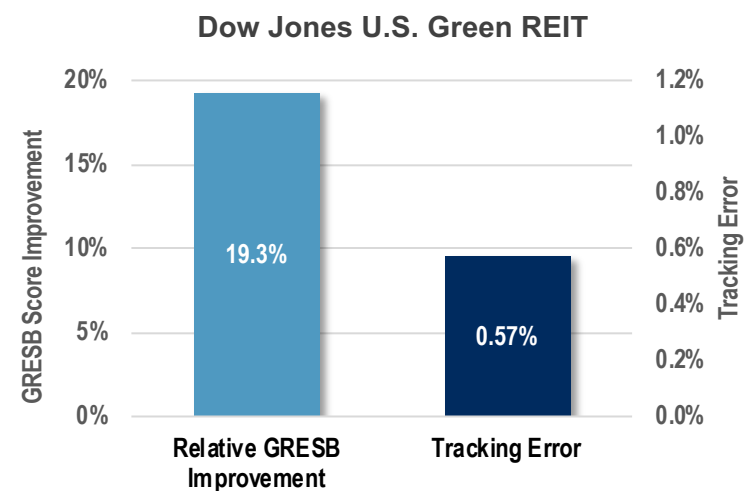
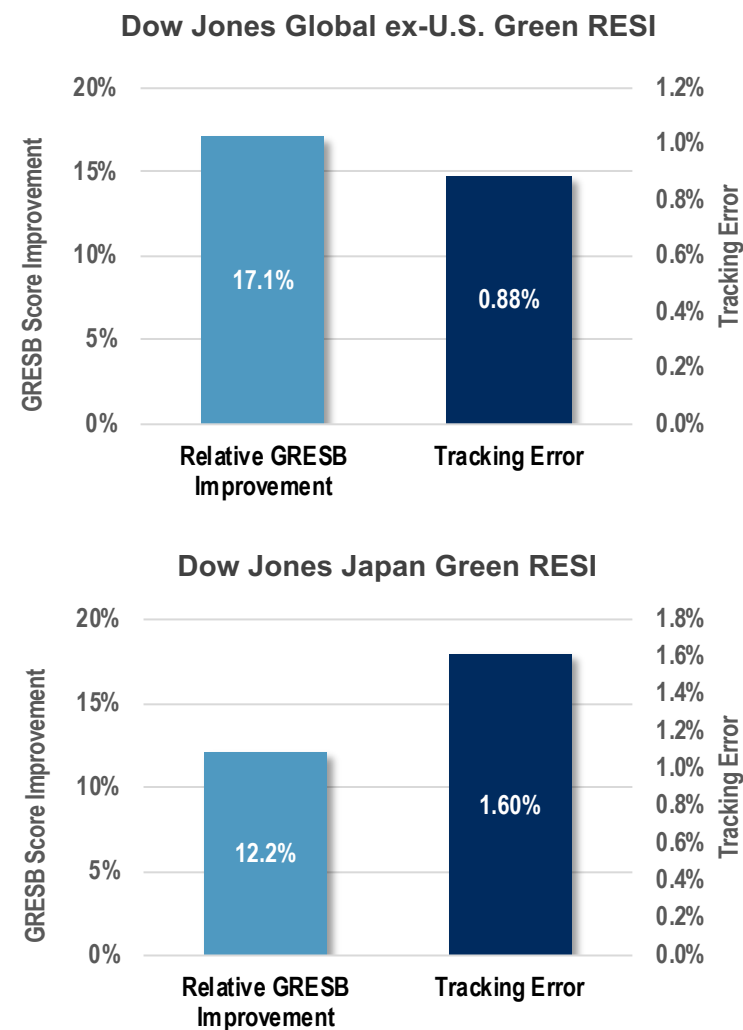
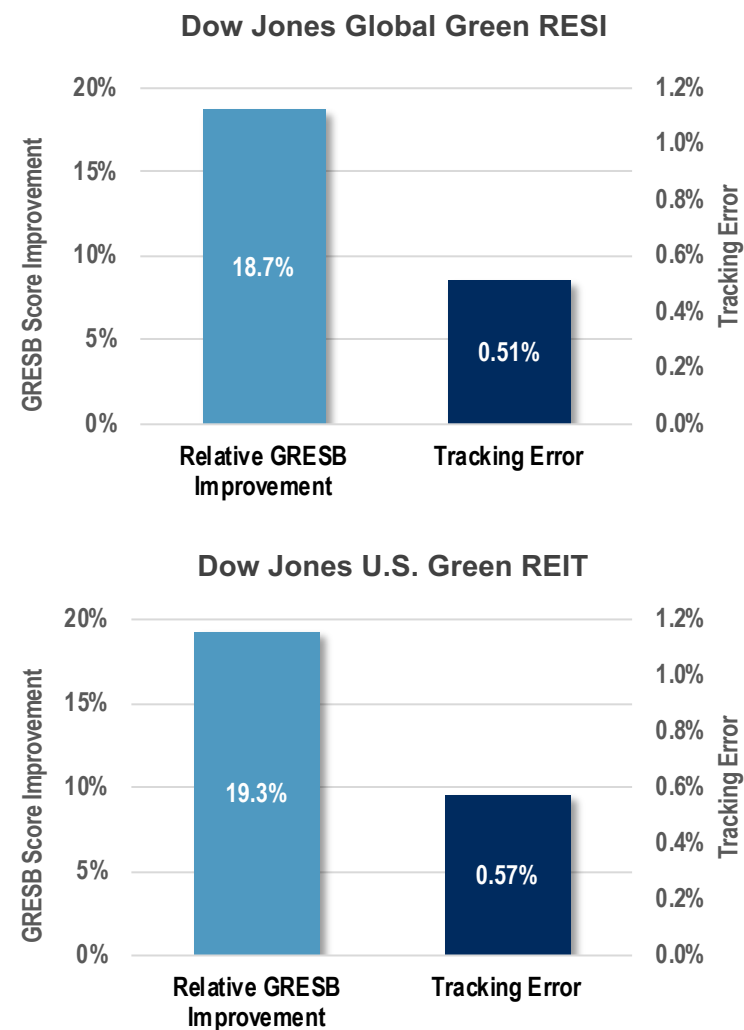
Dow Jones Green Real Estate Indices

- DJ Global Green RESI
- DJ Global ex-U.S. Green RESI
- DJ U.S. Green REIT
- DJ Japan Green RESI

*Companies that do not participate in the GRESB real estate assessment are scored as a zero for ranking purposes. Rebalancing occurs annually effective the 3rd Friday of December.

Source: S&P Dow Jones Indices. For more information see the index methodology at www.spindices.com. Charts are provided for illustrative purposes.

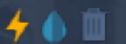
Improved ESG Profile With Low Tracking Error



Source: S&P Dow Jones Indices. Data as of June 28, 2019. Charts are provided for illustrative purposes. GRESB Score improvement based on Weighted-Average GRESB Score for the indicated Dow Jones Green Real Estate compared against the weighted average GRESB Score for the appropriate parent index as of Dec 2018. Tracking Error measured from inception (Dec 2014). Past performance is not an indication or guarantee of future results. These charts and graphs may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

An aerial, isometric-style illustration of a dense cityscape, featuring various building shapes, flat roofs with water towers, and a few cars on the streets. The entire image is covered with a semi-transparent blue filter.

Questions?





Thank you!



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The Dow Jones Global Green RESI, Dow Jones Global ex-U.S. Green RESI, Dow Jones Japan Green RESI, and Dow Jones U.S. Green REIT indices were launched on Feb 28, 2019. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. All data presented prior to this date is back-tested. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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