Collective Intelligence

Closing on Climate Goals

A Conversation With Alex Burnett

By **Alex Burnett** and **Cressida Curtis**

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Alex Burnett *spent 13 years at Shell, where he designed and oversaw the implementation of Powering Progress, Shell's first purpose-led group strategy and associated communications plan, designed to accelerate the transition of the business to net-zero. He worked closely with the Executive Committee on strategy, engagement and communications in response to climate change and priority ESG themes. Alex was previously at Toyota Europe holding a number of roles including ESG. He began his career in parliamentary research. Alex is a Director at The One Foundation, supporting sustainable water and sanitation services in some of the world's poorest communities.*

Now a Partner in Brunswick's London office, Alex advises clients internationally, across sectors, on ESG strategy and communications. In addition to his current work with real estate companies, Alex sat down with Brunswick Director Cressida Curtis to discuss the ongoing transition to net zero in the real estate sector, what it means for property companies, and the opportunities inherent to purpose-led action. Cressida has spent two decades working in the property sector, most recently leading sustainability, public affairs and corporate communications for British Land plc.

Cressida Curtis (CC): Why is there an increasingly strong focus on cutting emissions in the real estate sector to become net zero?

Alex Burnett (AB): More frequent and more extreme weather events, such as recent increases in global temperatures that are breaking new records, illustrate the risks posed by climate change. Decarbonization is becoming the defining critical issue of our age.

Although there are huge challenges to reducing emissions, the world's financial, regulatory and commercial systems are now aligned behind the goal of achieving net zero carbon. This was most clearly demonstrated at COP26 last year, when 140 countries collectively responsible for 90% of emissions came together for the first time – along with financial organizations responsible for $130 trillion in assets and companies representing a third of global market capitalization – to align behind the target of reaching net zero by 2050.

The International Energy Agency reports that buildings and construction account for 39% of global energy-related CO2 emissions and that by the end of this decade, the energy intensity of the global real estate sector needs to reduce by a third for the world to meet the ambitions of the Paris Agreement.

CC: The Paris Agreement was only created in 2015 – what does the current landscape mean for valuations?

AB: Boards are taking this seriously. There are now around 600 green certification schemes globally that apply to property, with a handful such as BREEAM, LEED and NABERS becoming the front runners and GRESB becoming the standardized global benchmark for investors in the sector.

But equally important in some jurisdictions is the move toward energy performance regulations, with the starkest example being the Minimum Energy Efficiency Standards in the UK. It will be illegal in the UK to lease a building with an EPC certificate below a "B" by 2030.

Companies are responding by committing considerable investment. This is a process that will take time and put pressure on a nascent supply chain, so companies that take action now are getting ahead of a significant, costly problem and increasing the resilience of their business in the process.

Against a backdrop of global instability and as a proxy for risk and quality, these benchmarks and standards are informing investment strategies in real estate. While formal valuation methodologies are still in development, there is growing evidence of a "green premium" for buildings with the highest credentials, and a "brown discount" for assets that perform poorly and will require more capital to improve. We expect to see this theme strengthen as transparency into building performance increases.

CC: What can property companies do to get ahead?

AB: The good news is that standardized reporting is coming, with the IFRS establishing the International Sustainability Standards Board (ISSB) to establish a comprehensive global baseline of sustainability disclosures. Convergence around this standard will simplify and streamline the range of investor-focused disclosures, reducing the burden on property companies while helping them to demonstrate with rigour the progress they are making. Consultation on the draft industry-based disclosure requirements closed in July of this year, and the ISSB aims to publish a global baseline by the end of 2022. This will simplify and expedite the ability of companies to evidence the environmental credentials of their portfolio. It will also reveal the companies that are behind the curve, which is a key risk.

The focus has shifted from overarching goals and risk analysis to delivery plans. For companies without robust data to disclose, it's important to be clear on the action being taken within the business to secure this information, but also to go beyond the broadly accepted requirements of frameworks such as TCFD. This includes short- and medium-term targets aligned with the latest science; alignment of those targets with executive remuneration; a credible plan that is aligned with capital allocation and not overly dependent on offsets or unproven technologies; and consideration of broader environmental and social issues, including biodiversity, nature loss and ensuring a Just Transition.

Given the scale and urgency of the shift required, the real opportunity for companies is to openly address the parts of the challenge where we need to move farther, faster. For example, property companies actively sharing what they're learning about reducing scope 3 emissions, primarily the embodied carbon within buildings and the emissions generated by occupiers. Companies that go beyond a transactional relationship and work with their customers to support and achieve lower energy use will find themselves benefiting as valuation methodologies and standardized reporting become mainstream.

CC: It sounds as though the whole sector will eventually shift.

AB: It is happening. The opportunity is both to close performance gaps before those standards become mandatory and to identify where a distinct contribution can be made that accelerates and leads improvements across the sector. As with scope 3 emissions, this is something that can only be achieved in concert with stakeholders which – although challenging – is asignificant opportunity for companies that understand the power of purpose-led action and meet the fast-evolving expectations of their stakeholders.

To continue the conversation:

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