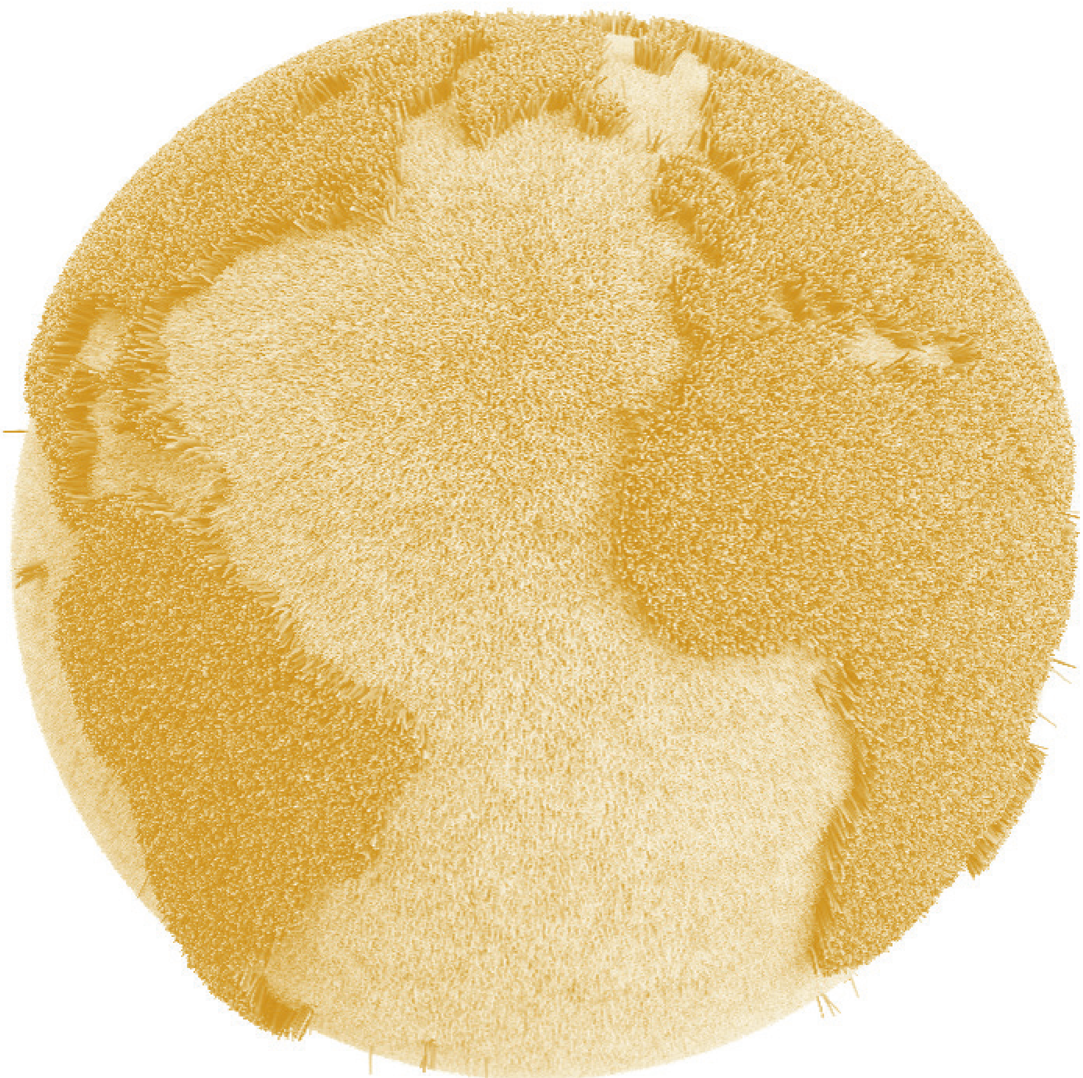
Deloitte.



ESG Real Estate Insights 2021 | Article #5

ESG data management in the real estate industry

MAKING AN IMPACT THAT MATTERS since 1845

ESG – yet another data management challenge for the real estate industry?

ESG challenges are becoming a higher priority for businesses across the real estate sector, making data management more important than ever. Achieving a single data model and defining the key metrics for ESG are issues real estate players can no longer afford to ignore.

With both real estate investors and regulators demanding more sustainability disclosures, players in real estate investment management ("REIM entities") – from property development and/or investment companies to REITs and real estate asset managers – need to focus their efforts on the related data management challenges. This includes agreeing to a single data model and defining key ESG metrics with the aim of achieving uniform, transparent reporting on ESG performance. There are three key areas to address: the complex nature of real estate investment platforms (both in terms of structure and jurisdiction), a lack of maturity in data management and the need for robust technology solutions.

The complex nature of real estate investment platforms

Investment strategies in real estate are more complex than asset classes such as private equity, which have much leaner structures. The different layers, jurisdictions and actors on real estate investment platforms pose challenges when it comes to retrieving environmental, social and governance (ESG) data for reporting purposes.

With real estate assets, actors and vehicles domiciled in different jurisdictions, entities such as TopCo, HoldCo, PropCo, joint ventures and others are subject to different regulations and standards.

This layering and diversity accentuate the challenges faced by REIM entities required to report on their ESG performance. Collecting the necessary data is not the only difficulty they face – data harmonization and aggregation promises to be even more challenging.

Data collection

One difficult aspect of collecting data for ESG reporting is the variety of asset types (i.e., commercial, residential, hotel, logistic, retail, office, etc.), which each use a different data management system. The availability of automated data collection and reporting tools is a huge factor here. For example, some offices may be equipped with Internet of Things (IoT) technology to monitor energy consumption and other data. When this is integrated with facilities or building management software, businesses will have the ability to measure structured ESG metrics, especially in terms of environmental impact. Other type of assets, especially in the logistics area, may use different software systems, may only offer measurement tools in new builds or may be unable to leverage the same level of technology or to collect data with the same frequency, type and granularity.

The degree of data granularity needed to calculate ESG Key Performance Indicators (KPIs) poses additional challenges. For example, collecting data by unit and for every single tenant is much more complex than collecting asset-level data that disregards tenants. And to ensure the ESG KPIs are consistent, REIM entities will likely have to capture data with the same degree of granularity across the property portfolio.

The disparity between E, S and G metrics also plays a big role in the data collection challenges. According to a recent internal analysis by Deloitte, 45% of the data collected and reported by REIM entities relate to environmental metrics, 37% to social metrics and 18% to governance metrics. Environmental data such as carbon emissions, for example, are more quantitative and therefore measurable, making it much easier to capture and report. Social and governance metrics such as freedom of association or exclusion principles, on the other hand, are more qualitative and declarative, which makes them more difficult to monitor.

Other factors that can complicate the data collection process are the country of origin and jurisdiction of various entities and players, whether it is the assets themselves, related asset-level counterparties (i.e., property managers, agents, suppliers, contractors, tenants, etc.), asset and portfolio managers, investors/limited partners or investment vehicles. Disparities in the disclosure requirements, regulations (e.g., authorization to access and use data) and data security of these jurisdictions may restrict access to information as well as information flows. This is particularly true when ESG reporting requires tenant information and other personal data. Defining data standards, such as the formulas for unit measurement, will also require special attention depending on the country in question. Lastly, language barriers may make communication and comprehension more difficult when data is shared across borders.

The complex layering of the investment structure and the actors involved at each layer will impact ESG data collection as well. All stakeholders may be using different technology platforms to collect, record and monitor their data. When it comes to integrating data at the portfolio and investment platform level, having a different degree of granularity or a different reporting template may pose problems. It is crucial for REIM entities to define standards for data collection, which will help them and their servicers to clarify, align and ease the process. This will also be a key step in addressing the second challenge: data harmonization and aggregation.

Data harmonization and aggregation
Once REIM entities are able to collect and retrieve data from all the relevant layers in the real estate investment platform, they will face a second challenge: data harmonization and aggregation.

Aggregating and harmonizing qualitative and quantitative data is by nature a complex endeavor. Most ESG data is non-financial and may in some cases – especially for social and governance metrics – be more qualitative than quantitative. This makes it difficult to draw precise conclusions for the decision-making process.

With different calculation methodologies, metrics and indicators used across jurisdictions, there must be a system in place to align the raw data collected from different assets and from different countries into a single data model to derive the ESG KPIs. This is yet another data set for REIM entities to manage, in addition to the effort they are already putting into aligning, monitoring and validating the data they collect for other purposes.

REIM entities should also make sure they have the capacity to drill down from an ESG KPI to the asset level, so that they can identify the impact or weight of each asset for the portfolio as a whole. This highlights how important it will be to trace individual elements of aggregated data points and provide users the possibility to navigate up and down the investment structure at the asset, portfolio and investment platform levels.

Solutions and future opportunities
REIM entities can rely on different types of technology to help address the data management challenges for ESG reporting in the real estate sector.

There are targeted real estate solutions developed to collect ESG data at source, the majority of which are cloud-based software solutions used by asset operators. They rely on templates specifically designed to capture ESG data for the real estate sector, perform basic quality control functions and normalize the data based on a specified data model.

There are also solutions that address broader needs, such as portfolio monitoring tools offering specific modules for ESG data management. These assist with ESG data collection and reporting on the basis of standardized data sets and dashboards that can be customized as needed.

In addition to software solutions, we are also seeing asset servicers start to offer data management services dedicated to ESG metrics.

New technology solutions and data management services are still emerging, and the market is likely to develop and propose further innovative solutions and services in the coming years. This will go hand-in-hand with the changing ESG reporting landscape, as technology providers and asset servicers seize opportunities to answer a growing investors and Asset Manager' demand for comprehensive, accurate ESG reporting in the real estate investment sector.

Your Contact

Arnaud Bon
Partner – Consulting IM & PERE
Deloitte Luxembourg
abon@deloitte.lu

Thibault Chollet
Partner – Consulting IM & PERE
Deloitte Luxembourg
tchollet@deloitte.lu

Anke Joubert
Manager – Analytics & Cognitive
Deloitte Luxembourg
ajoubert@deloitte.lu

Morgane Le Goallec
Analyst – Consulting IM & PERE
Deloitte Luxembourg
mlegoallec@deloitte.lu

Published 05/2021