

Novethic Barometer 2014

Environmental commitments in the French listed real estate sector



French listed companies have in the last decade significantly increased the volume of information they disclose on sustainability. However, the mere publication of random information cannot be an end in itself and companies are now required to clarify their environmental action plans and produce evidence on their progress. Novethic's 2014 Barometer investigates how listed French real estate companies tackle these two issues. The study shows that an increasing number of real estate companies are setting publicly disclosed targets to improve the environmental performance of their portfolios, but notes that half of them are struggling to meet their objectives.



Towards more meaningful reporting

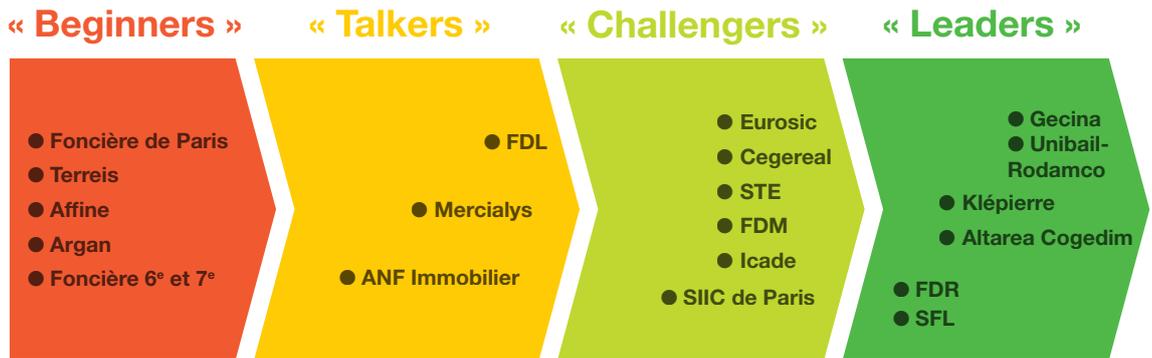
In 2001, France adopted its first law on mandatory sustainability reporting for listed companies. Ten years later, Article 225 of the Grenelle 2 Act amended this initial framework by gradually extending it to non-listed companies with over 500 employees and by introducing verification from independent third parties. At international level, organizations such as the Global Reporting Initiative (GRI) have provided a long list of indicators to be reported on.

This context has driven companies to significantly increase the volume of environmental information they disclose. To improve the relevance of sustainability disclosures for analysts and investors, companies have been urged to focus on "material" topics for their business and discuss the extent to which their environmental policies are embedded in their corporate strategies.



2014 Benchmark

Novethic's Barometer assesses the environmental communication of the 20 largest listed French real estate companies. Eight topics are considered: certification schemes, environmental clauses with contractors, energy, water and waste management, greenhouse gas emissions, life cycle impacts, and connectivity to reduce users' need for transportation. Companies are benchmarked according to their disclosures of performance indicators, the ambition of their action plans and improvement targets, and the monitoring of their progress.



The benchmark highlights four categories of listed real estate companies:

The “Leaders”: These six companies disclose structured and detailed information with reduction targets and key performance indicators monitored over time. They stand out with the broadest data coverage and the presence of quantified commitments on at least 5 environmental topics.

The “Challengers”: These six companies communicate on key performance indicators and on policies with reduction targets. However, the number of topics addressed and the data coverage are inferior to those of the first category.

The “Talkers”: : These three companies disclose environmental performance indicators but seldom commit to reduction targets.

The “Beginners”: These five companies do not disclose any performance indicators although they all mention qualitative information on environmental issues.



Are environmental issues integrated in real estate strategies?

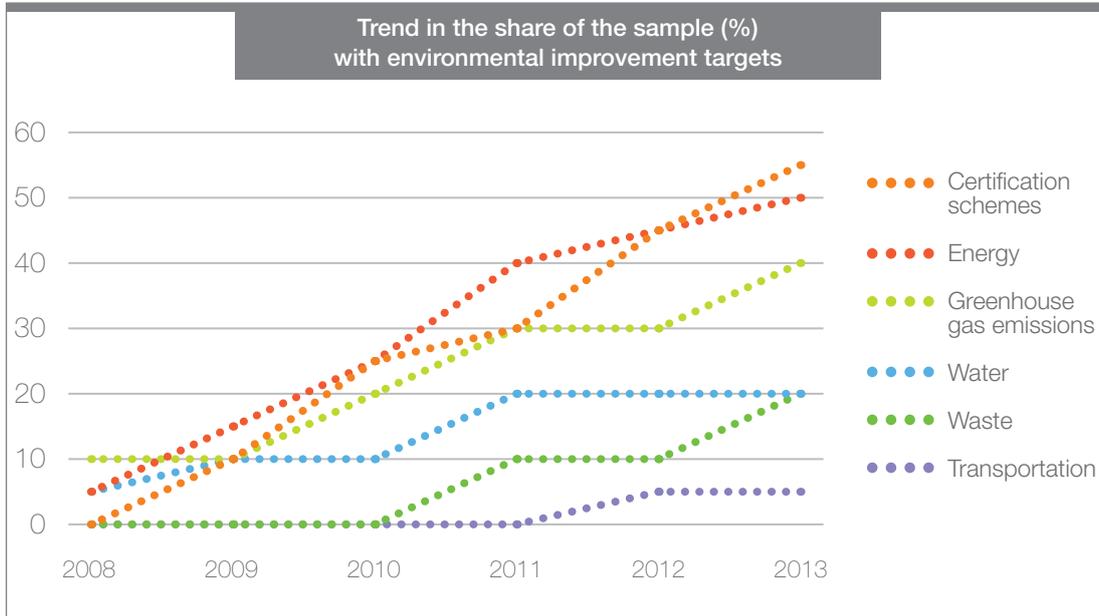
Eighty per cent of the sample highlights the importance of environmental issues to business success. In particular, companies say they follow certification schemes (mainly the HQE or BREEAM labels) and monitor environmental performance indicators as part of their investment and management process.

In compliance with a recommendation from the new GRI reporting framework (GRI G4), 40% of the companies in the sample provide “materiality” matrices in which they rank sustainability topics by relevance for their business and stakeholders. The topics identified as the most material are those on which environmental policies are focused.



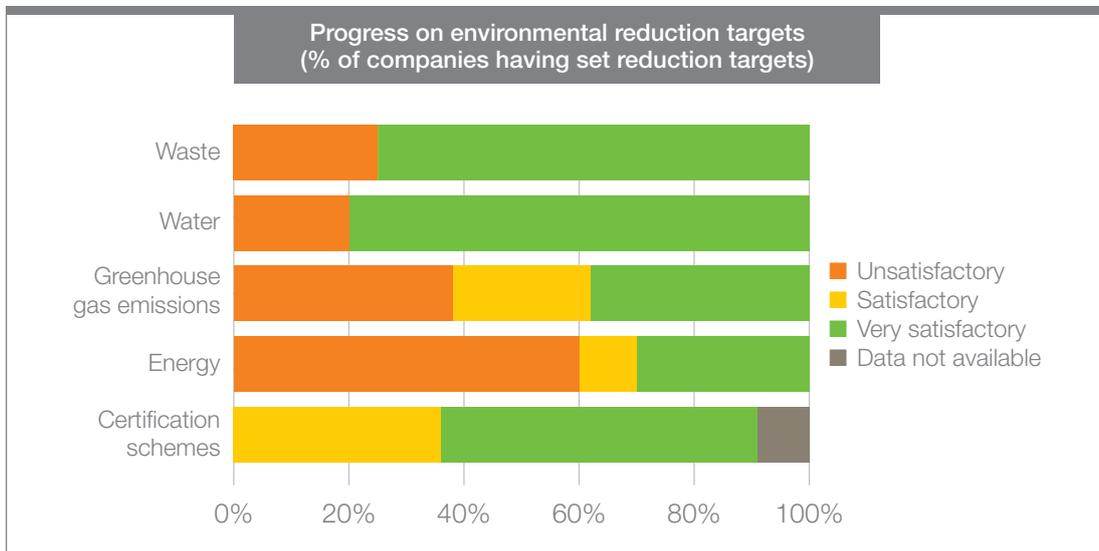
Are companies committed to reducing the impacts of their portfolio?

In 2013, 60% of the companies analysed had set at least one environmental target, against only 10% in 2008. Targets mainly concern certifying buildings in the portfolio (55%), reducing energy consumption (50%) and cutting greenhouse gas emissions (45%).



Are companies fulfilling their commitments?

Forty-two per cent of the companies having set environmental targets appear to be on track to meet all their objectives. However, 33% of them are struggling to meet at least one of their targets. While progress on waste recycling and water reduction is rather satisfactory, companies say they are finding it harder to meet their targets on reducing energy and greenhouse gas emissions. Two main factors are highlighted: climatic variations and the behaviour of occupants. To monitor their progress, 30% of the companies use like-for-like analysis with climatic corrections. In addition, most of the panel consolidates landlord and tenant consumption separately.





Are the targets sufficiently ambitious?

The targets set by the sample companies are very heterogeneous, with analysis pointing to considerable differences in terms of ambition. Reduction targets usually cover only the surface area directly controlled by companies, which generally corresponds to only a fraction of total portfolios. In addition, the targets as a whole are less ambitious than the environmental objectives initially proposed by France's "Grenelle" regulatory framework for 2020.

Energy: The Grenelle I Act aims for a 38% reduction in the energy consumption of buildings by 2030. Only two companies clearly exceed this objective. The others will need to extend their commitment period to meet the national objective.

Greenhouse gas: Europe is targeting a 20% cut by 2020. Five listed French companies have set targets exceeding this objective, two of them aiming for a reduction of over 40%.

Waste: The Grenelle I Act aims for a recycling rate of 45% for household waste by 2015 and 75% for office waste by 2012. Three retail real estate companies aim to recycle more than 50% of the waste generated by visitors by 2015 or 2016, and only one company targets an 80% recycling rate for its existing office buildings under management.

Several companies stand out by having already made considerable progress and by setting ambitious objectives exceeding French national targets. But most companies fail to provide visibility on their ability to reduce their environmental impacts. Further progress is still required for the sector as a whole to play a leading role for the greening of the economy.



About **Novethic**

Novethic is a media and research centre based in Paris. It provides information and publishes studies on Europe's responsible investment market, the aim being to raise awareness among financial professionals and foster the dissemination of responsible investment practices. Novethic is a non-profit member of the Caisse des Dépôts group, France's principal public financial institution.

Since 2008, Novethic has published a Barometer on the environmental reporting of listed French real estate companies, ranking them according to the quality of their communication. The Barometer has monitored the evolution of the real estate sector and promoted the comparability of the information provided. In 2014, a new step was taken to more closely investigate the extent to which reporting actually reflects companies' commitments and environmental progress. The full study is available in French on the Novethic website.

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