



# Using GRESB to leverage investment portfolio sustainability

## Background

Goodman is the largest developer of real estate in Europe, and one of largest developers of industrial and logistics business space globally. Most of the company’s developments in Europe are earmarked for GEP (Goodman European Partnership), in which the company co-invests together with institutional investors – mainly pension and sovereign wealth funds.

Today, GEP contains more than 4 million sqm of logistics space with an average asset age of just over six years. Its gross value exceeds €3bn.

## Sustainability at Goodman

Over the last 10 years or so, the investment community has become increasingly alert to the sustainability qualities of the property portfolios they invest in. In response, Goodman has developed a long-term approach to sustainability and has adopted a strategy focusing on four main areas: sustainable development, asset management, corporate performance, and people and community.

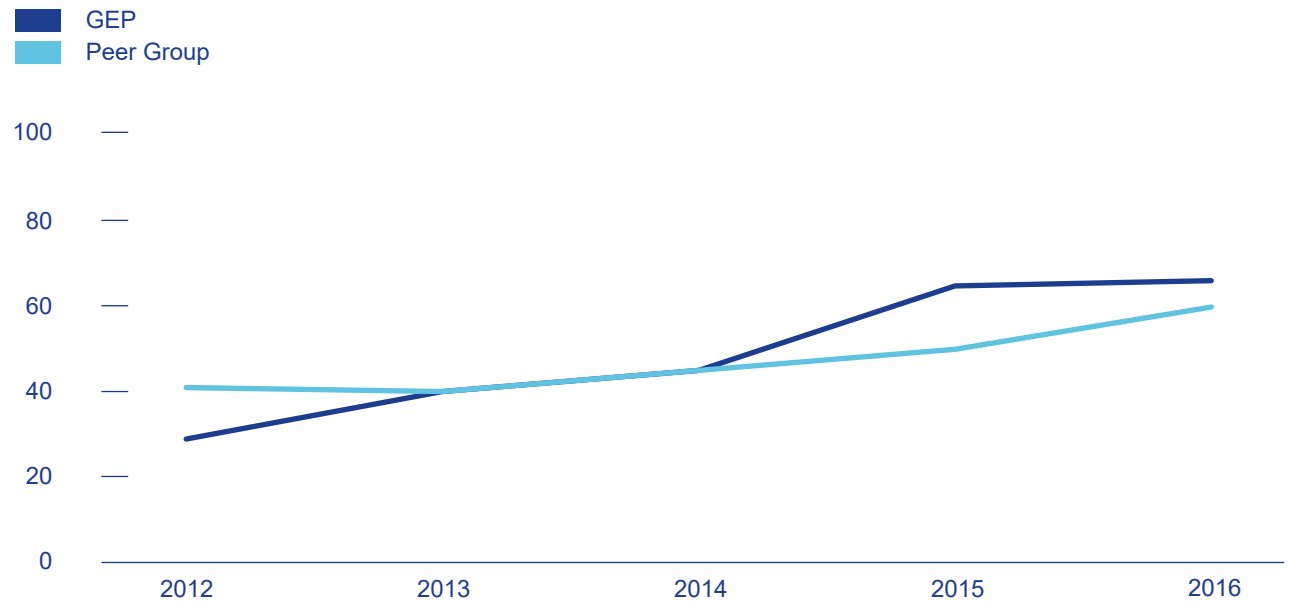
As a major global industrial landowner and developer, Goodman has become aware of the benefits of incorporating sustainable design principles into its new developments and investment portfolio. Sustainability has been embraced for its potential to provide cost savings to customers and value to capital partners, as well as for its benefits to wider society.

## Why GRESB?

Institutional investors are taking a more holistic approach in assessing the performance of their fund managers, and as a result, the demand for environmental, social and governance (ESG) related disclosure has increased significantly. Many of Goodman’s investors look to the Global Real Estate Sustainability Benchmark (GRESB) as an effective way to obtain an ESG assessment

for fund managers, which is why Goodman became a GRESB Company Member in 2013. It provides “a consistent framework to collect and compare key ESG indicators and related performance metrics across global real estate and infrastructure portfolios.” Goodman first began benchmarking its portfolio against the GRESB framework in 2011 and now submits data on behalf of seven of its Partnerships annually.

Figure 1: GRESB Score



Note: The GRESB score for Goodman’s GEP fund increased from 29 at end-2012 to 67 at end-2016, outperforming its peer group from 2015 onwards.

## Implementation

When Goodman first began benchmarking with GRESB, the company's GEP portfolio achieved a score of just 19. GEP has continuously worked to improve its score, which by 2016 had improved to 67, higher than its peer group benchmark of 61. This progress can be attributed to five key elements:

- Getting the right fundamental practices in place: setting the right objectives and implementing the required management processes as well as transparent and consistent year-on-year reporting for sustainability topics.
- A commitment to collecting consumption data. Today, Goodman has green lease clauses in 64% of the GEP portfolio and is able to report consumption data for 74% of the portfolio.
- A focus on developing quality properties – Goodman uses both proprietary tools and third party certifications (BREEAM, DGNB) to measure the intrinsic quality of its properties.
- Active portfolio management: including long-term capex plans for all properties in the portfolio as well as the sale of less sustainable properties and the purchase of new state-of-the-art facilities.
- Regular engagement with key stakeholders, most importantly customers and certification bodies, in order to stay abreast of evolving requirements, regulations and trends.

Quality monitoring and building certification – the former through Goodman's 'Internal Sustainability Snapshot' system – demonstrate an ongoing

commitment to improving performance and the third party verification of sustainability initiatives, both of which contribute to the GRESB benchmarking process.

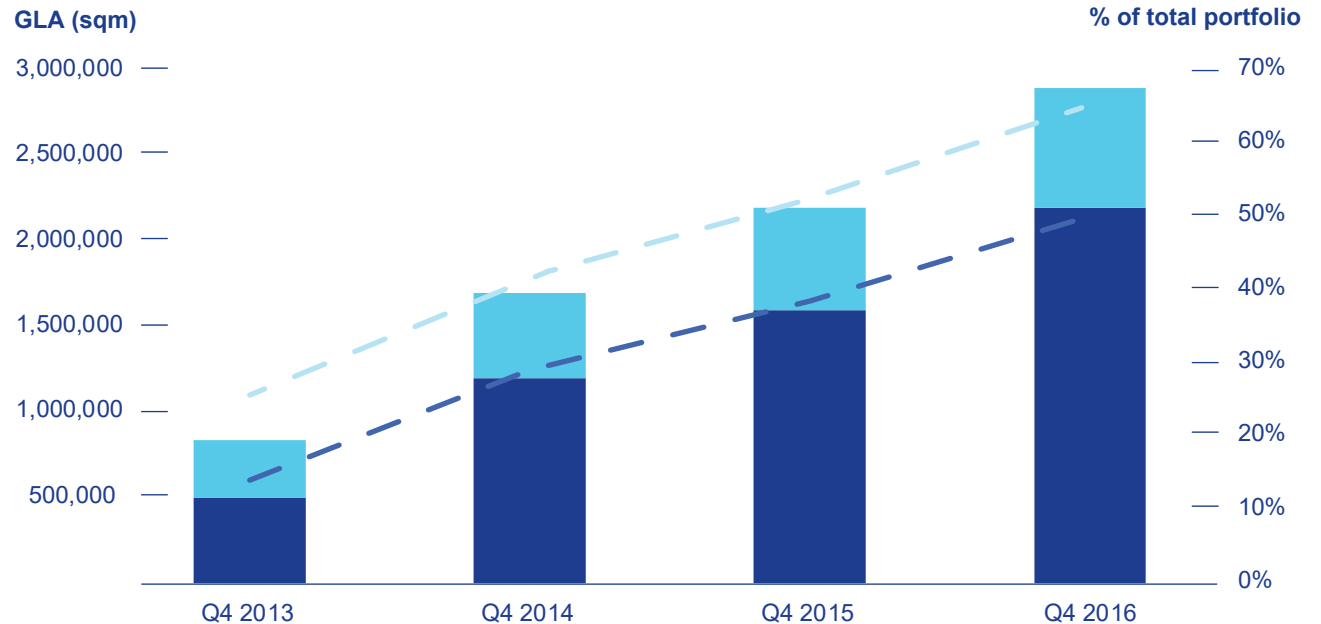
Goodman's Internal Sustainability Snapshot, developed in response to the lack of a specific external sustainability tool for industrial property, measures the quality of each building in terms of the energy efficiency of its insulation, heating, lighting, cooling and ventilation systems, together with its measuring and monitoring devices. This

measure of quality helps the company decide on building upgrades and disposals, enhancing the sustainability of the portfolio. This type of technical assessment, which also contributes to the GRESB score, supported a major lighting and HVAC upgrade program across the portfolio, resulting in more than 830,000 sqm of space across Europe benefitting from environmentally friendly LED lighting.

Building certification for new developments, such as the BREEAM and DGNB standards, which

**Figure 2: Green leases**

■ All 3 leases  
■ At least one lease



encompass a range of environmental factors including energy efficiency, local environmental impact, procurement and water usage, has risen from just over 10% of the GEP portfolio in early 2013 to nearly 30% at the end of 2016.

Another key aspect of the sustainability performance of the portfolio is evident from tracking customer consumption data. In 2011, Goodman introduced green lease clauses in its customer contracts. The green leases signed by Goodman's customers reflect their commitment to increasing the sustainability of their operations, e.g. sharing energy consumption data. Since 2011, the proportion of properties with at least one green lease clause has risen from virtually none to 64% of the portfolio, by floor area. But the company stresses that green leases are only

a starting point, and that it is important to continue to work with customers to build up different strata of energy data. Customers need to understand that collecting this information can help them drive down costs – for their own benefit and not just the public good.

## Moving forward

Sustainability at Goodman is implemented through best practices across the property lifecycle, starting with the development phase, through to the active management of its existing portfolio and by actively engaging with its customers. Goodman emphasise that these steps are just the start of building sustainability into their portfolios and more widely across the organisation. For the industrial and logistics asset class, measuring energy consumption is complex

and requires a lot of detailed analysis before any consistent conclusions can be drawn. Within a logistics portfolio like Goodman's, many different activities take place, ranging from pure storage to intensive e-commerce logistics operations, and these make for widely different energy demands. 'Lessons can only be learned over time, in collaboration with our customers,' says Philippe Van der Beken of Goodman. 'The real value of embarking on a process like GRESB benchmarking is that it offers a consistent framework for collecting and comparing key ESG indicators and related performance metrics. It also highlights opportunities where we can improve our policies, strategies and measurable actions. The GRESB framework itself continues to evolve, in response to the industry's concerns, so we're very much on a journey together.'

'Sustainability shouldn't just be a line on the agenda of your asset management team. To really make it happen, sustainability has to become embedded in the organization's culture.'