



**INSIGHTS INTO REAL ESTATE
INVESTMENT SUSTAINABILITY (IRIS)
SURVEY 2022: PART 2**

ESG DATA CHALLENGE

DEAR READERS

In our most recent Insights into Real Estate Investment Sustainability (IRIS) survey we have seen responses that cover \$3.3tn AUM, which is one-third of the professionally managed global real estate market. An increase from \$2tn in our first IRIS 2021 survey.

The IRIS Survey has found that the market leaders have embedded ESG more deeply across the investment lifecycle, and the rest of the market is following.

We have seen the market mature, particularly amongst firms with \$5bn-\$20bn AUM who appear to have followed the lead set last year by the largest investors with over \$20bn AUM. However, firms are more cautious this year about classing themselves as 'Market Leading'.

In 2022, we see that investors remain concerned about ESG data being below investment-grade. Whilst, at the same, we see more comprehensive use of ESG data across the investment lifecycle. The combination means that more investment decisions are being made with the use of questionable data.

Real estate asset data acquisition remains a challenge, with the level of automation being very low and larger investors having a significant proportion of data being reliant on third party data.

All of these results in IRIS 2022 point to a solid foundation for ESG integration into investment decision-making as we enter a markedly different economic environment. A period of reduced liquidity could force investors to hold riskier assets for longer.

Whilst we will see fewer deals transact in 2023, we should expect them to face a higher level of ESG risk scrutiny from institutional investors and larger investment managers. This will require good quality data to provide evidence that backs up ESG claims and avoids claims of greenwashing.

In the use of ESG data in investment decision making we remain concerned about the lack of a standardised approach, particularly when combined with the concerns about data quality and the large proportion of manual and third party data entry. The search for more perfect information will remain a differentiator for the coming year.

In summary, we have seen progress over the past year in the integration of ESG data into real estate investment decision-making. However, it is important from a fiduciary standpoint to understand the strengths and weakness of the various approaches.



Sonny Masero
EVORA Global, Chief Strategy Officer

INTRODUCTION

In 2021, aligned with one of our strategic objectives – *to understand our clients and their markets better*, we launched **EVORA Insights**, a series of industry engagement events, reports, and thought leadership – to better understand the ESG evolution in real asset investment.

Our inaugural Insights into Real estate Investment Sustainability (IRIS) Survey in 2021 was well received in the market with investor responses representing \$2tn of real estate Assets Under Management (AUM). While the IRIS 2021 Survey was focused on European Investors, with the IRIS 2022 Survey we have been able to capture responses covering a wider geography, especially North America.

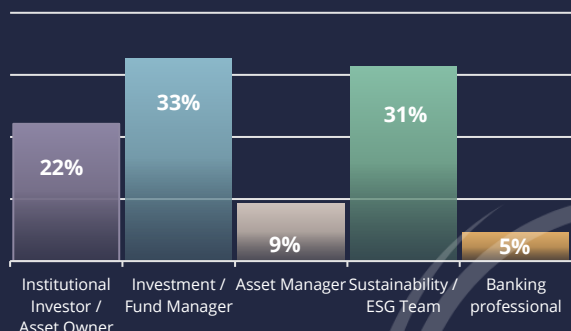
We will be releasing our survey results in three parts, with a final report covering all of the survey results

Part 1 – ESG Market Maturity

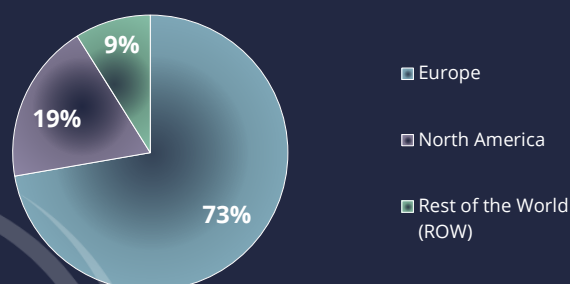
Part 2 – ESG Data Challenge

Part 3 – Climate Resilience

INVESTMENT ROLES - TOTAL 102



RESPONSE PERCENTAGE

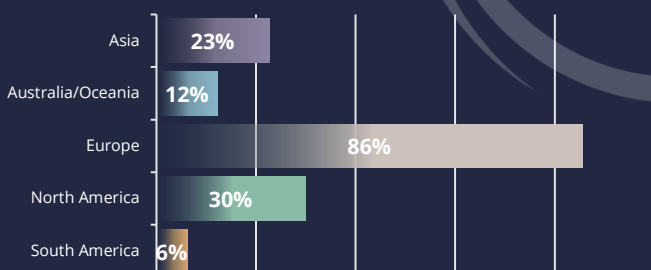


102 Investment roles

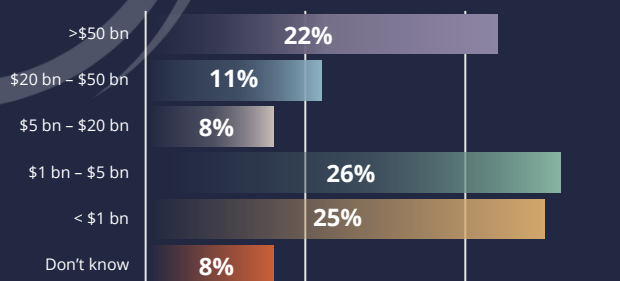
2021
22 Countries covered
90% from Europe

2022
25 Countries covered
73% from Europe

CAPITAL ALLOCATION FOR RESPONDENTS



REAL ASSET INVESTOR AUM



86% of the investors surveyed allocate capital in Europe, **30%** in North America & **23%** in Asia

\$2 trillion AUM in 2021 | \$3.3 trillion AUM in 2022

This is approximately one-third of the professionally managed global real estate market

MARKET MATURITY

94%

of the investors reported that ESG data is material to their investments

ESG data is being used for purposes such as monitoring investment mandates, strategy formulation, external and internal reporting, remuneration, peer benchmarking, disclosure and responding to regulations. Further, ESG data is being looked at alongside asset financial data across the asset investment lifecycle.

Confidence in investment-grade ESG data quality has fallen from 14% since our IRIS 2021 survey. There is a major gap between data quality and its materiality in strategic initiatives such as reporting, benchmarking and investment decision-making. Poor data quality can be attributed to a lack of investment and automation in data acquisition, compounded by a lack of standardisation in the integration of ESG into investment models.

11%

of the investors are confident about their ESG data quality

We believe that whilst the market has accepted the relevance of ESG data, it is unclear how to integrate it into the financial / valuation / investment models. The standardisation of ESG data integration will further support the standardisation of reporting frameworks and, in turn, the best approach to data acquisition.

In this report, we elaborate on:

1. [Integration of ESG Data in investment valuations](#)
2. [Data acquisition approaches and challenges](#)

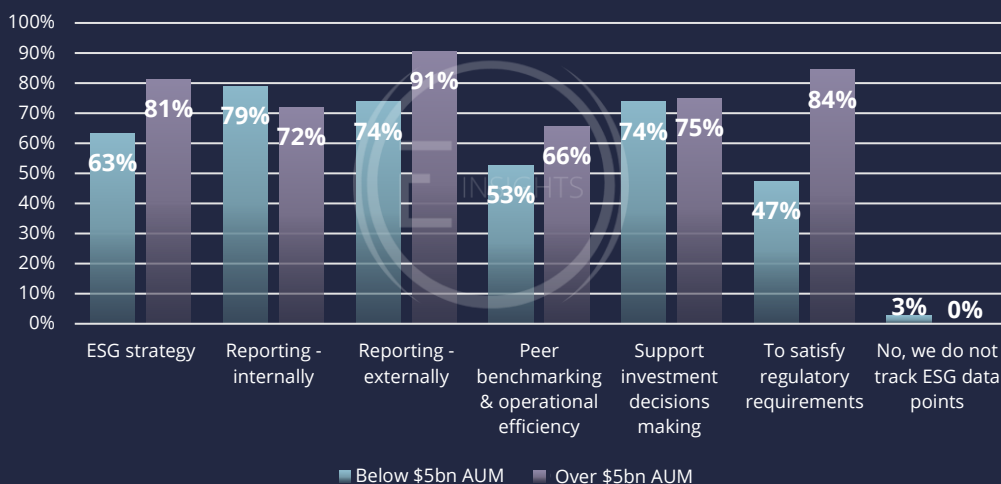
We will also compare the results with IRIS 2021 to assess the progress. We hope this report will foster discussion and actions, and inform the future approach of ESG integration into investment decisions.

INTEGRATION OF ESG DATA IN INVESTMENT VALUATIONS

83%

of the largest investors with over \$50bn AUM have reported using ESG data points across all categories surveyed

PURPOSE OF CAPTURING ESG DATA – MARKET OVERVIEW



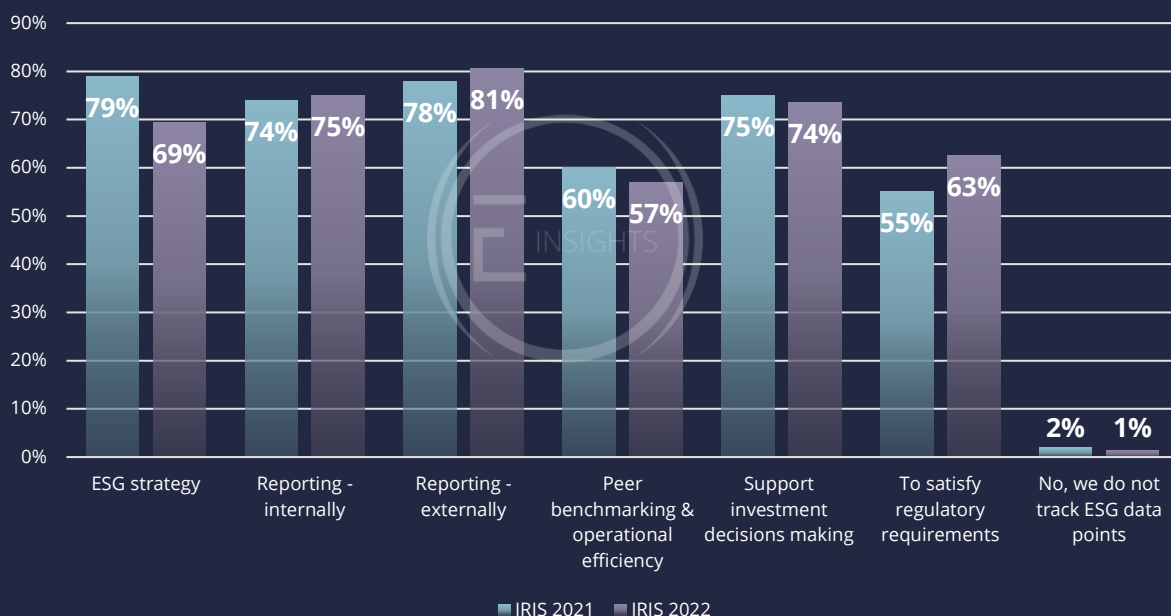
Large investors with over \$5bn AUM are exposed to a higher level of scrutiny from regulators, the public and asset owners. Thus, they have reported a considerably higher percentage for gathering ESG for the following activities, as compared to the smaller investors.

1. To inform ESG Strategy
2. External Reporting
3. Peer Benchmarking and Operational Efficiency
4. To satisfy regulatory requirements



INTEGRATION OF ESG DATA IN INVESTMENT VALUATIONS

PURPOSE OF CAPTURING ESG DATA – PROGRESS FROM 2021

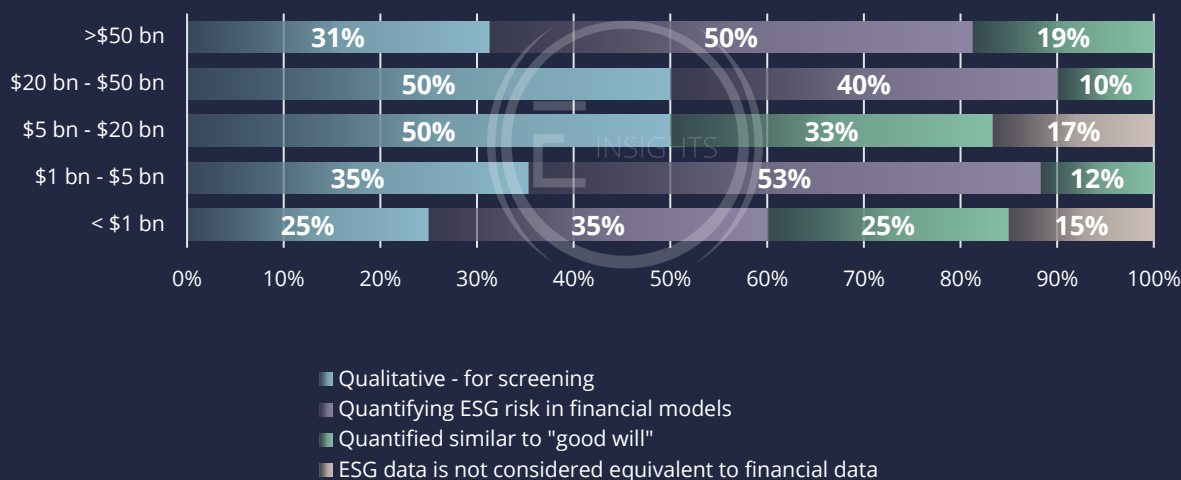


The response in IRIS 2022 is similar to the response received in IRIS 2021 but there is an increase in 'to satisfy regulatory requirements; and a decrease in 'ESG strategy'. This can be linked to the broader geographic coverage in 2022 as compared to the focus on Europe in IRIS 2021 - Europe is a bit more advanced in terms of sustainable finance regulations compared to the rest of the world.



ESG DATA INTEGRATION APPROACH IN ASSETS' FINANCIAL DATA

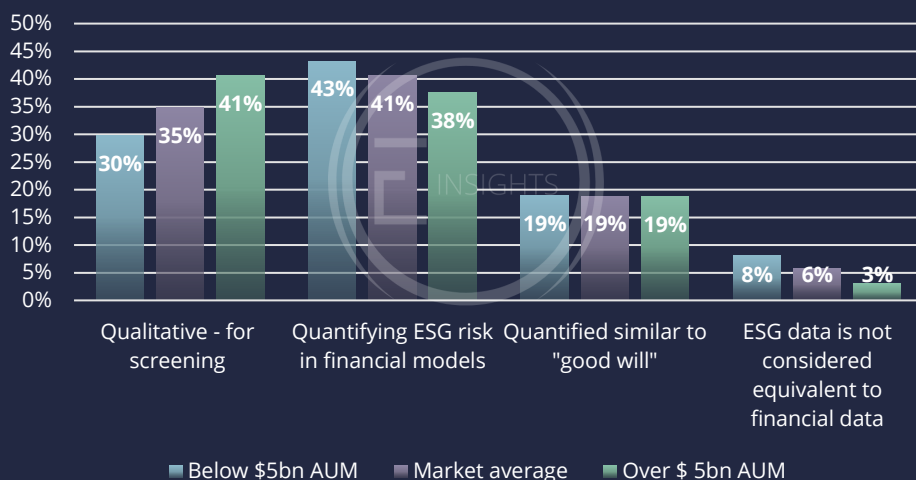
ESG DATA INTEGRATION APPROACH IN ASSETS' FINANCIAL DATA - ACROSS INVESTOR SIZE



Irrespective of the investor size, the market has a mixed approach, with at least **50%** using a qualitative and/or a quantitative approach. The lack of standardisation in ESG data integration in financial models is creating a barrier to the adoption of ESG data as a critical aspect of investment decisions. Unless there is a market-wide acceptance of the methodology of pricing ESG risk into investment value, ESG data points could be treated as "good to have" instead of "must have" for investment decisions until it is too late and the value is eroded.

ESG DATA INTEGRATION IN ASSETS' FINANCIAL DATA

97%
of all the large investors with over \$5bn AUM are integrating ESG data into assets' financial models

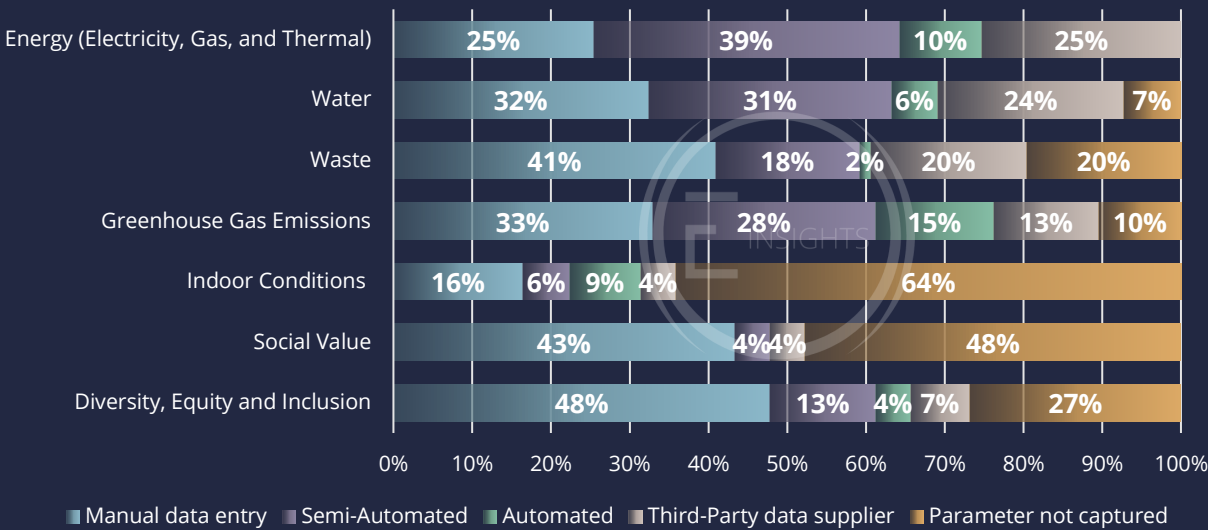


54% of the investors are considering the qualitative approach either directly or through quantifying the qualitative research as goodwill (or as an equivalent factor).

41% of investors are quantifying the ESG risk. While most of the assets' financial models are dependent on historic data, it is worth exploring how and to what degree investors are quantifying the future ESG risk.

ESG DATA ACQUISITION

ESG DATA ACQUISITION APPROACH

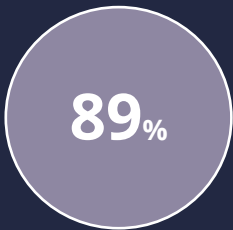


Only **7%** of the data is automated data collection. This is a **2%** increase from IRIS 2021

Over **1/3rd** of the data collection is dependent on manual data entry. And while **14%** is dependent on third-party data suppliers there is a possibility that it is either proxy data or manual data entry. Thus, the reliance on manual data entry could be as high as **48%**.

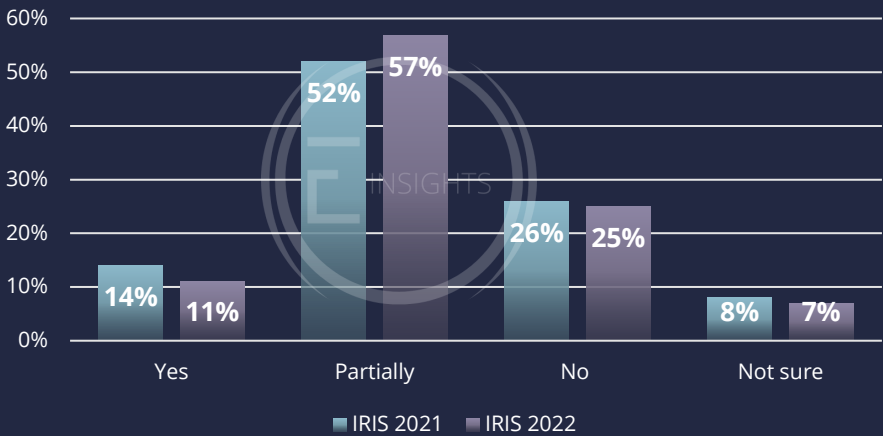
About **64%** of the investors do not capture indoor conditions such as Daylight, Air quality, Thermal comfort, etc. Although this is a point of concern, it is a considerable improvement from IRIS 2021, where **85%** of investors reported not capturing indoor conditions.

ESG DATA ACQUISITION



of the investors are either not sure or do not consider the captured ESG data to be investment grade

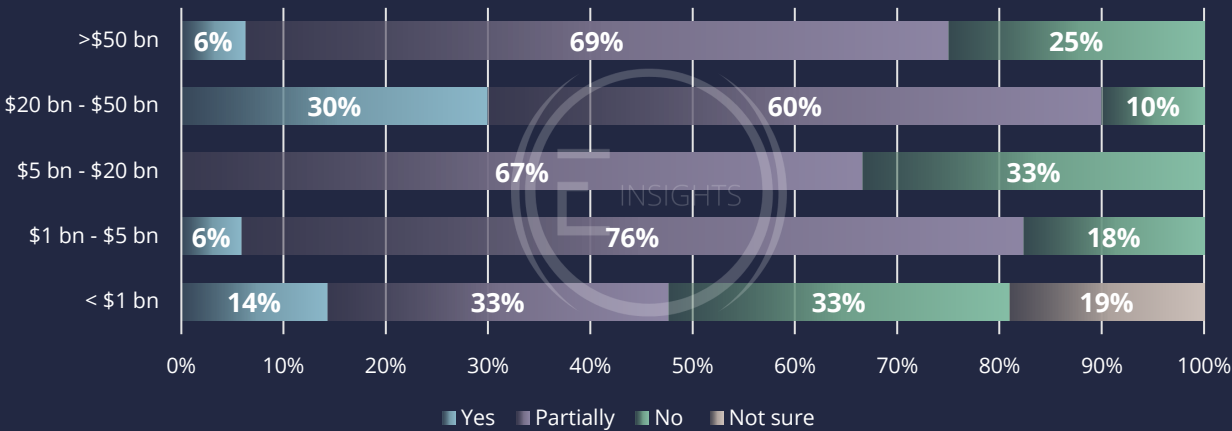
DO YOU CONSIDER CAPTURED ESG DATA AS INVESTMENT-GRADE DATA?



There is a slight increase in automated data acquisition but confidence in ESG data quality has fallen. It indicates that investors are advancing in their use of ESG data, are more aware of the data quality parameters and its present limits.

Dependency on manual data entry and third-party data providers can affect the data accuracy and/or completeness, which may impact the investors' confidence in the acquisition of ESG data.

DO YOU CONSIDER CAPTURED ESG DATA AS INVESTMENT-GRADE DATA? - ACROSS INVESTOR SIZE



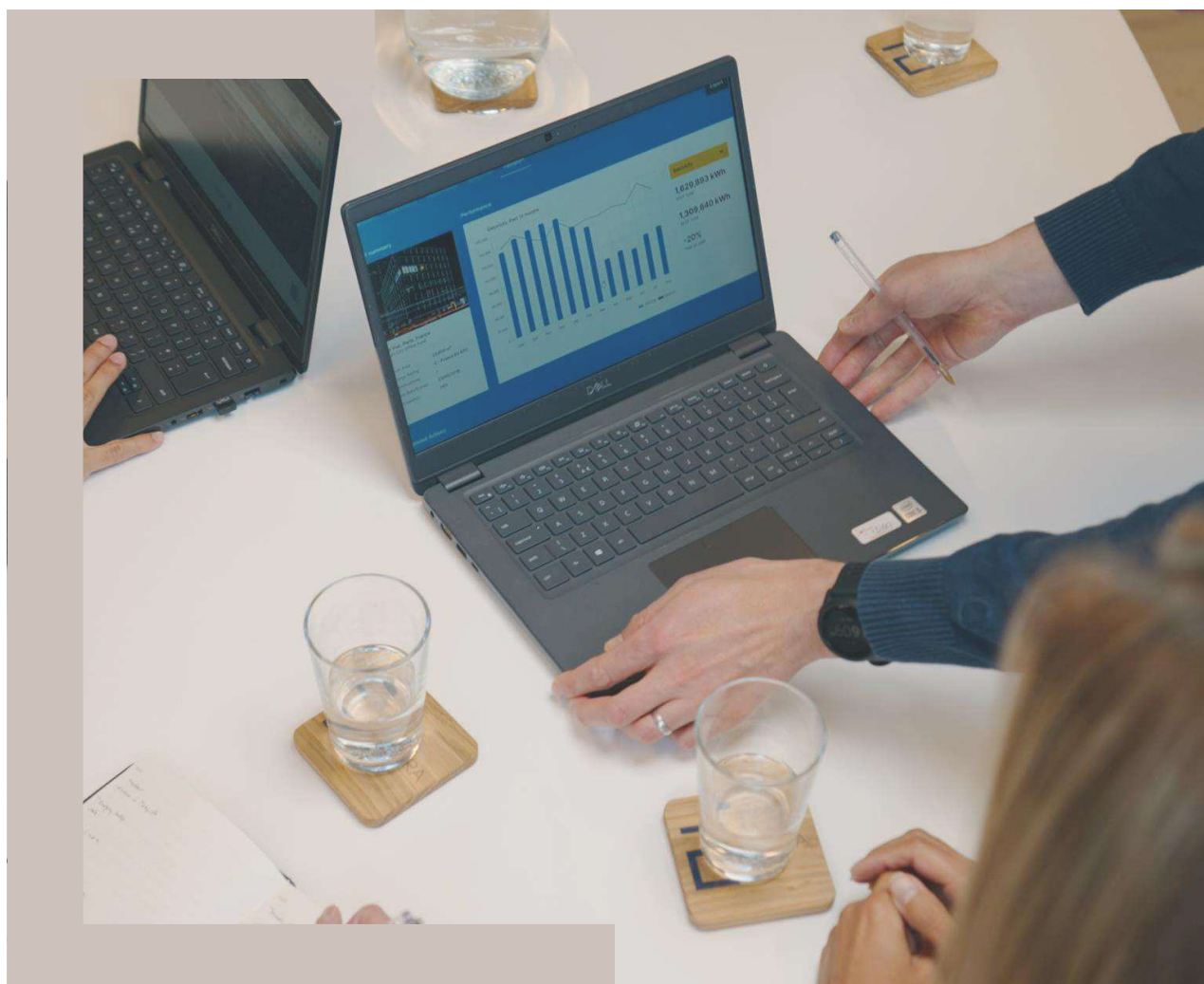
Large investors, especially within the of \$20bn - \$50bn AUM are more confident in the quality of ESG data as compared to the rest of the market but in general, the confidence in ESG data is very low.

CONCLUSION

The understanding of ESG is evolving rapidly. Investors have accepted that ESG data is material to the asset investment lifecycle and to support other business decisions, but the absence of a standardised approach to ESG integration into financial models is a major barrier. The result is a diversity of approaches to ESG integration, both qualitative and quantitative, and an uncertainty in methodology or “single source of truth”. This inconsistency could also hamper the integration of ESG data points into the assessment of investment value.

Further, ESG data acquisition is challenging for real assets. The intricacy of real assets, in terms of asset type, size, localisation, and splits in ownership and operational responsibility add to the challenge. The result is a low proportion of automated data collection and concerns about data quality despite the fact that ESG data is being used for decisions across the investment lifecycle.

In part 1 of our IRIS survey report, we have reported the advanced progress in market maturity. We believe that the standardisation in ESG integration in investment value will, in time, simplify the data requirements and technologies to support automated data acquisition to assess and mitigate the investment value at risk. At present, there are real risks regarding data quality and standardisation.



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