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## SUSTAINABILITY REPORTING FOR CONSTRUCTION AND REAL ESTATE

### INTRODUCTION

In many sectors of industry the environmental achievements, efforts, and credentials of organizations are documented and published in an annual sustainability report. These documents, which are also sometimes known as corporate social responsibility (CSR) reports, are widely used by organizations to demonstrate their commitment to social and environmental goals.

In the U.S., the adoption of sustainability reporting has generally lagged the rest of the developed world, and rarely extends beyond the largest Fortune 500 companies and major government/non-profit organizations. This contrasts with the situation in Europe, where the practice of reporting on CSR-related goals, strategies, and achievements is more widespread. One reason for the lack of CSR reports in the U.S. is the extension of CSR beyond the realm of environmental sustainability to encompass areas such as social policy, labor rights and equality that have historically been regulated to a lesser extent in the U.S. than in Europe.

### THE CONSTRUCTION AND REAL ESTATE SECTORS LAG OTHER INDUSTRIES

Sustainability reports published by real estate or construction companies are few and far between. Those companies that have made the effort tend to produce reports that are light on hard data relating to environmental performance, but instead focus on narratives that document various initiatives to green their operations, such as the greening of their office space, the promotion of recycling and green transport, and reduction of waste. For real estate owners, portfolio initiatives such as solar installations, energy efficiency programs, and green building certifications are also noted, but largely without detailed data to quantify or benchmark their impacts.

On a global basis, the construction and real estate sectors are subject to several complicating factors that have discouraged an early and widespread commitment to sustainability reporting.

- First, there is a definitional problem of the real estate or construction organization and the projects that they build and assets they own. In construction, contractors often work to specifications defined by the owner and its design team, and may have little ability to control the scale and location of development, or the materials used, all of which have important sustainability consequences. Real estate investment companies that lease their properties to third parties also have definitional problems over which party has control and responsibility for the environmental performance of property that is owned by one party but occupied by another.
- Second, there are inherent difficulties in measuring and benchmarking environmental performance in project-based industries, where such metrics vary dramatically in reflection of the type and scale of project work, or mix of asset type, at a specific period in time.
- Third, the construction process is a major user of natural resources, consumes large amounts of energy, and creates significant waste and pollution. The sheer scale of effort required to collate data, benchmark, and report requires a major organizational commitment.

Additionally, there is a reluctance to draw attention to the environmental consequences of development. Many organizations are happy to commit to working greener, but do not want to publish information that they may be held accountable to, or that may be used against them in a way that could make their business look bad.

## NEW GUIDANCE ON SUSTAINABILITY REPORTING

In addition to the above factors, there has been a notable absence of guidance on how real estate and construction companies should approach the task of sustainability reporting. To remedy this, the world's leading authority on sustainability reporting, the Global Reporting Initiative (GRI), released in September 2011 a special supplement to its reporting framework specifically aimed at the construction and real estate sectors. The Construction and Real Estate Sector Supplement (CRESS) is the outcome of a two-year process that involved lead consultants and a global working group. The resulting document provides descriptions of sustainability disclosures and performance measures that are important or unique to the construction and real estate sectors.

At the heart of CRESS are eight new Core Performance Indicators that are considered the most material to construction and real estate, and which organizations would be expected to disclose. As detailed in the table below, some of these indicators focus on areas familiar to those involved in green building, such as energy and water usage, greenhouse gas emissions, and land remediation, while others reflect more of a social dimension, including health and safety compliance and the displacement of people by development activity.

#	ASPECT	INDICATOR
CRE1	Environmental: Energy	Building energy intensity
CRE2	Environmental: Water	Building water intensity
CRE3	Environmental: Emissions, Effluents, and Waste	Greenhouse gas emissions intensity from buildings
CRE4	Environmental: Emissions, Effluents, and Waste	Greenhouse gas emissions intensity from new construction and redevelopment activity.
CRE5	Environmental: Land Degradation, Contamination, and Remediation	Land remediated and in need of remediation for the existing or intended land use, according to applicable legal designations
CRE6	Social: Occupational Health and Safety	Percentage of the organization operating in compliance with an internationally recognized health and safety system
CRE7	Social: Local Communities	Number of persons voluntarily and involuntarily displaced and/or resettled by development, broken down by project
CRE8	Social: Product and Service Labeling	Type and number of sustainability certification, rating, and labeling schemes for new construction, management, occupation, and development

In addition to the above core indicators, the supplement also provides guidance on the interpretation of numerous other indicators within the existing GRI framework.

At minimum, the GRI framework provides a useful template for organizations to follow when crafting a process for sustainability reporting. It encourages companies to think about what their sustainability goals are, to develop protocols for consulting their stakeholders, and to define the scope of their reporting based on materiality and impact. It also provides a framework for defining their management approach, protocols and key indicators for the core areas on which they should be reporting. This appears to be the way that GRI is being used in practice by real estate and construction companies. According to the Global Real Estate Sustainability Benchmark (GRESB), over 30 percent of respondents to the 2012 GRESB Survey used the GRI framework to disclose their sustainability performance, although only a small proportion actually issued a GRI report.

There are two key concepts that an organization needs to understand and define at the outset of its sustainability reporting journey. The first of these is the boundary definition, which draws a ring around the activity areas about which the company will report. The second is deciding the topics that are material to sustainability, and that therefore should be included in the company's disclosures.

## BOUNDARY DEFINITION

The widely accepted convention for determining what activities or areas should be covered by the sustainability report is that formulated in the Greenhouse Gas Protocol, developed by the World Resources Institute and the World Business Council for Sustainable Development. Depending on the type of organization, the reporting boundary may be set according to one of three approaches: Operational Control, Financial Control or Equity Share.

Most real estate companies choose the Operational Control approach, which requires them to report on all assets where the company "has the full authority to introduce and implement its operating policies at the operation."<sup>1</sup> For real estate, this means that the landlord of a multi-leased building is expected to report on the common areas, but not the tenant-occupied spaces. In some cases landlords do have access to tenant performance data

through utility bills and the like, but the landlord usually has very little ability to control consumption, and therefore is not required to monitor and report performance. Similarly, construction companies have only a limited ability to control the operational circumstances at the client-owned construction sites where the vast majority of their activities take place.

## MATERIALITY

Following the definition of the reporting boundaries, the next step is to determine the topics or indicators that should be included in the organization's report. Here GRI uses the concept of materiality to define the threshold at which topics become sufficiently important that they should be reported. Material topics or indicators are those that either (1) reflect the organization's significant economic, environmental, and social impacts, or (2) would substantively influence the assessments and decisions of stakeholders.

## CASE STUDY SUSTAINABILITY REPORTS

The following sections provide a brief review of the sustainability reports of one construction company (Fluor) and two real estate companies (Hines and RREEF Real Estate). In 2012 each of these companies published a sustainability report based on the overall GRI framework, although none of the reports were specifically aligned with the new CRESS guidelines. Our review looks at the scope and structure of their reports, with a view to how each company has attempted to address the various challenges of reporting that are inherent in their industry.

### FLUOR

Fluor is one of the world's largest construction and engineering companies, with a global count of 43,000 employees working across 50 offices in 28 countries. The company completes more than 1,000 projects annually, and is involved with some of the world's largest ventures in the oil and gas industry, power generation, and civil engineering.

Sustainability has been an integral part of Fluor's organization for many years, and sustainability reports have been published annually since 2008. The subject of sustainability maintains a significant presence on the company's website, which provides well-developed and transparent information about the company's sustainability policies, commitment, governance, and compliance.

1. <http://www.ghgprotocol.org/>.

## HINES

Hines is one of the largest developers and owners of office buildings in the U.S. and has a growing presence in diversified and international markets. The company controls more than \$22 billion of assets and 1,200 properties across 18 countries, with approximately 3,200 employees. Hines was founded in 1957 and continues to be a privately held company.

In 2012, Hines published its first sustainability report. In addition to the report, a limited amount of information about sustainability is provided on the company website, including a list of achievements, a count of the number of buildings that are Energy Star and/or LEED compliant, and a Responsible Investment Statement.

## RREEF REAL ESTATE

RREEF is the real estate investment arm of Deutsche Asset Management, which is part of Deutsche Bank Group. RREEF is headquartered in the United States, and has approximately \$61 Billion of assets under management across 4,200 properties, with 54 percent of these in the U.S. and the remainder located overseas.

The RREEF website contains a section on sustainability that includes information about the company's sustainability policies, governance, and a small number of case studies. There are also links to the Deutsche Bank Group sustainability initiatives and to research reports on green buildings produced by the company. The 2012 sustainability report is the first one that RREEF has published.

## REPORT STRUCTURE AND CONTENT

In terms of the structure and content of each report, **Fluor** demonstrates the greatest depth and breadth of reporting. This is not surprising given that this is the fourth year that Fluor has published a report. Each company uses the GRI framework for reports, although at different application levels.<sup>2</sup> **Hines** provides a level "C" report. This is the lowest application level of reporting, but is appropriate for first-time reports. **RREEF** does not declare an application level, but provides a GRI compliance checklist as a report appendix. Fluor adopts the GRI's G3 reporting guidelines rather than the more recent version 3.1, and reports at application level "B."

In terms of content, the **Fluor** report reflects its position as a major employer, operating in some contentious industry sectors and global locations. Therefore there is a strong focus on areas of ethics, health and safety, governance, compliance, and the welfare of employees and communities. For **RREEF** the focus is very different; its report is almost entirely about the environmental performance of its real estate assets under management. **Hines** strikes more of a balance.

## SCOPE, BOUNDARY, AND MATERIALITY

Each company notes the difficulty of applying a consistent scope and boundary across an organization that comprises many different types of projects across many countries. The scope of **Fluor's** report includes all corporate operations and subsidiary groups, but does not include any information about energy use, waste, or emissions that occur at client sites. The focus of the **RREEF** report is firmly on the real estate assets under management, rather than corporate operations for which the reporting responsibility lies with the parent group. Consequently, the reporting related to the environmental performance of the assets under management includes space that is leased to third parties. The **Hines** report does not explicitly identify its scope and boundaries, but provides coverage of both the real estate assets that the company develops and manages, and the organization considerations as they relate to employees and communities. Similar to **RREEF**, **Hines** reports building energy performance data for properties that are leased to third-party tenants.

## DATA AND PERFORMANCE

For all three reports, the majority of disclosures relate to descriptions of green initiatives, strategies, achievements, and awards. All of this information is useful to stakeholders but does not provide a sound basis for measuring performance, either over time or against peers.

For both **Hines** and **RREEF**, 2012 is the first year of publishing a sustainability report, and this is reflected in the limited availability of performance data. Each report recognizes this, and emphasizes the focus on setting up the data-gathering protocols and technology to enable improved disclosure of performance data in the future. **Hines'** core focus on office properties allows

2. GRI Application levels run from A to C, reflecting the degree of disclosure and whether the report was audited by an external agency.

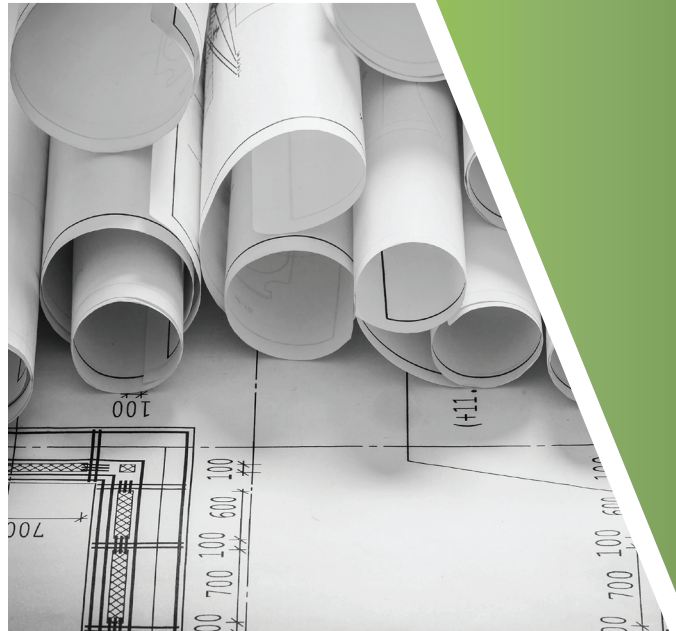
it to present summary performance data on energy and water usage for the last 10 years. **RREEF's** benchmarking efforts are still at an early stage and focus on the contribution of data to the Greenprint Performance Index. While only headline performance figures were published in this year's report, it is likely that more detail will become available as this index develops over the coming years.

**Fluor's** longer history of sustainability reporting is evident in the amount of data and analysis provided in the report. Key metrics include six years of carbon footprint data, which is presented on both a gross and revenue-normalized basis. The company also provides statistics relating to recycling, conservation, and employee outreach efforts, although this data is not tracked over time. Health and safety is a major area of focus for **Fluor**, and key metrics such as lost workdays and recorded incidents are captured and tracked.

## CONCLUSIONS

It is clear from this cursory review of a small number of reports that construction and real estate companies suffer from some similar constraints that impact their ability to put together a comprehensive and responsive sustainability report. In common to all three reports is an absence of data for many of the GRI indicators where data is simply too difficult or onerous to collect.

A second observation is that construction and real estate companies have different focus areas and cannot easily be grouped together under one set of guidelines. Construction and engineering companies like **Fluor** need to be focused on the environmental impacts of the construction process, including such concerns as the origins of source materials, and the impact of construction activity, waste, and emissions on communities and the wider environment. On the other hand, real estate owners, such as **RREEF** should be more cognizant of the performance of their properties in areas such as energy and water usage and recycling, as well as making their buildings better places for people to work. Developers such as **Hines** need to measure the impacts of both construction and building ownership, and adopt a higher level of assessment of the sustainability of proposed development projects of different types and in different locations.



There is little doubt that sustainability reporting guidelines and best practices will continue to be refined as more real estate and construction companies recognize the need to provide regular disclosures about their environmental performance. As new tools become available to measure and benchmark performance, the quality of reports will improve, as will their usefulness to stakeholders.