



Sustainability Trends in the Construction and Real Estate Industries.

PREPARED BY

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“Wild fires damage in Russia causes US \$15 billion damage”

– GLOBE AND MAIL

“Pakistan: Floods affect millions from North to South”

– UN OCHA

In this report, we describe the social, environmental, and governance practices within the real estate and construction industries. The disasters captured in the headlines above have imposed hardship on tens of millions of people and damaged billions of dollars in infrastructure and housing. As the floodwaters recede and fires subside, the real estate and construction sectors must rebuild the damaged infrastructure. Ideally, such rebuilding would involve the principles of sustainability, so that the new infrastructure will be more resilient to future disasters.



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GENERAL SUMMARY OF FINDINGS

Our analysis of firms in the real estate and construction industries reveals that firms have room to improve in three distinct areas related to sustainable building; oversight and monitoring systems, carbon abatement programs, and adoption of sustainable building practices.

1. Real estate and construction firms possess **limited environmental management systems and supply chain monitoring standards**. These processes provide firms with a clearer understanding of the state of sustainable building practices within their firm and next steps necessary in order to enhance their capabilities in this regard.
2. Real estate and construction firms have a **significant opportunity to reduce their carbon footprint**. The built environment accounts for a significant proportion of greenhouse gas (GHG) emissions (approximately 40%) and yet firms in these industries have not yet seized this opportunity.
3. Finally, firms appear to be adopting a **wait-and-see approach in adopting sustainable building practices**. While there is growing interest among real estate firms regarding sustainable building, this has yet to translate into more sustainable property portfolios.

Below we review our findings in greater detail.

1. LIMITED MONITORING AND OVERSIGHT

The construction industry has taken a stronger lead than the real estate industry in establishing standards, policies and systems of oversight.

Only 6.4% of real estate firms have established sufficiently broad social supply chain standards, in contrast to a quarter of construction firms. Similarly, while more than 50% of construction firms had strong environmental management systems, the same was true of only 21% of real estate firms.

In most cases, operational and supply chain standards are weak, vague and unmonitored.

Only one third of construction and 13% of real estate firms subjected their environmental management systems to external certification; a process that improves the systems' rigor and effectiveness. Further, while supply chain standards are in place, only 11% of real estate firms and 30% of construction firms actively monitor those standards. Environmental management systems and supply chain standards are worthy of attention as first steps toward sustainable building improvements.

2. SIGNIFICANT NEED TO ABATE CARBON IN THE BUILT ENVIRONMENT

Few real estate and construction industries have taken leadership in carbon disclosure and greenhouse gas reduction.

The built environment contributes approximately 40% of greenhouse gas emissions.¹ Despite the magnitude of these emissions, the real estate and construction industries have been slow to act. Only four real estate firms and one construction firm in our sample were considered carbon disclosure leaders under the carbon disclosure program (CDP). More than 70% of real estate firms and over half of construction firms either submitted their CDP report late or failed to participate in the process. Similarly, less than 30% of construction firms and 12% of real estate firms had programs or targets to reduce GHG emissions in place at a majority of their operations. On a positive note, the majority of firms in both industries managed to maintain or decrease their carbon intensity (CO₂ emissions over revenue).

¹ <http://www.nrtee-trnee.com/eng/publications/commercial-buildings/commercial-buildings.php>, Accessed April 16, 2010.

3. SLOW PROGRESS ON SUSTAINABLE BUILDING AND EFFICIENCY INITIATIVES

Modest but rising investments in sustainable building.

Presently investments in sustainable building are modest; the majority of real estate firms possess less than 2% of their property portfolio in sustainable buildings. However, 38% of real estate firms report plans to increase investments in sustainable buildings and some 17% of real estate firms are adopting sophisticated techniques such as life cycle analysis when they develop new projects. Further, high profile businesses and government agencies are adopting sustainable building certifications such as LEED, Energy Star or other regional standards in order to demonstrate leadership in the area of sustainability. The construction industry has responded particularly strongly to this trend with 35% of firms possessing some membership in these initiatives while the real estate industry trails with 25% reporting such a membership.

Use of renewable energy is under developed.

Only 5% of firms obtain only a meager 5% of their primary energy from renewable sources. This number is not expected to improve rapidly as less than 5% of real estate and construction firms are making any serious investments in programs to increase the use of renewable energy.

ABOUT THE RICHARD IVEY SCHOOL OF BUSINESS

The Richard Ivey School of Business (www.ivey.ca) at The University of Western Ontario is Canada's leading provider of relevant, innovative and comprehensive business education. Drawing on extensive research and business experience, Ivey faculty provide the best classroom experience, equipping graduates with the skills and capabilities they need to tackle the leadership challenges in today's complex business world. Ivey offers world-renowned undergraduate and graduate degree programs as well as Executive Development at campuses in London (Ontario), Toronto and Hong Kong.

ABOUT JANTZI SUSTAINALYTICS DATA

The Jantzi-Sustainalytics dataset tracks firm performance according to environment, social and governance (ESG) themes for more than 2,100 companies from 32 countries. Included are data pertaining to supply chain practices, products and services, philanthropy, community involvement, environmental impacts, business ethics, and corporate governance.

The data used in this report are current as of December 31, 2009 and resulted in a sample of 125 real estate firms and 96 construction industry firms, distributed across various sub-industries including construction materials (14), construction and engineering (43), transportation infrastructure (17), building products (11) and home builders (11). Firms were geographically distributed across 21 countries including Canada, United States, United Kingdom, Australia, and Hong Kong.

Jantzi-Sustainalytics is the North American regional arm of Sustainalytics. This global firm has headquarters in Amsterdam and local offices in Toronto and across Europe. The company provides environmental, social, and governance research and analysis; sustainability consulting; and responsible investment services.

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