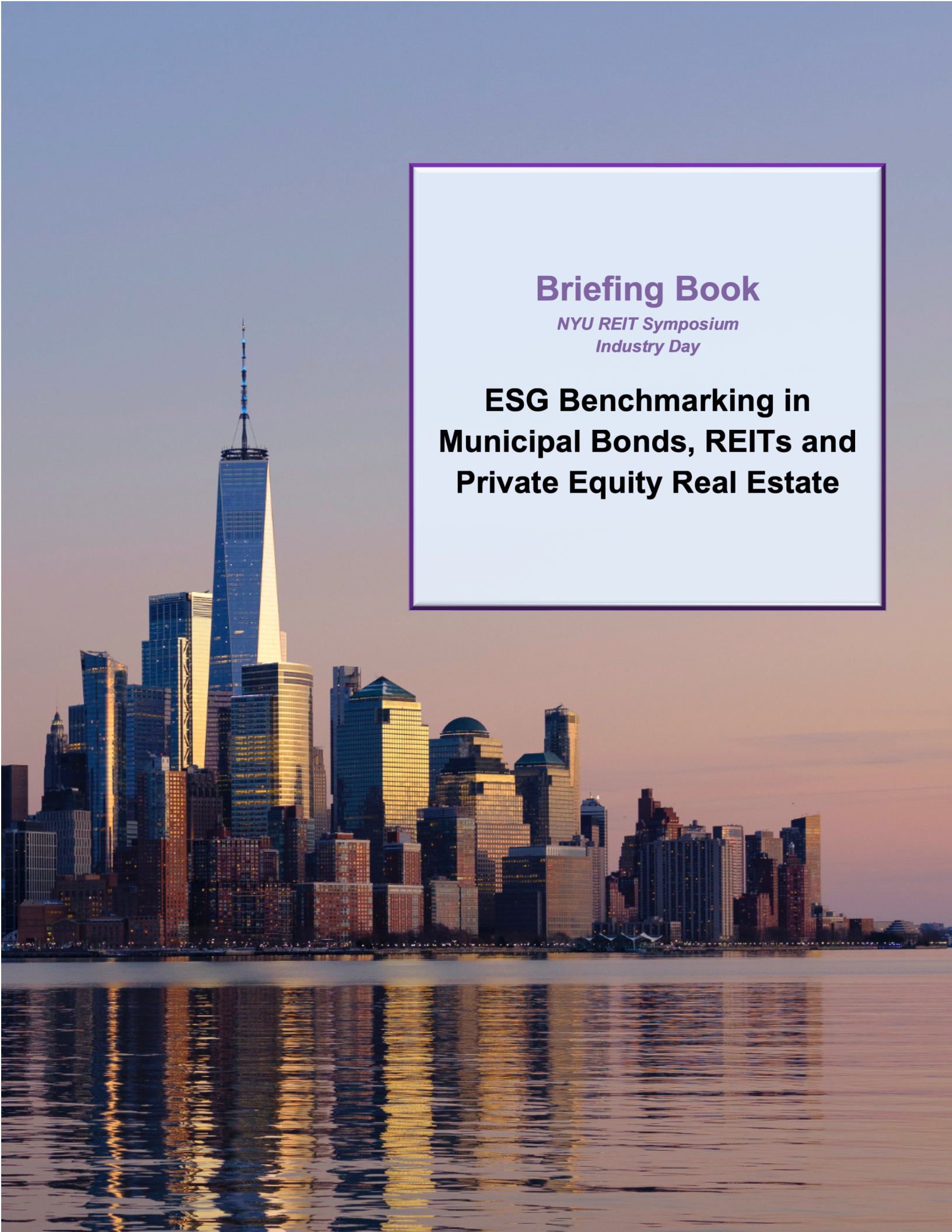


Briefing Book

NYU REIT Symposium
Industry Day

ESG Benchmarking in Municipal Bonds, REITs and Private Equity Real Estate

NYU URBAN LAB

Schack Institute of Real Estate

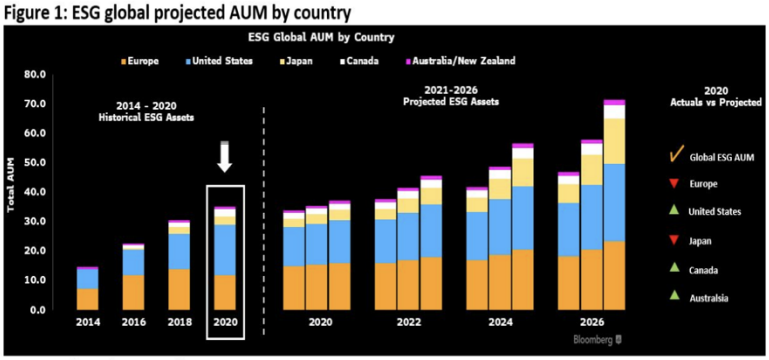
Briefing Book: ESG Benchmarking

"ESG Benchmarking: Munis, REITs and PE" will be hosted by Professor Matthew Kwatinetz, Director of the NYU Urban Lab. During REIT Industry Day, the ESG Benchmarking panel will bring together experts from each of the three sectors named. For municipal bonds, we are pleased to invite Lourdes German, Director of The Public Finance Initiative to discuss the potential and emerging uses of ESG in municipal bond issuance to address issues of equity. Representing REITs, Nicole Funari, VP of Research at Nareit, will discuss Nareit's 2022 ESG Report. For Private Equity, Soojin Kim, Global Head of ESG Research at Preqin, will highlight her company's new ESG analytics platform. Following the panel, NYU Urban Lab will author a paper that summarizes the conclusions of the panel, highlighting the current industry context and making recommendations for the future of ESG benchmarking in REITs, PE and Munis. NYU Schack will host an event in November 2023 celebrating the release of the paper.

ESG (Environmental, Social, and Governance) is a framework used by companies, stakeholders, and issuers to evaluate sustainable and socially impactful business operations and practices.

- *Environmental* factors highlight sustainability goals and the transition to a low-carbon economy by reducing waste, limiting greenhouse gas emissions and increasing renewable energy production.
- *Social* factors address issues of historic inequity due to race and/or class, displacement of households and/or businesses, equitable access to opportunity (vendors, hiring, workforce, assets, housing), and negative societal impacts (gun violence, health issues, international conflicts, weapons trafficking).
- *Governance* includes diversity in management, transparent reporting, anti-corruption, and appropriate representation in decision making.

Figure 1: ESG global projected AUM by country



Source: Bloomberg Intelligence

Since 2014, there has been a historic influx of ESG Capital globally. Bloomberg forecasts global ESG Assets Under Management ("AUM") to hit

$53 Trillion by 2025.[1] If this goal is reached, it would mean one third of all global AUM would be classified as "ESG". This dramatic increase in ESG-driven capital has created opportunities for stakeholders from diverse industries to invest in different strategies that provide solutions which can actualize positive environmental, social, and governance outcomes.

However, there have been significant inconsistencies with the deployment of ESG-related capital. A lack of standardization, regulation, and oversight have led to 'market actor abuse', in which some capital allocators are taking advantage of the growing popularity of ESG initiatives amongst investors. Financial products are often marketed as "ESG", which can earn managers of these products higher fees. But without common metrics to constitute what a good ESG investment is, outcomes in line with ESG goals are often not realized, even though the financial product may claim they are. Whether this is due to an overall lack of understanding surrounding ESG or the failure of businesses to choose appropriate outcomes, the effect is the same: green washing.

If investors believe they are allocating their capital toward a specific outcome, and that outcome is not achieved, they are likely to withdraw their capital. As Bloomberg notes, ESG capital could represent over a third of global AUM, presenting one of the largest opportunities historically to leverage global capitalism to achieve equitable social values. If no framework for ESG is established to measure these outcomes, the perceived abuse or failure of ESG allocations would likely lead to a sharp reduction in capital allocated, squandering the historic opportunity. Therefore, it is imperative to define ESG standards and create a common framework that will ultimately ensure that ESG investment continues to grow and produce tangible results.

The NYU Urban Lab has been exploring the prevalence of common frameworks and benchmarks for ESG through NYC-based real estate developers. Last year, NYU Urban Lab researched one slice of the overall ESG market – real estate development – to better understand the challenges and opportunities posed by measuring the integration of ESG labels into projects. The Urban Lab profiled 18 real estate developers in three categories: REITs, Impact Developers, and Developers with ESG Projects.[2] It was determined that there is no single standard framework specifically relating to the measurement and ranking of ESG performance in real estate development. When considering the dozen or more existing frameworks referred to by real estate market participants – including those not targeted toward real estate – there is no single framework that 50% or more of the surveyed developers utilize. The most used frameworks cited were the Global Reporting Initiative[3] as a reporting standard and the UN Sustainable Development Goals[4] as a grading standard. The NYU Urban Lab found that even when these were applied to real estate there are large inconsistencies still prevalent in

[1] ESG Assets Rising to $50T Will Reshape $140.5T of Global AUM by 2025, Bloomberg Intelligence LP Press
[2] NYU Urban Lab at the Schack Institute of Real Estate
[3] https://www.globalreporting.org/
[4] https://sdgs.un.org/goals

implementation. This makes like-to-like comparisons nearly impossible and further exemplifies the serious challenges – most notably in the areas of “S" and “G”.

Building on the previous NYU Urban Lab research into real estate, this panel will investigate how actors from 3 different sectors are (or could be) defining, integrating and measuring ESG outcomes as a quantifiable value on par with economic returns. The sectors we will explore in the panel include **1) the Municipal Bond Market (Lourdes German), 2) REITs (Nicole Funari), and 3) Private Equity Real Estate (Soojin Kim)**. Let’s talk about the state of each of these sectors.

The United States’ $4 trillion municipal bond market is currently one of the largest pools of private investor capital being deployed in cities, states, and municipalities across the country. Municipal bonds fund public services and infrastructure projects; assist with the transition to a low-carbon economy; and directly impact the quality of life of many Americans, affecting their ability to make responsible investment decisions. Therefore, given the massive potential impact the municipal bond market has to fuel social change, and the higher than average prevalence of social value as an ethic of municipal market actors, municipal bond investors and issuers have started to integrate ESG factors into their investment decisions.

The municipal bond market is currently experiencing a paradigm shift as green bonds and ESG-related investments are drastically increasing. According to S&P Global Ratings, since 2019 there has been a significant increase in “social bonds” issuance (bonds that achieve a positive social outcome) as more than twice as many social bonds were issued in 2020 than 2019.[5] However, despite increased investments and multiple attempts to address inequity, there is still no common framework to center equity into all phases of municipal bond issuances.

Therefore, in order to better understand how stakeholders can turn equity into the focal point of municipal bond-funded investments, Lourdes German, the Executive Director of The Public Finance Initiative (PFI) has created an initiative that will “empower communities across America to leverage bond market investments to disrupt historic, systemic racial inequities”.[6] PFI received a $4M grant from the Robert Wood Johnson Foundation to support Lourdes’ work with identifying different factors related to municipal bond issuance that can create equitable societal changes. Her work also includes the development of different tools that issuers can use to deploy and track municipal bond-funded investments.

By taking an integrated approach, German works with multiple stakeholders to achieve positive economic outcomes while also focusing on racial equity and inclusion programming – an integral part of this is initiating conversations with a broader

[5] The Public Finance Initiative | Robert Wood Johnson Foundation
[6] S&P Global Ratings | The 'S' in ESG is here to stay after Pandemic-Induced Surge in Social Bond Sales

set of stakeholders such as community members. German has looked holistically at the intersection of municipal finance with equity, sustainability, and inclusive growth in order to determine the massive potential the municipal bond market has to serve as a powerful catalyst for change given the broader movement towards ESG mentioned above.

Similar to the municipal bond market, Real Estate Investment Trusts' (REITs) boards and stakeholders are also realizing the importance of ESG stewardship in the financing sector. REITs are integrating ESG practices into their strategy, including by offering green financing options (green bonds and climate bonds).[7] Green bonds are becoming a growing part of REIT debt offerings as they are used to fund projects that mitigate climate risk. These offerings represent 12.3% or $7.17 billion of the capital raised through the third quarter of 2021.

There is a growing demand from investors and regulators to link REITs' ESG performance with board and executive-level compensation. In 2021, 51% of the National Association of REIT's ("NAREIT") corporate members surveyed reported linking executive compensation packages to ESG performances, compared to 34% in 2020.[8] Even amongst board and executive members, REITs have started prioritizing diversity: 68% of REITs have a policy related to increasing diversity at the board level. Similarly, on an employee level, REITs have also been prioritizing long-term health and wellness by advancing their efforts on Diversity, Equity, and Inclusion (DEI) across the business. They are investing in upgrades of their facilities to meet healthy building certifications and prioritizing DEI throughout supply chains: Two-thirds of REITs surveyed in NAREIT's 2021 Member Survey indicated they have a supplier or vendor policy that addresses non-discrimination, and more than half have a policy that addresses DEI.

In order to initiate the ESG dialogue, Nicole Funari, Vice President of Research at NAREIT, will be discussing the strides that REITs are making with respect to ESG disclosure and tackling climate change. Nicole Funari is a Ph.D. economist with over thirteen years of experience in research and analysis, including nine years in public service regulating airlines and public accounting firms.[9] In a short timeframe, ESG-related issues have transitioned from occupying the sidelines to center stage in the Private Equity (PE) industry**.** PE firms grapple with how to execute on the ESG imperative. Although the G in "Environmental, Social, Governance" has been historically important, the E and S have been virtually neglected. In fact, they were often seen as conflicting goals: generating a return for investors while meeting ESG standards.[10] By the end of 2021, the global Private Equity AUM totaled $4.2 trillion with 34% of all funds committed to ESG.[11] The time horizon of a private equity investor is typically five years,

[7] Nareit's REIT Industry ESG Report 2022
[8] Nareit's REIT Industry ESG Report 2022 | Nareit
[9] Nicole Funari - Vice President, Research - Nareit | LinkedIn
[10] 2022 Preqin Global Alternatives Reports | Preqin
[11] Preqin Global Report 2023: Private Equity

which is a longer time than the "quarterly earnings treadmill of public markets".[12] As PE-owned companies operate on a longer investment time horizon than public equities, the upsides of implementing ESG policies give PE business models a clear advantage over investors in the public equity industry. Over the years, the scrutiny on PE fund General Partners ("GP"), who serve as the decision-makers of their funds, has increased. In response, GPs are increasingly signing up to join ESG-focused industry alliances, exploring ESG investment opportunities and committing to adopting ESG KPIs.[13]

Preqin is a market leader in research on private equity, delivering insights and analysis on firms across every asset class for fundraising performance and deal information. According to Preqin's H1 2022 Investor Outlook, nearly three-quarters (72%) of investors believe that fund managers are implementing ESG policies due to pressure from existing and prospective Limited Partners ("LPs", who are investors in the funds that normally have no decision-making rights directly). This factor is well ahead of other drivers such as industry standards and best practices (cited by 48% of LPs) or political pressure (36%).[14]

Launched in 2020, Preqin's ESG module gives LPs the ability to conduct due diligence on PE GPs, and GPs to measure themselves against industry peers.[15] As Preqin's clients provide the proprietary data (60,000+ LPs and GPs), Preqin successfully developed a leading database for alternative data and ESG profiles.[16] As of today, Preqin's ESG transparency metrics demonstrate which ESG KPIs (policies, regulatory disclosures, third-party commitments) per fund manager are being reported and have transformed the data to become a separate "standalone" in Preqin's value proposal.[17]

To better understand market expectations and evolving standards in the PE industry, Soojin Kim, Head of the Global ESG Research at Preqin, is leading the efforts in providing transparency, disclosure, and risks with portfolio companies on Preqin's ESG module. She engages with internal stakeholders and external market leaders to inform and shape the company's practices, policies, and strategic goals. Soojin is involved in a range of internal committees that embody Preqin's mission to promote sustainable practices. These include the Corporate Responsibility (CR) team which focuses on reporting Preqin's carbon footprint by setting reduction goals in alignment with the Paris Climate Agreement.[18] Soojin is also involved in Preqin's IDEA Committee, which supports and addresses issues surrounding women, people of color, LGBTQ and mental health.

[12] McKinsey: What public companies can learn from private equity
[13] EY: How PE can put ESG at the heart of their portfolio
[14] 2022 Preqin Global Alternatives Reports | Preqin
[15] ESG Decoded Podcast: Soojin Kim of Preqin on ESG in Private Equity on Apple Podcasts
[16] ESG Solutions: ESG Data
[17] ESG in Alternatives 2022: The Transparency , m Tipping Point
[18] ESG Focus: Sustainable Investment Strategy Summit 2023

Panelist Biographies

1. **Matthew "Chef" Kwatinetz** Professor Kwatinetz is the Director of the NYU Urban Lab at Schack, where he is a professor of real estate economics and impact development. He recently published the policy paper *NYC's Affordable Housing Crisis* in partnership with the AIA-NY and Center for Architecture. He is the founder of the advisory and impact investment firm Q Partners ("Q"). Previously, he was an Executive Vice President for NYC Economic Development Corporation, where he managed their 65M+ square foot real estate portfolio, generating $200M+ annually. For EDC, Kwatinetz also ran PortNYC, the third largest US port, including the management of the negotiations, start-up and operations of the $600M+ NYC Ferry, the largest expansion of ferry service in US history. As Q, Kwatinetz worked with Austin Mayor Steve Adler to create, fund and staff the Austin Economic Development Corporation. Q worked directly with Mayor Copenhaver of Augusta to found Augusta Regional Collaboration Project, a Georgia public development corporation, and worked with the State to consolidate the George's third major research university into downtown Augusta. Other selected Q clients: the U.S. Department of Energy, NYC Department of Education, Real Capital Analytics, and the City of Shoreline. He is a former economic consultant for Penn Institute for Urban Research and the former VP of Economics and Finance at Kinzer Real Estate. In 2018, he published *Thriving In Place: Supporting Austin's Cultural Vitality Through Place-Based Economic Development*, sponsored by the NEA and City of Austin. He is a co-author of *Introduction to the Big Data Era* with Stephan Kudyba. Kwatinetz sits on the Urban Land Institute's National Public/Private Partnership Council and is on the leadership team of ULI's Curtis Infrastructure Forum. He is the Chair of the Curriculum Committee of the NYU SPS Faculty Council.

2. **Lourdes Germán J.D**., began her career after graduating from Boston College and the Boston University School of Law as a public finance attorney at the law firm Palmer & Dodge LLP (now Locke Lord LLP) and then led investment banking efforts in the Northeast and New York Tri-State region as Vice President of Municipal Finance at Fidelity Investments. She then served as Vice President and General Counsel at Breckinridge Capital Advisors, founded a small financial services start-up, and then served as a Director at the Lincoln Institute of Land Policy where she helped launch and lead a global program of work on municipal fiscal health, which included activities in partnership with the United Nations, the Organization for Economic Cooperation & Development, and engagement with members of congress via the first Congressional Briefing focused on the fiscal health of cities. At Lincoln, Lourdes served on the team of expert advisors for the municipal finance policy unit who developed the frameworks in support of the UN Sustainable Development Goals. Outside of her role leading the Public Finance Initiative, Lourdes serves on the faculty of the Harvard University Graduate School of Design where she teaches Public Finance. She also serves as the appointed chair of the Massachusetts State Finance and Governance Board and serves on the boards of the Rappaport Center for Law & Policy at BC Law, the board of the Lincoln Institute of Land Policy, and on the board of trustees of Claremont Lincoln University.

3. **Soojin Kim** currently heads the global ESG research aggregation efforts at Preqin, the leading data provider for all Alternatives Data. Preqin delivers insight and analysis on firms across every asset class for fundraising, performance, and deal information. She is responsible for scaling the ESG data suite, engaging with internal stakeholders and external market leaders to inform and shape the company's practices, policies, and strategic goals. At Preqin, Soojin is involved in a range of internal committees that embody the company's mission to promote sustainable practice. This includes the Corporate Responsibility (CR) team where she focuses on reporting for Preqin's carbon footprint as well as setting reduction goals in alignment with the Paris Climate Agreement. Soojin is also a member of the Inclusion, Diversity, Equity, and Awareness (IDEA) Committee, where she promotes conversation around diversity in the workplace and reducing the stigma surrounding mental health.

4. **Nicole Funari, Ph.D** is an Economist and Vice President of Research at Nareit (National Association of REITs), with over thirteen years of experience in research and analysis, including nine years in public service regulating airlines and public accounting firms. Nicole has had successful leadership with complex, multi-year projects and has the entrepreneurial drive to establish innovative policies and optimize tasks and deliverables. She excels at leading collaborative teams using analytical skills to translate industry knowledge into economic theory and quantitative analysis. She has worked in both the public and private sectors researching financial institutions, consumer products, franchise arrangements, and domestic and international firms in a variety of industries specializing in the health care and transportation sectors. Nicole has an academic background in Public Economics with a minor in Econometrics, which included coursework in public finance, labor economics, panel data analysis, and time series analysis.

5. **Troy Sutton LEED GA, Fitwel AP** works in Facility, Operations, and Sustainability at Beam Living, a Blackstone-owned portfolio company in NYC, managing properties such as Stuytown, Kips Bay Court, and 8 Spruce. He oversees capital projects including HVAC modernization, building electrification, local law compliance, and green building certifications. Having previously worked at companies such as Tesla, View, and BlueWave, Troy's career goal is to integrate energy efficient, healthy, and socially inclusive solutions into the built environment. Troy is currently pursuing a Master of Science degree at NYU's Schack Institute of Real Estate in Sustainable Real Estate Development.

6. **Joon Kang** is an Associate at Digital Health Ventures (DHV) a Venture Capital fund based in Berlin, Germany. He also works at Traded, a transaction-aggregation platform in the real estate and Venture Capital sector. Joon is currently pursuing a Master of Science degree at NYU's Schack Institute of Real Estate with a concentration in Sustainable Development.

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