

MSCI ESG Ratings Methodology: Opportunities in Green Building Key Issue

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October 2022

Contents

- Introduction 3
- Opportunities associated with this Key Issue 4
- Opportunities in Green Building Key Issue Score 4
- Opportunities in Green Building Management Score 4
 - Management Score category: Initiatives 5
 - Management Score category: Performance 5
- Opportunities in Green Building Exposure Score 5
 - Business Segment Exposure Score 6
 - Geographic Exposure Score 6

Introduction

This document provides information on the components of the Opportunities in Green Building Key Issue. Opportunities in Green Building is a Key Issue in the Environment Pillar of the MSCI ESG Ratings model. Companies are evaluated based on the resource consumption and carbon intensity of their property assets, their potential exposure to environmental building regulations and their efforts to improve the environmental performance of their real estate assets.

For additional details on the MSCI ESG Ratings Model, refer to Section 2, Data, ratings and scores, of “ESG Ratings Methodology.”

Exhibit 1: MSCI ESG Key Issue hierarchy

3 Pillars	10 Themes	35 ESG Key Issues
Environment	Climate Change	Carbon Emissions
		Climate Change Vulnerability
		Financing Environmental Impact
		Product Carbon Footprint
	Natural Capital	Biodiversity & Land Use
		Raw Material Sourcing
		Water Stress
	Pollution & Waste	Electronic Waste
		Packaging Material & Waste
		Toxic Emissions & Waste
Opportunities in Clean Tech		
	Environmental Opportunities	Opportunities in Green Building
		Opportunities in Renewable Energy
Social	Human Capital	Health & Safety
		Human Capital Development
		Labor Management
		Supply Chain Labor Standards
	Product Liability	Chemical Safety
		Consumer Financial Protection
		Insuring Health & Demographic Risk
		Privacy & Data Security
		Product Safety & Quality
	Stakeholder Opposition	Responsible Investment
		Community Relations
		Controversial Sourcing
	Social Opportunities	Access to Communications
		Access to Finance
		Access to Health Care
Opportunities in Nutrition & Health		

3 Pillars	10 Themes	35 ESG Key Issues
Governance	Corporate Governance	Board
		Pay
		Ownership & Control
	Corporate Behavior	Accounting
		Business Ethics
		Tax Transparency

Opportunities associated with this Key Issue

- Increased access to markets created by regulatory reforms and incentives
- Increased revenue from capturing changing tenant demand
- Increased market share in specific market segments due to early-mover advantage

Opportunities in Green Building Key Issue Score

The overall Key Issue Score is based on the Exposure Score and the Management Score using the formula below.

The Exposure Score and the Management Score are combined such that the Exposure Score determines the weight placed on the Management Score, ranging from 50% (when Exposure Score is equal to zero) to 100% (when Exposure Score is equal to 10).

$$Key\ Issue\ Score = \left(\left(\frac{Exp\ Score}{20} + .5 \right) \times Mgmt\ Score \right) + \left(\left(.5 - \frac{Exp\ Score}{20} \right) \times 5 \right)$$

Opportunities in Green Building Management Score

The Management Score on this Key Issue is based on an average of the scores associated with each of the categories listed below. These scores are derived from data points that are scored on a 0-10 scale, with 10 corresponding to best practice and 0 corresponding to lack of management. Refer to Section 3.3, Analyzing Risk Management, of “ESG Ratings Methodology” for additional details. The data points listed below are used in the Management Score calculation:

Management Score category: Initiatives

- Green property investment
 - Evidence of green building commitment or target
 - Green building commitment extends to existing buildings in portfolio (in addition to new buildings)
 - Extent of green building certification commitments
 - Level of green building commitments relative to country standards
 - Description of non-certified green building efforts
- Tenant and property manager engagement
 - Extent of commercial arrangements to improve or maintain property environmental performance
 - Green or triple net leases
- Urban site investment criteria
 - Evidence of flexible/mixed use properties
 - Evidence of urban revitalization/redevelopment
 - Evidence of urban brownfield redevelopment
 - Commitments related to greenfield development (land bank, farmland, greenfield, agricultural land)

Management Score category: Performance

- Percentage of green certified buildings in portfolio (by number of buildings)
- Percentage of green certified space in portfolio (by area, e.g. million square feet)
- Carbon emissions
- Water consumption

Opportunities in Green Building Exposure Score

The Exposure Score on this Key Issue is based on the Business Segment Exposure Score and Geographic Exposure Score using the formula outlined in Section 3.2.2, Determining Exposure Scores, of “ESG Ratings Methodology.” The Business Segment Exposure Score and Geographic Exposure Score are scored on a 0-10 scale, with 10 corresponding to the highest risk and 0 corresponding to the lowest risk. Refer to Section 3.2, Analyzing Risk Exposure, of “ESG Ratings Methodology” for additional details. The following data sources and methodologies are used in the Exposure Score calculation:

Business Segment Exposure Score

The Business Segment Exposure Score is a weighted average of the Opportunities in Green Building exposure scores of a company’s business segments. Scores are weighted by the proportion of a company’s total sales in each business segment. The following sources are used to determine this 0-10 score:

- **Type of Operations:** Percentage of revenue from property types with high/moderate/low resource consumption
(Sources: Department of Energy; Energy Star Portfolio Manager, Environmental Protection Agency; Refinitiv; MSCI ESG Research; company disclosures)

Geographic Exposure Score

The Geographic Exposure Score is a weighted average of the Opportunities in Green Building exposure scores of the countries and regions in which a company operates. Scores are weighted by the proportion of a company’s total sales in each geographic segment. The following sources are used to determine this 0-10 score:

- **Location of Operations:** Percentage of operations in countries with strengthening or pending climate change or energy-related regulations
(Sources: Refinitiv; MSCI ESG Research; company disclosures)

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