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A Comparative Analysis of ESG Measures in Real Estate in Germany, Austria, and Switzerland for 2019-2021

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Abstract: *In recent years, the issue of sustainability has evolved from a voluntary environmental issue to an increasingly comprehensive set of regulations. The Non-Financial Reporting Directive (NFRD) and the upcoming Taxonomy Regulation of the European Union (EU) are two examples of such regulations. EU taxonomy reporting is gradually becoming mandatory for more and more companies – these regulations include rules for environmental, social, and governance (ESG) factors, and have a significant impact, especially on the real estate industry and its stakeholders. The goal of this study is to evaluate how consistently the 55 largest real estate companies in three European countries have disclosed information on topics such as employees, social factors, and governance issues, in addition to environmental concerns, between the years 2019 and 2021. Large companies are often better prepared for this because they have the resources and expertise for professional reporting. Regardless of the size of the company, however, the biggest challenge is still the lack of standardization. The reporting on the following metrics has undergone significant changes during the observed period (2021 compared to 2019): E-measures: which standards are used (+260%), EPRA recommendations (+180%), Scope 3 t CO_2e (+120%), S-measures: employee satisfaction (+100%), employees with permanent contracts (+67%), salary ratio of woman to man (+55%), G-measures: own Sustainability Performance Index (+350%), UN SDG's included in the report (+300%), and Board Compensation tied to Sustainability measures (+150%). It is crucial for individuals, organizations, and politicians proposing new sustainability reporting regulations in Europe to recognize that overly complicated rules may not be followed entirely. Additionally, it is essential to maintain a consistent EU taxonomy reporting approach that is simple to implement in the future, regardless of the industry and the size of the company.*

1. INTRODUCTION

The development and recognition of sustainability reporting have grown rapidly over the last two decades. The need to combat climate change and apply ethical practices in customer, supplier, and employee relations has become mainstream. Sustainability has evolved into a comprehensive term that, in addition to the well-known "green" initiatives, increasingly encompasses the responsibilities of companies in the areas of social, legal, and diversity issues. At the same time, the acronym ESG (for Environment, Social, and Governance) has gained importance, particularly among investors and in the capital markets. ESG reporting describes the identified risks and performance of a company.

The EU taxonomy pursues an objective of the European Union's "Green Deal". It is intended to "reward" companies that do more for sustainability and climate protection. The new

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Corporate Sustainability Reporting Directive (CSRD) of the EU aims to standardize and strengthen sustainability reporting for companies. It builds on the existing NFRD and extends its scope of application to additional companies. A key change compared to the previous NFRD is the double materiality that now applies. This means that topics that have a direct impact on sustainability and those sustainability aspects with a financial impact on the company are reported. Companies should conduct a materiality analysis (material/financial) to determine the content of their reports, focusing on material or financial information. However, challenges persist among diverse stakeholder groups due to the coexistence of multiple ESG reporting standards and frameworks, compounded by the absence of mandatory reporting requirements. Companies, in particular, grapple with the considerable expenses associated with data collection and additional reporting obligations. Effective management of ESG data and sustainability reporting stands as a critical need for compliance with extant regulations such as the NFRD and the forthcoming European Taxonomy set to merge with the CSRD by 2024.

The study aims to show what kind of information related to the environment, employees, and other social and governance issues is provided by how many companies (this corresponds to "E", "S" and "G" of the ESG dimensions). A key success would be to fix the traceability of ESG information provided in annual reports and other sustainability reports as this is essential for decision-making. The focus of this study is, therefore, on how comparable the ESG measures from large listed real estate companies from Germany, Austria, and Switzerland are. Real estate has one of the highest carbon footprints of any sector – it produces around 30% of the world's annual greenhouse gas emissions and consumes nearly 40% of the world's energy. Maybe that´s why the European Public Real Estate Association (EPRA) has issued recommendations on which measures to report and how to calculate them in advance, especially the environmental indicators. The focus lies on 55 listed companies with a market capitalization of more than 100 million EUR in 2019 and 2021.

Contrafatto (2014), O'Dwyer and Unerman (2016) conducted studies that reveal the factors prompting mandatory corporate social responsibility (CSR) reporting among unlisted companies. Herndon (2022) explored whether firms with established CSR practices exhibit higher stock valuations compared to those without CSR initiatives. The findings indicate a modestly positive to neutral impact of CSR on stock prices, attributed primarily to social capital, community relations, public perception, and market sentiment, rather than company performance. Currently, there are no studies that explicitly address environmental, social, and governance reporting by real estate companies in Germany, Austria, and Switzerland.

Sustainable finance and ESG investing-related operations deal with large amounts of non-financial data and scientific performance metrics, such as GHG emissions, biodiversity loss, hydrology, atmospheric science, etc. Many of the global ESG frameworks and national sustainable finance strategies do not sufficiently address the discrepancy between the claim of professional ESG expertise and the actual gaps in the expertise of many so-called ESG experts. The results of the underlying study guide companies from different industries for their reporting on sustainability, especially about their environmental, social, and governance issues based on best practices from the real estate industry in Germany, Austria, and Switzerland. Additionally, it contributes to the literature by showing how patchy voluntary sustainability reporting still is in the real estate industry between 2019 and 2021. Implications for various stakeholder groups and more political action arise from these differentiated findings.

Section 2 provides the history of sustainability regulations, and section 3 describes the data and methodology. The discussion of the empirical results follows in section 4, while section 5 concludes the paper.

2. HISTORY OF SUSTAINABILITY REGULATIONS AND REPORTING REQUIREMENTS

After the initial UN Conference on the Environment held in Stockholm in 1972 and with increasing public and scientific concerns regarding the limits to growth, the Commission took action to initiate a new environmental policy for the European Community. In November 1973, based on the European Council's commitment to establish a Community environmental policy in 1972, the first European Action Programme (EAP) was decided upon (Hey, n.d.). Although the UN defined "sustainability" as early as 1987 (United Nations, 1987) it took until the Paris Agreement of 2015 to formulate the so-called 2030 Agenda for Sustainable Development. The result is 17 Sustainable Development Goals (SDGs) with 169 specific targets. In 2005, the UN World Summit recommended the use of the model with the three "E", namely Environment, Economy, and Equity/Social Justice, and the intersection S (Sustainability). This was the turning point as CSR and the triple bottom approaches were substituted. The 2030 Agenda underlines the joint responsibility of politics, business, science, and civil society including every individual for a future living (Thaler, 2021). In line with this argument, authors like Edmans (2018), stress that the primary goal of businesses is serving society, rather than focusing solely on profit maximization.

EU Sustainability Reporting Regulation. In 2001, the European Commission (EC) referred to activities carried out voluntarily in its first policy paper on CSR. In 2011, the EC recommended improving the reporting and disclosure of corporate social and environmental activities (European Commission, 2011). Subsequently, Directive 2014/95/EU, known as the CSRD or NFRD, required public interest entities to improve the comparability of non-financial disclosures starting in 2017. In 2017 and 2019, the EC published guidelines for non-financial reporting and expanded them to include applicable sustainability standards such as the Carbon Disclosure Project (European Commission, 2021b; Thaler, 2021). Finally, on April 21, 2020, the EU Commission adopted a proposal for a CSRD to apply from 2024 on. It aims to amend and supplement existing directives to include a wider range of companies (and audits) and to refine reporting requirements (European Commission, 2021b). On November 3, 2021, the IFRS Foundation's Trustees established the International Sustainability Standard Board (ISSB) with a headquarters in Frankfurt, Germany. Its goal is to develop a global basis for sustainability-related disclosure standards. To have comparable information, EU sustainability reporting standards are being created and published in a delegated act of the EC (supplementary guidelines followed by Oct. 31, 2023). International frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standard Board (SASB), International Accounting Standards Board (IASB), Task Force on Climate-Related Disclosures (TCFD), as well as UN Global Compact (UNGC) and the SDGs need to be considered.

Sustainability Reporting Requirements. Until the end of 2023, companies with more than 500 employees and/or net sales of 40 million EUR and/or total assets of 20 million EUR are required to report on environmental, social, and employee issues, human rights, anti-corruption and anti-bribery measures, as well as diversity policies. The company's business model, policy, risks, and risk management about these aspects must also be disclosed. Its due diligence policies, the results of these policies, and non-financial performance indicators should be reported.

Organizations are advised to use recognized national and international standards when reporting and to specify which standard they have used (Directive 2014/95/EU). The NFRD recommends using standards such as the Eco-Management and Audit Scheme (EMAS), the UNGC, the Guiding Principles on Business and Human Rights, the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, the International Organization for Standardization ISO 26000 Social Responsibility Framework, and the GRI. Similar regulations apply to Austrian companies. In April 2020, the EC proposed the CSRD, which also applies to Germany and Austria from 2024 onwards.

The CSR Directive will become relevant from 2024 onwards. The CSRD was published in the Official Journal of the European Union on December 14, 2022, and it amends the existing NFRD of 2014. The directive specifies uniform European reporting standards and rules for reporting, following the principle of double materiality. The CSRD also introduces an audit requirement for sustainability reporting, and it aims to improve accessibility of information by requiring its publication in a digital and machine-readable format in the management report. The EU rules will apply to all large companies that meet at least two of the following criteria: 250 employees, net sales of 50 million EUR, and total assets of 25 million EUR. The rules will also apply to all companies listed on regulated markets, except listed micro-enterprises. A subsidiary will be exempted from the CSRD if the parent company includes the subsidiary in its consolidated CSRD-compliant management report. Companies that currently apply for the NFRD must implement the CSRD starting in 2024, while others will follow in later years (European Commission, 2021a).

Swiss Regulation. There is still no legal obligation for reporting sustainability measures in Switzerland, even though discussions are going on. ESG recommendations were already added to the Swiss Code of Best Practice for Corporate Governance in 2014. The Six Swiss Exchange even introduced the option for sustainable reporting (an opt-in option). Currently, four standards are accepted by the exchange: GRI, UNGC, SASB, and EPRA (Kleibold & Veser, 2019). GRI is currently working with the European Financial Reporting Advisory Group and the International Sustainability Standards Board to align their respective sustainability reporting standards (Flach, 2022). It is expected that non-EU companies that generate net sales of more than 150 million EUR in the EU and have at least one subsidiary or branch in the EU will be subject to the new EU sustainability reporting obligation starting from 2028. Apart from the approximately 50,000 companies in the EU that are currently estimated to be affected by the new CSRD regulation, several large Swiss companies will also be affected in the future. Switzerland is lobbying for the adoption of disclosure recommendations consistent with other international standards in the context of the updating process of the OECD Guidelines for Multinational Enterprises (Thaler, 2021).

3. DATA AND METHODOLOGY

The study examines the annual or sustainability reports of the top 55 listed real estate companies in Germany, Austria, and Switzerland. All these companies had a market capitalization of more than 100 million EUR in 2019. The goal is to provide an overview of common sustainability reporting practices between 2019 and 2021 by applying content analysis (Wooldridge, 2013) to the relevant sustainability-related reports' parts. The recommendations of the EPRA give guidance regarding the usage of the appropriate ESG measures. In the results section there will be tables presented showing how many firms provided which ESG measures in their reports. Some entities with more than 500 employees must comment – following EU regulations

– on environmental, social, and labor issues, diversity, human rights, anti-corruption, and anti-bribery policies (mandatory disclosure). Others do so voluntarily. The development over the two years gives insight into the ESG reporting dynamics in the real estate industry.

4. RESULTS

What sustainability reporting advancements did real estate companies make within 2 years between 2019 and 2021? Examining the environmental aspects of ESG measures presents a positive outlook. **Table 1** displays the EPRA-recommended environmental measures and how many firms reported each. The reporting frequency of the following information increased: number of rented units (by 50%), Scope 1 t CO_2e (by 38%), Scope 2 t CO_2e (by 20%), Scope 3 t CO_2e (by 120%), environmental standards used (by 260%) and following the EPRA Recommendations (2022) (by 180%). However, the baseline figures were often below 10 reporting entities. It was found that in 2021, half of the environmental measures were reported at least 20% more often than they were reported in 2019. This is a positive sign, as all other E-measures were reported by the same number of firms or 5-20% less often in 2021 compared to 2019.

Table 1. Overview of the Changing Number of Firms Reporting Environmental Measures in 2019 and 2021 (55 Sample Firms)

Information type	Number of reporting firms in 2019/2021	Information type	Number of reporting firms in 2019/2021
Number of rented units	22/33 (+50%)	Emission intensity of rentable area kg CO_2e/m^2	17/16 (-6%)
Total Energy Consumption MWh	21/18 (-14%)	Scope 1 t CO_2e	13/18 (+38%)
Energy intensity of rentable area kWh/m²	17/16 (-6%)	Scope 2 t CO_2e	15/18 (+20%)
Heating consumption in portfolio MWh	16/16 (+/-0%)	**Scope 3 t CO_2e**	**05/11 (+120%)**
Water consumption million m^3	19/19 (+/-0%)	Emission intensity of BOP kg CO_2e/m^2	08/07 (-13%)
Waste volume t	15/12 (-20%)	Limited engagement opinion by auditors	01/02 (+100%)
Energy consumption BOP MWh	05/04 (-20%)	**Which Environ. Standards are used (e. g. GRI)?**	**05/18 (+260%)**
		EPRA Recommendations are applied	**05/14 (+180%)**

Source: Own research

Table 2 shows how many firms reported which kinds of social measures recommended by the EPRA. The reporting frequency of the following S-measures – the "S" dimension of ESG – increased: number of employees (by 10%), the share of women in % (by 32%), employees with permanent contracts in % (by 67%), the proportion of female executives in % (by 29%), the proportion of women on the board of directors/executive committee (by 29%), the salary ratio of women to men in % (by 55%), staff turnover rate in % (by 20%), new hired employees in % (by 33%), average sick days per year (by 15%), executive pay ratio women and men in % (by 20%), total occupational and commuting accidents (by 33%), average age in years (by 25%), full-time employees (by 30%), part-time employees (by 21%), and employee satisfaction measured via a survey etc. (by 100%). In 2019, most of the baseline figures were reported by more than 10 entities. In 2021, the only employee-related information that was reported 12% less often than in 2019 was the total number of trainees. This indicates that the companies involved in reporting have become more active in sharing employee-related information.

Table 2. Overview of the Changing Number of Firms Reporting Employee, Other Social and Governance Information in 2019 and 2021 – Part I (55 Sample Firms)

Information type	Number of reporting firms in 2019/2021	Information type	Number of reporting firms in 2019/2021
Number of employees	41/45 (+10%)	Average sick days per year	13/15 (+15%)
Share of women	25/33 (+32%)	Total number of trainees	17/15 (-12%)
Employees with permanent contracts	**12/20 (+67%)**	Executive pay ratio	10/12 (+20%)
Proportion of female executives	28/36 (+29%)	Total occupational and commuting accidents	15/20 (+33%)
% of women on the board of directors	25/32 (+28%)	Average age	17/21 (+24%)
Salary ratio of woman to man	**11/17 (+55%)**	Full-time employees	20/26 (+30%)
Staff turnover rate	20/24 (+20%)	Part-time employees	19/23 (+21%)
New hired employees	18/24 (+33%)	**Employee-satisfaction**	**08/16 (+100%)**

Source: Own research

Table 3. Overview of the Changing Number of Firms Reporting Employee, Other Social and Governance Information in 2019 and 2021 – Part II (55 Sample Firms)

Information type	Number of reporting firms in 2019/2021	Information type	Number of reporting firms in 2019/2021
Proportion of employees with Code of Conduct training	09/15 (+67%)	ESG specific training	09/16 (+78%)
Violations of the Code of Conduct	13/10 (-23%)	Customer survey	08/15 (+88%)
Regional sponsoring projects	09/14 (+56%)	Well-being certificate	04/04 (+/-0%)
Supervisory Board members	29/41 (+41%)	Business Partner Code of Conduct/ Supplier Code of Conduct	13/16 (+23%)
Proven case of corruption	22/21 (-5%)	**Own Sustainability Performance Index**	**02/09 (+350%)**
Incidents of discrimination	17/19 (+12%)	**Board compensation tied to sustainability measures**	**02/05 (+150%)**
Safety inspection of buildings	11/11 (+/-0%)	Anti-corruption processes implemented	20/23 (+15%)
Total number of suppliers	06/07 (+17%)	Human-rights issues commented/followed	11/13 (+18%)
Share of expenses for local suppliers (in %)	02/03 (+50%)	Sustainability certificates	13/20 (+54%)
		UN SDGs included in the report	**07/28 (+300%)**

Source: Own research

Table 3 shows how many firms reported which kinds of other social and governance measures recommended by the EPRA. The reporting frequency of the following SG-measures – the "SG" dimension of ESG – increased: proportion of employees with Code of Conduct training (by 67%), regional sponsoring projects (by 57%), Supervisory Board members (by 41%), incidents of discrimination (by 12%), total number of suppliers (by 17%), share of expenses for local suppliers in % (by 50%), ESG specific training (by 78%), customer survey implemented (by 88%), business partner or supplier Code of Conduct (by 23%), own sustainability index (by 350%), board compensation tied to sustainability measures (by 150%), anti-corruption processes implemented (by 15%), human-rights issues followed (by 18%), sustainability certificates (by 54%) and UN SDG's included in the report (by 300%). Concerning the latter 10 or more entities related their business activities to the following SDG's (not separately reported): SDG 3 (17 in 2021), SDG 5 (15 in 2021),

SDG 7 (26 in 2021), SDG 8 (20 in 2021), SDG 9 (15 in 2021), SDG 10 (10 in 2021), SDG 11 (24 in 2021), SDG 12 (21 in 2021), SDG 13 (30 in 2021), SDG 17 (12 in 2021). Many of the increases in reporting frequency are very high because most of the baseline figures from 2019 lie below 10 reporting entities. The SG-measures safety inspection of buildings and well-being certificate was reported by the same number of firms, while only proven cases of corruption and violations of the Code of Conduct were mentioned at 5% and 23% respectively, less often than in 2019.

Overall, a significant number of real estate companies started to comment on various ESG dimensions – this indicates a positive trend in the real estate industry between 2019 and 2021 and the recognition of the urgency to act towards sustainable practices.

5. CONCLUSION

This study shows that the frequency of reporting has increased due to the rise in the adoption of international sustainability standards (+260%), SDGs (+300%), and EPRA recommendations (+180%), which demonstrates an increased awareness of sustainability issues. As a result, more ESG measures have been reported, particularly social and governance measures. This has made it easier to compare the sustainability practices of companies from different countries in Europe. Many companies have created their own Sustainability Performance Index (+350%), are even tying board compensation to these measures (+150%), and report about employee satisfaction (+100%). Sustainable practices are becoming a standard business practice for the largest real estate companies in Germany, Austria, and Switzerland.

While these findings provide a good indication of the situation, the analysis was based on only two years of data from a relatively small sample of a single industry. Future research could conduct, for example, a content analysis across various industries over several years. The introduction of new sustainability standards and the focus on relevant sustainability measures for different industries at the EU level from 2024 onwards may improve reporting quality. Policymakers, lobbyists, and regulators should consider the findings of this study and reduce the level of complex bureaucracy imposed on businesses to promote a greener environment.

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