REAL ESTATE SERVICES
Research Brief

SASB’s Industry Brief provides evidence for the disclosure topics in the Real Estate Services industry. The brief opens with a summary of the industry, including relevant legislative and regulatory trends and sustainability risks and opportunities. Following this, evidence for each disclosure topic (in the categories of Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance) is presented. SASB’s Industry Brief can be used to understand the data underlying SASB Sustainability Accounting Standards. For accounting metrics and disclosure guidance, please see SASB’s Sustainability Accounting Standards. For information about the legal basis for SASB and SASB’s standards development process, please see the Conceptual Framework.

SASB identifies the minimum set of disclosure topics likely to constitute material information for companies within a given industry. However, the final determination of materiality is the onus of the company.

Related Documents
- Infrastructure Sustainability Accounting Standards
- Industry Working Group Participants
- SASB Conceptual Framework

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INTRODUCTION

The Real Estate Services industry is an important part of the overall real estate space. By providing a wide range of services, including consulting, property management, and brokerage, companies in the industry contribute to the efficiency and value-add of the real estate market.

On a national scale, commercial and residential buildings have significant environmental and social impacts. When real estate services companies provide advice to real estate owners and developers they can help improve the economic, environmental, and social outcomes of real estate.

Global concern about climate change and resource scarcity has placed additional pressure on real estate owners and developers to improve resource efficiency of new and existing properties as well as ensure a long-term resilience to physical risks of climate change. Therefore, the demand for sustainability services in the real estate industry is likely to increase. These services can improve the operational efficiency of commercial buildings, as well as increase tenant demand for them and create a stronger brand value for real estate owners and developers.

SUSTAINABILITY DISCLOSURE TOPICS

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Management (or mismanagement) of certain sustainability issues, therefore, has the potential to affect company valuation through impacts on profits, assets, liabilities, and cost of capital.

Investors would obtain a more holistic and comparable view of performance with real estate services companies reporting metrics on the material sustainability risks and opportunities that could affect value in the near and long term in their regulatory filings. This would include both positive and negative externalities, and the non-financial forms of capital that the industry relies on for value creation.

Specifically, performance on the following sustainability issues will drive competitiveness within the Real Estate Services industry:

- Providing services aimed at improving sustainability performance of their clients’ properties; and
- Ensuring transparency of information provided to customers and avoiding conflicts of interest.

INDUSTRY SUMMARY

The Real Estate Services industry is comprised of companies that provide services including property management, brokerage, appraisal, and information for real estate owners. Property management services may include building maintenance, security, and bill payment services. Brokerage services can be provided between owners and lessees or owners and buyers of properties. Real estate services companies listed on U.S. exchanges derive most of their revenue from the U.S. and focus primarily on commercial real estate. CBRE Group and JLL (formerly Jones Lang LaSalle) are the largest companies in the industry.

Industry composition is based on the mapping of the Sustainable Industry Classification System (SICS™) to the Bloomberg Industry Classification System (BICS). A list of representative companies appears in Appendix I.
industry; they provide a range of services from brokerage to property management and environmental consulting. In addition to the U.S. market, CBRE and JLL also operate in Europe and Asia. Realogy Holdings is the largest publicly listed provider and franchisor of residential real estate brokerage services in the U.S.¹

Companies in the industry play important roles in the real estate value chain, which accounts for a substantial part of the global economy. By connecting buyers and sellers, brokerage companies provide liquidity to the real estate market and improve its efficiency. Clients of real estate services companies own billions of square feet of real estate. Therefore, companies in the industry have an opportunity to encourage behavior that improves environmental impacts, particularly through energy efficiency. Property appraisers also play an influential role in the real estate value chain, as illustrated by the most recent financial crisis. Appraisers owe their clients fair and impartial services and must minimize conflicts of interest to prevent inflation of property values or other potentially self-dealing activities.

Key external drivers

The real estate market is cyclical, and despite prolonged upward trends, property values can decrease rapidly. The Real Estate Services industry correlates with the overall real estate market and its performance depends on the health of the economy; however, the management segment is less cyclical and tends to outperform the overall market in periods of downturn. Real estate owners usually outsource property management services to benefit from lower costs through economies of scale. When facility management activities are outsourced to real estate services companies, real estate investment trusts (REITs) and property developers can have lower staffing levels and focus more on core operations. Therefore, property management companies continue to expand their services from those geared toward owners to tenant services.² The largest commercial real estate services companies, such as CBRE and JLL, focus on improving workplace productivity and employee satisfaction.³

Rental vacancy rates are one of the key drivers of property management companies’ performance. The rates are closely linked to the health of the economy and indicate the percentage of total properties that lack tenants. High vacancy rates translate to a lower demand for property management services. So do high homeownership rates in the residential segment, as most management company revenue is generated from residential rental property management services.⁴

Because real estate brokerage companies are compensated by commission, their performance is closely related to commercial and residential property values and transaction volumes. During the most recent financial crisis, the brokerage segment of the Real Estate Services industry experienced a significant decline, but has recovered since 2011.⁵ Approximately two-thirds of the segment’s revenue comes from the sale and rental of residential properties. Sellers account for 45 percent of brokerage firms’ commissions, while payments from lessors and buyers represent 30 and 25 percent, respectively.⁶

Industry size and valuation

The global Real Estate Services industry generates around $150 billion in revenue. Brokerage services for sales and leasing account for about $55 billion of that figure, and the property management segment is of a similar size.⁷ In 2014, companies in the industry had a median operating margin of 13.2 percent, while the median net income margin was 7.9 percent.⁸ The
industry has low capital intensity and wages represent 42 to 50 percent of revenue, significantly higher than any other operating expense.⁹

As noted above, industry revenue, especially in the brokerage segment, may be very volatile, and therefore a company’s success depends on its ability to manage fixed costs. Establishing relationships and contacts within key markets, as well as effectively marketing provided services, are key factors that can determine the amount of business brokerage and property management companies can generate.¹⁰

Companies in the industry are analyzed based on their earnings and valuation using discounted cash flow (DCF) models on an absolute basis, or compared by P/E multiples to their peers.¹¹ In early 2015, the median P/E ratio of the publicly listed real estate services companies was approximately 30.¹²

The property management and brokerage segments of the Real Estate Services industry are in a mature lifecycle, characterized by a relatively stable offering of services, as well as an annual growth rate that is slightly higher than the gross domestic product GDP.¹³ On the other hand, the real estate information services providers and consulting segment of the industry is growing at a faster pace than the overall economy, as low barriers to entry, high margins, and growing demand for services attract new players.¹⁴

**Geographic segmentation and competitive landscape**

The Real Estate Services industry has a low level of concentration in all of its segments. According to IBISWorld research, 91.1 percent of property management companies have up to four employees; 77.1 percent of those companies use independent contractors. The top four property management companies (CBRE, Cushman & Wakefield Inc., JLL, and the Newmark Grubb Knight Frank (NGKF) segment of global financial services company BGC Partners Inc.) account for only 3.5 percent of total segment revenue. Property management companies listed on U.S. exchanges primarily provide services to commercial real estate clients.¹⁵ In return for a royalty fee on commissions, large brokerage firms sometimes franchise their names to small regional and local players.¹⁶

Most of the services provided by companies in the industry are geared toward domestic real estate, which explains the industry’s relatively low level of globalization. Even though some of the largest real estate brokerage firms are international, most of their revenue is generated in the U.S.¹⁷ The geographic locations of companies in the industry reflect population and real estate distribution in the U.S. Regions with low homeownership rates and high levels of economic activity, such as the West, Southeast, and Mid-Atlantic regions, have a greater concentration of property management firms.¹⁸ Rising real estate prices in these regions have attracted a concentration of brokerage companies, which benefit from higher commissions.¹⁹

The success of the Real Estate Services industry will be determined by companies’ ability to establish and maintain long-term relationships with prospective and existent clients. Companies that are able to meet their clients’ highest standards and provide diligent, unbiased service, free of conflicts of interest, could establish a strong brand identity and capture greater market share.

Policies related to climate change often focus on the real estate space. Therefore, property owners and occupiers are increasingly seeking opportunities to reduce their environmental
footprint, minimize the risk of rising energy prices, and reduce operating expenditures. Because real estate services companies may act as intermediaries between landlords and tenants, companies may be able to align split incentives and drive the demand for resource efficiency in buildings, which can benefit all parties. As real estate owners and developers seek new and expanded services, including those that improve the environmental performance of properties, companies in the Real Estate Services industry are presented with more opportunities to expand their market.

LEGISLATIVE AND REGULATORY TRENDS IN THE REAL ESTATE SERVICES INDUSTRY

Regulations in the U.S. and abroad represent the formal boundaries of companies’ operations, and are often designed to address the social and environmental externalities that businesses can create. Beyond formal regulation, industry practices and self-regulatory efforts act as quasi-regulation and also form part of the social contract between business and society. In this section, SASB provides a brief summary of key regulations and legislative efforts related to this industry, focusing on social and environmental factors.8

Companies in the Real Estate Services industry provide a range of professional services throughout the value chain of the real estate market. Brokers and appraisers in particular play an important role in value creation, and maintaining high standards of professional integrity when providing services is crucial to the industry’s sustainability. Clients also expect the quality of information and services provided to meet the highest industry standards; failure to meet their expectations may have a material impact on real estate services companies. Real estate brokers act as intermediaries in transactions, and therefore have duties to their clients that may include loyalty, confidentiality, disclosure, obedience, reasonable care, and diligence.20 Real estate brokers must obtain licenses in the states in which they provide services. Failure to comply with regulatory due diligence, disclosure, and standard-of-care obligations may result in regulatory fines, requirements to pay back commissions, or suspension of licenses.21

In 1974, the U.S. Congress passed the Real Estate Settlement Procedures Act (RESPA) to protect the rights of consumers by eliminating kickbacks and referral fees, which increased transaction costs.22 Since July 21, 2011, the RESPA has been administered and enforced by the Consumer Financial Protection Bureau (CFPB). Recent updates to RESPA make obtaining mortgage financing more transparent—cheaper—for consumers. At the same time, RESPA requires disclosure of the potential conflicts of interest that may arise in a transaction.23 Because of the CFPB’s stricter enforcement of RESPA, companies in the industry face increasing regulatory risks to mortgage and title and settlement activities.24

Additionally, when they provide sale, rental, and financing of dwellings and other housing-related transactions to consumers, real estate services companies must avoid discriminatory practices covered by the Fair Housing Act and other related regulations.25

Property appraiser activity is regulated mainly by Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) highlight some ways in which regulatory trends are impacting the industry.

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8 This section does not purport to contain a comprehensive review of all regulations related to this industry, but is intended to
and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act, P.L. 111-203). The Appraisal Foundation, a not-for-profit professional organization, issues standards for conducting appraisals which form the Uniform Standards of Professional Appraisal Practice (USPAP). These standards are not federal law. 26 The Appraisal Foundation is dedicated to establishing, improving, and promoting the USPAP, and establishing educational experience and examination qualification criteria for the licensing, certification and re-certification of real property appraisers and other valuation disciplines.27

In 2009, as a part of a settlement between the attorney general of New York and Fannie Mae and Freddie Mac, the Home Valuation Code of Conduct (HVCC) was adopted to prevent conflicts of interest and isolate brokers and mortgage originators from selection and retention of appraisers.28 In the aftermath of the financial crisis, the Dodd-Frank Act gave the FCPB oversight of real estate appraisers in the U.S. Title XIV, subtitle F of the Dodd-Frank Act requires property visits for appraisal of homes that are financed by high-risk mortgages; it also requires appraisers to be independent, and includes conditions for a second appraisal at no cost to the home purchaser. The provisions related to appraiser independence became sunset to the HVCC. Furthermore, the provisions include rules for customary and reasonable fees and standards for appraiser education, and also mandate that the Appraisal Subcommittee submit an annual report on its activities to Congress.29

The ASC was created in 1989 as a part of the Federal Financial Institutions Examination Council (FFIEC) to “provide that Federal financial and public policy interests in real estate transactions will be protected by requiring that real estate appraisals utilized in connection with federally related transactions are performed in writing, in accordance with uniform standards, by individuals whose competency has been demonstrated and whose professional conduct will be subject to effective supervision.” The ASC’s general responsibilities include monitoring state requirements for certification and licensing of appraisers, as well as monitoring the requirements for federally related transaction established by the Federal financial institutions regulatory agencies. Moreover, the ASC maintains a national registry of state-licensed and -certified appraisers who may perform appraisals in connection with federally related transactions and review the practices, procedures, activities, and organizational structure of the Appraisal Foundation.30

Evolving climate change regulations put pressure on real estate owners and developers to increase the energy efficiency of their properties. Real estate services companies are in a position to help property owners and occupiers better prepare for the evolving regulatory environment. The Better Buildings Act of 2014 (H.R. 2126) amended federal law that aimed to encourage building owners and tenants to invest in cost-effective energy and water efficiency measures. The bill requires the administrator of the U.S. Environmental Protection Agency (EPA) to develop a voluntary Tenant Star certification program within the existing Energy Star program “to recognize tenants in commercial buildings that voluntarily achieve high levels of energy efficiency in separate spaces.”31

In March and April of 2015, the U.S. Senate and House of Representatives passed the Energy Efficiency Improvement Act of 2015 and presented it to the President. The bill amended the Energy Independence and Security Act of 2007 and required the General Services Administration (GSA) “to develop and publish
model leasing provisions to encourage building owners and tenants to use greater cost-effective energy efficiency and water efficiency measures in commercial buildings.” Moreover, the act required the GSA to develop policies and practices for implementing the measures among the realty services that it provides to agencies.\(^{32}\)

Several jurisdictions in the U.S. mandate disclosure of building energy efficiency to governments, buyers, lessees, lenders, and tenants. Owners of commercial and multi-family buildings that are larger than 10 to 50 thousand square feet, depending on the city, in Boston, Chicago, D.C., Minneapolis, New York City, Philadelphia, and San Francisco, must make the energy efficiency of their properties publicly available on their websites.\(^{33}\)

**SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES**

Industry drivers and recent regulations suggest that traditional value drivers will continue to impact financial performance. However, intangible assets such as social, human, and environmental capitals, company leadership and governance, and the company’s ability to innovate to address these issues are likely to increasingly contribute to financial and business value.

Broad industry trends and characteristics are driving the importance of sustainability performance in the Real Estate Services industry:

- **Sharing responsibility with owners for the improvement of the environmental impact of properties:** Expanding the scope of services provided to help real estate owners and developers improve the resource efficiency of their properties.

- **Professional integrity with client relationships and services:** Companies in the industry may have an impact on the sustainability of the real estate market and should therefore ensure diligence and avoid conflicts of interest when providing brokerage, appraisal, and other services.

As noted above, the regulatory and legislative environment surrounding the Real Estate Services industry emphasizes the importance of sustainability management and performance. Recent trends suggest an increased regulatory emphasis on environmental impacts of real estate and a strengthening of professional standards for brokers and appraisers, which will align the interests of society with those of investors.

The following section provides a brief description of each sustainability issue that is likely to have material financial implications for companies in the Real Estate Services industry. This includes an explanation of how the issue could impact valuation and evidence of actual financial impact. Further information on the nature of the value impact, based on SASB’s research and analysis, is provided in Appendix IIA and IIB.

Appendix IIA also provides a summary of the evidence of investor interest in the issues. This is based on a systematic analysis of companies’ 10-K and 20-F filings, shareholder resolutions, and other public documents, which highlights the frequency with which each topic is discussed in these documents. The evidence of interest is also based on the results of consultation with experts participating in an industry working group (IWG) convened by SASB. The IWG results represent the perspective of a balanced group of stakeholders, including corporations, investors or market participants, and public interest intermediaries.

The industry-specific sustainability disclosure topics and metrics identified in this brief are the
result of a year-long standards development process, which takes into account the aforementioned evidence of interest, evidence of financial impact discussed in detail in this brief, inputs from a 90-day public comment period, and additional inputs from conversations with industry or issue experts.

A summary of the recommended disclosure framework and accounting metrics appears in Appendix III. The complete SASB standards for the industry, including technical protocols, can be downloaded from www.sasb.org. Finally, Appendix IV provides an analysis of the quality of current disclosure on these issues in SEC filings by the leading companies in the industry.

**BUSINESS MODEL AND INNOVATION**

This dimension of sustainability is concerned with the impact of environmental and social factors on innovation and business models. It addresses the integration of environmental and social factors in the value-creation process of companies, including resource efficiency and other innovation in the production process. It also includes product innovation and efficiency and responsibility in the design, use-phase, and disposal of products. It includes management of environmental and social impacts on tangible and financial assets—either a company’s own or those it manages as the fiduciary for others.

Performance of real estate services companies depends on their ability to provide services demanded by their customers. In some cases, companies may be able to generate demand by educating customers about the benefits of those services. By providing sustainability-related services to property owners, companies in the industry can contribute to solving a principal-agent problem around split incentives that often exists in the industry. Likewise, by improving the resource efficiency of real estate, companies in the industry can provide economic and sustainability value to owners and tenants.

Emerging environmental and social trends, along with stricter regulatory requirements, and scrutiny of real estate owners and occupiers, are leading to innovation and business opportunities for companies in the Real Estate Services industry. Continuous innovation in energy efficiency and the growing renewable energy industry are enabling real estate services companies to both broaden the scope and improve the quality of provided services.

**Sustainability Services**

Buildings owned or occupied by clients of companies in the Real Estate Services industry generally have significant sustainability impacts. Buildings, and the occupant activities that take place within them, drive energy consumption, direct and indirect GHG emissions, water consumption, waste generation, and indoor environmental quality concerns that impact the health of occupants. Companies in the industry have an opportunity to improve the sustainability impacts of buildings and their operations through the sustainability-related services. Services may include utility data management, energy procurement, resource efficiency improvements, activities related to sustainability certifications, and sustainability consulting and training. The role of companies in the industry in influencing sustainability impacts of real estate is further heightened by their ability to negotiate leases between owners and occupants, to the extent that the problem of split incentives can be mitigated, aligning the financial interests of both parties behind enhancing sustainability performance.
Exceling in such services can drive revenue and benefit owners and/or occupiers through improved asset values, increased tenant demand, decreased operating costs, and improved tenant experiences. Evolving global regulations related to climate change may have an impact on fuel and electricity prices. Because the cost of fuel and electricity represent a substantial portion of a property’s operational expenses, real estate owners may realize direct material benefits through energy management. At the same time, as real estate services companies manage large portfolios of commercial properties, resource efficiency projects significantly reduce environmental impacts of clients’ real estate.

As the Industry Summary notes, companies are increasingly focusing on tenants, expanding service offerings related to employee productivity and engagement. Therefore, addressing factors including thermal control, indoor air quality, access to natural light, and sound control is likely to increase workforce productivity and morale and lead to higher demand from real estate occupiers.

Increasing demand for green building certifications and improved energy performance of properties among real estate owners and developers and property occupiers, driven by environmental concerns and financial drivers, presents an opportunity to real estate services companies. Companies in the industry that provide energy and sustainability services are likely to be better positioned to meet this expanding demand and attract and retain clients, growing their market presence.

Company performance in this area can be analyzed in a cost-beneficial way through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Revenue from energy and sustainability services;
- (1) Floor area and (2) number of buildings under management provided with energy and sustainability services; and
- (1) Floor area and (2) number of buildings under management that obtained an energy rating.

**Evidence**

In 2013, the commercial sector represented 18 percent of total U.S. energy consumption. Electricity accounted for 79 percent of the total energy consumed in commercial buildings, followed by natural gas at 18 percent. According to the most recent data from the U.S. Energy Information Administration (EIA), in 2003 more than two million commercial buildings whose principal activities included health care, retail, office, and warehouse and storage consumed almost 2,000 trillion Btu of electricity on site. These buildings represented 55 percent of the total electricity consumption of all commercial buildings in the U.S. Lighting of retail and office spaces accounted for the largest share of consumption, at 308 and 281 trillion Btu, respectively. The same retail and office buildings also consumed 109 and 101 trillion Btu of electricity, respectively, to satisfy their cooling needs. The total electricity expenditures of office, retail, health care, and warehouse buildings amounted to $46 billion in 2003. Electricity consumption generates a significant amount of Scope 2 emissions, in addition to properties’ direct GHG emissions. In 2013, direct emissions from commercial and residential properties accounted for approximately 12 percent of total GHG emissions in the U.S.

The EIA estimates that the retail prices of electricity in the U.S. will increase at a modest pace until 2035. In 2014, the average retail electricity price was $110 per MWh for commercial use, $72 per MWh for industrial use, and $127 per MWh for residential use. The EIA’s
2014 Annual Energy Outlook forecasts that in 2035, the retail electricity prices for commercial, industrial, and residential uses will be $118, $82, and $142, respectively. The high volume of energy consumption and the increasing cost of electricity highlight how important energy management is to owners and developers of real estate.

Most rental agreements are structured in a way that requires the tenant to pay energy and water expenses, which may provide little or no incentive to a property owner to improve the energy efficiency of a building. Property management service providers are in a position to educate landlords about the opportunities that can be captured through resource efficiency, as well as align the economic incentives of both owners and tenants, which often results in beneficial economic and sustainability outcomes. As more property owners see the potential return on investment from resource efficiency projects, the demand for sustainability services will continue to increase.

Growing numbers of real estate owners and developers are looking to improve the environmental performance of their properties. Leadership in Energy and Environmental Design (LEED) has become a globally recognized certification for the highest standards of sustainability performance in real estate. As of January 2015, there were 69,000 LEED projects across 150 countries and territories. In 2014 alone, 675.9 million square feet of real estate space became LEED certified, bringing total LEED-certified space more than 3.6 billion square feet. Between 2005 and 2012, the share of newly constructed non-residential green buildings grew from 2 to 41 percent.

Improving the sustainability performance of properties can make them more attractive to occupiers, help owners reduce their operating expenses, and positively impact property values. Green building certifications help renters efficiently identify buildings with the highest levels of environmental performance. An analysis of 195 LEED projects found that the buildings were in the top 11th percentile in the U.S. in terms of efficient energy use and had a 57 percent lower Source Energy Use Intensity than the national average. A study of a sample of 22 sustainably designed buildings performed by the U.S. General Services Administration (GSA) found that LEED- and/or Energy Star-certified buildings use 25 percent less energy, have 19 percent lower operating costs, produce 36 percent lower CO2 emissions, and have 27 percent higher occupant satisfaction than the national average.

To satisfy growing demand in this area, companies in the industry are expanding their sustainability services. In early 2015, CBRE Group purchased Global WorkPlace Solutions (GWS), an integrated facilities management solutions provider, from Johnson Controls for $1.5 billion. The new business will be integrated into the Global Corporate Services (GCS) division of CBRE. Moreover, Johnson Controls will provide HVAC equipment, building automation systems, and related services for five billion square feet of properties managed by CBRE. Both companies are also planning to fund an innovation lab to develop advanced energy management solutions to benefit their clients. As CBRE’s customers increasingly demand fully integrated real estate and facilities solutions, the acquisition is likely to strengthen the company’s relationship with existing customers and attract new clients.

As a part of its environmental strategy, CBRE helped its clients obtain LEED certification for more than 300 buildings across 30 states by July 2014, reducing water consumption by 150 million gallons per year and electricity consumption by...
more than 162 million kWh. Energy efficiency efforts helped CBRE clients save more than $16 million annually, and also eliminated more than 112,000 metric tons of CO₂ emissions.43

Between 2007 and 2013, JLL reduced energy consumption at its properties, helping its clients lower GHG emissions by approximately 11.9 million metric tons, which saved $2.5 billion in energy costs. In 2013, JLL’s U.S. clients saved $39 million on their energy bills, and lowered GHG emissions by 220,000 tons. More than 1,500 of JLL’s sustainability-accredited specialists worked on 1,852 buildings in 2013, 33 percent more than in 2012.44

Value Impact

Real estate owners and developers are increasingly seeking strategies to improve their sustainability performance and impacts, as well as the associated costs and risks. Real estate services companies that are able to help their clients improve the sustainability performance of their properties will likely see higher demand and higher client retention, which could help them capture a larger share of the growing market. Performance on this issue can also impact company reputations and long-term growth prospects.

Revenue from energy and sustainability services, as well as the number of buildings provided with such services, may indicate a company’s success in effectively meeting the sustainability needs of clients. When these measures are viewed as the share of total revenue and total number of buildings managed, respectively, increasing percentages highlight a company’s success in communicating the importance and value of such services to clients, as well as its ability to satisfy the growing demand for such services. Increasing absolute values of these measures indicate how successful a company is in capturing new clients for such services.

Companies in the industry often play a significant role in managing and facilitating energy ratings and benchmarking, as these are important components of managing the energy consumption of buildings. Increasing the floor area and the number of buildings under management that obtain energy ratings is a measure of how comprehensively real estate services companies are integrating themselves into, and adding value to, the energy management strategies of real estate owners. Thus, increases in these measures provide an indication of deeper, more comprehensive client relationships, which may lead to higher levels of client retention and revenue growth. Risks related to client satisfaction and retention may occur when companies in the industry do not play a role in obtaining energy ratings and benchmarking for the buildings under management.

LEADERSHIP AND GOVERNANCE

As applied to sustainability, governance involves the management of issues that are inherent to the business model or common practice in the industry and are in potential conflict with the interest of broader stakeholder groups (government, community, customers, and employees). They therefore create a potential liability, or worse, a limitation or removal of license to operate. This includes regulatory compliance, lobbying, and political contributions. It also includes risk management, safety management, supply chain and resource management, conflict of interest, anti-competitive behavior, and corruption and bribery.

Companies that provide services to property owners, renters, and buyers play an important role in the real estate value chain. Financial
performance of the Real Estate Services industry depends on a company’s ability to attract more customers and expand market share. Clients expect real estate brokers and appraisers to meet the highest industry standards and to be transparent and free of bias when they provide professional advice and services. As the recent financial crisis has shown, failure to provide transparent information to clients—and to effectively manage potential conflicts of interest in real estate transactions—may result in significant social impacts that can damage the reputation of the whole industry.

**Transparent Information & Management of Conflict of Interest**

The business model of real estate services companies is dependent on client trust and loyalty. To ensure long-term, mutually beneficial relationships, companies need to provide services that satisfy the highest professional standards of the industry, including fiduciary duties, when applicable. Professional integrity is an important governance issue, as a single organization can make the detection and prevention of conflicts of interest more challenging. When companies provide brokerage and appraisal services, they face heightened risk of conflicts of interest as well as negligence.

In order to minimize conflicts of interest and negligence, companies in the industry can use a range of governance measures, including employee training, oversight, and implementation of policies, procedures, and enforcement systems focused on transparency and appropriate disclosure. These measures both strengthen a company’s license to operate and help it attract and retain clients.

In the Real Estate Services industry, the issue of professional integrity is most relevant to companies that provide brokerage and appraisal services. Brokers act as intermediaries between sellers and buyers or lessors and lessees; they provide efficiency to the real estate market by connecting the two parties. Real estate brokerage services are rendered under a fiduciary or agency relationship: a professional owes his client a duty of loyalty and care, and a client can expect a level of professionalism and a code of conduct commonly held by those in the profession. Because of the potential for malpractice, the law requires many real estate brokers and agents to obtain and abide by a state or professional license. In some segments of the industry, companies have the potential to influence the decisions and judgment of their clients. In this scenario, real estate appraisers give their clients additional credibility and help them obtain funds to finance their projects. In cases where a fiduciary relationship is present, companies must operate at the highest levels of professional responsibility in order to maintain their formal or social licenses to operate.

Brokers are compensated based on commissions that are typically directly linked to transaction values. Therefore, higher sale values guarantee brokers greater commissions. Because brokers may at times represent both parties in a transaction, companies in the industry may have an inherent conflict of interest and be incentivized to engage in deceptive practices. In transactions where a broker represents both parties, there may be an incentive to sell or lease a property at a higher price, which is not in the best interest of a tenant or a buyer. When a significant share of operations is franchised to smaller, local companies, management of the issue becomes even more challenging. Because they operate in a consumer-facing industry, real estate brokers highly value their reputations. Failure to ensure
franchisees’ compliance with company’s policies and procedures may lead to reputational damage for the company itself.

At the same time, loan originators may pressure property appraisers to value properties and projects above their true value, allowing banks to provide larger loans and still meet loan-to-value requirements. Conflicts of interest in the real estate value chain may have significant social externalities; for example, making housing less affordable for segments of the population.

Because of increased regulatory scrutiny and emphasis on transparency and fair advice, real estate services companies that are able to ensure strong performance in this area will be better positioned to protect shareholder value.

Company performance in this area can be analyzed in a cost-beneficial way through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Brokerage revenue from dual agency transactions;
- Revenue from transactions associated with appraisal services; and
- Amount of legal and regulatory fines and settlements associated with professional integrity or duty of care.

Evidence

In the Internet age, transparency of data in the residential real estate market has become less of an issue. Today, buyers and sellers may find much of the relevant information about properties online; therefore the challenge arises not from availability but from the interpretation of data and the use of that information. For that reason and many others, real estate market clients turn to agents to help them navigate through this information. Companies and individuals rely on professional advice from brokers and expect it to be unbiased and in their best interest.45

In the residential real estate market, agents traditionally represented sellers only, but this has changed in recent years. Today, real estate agents may at times represent both the seller and the buyer, a situation known as “dual representation” or “dual agency.” This scenario may create a conflict of interest because sellers and agents are incentivized to close a deal at the highest possible price, while buyers want the lowest possible price. Every state in the U.S. requires a written disclosure of dual representation, as well as written consent from both clients.46 In these kinds of relationships, the law limits the information that agents can share with the parties. For example, landlords cannot be told if a client is willing to pay more. According to a recent California Court of Appeals ruling, a dual agency is defined as two agents representing opposite parties, but working in the same brokerage.47

New laws and regulations are driving greater transparency in the commercial real estate market. In January 2015, a new California law, SB 1171, extended the obligations of residential real estate brokers and agents to commercial real estate agents and brokers. SB 1171 mandates that commercial real estate brokers and agents provide written disclosures to their clients about the transaction counterparties, as well as potential conflicts of interest and fiduciary duties. The rule applies to all transactions regardless of whether there is dual agency representation.48

As noted in the regulatory trends section above, the CFPB administers and enforces RESPA, which “restrict[s] payments which real estate brokers, title agencies, mortgage bankers, mortgage brokers and other settlement service providers may receive or pay in connection with the sales of residences and referral of settlement services.”49
The regulation also ensures transaction transparency by requiring disclosure of affiliated business arrangements to buyers and sellers.\textsuperscript{50}

When real estate brokerage companies franchise their operations, managing the issue becomes more complicated. In its Form 10-K for the fiscal year 2014, Realogy Holdings recognizes the potential material impacts associated with fraud, defalcation, and misconduct by the company’s employees or the employees of its franchisees. The company states that it could also be involved in claims and legal actions related to a failure to provide transparent information about property defects, such as mold.\textsuperscript{51}

In the residential real estate market, failure of appraisers to manage the issue may affect the affordability of housing and lead to defaults on mortgages in the long term. A study conducted by the \textit{Wall Street Journal} found that appraisers might be inflating home values by more than 20 percent. In many cases, real estate agents may pressure appraisers to inflate their appraisals in order to profit from higher transaction values. Appraised property values play a very important role at the transaction stage. Lenders are unlikely to issue a loan for more than an appraised value (or more than a certain percentage of appraised value). A survey by the National Association of Realtors found that 24 percent of real estate agents reported that low appraisals were the reason for sales contracts being canceled, delayed, or negotiated to a lower price.\textsuperscript{52} For these reasons, loan officers, who depend on new mortgages, may put additional pressure on appraisers, as banks rarely provide loans when the appraised value is lower than the purchase price or the refinancing amount.\textsuperscript{53}

In recent years, CBRE has been involved in several lawsuits alleging violation of professional standards in conducting property appraisals. In 2011, Highland Capital Management LP sued the company for allegedly inflating the value of the Lake Las Vegas project to allow Highland to meet its loan-to-value ratio and obtain financing from Credit Suisse Group. Highland Capital Management defaulted on the loan and lost $250 million.\textsuperscript{54} The suit was settled for $21 million.\textsuperscript{55} In 2012, CBRE settled another lawsuit for alleged inflation of the value of a property in the British West Indies. The property, which had an actual worth of about $25 million, was valued at $109 million, allowing developers to borrow $72 million.\textsuperscript{56}

**Value Impact**

In the aftermath of the recent financial crisis, the regulatory environment in the real estate market became more stringent. Recent laws and regulations specifically focus on conflicts of interest between commercial and residential real estate brokers, agents, and appraisers. Companies that fail to adhere to state and federal laws regarding appraisal or brokerage activities may lose their professional licenses. Moreover, these companies may face regulatory penalties and damages to compensate for clients’ losses. Real estate services companies with strong internal and external policies and procedures focused on business ethics and professional integrity are likely to earn a positive reputation among clients and increase market share. Conversely, failure to provide services that meet industry standards as well as clients’ expectations could result in a subsequent loss of clients, affecting revenue. Over time, chronic involvement in activities that may create conflicts of interest can increase risk profile and cost of capital.

Listed real estate services firms are expected to have robust controls and procedures for effectively representing clients and avoiding participation in risky (and potentially illegal) self-dealing activities. Therefore, a description of
policies that assure professional integrity provides analysts with useful information to assess medium-term, direct risks to revenue (client retention/growth), as well as low probability, high magnitude risks of reputational harm and legal settlements. Similarly, higher percentages of brokerage revenue from dual agency transactions, as well as revenue from transactions associated with appraisal services, indicate an increased risks, and thus, warrant closer analysis of policies and procedures used to mitigate risks.

The amount of legal and regulatory fines and settlements resulting from issues associated with professional integrity or duty to care can illustrate a company’s success, or lack thereof, in managing the issue over time. Analyzed in the context of the discussion of a company’s approach to assuring professional integrity and duty of care, an analyst can determine the effectiveness of the policies over time. A reduction in the number and amount of fines levied against a company highlights its success in improving its internal controls. On the other hand, a high and/or increasing number of incidents indicates higher risk, which may damage a firm’s reputation as well as create extraordinary expenses. A negative reputation is likely to result in a loss of customers, leading to weaker growth prospects and a higher cost of capital.
APPENDIX I
FIVE REPRESENTATIVE REAL ESTATE SERVICES COMPANIES

<table>
<thead>
<tr>
<th>COMPANY NAME (TICKER SYMBOL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBRE Group (CBG)</td>
</tr>
<tr>
<td>JLL (JLL)</td>
</tr>
<tr>
<td>Realogy Holdings (RLGY)</td>
</tr>
<tr>
<td>Forestar Group (FOR)</td>
</tr>
<tr>
<td>Re/Max Holdings (RMAX)</td>
</tr>
</tbody>
</table>

This list includes five companies representative of the Real Estate Services industry and its activities. This includes only companies for which the Real Estate Services industry is the primary industry, companies that are U.S.-listed but are not primarily traded over the counter, and for which at least 20 percent of revenue is generated by activities in this industry, according to the latest information available on Bloomberg Professional Services. Retrieved on February 10, 2016.
APPENDIX IIA: Evidence for Sustainability Disclosure Topics

<table>
<thead>
<tr>
<th>Sustainability Disclosure Topics</th>
<th>EVIDENCE OF INTEREST</th>
<th>EVIDENCE OF FINANCIAL IMPACT</th>
<th>FORWARD-LOOKING IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HM (1-100)</td>
<td>IWGs %</td>
<td>EI</td>
</tr>
<tr>
<td>Sustainability Services</td>
<td>79*</td>
<td>82</td>
<td>2</td>
</tr>
<tr>
<td>Transparent Information &amp; Management of Conflict of Interest</td>
<td>75*</td>
<td>91</td>
<td>1</td>
</tr>
</tbody>
</table>

**HM**: Heat Map, a score out of 100 indicating the relative importance of the topic among SASB’s initial list of 43 generic sustainability issues. Asterisks indicate “top issues.” The score is based on the frequency of relevant keywords in documents (i.e., 10-Ks, 20-Fs, shareholder resolutions, legal news, news articles, and corporate sustainability reports) that are available on the Bloomberg terminal for the industry’s publicly listed companies. Issues for which keyword frequency is in the top quartile are “top issues.”

**IWGs**: SASB Industry Working Groups

%: The percentage of IWG participants that found the disclosure topic likely to constitute material information for companies in the industry. (-) denotes that the issue was added after the IWG was convened.

**Priority**: Average ranking of the issue in terms of importance. 1 denotes the most important issue. (-) denotes that the issue was added after the IWG was convened.

**EI**: Evidence of Interest, a subjective assessment based on quantitative and qualitative findings.

**EFI**: Evidence of Financial Impact, a subjective assessment based on quantitative and qualitative findings.

**FLI**: Forward Looking Impact, a subjective assessment on the presence of a material forward-looking impact.
## APPENDIX IIB:
Evidence of Financial Impact for Sustainability Disclosure Topics

<table>
<thead>
<tr>
<th>Evidence of Financial Impact</th>
<th>REVENUE &amp; EXPENSES</th>
<th>ASSETS &amp; LIABILITIES</th>
<th>RISK PROFILE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Operating Expenses</td>
<td>Non-operating Expenses</td>
</tr>
<tr>
<td></td>
<td>Market Share</td>
<td>New Markets</td>
<td>Pricing Power</td>
</tr>
<tr>
<td>Sustainability Services</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Transparent Information &amp; Management of Conflict of Interest</td>
<td>•</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
- **Medium Impact** represented by gray background.
- **High Impact** represented by dark gray background.

---

**Legend:**
- **Medium Impact**
- **High Impact**
### APPENDIX III

**SUSTAINABILITY ACCOUNTING METRICS – REAL ESTATE SERVICES**

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sustainability Services</strong></td>
<td>Revenue from energy and sustainability services*</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>IF0403-01</td>
</tr>
<tr>
<td></td>
<td>(1) Floor area and (2) number of buildings under management provided with energy and sustainability services</td>
<td>Quantitative</td>
<td>Square feet (ft²), Number</td>
<td>IF0403-02</td>
</tr>
<tr>
<td></td>
<td>(1) Floor area and (2) number of buildings under management that obtained an energy rating</td>
<td>Quantitative</td>
<td>Square feet (ft²), Number</td>
<td>IF0403-03</td>
</tr>
<tr>
<td><strong>Transparent Information &amp; Management of Conflict of Interest</strong></td>
<td>Brokerage revenue from dual agency transactions**</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>IF0403-04</td>
</tr>
<tr>
<td></td>
<td>Revenue from transactions associated with appraisal services***</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>IF0403-05</td>
</tr>
<tr>
<td></td>
<td>Amount of legal and regulatory fines and settlements associated with professional integrity or duty of care****</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>IF0403-06</td>
</tr>
</tbody>
</table>

* Note to **IF0403-01**—The registrant shall provide a description of the energy and sustainability services it offers.

** Note to **IF0403-04**—The registrant shall describe its approach to managing potential conflicts of interest in dual agency transactions.

*** Note to **IF0403-05**—The registrant shall describe its approach to managing potential conflicts of interest in appraisals.

**** Note to **IF0403-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
APPENDIX IV: Analysis of SEC Disclosures | Real Estate Services

The following graph demonstrates an aggregate assessment of how representative U.S.-listed Real Estate Services companies are currently reporting on sustainability topics in their SEC annual filings.

<table>
<thead>
<tr>
<th>TYPE OF DISCLOSURE ON SUSTAINABILITY TOPICS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Real Estate Services</strong></td>
</tr>
<tr>
<td>Sustainability Services</td>
</tr>
<tr>
<td>Transparent Information &amp; Management of</td>
</tr>
<tr>
<td>Conflict of Interest</td>
</tr>
</tbody>
</table>

IWG Feedback*

*Percentage of IWG participants that agreed topic was likely to constitute material information for companies in the industry.
REFERENCES

1 Author’s calculation based on data from Bloomberg Professional service, accessed on March 19, 2015 using Equity Screen (EQS) for U.S.-listed companies and those traded primarily OTC that generate at least 20 percent of revenue from their Real Estate Services segment and for which Real Estate Services is a primary SICS industry.


6 Ibid, pp. 13, 15.

7 Bloomberg Professional service, accessed January 27, 2016, using the BICS <GO> command. The data represents global revenues of companies listed on global exchanges and traded over-the-counter (OTC) from the Real Estate Services industry, using Levels 3 and 4 of the Bloomberg Industry Classification System.

8 Author’s calculation based on data from Bloomberg Professional service, accessed on February 10, 2016 using Equity Screen (EQS) for U.S.-listed companies and those traded primarily OTC that generate at least 20 percent of revenue from their Real Estate Services segment and for which Real Estate Services is a primary SICS industry.


11 Based on a SASB internal review of sell-side research.

12 Bloomberg Professional service, accessed March 13, 2015 using EQS for companies listed on U.S. exchanges and for which Real Estate Services is a primary SICS industry.


29 Murphy, Regulation of Real Estate Appraisers.


40 Ibid.


44 Jones Lang LaSalle, FY2014 Form 10-K for the Period Ending December 31, 2014 (filed February 27, 2015).


48 Ibid.


53 Ibid.


