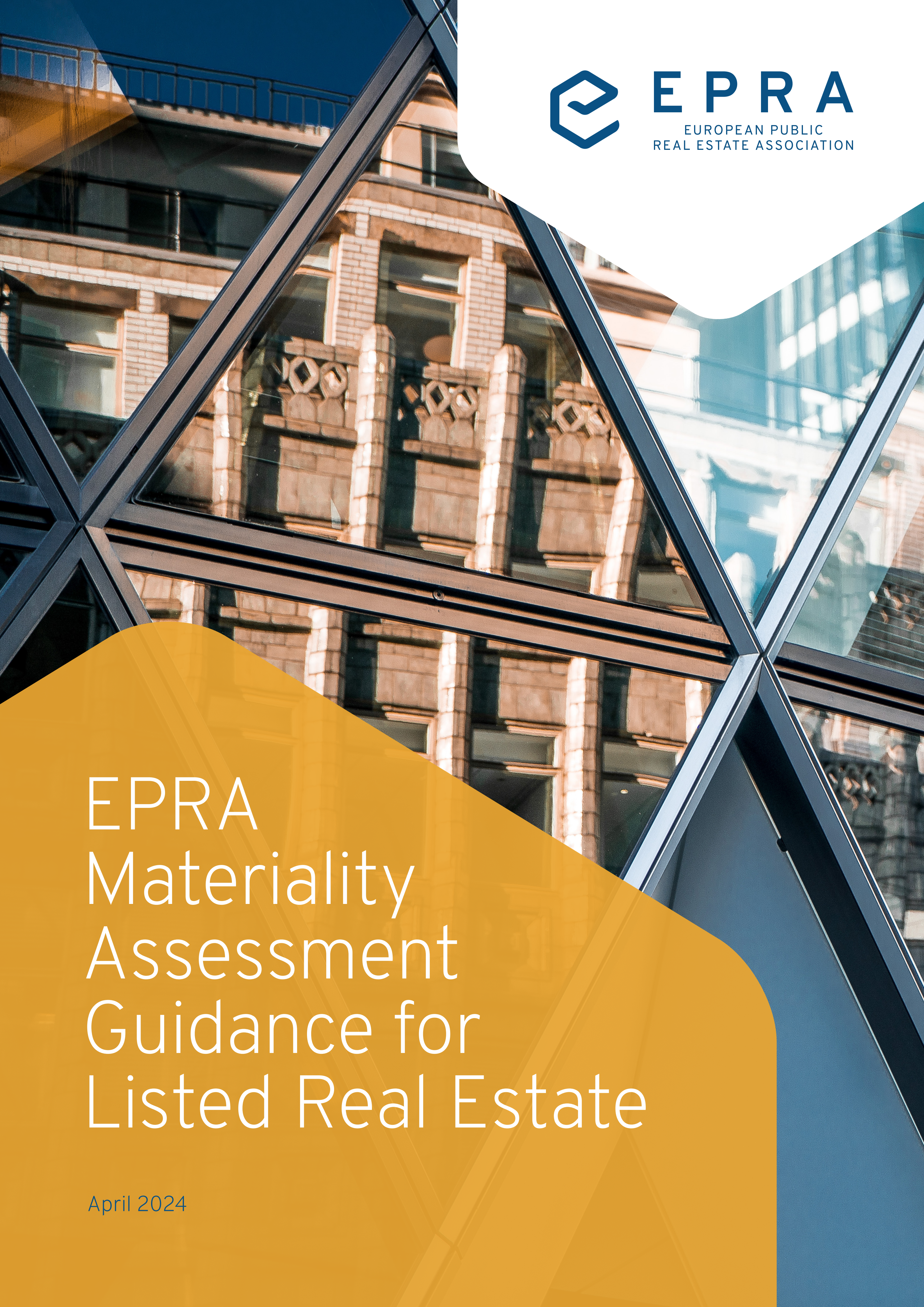

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

EPRA Materiality Assessment Guidance for Listed Real Estate

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Contents

Overview **3**

About this document 3
Summary of materiality perspectives from international reporting standards and frameworks 3

Approach to materiality for listed real estate **5**

1. Engage stakeholders and understand context 7
2. Identify a longlist of material sustainability matters and IROs 8
3. Assessment of material IROs related to sustainability matters 10
   Impact Materiality 10
   Financial Materiality 12
4. Consolidation and reporting 16

Conclusion **18**

Appendix – Cross references to the ESRS **19**

ESRS terms notable for materiality assessments for listed real estate 19
List of sustainability matters covered in the topical ESRS 23

Overview

About this document

Material topics for a reporting organisation include those topics that have a direct or indirect impact on an organisation's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.

The selection of topics by their materiality is a crucial element in guiding a strategic approach to sustainability for companies and creating relevant disclosures for stakeholders. By conducting a complete and robust materiality assessment, companies can identify key material matters across their value chain, thus demonstrating an understanding of where the company may experience material matters from the impact materiality perspective or the financial materiality perspective or both.

There is an increasing expectation on companies to conduct a materiality review as a pre-requisite for reporting against both voluntary and mandatory sustainability reporting standards.

There is guidance on materiality assessments available to companies from several sources, notably for impact materiality from the Global Reporting Initiative (GRI) Universal Standards. However, the obligation to adopt a double materiality approach in response to CSRD requirements and applying European Sustainability Reporting Standards (ESRS) presents a challenge to all sectors. To this end, EFRAG has created implementation guidance for the ESRS materiality assessments. Nonetheless, companies will need to adopt an assessment methodology with an appropriate framework that is suited to the specific context of their industry. As EFRAG's guidance is currently presented as sector-agnostic, this guide has been informed by their work but aims to provide further sector-specific context for listed real estate and highlight how the EPRA Sustainability Best Practices Recommendations (sBPR) might be considered or used in the materiality process.

In the context of the above, companies should note that the use of sector insights and consensus presented in the EPRA sBPR can be used as a basis for listed real estate companies who are assessing sustainability matters and associated impacts. To properly form an opinion of sustainability matters, a company should still consider its own materiality assessment and corresponding risk management. It should also be noted that conducting a materiality review with any specific approach (impact, financial or double materiality) is not mandated by the EPRA sBPR, but nevertheless recommends reporting companies give due consideration to materiality when compiling their response.

Summary of materiality perspectives from international reporting standards and frameworks

Corporate Sustainability Reporting Directive (CSRD)

The CSRD requires that sustainability reporting shall be based on double materiality. A sustainability matter can be material from an impact perspective or from a financial perspective or from both.

The ESRS specify the sustainability information that an undertaking shall disclose in accordance with the CSRD. The ESRS provides a definition of these two materiality dimensions.

A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term. Impacts include those connected with the undertaking's own operations and the upstream and downstream value chain, including through its products and services, as well as through its business relationships.

A sustainability matter is material from a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term.

The financial materiality assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. In particular, information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statement.

The terms "material" and "materiality" are used throughout the ESRS to refer to double materiality, unless specified otherwise.

Global Reporting Initiative (GRI)

An enterprise must report fully on the General Standards and the Topical Standards it has identified as material.

GRI 3: Material Topics 2021 provides step-by-step guidance for organisations on how to determine material topics from an impact materiality perspective. As per the GRI Standards, material topics are topics that represent an organisation's most significant impacts on the economy, environment, and people, including impacts on their human rights.

The GRI is expecting to publish sector-specific standards in the future, including additional guidance on materiality for the real estate sector.

IFRS General Sustainability-related Disclosures (IFRS S1 and IFRS S2)

The definition of material is financial and aligned with that used in IFRS Accounting Standards — that is, information is material if omitting, obscuring or misstating it could be reasonably expected to influence investor decisions.

When making materiality judgments, an entity needs to take into account how information could reasonably be expected to influence the primary users of its financial statements when they make decisions based on those statements.

SASB: Sector Specific: Real Estate

The disclosure topics and associated metrics contained in this Standard have been identified as those that are likely to be useful to investors. However, the responsibility for making materiality judgements and determinations rests with the reporting entity.

Approach to materiality for listed real estate

Summary

There are steps in a materiality assessment process which are alike across guidance documents on the topic and a company is likely to already have a due diligence process or other risk management processes which should be considered by a company to ensure consistency in the application of materiality within the business. With this in mind, a double materiality assessment as defined by the ESRS is the most complete perspective on materiality and as such, the process described below will tend toward these requirements and terminology. However, the ESRS does not prescribe a specific process or thresholds, apart from general guiding principles. In the ESRS, 'risks' refer to the effects the environment and society may have on the organisation. In this instance, risk is not used in the exact same way as they are commonly used in a companies' risk-mapping process. The ESRS risks can be considered more the consequences of risks, rather than the risk itself. Furthermore, not all companies will be in scope of CSRD regulation. Therefore, the below guidance provides suggestions of specific considerations for real estate companies, although not exhaustive, and does not cover the process of disclosing material topics, as this will be determined by a company's final reporting framework.

For comparability and usefulness to decision making, matters should be quantified both from an impact and financial materiality angle. However, most companies will likely choose a qualitative method and iteratively evolve the process as the data and modelling options improve. Progress towards the quantification of impact, risk and opportunity will require the input of several stakeholders from risk, finance and sustainability perspective, as non-financial disclosures will be presented adjacent to the financial reports and the materiality of sustainability matters are considered in equal terms.

For listed real estate, companies may wish to consider quantitative information to better determine severity (i.e., scale or scope). Some examples are provided below:

TOPIC	IMPACTS	EXAMPLE DATA SETS
Biodiversity	Displacement of native species	Ecological surveys and remote sensing analysis
Water and marine resources	Amount of water used in a particular water-stressed area	Climate modelling data
		Water consumption data
Consumers and end-users	Health and safety of building users	Records of footfall
		Accident logs
		Records of non-compliance
Own workforce	Mental health impact from working environment	Turnover rates
		Absentee rates
		Satisfaction surveys
Affected communities	Number of people affected locally by building use	Population databases such as electoral wards, local surveys and census data

Figure 1 – Example of a materiality assessment process and considerations

1. ESTABLISH FOUNDATIONS

STAKEHOLDER ENGAGEMENT
- Use context setting to map and prioritise stakeholders
- Review current channels for engagement
- Create a taskforce
- Determine level of granularity

CONTEXT
- Review legal and regulatory landscape
- Conduct market analysis for sector-specific context (see EPRA sBPR for example)

2. LONGLIST OF MATERIAL SUSTAINABILITY MATTERS

TOP-DOWN APPROACH
Identify sustainability matters and derive the IROs
- Suited to a context driven approach using market analysis that provides industry context and general sustainability trends
- Useful for avoiding tunnel vision and creating a view of interconnected topics and sub-topics
- Requires viewpoints from multiple stakeholders to identify possible IROs

BOTTOM-UP APPROACH
Identify IROs and connect to sustainability matters
- Suited to targeted stakeholder engagement that collects views on existing IRO's
- Useful for selecting highly relevant matters on a longlist that will likely be assessed
- Some matters may be slow and cumulative or occur at a distance from stakeholders, so that causal links may not be clear

3. MATERIALITY ASSESSMENT

IMPACT
FINANCIAL
- Use stakeholder mapping to determine who should contribute to the selected matters and seek opinion on the appropriate materiality thresholds to be adopted
- Determine whether each IRO relates to own operations, upstream or downstream value chain and the relevant time horizon

Impact:
- Assess the scale, scope, irremediability and likelihood for negative and positive impacts

Financial:
- Determine nature of financial effects
- Assess magnitude of financial effects

4. CONSOLIDATION AND REPORTING

GENERAL
- Validate process and outcome with management
- Disclose how thresholds and assessment criteria were determined
- Signify any EPRA sBPR Performance Measures considered not material

ESRS
- Determine the level of disaggregation
- Report the assessment process and outcome per the application requirements of ESRS 2 and specifically for IRO-1, IRO-2 and SBM-3
- Create documentation of process for audit and assurance

Engage stakeholders and understand context

1

The perspectives of stakeholders will be central to the materiality assessment process. They will bring crucial information, feedback and perspectives during the review of which sustainability matters are significant.

A company may consider stakeholder mapping and prioritization as a tool to determine who to directly involve in the materiality assessment. Once appropriate stakeholders are identified, they should support the identification and assessment of the impacts, risks and opportunities (IRO).

It is likely that a company will already have mechanisms of stakeholder engagement which can be used to create an evaluation. Such process implemented by real estate companies may include:

- Collecting feedback through surveys (e.g., post-occupancy evaluation surveys, tenant engagement forms)
- Engagements with property management companies
- Engagements with utility and service providers
- Dialogue with investors and analysts
- Local community consultation and interaction with related committees
- Social and biodiversity impact assessments

With stakeholders identified, a company must determine an appropriate level of granularity of sustainability matters, whereby the use of stakeholder engagement will provide contextual information in areas such as the company activities, property type, geography and exposure to regulation.

Relevant departments and functions within the organisation that can assist in this step include asset managers, property managers, human resources, investor relations, legal and compliance departments and procurement teams.

The proper stakeholder engagement process is two-way in nature, systematic and objective. Some engagement processes with specific stakeholder groups, such as workers and communities, are expected to be independent of management and include mechanisms for stakeholders to express collective views relevant to their location.

Some of sustainability IROs are visible to stakeholders, who express an interest in them directly. But not all will be recognized by stakeholders. Some may be slow and cumulative or occur at a distance from stakeholders, so that causal links may not be clear.

Identify a longlist of material sustainability matters and IROs

2

Before applying criteria for assessing materiality, a company can prepare a longlist of actual or potential material sustainability matters and IROs. This may rely on existing knowledge and processes, but a company may also want to refresh existing perspectives of material matters and IRO's.

In approaching this task, a company may take a 'top-down' or 'bottom-up' approach.

In using a top-down, a company will begin by looking at sustainability matters, such as health and safety and then derive sustainability IROs, such as employee exposure to harmful chemicals. Alternatively, a company can work in the other direction with a bottom-up approach by identifying IROs and relating them to a sustainability matter. Both approaches may be appropriate, depending on the stakeholder engagement or contextual information used. For example, dialogue with investor relations may drive a matter-led approach or review of a company risk matrix may lead the identification of IROs. With either approach, a company should ensure that they can relate IROs to sustainability matters.

For companies using the ESRS, it is important to understand the terminology for framing the materiality assessment and selection processes. Of note, a company should consider the level of granularity for a sustainability matter, whereby the dimension of a topic may contain sub-topics and sub-sub-topics. Collectively, these dimensions are called sustainability matters.

In general, a company should consider the level of granularity required as the point where measurable outcomes can be expected. Therefore, the assessment should be performed at the sub-topic or sub-sub-topic level. The most granular level at which an assessment is performed should be the level at which impacts can still be determined. With consideration to financial materiality, companies should select a level granularity on the basis of whether omitting, misstating or obscuring information could reasonably be expected to influence decisions that an investor may make on the basis of the undertaking's sustainability statement.

For example, sustainability matters can have the dimension of a topic (e.g., "Own workforce", ESRS S1), sub-topic (e.g., "Working conditions"), or sub-sub-topic (e.g., "Health and safety"). In the given example, the sub-sub-topic of health and safety has been considered potential material, with the IRO that employees are exposed to harmful chemical substances. Note also that the materiality assessment for CSRD must consider matters across its own operations and in its upstream and downstream value chain.

For a company aligning with the sBPR and conducting a materiality assessment for the CSRD, they may wish to view the ESRS mapping document, created alongside the *EPRA sBPR Guidelines Fourth Edition*. The document maps the ESRS application and disclosure requirements as they relate to Performance Measures.

Other notable industry specific guidance that a company may consult is the SASB Real Estate Sustainability Accounting Standard.

Note that when preparing a longlist of sustainability matters and sustainability IRO's using the EPRA sBPR's, the Performance Measures represent sustainability matters which still require company specific IROs to be considered. For example, a company may own assets in areas that experience water stress. The water consumption and extraction would relate to a Performance Measure (Water-Abs) but there may also be a social impact on local communities.

Another note of using the EPRA sBPR's in a materiality assessment process, is that stakeholder's input may alter the context of Performance Measures as they are currently presented in the sBPR guidance. For example, a company through engagement with occupiers may identify asset health and safety (H&S-Asset) to be a concern to property users, because of a health risk presented by increased heat stress. The 'H&S-Asset' Performance Measure is often considered through a compliance perspective by companies using the sBPR. Compliance itself is a company risk however in this example, health and safety is a potential material matter because of impacts through the value chain. Under ESRS, this would appear in a longlist of material matters by relating the health risk with ESRS S4 "Consumers and end-users" (Topic), "Personal Safety of consumers and/or end-users" (sub-topic) and "Health and Safety" (sub-sub-topic).

Finally, note that guidance from GRI 3: Material Topics suggests the organisation's highest governance body should oversee the process and review and approve the material topics. If the organisation does not have a highest governance body, a senior executive or group of senior executives should oversee the process and review and approve the material topics.

Assessment of material IROs related to sustainability matters

3

At this stage, the materiality of IROs is to be determined. A company should begin this process by establishing the assessment criteria and thresholds for determining materiality. Impact and financial materiality will require differing approaches. There is also differentiation between actual impacts, i.e., those that have happened or are ongoing in the reporting period, and potential impacts, i.e., those that have a likelihood of occurrence in a future timeframe.

Impact Materiality

Actual negative impacts are assessed by severity, which is determined by scale, scope, and its irremediable character. For potential negative impacts, there is the additional dimension of likelihood of occurrence.

Positive impacts are assessed by scale, scope and likelihood for potential positive impacts. Note that impacts are to be assessed on a gross basis. This means that positive impacts on the environment and people cannot be netted against negative impacts.

- Scale: Scale is a relative measure depending on the context in which the impact takes place. There may be considerations of vulnerability (environment and society) as well as timeframe over which the impacts or benefits could either manifest (risk velocity) or persist.

  - Timeframe: Time horizons should be defined by short-, medium- and long-term. Several frameworks recognise that definitions of these time horizons can vary between entities.

  Therefore, a company should describe its definitions of medium- or long-term time horizons and reasons for applying those definitions.

  Reasons may include industry-specific characteristics, such as cash flow, investment and business cycles, planning horizons typically used for strategic decision-making and capital allocation plans and the time horizons over which the users of sustainability statements conduct their assessments or the planning horizons typically used in the undertaking's industry for decision-making.

  Note that ESRS 1 paragraphs 77 to 81 define the standardised terms for time horizon;

  a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements;

  b) for the medium-term time horizon: from the end of the short-term reporting period defined in (a) up to 5 years;

  c) and for the long-term time horizon: more than 5 years.

  For the long-term time horizon when impacts or actions are expected in a period longer than 5 years the undertaking shall use an additional breakdown, if necessary to provide relevant information to users of sustainability statements.

  If different definitions of medium- or long-term time horizons are required for specific items of disclosure in other ESRS, the definitions in those ESRS shall prevail.

BELOW ARE EXAMPLES OF CONSIDERATIONS OF SCALE FOR REAL ESTATE COMPANIES
A listed real estate company may identify that a new law on minimum energy efficiency of buildings will become mandated in the medium-term. The company has several buildings that do not currently comply with the energy intensity requirements and has identified a material risk from this issue in the short- and medium-term but not long-term. The company has an energy improvement plan which will align the portfolio to requirements in advance of the legislation coming into force.
A listed real estate company has a portfolio of buildings that are heated by fossil fuels, which could become a material issue in the long-term but there are no local laws with short- or medium-term requirements to electrify buildings.

- **Scale:** How grave or beneficial could the impact be?

QUESTIONS FOR LISTED REAL ESTATE COMPANIES:
To what extent will this impact the operation of assets? For example, immediate minor disruption lasting a brief period of time, gradual increase in major disruption lasting up to a year, or permanent closure within 5-years.
To what extent will this impact the users of the building? For example, no health concerns over a several years, minor risk of injury to vulnerable users of the facility in the short-term, or risk of serious injury and death.
To what extent will this improve tenant satisfaction? For example, no change, rapid improvement over a short-term period, or steady but significant improvement over several years.

- **Scope:** Over what geographical scale or how many people will be affected?

QUESTIONS FOR LISTED REAL ESTATE COMPANIES:
What is a relevant scope for the portfolio and asset class? For example, scale by unit, property, estate, community or region.
What is a relevant geographical scope for business operations? For example, city, country or region.
How might small impacts affect a wide scope? For example, a change in physical access to a frequently used location.

- **Irremediable Character:** To what extent can impacts be remediated?

QUESTIONS FOR LISTED REAL ESTATE COMPANIES:
Over what timeframe could remediation occur, if at all?
At what cost could remediation occur, if at all?
What are the historical or cultural considerations?

- **Likelihood:** Can be described using general terms (e.g., unlikely, highly likely) or mathematically using probability (e.g., 10 in 100, 10 percent) or a frequency over a given time-period (e.g., once every 10 years).

To determine whether the impact is material or not, the ESRS recognises it may not always be necessary to assess in depth each of the criteria of severity based on the undertaking's specific facts and circumstances. For example, when there is an established scientific consensus about the severity of a particular kind of global and localised environmental impact, the undertaking can conclude that it is, indeed, material without an in-depth analysis of scale, scope and irremediability. In this respect, companies using the EPRA sBPR guidance can refer to the 'Issue' and 'Rationale' presented for each of the Performance Measures to inform their selection of material matters and IROs.

Table 1. Example Impact Assessment Framework

IMPACT ASSESSMENT FRAMEWORK					
Severity (Low to High)		Scale	Scope* (environmental)	Scope* (social)	Irremediability
1	Inconsequential	Impact to little or no degree persisting briefly or appearing with very low velocity	Insignificant impact confined to a sub-space	An individual is affected	Easily remediated within 1 year at low cost and effort
2	Minor	Impact to some degree over a short time period or appearing with low velocity	Minor impact to one building	A small group is affected: <50 people	Remediated within 1 to 3 years at low cost and effort
3	Moderate	Impact to a moderate degree over a medium time period or appearing with medium velocity	Moderate impact to localised area	A moderate group is affected: 50-250 people	Remediated within 1 to 5 years at moderate cost or effort
4	Major	Impact to a significant degree over a long time period or appearing with a high velocity	Major impact to widespread geography	A large group is affected e.g., 250-1000 people	Remediation within 10 years at high cost and effort
5	Significant	Impact to a substantial degree over a long time period or appearing with a near instant velocity	Significant impact across multiple geographies	Multiple groups are affected >1000 people	Irreversible within 10 years at a feasible cost and effort

Please note that that the thresholds in this table serves only as an example of a possible approach to assessing impact materiality. These should be applied within the context of the company and with input from stakeholder engagement.

Scale is a relative measure depending on the context in which the impact takes place. The ESRS states that any of the three characteristics (scale, scope, and irremediable character) can make a negative impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

*Environmental and social impacts assessments will be conducted separately, and the scope is to be applied independently. The scopes are shown together for simplified presentation.

Financial Materiality

Sustainability risks and opportunities could cause negative or positive effects on the company's enterprise value.

The ESRS does not prescribe the use of specific thresholds definition for financial materiality and the use of 'severity' as defined above does not suit the financial perspective. However, in referencing IFRS S1, a company can consider impact in terms of magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity. An example of such an assessment framework may use 'magnitude' (comparable with 'significance' as a scale) to frame the nature of the effects. The nature of effects may be defined and selected through stakeholder engagement and organisational context. Therefore, the below examples are not exhaustive.

- **Magnitude, of which the nature of effects may be:**
  - Effect on long-, medium- and short-term financials and associated OpEx, CapEx and income
  - Effect on a competitiveness
  - Effect on reputation and scale of coverage
  - Effect on workforce and associated turnover or access to talent
  - Effect on property operations and disruption at site(s)

Time horizons may be longer in sustainability reporting as it is not constrained by the financial planning horizon or by the historical cost convention.

However, the undertaking shall consider that the time horizon for financial materiality assessment in sustainability reporting is longer than the typical time horizon factored in financial statements and management commentary. This may result in the need to consider the cumulative effect of a sustainability matter on revenues, costs, etc. over a lengthy period. Similarly, a threshold for likelihood needs to consider the cumulative probability over a period of time, to cover the long-term horizon as well.

In this context, the materiality assessment cannot be limited to the scope of financial effects that affect (or will affect in the future) items recognised in the financial statements. The undertaking shall as well consider financial effects associated with dependencies on natural and social resources that do not meet (or do not yet meet) the criteria for accounting recognition (ESRS 1 paragraph AR 14 and AR 15).

- **Likelihood:** Can be described using general terms (e.g., unlikely, highly likely) or mathematically using probability (e.g., 10 in 100, 10 percent) or a frequency over a given time-period (e.g., once every 10 years).

Table 2. Example Financial Assessment Framework (financial effects)

FINANCIAL MAGNITUDE ASSESSMENT FRAMEWORK				
Consequence (Low to High)		Short-term effect (<1 year)	Medium-term effect (1-5 years)	Long-term effect (5+ years)
1	Inconsequential	A company should determine an appropriate threshold for financial consequences for at least net income (earnings/profits). A real estate company may consider material thresholds for impact to revenue, operating expenditure and capital expenditure.		
2	Minor			
3	Moderate			
4	Major			
5	Significant			

Table 3. Example Financial Assessment Framework (other effects)

FINANCIAL MAGNITUDE ASSESSMENT FRAMEWORK					
Severity (Low to High)		Operational	Regulatory	Reputational	People
1	Inconsequential	Minor operational delay with little to no impact	Reportable incident, no further action required. No tenant engagement required	Minimal change in perception. Very little media coverage	Negligible impact on employee satisfaction and turnover, with short-lived changes
2	Minor	Operational disruption lasting up to a day	Reportable incident with immediate corrective action required. Minor tenant engagement required	Minimal change in perception. Brief and localised media coverage	Moderate effect on employee morale and turnover rates, influencing talent retention and development for specific functions
3	Moderate	Operational disruption lasting up to a week and/ or at several assets	Reportable incident requiring a major project for corrective action. Threat of further regulatory action if actions not implemented. Moderate tenant engagement required	Moderate change in perception. Short-term industry specific coverage	Significant and sustained changes in turnover rates compared to peers, effecting the ability to replace key talent
4	Major	Operational disruption lasting up to a month and/or at whole portfolio	Reportable incident with immediate corrective action required. Potential loss of accreditation or certification. Major tenant engagement required	Major change in perception. Sustained general and national media coverage	Major shifts in turnover rates among experienced staff, widespread change in morale, and notable impact on hiring top talent
5	Significant	Operational disruption lasting up to a year and/or at whole portfolio	Significant risk of prosecution and litigation. Significant tenant engagement required	Significant change in perception. Extensive and sustained global media coverage	Extensive and persistent changes in morale and turnover rates across the workforce, significantly changing the ability to attract top talent

Please note that the other effects in this table serves only as an example of a possible approach to assessing financial materiality. More effects may be included within the context of the company and with input from stakeholder engagement, for example, competitive and strategic considerations.

Table 4. Qualitative assessment of likelihood

Likelihood (Low to High)		Likelihood Description
1	Highly Unlikely	The event or outcome has a very low chance of occurring. It is almost impossible or extremely improbable.
2	Unlikely	The event or outcome has a low chance of occurring, but there is still a small possibility.
3	Moderately Likely	The event or outcome has a moderate chance of occurring. It is neither unlikely nor likely and is considered to be reasonably possible.
4	Likely	The event or outcome has a high chance of occurring. It is probable or expected to happen.
5	Highly Likely	The event or outcome has a very high chance of occurring. It is almost certain to happen or highly probable.

Consolidation and reporting

4

Key considerations for reporting on the results of the materiality assessment process and alignment with ESRS:

1. **Level of disaggregation:**

   - When needed for a proper understanding of its material IROs, the undertaking shall disaggregate the reported information:

   a) by country, when there are significant variations of material impacts, risks and opportunities across countries and when presenting the information at a higher level of aggregation would obscure material information about impacts, risks or opportunities;

   b) by significant site or by significant asset, when material impacts, risks and opportunities are highly dependent on a specific location or asset.

   - Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that this aggregation does not obscure the specificity and context necessary to interpret the information. The undertaking shall not aggregate material items that differ in nature.

2. **Validation of aggregated double materiality results:**

   - Those in overseeing the assessment process should validate the aggregated materiality results with management.

3. **Reporting the assessment process and outcome:**

   - Report the assessment process and its outcome based on the following ESRS sections:
     - ESRS 2 IRO-1: Description of processes to identify and assess material impacts, risks, and opportunities.
     - ESRS 2 SBM-3: Material impacts, risks, and opportunities and their interaction with strategy and business model.
     - ESRS 2 IRO-2: Disclosure requirements in ESRS covered by the undertaking's sustainability statement.
   - Disclose how the material information to be disclosed was determined, including thresholds and assessment criteria.

4. **Explanation of criteria and thresholds:**

   - While detailed outcome per each criterion is not required, provide an appropriate explanation of criteria and thresholds used.
   - Include information on changes to material IROs since the prior year, if applicable.

5. Documentation of materiality assessment:

- Although specific documentation is not prescribed, it is advisable to produce a level of documentation suitable for audit and assurance providers.

6. Disclosure of metrics:

- When a matter is material due to impacts but has no material risks and opportunities, limit disclosed metrics to those relevant under the impact materiality perspective.
- When a matter is material only from a financial perspective, ensure information about policies, actions, and targets cover all relevant data points stated in minimum disclosure requirements and topical standards.
- The level of detail in the disclosure should reflect the general approach to information materiality.

7. Consideration of the EPRA sBPR:

- If a reporting company chooses not to respond to a Performance Measure because they do not consider it to be material, a signifier of 'not material' must be provided in the EPRA Sustainability Performance Measures tables or narrative.
- If a Performance Measure is considered not material, the reporting company may explain the conclusions of its materiality assessment for that requirement or topic.
- If a reporting company is mandated to provide a disclosure on material matters by other regulated reporting standards, the company may include a cross-reference (e.g. a reference or hyperlink) to the location of the relevant information.
- In the instance where a Performance Measure is considered 'Not applicable', the reporting company must distinguish this separately to matters of materiality and must explain the conclusions.

8. Relevance of information to investors and stakeholders:

- Information that informs about actual or potential impacts is of interest to investors when a matter is financially material.
- Financial information is relevant to stakeholders other than investors when a matter is material from the impact perspective, as it supports accountability.

9. Reporting undertaking and group structure:

- The sustainability statement should be for the same reporting undertaking as the financial statements.
- If consolidated financial statements are prepared, report for the entire group (parent and subsidiaries).
- The group's legal structure is irrelevant for material IRO assessment and metric reporting.

Conclusion

The guide is aimed at equipping listed real estate companies with the necessary knowledge and tools to conduct an effective materiality assessment tailored to their sector's unique challenges and opportunities. Navigating the intricacies of sustainability matters requires a methodical approach and significant stakeholder engagement. A comprehensive approach will take into account both financial and impact materiality as stipulated by the Corporate Sustainability Reporting Directive.

By engaging stakeholders, identifying material sustainability matters and Impact Risks and Opportunities (IROs), assessing their materiality, and consolidating and reporting the findings, companies can fulfill their reporting obligations while also gaining strategic insights into their operations. The coherent application of the EPRA Sustainability Best Practices Recommendations (sBPR) in conjunction with the guidance on this document ensures that the real estate sector's sustainability reporting adheres to emerging standards and expectations.

Real estate companies are encouraged to approach materiality with a mindset of continuous improvement, recognising that the landscape of sustainability is dynamic and that material issues may evolve year on year. In doing so, companies not only comply with regulatory requirements but also demonstrate their commitment to sustainability, which is increasingly influencing investment decisions and stakeholder trust.

The task of integrating sustainability into core business processes is not without its challenges, yet it offers significant opportunities for innovation, risk management, and value creation. As the regulatory environment tightens and stakeholder expectations rise, a thorough materiality assessment will be vital in positioning real estate companies at the forefront of sustainable development.

In summary, this guide was created in response to a significant number of questions raised by companies who want to conduct a materiality assessment but face uncertainty of how to interpret sector agnostic requirements. As the sector advances, so too should the commitment of its constituents to transparent, impactful, and meaningful sustainability reporting. As best practice begins to present and learnings are shared, EPRA will remain engaged in this discourse and update guidance where necessary as part of our mission to promote, develop and represent the European public real estate sector.

Appendix – Cross references to the ESRS

ESRS terms notable for materiality assessments for listed real estate

DEFINED TERM	DEFINITION
Affected Communities	People or group(s) living or working in the same area that have been or may be affected by a reporting undertaking's operations or through its upstream and downstream value chain. Affected communities can range from those living adjacent to the undertaking's operations (local communities) to those living at a distance. Affected communities include actually and potentially affected indigenous peoples.
Anticipated financial effects	Financial effects that do not meet the recognition criteria for inclusion in the financial statement line items in the reporting period and that are not captured by the current financial effects.
Area at water risk	A water catchment, where several physical aspects related to water: i. lead to one or more water bodies to be in less than good status and / or deteriorate in status (as defined in Directive 2000/60/EC of the European Parliament and of the Council (4)), thus pointing to significant issues as regards water availability, quality, quantity (including high water-stress); and/or ii. lead to issues as regards accessibility of water, regulatory or reputational issues (including the shared use of water with communities and affordability of water) for its facilities and for the facilities of key supplier(s).
Area of high-water stress	Regions where the percentage of total water withdrawn is high (40-80%) or extremely high (greater than 80%) in the Aqueduct Water Risk Atlas tool of the World Resources Institute (WRI). See also water scarcity.
Biodiversity sensitive area	Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas ('KBAs'), as well as other protected areas, as referred to in Appendix D of Annex II to Commission Delegated Regulation (EU) 2021/2139 (8).
Climate-related opportunity	Potential positive effects related to climate change for the undertaking. Efforts to mitigate and adapt to climate change can produce opportunities for undertakings. Climate-related opportunities will vary depending on the region, market, and industry where an undertaking operates.
Climate-related physical risk (Physical risk from climate change)	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related events such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.
Climate-related transition risk	Risks that arise from the transition to a low-carbon and climate-resilient economy. They typically include policy risks, legal risks, technology risks, market risks and reputational risks.

DEFINED TERM	DEFINITION
Double materiality	Double materiality has two dimensions: impact materiality and financial materiality. A sustainability matter meets the criterion of double materiality if it is material from the impact perspective or the financial perspective or both.
Ecological threshold	The point at which a relatively small change in external conditions causes a rapid change in an ecosystem. When an ecological threshold has been passed, the ecosystem may no longer be able to return to its state by means of its inherent resilience.
Ecosystem extent	The size of an ecosystem asset, whereas an ecosystem asset is the contiguous space of a specific ecosystem type characterised by a distinct set of biotic and abiotic components and their interactions.
Employee	An individual who is in an employment relationship with the undertaking according to national law or practice.
End-users	Individuals who ultimately use or are intended to ultimately use a particular product or service.
Financial effects	Effects from risks and opportunities that affect the undertaking's financial position, financial performance and cash flows over the short, medium or long term.
Financial materiality	A sustainability matter is material from a financial perspective if it generates risks or opportunities that affect (or could reasonably be expected to affect) the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term
Hazardous waste	Waste which displays one or more of the hazardous properties listed in Annex III of Directive 2008/98/EC of the European Parliament and of the Council (17) on waste.
Impact drivers	All the factors that cause changes in nature, anthropogenic assets, nature's contributions to people and a good quality of life. Direct drivers of change can be both natural and anthropogenic. They have direct physical (mechanical, chemical, noise, light etc.) and behaviour-affecting impacts on nature. They include, inter alia, climate change, pollution, different types of land use change, invasive alien species and zoonoses, and exploitation. Indirect impact drivers operate diffusely by altering and influencing direct drivers (by affecting their level, direction or rate) as well as other indirect drivers. Interactions between indirect and direct drivers create different chains of relationship, attribution, and impacts, which may vary according to type, intensity, duration, and distance. These relationships can also lead to different types of spill-over effects. Global indirect drivers include economic, demographic, governance, technological and cultural ones. Special attention is given, among indirect drivers, to the role of institutions (both formal and informal) and impacts of the patterns of production, supply and consumption on nature, nature's contributions to people and good quality of life.
Impact materiality	A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive, or negative impacts on people or the environment over the short-, medium- and long-term. A material sustainability matter from an impact perspective includes impacts connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships.
Impacts	The effect the undertaking has or could have on the environment and people, including effects on their human rights, connected with its own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. The impacts can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They can arise over the short-, medium-, or long-term. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.

DEFINED TERM	DEFINITION
Irremediable character	Whether and to what extent the negative impacts could be remediated, i.e., restoring the environment or affected people to their prior state.
Land-use (change)	The human use of a specific area for a certain purpose (such as residential; agriculture; recreation; industrial, etc.). Influenced by, but not synonymous with, land cover. Land-use change refers to a change in the use or management of land by humans, which may lead to a change in land cover.
Material opportunities	Sustainability related opportunities with positive financial effects that materially affect, (or could reasonably be expected to affect) the undertaking's cash flows, access to finance, or cost of capital over the short, medium, or long term.
Material risks	Sustainability related risks with negative financial effects that materially affect (or could reasonably be expected to affect) the undertaking's cash flows, access to finance, or cost of capital over the short, medium, or long term.
Materiality	A sustainability matter is material if it meets the definition of impact materiality, financial materiality, or both.
Scale	Over what timeframe and to what extent will the effects be felt by environment or people?
Scope	How widespread the negative or positive impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected.
Stakeholders	Those who can affect or be affected by the undertaking. There are two main groups of stakeholders: i. Affected stakeholders : individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain ; and ii. Users of sustainability statements : primary users of general purpose financial reporting (existing and potential investors, lenders and other creditors including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics. Some, but not all, stakeholders may belong to the two groups.
Supplier	Entity upstream from the organisation (i.e., in the organisation's supply chain), which provides a product or service that is used in the development of the organisation's own products or services. A supplier can have a direct business relationship with the organisation (often referred to as a first-tier supplier) or an indirect business relationship.
Supply chain	The full range of activities or processes carried out by entities upstream from the undertaking, which provide products or services that are used in the development and production of the undertaking's own products or services. This includes upstream entities with which the undertaking has a direct relationship (often referred to as a first-tier supplier) and entities with which the undertaking has an indirect business relationship.
Sustainability matters	Environmental, social and human rights, and governance factors, including sustainability factors defined in Article 2, point (24), of Regulation (EU) 2019/2088 of the European Parliament and of the Council (38).

DEFINED TERM	DEFINITION
Value chain	The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of- life. Relevant activities, resources and relationships include: i. those in the undertaking's own operations, such as human resources; ii. those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and iii. the financing, geographical, geopolitical and regulatory environments in which the undertaking operates. Value chain includes actors upstream and downstream from the undertaking. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking. ESRS use the term "value chain" in the singular, although it is recognised that undertakings may have multiple value chains.

List of sustainability matters covered in the topical ESRS

TOPICAL ESRS	SUSTAINABILITY MATTERS COVERED IN TOPICAL ESRS	
	Topic	Sub-topics: and sub-sub topics: or examples
ESRS E1	Climate change	Climate change adaptation Climate change mitigation Energy
ESRS E2	Pollution	Pollution of air Pollution of water Pollution of soil Pollution of living organisms and food resources Substances of concern Substances of very high concern Microplastics
ESRS E3	Water and marine resources	Water consumption Water withdrawals Water discharges Extraction and use of marine resources
ESRS E4	Biodiversity and ecosystems	Direct impact drivers of biodiversity loss: e.g., climate change, land-use change, fresh water-use change and sea-use change, direct exploitation, invasive alien species, pollution, or other factors Impacts on species status: e.g., Population size of a species or global extinction risk of a species Impacts on and dependencies on condition of ecosystems: e.g., Species population size or species global extinction risk Impacts on and dependencies on ecosystem services: e.g., Soil degradation, desertification, or soil sealing
ESRS E5	Circular economy	Resource inflows, including resource use Resource outflows related to products and services Waste
ESRS S1	Own workforce	Working conditions: Secure employment Working conditions: Working time Working conditions: Adequate wages Working conditions: Social dialogue Working conditions: Freedom of association, the existence of works councils and the information, consultation and participation rights of workers Working conditions: Collective bargaining, including rate of workers covered by collective agreements Working conditions: Work-life balance Working conditions: Health and safety Equal treatment and opportunities for all: Gender equality and equal pay for work of equal value Equal treatment and opportunities for all: Training and skills development Equal treatment and opportunities for all: Employment and inclusion of persons with disabilities Equal treatment and opportunities for all: Measures against violence and harassment in the workplace Equal treatment and opportunities for all: Diversity Other work-related rights: Child labour Other work-related rights: Forced labour Other work-related rights: Adequate housing Other work-related rights: Privacy

TOPICAL ESRS	SUSTAINABILITY MATTERS COVERED IN TOPICAL ESRS	
	Topic	Sub-topics: and sub-sub topics: or examples
ESRS S2	Workers in the value chain	Working conditions: Secure employment Working conditions: Working hours Working conditions: Adequate wages Working conditions: Social dialogue Working conditions: Freedom of association, the existence of works councils Working conditions: Collective bargaining Working conditions: Work life balance Working conditions: Health and safety Equal treatment and opportunities for all: Gender equality and equal pay for work of equal value Equal treatment and opportunities for all: Training and skills development Equal treatment and opportunities for all: Employment and inclusion of people with disabilities Equal treatment and opportunities for all: Measures against violence and harassment in the workplace Equal treatment and opportunities for all: Diversity Other worker-related rights Child labour Other worker-related rights: Forced labour Other worker-related rights: Adequate housing Other worker-related rights: Water and sanitation Other worker-related rights: Privacy
ESRS S3	Affected communities	Communities' economic, social, and cultural rights: adequate housing Communities' economic, social, and cultural rights: adequate food Communities' economic, social, and cultural rights: water and sanitation Communities' economic, social, and cultural rights: land-related impacts Communities' economic, social, and cultural rights: security-related impacts Communities' civil and political rights: freedom of expression Communities' civil and political rights: freedom of assembly Communities' civil and political rights: impacts on human rights defenders Particular rights of indigenous communities: free, prior and informed consent Particular rights of indigenous communities: self-determination Particular rights of indigenous communities: cultural rights
ESRS S4	Consumers and end-users	Information-related impacts for consumers and/or end-users: Privacy Information-related impacts for consumers and/or end-users: Freedom of expression Information-related impacts for consumers and/or end-users: Access to (quality) information Personal safety of consumers and/or end-users: Health and safety Personal safety of consumers and/or end-users: Security of a person Personal safety of consumers and/or end-users: Protection of children Social inclusion of consumers and/or end-users: Non-discrimination Social inclusion of consumers and/or end-users: Access to products and services Social inclusion of consumers and/or end-users: Responsible marketing practices
ESRS G1	Business conduct	Corporate culture Protection of whistle-blowers Animal welfare Political engagement and lobbying activities Management of relationships with suppliers including payment practices Corruption/bribery: Prevention and detection including training Corruption/bribery: Incidents