

Research Insight



Exploring Environmental, Social and Governance Performance Measurement in the Canadian housing sector

Introduction

ESG (environmental, social and governance) frameworks and performance indicators can be used to guide sustainable and ethical business practices. They are mainly used to balance growth with environmental responsibility, social well being and solid governance practices. However, housing proponents, issuers and ESG rating agencies often use different categories, weights and definitions to determine the ESG performance of affordable housing.

ESG practices are in their infancy, and there are few framework assessments in the Canadian housing sector. For these reasons, there's no standard approach to determining the ESG performance of housing-sector activities and investments in Canada.

The ESG Performance Measurement Framework research project gives insight into the types of ESG frameworks and methodologies in use now in the housing sector. It also gives insights into their limits and benefits.

These insights emerged from an in-depth literature review and discussions with key stakeholders in the housing sector. These stakeholders include capital providers, developers and non-governmental organizations (NGOs).

In 2022, CMHC, with support from Ernst & Young, began this research. We used literature review findings and key insights we got from stakeholders to develop an example ESG performance measurement framework.

The purpose of the example ESG framework is exploratory. It's not an attempt by CMHC to set standards for ESG performance measurement in the market. The example framework is a starting point that will help us explore potential uses for a consistent, flexible and scalable ESG framework for the Canadian housing sector.

Key findings

Stakeholder groups often use different definitions, measures, categories and methods to assess housing activities and projects that generate positive ESG outcomes.

- **Affordable housing** is an emerging focus for investors and capital providers.
- **Commercial housing developers** seem to focus on environmental building performance because of pressures from regulations and investors. There seems to be increasing pressure from municipalities and ESG-driven investors to maintain or improve affordability.
- **Not-for-profit housing providers** usually focus on topics like affordability, suitability and adequacy. However, their KPIs (Key Performance Indicators) are often defined by different funding providers, which results in inconsistent data requirements.
- **Investors and capital providers** seek ESG information (typically at the entity level) to evaluate the risks and opportunities associated with their investments. Capital providers consider greenhouse gas emissions as a priority topic driven by the materiality of emissions along the value chain (emissions linked to long-term financing of projects).
- Lack of a **common definition** of certain KPIs, like affordability, makes standardizing an ESG framework difficult.
- Although **data availability** wasn't the only barrier to the development of a standardized ESG framework, it was the key barrier identified when we spoke with stakeholders.

Research approach and methodology

This research used a participatory approach to explore the benefits of a standardized ESG performance measurement framework in the housing sector.

First, we reviewed literature on key government priorities and existing ESG frameworks, methodologies and assessments. This helped us to understand the current state of ESG performance measurement in the housing sector.

Next, we spoke with select CMHC subject matter experts and external stakeholder groups and developed an example ESG performance measurement framework.

We did this project in 3 major research phases:

Phase 1: To understand current ESG performance measurement in the housing sector, we did research on:

- international and Canadian ESG reporting frameworks and measurement approaches;
- strategies and budgets of different levels of government (national, provincial, and municipal); and
- the priorities of key stakeholders in the housing sector.

We used this research to identify a set of ESG topics and key performance indicators (KPIs). We then used them as discussion points when we spoke with stakeholders in phase 2.

Phase 2: We spoke with 13 external stakeholders (including capital providers, developers, and NGOs) and select CMHC subject matter experts. Our goal was to hear their ideas on the ESG topics and KPIs identified in phase 1.

Phase 3: We used the feedback from phase 2 to narrow down the number of ESG topics and KPIs and produce an example ESG performance measurement framework. We held a second round of discussions with external stakeholders and CMHC experts to hear what they had to say about the ESG topics and KPIs chosen. The result was an Excel-based working draft of an example ESG performance measurement framework.

Project findings

ESG data landscape

We reviewed literature on existing ESG-related information based on its relevance to the housing sector. We also reviewed and analyzed the frameworks, standards, rating agencies/approaches, certifications, and ESG impact assessment methods shown in **Annex A**. We did this only to understand current measurement approaches and stakeholder priorities in the housing sector.

Our reviews revealed the following on some of the most widely used ESG frameworks, certifications and topics:

- Global Real Estate Sustainability Benchmark (GRESB): the most holistic ESG reporting framework for the real estate sector.
- Global Reporting Initiative (GRI): a general ESG reporting framework that often complements industry-specific reporting.
- Building Research Establishment Environmental Assessment Methodology (BREEAM): a widely recognized certification in the real estate sector with a heavy focus on environmental topics.
- Leadership in Energy and Environmental Design (LEED): widely adopted for certification of environmental performance.
- ESG rating agencies focus on greenhouse gas emissions; energy, water and waste management; land use; health and safety; affordability; and security.

In addition to reviewing the existing ESG data landscape, we identified key priorities for national, provincial and municipal governments. We also reviewed strategies and budgets for certain provinces (Ontario, British Columbia, Quebec and Alberta) and some major cities in those provinces (Toronto, Vancouver, Montréal and Calgary).

For the Government of Canada, we found that strategies and budgets usually focused on affordability, climate change and Indigenous relations. This aligns closely with the goals of the National Housing Strategy.

Based on this review, we created a list of useful ESG topics that you can see in Table 1 below. Because of the importance for Indigenous groups to lead or co-lead any research about Indigenous Peoples and communities, Indigenous-specific topics were not captured in this phase of the research. However, there’s more and more knowledge of Indigenous-led ESG practices in Canada that would benefit from further research.

We then discussed the topics in this list with select CMHC subject matter experts and external stakeholders.

Table 1: Shortlist of ESG topics

Environment	Social	Governance
1. Greenhouse gas emissions	6. Affordability	10. Processes to implement governance policies
2. Environmental management (energy, water and waste)	7. Suitability, adequacy and accessibility	11. Community consultation
3. Land use, biodiversity protection and restoration	8. Health and safety	
4. Climate change adaptation	9. Community development/impact, including diversity and inclusion	
5. Circular economy		

Speaking with stakeholders

The research we did indicates that, in the Canadian housing sector, stakeholder groups often use different definitions, measures, categories and methods to assess housing activities and projects that generate positive ESG outcomes. To understand the broad range of priorities in the market, we first identified a wide variety of groups, then we narrowed down the number of groups we chose to speak with.

External stakeholders

Key insights we got from speaking with external stakeholders include the following:

- **Commercial housing developers** seem to focus on environmental building performance because of pressures from regulations and investors. There appears to be increasing pressure from municipalities and ESG-driven investors to maintain or improve affordability.
- **Not-for-profit housing providers** usually focus on topics similar to the ones that emerged from our discussions with CMHC subject matter experts, like affordability. However, their KPIs are often defined by different funding providers, which results in inconsistent data requirements.
- **Investors and capital providers** seek ESG information (typically at the entity level) to evaluate the risks and opportunities associated with their investments.

Capital providers consider greenhouse gas emissions as a priority topic driven by the materiality of emissions along the value chain (emissions linked to long-term financing of projects).

Affordable housing is also an emerging focus for investors and capital providers. They're exploring new products in this market segment. The main challenge is that there's no universal definition for affordability.

Although housing residents were identified as key impacted stakeholders, this project didn't include consultations with them. However, we did do a high-level scan of public consultations. Findings from the scan suggest that housing residents' primary needs focus on improving housing affordability.

CMHC stakeholders

We also spoke with select CMHC subject matter experts from the multi-unit risk management (strategy and products), securitization, credit risk, and climate groups. During discussions about ESG performance, the key ESG-related topics these subject matter experts raised were affordability, suitability, adequacy and community consultation, and were aligned with the definition of core housing need. A household is in core housing need if it meets 2 criteria:

1. Their home is below 1 or more of the adequacy, suitability, or affordability standards.
2. They would have to spend 30% or more of their before-tax income to access local housing that meets all 3 standards.

Like when we spoke with investors and capital providers, finding a common definition of affordability was a major topic during these discussions.

Example ESG performance measurement framework

As part of this project, we developed an example ESG performance measurement framework. We expect this example framework to change and expand over time, as ESG trends, the expectations of key stakeholders, and data availability change.

This example ESG framework can be a starting point from which to explore the potential use-cases of a consistent, flexible and scalable ESG framework for the Canadian housing sector.

In this first draft of the example ESG framework, we chose 3 topics (from the 11 topics listed above) based on leading practices, as well as the priorities and data readiness of stakeholders we spoke with. The 3 topics and their KPIs (see below) are evaluated at the building/project level (new construction or retrofit).

In a working-draft version of the example framework, the performance thresholds for each KPI are based on existing CMHC program requirements, the practicality for market players (in a Canadian context), and existing ESG frameworks, such as Global Real Estate Sustainability Benchmark. Performance thresholds are designed to be adaptable to specific use-case scenarios.

- **Topic 1: Greenhouse gas emissions and environmental management (energy)**

- **KPI 1:** Reduction in energy consumption from existing baseline or code reference building.
 - **Performance threshold:** percentage reduction
- **KPI 2:** Reduction in greenhouse gas emissions from baseline or code reference building.
 - **Performance threshold:** percentage reduction

- **Topic 2: Affordability**

- **KPI 1:** Units for rent below a threshold proportion (typically 30%) of median renter income and an affordability commitment.
 - **Performance threshold:** percentage of total units and minimum number of years of affordability commitment
- **KPI 2:** Units for rent below a threshold proportion (typically 80%) of average market rent and an affordability commitment.
 - **Performance threshold:** percentage of total units and minimum number of years of affordability commitment

- **Topic 3: Community consultation**

- **KPI and performance threshold:** a checkbox exercise where a score of 1 is applied for each of the following community consultation metrics implemented (and supplemented with supporting documentation).
 - **Community engagement program** in place that includes 1 or more of the following ESG-specific issues:
 - community health and well-being
 - effective communication and process to address community concerns (including Indigenous interests)
 - enhancement programs for public spaces
 - employment creation in local communities
 - research and network activities

- resilience, including assistance or support in case of disaster
- supporting charities and community groups
- ESG education programs

- **Formal process for stakeholders to submit grievances.**

Characteristics of the process may include:

- accessible and easy to understand
- anonymous
- dialogue-based
- equitable and compatible with rights
- improvement-based
- legitimate and safe
- predictable
- protects against retaliation
- transparent

- **Monitoring of impact on the community,** which may include topics such as:

- housing affordability
- impact on crime levels
- livability score
- local income generated
- local residents' well-being
- walkability
- walkability

Note that issues, characteristics, and topics listed for each performance threshold above are examples and aren't exhaustive.

We designed the example ESG framework with flexibility for the user in mind. The user can adjust the weightings (from 0% to 100%) for each KPI based on importance and applicability. They can then assign each KPI a score of 0 to 3.0 based on identified performance thresholds. Weighted ESG performance scores for each KPI are aggregated for a total evaluation score.

The development of the example ESG framework has helped identify challenges and barriers that can be a starting point for future research opportunities outlined in the next section.

Challenges and barriers

This research project gives important insights into the existing ESG data landscape in Canada's housing sector. It also reveals some challenges and barriers key stakeholders face in measuring their ESG performance. Some of these challenges and barriers are:

- Tenant data is often not readily available. As a result, we designed the example ESG framework to measure ESG performance at the design stage and not to track progress over the life of the project.
- Lack of availability of timely and location-specific required data sources. This is especially true for affordability data:
 - Some data sources are available only at the provincial or census metropolitan area (CMA) level. This makes it hard to measure certain KPIs outside of major cities.
 - Some data sources used to calculate performance in the example ESG framework are updated on an annual or monthly basis. As a result, they don't always provide current data.
- Because of a lack of data availability, the example ESG framework doesn't break down affordability by income level.
- Lack of a common definition of certain KPIs, like affordability, makes standardizing an ESG framework difficult.

Although data availability wasn't the only barrier, it was the key barrier identified when we spoke with stakeholders.

The changing ESG landscape and challenges and barriers listed above limit how a standardized ESG framework could be developed and adopted. To overcome these challenges, future research should continue to include external and CMHC stakeholders in determining the effectiveness of a standardized – but flexible – ESG performance measurement framework.

Including these stakeholders would help increase the usefulness of the example ESG framework and help it keep up with changing market maturity and expectations. This research would also inform the expansion of the ESG topics presented in Table 1.

Practical Applications for the housing sector

This research explored the potential uses of a standardized ESG framework in Canada's housing sector. Based on internal and external conversations, housing-sector stakeholders could use a standardized framework to:

- 1. evaluate programs/applications:** The proposed performance thresholds in the example ESG framework are intended to balance ambitious targets with practicality for current market maturity. This is a feature of the example ESG framework that the user can customize.
- 2. streamline data collection:** A common concern stakeholders raised was access to data and clear parameters on the types of data needed to assess ESG-related activities in the housing sector. To streamline data requirements, the measurement methods in the example ESG framework align with existing regulations and market practices. The purpose isn't to make it harder for organizations to collect data, but rather to make the process more efficient.
- 3. connect providers with lenders:** According to our discussions with stakeholders and the ESG data scan we did, affordable housing seems to be an emerging focus for lenders. A standardized ESG performance measurement framework can support the connecting of relevant housing providers with institutional lenders for the purposes of building more affordable housing.

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Annex A

ESG frameworks, rating agencies, and methodologies reviewed

Frameworks & standards	<ul style="list-style-type: none"> • Sustainability Accounting Standards Board (SASB) – Home Builders • SASB – Real Estate • GRI • GRESB • Carbon Risk Real Estate Monitor (CRREM) • Sustainability Reporting Standard for Social Housing (SRS) • ESG Circle of Real Estate (ECORE) • Task Force on Climate-Related Financial Disclosures (TCFD) (replaced by Sustainability Standards Board’s IFRS S2 framework, as of December 2023) • Net-Zero Homes (Canadian Home Builders’ Association) • European Union (EU) Taxonomy for sustainable activities • United Nations Sustainable Development Goals
ESG rating agencies/ approaches	<ul style="list-style-type: none"> • Sustainalytics • Morgan Stanley Capital International (MSCI) (ESG Ratings Agency) • Carbon Disclosure Project • International Capital Market Association
Certifications	<ul style="list-style-type: none"> • BREEAM • WELL Building Standard (Canada Green Building Council (CaGBC)) • LEED • Building Owners and Managers Association (BOMA) Best • Zero Carbon Building (CaGBC) • United Nations Principles for Responsible Investment (UNPRI) Signature • Net Zero Asset Managers (NZAM) • Passive House (Passive House Institute)
ESG impact assessment methods	<ul style="list-style-type: none"> • Value Balancing Alliance • Social Value United Kingdom (UK) • International Valuation Standards Council • Harvard Business School • Impact Management Project • Impact Frontiers • World Economic Forum • Natural Capital Coalition • IRIS+ from the Global Impact Investing Network

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