



**VAN LANSCHOT  
KEMPEN**

# Moving real estate into the green

Sustainability in Action | April 2024

## Engagement

### Strategy

Real estate

### Companies

DiamondRock, Tricon Residential, Sun Communities

### Theme

Climate, Social



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The US Real Estate sector is hardly known for its sustainability zeal and is lagging its European peers. The whole sector therefore needs to get moving: when we want to reach the Paris agreement and limit global warming to 1.5 degrees Celsius, there is USD 65,000 billion worth of global real estate that needs to decarbonize – including thousands of billions in the US.

This is where individual and sector-wide engagement comes in. Can the active engagers of the Global Real Estate team push the sector forward?

## The green outpost – the case of DiamondRock

The US hotel sector is one of the biggest laggards when it comes to its willingness to decarbonise and setting sustainability targets. Here, the DiamondRock group is an exception. The company has been pursuing sustainability initiatives voluntarily and has asked us for advice. Our engagement started by discussing our Environmental Pathway Framework with them, providing the management with concrete and relevant steps to set their sustainability goals, works towards these goals, and demonstrate commitment and accountability.

The effort paid off: DiamondRock is now committed to reducing scope 1, 2 and 3 carbon emissions by 50% by 2030, compared to the base year of 2019.<sup>1</sup> This will be verified externally. Not a small feat, since scope 3 involves indirect emissions in the value chain of the company and thus would involve, for example, sourcing sustainable products, as well as material for construction projects, steel procurement and more.

In addition, DiamondRock now has ESG-targets set into the remuneration schemes of the management and is discussing ambitious targets which would align with the goal of limiting global warming to 1.5 degrees Celsius. The company has also set targets for improving biodiversity on the hotel grounds, targets for lower energy and water usage, and plans to identify more opportunities for savings, such as optimising air conditioning systems, procuring more green energy and improving light options.

<sup>1</sup> Scope 1 emissions are direct emissions from owned or controlled sources of company. Scope 2 are indirect emissions for the generation of purchased energy. Scope 3 emissions are all indirect emissions that occur in the value chain of the reporting company.

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Egbert Nijmeijer  
Co-Head Real Assets Van Lanschot Kempen

## Sector engagement - the big push

With a USD 3 billion hotel portfolio (VLK IM valuation estimate), DiamondRock may seem like a small piece of the decarbonization puzzle. But the importance of the steps they have taken is not to be underestimated. The company has set a benchmark which can now be used to engage with all other US hotel real estate landlords, to urge them to set decarbonisation targets and verifiable goals as well.

‘The example of DiamondRock can inspire other players to take decisive action towards decarbonisation and responsible resource management’, says Egbert Nijmeijer, co-head of Real Assets at Van Lanschot Kempen. ‘We will now engage with companies sector-wide, to try and coach the laggards in the desired direction. This is how we want to push the broader sector forward. The potential impact can be significant: the sector represents USD 62 billion worth of hotel real estate.’





‘In our view, the problem of emissions and the need for decarbonisation is too big for investors to only target small pockets of net zero real estate. The impact would be too small. The only way to reach scale is by focusing on all existing real estate assets and move the industry forward as a whole, as quickly as possible. Engagement can do that.’

## A European effort in the US – the case of Tricon

The team also engaged on environmental issues and decarbonisation with Tricon Residential, a company with c. 30,000 homes making it one of the largest landlords of single-family rental homes in the United States. When we started talking to Tricon in 2022, they had no decarbonisation data nor targets or inadequate reporting on the issue and therefore scored low on our Environmental Pathway Framework versus their US residential peers.

Two years later Tricon is disclosing its carbon emissions and has set targets for the reduction of their energy use and emissions for scope 1 and 2. They have made efficiency upgrades for 84% of their houses: for example installing efficient appliances and air conditioners, double-glazed windows and smart meters. We find that Tricon has made faster and further progress than peers, which has now landed them in the middle of their peer group.

‘When talking about engagement, there are two questions which are posed regularly: what did you achieve, and would this not have happened without your intervention?. The first question can be answered quite easily’, says Andreas Welter, senior portfolio manager in the Global Real Estate team. ‘Just look at the Tricon and DiamondRock examples.

The second is always a tricky one, since there are typically more investors who engage with the company. It is usually European investors who engage seriously on decarbonisation matters and in the case of Tricon we can safely say that we were one of the few investors who actually put effort and importance on this.’

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**Andreas Welter**  
Senior portfoliomanager Global Real Estate

## Social empowerment – the case of Sun Communities

Next to decarbonisation, engagement on social issues with real estate owners is more important than it looks at first view. A company with a happy workforce and good relationship with their clients – in the case of real estate these are the tenants - is a far stronger company. This is why the Global Real Estate team uses its proprietary [Social Engagement Framework](#) to discuss topics ranging from the physical security of an apartment building, to diversity and affordability.

In mid-2023 we started a social engagement with Sun Communities, one of the largest owners and operators of manufactured housing communities, vehicle resorts, and marinas in the US. We asked the company to better initiate and monitor community engagement with their residents, monitor and assess the affordability of their housing, measure the pay gap within its workforce, and improve the engagement of its own employees.

When we approached Sun, the company ranked low on our Social engagement framework amongst its US peers: 14th out of 15 companies. Less than one year later, Sun has improved its ranking to 7th, by making substantial progress in most of the issues addressed. We see improved community & tenant engagement, increased board diversity and Sun is now measuring its gender pay gap for the whole company. It has also initiated better disclosure and has performed internal and external employee satisfaction surveys, while also setting policies for pollution prevention.

‘With Sun, we were aiming at substantial progress in a short period of time, and that is what we see now,’ says Andreas Welter. ‘Not many investors engage on social issues so we are happy to see our engagement having borne fruit. There is always room for improvement, but for the time being we are closing the engagement and will be focusing on other companies.’





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