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[Draft] IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements

Volume B35—Home Builders

Comments to be received by 29 July 2022



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Introduction

This volume is part of Appendix B of [draft] IFRS S2 Climate-related Disclosures and is an integral part of that [draft] Standard. It has the same authority as the other parts of that [draft] Standard.

This volume sets out the requirements for identifying, measuring and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities and other common features that characterise participation in this industry.

The industry-based disclosure requirements are derived from SASB Standards (see paragraphs B10–B12 of [Draft] IFRS S2 *Climate-related Disclosures*). Amendments to the SASB Standards, described in paragraph B11, are marked up for ease of reference. New text is underlined and deleted text is struck through. The metric codes used in SASB Standards have also been included, where applicable, for ease of reference. For additional context regarding the industry-based disclosure requirements contained in this volume, including structure and terminology, application and illustrative examples, refer to Appendix B paragraphs B3–B17.

Home Builders

Industry Description

The Home Builders industry is comprised of companies that develop new homes and residential communities. Development efforts generally include the acquisition of land, site preparation, the construction of homes, and home sales. The majority of industry activity is focused on the development and sale of single-family homes, which are typically part of company-designed residential communities. A smaller segment is centered on townhomes, condominiums, multi-family housing, and mixed-use development. Many companies in the industry offer financing services to individual homebuyers. The industry is fragmented, as there is a large number of developers of all sizes, which vary in company structure and geographic focus. Listed companies tend to be significantly larger, and more integrated than the numerous privately held home builders.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Land Use & Ecological Impacts	Number of (1) lots and (2) homes delivered on redevelopment sites	Quantitative	Number	IF-HB-160a.1
	Number of (1) lots and (2) homes delivered in regions with High or Extremely High Baseline Water Stress	Quantitative	Number	IF-HB-160a.2
	Total amount of monetary losses as a result of legal proceedings associated with environmental regulations ⁴⁷	Quantitative	Reporting currency	IF-HB-160a.3
	Discussion of process to integrate environmental considerations into site selection, site design, and site development and construction	Discussion and Analysis	n/a	IF-HB-160a.4
Design for Resource Efficiency	(1) Number of homes that obtained a certified HERS® Index Score and (2) average score	Quantitative	Number, Index score	IF-HB-410a.1
	Percentage of installed water fixtures certified to WaterSense® specifications a water efficiency standard	Quantitative	Percentage (%)	IF-HB-410a.2
	Number of homes delivered certified to a third-party multi-attribute green building standard	Quantitative	Number	IF-HB-410a.3
	Description of risks and opportunities related to incorporating resource efficiency into home design, and how benefits are communicated to customers	Discussion and Analysis	n/a	IF-HB-410a.4

continued...

⁴⁷ Note to IF-HB-160a.3 – The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

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...continued

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Climate Change Adaptation	Number of lots located in 100-year flood zones	Quantitative	Number	IF-HB-420a.1
	Description of climate change risk exposure analysis, degree of systematic portfolio exposure, and strategies for mitigating risks	Discussion and Analysis	n/a	IF-HB-420a.2

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of controlled lots ⁴⁸	Quantitative	Number	IF-HB-000.A
Number of homes delivered ⁴⁹	Quantitative	Number	IF-HB-000.B
Number of active selling communities ⁵⁰	Quantitative	Number	IF-HB-000.C

⁴⁸ Note to IF-HB-000.A – The scope of controlled lots includes all lots owned or contractually available for ownership through option contracts or other equivalent types of contracts as of the last day of the reporting period.

⁴⁹ Note to IF-HB-000.B – The scope of homes shall include single-family dwelling units whether detached, attached, or part of multi-family residential buildings.

⁵⁰ Note to IF-HB-000.C – The scope of active selling communities includes those communities or developments open for sales with at least five homes or lots remaining to sell as of the last day of the reporting period.

Land Use & Ecological Impacts

Topic Summary

Home builders face challenges directly related to the ecological impacts of development activities. Developments often take place on previously undeveloped land, and companies must manage the ecosystem disruption of construction activities as well as the regulations and permitting processes that accompany “greenfield” land development. Regardless of the siting decisions companies make, industry development activities generally carry risks related to land and water contamination, mismanagement of waste, and excessive strain on water resources during the construction and use phases. Violation of environmental regulations can result in costly fines and delays that decrease financial returns while potentially harming reputations. Companies with repeated violations or track records of prior activities with excessive ecological impacts may find it difficult to receive approval from local communities for new developments, thereby decreasing future revenue and market share. Companies that concentrate development efforts in water-stressed regions may see further challenges to permitting approvals, and also face risks related to land or home depreciation due to water shortage concerns. Environmental quality control procedures, “smart growth” strategies (including a focus on redevelopment sites), and conservation strategies may help ensure compliance with environmental laws, and therefore mitigate financial risks, while improving future growth opportunities.

Metrics

IF-HB-160a.1. Number of (1) lots and (2) homes delivered on redevelopment sites

- 1 The entity shall (1) disclose the number of controlled lots that are located on redevelopment sites.
 - 1.1 The scope of controlled lots includes all lots owned or contractually available for ownership through option contracts or other equivalent types of contracts.
 - 1.2 The scope of redevelopment sites shall include brownfield and greyfield sites, and shall include sites that meet national, state, or local designations for such terms. In the absence of national, state, or local definitions, the following definitions shall be used:
 - 1.2.1 Redevelopment sites are defined as sites that were previously developed, including the replacement, remodeling, or reuse of existing structures to accommodate new development.
 - 1.2.2 Brownfield sites are defined, ~~consistent with U.S. Environmental Protection Agency (EPA),~~ as “real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.”
 - 1.2.3 Greyfield sites are defined, ~~consistent with the National Association of Home Builders’ (NAHB) Green Home Building Guidelines~~ as, “any site previously developed with at least 50% of the surface area covered with impervious material.”

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- 1.3 The scope of redevelopment sites excludes undeveloped infill sites but includes infill sites to the extent that such sites meet the above definitions of redevelopment, brownfield, or greyfield sites.
- 2 The entity shall disclose (2) the number of homes delivered that were constructed on redevelopment sites.
 - 2.1 The scope of homes shall include single-family dwelling units, whether detached, attached, or part of multi-family residential buildings.

IF-HB-160a.2. Number of (1) lots and (2) homes delivered in regions with High or Extremely High Baseline Water Stress

- 1 The entity shall (1) disclose the number of controlled lots located in regions with High or Extremely High Baseline Water Stress.
 - 1.1 The scope of controlled lots includes all lots owned or contractually available for ownership through option contracts or other equivalent types of contracts.
 - 1.2 The entity shall identify controlled lots in locations with High (40–80%) or Extremely High (>80%) Baseline Water Stress with the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct.
- 2 The entity shall disclose (2) the number of homes delivered in regions with High or Extremely High Baseline Water Stress.
 - 2.1 The scope of homes shall include single-family dwelling units whether detached, attached, or part of multi-family residential buildings.

IF-HB-160a.3. Total amount of monetary losses as a result of legal proceedings associated with environmental regulations

- 1 The entity shall disclose the total amount of monetary losses it incurred during the reporting period as a result of legal proceedings associated with environmental regulations, such as those related to: enforcement of laws and regulations on ground- and surface-water contamination; hazardous waste transport, containment, or disposal; air emissions; and public disclosure of contamination events.
- 2 The legal proceedings shall include any adjudicative proceeding in which the entity was involved, whether before a court, a regulator, an arbitrator, or otherwise.
- 3 The losses shall include all monetary liabilities to the opposing party or to others (whether as the result of settlement or verdict after trial or otherwise), including fines and other monetary liabilities incurred during the reporting period as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (e.g., governmental, business, or individual).
- 4 The scope of monetary losses shall exclude legal and other fees and expenses incurred by the entity in its defense.

- 5 The scope of disclosure shall include, but is not limited to, relevant enforcements related to activities adjudicated by regulators with an enforcement mandate broader than the home builders industry, such as the:
 - 5.1 EU Directive 2008/98/EC on waste (Waste Framework Directive)
 - 5.2 U.S. Clean Water Act
 - 5.3 U.S. Resource Conservation and Recovery Act (RCRA)

Note to **IF-HB-160a.3**

- 1 The entity shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., permitting violation) of all monetary losses as a result of legal proceedings.
- 2 The entity shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, processes, products, business partners, training, or technology.

IF-HB-160a.4. Discussion of process to integrate environmental considerations into site selection, site design, and site development and construction

- 1 The entity shall provide a discussion of its process used to integrate environmental considerations into site selection, design, and development and construction.
 - 1.1 Environmental considerations include, but are not limited to, ecological impacts, biodiversity impacts, emissions to air, discharges to water, slope disturbance, soil disturbance and erosion, storm water management, waste management, natural resource consumption, and hazardous chemical usage.
- 2 The entity shall describe its approach to the following aspects of site selection:
 - 2.1 The process used to assess the level of ecological sensitivity of sites under consideration for acquisition or development, and how such assessments are incorporated into acquisition and development decisions
 - 2.2 The use of site classifications (e.g., greenfield, greyfield, brownfield, and/or infill sites) in decision-making processes
- 3 The entity shall describe its approach to the following aspects of site design:
 - 3.1 The process used to design sites in order to minimize ecological impacts, including management of slope disturbance, soil disturbance and erosion, storm water, waste, and wildlife habitat impacts
- 4 The entity shall describe its approach to the following aspects of site development and construction:
 - 4.1 The process used to minimize ecological impacts during construction, including management of construction and demolition waste, runoff, soil disturbance and erosion, and hazardous materials

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- 5 The entity shall describe its approach to assessing risks associated with environmental considerations and related internal policies, practices, and procedures for managing those risks.
- 6 The entity shall describe its use of codes, guidelines, and standards that address site selection, design, and development and construction, where applicable.
 - 6.1 Relevant codes, guidelines, and standards may include, but are not limited to:
 - 6.1.1 2012 ICC 700 National Green Building Standard, “Incentives for Development and Lot Design”
 - 6.1.2 U.S. National Association of Home Builders (NAHB) Model Green Home Building Guidelines, Section 1, “Lot Design, Preparation, and Development”
 - 6.1.3 U.S. Green Building Council’s (USGBC) LEED® BD+C: Homes, v4, “Construction activity pollution prevention” and “Site selection”

Design for Resource Efficiency

Topic Summary

Residential buildings, when occupied, consume significant amounts of energy and water. Companies in the Home Builders industry can improve the resource efficiency of homes over their lifecycle through sustainable design practices and choice of materials. Energy-saving products and techniques such as designing homes for efficient heating and cooling can help to reduce dependence on energy, whether it comes from the electric grid or onsite fuel combustion. These measures, which are intended to improve the resource efficiency of homes, can decrease the costs of home ownership through lower utility bills. Water saving features such as low-flow faucets alleviate strain on local communities, while likely also lowering costs. Homebuyer awareness of the importance of the energy and water efficiency creates a potential for companies to increase demand in their target market, thereby increasing revenue and/or margins. Effectively applying resource efficiency design principles in a cost-effective manner may serve as a competitive advantage, especially when companies are successful in systematically educating customers on the long-term benefits of these homes.

Metrics

IF-HB-410a.1. (1) Number of homes that obtained a certified HERS® Index Score and (2) average score

- 1 The entity shall disclose (1) the number of homes that obtained a certified Home Energy Rating System (HERS®) Index Score, or an equivalent standardized home energy rating in non-U.S. markets, during the reporting period.
 - 1.1 The scope of homes shall include single-family dwelling units, whether detached, attached, or part of multi-family residential buildings.
- 2 The entity shall (2) disclose the simple average score of all homes that obtained a certified HERS® Index Score.
 - 2.1 The simple average shall be calculated as the sum of all scores associated with homes that obtained a certified HERS® Index Score during the reporting period divided by the number of homes that obtained a certified HERS® Index Score during the reporting period.
- 3 The scope of disclosure includes all homes that are or were controlled by the entity, regardless of the stage of construction and the stage within the sales cycle.
- 4 The entity may disclose the number of homes delivered that are certified to ENERGY STAR® for Homes or equivalent certification programs.

IF-HB-410a.2. Percentage of installed water fixtures certified to ~~WaterSense®~~ specifications a water efficiency standard

- 1 The entity shall disclose the percentage of installed water fixtures certified to the ~~U.S. Environmental Protection Agency (EPA) WaterSense® specifications~~ jurisdictional water efficiency standard.
 - 1.1 A water fixture is defined as a device used for the distribution of water or a device that consumes water.

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1.2 The percentage shall be calculated as the number of water fixtures installed during the reporting period that were certified to the ~~U.S. EPA WaterSense® specifications~~ jurisdictional water efficiency standard divided by the total number of water fixtures installed.

~~1.2.1~~ 1.2.1 The scope of water fixtures includes those that are within an eligible ~~WaterSense®~~ jurisdictional water efficiency standard product category. Examples of product categories include but are not limited to: bathroom sink faucets and accessories, showerheads, toilets, urinals, irrigation controllers, and pre-rinse spray valves.

2 The scope of disclosure includes all water fixtures installed in homes that are or were controlled by the entity, regardless of the stage of construction, the stage within the sales cycle, or the entity that performed such installations.

3 The entity shall disclose the jurisdictional standard, guideline, or regulation used for its calculation.

IF-HB-410a.3. Number of homes delivered certified to a third-party multi-attribute green building standard

1 The entity shall disclose the number of homes delivered that were certified to a third-party multi-attribute green building standard designed for homes.

1.1 The scope of third-party multi-attribute green building standards is limited to standards or certifications that are explicitly designed for homes and, at a minimum, that address the following aspects of new home design and construction:

1.1.1 Energy efficiency;

1.1.2 Water conservation;

1.1.3 Material and resource efficiency;

1.1.4 Indoor environmental quality; and

1.1.5 Owner education.

1.2 Examples of third-party multi-attribute green building standards include:

1.2.1 Environments For Living Certified Green®;

1.2.2 ICC 700 National Green Building Standard; and

1.2.3 LEED® for Homes.

2 The entity shall disclose the third-party multi-attribute green building standard(s) to which its homes are certified.

3 The scope of disclosure includes all homes delivered during the reporting period.

4 The entity may discuss other green building or sustainability standards or guidelines that it implements in its home design and construction processes that are not third-party verified.

IF-HB-410a.4. Description of risks and opportunities related to incorporating resource efficiency into home design, and how benefits are communicated to customers

- 1 The entity shall describe the risks and/or opportunities associated with its approach to integrating environmental considerations into home design, including, where relevant:
 - 1.1 Risks of failing to achieve adequate returns on investments made in technology, and market demand to improve the sustainability performance of homes or earn sustainability certifications
 - 1.2 Risks to market demand associated with the entity's failure to evolve its design approach at the same pace as its peers, resulting in the production of underperforming homes in terms of energy efficiency, water efficiency, and indoor environmental quality
 - 1.3 Risks associated with the ability to cost-effectively build homes that meet evolving building codes
 - 1.4 Opportunities to achieve sales price premiums, capture target market demand, and establish competitive advantages by producing homes with market-leading energy efficiency and water efficiency
- 2 The entity shall discuss its strategy to measure and communicate energy efficiency and water efficiency performance improvements to homes, including:
 - 2.1 Measurement of homeowner benefits related to energy and water efficiency, including performance audits, certifications, standards, guidelines, and use of projected energy and water costs and savings relative to a baseline
 - 2.2 Communication of the benefits of resource efficiency to prospective home buyers, including the benefits of resource efficiency performance and certifications, projected energy and water costs and savings, and the integration of resource efficiency into sales and marketing
- 3 The entity may provide an analysis of such price increases relative to the cost of improvements in, and third-party certifications of, energy efficiency, water efficiency, and indoor environmental quality. Analysis may additionally include target return rates compared to realized return rates of improvements.

Climate Change Adaptation

Topic Summary

The impacts of climate change, including extreme weather events and changing climate patterns, may impact the markets companies select to develop homes and residential communities. Companies with business models that incorporate ongoing assessments of climate change risks, and adapt to such risks, are likely to more effectively grow company value over the long term, partially through reductions in risk. More specifically, strategies focused on home development activities in floodplains and coastal regions that are exposed to extreme weather events, such as flooding, have increased needs for their business models to adapt to climate change, especially considering long-term challenges like flood insurance rates, the financial stability of government-subsidized flood insurance programs, permitting approvals, and financing stipulations. Rising climate risks and the increasing cost of occupying properties in volatile regions may translate into reduced long-term demand, land value depreciation, and concerns over understated long-term costs of home ownership. Additionally, companies that build developments in water-stressed regions risk losing land value and may face problems with permitting approvals. The active assessment of climate change risks and a holistic view of long-term homebuyer demand may enable companies to successfully adapt to such risks.

Metrics

IF-HB-420a.1. Number of lots located in 100-year flood zones

- 1 The entity shall disclose the number of controlled lots that are located in 100-year flood zones.
 - 1.1 100-year flood zones are defined as land areas subject to a one-percent or greater chance of flooding in any given year. Such areas may also be referred to as being subject to the one-percent annual chance flood, the one-percent annual exceedance probability flood, or the 100-year flood.
 - 1.1.1 Examples of 100-year flood zones may include, but are not limited to, coastal flood plains, flood plains along major rivers, and areas subject to flooding from ponding in low-lying areas.
 - 1.2 ~~For controlled lots located in the U.S., 100-year flood zones shall include those land areas designated by the U.S. Federal Emergency Management Agency (FEMA) as special flood hazard areas (SFHA).~~
 - 1.2.1 ~~SFHAs are defined as land area in the flood plain subject to a one-percent or greater chance of flooding in any given year. The area may be designated in the applicable flood insurance rate map, as per the U.S. National Flood Insurance Program, as Zones A, AO, AH, A1-30, AE, A99, AR, AR/A1-30, AR/AE, AR/AO, AR/AH, AR/A, VO, V1-30, VE, and V. This definition is derived from U.S. 44 CFR 59.1.~~
 - 1.2 ~~1.3~~ The scope of controlled lots includes all lots owned or contractually available for ownership through option contracts or other equivalent types of contracts.
- 2 The scope of disclosure shall include all of the entity's controlled lots that are located in 100-year flood zones, regardless of the country of their location.

- 3 The entity may disclose its risks, opportunities, and potential impacts resulting from reclassifications of 100-year flood zones, including the risk of expansion of such areas into lots controlled by the entity or its active selling communities.

IF-HB-420a.2. Description of climate change risk exposure analysis, degree of systematic portfolio exposure, and strategies for mitigating risks

- 1 The entity shall describe the significant risks and opportunities that are presented to its business by climate change scenarios.
 - 1.1 The entity shall identify each significant risk and opportunity.
 - 1.1.1 Risks and opportunities may include, but are not limited to, availability of water, extreme weather events, evolving regulation and legislation, home permitting processes, timelines and approvals, and impacts to local economies and infrastructure.
 - 1.2 The entity shall discuss the timeline over which such risks and opportunities are expected to manifest.
 - 1.3 The entity shall disclose the climate change scenarios used to determine the risks and opportunities presented by climate change, where scenarios may include, but are not limited to, the New Policies Scenario, Sustainable Development Scenario, and Current Policies Scenario, as established by the International Energy Agency in its annual World Energy Outlook.
- 2 The entity shall describe its efforts to assess and monitor the impacts of climate change and related strategies to alleviate and/or adapt to any risks and/or utilize any opportunities, where:
 - 2.1 Alleviation strategies may include, but are not limited to: site selection and the incorporation of climate or weather models into such analysis; site selection as it pertains to water scarcity; the strategy and timing of lot acquisitions, permitting, construction, and sales; the use of sales and purchase agreement clauses addressing risks to the entity; and insurance.
 - 2.2 Adaptation strategies may include, but are not limited to: lot design; home design for physical resiliency; contingency plans; and maximizing energy and water efficiency of homes.
- 3 The entity shall discuss its strategies related to the use of physical measures to manage climate change risk (e.g., floodplain avoidance or home design for physical resiliency) and/or financial mechanisms to manage these risks (e.g., the use of insurance or option contracts on lots).