Member discussion – with AREF, IPF & INREV

‘FCA CP21/17 Enhancing climate-related disclosures’

Wednesday 1st September 2021

AREF INREV IPF Investment Property Forum

Moderator Welcome

John Forbes, Principal at John Forbes Consulting
& Member of the AREF Public Policy Committee

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Agenda for today

10.00	Webinar start
10.00	Welcome and housekeeping - John Forbes, John Forbes Consulting
10.05	Presentation providing a regulatory overview - Melville Rodrigues at Apex Group
10.10	Presentation based on proposals for the Real Estate metrics - Sam Carson at CBRE UK
10.15	Presentation giving the Fund Managers point of view - Sasha Njagulj at DWS Group
10.20	Member discussion
11.00	Closing remarks from John Forbes
11.00	Close

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Speakers

Sam Carson

Head Of Sustainability, Valuations and Advisory Services

CBRE UK

Sasha Njagulj

Managing Director, Global Head of ESG Real Estate

DWS Group

Melville Rodrigues

Head of Real Estate Advisory

Apex Group

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Melville Rodrigues
Head of Real Estate Advisory
Apex Group

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Enhancing climate-related disclosures:
- Regulatory Overview
- Challenges for Real Estate Managers

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Head of Real Estate Advisory, Apex Group
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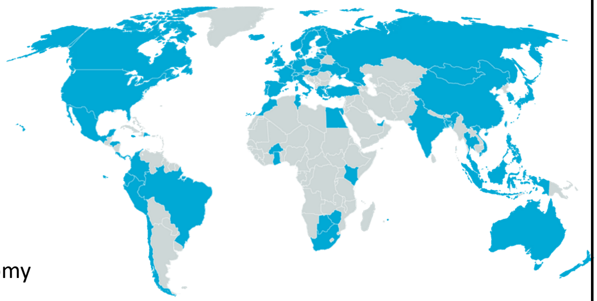
1 September 2021

FCA proposes disclosures: consistent with TCFD's recommendations



https://www.fsb-tcfd.org/

2,300+ supporters 88 countries

- Global reach: framework is flexible and forward-looking
- Focus on risks and opportunities: transition to a lower-carbon economy

Real estate investing presents two key ESG considerations:
1, long investment horizon, important as most ESG issues are more likely to be material longer periods
2, many ESG issues play out at a local level … investments are inextricably linked to a specific geographic location.
….a systematic and informed RE portfolio approach to ESG issues will protect, and can significantly enhance, investment value.

https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-real-estate/5628.article

TCFD: Real Estate

TCFD Secretariat, August 2021:

"…. We held a public consultation in June and July to solicit input on a small set of "cross-industry, climate-related" metrics

and are currently working to incorporate the consultation results into our guidance.

The Task Force is not a standard setter so we are not developing industry-specific metrics,

however we encourage leaders in different industries to do so."

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Real estate challenges: assessing & managing ESG/climate finance risks

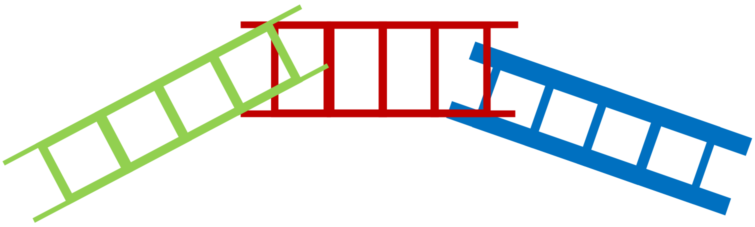
- Lack of real estate data, knowledge deficiencies and/or appropriate analytical tools

Problem when translating climate risk exposure into value impact

Clayton, J.; Devaney, S.; Sayce, S. and van de Wetering, J. (2021) *Climate Risk and Commercial Property Values: a review and analysis of the literature*
https://www.unepfi.org/wordpress/wp-content/uploads/2021/08/Climate-risk-and-real-estate-value_Aug2021.pdf

- Need for… *"collaborative fund manager and investor industry initiatives, combining with regulators, to create uniform ESG reporting standards."*

Disclosure, disclosure, disclosure: Get ahead of regulation …



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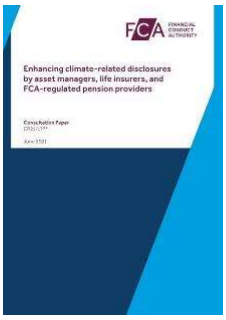

FCA TCFD Consultation: Key Proposals

- Phased implementation:
  - from 2022 UK asset managers with AuM >£50bn: 1st disclosures by 30 June 2023
  - from 2023 the remaining managers: 1st disclosures by 30 June 2024
- UK managers: exemptions with > £5bn AuM, on a 3-year rolling average.

[FCA anticipates capturing 98% UK asset managers & owners.]

- Annual reports containing:
  - Entity-level disclosures
  - Product or portfolio-level disclosures including a core set of metrics.
- Disclosures to be either:
  - TCFD product report in a prominent place: manager's website/investor communication, or
  - made upon request to certain eligible institutional investors.

New ESG Sourcebook
FCA TCFD proposals take into account SFDR
Listed sector: complementary disclosures FCA CP21/18
Climate Financial Risk Forum, ongoing industry liaison
Metrics

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AREF/INREV/IPF Industry responses: key issues

- Agree with the FCA's proposed scope of firms & products
- Support FCA's suggested timeframe including its planned reporting go-live dates
- Given the landlord and tenant relationship, obtaining meaningful data can be an issue
- Permit RE metrics based on proxy data

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Actors, Actions, Solutions……….
UK and other Global Initiatives

- **DWP & The Pensions Regulator: enhance UK pension fund fiduciary obligations**

New requirements - occupational pension schemes
≥ £5bn assets from 1 October 2021 & ≥ £1bn assets from 1 October 2022:
intended to improve the quality of governance and reporting as they address climate-related risks and opportunities

- **UK Government**

Expected to introduce further ESG disclosure requirements:
will require sustainability disclosures that go beyond the TCFD's focus on climate change

- **COP 26 etc.**

Department for Work & Pensions

The Pensions Regulator

UN CLIMATE CHANGE CONFERENCE UK 2021

IN PARTNERSHIP WITH ITALY

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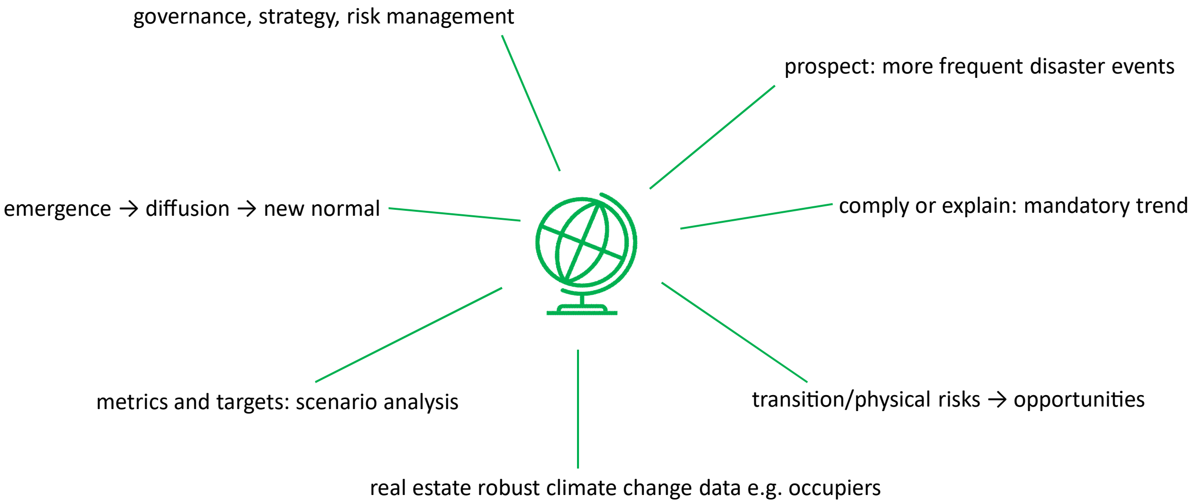
RE managers must contribute to addressing the challenges of the defining crisis of our time: climate change
- New paradigm, prospects for early adopters to be outperformers



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Sam Carson

Head Of Sustainability, Valuations and Advisory Services

CBRE UK

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TODAY HERE TO DISCUSS:

TCFD METRICS WITHIN THE FCA CP21/17 CONSULTATION

HOW THEY WORK AGAINST TRADITIONAL REAL ESTATE REPORTING METRICS

WHAT WE SHOULD DO ABOUT IT AND OUR RECOMMENDATIONS

STATED METRICS WITHIN THE CONSULTATION

ESG 2 Annex 1 TCFD Product Report Metrics

	TCFD (see page 43 of the TCFD Final Report)	SFDR (please see annex I of the draft RTS)
Weighted average carbon intensity (WACI)	Portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / \$M revenue. *Metric recommended by the Task Force.* $\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i}\right)$	$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current value of all investments (€M)}} \times \frac{\text{investee company's Scope 1, 2 and 3 carbon emissions}_i}{\text{investee company's €M revenue}_i}\right)$
Total carbon emissions	The absolute greenhouse gas emissions associated with a portfolio, expressed in tons CO_2e. $\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)$	$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i\right)$
Carbon footprint	*Description* Total carbon emissions for a portfolio normalized by the market value of the portfolio, expressed in tons CO_2e / \$M invested. *Formula* $\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's market capitalization}_i} * \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)}{\text{current portfolio value (\$M)}}$	$\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i\right)}{\text{current value of all investments (€M)}}$
Scope 1, 2 and 3 GHG emissions, disclosed separately	Scope 1 refers to all direct GHG emissions. Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam. Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (eg, transmission and distribution losses), outsourced activities, and waste disposal (see page 63 of the TCFD Final Report).	The scope 1, 2 and 3 definitions are contained in the low carbon benchmark regulation: (i) Scope 1 carbon emissions, namely emissions generated from sources that are controlled by the company that issues the underlying assets; and (ii) Scope 2 carbon emissions, namely emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets. (iii) Scope 3 carbon emissions, namely all indirect emissions that are not covered by points (i) and (ii) that occur in the value chain of the reporting company, including both upstream and downstream emissions, in particular for sectors with a high impact on climate change and its mitigation.

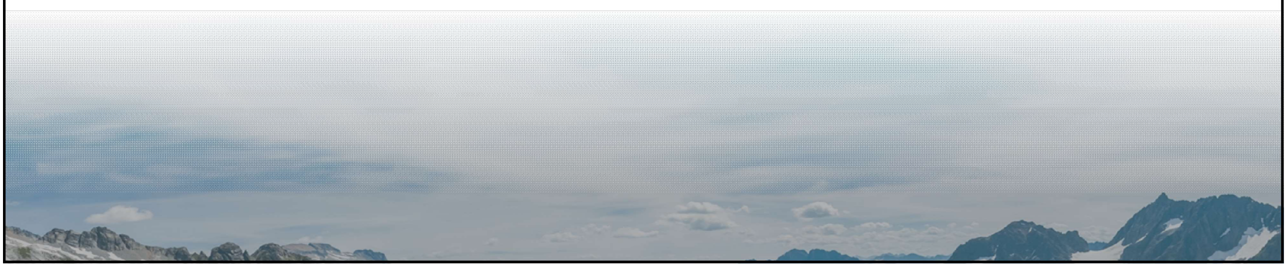
Additional Metrics:
Climate Value at Risk

Climate Warming Scenario or Implied Temperature Rise

ALIGNMENT WITH COMMON REPORTING IN COMMERCIAL REAL ESTATE
FOR EXAMPLE INREV SUSTAINABILITY REPORTING GUIDELINES

Indicator	Achieves	Alignment with CRE Reporting
Weighted Average Carbon Intensity (WACI)	Relative intensity of investment	Not aligned with current approaches to reporting in CRE where **revenue/rents are not often considered within reporting**.
Total Carbon Emissions	Footprint of the share of investment	**Equity share approach is not common in CRE**, as operational control approach is more relevant.
Carbon Footprint (Intensity)	Intensity of the share of the investment by value	This is more aligned to traditional reporting than WACI. **CRE typically considers Floor Area as a denominator**
Scope 1-3 breakdown	Actual footprint	This is aligned and very important but challenging to compare. In CRE this sums to “Total Carbon Emissions”.
Carbon VaR	Value threated by BAU	This is not a standard metric in CRE, but makes sense to be adopted
Climate Warming Scenario or Implied Temperature Rise	Comparable indicator of climate risk across asset classes	This could be integrated into CRREM.

In summary:
Some of these metrics were developed for equities and are not aligned with how we report in Commercial Real Estate



HOWEVER…

IF ASSET MANAGERS ARE REPORTING ON THESE METRICS FOR OTHER ASSET TYPES, THEN THEY WILL REQUIRE THESE METRICS TO BE COMPLETED FOR REAL ESTATE.

THESE METRICS BECOME MORE VALUABLE WHEN COMPARABLE

REAL ESTATE MUST BE READY TO PROVIDE METRICS AND TO DEMONSTRATE ALIGNMENT

AND…

REAL ESTATE MUST BE AWARE OF RELATIVE INTENSITIES COMPARED WITH OTHER ASSET CLASSES AND BE ABLE TO EXPLAIN THE DIFFERENCES

AND HAVE TOOLS WHICH SPECIFICALLY DESCRIBE CLIMATE RISKS IN REAL ESTATE, AS WELL AS MITIGATION PRACTICES

THEREFORE…

WE RECOMMEND MEMBERS DEVELOP THESE METRICS BUT ALSO USE TOOLS WHICH ARE MORE REAL ESTATE SPECIFIC TO DESCRIBE CLIMATE RISKS AND OPPORTUNITIES, AND HOW THESE ARE MANAGED.

THESE TOOLS SHOULD BE OPEN-SOURCED AND COMMONLY ADOPTED

TWO REPORTING METRICS TO FOCUS ON

EPCS – TO PROVIDE AN ASSESSMENT ASSET TRANSITION

NOT SAYING EPCS ARE GOOD AT DEMONSTRATING THIS TRANSITION

- BUT THEY ARE THE BASIS OF REGULATIONS:
- UK's Minimum Energy Efficiency Standards (MEES)
- EU's Sustainable Finance Disclosure Regulations (SFDR)
- ARE AS GOOD AS WE HAVE AS COMMON DATA FOR ASSET QUALITY
- IS BEING USED AS A TOOL TO ANALYSE ESG AND ASSET VALUE BECAUSE OF THE ABOVE

CRREM – TO PROVIDE AN UNDERSTANDING OF EXPOSURE TO TRANSITION RISKS

MUST AGREE AS AN INDUSTRY HOW WE COMMUNICATE CRREM IN A COMMON WAY, BUT:

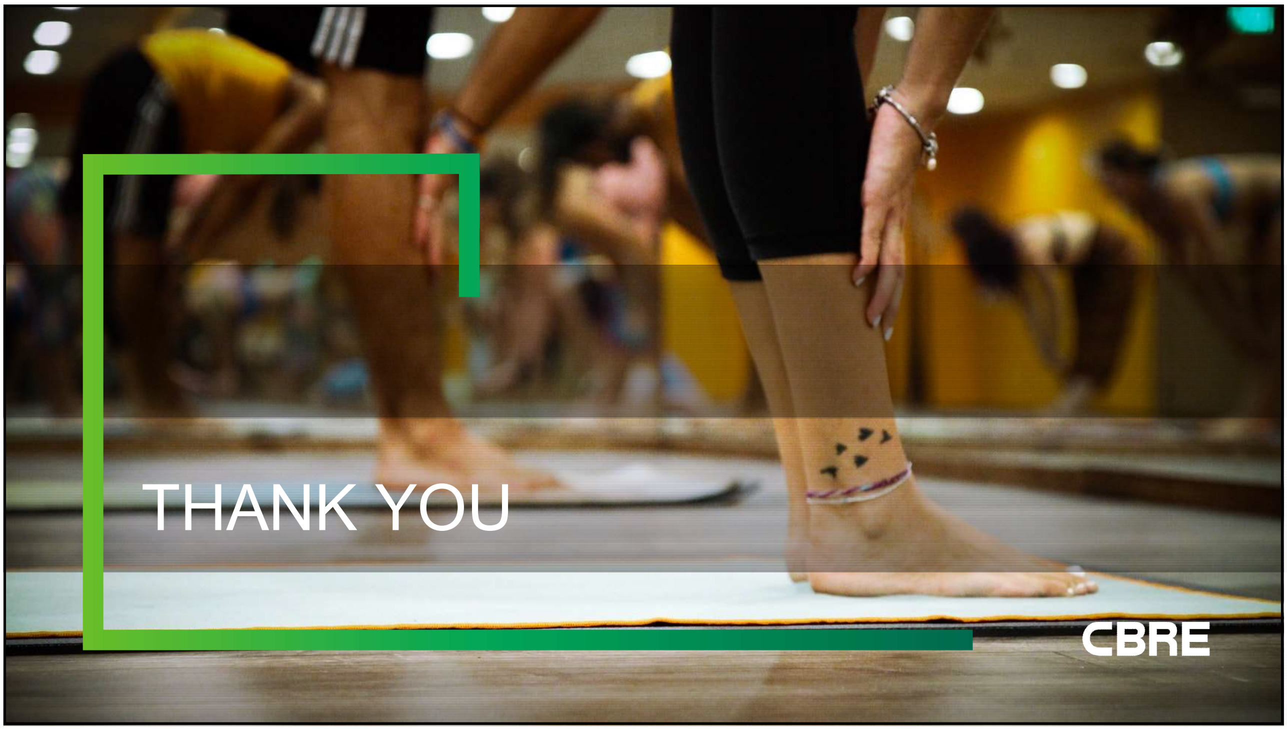
- CRREM IS OPEN SOURCED AND PUBLICLY AVAILABLE
- IS GRESB ALIGNED AND CAN COME WITH GRESB DATA INCLUDED, MAKING LIFE EASIER
- HAS BEEN IDENTIFIED BY IIGCC, NZAOA AND OTHERS AS THE DE FACTO TOOL FOR ASSESSING CLIMATE RISKS
- BEST AVAILABLE COMMON TOOL THAT DESCRIBES CLIMATE RISKS FOR COMMERCIAL REAL ESTATE

IN CONCLUSION

SOME OF THE METRICS PRESENTED AS A PART OF THE CONSULTATION ARE NOT IDEAL FOR REPORTING CLIMATE RISK IN REAL ESTATE, BUT WE MUST BE READY TO PROVIDE THEM, OR HAVE THEM READY FOR COMPARISON.

THEY NEED TO BE SUPPLEMENTED WITH REAL ESTATE SPECIFIC METRICS, WHICH SHOULD INCLUDE:

1. EPC BREAKDOWN, AS REQUIRED BY SFDR
2. CRREM RISK EXPOSURE



Sasha Njagulj
Managing Director, Global Head of ESG Real Estate
DWS Group

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DWS

DWS ESG REAL ESTATE APPROACH

REAL ESTATE CLIMATE REGULATIONS

Regulation provides risk and opportunity for real properties

DWS

REGULATORY PUSH TO NET ZERO DRIVING MORE EMISSIONS REDUCTIONS

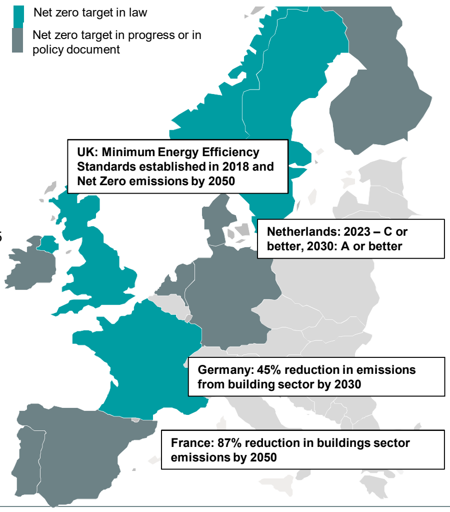
EU proposed net zero carbon law:
Sets legally binding target to reach net zero carbon target by 2050

Renovation Wave
New European strategy will strengthen these policies for buildings

Net Zero Carbon cities: (Ex: London, Paris, Copenhagen, Stockholm)
- New buildings net zero by 2030, existing buildings by 2050

Nearly Zero Energy Buildings:
Across Europe new buildings required to meet highly efficient standards, as low as 25 kWh per square metre in some markets[1]

Renewable energy
Renewable Energy as a share of electricity generation has more than doubled since 2004
- 31% of the electricity for EU (34% and 28% in Germany and UK respectively)[2]



Source: DWS, October 2020. Forecasts are not a reliable indicator of future returns. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

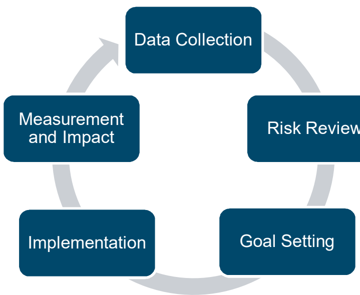
DWS ESG HOUSE VIEW

Formally ratified at DWS Real Estate Investment Committee

DWS

Collect on a regular basis a broad and robust asset-level ESG dataset to assist in sustainability reporting, informed decision-making and in unlocking improvement opportunities

Based on the above activities, track progress in project implementation relative to our goals and evaluate the value created for the asset, portfolio and platform



Review at point of acquisition and on an annual basis the key ESG risks and opportunities

Create and carry out asset-level action plans that represent the best value in terms of reducing environmental impact, decreasing operating costs, and increasing tenant satisfaction

Set platform and portfolio-level performance goals based upon bottom-up asset-level action planning and top-down investor and industry drivers

DWS REAL ESTATE

ESG Integration across the investment process

Research and Strategic Planning	Portfolio Construction	Asset Management	Investment Realisation
Research & Strategy Portfolio Management Asset Management	Acquisitions Portfolio Management	Asset Management Portfolio Management Property Management	Transactions Asset Management
• Develop and obtain platform-wide approval for sustainability strategy • Factor ESG risks into market-level analyses • Leverage industry forums to gain insights on industry best practices	• Identify ESG risks and opportunities during underwriting • Conduct full technical and environmental due diligence • Complete ESG checklist prior to acquisition and include initiatives identified in Asset Plan	• Implement Standards of Sustainability with property managers • Monitor performance, conduct audits and identify retrofit value enhancements • Engage with tenants through collaborative initiatives and green leases	• Pursue green labels for green buildings, health and wellbeing, and connectivity where financially viable • Drive increased building value by marketing retrofit improvements
• Research House View • ESG House View • Sustainability Action Plans (platform/fund/asset-level)	• ESG Acquisition Risk Screening • In-depth risk assessments including physical climate and energy audits	• Sustainability Audits • Occupier Health and Satisfaction Monitoring • Green lease clauses	• Green label certifications • Outcome measurement and benchmarking • Marketing prospectuses

No assurance can be made that investment objectives will be achieved. Source: DWS.

1 DATA COLLECTION

DATA COLLECTION

… … Every step of the way

Research & Strategy: Collecting data on market level climate risk to identify those which are more vulnerable. Build risk assessment into market selection strategy.

Transactions: Requesting the ESG data points as early as possible enables the timely completion of the initial screening procedure to identify high risk areas, feeding into the advanced screening once technical and environmental due diligence is completed.

Asset Management: Property and Facilities Managers required to submit data on a quarterly basis. Key ESG Data is defined as:

- Energy consumption
- Renewable generation and procurement
- Water consumption
- Waste generation and destination
- Resulting carbon emissions (Scopes 1, 2, and 3)
- Completed utility efficiency projects
- Completed social value initiatives and health & wellbeing projects
- Energy ratings and green building certifications

Annual Data quality checks: The annual assurance review will be conducted in line with AA1000 or a similar reputable assurance standard.

Targeting tenant-controlled data: the key challenge to increasing data coverage. DWS has two main approaches for addressing this:

- Green lease clauses, which include a requirement that the tenant provide Key ESG Data to DWS Real Estate on a regular basis.
- Collaboration with tenants whereby the exchange of Key ESG Data and other relevant sustainability data forms an integral part of joint progress towards shared sustainability goals.

No assurance can be made that investment objectives will be achieved. Source: DWS.

RISK REVIEW

Summary of integrated approach

Three Key Risk Areas:

- Carbon Transition Risk
- Natural & Physical Climate Risk
- Social Norms Risk

Three Key Points of Intervention:

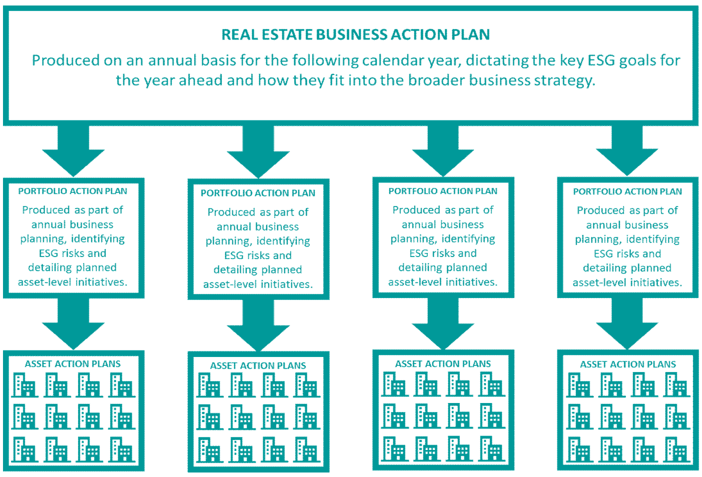
- Research and allocation (as part of market-level analysis)
- Acquisition (as part of due diligence)
- Annually (as part of portfolio-level sustainability action planning)

Suite of core ESG initiatives to mitigate risk and drive performance

No assurance can be made that investment objectives will be achieved. Source: DWS.

RISK REVIEW (OPERATION)

Three-tiered sustainability action planning approach for assets under management



No assurance can be made that investment objectives will be achieved. Source: DWS.

RISK REVIEW → IMPLEMENTATION

Suite of core ESG initiatives to mitigate risk and drive performance

DWS

ESG initiatives considered at all assets as part of portfolio-level action planning:

Initiative	Description
Energy Audits	Technical advisor conducts a review of the asset for retrofit efficiency opportunities.
Certifications	Certification of sustainable credentials of a building via schemes such as LEED, BREEAM, DGNB, and HQE.
Active Energy Management	Ongoing monitoring and management of energy consumption to ensure the building's setup is appropriate and aligned with its functioning.
Renewable Energy	Investment in on-site renewable installations and/or procurement of renewable energy from suppliers.
Physical Climate Risk Assessment	An in-depth review for mitigation and adaptation strategies in response to an identified high risk of e.g. flooding.
Air Quality Monitoring	Ongoing monitoring and management of indoor air quality to protect and enhance occupier health and productivity.
Occupier Surveys	Opportunity for occupiers to rate their satisfaction and communicate their needs.

IMPLEMENTATION

Baseline approach to ESG implementation in our portfolios

DWS

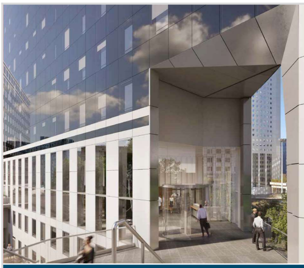
- Energy audits on assets with landlord energy consumption above 2.5 GWh (gigawatt-hours) per annum a minimum of every four years.
- All potential improvement opportunities identified in energy audits must be reviewed for feasibility and either implemented or rejected if there is good cause to do so.
- Office and retail assets with landlord energy consumption above 2.5 GWh (gigawatt-hours) per annum will implement an active energy management (AEM) solution where consistent with the hold strategy for the asset.
- All assets with landlord controlled energy supplies will procure green energy from a REGO-certified, Green-E-certified, or similar reputable source where available and financially appropriate.
- All refurbishment and redevelopment projects with a budget of over €5 million require that the ESG team is consulted prior to project implementation and require the production of a bespoke project sustainability brief at the design concept stage.

Even when not subject to these thresholds, the full suite of ESG initiatives is still considered on an annual basis as part of portfolio-level sustainability action plan, weighed up against the value proposition and investor goals and appetite.

PUTTING IT INTO PRACTICE

Case Study: KupkA (Paris Office redevelopment)

DWS



Project Summary	Full redevelopment including significant technical and aesthetic upgrade to face current and upcoming letting competition in La Défense.
Sector:	Office
Location:	La Defense (Paris Region)
Tenure:	Freehold
Valuation:	€78 million
Project Budget:	€38.5 million
Current ERV:	c. €420 per sq ft
Lettable Area:	c. 17,014 sq m

ESG credentials

An efficient space:

- 40% reduction in energy consumption compared to pre-intervention levels.
- Pilot project for the 'Alliance for Deep Renovation in Buildings' (ALDREN) scheme.
- Radiant ceilings and high performance façade creating combining thermal and acoustic comfort with efficiency.
- Monitoring & Optimisation technology on all sources of energy consumption.
- Connection to the highly efficient La Defense district heating and cooling network.
- Ambient LED lighting throughout.
- Reduced embodied carbon impact via limitation of demolition.

A healthy space:

- High ventilation rates, efficient filters, and low-emitting materials contributing to exceptional air quality & efficiency.
- Access to natural daylight as well as LED lighting with a high level of uniformity and colour rendering to enhance visual comfort and fit with the circadian rhythms of occupants.
- Acoustic isolation with a high performance façade.

Certifiable quality:

- Attaining HQE Excellent and BREEAM Refurb Excellent green building certifications.
- Attaining WELL Shell & Core Gold health and wellbeing certification.
- Attaining WIRED Gold connectivity certification.

Source: DWS. As of May 2020.

Q&A Discussion

To ask a question:

Please unmute yourself to ask a question in live time

Alternatively click the 'Chat' button at the bottom of your screen

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Thank you

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