Member discussion – with AREF, IPF & INREV

‘FCA CP21/17 Enhancing climate-related disclosures’

Wednesday 1st September 2021

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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

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

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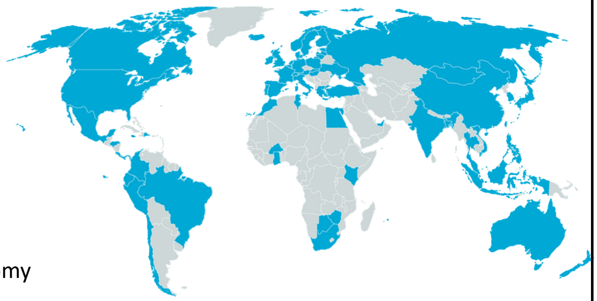
1 September 2021

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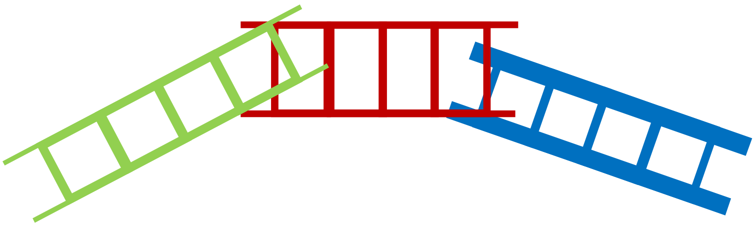
Real estate challenges: assessing & managing ESG/climate finance risks

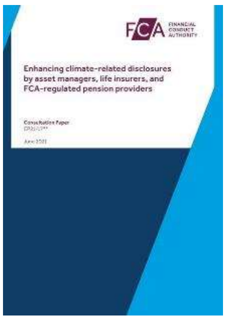
- Lack of real estate data, knowledge deficiencies and/or appropriate analytical tools

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 …




Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers

Consultation Paper

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

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

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.**

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

governance, strategy, risk management

prospect: more frequent disaster events

emergence → diffusion → new normal

comply or explain: mandatory trend

metrics and targets: scenario analysis

transition/physical risks → opportunities

real estate robust climate change data e.g. occupiers

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Disclaimer

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

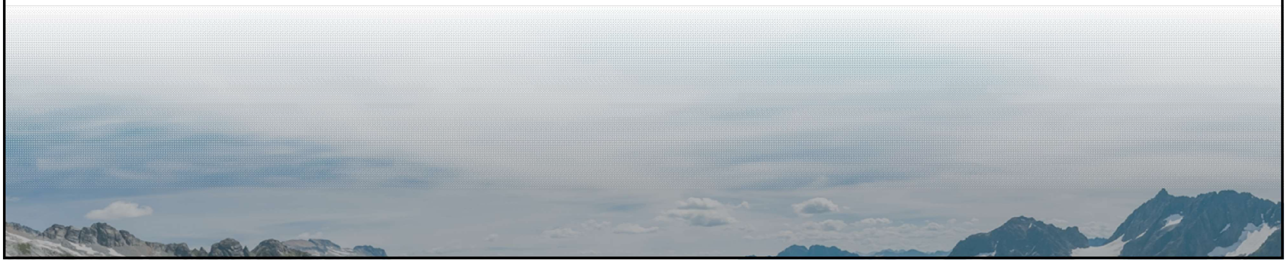
Climate Warming Scenario or Implied Temperature Rise

CBRE 18 ESG CONSIDERATIONS – VALUATION

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:

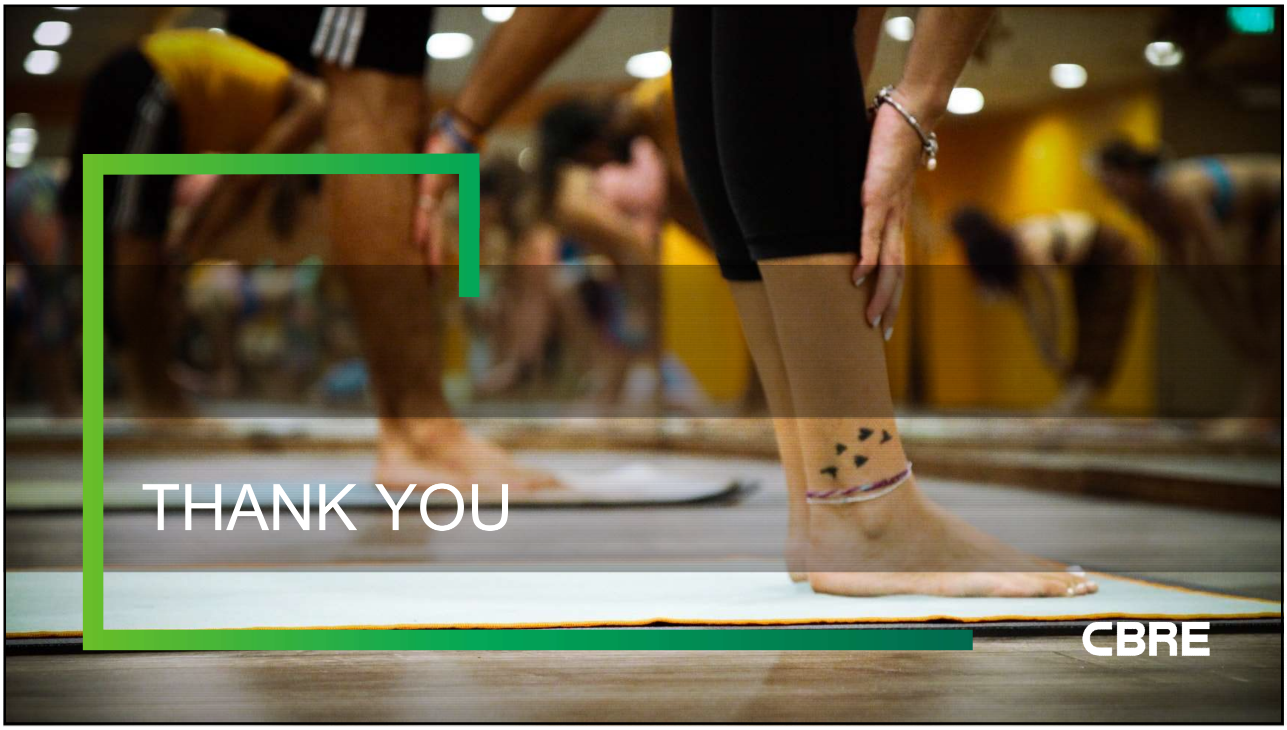
- CRREM IS OPEN SOURCED AND PUBLICLY AVAILABLE
- IS GRESB ALIGNED AND CAN COME WITH GRESB DATA INCLUDED, MAKING LIFE EASIER
- HAS BEEN IDENTIFIED BY IIGCC, NZAOA AND OTHERS AS THE DE FACTO TOOL FOR ASSESSING CLIMATE RISKS
- BEST AVAILABLE COMMON TOOL THAT DESCRIBES CLIMATE RISKS FOR COMMERCIAL REAL ESTATE

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



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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

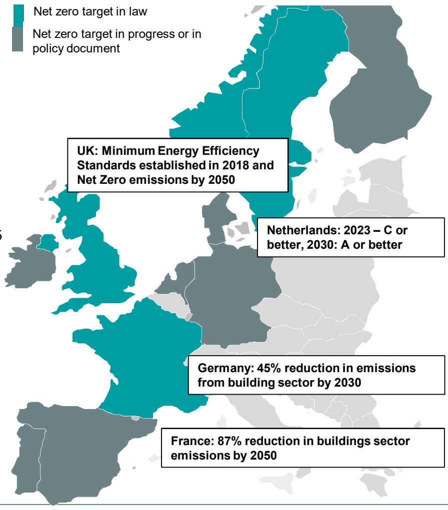
EU proposed net zero carbon law:
Sets legally binding target to reach net zero carbon target by 2050

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

DWS REAL ESTATE
ESG Integration across the investment process

DWS

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.

Thank you

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