MEMBERS AND INDUSTRY INSIGHTS

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SIOR® EUROPEAN REGIONAL CHAPTER

FOREWORD BY EUROPEAN CHAPTER PRESIDENT

As COP26 gets underway, SIOR Europe is keen to join the conversation about the focus that the summit brings on climate change impact to share commentary and advice from our members, all of whom support greater action in the race to net zero.

Our members have put climate change impact at the heart of their consultancy in response to the market and clients' increasing ESG requirements and have embedded it into every stage of the property process.

In two notes, we will be sharing the views of our members and industry experts. This first note reminds us of the scale of the challenge, the significance of real estate in any solution and then brings in SIOR Europe members' insights and stories. The second examines regional differences and what we can learn from these.

For the benefit of the industry as the whole and particularly investors, developers and occupies, they explore how climate change is driving value in our sector, responding to the crisis we face and delivering competitive advantage to those embracing it in their decision making.

We hope these notes contribute to a trend of sharing best practice and solutions that ultimately create a valuable resource alongside insights from others in the property industry. Particularly in showing that climate change and commercial success can co-exist in the real estate sector, and indeed benefit each other.

Paul Danks

President

European Regional Chapter of SIOR

paul@pdanks.co.uk; +44 7836 652369

www.sioreurope.com

AN INVITATION

Join us at our post COP26 webinar.

On 23 November at 18.00 CET, we're bringing together industry leaders for a webinar that will examine the outcomes of the summit and identify what we must do next.

Panellists include:

- A major logistics developer
- A leading occupier
- The International WELL Building Institute;
- Climate change and sustainability consultancy Ampersand Partners / CUBE UK, which will chair the event.

We want you to be part of this important discussion.

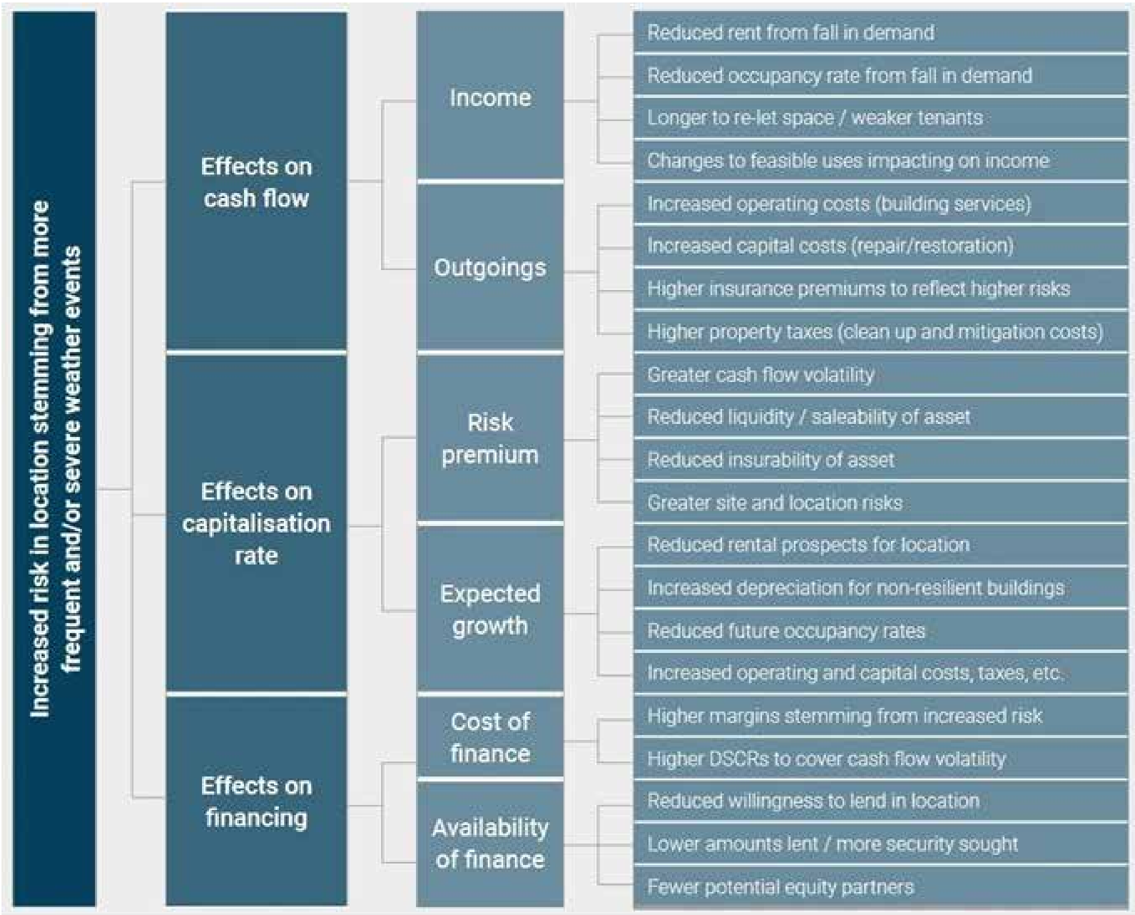
Register your free place here.

THE AIM

The challenge we face is significant, but there is hope. Global warming will hit 1.5C by 2040 according to the UN's Intergovernmental Panel on Climate Change (IPCC) report published in August 2021, but we can act now to prevent further warming by substantially reducing emissions in the 2020s.

There is a lot of guidance emerging for every sector of industry and real estate is no exception. A UN Environment Programme Finance Initiative report this year explored the effects on commercial real estate assets and their performance in the face of climate risk, particularly in locations where extreme weather events are likely to increase.

It showed that climate risk has a direct impact on demand, which means reduced rents, longer periods of vacancy and lower occupancy rates, issues which come hand-in-hand with higher maintenance, capital costs and insurance premiums. The result is reduced liquidity, saleability, equity and investment for real estate assets.



Source: UNEP FI Report " Climate Risk & Commercial Property Values, August 2021

"TODAY'S CLIMATE EMERGENCY HAS FAR-REACHING IMPLICATIONS FOR EVERY INDUSTRY AND NOT LEAST FOR REAL ESTATE, SINCE SUSTAINABLE BUILDINGS CAN MAKE SUCH A BIG DIFFERENCE TO GLOBAL EMISSIONS."

Mike Berners-Lee, Founder of Small World Consulting and a leading expert in carbon metrics for organisations

CHANGE IS HAPPENING

So, while the impacts are significant, change can happen. Plus, the industry can harness the benefit presented by changing attitudes.

In real estate, priorities are changing. ESG is now at the top of the agenda. Occupiers care about the buildings they occupy and so increasingly do their employees, who are challenging employers to be more responsible. The FT has reported that the chief executives of over 150 companies from Glencore to Rolls-Royce to Deutsche Bank are bringing "Net Zero emissions" into their narrative when talking about their business success and commitment.

Developers are responding and active investors are also driving this change. A year ago, there was still a perception that sustainable real estate investment was viewed as an emerging or fringe alternative investment choice mainly focused in Europe, but things have changed. The active investment funds are prioritising stocks and shares of firms that have strong ESG credentials. In 2021, there has been a sharp increase in investor and occupier appetite for office buildings considered 'green' or 'sustainable', with the largest rise in Europe.

There are also now further developed Sustainability guidelines of the European Association for Investors in Non-Listed Real Estate Vehicles ("INREV") to adhere to investors' needs and increased participation in the 2020 GRESB real estate assessment.

In the industrial sector, zero-carbon logistics is gathering pace, not least because companies need to seriously consider their supply chains in reducing emissions. Indeed, COP26 will be hosting a series of events at Mossend International Railfreight Park (MIRP) in Scotland as part of its programme. Low Carbon Logistics will take place from 8-10 November, 'Raising the profile and awareness of the low carbon transition in the rail and road freight sectors', sharing innovation and showing how it's done.

These trends bring climate change to the very heart of asset or building selection and, as a result, the deal process.

NEXT STEPS

What our industry does next matters. Real estate needs to be net zero in design, construction and operation and carbon positive wherever possible.

Embodied carbon is a particularly significant issue for new development, especially if they are made of concrete, which is made of cement. Kanchan Sharma, former Head of the Number 10 Policy Unit has asserted that, "if the cement industry were a country, it would be the third largest greenhouse gas emitter in the world, behind China and the US". The world is projected to build more than 2tn square feet of floor space over the next 40 years. This is the same as adding the entire New York City every month.

The potential of cradle-to-grave, sustainable assets in property portfolios needs to be championed, not just because we have a social responsibility but because they are higher value assets in every way.

Tom Listowski, SIOR, Partner, Head of Industrial and Warehouse Development, Central and Eastern Europe at CRESA, Poland

Greenwash in logistics is a thing of the past. In both my everyday dealings and at events such as the recent CEE Warehouse & Logistics Conference, I see the market fully embracing its obligations around sustainability and the environment.

Developers and long-term holders of assets are investing to make their buildings more sustainable, particularly through technology and innovation in design, construction and operation. At the same time, investors are demanding more sustainable assets for their portfolios. Developer traders are responding accordingly as many are at the forefront of accessing new capital sources looking to invest into the logistics sector who have experiences in other geographies where sustainability is a major driver of their investment criteria.

While we can't ignore market context and the financial realities – the need for viability and profitability in business – a genuine commitment to fulfill obligations related to climate change impact now sits at the heart of the market. What we need now is much more positive communication among everyone involved in the process, from the banks, investors and developers to the contractors and brokers, to the tenants. This needs to go both ways, establish common goals and lead to more collaboration. The outcomes of such collaborative relationships need to then be proactively promoted and shared so others can follow suit.

Michael O'Hara, Business Development Director, TSL, UK

TSL is delivering complex, best in class, new-build industrial projects for many leading international clients across the UK, Europe and the US.

We are genuinely passionate about doing the right thing and, as such, we are very much engaged and committed to the significantly increased priority and focus around all things ESG. We have developed and implemented proactive strategies to ensure that we are leading the way in all aspects, including a comprehensive programme of sustainability initiatives that are delivering some exciting and extremely valuable results.

Bespoke and optimised concrete mixes from our own on-site batching plants have delivered substantial reductions in cement content and therefore significantly reduced levels of embedded carbon. On a recently completed project, these bespoke concrete mixes achieved an embodied carbon saving of approximately 1820 Tonnes CO_2e as a specific element, with a total reduction for the project of 10,500 Tonnes CO_2e together with other aspects of innovation and optimised design, including earthworks solutions, foundation design and alternative wall and roof cladding options. This combined saving represented a total reduction in carbon for the project of 27.3% compared to the baseline specification. We are making great progress with genuine benefits and value for our clients and our dedicated R&D team are confident of delivering further initiatives and savings going forward.

Natali Cooper, Managing Director, GLP, Head of Portfolio & Asset Management & ESG – Europe

GLP is a leading global developer, investor and manager of logistics real estate so it is crucial for us to adopt a 360-degree perspective on ESG.

We have a strong history of developing logistics projects which are transformative through the sustainability measures that we factor in at a very early stage of the investment cycle. This is an approach that we maintain and promote throughout our investment and asset management processes.

As a developer, we are focused on reducing the embodied carbon emissions with a suitable design solution and adequate choice of materials and technologies that improve operational efficiencies. We look at items beyond sustainability by addressing impact on social value. In order to better understand the social value generated from a development scheme, we collect data throughout the development process to measure the social value generated by providing skills and employment, promoting local businesses, creating stronger communities and protecting the environment. Our measurement framework has been built using the fundamentals of the Real Estate Social Value Measurement Methodology called the RE TOMs 2.0 (Real Estate Themes, Outcomes and Measures).

As a long term investor, it is important to understand how sustainability factors may affect the prospects of the investments that we make on behalf of our clients. We have introduced ESG Due Diligence into our investment process to ensure that ESG criteria are always considered and addressed throughout the decision making process to lower the risks and enhance returns. Following the investment phase we constantly monitor the performance of the assets to then implement asset management initiatives to future proof our portfolio.

Lastly, as a manager we believe that we achieve the best results when working in full transparency and partnership with our customers. We forge long-term and ethical relationships with our customers, consultants, partners, suppliers and contractors to ensure that all parties are integrated with our ESG values.

Fabian Mühlen, Partner, DLA Piper, Germany

This week, the eyes of the world are on Glasgow for the 26th annual United Nations Climate Change Conference. Environmental, social and governance (ESG) issues have become real challenges for all individuals, businesses and markets, and the real estate sector is no exception.

At DLA Piper we see this in the real estate transactions we advise on, and it's clear this isn't a temporary or local development but a global trend that's here to stay. ESG plays an increasing role in real estate due diligence, sale and purchase agreements (SPAs) and leases.

In the scope of real estate ESG due diligence, we assess compliance with national and international ESG standards and statutes. Real estate contributes over one-third of global CO_2 emissions, so a key part of ESG due diligence is reviewing CO_2 emissions, energy consumption, building materials, and waste and water usage. For transactions involving operational real estate assets like hotels, hospitals, nurseries and kindergartens or retirement homes, we also need to analyse social aspects such as compliance with labour law standards, diversity, health and safety, and human rights. In these transactions the governance dimension also plays a key role; anti-corruption and anti-bribery, transparency of the decision-making process and corporate codes of conduct need to be scrutinized.

More clients are also asking us to include ESG-related provisions in SPAs and lease agreements. In SPAs, appropriate anti-corruption, sanctions, anti-money laundering and Know Customer standards and warranties now occupy a more prominent position. In leases – particularly green lease agreements – environmental clauses complement the compliance language we often see in SPAs. These clauses typically set out a common understanding of sustainability, securing an exchange of information, promoting awareness of sustainability issues among tenants and their employees, and promoting communication between landlords and tenants with the involvement of the property or facility management company.

Non-compliance with ESG criteria poses financial and reputational risks. ESG provisions not only help those involved to agree on common sustainability goals, but can also help reduce costs. ESG should not be seen as a box-ticking exercise, but rather as a driver for growth and innovation.

James Mulhall, SIOR, Managing Director, Murphy Mulhall, Dublin

The article stating that if concrete were a country, it would be the 3rd largest emitter of greenhouse gasses on Earth, behind only China and United States, stunned me. In the context of how we have traditionally designed and built offices using concrete frames, floors, cores and basement foundations, our industry has contributed greatly to the problem. High-rise offices have left a damaging carbon footprint.

Looking to the future and acknowledging the need to change, architects and developers alike are embracing new building standards and certifications. LEED Certification & WELL Building Standard are more commonplace in our markets as new office developments seek a new breed of Environmental & Social Governance (ESG) aware occupiers. These occupiers are keen to ensure that the building they are going to occupy for the next 5/10/15 years, has or will not make a negative impact on the environment. In addition, during their occupancy, they expect the building to perform in an environmentally friendly way. They want to do right by the planet and by their people. By investing in initiatives such as those put forward by the World Green Building Council (WGBC), developers and occupiers of offices can build a business case for health and wellbeing in green buildings into the future.

CREW UK

CREW UK recently hosted a global panel of top real estate professionals discussing how the industry can help tackle the key goals of COP26 through clean construction, policy change and initiatives within our communities.

Siobhan Godley, Real Estate Tax Partner, Deloitte and CREW UK Board Chair moderated the panel and said, “There is a call to action, and it is one for significant change”.

The panel, including Philip Parnell, Deloitte, Jennifer Taranto, STO Building Group and Chirag Rao, Howard Kennedy, agreed that to accelerate adoption of ESG-aligned investment, bringing people together early-on in the development process and embedding collaboration and transparency is a key criteria for success.

Placemaking, green financing and government legislation will all play a critical role in how the real estate industry participates.

Valdis Ligers LLB, SIOR, BREEAM Assessor, Cert. Passive House Con. CEO, Director at NEXTRE Global Group, Senior Sustainable Building Advisor at Baltic Sustainable Building Advisors, Ltd.

Energy price rises clearly showed that energy efficiency is an unavoidable trend for every aspect of built environment, COVID showed how important effective ventilation and air exchange and filtering is in offices and homes. This list can be expanded and widened - it is almost limitless.

We at NEXTRE Group have taken real action by establishing a dedicated building sustainability focused arm - Baltic Sustainable Building Advisors - advising our clients both in ESG investment, BREEAM, LEED and other sustainability related matters and certification aspects. And our client list is rapidly growing, a clear sign that both institutional/corporate and private CRE business and investors cares about a greener future as well as enhancing the wellbeing of their customers. They are committed to the long term aim of becoming a carbon neutral industry.

Dan R. Robinson III. SIOR, Head of European Logistics , Turner & Townsend

The global pandemic (coupled with Brexit) has demonstrated how vital the warehousing and logistics industry is in keeping our economies and everyday lives moving here in the UK and across the globe. Despite having to contend with numerous supply chain disruptions worldwide, rising warehouse construction costs, material & labour shortages or extended lead times, the sector continues to show resiliency (and will continue for years to come) and strong growth tailwinds.

In light of the above, the warehousing and logistics sector has a sizeable impact on today's environment. The constant movement of goods (and people) in and out of warehouses makes them significant contributors to carbon and waste. However, just like other industries, warehouse developers, owners and tenants of today recognise how crucial it is to find more eco-friendly and sustainable ways to build and run their business, reducing emissions, waste and their environmental impact.

With such pressures come opportunities, many warehousing and logistics clients seek to expand when and where possible whilst weighing the value and benefit of 'building or going green'. The environmental elements and sustainability performance of a warehouse or distribution network, without a doubt, has moved to the top of the agenda against the backdrop of the global climate emergency – no matter the region, country or city.

Additionally, consumers now more than ever use their buying power to make and influence greener choices – expecting those retailers and distributors alike to follow in their footsteps, placing the same value and importance on reducing their carbon footprint altogether.

The warehouse tenants and owners are by far well placed to affect and achieve net-zero carbon; however, there remains a contradiction or, better said, a balancing act. When one looks across today's supply chain partners, the eco-friendly warehouse is up against the Co2 impact that transport and distance has on the business and its consumers/customers.

From solar panels to the increasing use of electric vehicles within delivery fleets to greenhouses growing vegetables appearing on warehouse rooftops, our clients seek to understand and identify various and creative ways for the warehousing and logistics sector to meet this challenge.

Turner & Townsend is presently exploring (and will examine) the various trends shaping today's warehouse and logistics decision making and planning, such as:

1) Understanding and road map to achieving net-zero carbon

2) Green technologies and advisory enabling the achievement of net-zero carbon

a. On-site power generation

b. Recycling waste heat

c. Power and battery storage

d. Geothermal

e. Electric vehicle charging

f. Green building materials

3) Interventions to achieve other environmental, social and governance goals

We at Turner and Townsend would like to hear your thoughts on how the warehousing and logistics sector is responding by taking five minutes to answer our survey.