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The right mix How to build a successful strategy



EXPERT COMMENTARY

*The real estate sector can – and should – make a major contribution to addressing the climate challenges facing our environment, says **Bernardo Korenberg**, head of sustainability and innovation at Bouwinvest Real Estate Investors*



Sustainability generates both social and financial returns

The real estate sector has a big part to play in the transition to a fossil-free economy due to both the energy it consumes and its own environmental impact. The built environment generates as much as 38 percent of global CO2 emissions. It is therefore vital that the sector becomes more sustainable and that buildings are adapted to bear the consequences of climate change events such as extreme heat or flooding.

Real estate is an important part of the Dutch economy. Not only because people live and work in physical properties, but also because a large portion of pension capital is invested in this asset class.

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In addition to stable financial returns, pension funds also aim to create a livable environment for the future where their members will be able to enjoy their old age. Good property management is based on a similar principle. Companies that have broadened their focus beyond direct financial returns to building or converting properties where people want to live or work have a brighter future than those that only look at the financial results.

Climate change risk-analysis

While the physical risks facing our built environment may only become manifest in the long term, the sustainability transition risk is already in the spotlight. Under the Paris Climate Agreement of 2015, almost all countries around the world have agreed to limit global warming to well below 2C compared with pre-industrial levels, and preferably limit the increase to 1.5C.

If that goal is to be met, CO2 emissions must be reduced significantly in the immediate future, and that will require a wide range of investments. The huge increase in energy prices due to

the Russian war in Ukraine, among other things, means that companies that were already investing in energy-saving measures and renewable energy, such as solar panel installations, already have a big cost advantage.

As part of our efforts to chart all the risks and opportunities surrounding climate change, we elected to conduct our own initial analysis, drawing on publicly available data such as climate models and scenarios. That provided insights into the level of the broader climate risk as well as specific physical risks in the vicinity of all assets in the portfolio. For example, is there a risk of flooding and, if so, how big is it?

The next step was to translate that information into the net risks that a building faces. A property with a green roof, for example, is far more resistant to heatwaves and heavy rainfall than one with a bare dark rooftop.

The risk monitor also looks at the type of property and its users. The climate risks mapped out in these analyses provide a comprehensive picture of a property and clarify specific focus areas.

By gradually zooming in from country level to the neighborhood and direct vicinity of an individual building, it is possible to obtain a detailed overview of all the properties in a portfolio, which in turn provides a clear map of where the risks as well as the opportunities lie. This provides a lot of insight on how we should act, as it provides clarity on whether measures need to be taken in the short term or whether it would be better to wait until the occupier leaves before making any improvements.

Making properties 'Paris-proof' by 2045

In addition to taking into account the impact of climate change, we are doing everything we can to make our entire portfolio 'Paris-proof' by 2045. That means harnessing renewable energy sources and aiming for a high level of energy efficiency. The technical



Innovating to be green

What complicates our attempts to make our portfolio more sustainable is that it is standard practice to let retail units as empty shells. In contrast to the office market, the tenant rather than the landlord almost always owns the installations. That is not a good starting point for the enormous sustainability task we all face.

It is high time to set up leases in a new way. Under the 'Casco+' banner, we are willing to invest in and gain experience with this new dynamic.

Under a 'Casco+' lease, it is logical to charge a slightly higher rent, as the benefit for the retailer is they don't need to make initial investments themselves. They can also depend on the landlord to invest in sustainable installations that minimize energy consumption as much as possible.

Landlords will also benefit financially from this arrangement in the long term. Demand for energy-efficient stores will increase further in the near future and sustainable investments will remain profitable, even if a tenant leaves suddenly due to bankruptcy, for example. In other words, this is a win-win situation.

During a sustainability project involving 700 rental homes in Diemen, we opted to push ahead and finance all the measures required in one go. A large investment was made through the installation of hybrid heat pumps aimed at significantly reducing the consumption of natural gas. That has led to less greenhouse gas emissions and lower energy bills for tenants while we have not asked for anything in return. We want to learn from this experiment, which we expect will benefit residential property values in the future.

“Companies that have broadened their focus beyond direct financial returns... have a brighter future”

implementation requires meticulous planning and several hurdles need to be overcome in the process.

Meanwhile, we are also mapping out the requirements that each individual property must meet to become Paris-proof by 2045. We are currently customizing a schedule for each asset to create the technical conditions that will enable it to meet the targets of the Paris agreement.

As for actual energy consumption, that is partly down to tenants. Due to privacy, a landlord may only gain insight into the energy consumption of a residential tenant if they specifically grant permission, whereas that is a lot easier for commercial tenants.

Between 80 to 90 percent of commercial tenants are expected to share their energy consumption data with us next year. Residential tenants are typically more cautious about sharing their data for privacy reasons. We are aware that we need to convince tenants that this is a shared interest.

We aim to implement the sustainability measures for individual properties at ‘logical’ moments. From a circularity perspective, it is not sustainable to replace components that can last several more years. It is not in the interest of the tenants, either, especially in the case of residential properties.

An obvious time to cover the roof of a building with sedum or solar panels is when it is due for replacement. The temporary vacancy of a home also offers an opportunity to replace an old central heating boiler with a heat pump, or to install new windows and insulating glass.

Awareness and standardization are key

We are in close contact with our tenants about sustainability. Awareness is key. After all, it is not always about physical modifications to buildings, but also about tenants’ behavior.

This became very clear last summer when retailers kept their doors wide open on days that were exceedingly hot. Air conditioners were running full blast, which costs a lot of energy. The same thing happens in winter when heating systems are operating at maximum volume with the doors wide open.

During talks with tenants, we pointed out that energy consumption can be cut by 40 percent if the doors are kept shut on hot or cold days. Studies have also shown that consumers are not put off by doors that are closed.

Standardization also matters. The sustainability of a property can be calculated through an energy label, for example. Energy labels indicate the potential energy efficiency of a building based on a theoretical model.

Unfortunately, actual consumption is missing from the equation. The Paris-proof criteria, by contrast, look at actual energy consumption in practice, which is an incentive for us to motivate our tenants to use energy efficiently.

Meanwhile, large investors such as Bouwinvest make use of a whole array

of benchmarks such as GPR, GRESB and BREEAM, including related mandatory energy labels as well as Paris Proof criteria set by the Dutch Green Building Council in our home market. There is some overlap between the labels, but they all add value.

For instance, GPR and BREEAM also cover topics such as circularity, which is a key goal for us in addition to making our buildings Paris-proof and climate-adaptive. Circularity tops the agenda for new developments or acquisitions of existing properties, albeit that the main principles are still evolving.

The problem with energy labels is that they are difficult to compare. It would help the real estate sector if labels were more standardized and thus more comparable. This would mean everybody would be on the same page when they qualify as Paris-proof in 2045. The government should take the lead to create a level playing field. If we as society really want to emit less greenhouse gases, then it is our collective responsibility to monitor actual consumption.

Sustainability pays for itself

Good sustainability policy involves more than just managing climate risks and threats. It is also an effective tool for adding value to a real estate portfolio. An energy-efficient building with a low CO2 footprint has lower operating costs.

The term ‘sustainability’ also has another connotation. A building should be an attractive place to live or work. Several different factors play a role: a healthy and stable indoor climate that is not too hot or cold is an important condition. Services are also a factor, such as sufficient recreational space and a good office canteen.

For big companies, sustainable factors are increasingly becoming a priority in selecting a new office. A green office is turning into a tool to show that a company pursues a responsible policy. And that completes the circle: sustainability knows no losers. ■



Life.

Bernardo Korenberg
Head of Sustainability and Innovation

The Olympic Stadium district in Amsterdam demonstrates what Bouwinvest's asset management business stands for, according to Bernardo Korenberg. Together with our partners we revitalised the entire area. Through affordable rental housing and the sustainable preservation of heritage buildings, among other things. Because if we want beneficiaries to enjoy their pension later, we need to take action now to create liveable urban areas and counter climate change. This is how we create: real value for life.

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