

# Responsible property investment report

2018



## INTRODUCTION

The Property Team at Royal London Asset Management (RLAM) has published this report in line with INREV<sup>1</sup> Sustainability Reporting Guidelines<sup>2</sup>, to inform investors of:

- Our sustainability strategy for real estate acquisitions, developments and managed assets in the UK, including long term objectives and 2018/19 targets,
- How the real estate portfolio performed against the targets in 2018, and
- Highlight case studies and examples of best practice at 2 City Place and Westway Shopping Park.

## 2018 PERFORMANCE HIGHLIGHTS

### Refurbishments and major developments

Commencement of major developments at Northumberland Avenue, London, Orchard Business Park, Woking and Castlewood House, London.

### Managed properties

**99.5%** of new EPCs rated at E or above

**100%** renewable electricity supplied to office landlord supplies

**27** properties certified to ISO14001:2015

**26** ESOS energy audits completed

**9.3%** reduction in carbon emissions

**3.4%** reduction in water consumption<sup>3</sup>

**99%** of waste diverted from landfill

Publication of our Property Health and Wellbeing Policy



## RLAM'S RESPONSIBLE INVESTMENT STRATEGY.

RLAM Property Team commit to being a responsible and sustainable investor, manager and developer of property, through our acquisitions, developments and management of commercial and mixed use real estate assets in the UK.

This means upholding the aims of sustainable development:

- To enhance the economic, social and environmental benefits of our work, and
- To reduce, as far as is viable, the environmental impact of our developments.

To help RLAM Property deliver on these aims and drive continual improvement in performance, we set long term sustainability objectives, with complimentary targets for both development projects and property management activities.

The objectives and targets are stated at the bottom of each of the Acquisition, Development and Management sections in this report, with 2018 performance against the targets highlighted in each section.

Throughout 2018, progress against the targets was monitored and reported to RLAM on a quarterly basis.

For our development projects and assets under management, annual performance is reviewed, analysed and then published. Please refer to our Property webpage to see the 2018 reports:

- 'Statement of achievement' for our development projects, and
- 'Sustainable property management report' for our managed assets.

### Evolving our strategy

In addition to the above, and in the knowledge of evolving economic, social and environmental risks, such as short and long term climate change impacts, growing occupier needs, demographic trends and technology advances, RLAM aims to develop a robust strategy approach to health and wellbeing, resilience and adaptation, to protect long term investment performance.

## UNPRI

RLAM is proud to be a signatory of the United Nations internationally-recognised Principles for Responsible Investment (UNPRI), which helps to demonstrate our commitments to responsible investment, and joins us with a global community seeking to build a more sustainable financial system.

In the 2018 Assessment, which evaluates investors' progress in implementing and articulating their Responsible Investment activities, RLAM received an overall rating of A, with A for Real Estate.

You can view the Summary of RLAM's PRI assessment [here](#).

*Signatory of:*



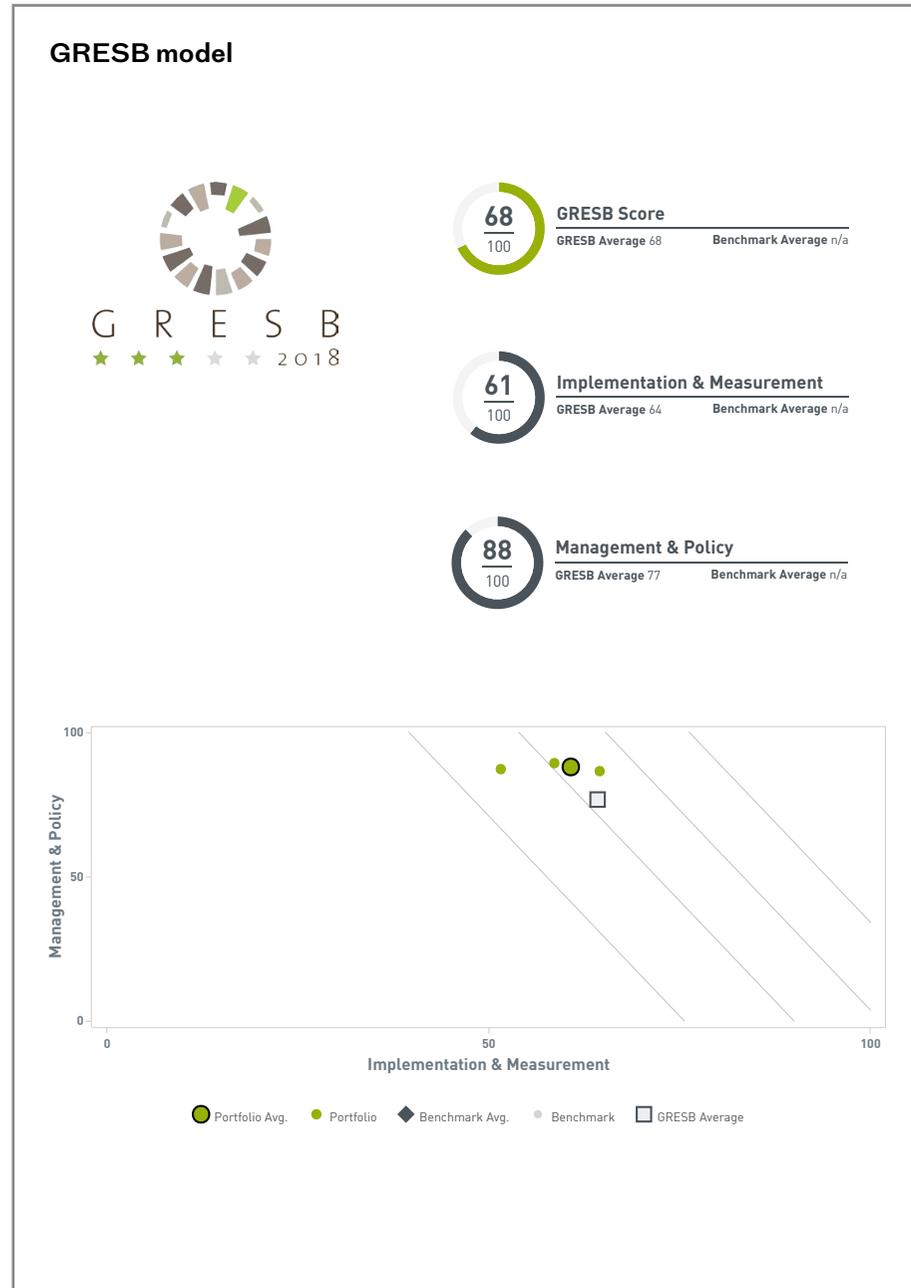
## 2018 GRESB PERFORMANCE

In 2018, three RLAM investment funds responded to the Global Real Estate Sustainability Benchmark (GRESB) survey, which benchmarks performance across all properties held by the funds during 2016 and 2017 against peers.

RLAM is pleased to report that the funds combined performance is above, or in line with, the peer group averages, as shown opposite.

### GRESB confirmed the funds are:

- Strongest in management, followed by monitoring & environmental management systems (EMS) and risks & opportunities;
- With the peer performance average for policy & disclosure, performance indicators, building certifications and stakeholder engagement, and
- Below the peer performance average for construction & major renovations.



### 2018/19 OBJECTIVE

Improve further the quality of data and qualitative responses reported in the GRESB 2019 survey.

### 2018/19 TARGETS

- During 2019, improve responses to the performance indicators, building certifications and construction & major renovations section questions and evidence submitted to improve score attainment.
- Make best use of the GRESB aligned data portal (SIERA) implemented during 2018 to host and report 'Performance Indicator' data from 2018 in GRESB submission.

## ACQUISITION

RLAM is committed to a rigorous and detailed investment process, adding value and maximising returns by taking a distinctive and responsible approach.

Our property investment transactions processes ensure that each fund manager follows due process when selling, acquiring or transferring an investment property.

During the acquisition and due diligence stage, environmental risks and opportunities are assessed through the employment of an acquisition environment checklist, which requires the following to be undertaken and results to be taken into account:

- A minimum of phase 1 environmental survey,
- Flood risk assessment,
- Energy survey (office buildings) & EPC review,
- Where relevant detailed M&E surveys.

During 2019, the acquisition environment checklist will be further reviewed and improved to support responsible property investment decisions.

### 2018/19 OBJECTIVE

- Undertake surveys of sites and buildings prior to acquisition to identify potential sources of contamination, hazardous substances and materials.
- Understand the existing energy efficiency and performance of the property, with scope to improve efficiency.

### 2018/19 TARGETS

- The Acquisition Environment Checklist is to be completed for each potential acquisition.

## DEVELOPMENT

In 2018, RLAM completed one major project, with ten commencing which are ongoing into 2019. The 2018 sustainability statement of achievement reports on overall performance against RLAM's environmental sustainability objectives and targets for these development projects.

### Building certifications

In line with our targets, RLAM is committed to attaining a high BREEAM rating for our major schemes.

### Renewable energy and reducing carbon emissions

Renewable feasibility studies are completed and influence the level of renewables installed, from roof mounted PV panels to gas CHP, to reduce reliance on the national energy grid and reduce predicted carbon emissions during the occupancy phase.

Where relevant each of our schemes completed a bespoke travel plan to help enhance connectivity for pedestrians, cyclists and accessible public transport nodes, thereby supporting the adoption of non car modes of transport and public transport.

### Sustainable procurement and considerate construction

Between 85% and 99% of all of the non-hazardous construction waste generated by the above developments was diverted from landfill and re-used or recycled on site.

All timber and timber products used in the construction of all major developments were from sustainable sources and accredited by the Forestry Stewardship Council (FSC).

All construction sites were registered with the Considerate Constructors Scheme.

## 2018/19 DEVELOPMENT OBJECTIVES

- Implement any necessary remedial actions identified during the acquisition stage.
- Require development plans to meet the relevant sustainability policies of the local planning authority.
- Include sustainability criteria in the design brief, in particular:
  - reduction of demolition arising and construction waste sent to landfill
  - selection of new and recycled content construction materials
  - reduction of carbon emissions from energy use
  - reduction of demand for water
  - management of operational waste.
- Require our contractors and suppliers to manage the construction process so as to minimise pollution and the production of waste.
- Communicate our sustainability policy to our consultants, contractors, suppliers and agents, and give consideration only to those who can demonstrate that they share and will implement sustainability standards consistent with our own.

## 2018/19 DEVELOPMENT TARGETS

- CO<sub>2</sub> emissions from new non-residential buildings shall be at least 15% less than the level required by Building Regulations Part L (2016), prior to consideration of low and zero carbon technologies.
- A minimum EPC rating of 'B' should be achieved for new-build development projects and an improved rating and/or a 'D' secured for all refurbishment projects.
- A feasibility study of low and zero carbon technologies, including district heating networks, CHP and renewables shall be undertaken for new-build projects, and shall be considered for major refurbishment projects.
- All new-build and refurbishment projects shall have a tailored travel plan.
- All new-build and major refurbishment projects shall incorporate water efficiency measures and/or water recycling to reduce mains water use by 20% compared to base build.
- All timber and timber products used in construction (including site timber) shall be from sustainable sources accredited by the Forest Stewardship Council or the Pan European Forestry Council.
- All new-build and major refurbishment projects shall incorporate materials from good practice responsible sourcing routes (as set out in BREEAM Guidance Note 18).
- All new-build and major refurbishment projects shall incorporate materials with lower levels of harmful emissions (e.g. low VOC content) specified.
- Design for waste reduction initiatives shall be implemented in all new-build and major refurbishment projects
- Construction waste shall not exceed 7.5 m<sup>3</sup>/6.5 tonnes per 100 m<sup>2</sup> NIFA for new-build development projects, and not exceed 4.5 m<sup>3</sup>/1.2 tonnes per 100 m<sup>2</sup> NIFA for refurbishment projects.
- At least 80% of non-hazardous construction waste by weight and at least 90% of demolition waste by weight shall be diverted from landfill.
- All new-build and major refurbishment sites shall be registered under the Considerate Constructors Scheme and the contractor shall be required to achieve a CCS score of 35 with a minimum score of 7 achieved in each scoring section of the scheme.
- The contractor shall be required to undertake 'best practice' measures with respect to emissions to air, landscape, noise and vibration and surface and ground water during construction works (all BREEAM credits for construction site impacts shall be achieved).
- The contractor shall be required to commit to achieving zero reportable health and safety incidents as part of the works.

- The contractor shall be required to address all planning issues relating to site and landscape (e.g. contamination) with formal consent for these being achieved.
- All new-build and major refurbishment projects shall incorporate best achievable approaches to issues such as access and connectivity, comfort, health and well-being, crime and security, employment, equal opportunities and diversity, health and safety, public realm, community engagement and response to climate change.
- A minimum BREEAM rating of 'excellent' shall be sought on all new development projects and a minimum BREEAM 'very good' rating on all major refurbishment projects (best practice target 'excellent' rating).

Alternative targets are set for 'minor projects' (i.e. those which have a construction budget less than £2 million and/or a duration of less than 6 months).

## MANAGEMENT

### Ensuring legal compliance

RLAM works with sustainability consultants and advisors to monitor compliance with current legislation and prepare for evolving legislation. We also attend CPD and industry events to keep abreast of legislation and policy trends.

At the portfolio and fund level, compliance with the **Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES)** continued during 2018 and through to the end of the current Phase in 2019, when the scheme officially ends. For this scheme, we report carbon dioxide equivalent emissions, based on validated electricity and gas supplies in the funds name(s), to the Environment Agency once a year.

The successor carbon reporting scheme to CRCEES, **Streamlined Energy & Carbon Reporting (SECR)** will apply to RLAM funds from 2020, and we are currently making preparations for reporting carbon emissions in line with SECR requirements.

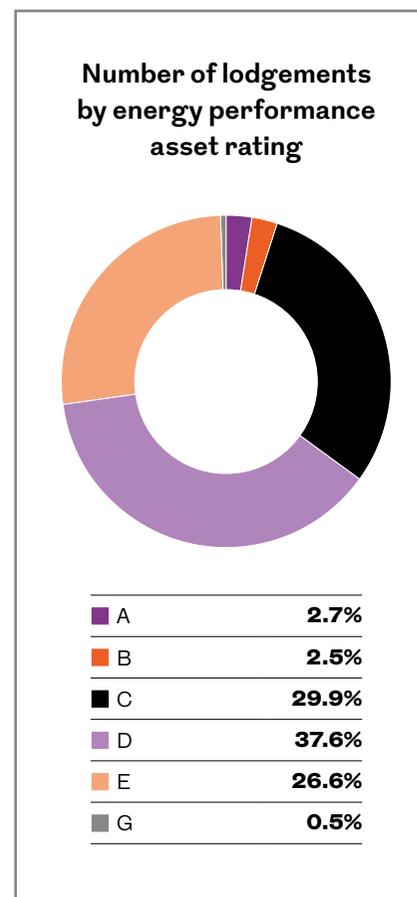
RLAM preparations for **Energy Savings Opportunity Scheme (ESOS)**, Phase 2, are underway with 26 energy audits already completed or underway, ahead of the compliance deadline in December 2019.

During 2018, RLAM implemented the requirements of the **Minimum Energy Efficiency Standard (MEES)** in England and Wales. RLAM focussed on units without EPCs, prioritising those with lease events planned and where an EPC needed to be in place before April 2018.

In total the number of properties, and percentage of total properties, with missing EPCs for each managed fund was as follows:

Fund	Number	Percentage
RLUKREF	34	5%
RLPPF	76	7%
RLPF	7	5%

In total 364 EPCs for properties and units were provided during 2018. Of these 5% are A and B rated, with just 0.5% F and G compared with the 2018 national average<sup>4</sup> of 15.3%, as shown opposite.



### Environmental audits and action plans

During 2018 the recommendations from each of the 26 energy audit reports completed were reviewed by the Property Management Teams and used to inform the property level business plans, energy action plans and service charge budgets for 2019 onwards. This will continue to be the case with any additional energy audits completed during 2019.

Asset/property level legal compliance is audited annually for Health, Safety, Fire and Environmental compliance and risk management. Actions raised are uploaded into 'Riskwise' an online compliance database, where facilities managers then upload evidence to close the actions. Progress is shown via portfolio and property level dashboards, with JLL and RLAM reviewing quarterly.

In addition, annual ISO14001 environmental audits were also undertaken at 27 properties during 2018. As above, the results are recorded, closed out and monitored via Riskwise.

## Environmental Management System/ISO14001 Certification

RLAM's Environmental Management System (EMS) covers RLAM's largest and highest value commercial assets, with many of the highest energy consuming assets in scope. The EMS is aligned with the International Standard ISO14001 and been certified since February 2015.

During 2018, the EMS was maintained in line with the updated ISO14001:2015 standard requirements, and the number of properties in scope increased from 19 to 27 properties. In February 2018, the external auditors Lloyd's Register, awarded the Certificate of Approval for facilities management of RLAM investment portfolio properties.

## Environmental performance

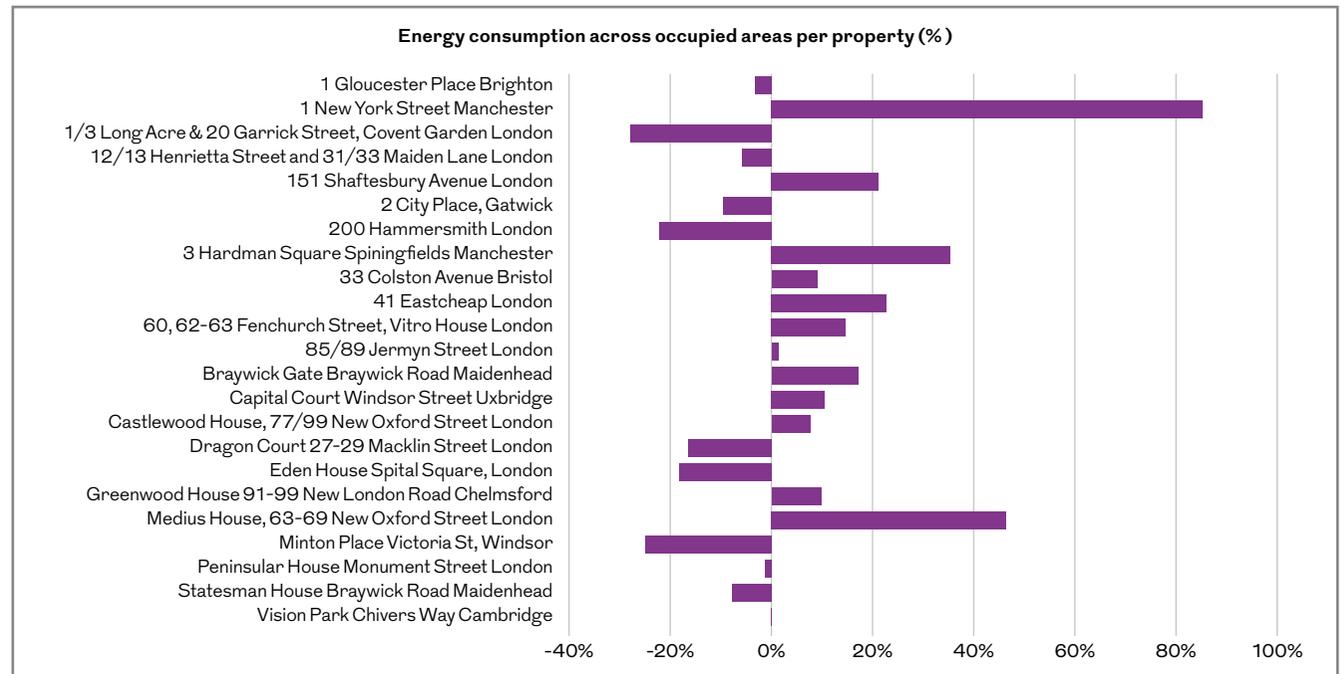
We are pleased to report that 100% of office landlord electricity supplies, were supplied with 100% renewable electricity during 2018, with the exception of inherited contracts which remain on non-renewable tariffs until renewal.

Absolute and comparable environmental performance data for energy consumption, CO<sub>2</sub> equivalent emissions<sup>5</sup>, water consumption and waste management are summarised in the table for 2017 and 2018 and in the graph, opposite.

	Absolute		Like for like			Notes
	2017	2018	2017	2018	% change	
<b>Energy (kWh)</b>	44,525,863	52,873,463	29,027,686	29,211,577	0.6	Gas consumption showed year on year increase, after degree day adjustments are taken into account.
<b>CO<sub>2</sub>e (kg)</b>	14,272,000	15,281,000	9,304,326	8,442,460	-9.3	Reduction in carbon emissions related to reduction in carbon intensity of electricity during 2018 compared with 2017.

	Absolute m <sup>3</sup>		Like for like m <sup>3</sup>			Notes
	2017	2018	2017	2018	% change	
<b>Water</b>	129,817	128,509	82,438	79,637	-3.4%	Water consumption data based on 40 supplies.

	Absolute tonnage		% diverted from landfill			Notes
	2017	2018	2017	2018		
<b>Waste</b>	3,002	4,171	100%	99%		Data relates to 51 properties



## Tenant engagement and satisfaction

As part of the tenant engagement approach undertaken by JLL Property and Facilities Managers liaise with tenants and hold tenant meetings throughout the year.

RLAM instructs an independent annual survey to help monitor satisfaction levels. In 2018, The Real Service Customer Satisfaction Index surveyed 150 occupiers, with the survey including a sustainability question. Issues raised are added to an action plan and closed out by JLL and RLAM.

## Improving environmental data collection, analysis and reporting

During 2018 RLAM procured a software system, called SIERA, to host environmental data for each asset in each Fund, which displays data graphically at both the Asset and Portfolio level.

This software system has helped to support many applications and stakeholders, from:

- INREV and Sustainability reporting across the Funds and Fund level reports, including absolute data and like-for-like comparable data,
- Risk and opportunity analysis, especially for EPCs and informing RLAM's MEES Strategy,
- GRESB Performance Indicator section submissions,
- ISO14001 quarterly performance reporting,
- Asset level analysis to support Asset, Property and Facilities Management decisions,
- Tenant engagement and reporting.

## Environmental Performance case study – 2 City Place

During 2018 the site management team at 2 City Place, Gatwick implemented a lighting efficiency improvement programme following on from the building tenant meetings and to build on previous improvement measures such as installing eco charge points, time clocks and lux sensors throughout the building. It was agreed that we would replace all the atrium common area lighting with new improved LED lights to achieve a 5% reduction in utility consumption and costs.

78 new LED lights were successfully installed in May 2018 to the Atrium walkways lift lobbies, lift shafts & disabled toilets. The Atrium area of circa 2000 sqft now has 96% coverage by LED lighting which not only looks great but reduces our energy consumption by 5% and reduces further costs incurred by regular changes to the old inefficient light fittings.

The project payback is estimated to be around 1.5 years with year on year energy savings of circa 5%.

## Community engagement case study – Westway Shopping Park

During 2018 our managed property Westway Shopping Park supported a local charitable organization with a community day, strengthening and reinforcing the Park's ambition to be at the heart of the local community.

In partnership with one of our tenants McDonald's the Park's Facilities Manager organized a volunteering project helping a local youth Scout group. The event took place on 26th August 2018 and was attended by over 40 volunteers, who helped to rejuvenate a neglected and overgrown outdoor space by cutting back trees and shrubbery, cleaning benches and walkways and undertaking roof repairs.

Royal London donated £500 towards roofing materials with Legal & General also donating £250. 2 appointed contractors serving the Park Mitie and Regular Cleaning participated in the event with equipment supplied by the Facilities Manager and retail park tenants encouraged to participate.

## 2018/19 ENVIRONMENTAL MANAGEMENT OBJECTIVES

- To reduce the environmental impact of waste generated by RLAMs operations, in particular diverting waste from landfill.
- Reduce the carbon footprint of RLAM/ to decarbonise RLAM's Operations.
- Manage and reduce water consumption.
- To minimise the greenhouse gas potential from the provision of facilities management services.
- Rollout SIERA to all ISO14001:2015 properties and have data on the system for use and monitoring by end of June 2018.
- Improve depth and quality of external information available on RLAM's property page during 2018.

## 2018/19 ENVIRONMENTAL MANAGEMENT TARGETS

- Waste collection and treatment data to be provided by Managing Agent to the EMS Co-Ordinator quarterly, in a consistent format to support property and client level analysis and reporting.

- To establish 2018 waste recycling, waste to energy and landfill baselines. Where possible, compare with 2017.
- To source landlord's electricity supply contracts\* from 100% renewable sources subject to acceptable costs and contract renewal date(s).
- To reduce energy consumption by 2.5% per m<sup>2</sup> occupied floor area<sup>†</sup> space at applicable properties<sup>‡</sup>.
- Increase or maintain AMR coverage of all landlord's electricity and gas supplies at multi-let office and retail properties.
- Increase or maintain check/sub-meter coverage of relevant multi-let office and retail properties to cover 100% of tenant consumption.
- Water Bureaus and Managing Agent to identify suitable water meters to upgrade to fiscal settlement meter and undertake pilot upgrading meter project during 2018, subject to acceptable costs.
- Collate water consumption data and report annually to client.
- Monitor usage of ozone depleting substances used in the provision of cooling operations and maintain a zero-leakage rate.

\* Excluding void supplies.

† Managing Agent to monitor occupancy rates and report to the EMS Co-Ordinator quarterly.

‡ ISO14001 properties in scope during 2017.

## HEALTH AND WELLBEING

As part of The Royal London Group we are committed to providing health and wellbeing support for our own employees and to being a responsible investor, manager and developer of property. We acknowledge that our work and services impact upon colleagues, suppliers, tenants and visitors' physical and mental health and wellbeing.

During 2018 we developed and published our Property Health and Wellbeing Policy, and outlined our Health and Wellbeing commitments.

Our Policy also outlines our approach to tenant engagement and policy and strategy management.

## NOTES

- 1** INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Europe's leading platform for sharing knowledge on the non-listed (unlisted) real estate industry.
- 2** INREV Sustainability Guidelines, 2016. Available at: <https://www.inrev.org/guidelines/module/sustainability#inrev-guidelines>
- 3** Based on 40 supplies with at least 2 years of data
- 4** Energy Performance of Buildings Certificates in England and Wales: non-domestic Energy Performance Certificates by energy performance asset rating. Available at: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates>
- 5** Calculations reference the UK Government's 2018 Green House Gas Conversion Factors for Company Reporting, including the 'Electricity generated' and 'Transmission and distribution' conversion factors for electricity, and 'Fuel – Natural Gas' conversion factor for gas calculations.



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