ESG – On a human scale

Issue 4 – October 2022

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Foreword

In this, the fourth edition of our 'Investing in tomorrow' series of reports, we continue to look at the challenges and opportunities presented by the increasing pressure on organisations across all sectors to address Environmental, Social and Governance (ESG) issues.

We often associate ESG with policies and practices at an organisational, sector, national or even international scale. Indeed we cover such issues in this report – such as ESG in the build-to-rent and industrials sectors, and internationally-tested alternative charging options to support the roll out of electric vehicles.

But ESG can also be considered on a very human scale – such as providing opportunities for different models of working and management practice that are positive steps towards supporting an organisation's social and governance objectives.

An example of this – and one in which the authors of this foreword have been active participants for over eight years – is job-sharing; full-time roles being carried out by two or more people in a part-time pattern to provide the flexibility and support systems they need to succeed at work.

Job sharing has provided us with the flexibility and time to be present in our home lives, while giving us the in-built ability to lean on each other for support, continuity and mentorship at work. It has also allowed us to be consistently positive and confident in a way we would have struggled to be on our own. As women that were left bruised early on in our careers by the way the industry was insensitive to the challenges of being a working parent, job sharing has enabled us to succeed in a highly competitive environment.

It is not just employees that benefit from job sharing. By embracing job sharing, businesses gain twice the brain power, skills, experiences and knowledge, while also securing continuity for the role. It is also a powerful tool for ensuring retention and cultivation of talent that can otherwise quietly slip away.

Job sharing is just one tool that can help to support a more diverse workforce by providing men and women with a route to senior leadership who might otherwise be considering halting their careers, taking lesser roles, or even stepping back entirely, due to difficulties occupying full time demanding roles.

We hope this, our latest ESG report provides information, ideas and inspiration to organisations to act, whatever the size or nature of your business and whatever point on the ESG journey you are on.

Kathryn Jump & Lisa Tye
Partners and Co-heads of Shoosmiths Planning Practice

Build-to-rent a flagbearer for ESG

- *How is the build-to-rent sector approaching ESG issues?*
- *Are residents willing to pay more for a high ESG spec?*

Contributors:

Sarah Sergeant
Chief Financial Officer – Watkin Jones plc

Kerry Watson
Group Company Secretary – Watkin Jones plc

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Build-to-rent a flagbearer for ESG

With an ingrained focus on community, connectivity and sustainability, the build to rent (BTR) sector is helping to transform modern living habits in the UK.

With the total number of BTR homes completed, under construction or in planning at Q2 2022 up 13% from 2021 to 237,000, and with regional cities growing at double the pace of London, the sector has a huge opportunity to act as a flagbearer for the ESG agenda.

For Watkin Jones plc, a real estate developer specialising in BTR and purpose-built student accommodation, the need to provide ESG-focused residential solutions has long been an integral component of its strategy.

We recently sat down with Sarah Sergeant, CFO, and Kerry Watson, Group Company Secretary, to discuss the opportunity that ESG presents for the ongoing growth of the BTR sector.

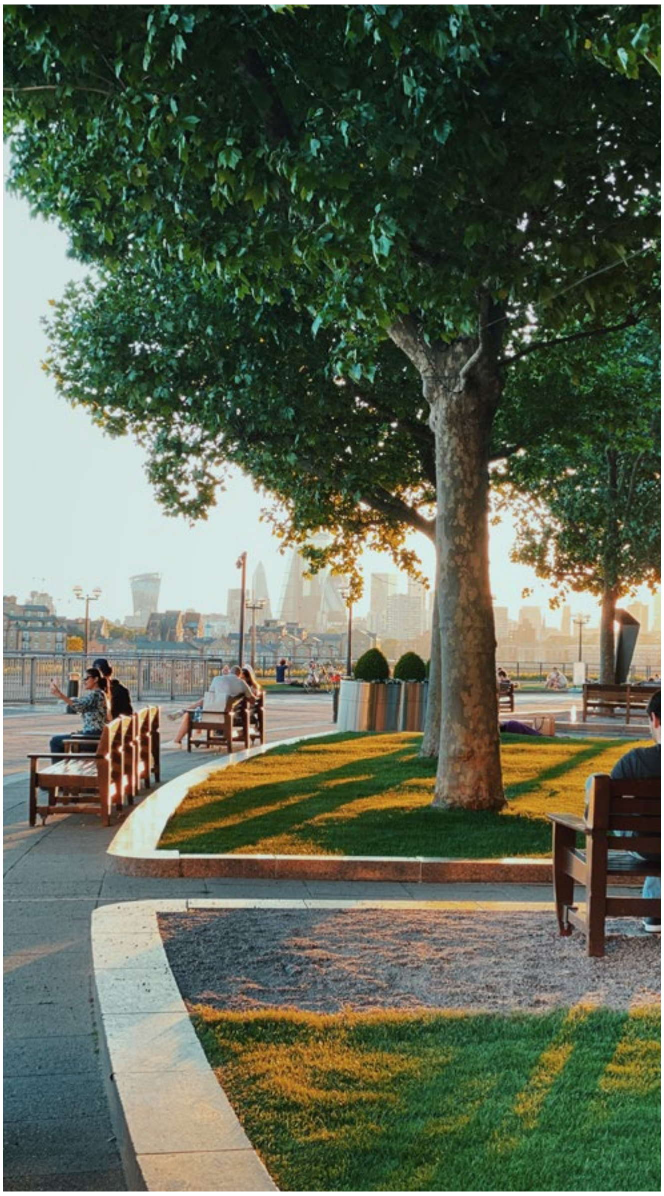
Embedding ESG

For ESG to become embedded in an organisation's practices, it needs a wholehearted commitment from all stakeholders. Thankfully for Sergeant, this was the case when she joined Watkin Jones in October 2021 when she quickly recognised that ESG was nothing new to the organisation.

"ESG is really just a label for harnessing everything that was already being done in the business before I joined," said Sergeant. "Within the first few weeks, we went into launching a new strategy and it became apparent straight away that ESG was already built into our operations. There was nothing new, it had just always been there, but now it was given a name and a strategy.

"I previously worked in a much larger organisation with more employees and more units, and the management of ESG was very much top down. With Watkin Jones plc, as a smaller business, we can do it more organically. That's probably the most exciting thing for me."

Watson stresses that it's not straightforward: "If you lump ESG in with other initiatives, it's not easy to tick the compliance box. You can't just say that, if we do these things, we're a sustainable company – it requires a lot more thought and a lot more attention. What works for one company might not necessarily be right for another. It requires innovation and depth of thought to get there."



> The attitudes of the younger generations are changing – they want community living, cinemas, gyms, social space – it's tapping into a social need."

Top-down, bottom-up

The presence of ESG in boardroom strategies and investor relations meetings is undoubtedly on the rise, but the implementation of strategies at an operational level can sometimes be an issue, requiring buy-in and support from employees.

Watson believes, however, that the demand for ESG is coming from all angles: “We talk a lot about ESG and it is certainly filtering from the top downwards, but actually what we are finding is that there is a lot coming back up as well. Our people are really taking the initiative and there is a lot of creativity and innovation going on.”

Sergeant agrees: “As a business, yes we have our strategic pillars around ESG – future planet, future people and future places – and these are allocated to executive members to lead. But it's a bottom-up, top-down process that comes together to get us where we are today.”

The omnipresence of ESG across the real estate industry in the UK today can be deceiving though, and it is worth reminding ourselves that, up until very recently, that wasn’t always the case. The last few years have seen a rapid change in mindset from employees, customers and supply chain partners, as well as funders and investors keen to future-proof their investments.

“I've definitely seen a huge difference in the last the last few years,” Watson says, “including the pension funds with whom we work and who will be handling our assets for 30-40 plus years. They recognise the value of ESG and it’s great that we've got that push and pull from institutional investors and shareholders. And consumers are much more aware now as well. You've got a collective shift towards doing the right thing.”

Social value

Whilst real estate development can sometimes get bad press, it is difficult to disassociate social impact from residential development, particularly in the BTR sector. The creation of micro-communities, the use of communal space, the propensity for socialising, on-site gyms, supermarkets, cinemas and so on, all of which help to connect people, tackling loneliness and supporting wellbeing.

“It's part and parcel of the market in which we operate,” says Sergeant. “I don’t want that to sound like it's an afterthought because it’s not. But if you think about BTR, yes the market opportunity is strong, but you are also fulfilling a social need.

“Related to that is the regeneration of urban areas and, with our BTR and student developments being primarily in inner city locations, they are doing much for local communities and the urban environment around them. These schemes are so much more than just buildings to take residence in.”

Watson goes on to say: “Attitudes to housing are changing. If you look at the rest of Europe, nowhere is home ownership as big a thing as it is here in the UK. The attitudes of millennials and the younger generations are changing – they want community living, cinemas, gyms, social space. It's tapping into a social need, but also, post-pandemic, into a need for social community.

“People no longer get one job and stay in one location for all of their lives. There's a lot of mobility for career purposes. And when you move to a new city and you don't know anyone, it's scary and it's lonely. BTR can really help to address those social problems.”

ESG premium

A key challenge for developers attempting to roll out ESG strategies and bring sustainable technologies and processes into their operations is the willingness of the consumer to pay what amounts to an ESG premium for a particular site or location. Research from Hamptons' recent Build to Rent – How Does the Premium Stack up? report shows that, in the first half of 2022, BTR investors achieved an average 10.6% more in rent than a landlord offering a similar flat nearby, up from 6.5% in 2016. Is this trend likely to continue and are residents willing to put their money where their mouth is to pay for a high ESG spec?

Watson believes so: "Our specialist accommodation management offering, Fresh, allows us to get feedback and then factor that feedback into our designs. So, we are constantly looking at increasing green spaces, incorporating rooftop terraces, trees, and so on. Sometimes it can just boil down to something as simple as what mattress you have, what desk space you have, particularly for students in our student schemes. We try to incorporate those things into our design, which residents recognise and are prepared to pay a premium for."

"And that is the same with the communal spaces as well as the individual spaces," says Sergeant. "With some of our student schemes, for example, we have communal rooms from which students can work or attend lectures online. They don't want to be sitting in their rooms on their own all the time. They are stunning spaces and students are prepared to pay for that benefit."

"One of our strategic pillars is 'future places'", says Watson, "which relates to our focus on building places in which people are going to be living and we are going to be managing for a long time, and so we are committed to making sure they are as environmentally friendly as possible. This factors in the technical standards, such as BREEAM, as well as how they are designed, how they are built and how the living experience is – for example the type of heating and cooling systems, and air quality. Then it's how we're constructing the buildings and ensuring we've got considerate contractors in place for our developments. This all adds to the premium but is worth it."

The only way is up

The real estate industry has come so far in what is, in reality, a short space of time, but there is still so much more to do.

"For me, it's just about cohesion," says Watson. "There are so many different initiatives out there and, as a small company, we need clear direction. What are the two or three really important initiatives that we can get behind as an industry that will make a big difference, rather than spreading ourselves too thinly?"

Sergeant says: "For me, it's the challenge of building with concrete and carbon emissions. There has been a lot of uproar over the M&S store in Oxford Street, which the company wants to tear down and then rebuild an energy-efficient mixed-use building in its place, but the government, concerned about the possible levels of emitted carbon that would be released through demolition and rebuild, is arguing that it should be restored and refurbished. That's just one example, but how can you marry the need for housing at one end and the need to reduce carbon emissions at the other? The industry has to embrace modern methods of construction and find and use new alternatives to concrete."

"What are the two or three really important initiatives that we can get behind as an industry that will make a big difference?"

Electric vehicle infrastructure

- *Could Battery-as-a-Service aid the adoption and roll out of electric vehicles?*
- *What are the hurdles for Battery-as-a-Service to becoming mainstream?*

Author:

Jonathan Smart
Partner and Head of Mobility – Shoosmiths

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Electric vehicle infrastructure

With the government's widely publicised plan to end the sale of new petrol and diesel cars in the UK by the end of the decade comes a secondary issue – the need for an extensive electric vehicle (EV) charging infrastructure to support an exponential increase in the number of EV cars on the road.

Rollout of EV chargepoints is significantly behind what is needed to meet the predicted demand from 2030. It is estimated that the number of chargepoints will need to increase tenfold by 2030 to cater for the anticipated numbers of EV drivers. There is also currently an uneven geographical distribution of EV charging points across the UK.

The government's UK Electric Vehicle Infrastructure Strategy is a step in the right direction regards addressing the extra demand for charging points in the UK, but there is no simple 'one size fits all' solution. In urban city centres where dwellings largely comprise flats with no off-street parking, there will be high demand for ultrafast chargepoints, whereas in rural areas, slower, but more economical, home chargepoints will prevail. There will also be peaks and troughs in demand at certain times of the day.

This all begs the question: should we be looking at what other countries are doing in the EV charging space and considering alternative solutions to compliment the planned EV charging infrastructure? And could Battery-as-a-Service (BaaS) be one such solution?

What is BaaS?

The BaaS model enables EV owners to swap out depleted batteries for fully charged ones at a service station via a subscription service. These batteries can still be charged using normal chargepoints, with BaaS complimenting the EV infrastructure that has already been installed.

Although it is at an embryonic stage of development and not without its own challenges, early signs are that BaaS is working successfully in China with the principal market incumbent, Nio, now looking to roll it out in Europe as well.

There are several potential benefits of the BaaS model – based on global case studies of the technology in use.

> BaaS offers a solution for inner city charging where homes do not have access to at-home plug-in charge points."

Benefits of the BaaS model

- Reduced issues around range anxiety, given the ability to swap a depleted battery for a fully charged battery in a matter of minutes
- The upfront cost of an EV is reduced by up to 30 per cent and the subscription approach provides greater consumer flexibility
- It offers a solution for inner city charging where homes do not have access to at-home plug-in charge points
- It provides flexibility for the electricity network, by allowing unutilised batteries to be discharged onto the electricity network at swap stations during peak hours
- It creates a potential solution for a global shortage in the raw materials necessary for battery manufacture including battery recycling and reuse opportunities. This could include second life swappable batteries in an onsite storage facility at swap stations

Challenges of the BaaS model

As with any new or alternative technology, the BaaS model also has its challenges, the principal one being a lack of battery standardisation across vehicle manufacturers – meaning swap stations are not currently scalable, with each station only able to service a specific make or model of car.

Other hurdles include shortages of the raw materials needed to manufacture batteries and uncertainty over battery ownership, especially when the EV is re-sold. Major investment is also needed to develop and service the technology and infrastructure the model requires.

Worth exploring

To be successful, BaaS would need government support to help provide research and development investment, a supporting regulatory framework and encourage collaboration between the relevant industry stakeholders. But given the current state of play regarding EV chargepoints, BaaS merits further consideration rather than just being ruled out for being in its infancy and relying on the rapid development of battery technology to reduce range anxiety and accelerate charge time.

Even if BaaS is not considered a viable option in the UK for domestic EVs, it could be still considered a complementary part of a wider EV infrastructure solution – perhaps providing a charging solution for EV fleet cars such as a taxi company or for the rental market. Surely something worth exploring?

You can download Shoosmiths' full report on 'Battery-as-a-Service: an underexplored opportunity?' produced in partnership with Cornwall Insight here.

> Early signs are that BaaS is working successfully in China."

The role of the architect

- *What influence do architects have on the ESG agenda?*
- *Which sectors are seeing the most activity and investment from an ESG perspective?*

Author:

Jonathan Harris
Director – Chapman Taylor

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The role of the architect

In recent years, the ESG agenda has gained increasing prominence, both in the corporate world and in society at large. However, the idea of ESG – or investing your money to make a positive impact on others – is not new. Over the last century, it has been referred to by different names including 'moral capitalism' and 'responsible investing'.

In the same way that ESG could be said to be a re-brand of socially responsible investing, there is nothing new in designing responsibly. In fact, I would argue that it is what we, as architects, have always done. Simply put, responsible design is just 'good design'.

Responsible design is of course about more than just the appearance of buildings – it has the potential to impact positively on the environment and on people's lives through their interaction with, and experience of, buildings and the spaces between them. The architect's role in this is fundamental.

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As a business, we cannot succeed unless our cities and people are successful as well.”

A step change in the industry

Whilst we have always been focused on designing responsibly, there has undoubtedly been a step change in recent years within the construction industry, and in particular amongst clients, for whom ESG is now a key priority.

In public procurement, architects increasingly come across the need to demonstrate social value on their projects, although the focus until now has been very much on the process of development – for example, the jobs created during construction as opposed to the potential for design decisions to deliver lasting well-being benefits.

In the private sector, there are other drivers, and regulation is one of them. In the UK, the Environment Act 2021 requires new development to put in place a plan that demonstrates a 10 per cent net gain in biodiversity value. Progressive iterations of the Building Regulations are setting a pathway to lower carbon development. Planning policy too is a factor, with an expectation that both decision-making and the Local Plan address climate change as one of the core land use planning principles.

However, the main reason for the step change that we have seen is due to the investors and funders behind projects. They are driving ESG targets which are often higher than those required by current regulations. Most publicly listed companies now report their performance against ESG standards and as a result, these companies increasingly want to be able to invest in opportunities that promote their ESG credentials. Property funds are keen to improve their ESG credentials by investing in modern, environmentally-friendly buildings, which, in turn, attract users who themselves want to demonstrate these credentials. This drives increased property values and an improved return on investment.

Attracting long-term investment

The sectors in which we are seeing ESG take most prominence are those which attract long-term investment – for example, the workplace sector and the managed residential sectors, including Build To Rent (BTR) and Purpose Built Student Accommodation (PBSA). Setting high ESG targets is simple risk management, protecting property assets against likely future changes in regulation and public perception.

In addition to the social and environmental benefits, ESG brings value to developers. Climate-ready, 'healthy' buildings are more valuable, attract and retain users and are future-proofed to protect investments in the long term. Good environmental credentials can make a building more attractive in the market, generating better returns for the owner.

The architect's scope of influence

As architects, we play a key role in helping our clients define and meet their ESG targets for projects, driving better outcomes for the environment and for users, and better value and financial returns. It is worth noting, however, that of the three components of ESG, the first two, Environmental and Social, are the ones that we have the most opportunity to positively influence through our design work.

> A The rise of social value on the policy agenda is a real opportunity for architects to demonstrate the value of what they do."

Environmental design

The E in ESG is increasingly focused on carbon reduction. It is arguably the most pressing concern for the industry, and for society as a whole. Alongside, for example, net:gross targets, project briefs from our clients now include targets for operational and embodied carbon. Similarly, industry guidance is changing. For example, the proposed 2022 updates to the British Council for Offices Guide To Specification now include net zero embodied and operational carbon targets. Also included in the update is a NABERS target; an accreditation system based on actual, rather than predicted, energy performance. These focused building-performance targets take the design and specification of projects to the next level from standards like BREEAM which, until now, have been the industry benchmarks for environmental assessment.

At Chapman Taylor, we take a 'lean' approach to design, aiming to build more with less by designing with high levels of efficiency to deliver more useful space from less built form. Adopting a fabric-first approach to reduce unwanted losses, we design to reduce energy demands, using environmental modelling software to help us understand and reduce operational carbon emissions from the earliest project stages.

As the grid decarbonises, the need to reduce the embodied carbon in projects will become increasingly important on our net zero journey. Much of our work involves the refurbishing and repurposing of existing buildings, which is the lowest embodied carbon approach. In the design of new buildings, we aim to design lighter structures and we carefully review material choices to lower the carbon footprint. We promote the use of off-site construction which reduces waste and improves speed and quality on site. Designing for future adaptability and using circular economy principles helps us limit whole-life carbon emissions.

Social value in design

The S in ESG is the potential for a project to promote positive emotions amongst its users, for example by enabling connections with nature and with each other, offering opportunities for an active lifestyle and by fostering a sense of community.

At Chapman Taylor, the starting point is in optimising the potential of sites. We consider densification and efficient planning to ensure we create compact towns and cities that enable active travel and easy access to amenities while conserving green space to support biodiversity and access to nature. By incorporating a sustainable mix of uses and creating a strong sense of place, we add community value to our projects by designing for social and demographic diversity. We design for physical and mental wellbeing; optimising lighting, acoustics and air quality while integrating nature and biophilic design into our buildings. Creating spaces for activity and interaction supports community and inclusion and ensures accessibility for all.

Community in the form of placemaking has always been integral to good design. The rise of social value on the policy agenda is a real opportunity for architects to demonstrate the value of what they do.

We call it responsible design

The rise in prominence in recent years of ESG in the construction industry is undoubtedly having a welcome and positive impact on the design, construction and use of our buildings, and the architect's role in this is key. ESG, or Responsible Design is simply good design – it's what we have always done.

Charities and ESG

- *What does ESG mean for the charity sector?*
- *Why are not all charities naturally good at ESG?*

Author:

Robert Nieri
Senior Associate – Shoosmiths

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Charities and ESG

ESG is about doing good. So surely all charities are on top of ESG matters?

By definition charities are institutions that advance exclusively charitable purposes – all good stuff like advancing education, relieving poverty, conserving the environment – and for the ‘public benefit’, which means that their purposes must be beneficial and any detriment or harm that results from those purposes (to people, property or the environment) must not outweigh the benefit, which should be for the public or for a sufficient section of it.

However advancing their purposes does not mean that charities should stop there, or that they should not be more systematic about how they operate or be encouraged, as they were by the last Chair of Charity Commission, to ‘live their values’, because like every other organisation they are being judged not just by what they do and how much of it they do, but also by how they do it and the impact they are having – positively or negatively – in the wider world.

You might think most charities would have at least the ‘S’ and ‘G’ covered, if not the ‘E’ (unless they are environmental charities), but that might not necessarily be the case.

E is for the Environment

There are of course examples of excellence across the sector.

Twelve years ago in Grantham, The Woodland Trust swapped a brick-panelled industrial building for an energy-efficient building, sitting lightly in its surrounding landscape, with three storey vertical windows on the north and south elevations providing natural light and ventilation, and a timber structure modified in a highly innovative way to increase thermal mass, making the building carbon negative and offsetting five years of operational carbon.

While over in the North West, Groundwork Greater Manchester helps people reduce their use of resources to save money and become part of the movement battling the climate crisis. Its Green Doctors are energy efficiency experts who provide free and impartial support to residents to help them to stay warm, stay well and save money on their household bills.

But how are all other charities doing? The largest charitable companies are already subject to specific statutory obligations. By ‘large’, we mean those that meet two or more of the following criteria:

- turnover (or gross income) of £36 million or more
- balance sheet assets of £18 million or more
- 250 employees or more

Those charities need to report on how their directors (i.e. charity trustees) have carried out their s.172 duties under the Companies Act 2006 and how they have complied with The Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (“SECR”).

Section 172 requires charity trustees to act in the way they consider, in good faith, would be most likely to achieve their charity’s purposes, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long term, and the impact of the company's operations on the community and the environment.

The 2018 Regulations require the same companies – provided they have consumed (in the UK) more than 40,000 kilowatt-hours (kWh) of energy in the reporting period – to include energy and carbon information within their directors' report.

As audit and consulting firm RSM suggests in its 2022 survey *What does ESG mean for the charities sector?*, even if charities are not required to comply with SECR they should consider whether they ought to do so as best practice, because knowing how much energy they use can help inform energy efficiency activities: never more important than during an energy crisis.

The recent court decision in *Butler-Sloss and Others v The Charity Commission and Attorney General* highlights how even charities whose purposes are not focussed on the environment can still legitimately put the planet before return on investment and address the existential threat faced by our world and all life in it, if their trustees consider, all things considered, that this would best advance their charitable purposes.

S is for Social

Charities exist to make a positive difference. But in striving to serve their beneficiaries they may do a disservice to those people or to the staff and volunteers who deliver their mission by the way they go about their business. Have a look at the charities press in particular since around 2014. While the media by its very nature focuses on scandal, it is undeniable that not all charities have always looked after those with whom they come into contact (which is how the commission assesses whether charities have fulfilled their safeguarding obligations).

Exerting pressure on vulnerable people while fundraising, sexual and racial harassment within charities; trading aid for sex with some of the most vulnerable people in the world; toxic cultures within organisations led by unaccountable cabals; bullying of staff – the list is quite a long one. It shows that even charities do not always get it right all of the time – and sometimes some of them get it spectacularly wrong.

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It is undeniable that not all charities have always looked after those with whom they come into contact.”

G is for Governance

The fundamental duty of charity trustees is to act in what they alone, acting in good faith, consider to be the best interests of their charities' purposes. They are responsible for their organisation's assets, held for its specific purposes. Good governance is at the heart of effective charities.

But a read of the commission's regulatory reports will tell you of all the occasions on which charities still fall short with their governance – in particular through inadequately managing conflicts of interest which may arise – the proper authorisation of benefits to trustees and not acting in line with their purposes.

> It is in the very DNA of any charity to deliver public benefit."

Reasons to focus on ESG

Why should charities focus on ESG – as well as everything else, especially at this time?

Because starting with their trustees' annual report, are not charities particularly well-placed to report in a more holistic, systematic way on the ESG they already deliver and to focus on where they might improve? Not because this is a trending concept, but precisely because trustees are obliged to make balanced and adequately informed decisions, to think about the long term as well as the short term, and to manage their charity's resources responsibly.

While the large corporate sector is subject to legislation to comply with ESG goals, it is in the very DNA of any charity to deliver public benefit.

The Government's response to the charity sector's request for funding at the outset of the pandemic showed that charities cannot assume that they will always be supported: they need to make the case with evidence of impact, in particular through use of data.

As RSM suggests in its ESG survey, there are plenty of reasons for charities to focus on ESG, including:

- demonstrating value and responsibility to funders
- helping to attract the best talent and retention of staff
- providing partnership opportunities with corporates who want to engage with sustainable and responsible charities – and giving those charities the opportunity to hold those companies to account with authenticity
- driving improvements in operational efficiencies
- building understanding of wider stakeholder needs

ESG is a serious matter for all organisations and surely it is here to stay, especially for those whose purpose is to make a positive difference.

It's a team sport

- *How is the industrials sector managing the ESG challenge?*
- *What is needed to further advance the ESG agenda in the UK?*

Contributors:

Alan Somerville
ESG Director – Tritax Group

Sarah Chicken
Development Surveyor – Tritax Group

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It's a team sport

The advancement of ESG has been gathering pace in recent years, to the point that it is now embedded as a rolling agenda point in most board room meetings and a chunky part of most business strategies.

For those that build and manage real estate, however, the challenge is amplified, with the need to manage not only your own operations but also those of your occupiers and your construction supply chain. The industrials sector is particularly prone to this, with portfolios comprising both huge out of town schemes and last mile logistics depots in urban centres, each providing a specific set of ESG challenges.

To discuss how the logistics sector is managing the ESG challenge, we spoke with Alan Somerville, ESG Director and Sarah Chicken, Development Surveyor, at Tritax, a leading investor in critical supply chain real assets in the UK and Continental Europe.

> If you are going to invest in a building, then that building needs to be fit for the future."

Q. How have you seen the approach to ESG change in recent years?

Alan: I've specialised in ESG for 15 years and seen it go from a minority sport to something that is more mainstream. Throughout this time there have been various names and brands, but by and large it all amounts to the same thing, which is delivering impact, however you want to define that. Whatever is going on in the world at that point in time generally influences what is considered by investors and consumers to be the most relevant impact, be it decarbonisation, climate change, social value, diversity and inclusion etc.

To some extent, ESG reflects the geopolitical, macro backdrop, hence the focus now on the net zero agenda and the 'E', which for most people is probably around 50% of the importance of the overall subject matter. Social and governance probably then make up an equal split of the rest. Most people see governance as a hygiene factor – you should have it and be able to demonstrate you have it, whereas the 'E' and 'S' tend to be around impact measurement.

Where we are now is that the market has moved away from being about what you see to being about what you do. Five years ago, it would have been all about the rhetoric, the headlines, the PR. But now it is most definitely about what you do. People are interested in the numbers, the data, the underlying areas that perhaps are not as exciting to listen to or talk about but are the reality of where impact is being delivered.

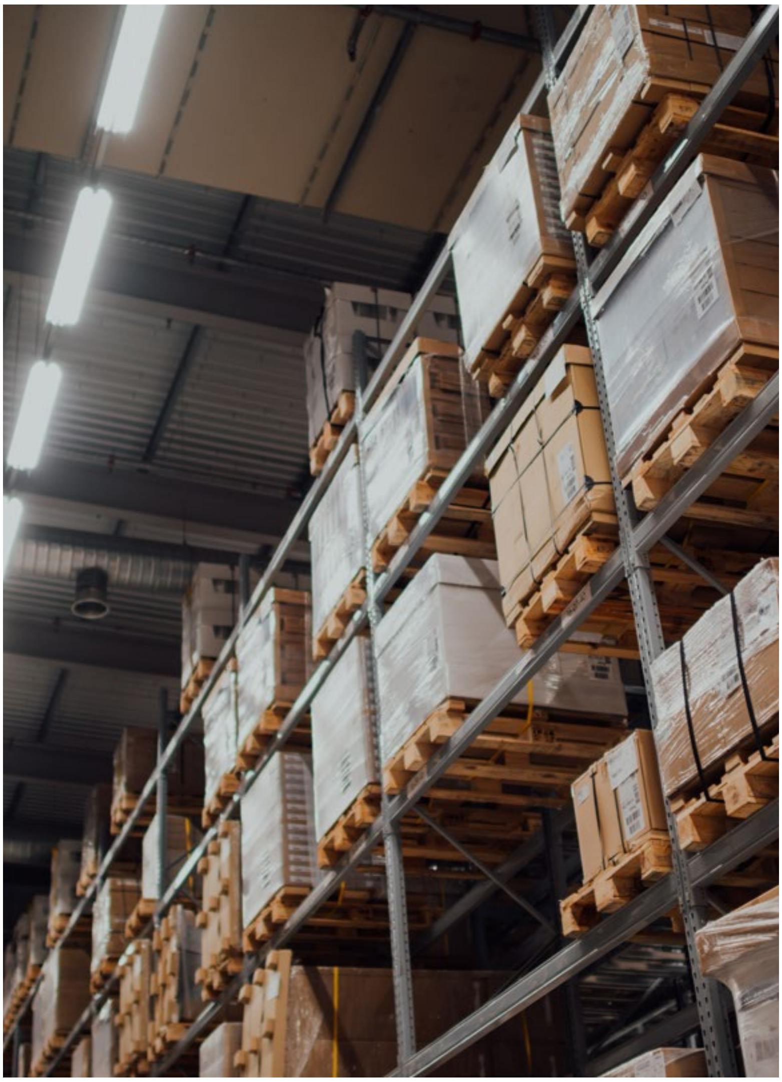
"The market has moved away from being about what you see to being about what you do."

Q. Environmental factors are generally quantifiable, but social impact tends to be harder to measure How does Tritax approach the challenge of measurement?

Sarah: Social impact is definitely less quantifiable than the environmental side but you do have some metrics, such as the WELL Building Standard, which is essentially a measure of how much an employee will enjoy working in a building. However, in terms of capturing and reporting on data, it is really difficult. It becomes a matter of identifying what it is that you want to set out to deliver, making sure to do it and then making sure to tell everybody about it, as opposed to just saying you've achieved x number of things this year.

Alan: You have to think more laterally about the social impact as it's about people, jobs, communities, diversity and so on, so it's quite a wide spectrum. There are various consultants and platforms that are trying to create a more consistent measurement approach to social value and, while some of it is data led, a lot of it is non-financial.

Sarah: It also comes down to things such as the amount of consultation with neighbours throughout a build or making sure to build into our contracts that we would like to see workers on our sites come from the local area. Things that we can build into our suppliers' operations and the things they do, as opposed to things we necessarily do ourselves.

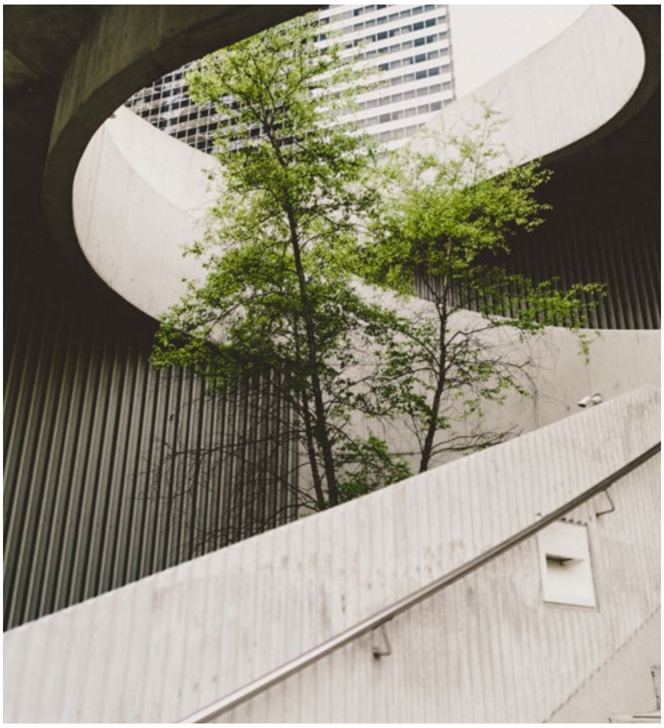


Q. Are you seeing innovation in the ESG space?

Alan: We invest right the way down the logistics supply chain, from very large distribution centres to last mile assets, so we are creating a sustainable logistics supply chain, from cradle to grave. One of Tritax's latest business initiatives is called 'local2local', which is about the facilitation of last mile logistics and making sure we have that sustainable endpoint to the process. So, for example, we might have a retail park with six different retailers all delivering locally and using six different vans. Our 'local2local' initiative will provide one van and the logistics coordination to put all of those goods onto a single mode of transport, saving the retailers cost but also reducing the carbon emissions of those deliveries.

Sarah: On the development side, there is a real effort to deliver buildings that are net zero in construction. Our objective around this is to deliver net zero carbon across a building's entire lifespan, and we've made a public commitment that all of our construction will be net zero by 2040. Within that, there is all manner of innovations around building materials and construction methodologies. Over the last few years, net zero carbon in construction has been something Tritax, as a business, has been working really hard on.

Alan: Another aspect is our whole decarbonisation strategy. For the Tritax Big Box fund, which invests exclusively in the UK, 99% of our carbon emissions are scope 3, meaning 99% of our emissions come from our supply chain. The fundamental relationships that will allow us to deliver decarbonisation of those scope 3 emissions are between ourselves, our occupiers and our supply chain, so we are spending a lot of time investing in those relationships to make sure we find ways and means to jointly deliver decarbonisation initiatives for our buildings. That could be around building efficiency, renewable energy, the installation of electric vehicle charging infrastructure, and so on.



Q. Are you seeing a heightened push for ESG compliance from your occupiers?

Alan: ESG is a team sport, not only do we have to integrate it across all that we do as a business operationally, but we also have to integrate it into how we go about our business with key members of our supply chain, and occupiers are a fundamental part of that. For Tritax, customer engagement is part of our DNA.

Sarah: We are in a position where we can work closely with occupiers at the inception of their requirements and take them through the development process and then hopefully keep them on as a tenant for the next 15-20 years and beyond, so we have a good opportunity to build strong long-term relationships with them, speaking to them regularly about how their needs are changing.

Over the last few years, there has definitely been a shift in approach to sustainability, from the market asking questions around whether occupiers were prepared to pay a green premium and if they were interested in green leases, to now where occupiers are actively clamouring for them, which is great to see.

Q. With a recession looming, is there a risk that ESG will be deprioritised within organisations and budgets previously assigned to ESG strategies directed elsewhere?

Alan: ESG in the real estate sector is really about high-quality asset management. It's an efficiency agenda; it's managing the risk of the premature obsolescence of buildings. So, from an occupier's point of view, firstly, highly sustainable buildings should be efficient and effective – that is, cheaper. Secondly, the risk of obsolescence of a building should be substantially reduced, so the chances of unforeseen capital liabilities arising in the future are also substantially reduced. And thirdly, a sustainable building should be more effective for the people working within it, in terms of staff retention and operational factors.

From an investor perspective, our investors are mostly looking at three to five year timescales, and what they are seeing in the market is increasing legislative and regulatory pressure on sustainable performance. This aligns with changes in occupational demand, as well as the consequential changes in the approach to valuation. All of that adds up to a view that, if you are going to invest in a building, then that building needs to be fit for the future.

Q. Retrofitting old stock is often more challenging and costly than building from new – how do you manage older schemes in order to achieve net zero targets?

Alan: With existing stock, in some ways it's actually easier because, with new stock built speculatively you have to forecast and guess who the occupier is going to be and what they are going to want. Whereas, with the retrofitting of current stock, it's an existing occupier who understands its occupational needs so, theoretically, it is easier.

We are also quite lucky as most of our stock is less than 20 years old so they are, generally, quite modern buildings. We don't have to deal with the challenges of historic buildings that will become more problematic to deal with in the future and have some compromise in their value.

But, in broad terms, collaboration with our occupiers is fundamental to the success of retrofitting. Logistics buildings are not complicated, particularly when compared to a city centre or multi-let office building. So, to that extent, we've got fewer issues to deal with, potentially, but part of the challenge is making sure that the stock that comes into the fund and through the development programme is fit for purpose in the first place.

Sarah: On the development side, it is really about how we are pushing that base spec to make sure we are delivering those fit for purpose assets into the fund. We have done a lot of work on the things within the base spec that were easier to change, and it is now about looking to the future to see how we innovate with those more difficult parts of the spec: the steel, the concrete and so on. How can we keep chipping away at the carbon, how can we change what we are doing on those aspects?

Alan: That is a real challenge. Take steel for example. UK-produced steel is manufactured using coal-fired furnaces and European-produced steel is manufactured using electric arc furnaces, so you have this situation where it is more sustainable to import materials from overseas than using what we have in the UK, which doesn't make any sense. So, for innovation and change to occur effectively, it needs to be down the supply chain, and that includes government interventions as well.

Q. The requirement for all new developments to deliver a 10% net gain in biodiversity (BNG) versus pre-build will come in from November 2023 – how are you preparing for this?

Sarah: With BNG, it is something that has been on our radar for the last couple of years because, with industrial buildings, it can be difficult to achieve a 10% uplift in biodiversity on site. So, it is again about pushing that base spec and pushing what we are doing on site as far as we possibly can to maximise ecology benefits. We've been working with surrounding landowners and putting in place agreements with them to keep land aside on which to place 30-year agreements to be managed to ensure ecology benefits can be maximised. We are achieving our biodiversity net gain that way. For some sites, it is almost impossible to achieve on the site itself, but as long as we are offsetting to neighbouring land then we are still hitting our BNG targets.

We consider BNG requirements at the design evolution stage, taking it into account at the outset so that it's not a second thought, but designed in and considered on day one.

Q. Looking forward, what is needed to further advance the ESG agenda in the UK?

Alan: The market is doing pretty well at the moment in driving change and driving impact, and that mainly comes from the requirements of the investors who increasingly want to see evidence of ESG-led performance.

From a decarbonisation and climate change risk perspective, the market is still well behind the science. To deliver the kind of impact that is required to manage future climate risk and to align with the Paris decarbonisation targets, the market is still some way off. However, those decarbonisation targets rely upon governments around the world delivering their part of the bargain. So, politics keeping up with the market would make life a lot easier.

There is change happening in reducing the number of standards which are out there currently as benchmarks of ESG performance. Having less of those, and the ones we do have being more meaningful and data-led, would be very useful.

Sarah: From my perspective, I'd like to see the government putting a bit more pressure on the supply chain of development.

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