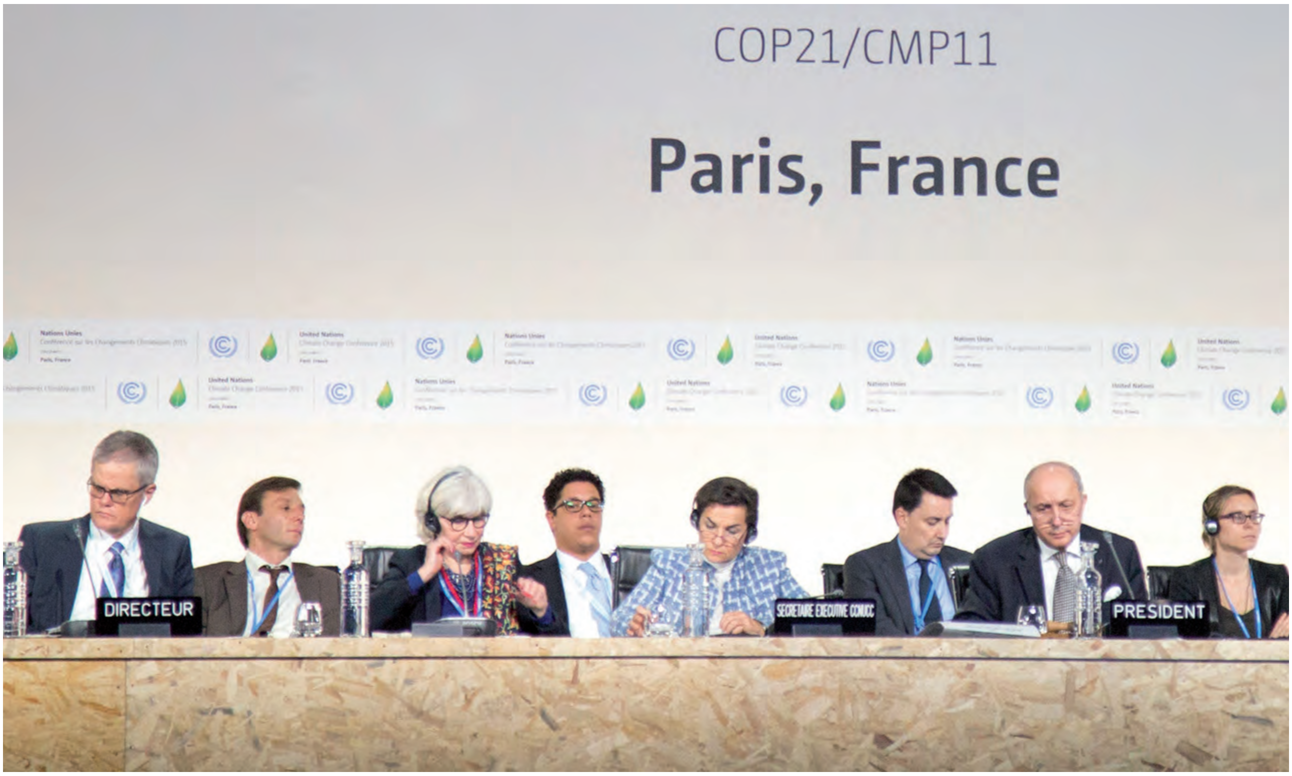

We'll always have Paris: the rules of the accord are now being felt

Staying cool

Swedish pension manager AP2 and real estate fund manager TH Real Estate consider the steps necessary to hit the Paris Accord's climate change target. By Stuart Watson

The Paris climate change agreement aims to limit the increase in the global average temperature to below two degrees celsius above pre-industrial levels. The built environment is believed to be responsible for 30 percent of global greenhouse gas emissions leading the World Green Building Council to estimate the real estate sector must operate at net zero carbon by 2050 if that target is to be met. In a conversation overheard by *PERE*, Helena Olin, head of real assets at the Second Swedish National Pension Fund (AP2), says tackling global warming is already a priority for institutional investors. Meanwhile Abigail Dean, head of sustainability at TH Real Estate, argues that the real estate industry has the capacity to achieve a step change in reducing its carbon emissions.

Meeting the climate challenge

Helena Olin: We have been following the Paris climate accord process closely. Investors in the Nordics and Netherlands were among the first to assess those issues, but now climate change is part of most institutional investors' targets.

Abigail Dean: Because the investment community in general has increased its focus on sustainability and specifically on climate change in the last few years it has become a very important strategic factor for real estate funds. It is a risk factor that many investors into real estate expect to see asset managers taking account of. There has been a noticeable uptick in that since the Paris accord. I think that agreement really galvanized the investment community to focus on climate change.

HO: It is our aim to develop our portfolio in line with the two-degree target. ESG [environmental, social and corporate governance] is one of the factors from which we generate predictions about future expected values of stock returns. Our funds that invest in direct real estate report to GRESB and we follow up to monitor the work they are doing on climate change and energy consumption.

AD: When you select investments or

"We look first at the return, the location and the sector, but when we try to find the right manager we always take ESG factors into account"
Helena Olin

partners, is sustainability and climate change risk featuring as a decision point for you? Or is it about working to make those investments perform better over time?

HO: We look first at the return, the location and the sector, but when we try to find the right manager we always take ESG factors into account. Do they have an ESG policy and a process in place? The portfolio of assets doesn't have to be fully sustainable already, but the manager operating it should have targets to improve ESG practices. If we are in a market where all the operators are doing this we always try to work with someone with a well-established grasp of these issues, but if we go to a region like Asia, where fund managers are a little less focused on sustainability, we try to help them to implement a process if no existing manager is good enough.

"What a zero-carbon built environment looks like is still very unclear. We and lots of others in the industry are starting to think about that"
Abigail Dean

A zero-carbon future

AD: We have set a target to reduce the energy intensity of all of the properties that we manage by 30 percent by 2030, but we haven't yet looked at that from a carbon perspective. What a zero-carbon built environment looks like is still very unclear. We and lots of others in the industry are starting to think about that. We manage the Cityhold Office Partnership (CHOP) on behalf of AP2 and your co-investors. As part of that we are doing some new development and we can set the bar quite high in terms of energy efficiency, renewables and low carbon technologies. But we also need to ensure that existing buildings are managed as efficiently as possible and improved slowly over time. When we are thinking about the role of the built environment in achieving a low carbon future, we must remember that most of the buildings that will be around in 2050 have already been built. We have to find ways to enable those buildings to become more energy efficient in a way that is cost-effective, gives a good return to investors and ensures that tenants have low energy bills.

Olin: adopting the Paris Accord's two-degree target

HO: We like new buildings – partly because they are very attractive to tenants, but also because they are more energy efficient. However, building new is not always the most sustainable way overall. Sometimes refurbishing an existing building is more sustainable than building a new one. ESG includes not only environmental factors, but social ones too. Renovation and refurbishment of buildings can contribute to the gentrification of an area.

Health and wellbeing

AD: One of the things we are looking at with the CHOP portfolio, and more widely as well, is the health and wellbeing impact of those buildings on the people that work in them. We are trialing sensors in some buildings that measure air quality, light, temperature and humidity.

HO: Tenants are getting more health-focused and it is an area that will become more important in the future. These trends are increasingly global. We will hear about an issue like that in Sweden and then everyone around the world will be talking about it within a year.

Dean: spending more time on health and wellbeing

AD: Tenants can be difficult to engage with around energy efficiency. Even though the work the asset manager is looking to do will reduce their energy costs, it still has a relatively marginal impact on their overall financial performance. Health and wellbeing presents a much more interesting area of engagement for those tenants because how happy and productive their staff are has a much more significant impact for their business. It will be interesting to see if engaging with them over that has a knock-on effect on the sustainability side as well.

Stranded assets

HO: At the moment, assets get stranded because of factors like having the wrong ceiling height or being in the wrong location. But, going forward, there may be a risk that they can't be certified because they are very poor when it comes to carbon emissions.

AD: From next April, minimum standards are coming into force in England and Wales that mean that any space with a low energy performance rating will not be lettable. At present, that bar is set relatively low, but the minimum level may be raised and we are anticipating we will start to see similar legislation in other European countries in the next decade, so asset managers have to think about how they can future-proof their portfolios. I don't think it will be possible to meet the Paris accord commitments without that kind of legislation becoming quite widespread. It is an achievable goal, but it is challenging. There will probably need to be a full-scale refurbishment of the whole building stock over the next 30 years. The skills, knowledge and technology are there and our investors are pushing us in that direction, so it is about making sure that as an industry we have the collective will to make it happen. ◻