LGIM REAL ASSETS

SUSTAINABILITY REVIEW

2017

Legal & General
INVESTMENT MANAGEMENT

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ABOUT US

LGIM Real Assets (LGIMRA) is one of the UK's leading real estate investment managers with £22.0bn* in assets under management and combines our expertise across property, infrastructure and corporate credit, enabling an integrated investment approach.

The Real Assets division is part of Legal & General Investment Management (LGIM) which is one of the world's largest institutional asset managers and a major global investor managing approximately £900* billion in assets for more than 3,000 clients.

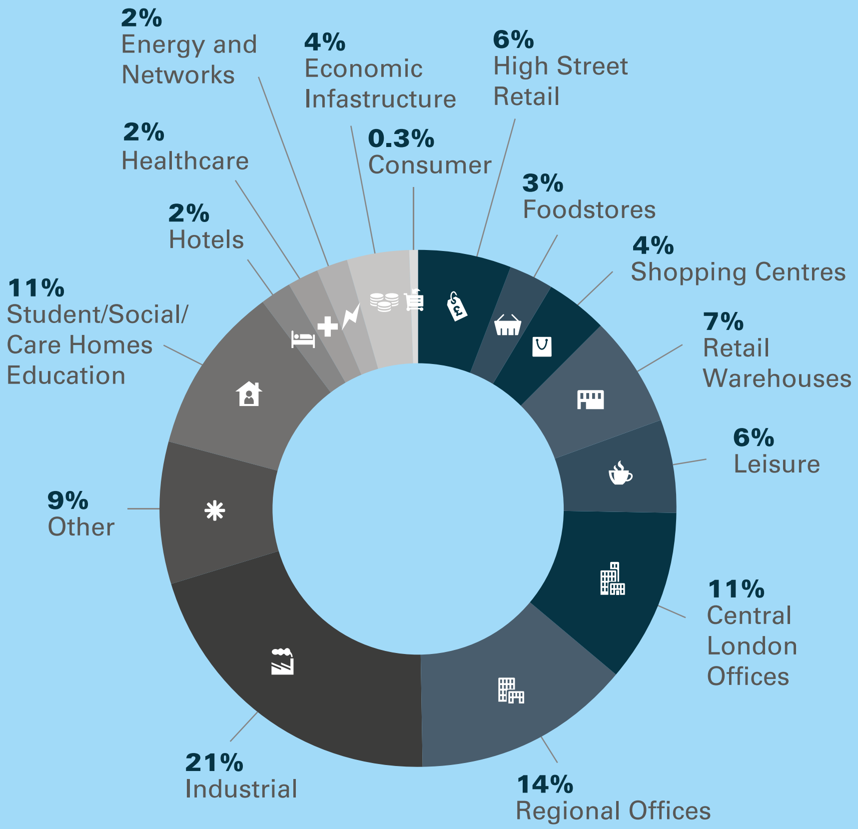
We run 20 investment partnerships, mandates and funds and are one of the most active institutional fund managers in the UK. The approach of our 120 professionals is to create rewarding, sustainable and innovative relationships with our partners, allowing us to deliver the best possible investment returns.

As one of the UK's largest landlords across all sectors of the property market, we're highly conscious of our responsibility to go over and above the industry norm of 'greening' part of a property portfolio, or specific funds. Instead, we aim to put Environmental and Social Governance (ESG) at the heart of our property investment decision-making.

Our commitment to sustainability is driven by the recognition that the built environment has a significant impact on UK society and its ecosystem, including contributing to almost half of the UK's greenhouse gas emissions.

* Data as at 30 September 2016

Sectors we invest in



Source: LGIM Real Assets as at 30 September 2016, including crossholdings

Key facts

- Head of LGIM Real Assets Bill Hughes
- Head of Sustainability LGIM Real Assets Debbie Hobbs
- Number of investment vehicles 19
- Assets under management £22.0bn
- Over 750 properties
- C. 5,000 tenancy agreements
- Over 120 staff

INTRODUCTION

Bill Hughes
Head of Real Assets, Legal & General Investment Management

> In March 2016, I was delighted to become Chairman of the Property Industry Alliance (PIA). This alliance of eight leading UK property bodies gives the commercial property sector a stronger collective voice in policy, research and best practice.

As one of the UK's largest institutional investors and real estate owners, we have the opportunity and responsibility to lead the way in driving sustainability best practice in the sector. Working together with our partners – from investors, government organisations, occupiers and agents – we continue to find new ways to embed sustainability best practice and meet the increasing expectations for property sustainability. To best address these, we try to manage our assets as if we were the owner-occupiers. We're committed to creating energy efficient properties that improve the well-being of their users to produce superior investor returns and deliver social value.

Staying Ahead

We consistently set targets that stretch us, and we establish practices for others to emulate. We also evaluate the performance of our assets against benchmarks such as the Better Building Partnership's Real Estate Environmental Benchmark (REEB) and Voluntary Display Environmental Certificates (VolDECs), helping owners and occupiers to see how they can split energy use.

Staying ahead means improving on the past. In the past two years, we have continually revised our contracts and KPIs for managing agents. We've also revised the processes for our Asset Sustainability Plans (ASPs), Annual Sustainability Action Plans (ASAPs), data management system and 'intensive care lists' for underperforming assets.

Collaborating to improve

The property sector can learn from other sectors. For example, car buyers, retailers and manufacturers recognise the value of regular servicing by trained professionals to increase a car's performance and longevity. Sometimes in our sector, because owners are unwilling to pay for a sufficient level of servicing and the industry has lost the skills to do it, significant gaps can emerge between potential and actual energy performance.

We're working hard with all our managing agents to address this issue. We also need to collaborate more closely to improve voluntary standards and labelling. The success of our work on VolDECs with the National Energy Foundation and other landlords shows what we can achieve.

Collaboration is crucial to implementing innovative solutions to environmental and social issues in this sector (one of the reasons I took up the chairmanship of the PIA). We must forge stronger, more constructive relationships with our business partners, communities, industry and government organisations.

An ambitious agenda

It's right for LGIM Real Assets to be ambitious here.
We believe we can rise to the challenges and expectations of our investors, occupiers, business partners and the communities in which we operate.

This review will give you an insight into our performance, working practices and innovation in the UK real estate sector.

I hope you enjoy reading it.

Our results are benchmarked by the Global Real Estate Sustainability Benchmark (GRESB), which is essential for us to track progress achieved and drive targets.

Environmental reductions since 2010

Saved on fuel
18%

Enough to buy
26
hybrid electric cars

Saved on electricity
22%

Enough to run
486
homes in a year

Saved in CO_2 emissions
22%

CO_2

The same emissions as
972
cars in a year

Saved on water wastage
18%

Enough water to fill
1.2
Olympic swimming pools

2016 GRESB performance

For full results please click here

13 Green stars (all funds)

4 Regional Sector Leader Awards (all others came second or third)

3 European Leader Awards (Managed Property Fund, Industrial Property Investment Fund and Leisure Fund)

GRESB® Sector Leader 2016

GRESB ★★★★★ 2016

LISTENING TO OUR STAKEHOLDERS

PROACTIVE ENGAGEMENT WITH OUR STAKEHOLDERS LIES AT THE HEART OF OUR APPROACH, NOT JUST TO SUSTAINABILITY BUT TO OUR BUSINESS AS A WHOLE.

We strive to ensure that our priorities, policies and practices are informed by what our stakeholders tell us. Our advisors, consultants and suppliers say that, when it comes to sustainability, we are their most demanding client.

A key piece of feedback from our occupiers and investors was: 'You need more time to talk'. We are now communicating more and working more closely with our managing agents (both at site and corporate level) to try to improve occupier liaison activities.

Deeper engagement with our stakeholders has enabled us to find solutions collaboratively that will help push the boundaries on what can be achieved.

Here you will find some examples of how we've followed up on material issues our stakeholders have raised; the actions we've taken, and their outcomes.

> We have seen an increase in the emphasis placed on sustainability by our clients, particularly as they come to recognise how energy efficiency ratings can affect estimated rental values.
>
> **Selena Ohlsson**
> Investor Relations Manager

INVESTORS

Stakeholder comments
- We are increasingly interested in getting sustainability performance data
- There is some demand for quarterly reporting and we expect this to increase

Our solution
- We continue to respond to queries on a case-by-case basis, although we expect the type and format of this information to converge
- We are investing in studies to identify methodologies to measure and enhance social value

LOCAL COUNCILS

Stakeholder comments
- More advice is needed on how to structure deals for regeneration projects

Our solution
- We advised councils on the regeneration projects we were involved in
- We worked with the British Property Federation to create a group of experts to advise councils

NATIONAL GOVERNMENT

Stakeholder comments
- The Department of Energy and Climate Change asked for our help to implement the Minimum Energy Efficiency Standard regulations

Our solution
- We continue to participate in workshops to help shape the legislation and related guidance

"We realised that the language of sustainability doesn't always translate easily into the language of day-to-day property management. We subsequently made our expectations of managing agents much clearer. We're also working more closely with them to show how they can meet expectations."

Cliff Glanfield
Property Relationship Manager

EMPLOYEES

Stakeholder comments
- We would like to understand sustainability more clearly from a property perspective

Our solution
- All new employees undertake the sustainability training
- We'll introduce a new induction pack in 2017
- Our bi-monthly sustainability surgeries, run by our Head of Sustainability, will continue to raise awareness of current issues

INDUSTRY ORGANISATIONS

Stakeholder comments
- We would like you to become members of the ESG Group of the British Council of Offices (BCO)
- The Industry needs a way to certificate landlords' energy in multi-occupied offices

Our solution
- We have become active members of the BCO, helping it set up its first sustainability conference
- We created VolDECs with the National Energy Foundation

MANAGING AGENTS

Stakeholder comments
- More clarity is needed on what actions are necessary to meet sustainability requirements
- ASPs and ASAPs are too technical

Our solution
- We engaged more closely with our managing agents to help them understand our expectations
- We clarified our model property management contracts, ASPs and ASAPs and made them more user-friendly. Then we created a suite of ASP templates to suit different property types
- We trained our agents to produce and implement ASPs and ASAPs, with monthly review sessions

OCCUPIERS

Stakeholder comments
- We are interested in measures to improve well-being and productivity
- We'd like you to source photovoltaic (PV) panels
- We'd like you to make our fit-outs more sustainable

Our solution
- We're engaging with our occupiers to understand their needs and explore possible options
- We are working with the BCO to identify landlords' responsibilities with regards to health and wellbeing
- We've employed experts and developed lease clauses to accommodate PV
- We developed a detailed fit-out guide, and we now require our managing agents to provide this to all occupiers undertaking a fit-out

CASE STUDY

SHINING THE SPOTLIGHT ON SUSTAINABILITY

The challenge

We knew that others in our sector were facing many of the same sustainability issues that we were addressing. However there had been few opportunities for business leaders from across the sector to meet collectively and discuss them. We saw a need to bring people together to identify the root causes of sustainability issues and devise appropriate solutions at different levels across the sector and with government.

The solution

In April 2016, we hosted an event with Property Week with the aim of determining the next steps in the path to a more sustainable property sector. A panel of experts from John Lewis, PWC, Hoare Lea and PGGM discussed energy efficiency, collaboration, owner-occupier dynamics and incentives, skill levels and outsourcing. Insights shared included the opportunity for household names to show thought leadership, the increasing importance of environmental and social returns to clients and investors, and – in the light of reduced government focus on sustainability – the importance of voluntary action from the sector.

> "The event reinforced our belief that leaders in our sector should work together more to improve working relationships, align incentives, raise skill levels and measure sustainability performance more accurately."
>
> **Bill Hughes**
> Head of Real Assets

The Fund Manager
"The Government is paying less attention than it did and the industry has had other priorities. Change is happening and behaviour is changing, but as an industry we need to redouble our efforts to take voluntary action."
Bill Hughes

The Investor
"Another possible way forward is to inspire those responsible for building performance to improve through internal competition"
Mathieu Elshout

The Retail Occupier
"There is an opportunity for the household names in the industry to work to provide thought leadership and to show that it is saving them money by reducing initial consumption and reducing exposure to uncertain energy suppliers."
Jeremy Collins

The Technical Specialist
"In my experience, owner-occupied buildings tend to be more efficiently run. Where there are more organisations involved, the buildings are not managed as efficiently."
Roger Macklin

The Office Occupier
"When we talk to developers, we feel like it's a hard sell to get them to raise the bar, even when we have been able to demonstrate that the right technology can give reasonable payback over four or five years. Some owners are keen to take the next step but I do think we are miles away from where we need to be."
Chris Richmond

MANAGING ASSETS, MINIMISING RISK

OUR INVESTMENTS ARE NOT SHORT TERM. WHEN WE ACQUIRE OR BUILD A PROPERTY, WE APPRAISE ALL AREAS OF ESG RISK OVER THE LONG TERM.

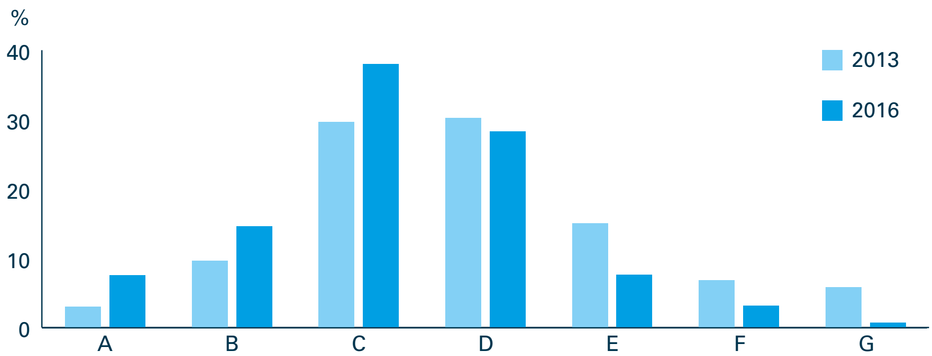
Improving energy performance
When new Minimum Energy Efficiency Standards (MEES) come into effect in April 2018, no lease extensions or new leases will be granted on properties whose EPC is rated F or G, unless they have a registered exemption. From April 2023, no non-exempted property rated F or G can continue to be leased without the landlord being fined. Seven years ago, we looked ahead and saw the need to de-risk our open-ended funds in this area. From 2013, we've reduced the percentage of F and G ratings in our portfolio from 13% to just 4%.
We've also halved our E ratings. We've made plans to improve each asset with a rating of E or below, and we've improved the balance by increasing the number of highest rated EPCs.

Offsetting the risk of flooding
Flooding is one of the top ten risks we assess during due diligence. Higher risk sites are subject to on-going monitoring, in cooperation with our insurers. Sites can also apply to our main insurer's risk management fund, a ring-fenced budget negotiated to offset insurance risks such as flooding.

More effective measures
We believe future legislation and voluntary compliance will focus on the operational ratings of an asset's environmental performance. We're looking at how we can measure buildings more accurately to ensure we comply, and to identify any areas that need addressing.

Developing good systems
The Heat Network (Metering and Billing) Regulations 2016 brought in new requirements for the billing of distributed heat, cooling and hot water in new builds and refurbishments. We have worked with the industry to develop IT systems that can take data from hundreds of meters in a building each half hour, helping us produce fair, accurate invoices for occupiers.

Open-ended Funds: EPC changes 2013 to 2016



These figures exclude our Industrial Property Investment Fund

ACTIVE ASSET MANAGEMENT

FOCUSING ON SUSTAINABILITY ACROSS THE ASSET LIFECYCLE.

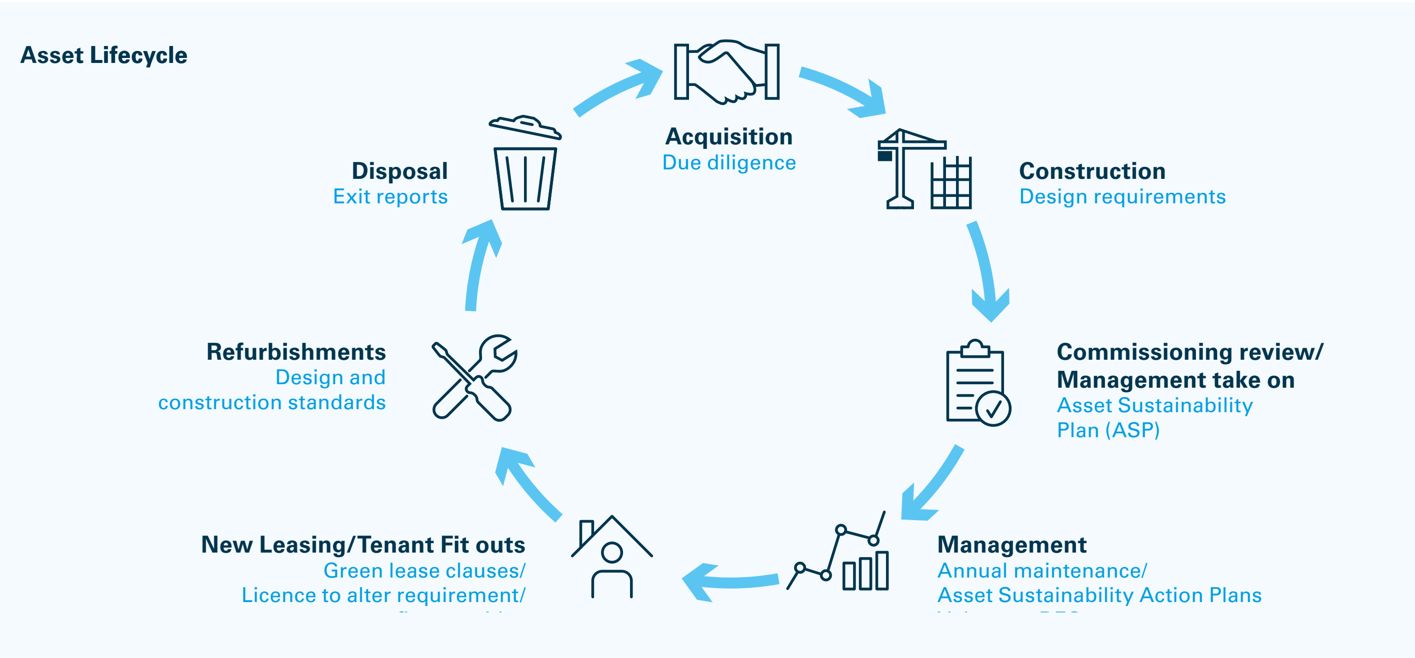
There has traditionally been a focus on energy efficiency at the design stage. But it's our view that in fact we need to build sustainability considerations into every stage of the asset lifecycle.

Looking after our assets

We enhance the value of our assets by minimising their impact on the environment, and reducing the risk of obsolescence. We maintain ISO14001 certification for all our managed assets, using an environmental management system, reviewed each year, to ensure we improve.

Managing our risks

Our risk management process for sustainability is known as one of the most rigorous and long-standing in the industry. Some of the key risks we've addressed recently include low EPC ratings, flooding, inaccurate performance measurements, effects of new legislation, and the requirement to comply with heat network regulations. We have been improving EPC ratings since 2008: across our portfolio, fewer than 4% of assets are rated at the lowest levels (F or G). We review our process regularly at board level and – as we have had energy audits available – we have found it easy to comply with the Energy Savings Opportunity Scheme (ESOS). We're now developing solutions to comply with the Heat Network Regulations.



A strong start

We believe our sustainability requirements for the acquisition process lead the industry. In 2016 we examined the costs of improving or refurbishing heating, ventilation and air-conditioning (HVAC) systems, and revisited our framework for Sustainable Property Investment, which governs all our activities – from policy and target setting to capital works, monitoring and communications. Project Green, our board-level sustainability committee, oversees and drives all sustainability activity and processes.

Monitoring our performance

We submit all applicable funds to the GRESB survey, an independent organisation that benchmarks each fund against others worldwide. We evaluate all operational assets against REEB, and a variety of industry wide standards. The KPI system for our supply chain and our own employees is linked with sustainability performance levels.

ACTIVE ASSET MANAGEMENT
CONTINUED

CASE STUDY
IMPROVING EPCs

The challenge

Our Leisure Fund wanted to reduce its risk level by eradicating EPCs that were rated F and G, particularly for buildings with long leases. Leases of cinemas typically extend beyond 2023, and were a particular problem.

The solution

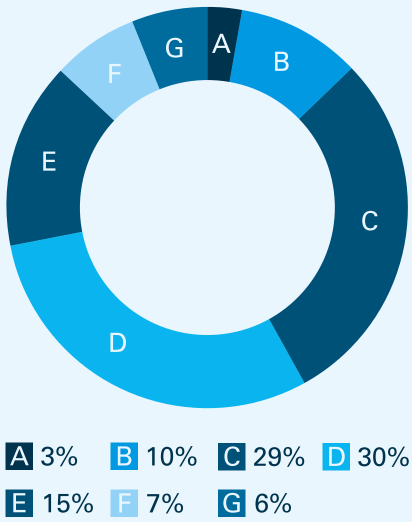
The original EPC software, used in 2008, did not cater for large volume spaces. We remodelled EPCs using upgraded software. The EPC for one G-rated cinema could not be improved, so we worked with the occupier on its next proposed fit-out. By updating heating, ventilation and air conditioning (HVAC), we improved the EPC rating significantly above minimum compliance

The outcome

The Leisure Fund is just one example of our many successes in addressing the risks associated with the lowest rated EPCs. We've worked closely with Savills, the managing agents, on a series of measures to eliminate all F and G ratings. These include:

- Remodelling older EPCs with more accurate data regarding the HVAC systems
- Implementing efficient refurbishments in empty units
- Ensuring that necessary works are undertaken when leases are extended or re-negotiated
- Ensuring that our occupiers' fit-outs meet our sustainability refurbishment standards

Leisure Fund EPC's April 2016



CASE STUDY
RAISING THE STANDARD

The challenge

Intense storms in late 2014 resulted in an unexpected level of flooding of the basement of Whitehall Quay in the central business quarter of Leeds. Flood water pushing up through the drains and into the basement caused almost £15,000 of damage and there was no way to foresee the secondary effect of flooding in neighbouring areas through flood assessments.

The solution

Our managing agents, JLL, managed to get the building back to operational rights within three days. Only one working day was lost. The damaged lifts returned to operation within two weeks. In case of a recurrence, new flood defences were installed in the basement to protect the lifts, emergency generator, and incoming mains.

The outcome

Our main insurer's risk management fund paid for this work. JLL conducted a detailed flood risk assessment following the event. The local facilities management team now connects to the Environment Agency's flood risk alert system.

> "Whitehall Quay shows how rapidly we can get a building back to normal working order after a major incident like flooding. It also shows how crucial it is to have good working relationships between occupiers, owners and insurers and a dedicated fund in place that can be accessed quickly."
>
> **Andrew Mercer**
> Senior Asset Manager

CASE STUDY

SOLVING THE OPERATIONAL RATING CONUNDRUM

The challenge

All the UK Government buildings must legally display Energy Certificates (DECs) to publically indicate the performance of their buildings. We wanted to emulate this disclosure but DECs only assess the performance of an entire building. What we needed was to distinguish clearly between those aspects of environmental performance controlled by the occupier, and those controlled by the owner.

The solution

We needed an industry-wide solution to these problems, so we chose the National Energy Foundation (NEF) as our partner to develop Voluntary Display Energy Certificates (VolDECs). These are based on the mandatory Display Energy Certificate (DEC) methodology. We piloted VolDECs in some of our offices, providing us with cost-effective and user-friendly ratings to improve energy performance.

The outcome

NEF have launched a dedicated website, which allows clients to input data electronically and create VolDEC certificates through an online portal.
We're also expanding VolDECs into other sectors, such as shopping centres.

> "The VolDEC programme shows why it's important to identify risks and their root causes. It also illustrates the value of knowing where issues can only be resolved by voluntary collective action. You also have to be prepared to take the lead in these situations."
>
> **Debbie Hobbs**
> Head of Sustainability

AUTOMATIC TENANT BILLING

The challenge

Managing agents and M&E engineers told us that they didn't think compliance with the Heat Network Regulations 2014 could be achieved because of the difficulty in finding a billing platform.

The solution

We were not willing to accept this. So we worked with our M&E engineers and a specialist technical innovation company, to design and develop a legally compliant solution. The software and related protocols, which allow automatic data collection and analysis from hundreds of meters, are being piloted at one of our office assets, Gresham Street, London, and we are training our managing agents to use it.

The outcome

Each tenant is billed for exactly the energy they consume and no more. One major benefit we envisage is that it will allow managing agents to see exactly when energy is used and by whom, making it easier to identify methods to reduce energy usage.

IMPROVING ASSETS

WE FOCUS ON DELIVERING THE COMPLEMENTARY PRIORITIES OF MAXIMISING RETURN TO INVESTORS AND THE IMPROVEMENT IN SUSTAINABILITY CREDENTIALS.

“We continue to challenge our design teams. We want them to take an imaginative approach to sustainability, exploring innovative options with us and we encourage them to think beyond compliance with our requirements.

Pippa Burchett
Head of Technical Services”

We have a responsibility to ensure that our investors’ capital achieves economic returns while bringing social and environmental benefits to its users and the wider community.

We undertake each asset improvement project with a view to achieving the best sustainability outcomes. The requirements and guidance we have developed help our project delivery teams to consider more sustainable design, including the selection of materials, and enables them to focus on Designing for Performance in use (D4P). At all stages of a project, we prioritise sustainability.

Our design teams are required to:

- Use best practice techniques to improve the sustainability profile of any project, over and above statutory minimum requirements
- Achieve a minimum of BREEAM ‘Excellent’ and a minimum B EPC rating on all new developments and major refurbishments
- Develop a sustainability plan, with targets, at the start of each project and report regularly on progress. The plan will include areas such as metering, monitoring, soft-landings, commissioning processes and past occupancy appraisals
- Work to avoid over-specification or complex design solutions, which cannot be maintained by the current supply chain
- Oversee reporting on energy, water usage and waste in the construction phase.

Our contractors are required to include sustainability considerations in their proposals.

Demanding design targets

We’ve also updated our Brief for Sustainability: Refurbishment and Redevelopment Guide. This requires design teams to understand our requirements and incorporate the latest thinking on sustainable buildings. We’ve included more specific details regarding metering, heat networks and billing, soft-landing processes and monitoring of performance in use.

OPERATIONAL MANAGEMENT

SPOTTING GAPS AND PLANNING AHEAD.

“We have produced an Asset Sustainability Plan for every asset which has helped align the interests of occupiers, agents and asset owners – interests that traditionally have not been aligned because responsibilities have been split.

Paul Edwards
Director of Asset Management”

Once we own an asset, our managing agents compile an asset sustainability plan (ASP) that details and prioritises all possible measures to improve its environmental and social footprint. An annual sustainability action plan (ASAP) is produced from each ASP annually, showing priorities for action. Our asset managers are accountable for their assets' ASPs and monitor progress throughout the year.

Revising Standards

We've revised this process recently to include a precise map for the completion and timing of each ASP. In addition, we've made the KPIs in our standard management contracts for managing agents far clearer, more rigorous, and easier to measure.

In the last year we formed a working group comprised of asset and fund managers to improve the format of the Quarterly Sustainability Reports (QSRs) produced for funds and assets.

Keeping Track

Our managing agents produce QSRs to show progress in the implementation of ASPs, along with information on performance against targets, occupier liaison and community engagement.

Identifying and closing gaps

The shortage of engineering skills in our industry continues to make a significant impact on the performance of our portfolio. Only a minority of facilities managers and maintenance engineers know how to operate multi-let office buildings optimally. This creates a gap between the energy performance buildings can potentially achieve, and the performance they achieve in practice. The traditional response to this problem is to outsource analysis and recommendation to an external technical consultant. We are trying to teach our existing supply chain how to do this. We've also asked the managing agent who manages more than 95% of our assets to move our data onto a Monitoring and Targeting system. This will allow our management agent to gain greater visibility regarding operational performance.

We've undertaken a number of additional measures to close the performance gap including:

- **Control system optimisation**
  We have asked our managing agents to optimise all our control systems (following a 2014 review that showed these systems were either broken or not operating optimally, due to a lack of maintenance over many years).
- **Dedicated M&E consultants for our assets**
  As of 2015, each multi-let asset with landlord controlled HVAC systems now has consultants undertaking maintenance audits. Advice on repairing systems is provided and Planned Maintenance Plans (PMPs) are produced.
- **Improving resource**
  We are actively working in partnership with our agents to upskill our supply chain where possible.

“Our determination to find a solution to this problem reflects our commitment to ‘break the circle of blame’ that sometimes affects our sector. We all need to work collaboratively to develop innovative solutions to meet our sector's toughest challenges.

Pippa Burchett
Head of Technical Services”

OPERATIONAL MANAGEMENT
CONTINUED

CASE STUDY
FUTURE PROOFING

The challenge

In 2008, 210 High Holborn, a multi-occupier 1930s office building had high energy consumption and a poor EPC rating.

The solution

To improve its EPC rating, the building needed refurbishment and future-proofing. We undertook a series of works including planned maintenance to replace boilers and chillers, and the refurbishment of vacant floors, including lighting systems. At the same time,
we integrated energy-efficient options and optimised the controls systems.

The outcome

The works undertaken to refurbish six floors of this property have enabled us to raise its EPC rating to B. We've future-proofed this asset, and as premium-priced office space, it is now fully let. Most importantly, we have met operational best practice targets and reduced energy costs by 71% per year. The energy saved (please see table below) will help contain occupiers' occupational costs. Due to a capped service charge, we have also reduced the Fund's annual non-recoverable costs.

> "210 High Holborn illustrates the value of looking at planned maintenance in conjunction with refurbishments to ensure it ties together and delivers better results."
>
> **Rob Codling**
> Senior Asset Manager

210 High Holborn: Benchmarking and 71% Cost Saving per annum

	Best Practise Benchmark (kWh/m²)	Original Performance (kWh/m²)	Current Performance (kWh/m²)	% Savings	Cost Saving per annum (£)
Electricity	179	360	102	65%	£48,000
Gas	63	126	57	74%	£10,000

CASE STUDY

DRIVING BEST PRACTICE ENERGY AND WATER CONSUMPTION

The challenge

L&G Group launched a strategic joint venture with a Dutch pension fund manager with a focus on refurbishment and sustainability. The aim was to acquire office buildings in central London that needed refurbishment and repositioning, and use the highest standards of sustainability to enhance their long-term value. Senator House was a major investment in 2014. Due diligence, following our vigorous sustainability brief, identified several areas (such as HVAC systems and energy efficiency) that had potential for improvement.

The solution

As Senator House was fully occupied, we followed our standard management procedures and benchmarked the building's energy use against the REEB and VolDEC best practice standards.

Analysing 12 months of energy invoices, we saw that usage was very high. The building was using eight times more gas than expected. Before refurbishing, we needed to address this issue as economically as possible, so that we could lower service charges and reduce the risk of void periods. With the support of our managing agent, we discovered the control system provided night time cooling not just through the summer, but also throughout the winter. Excessive hot water storage meant the boilers were operating for longer than necessary.

The outcome

Correcting these issues, and making other no-cost control improvements, meant we could reduce gas usage by 60% within a year. These actions created a robust baseline for the refurbishment of the building. Working with the managing agent, we helped the Fund achieve its investors' desire to reduce carbon emissions.

> "This was the first partnership to address impact assessments which was then used as a template for other funds, specifically targeting best practice energy and water consumption."
>
> **Nigel Marsden**
> Senior Asset Manager

THE FUTURE

BROADENING OUR AGENDA

Debbie Hobbs
Head of Sustainability,
Real Assets

Looking forward

The sustainability environment in the property sector is changing rapidly, sometimes in response to unexpected changes in policy but mainly due to occupier and investor demands. We will continue to work with all our partners to increasingly understand the value of sustainable practice and will focus on the areas that we believe will help add value to our funds and respond to the long-term needs of business and communities.

In 2016, we achieved the majority of our published sustainability targets ahead of the planned target of 2020. In 2017 we will set new, more ambitious targets that incorporate the input of all our external stakeholders. Our new targets will be aligned to the Sustainable Development Goals and we will be exploring how to set Science Based Targets.

We'll continue to work closely with our supply chain partners to improve engineering skills around the operation and maintenance of our assets. Further, we'll continue to drive sector-wide change, working with the industry, government bodies and other major investors to improve regulations, define best practice and strive for innovation through collaboration in the sector.

Our activities will significantly expand in the following areas:

1. Improving performance in use

Along with several industry organisations, we're jointly sponsoring a feasibility study to help create better ways to design buildings. This will help ensure that they perform as expected, and close the so-called 'performance gap'. The Design for Performance (D4P) project looks to Australia, where buildings use on average half of the energy used by their UK equivalents.

We want to see a widespread market uptake of Operational Ratings. Display Energy Certificates (DECs) and VolDECs provide a good entry-level operational rating and other schemes are being developed to provide options for those willing to start publically displaying their buildings' environmental performance. We would like to see the industry confidently display environmental performance ratings across all assets as part of the norm.

Ultimately, our goal is a major increase in the delivery of prime office buildings that are highly energy efficient in operation. This could help us move away from using theoretical EPC ratings as the only credible measure of a building's sustainability credentials.

2. Health and well-being

The predictions are that occupiers will become increasingly conscious of how the working environment affects their employees' health and well-being. We are already embedding health and well-being features within our developments and refurbishments. We will now work to change the practices of those who maintain our assets, so that we can make sure we deliver a healthy workspace to our occupiers.

THE FUTURE CONTINUED

3. Advancing the social value agenda
Investors are increasingly asking about the social value our funds deliver. We will continue to work with the Social Value Portal to establish how we can measure social value most effectively.

We will seek to roll out social value measurements, targets and improvement measures across our major assets where we have operational control. Ultimately, we aim to measure the social value produced across each of our funds so it can be repeated alongside financial performance to show the positive impacts the fund has delivered

4. Enabling regeneration
We will continue to work proactively with government departments and local councils to regenerate deprived areas. Our English Cities Fund began this process and we will continue to be involved in major regeneration projects in Cardiff, Salford and Newcastle. We will also look to establish new funding mechanisms to help local authorities develop the new infrastructure needed to cope with changing demographics.

5. Extending the sustainability agenda into housing and infrastructure
Our current sustainability agenda focuses on mainly commercial property. Going forward, we'll be working to set sustainability standards for our Build-to-Rent Fund and strategies across infrastructure investing

6. Working with Occupiers and Communities
We appreciate that we can make the greatest impact by working pro-actively with our occupiers, whose direct carbon emissions represent 95% of the carbon emissions generated across our portfolio. Although we need to efficiently manage the 5% within our operational control, we'll work in partnership with our tenants and local communities to make a more significant overall impact.

As ever, our agenda is full of challenges as we continue to drive positive long-term changes for our investors and the communities we live and work in. Please get in touch if you wish to discuss anything you've read in more detail.

"We expect social value to become a much bigger consideration for the property sector, but this is currently mainly a concern for developers and councils, rather than investors. We will continue our dialogue with investors about social value and its impacts and how it could be incorporated into their analysis."

CONTACT US

Debbie Hobbs
Head of Sustainability
debbie.hobbs@lgim.com
+44 (0)20 3124 2805

www.lgim.com/realassets

LGIM Real Assets
One Coleman Street, London EC2R 5AA
Registered in England No. 166055
Registered office: One Coleman Street, London EC2R 5AA