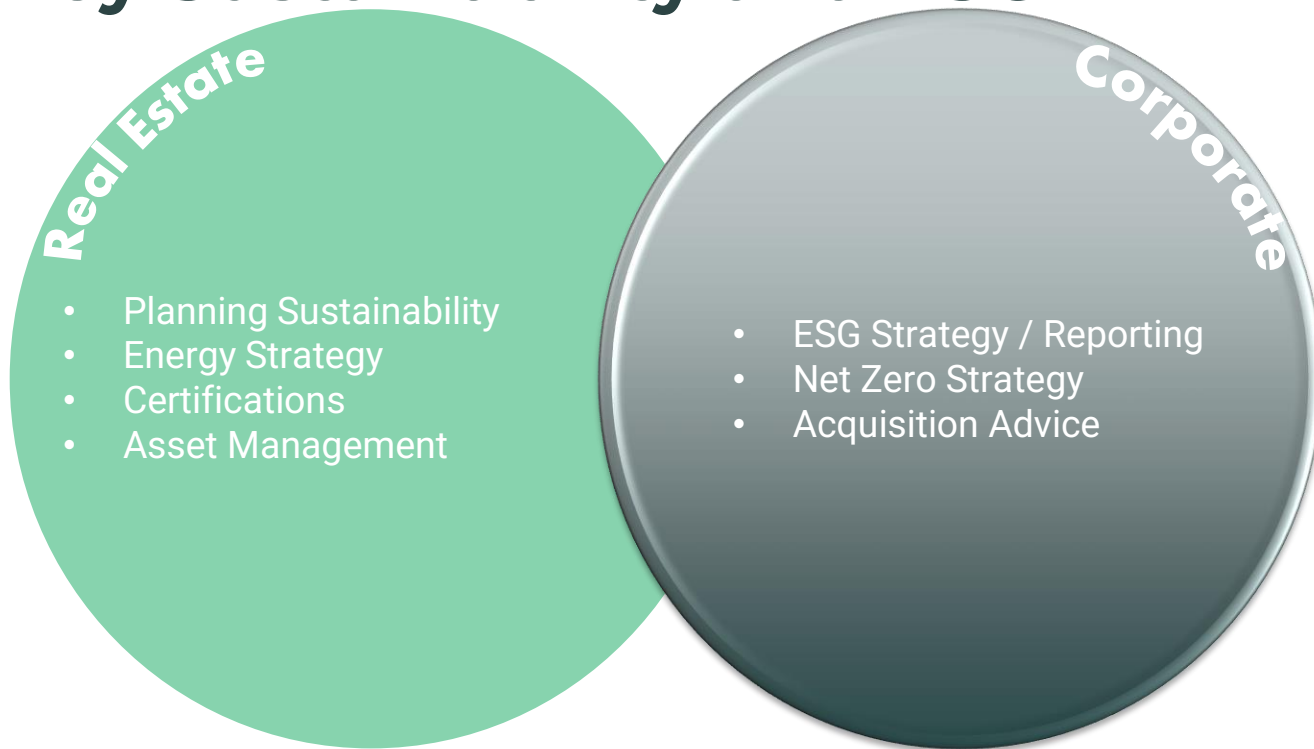


ESG in Real Estate

Barry Evans - Turley

May 2024

Turley Sustainability and ESG





The Summary

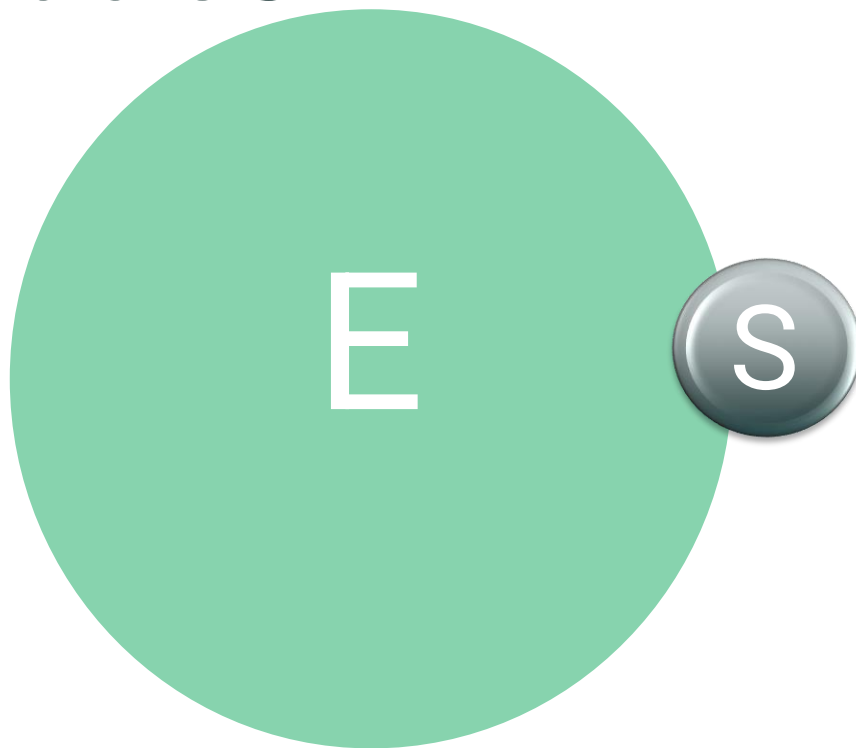


ESG in Real Estate is complex but standards and approaches are aligning

- E is for Easy – To understand at least
 - New Build Standards to align with net zero
 - GHG emissions pathways for existing real estate in line with Paris Agreement
 - Eliminating fossil fuels
 - Nature a growing issue
- S is for S'complicated
 - Overheating
 - Jobs, supply chains, culture, inclusivity, healthy lifestyles
 - Productivity (I hope)
 - ESG Strategies are leading to more thinking



The E and the S



Landscape slowly aligning

ONLINE VERSION

HM Government

The Building Regulations 2010

Conservation of fuel and power

APPROVED DOCUMENT

Volume 2: Buildings other than dwellings

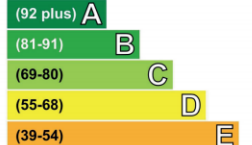
Requirement L1: Conservation of fuel and power
Requirement L2: On-site generation of electricity
Regulations: 6, 22, 23, 24, 25, 25A, 25B, 26, 26C, 27, 27C, 28, 40, 40A, 43, 44 and 44ZA

2021 edition – for use in England

ONLINE VERSION

Energy Efficiency Rating

Very energy efficient - lower running costs



Current

80

BREELAM



NABERS

CERTIFIED
CARBON
NEUTRAL

Global Standard



SCIENCE
BASED
TARGETS

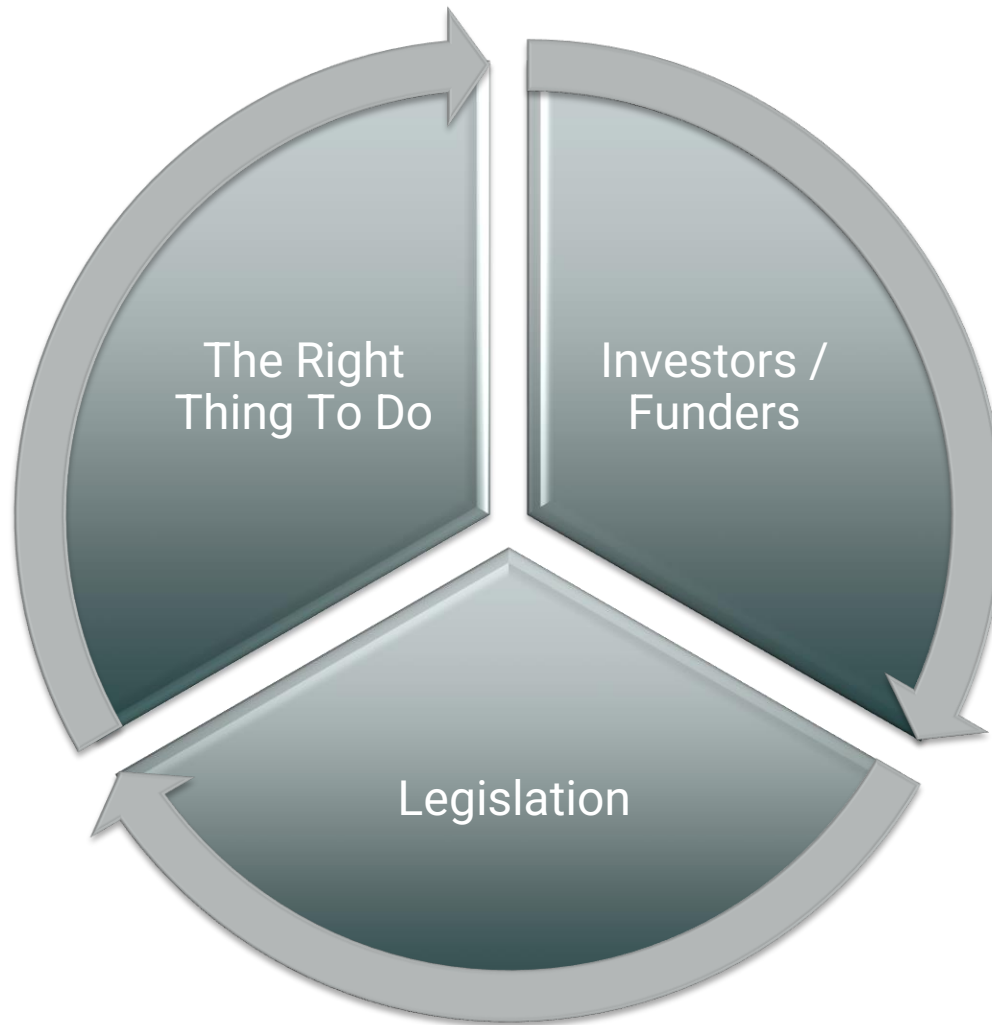


CRREM



UK Net Zero Carbon
Buildings Standard

ESG Drivers



Investors / Industry

Real Estate

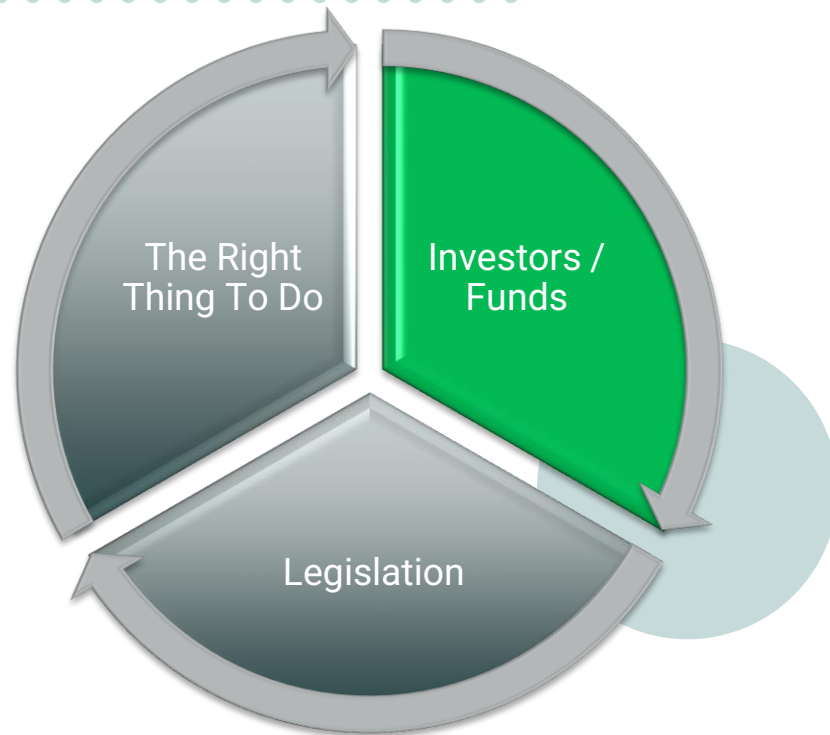
- Carbon Risk Real Estate Monitor (CRREM)
- NABERS
- GRESB

Corporate

- Science Based Targets Initiative (SBTi)
- Carbon Neutral
- CDP

New Development

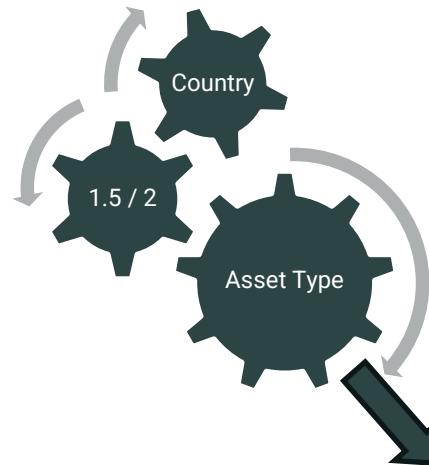
- UK Net Zero Carbon Building Standard
- WELL
- BREEAM
- Active Score





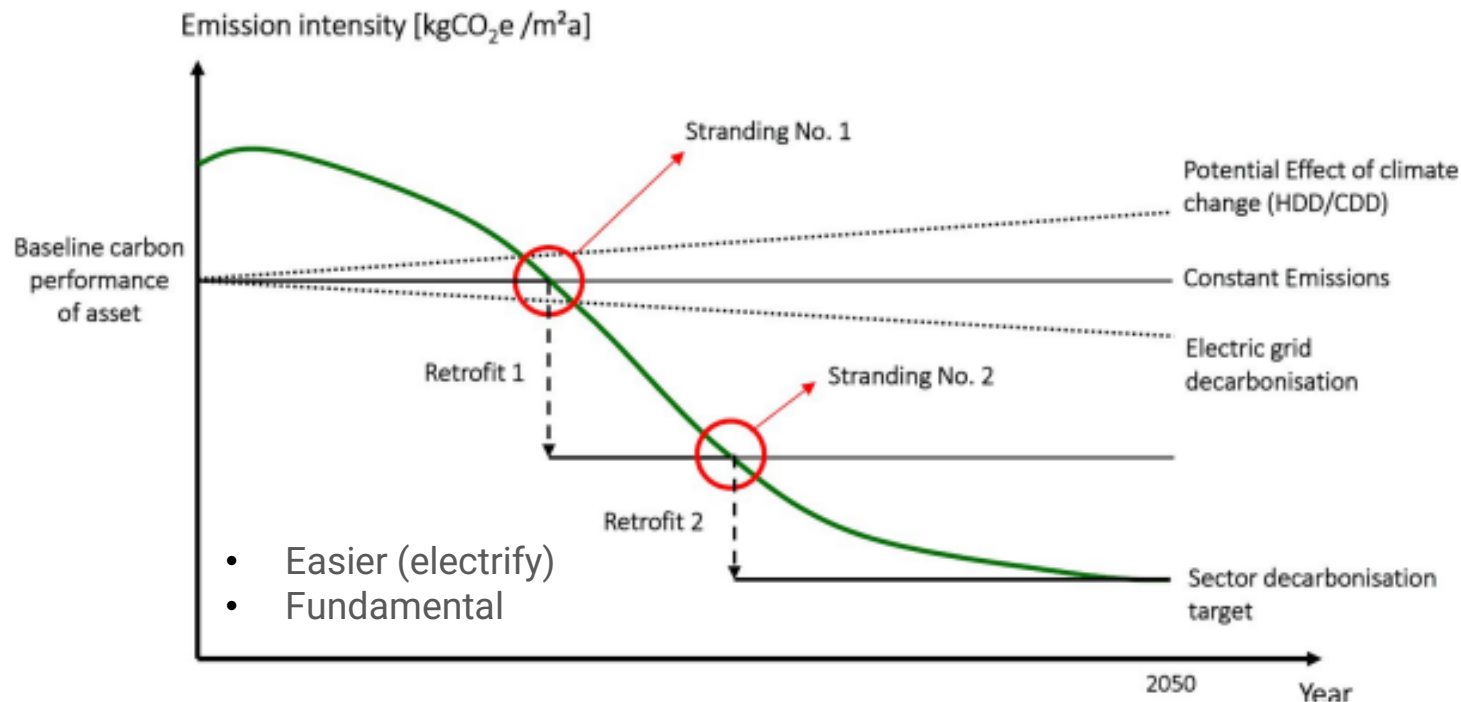
CRREM – Carbon Risk Real Estate Monitor

- Originally EU tool
- Uses global carbon budget to align with Paris Agreement
- Applies to countries and then to asset classes
- Sets pathways for decarbonisation / energy
- Increasingly standard in portfolio reviews / pre-acquisition

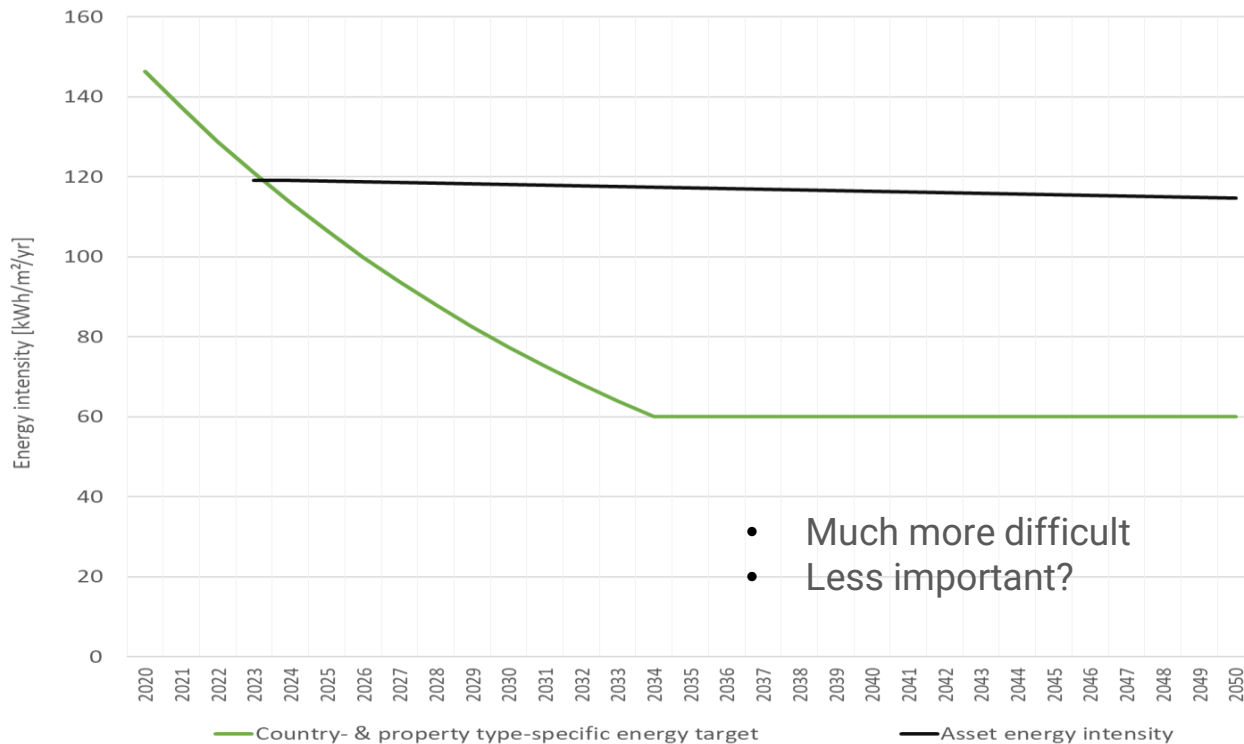


1. GHG Emissions Pathway
2. Energy Intensity Pathway

CRREM – GHG Emissions Intensity



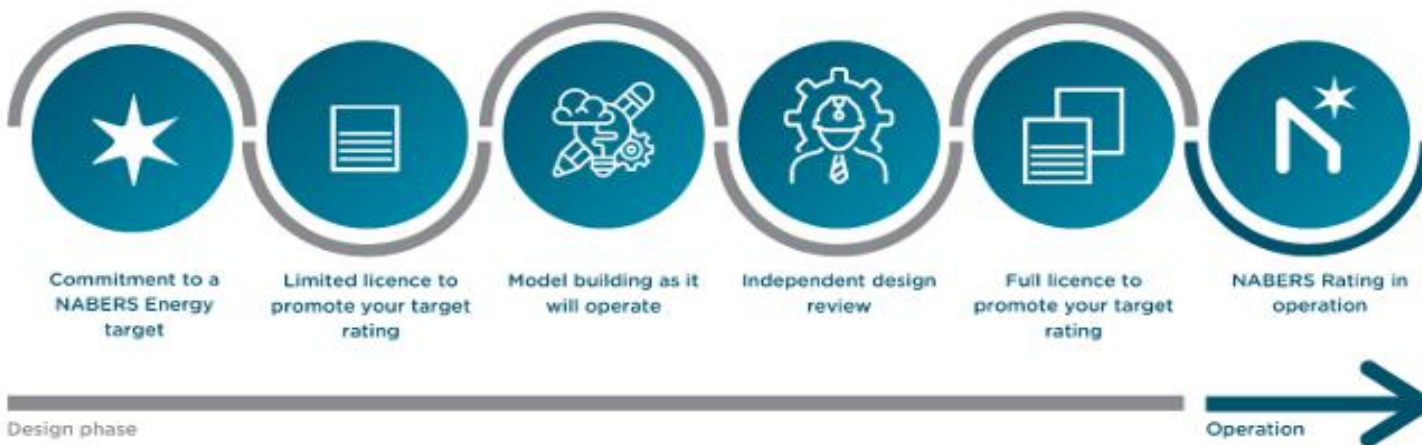
CRREM – Energy Use Intensity



- Much more difficult
- Less important?

NABERS — National Australian Built Environment Rating System

- Defining quality is measure of in-use performance
- Focused on energy in offices in the UK
- Requires detailed modelling & analysis
- External Verification
- Updated annually based on in-use data
- Higher targets are very challenging

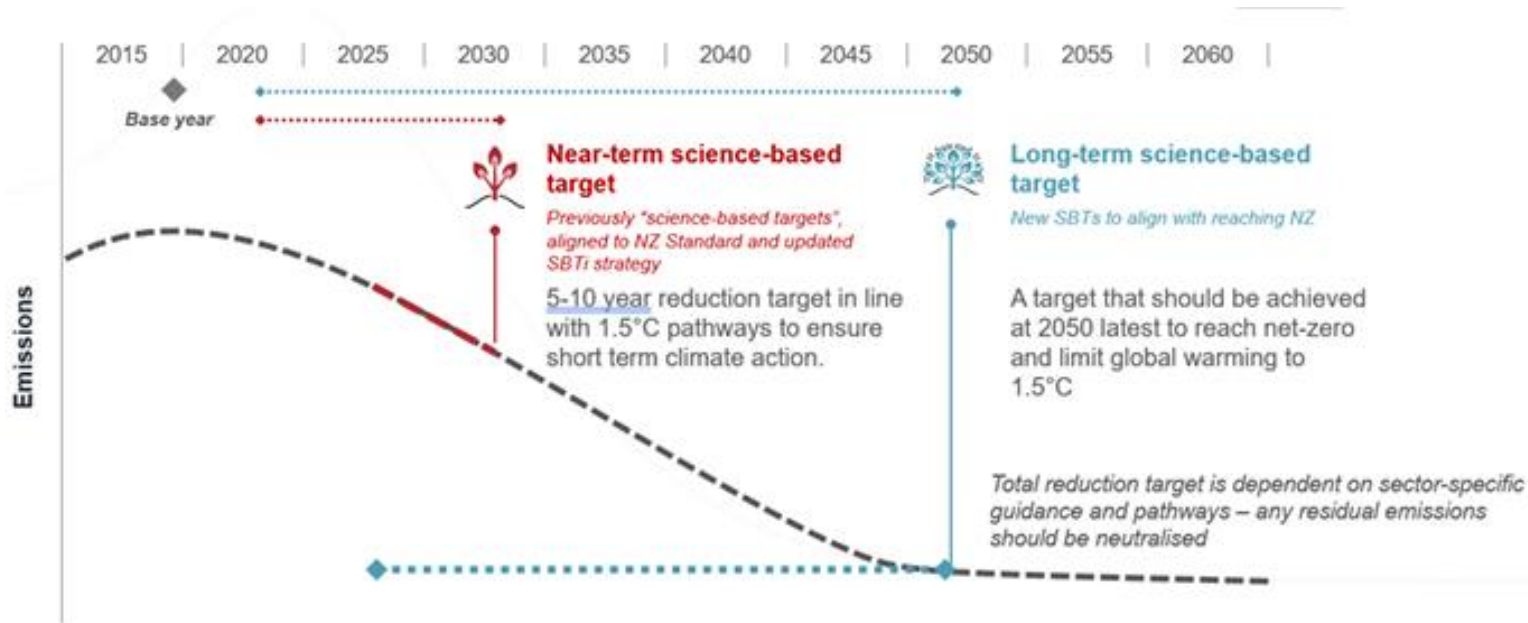


SBTi – Science Based Targets Initiative

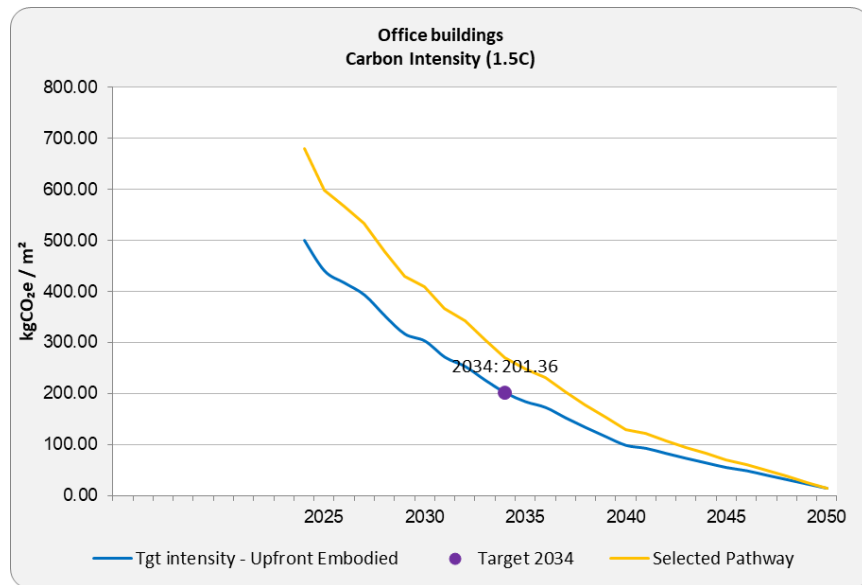


- UN led coalition
- Sets corporate pathway for Net Zero
- Increasingly universal standard
- Scopes 1 & 2
- Scope 3 specific targets in some cases
- Requires absolute emissions reductions
- Standard pathway and sectoral pathways
 - Aluminium
 - Maritime
 - Aviation
 - **Buildings**
 - Etc.

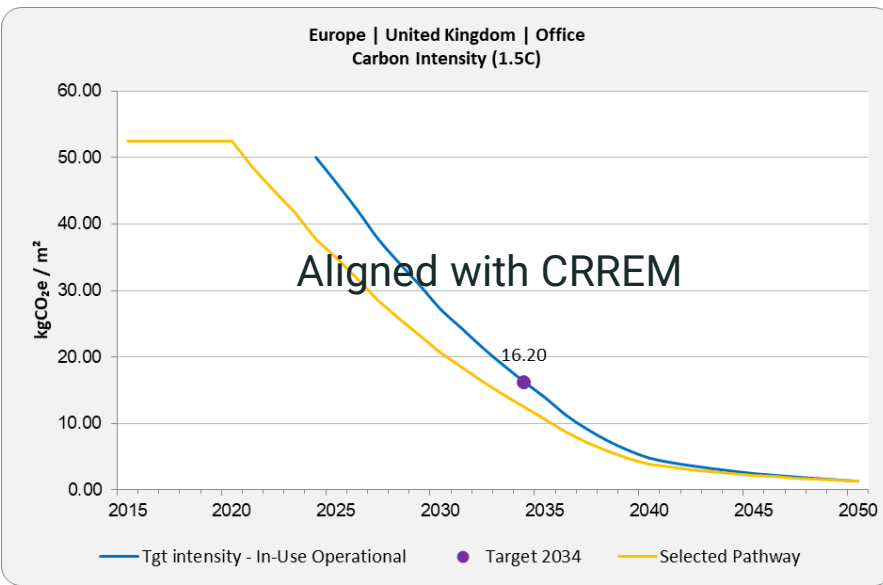
SBTi – Science Based Targets Initiative



SBTi (Buildings)



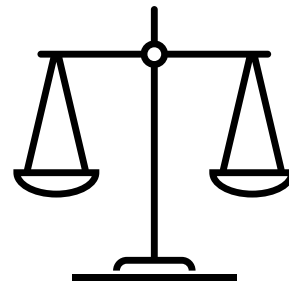
Embodied Carbon Pathway



Operational Carbon Pathway

Carbon Neutral

- Label applied to organisations, products and services
 - Previously simple balance of Emissions and Offsetting
-
- Now aligned to ISO14068
 - Near-term science-based GHG emission reduction targets
 - Long-term science-based GHG emission reduction targets
 - Then offsetting



UK Net Zero Building Standard

- Industry Initiative for net zero buildings
- New Build and Existing
- Aligned to science-based targets
- Adopting whole life carbon approach
- 13 categories



**UK Net Zero Carbon
Buildings Standard**

BBP | BETTER
BUILDINGS
PARTNERSHIP



CARBON
TRUST



The Institution of
StructuralEngineers



RIBA#
Architecture.com



UK Net Zero Building Standard

UK Net Zero Carbon
Buildings Standard



Where we are today:

- Offsetting voluntary & explicit (inc. renewable elec.)
- Whole Building approach – no landlord / tenant split
- Operational targets set in kWh per m² (fossil-fuel free)
- Process for validation before construction
- Verification once building is operational (Third-party)
- Launch in late 2024



Legislation

Real Estate

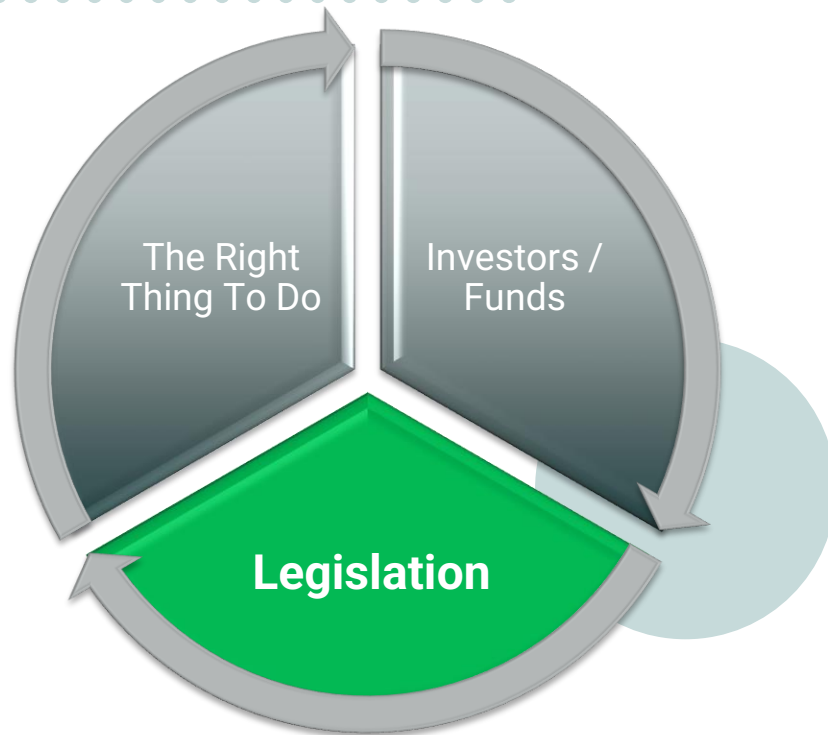
- **Minimum Energy Efficiency Standard (MEES)**
- Energy Savings Opportunity Scheme (ESOS)

Corporate

- Taskforce on Climate-Related Financial Disclosure (TCFD)
- Corporate Sustainability Reporting Directive (CSRD)
- Streamlined Energy & Carbon Reporting (SECR)
- *Taskforce on Nature-Related Financial Disclosure (TNFD)*

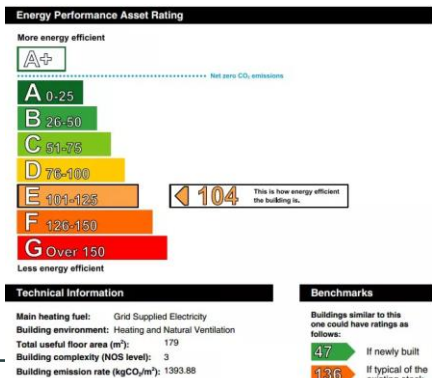
New Real Estate

- **Building Regulations**
- **Planning Policy**
- Biodiversity Net Gain



Minimum Energy Efficiency Standards (MEES)

- Aimed to be a ratchet to performance
- Lots of exemptions, caps, etc.
- Fundamental differences - domestic / non-domestic
- EPC methodology in need of update
- Labour policy unclear – Upgrade plan TBC



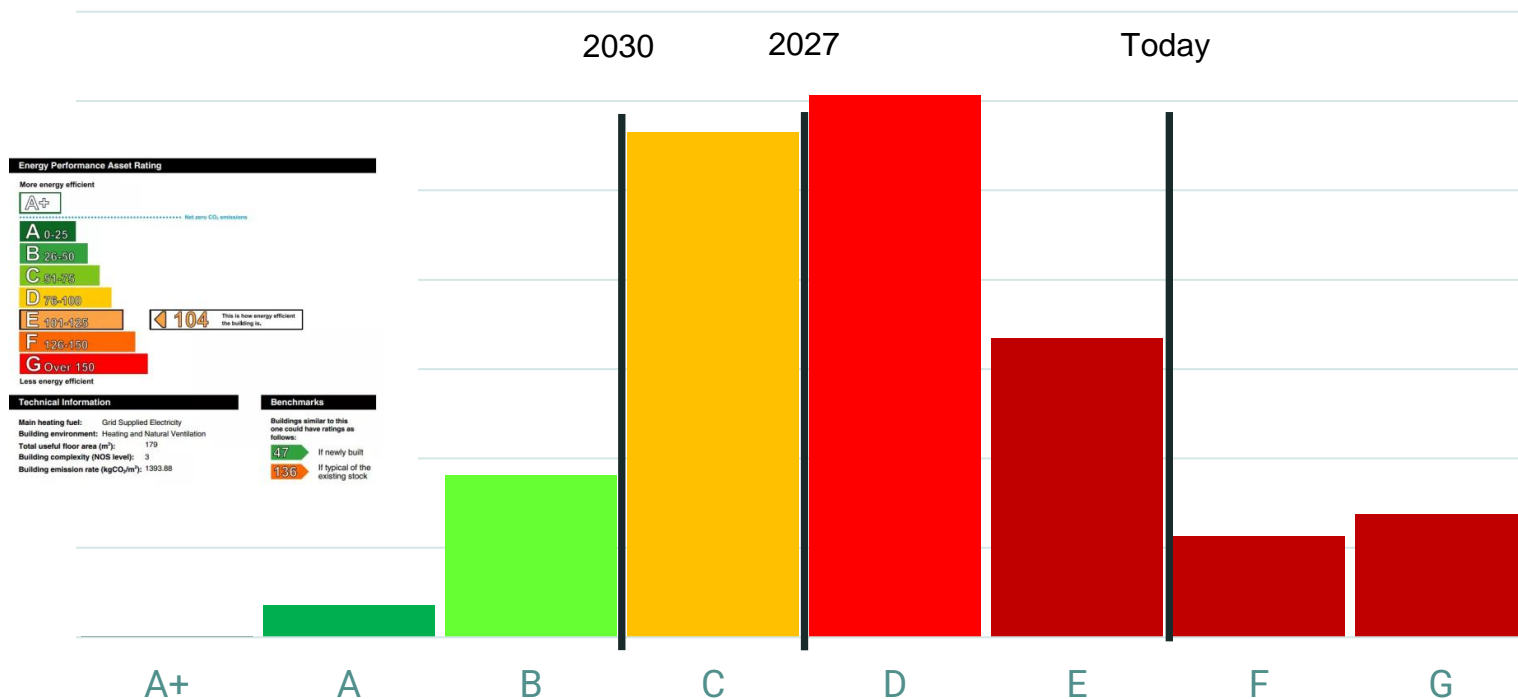
Non-Domestic MEES

April 2018	E for all new tenancies	In Place
April 2023	E for existing tenancies	In Place
2027	C on all rented properties	Postponed
2030	B on all rented properties	Postponed

Domestic MEES

April 2018	E for new tenancies	In Place
April 2020	E for all tenancies	In Place
April 2025	C for new tenancies	Cancelled
April 2028	C for all tenancies	Cancelled

Minimum Energy Efficiency Standards (MEES) – Non-Dom.



Future Homes Standard (Part L)



Story

- Consultation just finished
- Designed to be Net Zero Ready
- Two Options
- Less challenging than expected
- Due to take effect 2025



Headlines

- No increase in fabric standards
- Gas banned
- Heat Pump mandatory
- 3-4kWp solar (probably)

Future Buildings Standard (Part L)



Story

- Consultation just finished
- Designed to be Net Zero Ready
- Favoured Option
- Due to take effect 2025



Headlines

- Higher fabric standards
- Gas banned
- 75% of roof solar (6% of build cost)
- Challenge – HGV charging
- Opportunity – Smart Energy

Overheating in new Homes (Part O)



Story

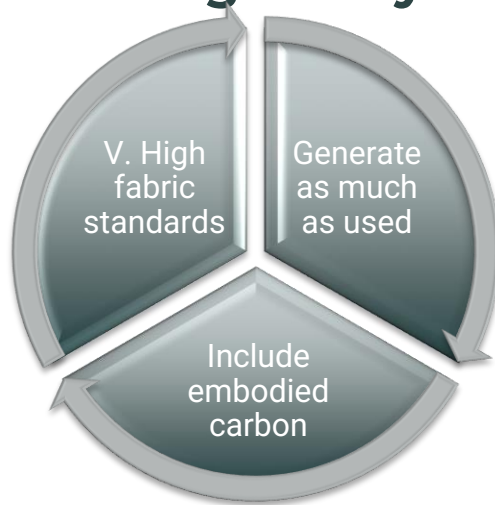
- Overheating issue in new flats
- Took effect 2022
- Requires risk to be minimised
- Simple / Dynamic Method
- Simple method is complicated
- HHSRS covers existing homes



Headlines

- Mainly issue for city-centre flats
- Needs early-stage consideration
- Ambiguities around use of cooling
- Already been an issue in inquiry

Local Planning Policy Trends



- Questions on feasibility and viability
- Increase in costs of ~£15k per home over FHS
- Also requires social value strategy



Bristol Local Plan Publication Version



November 2023

Love it or Level it

- Increasing scrutiny over carbon associated with building materials e.g. “embodied carbon”
- More of a focus on improving existing assets rather than demolishing
- As with Planning generally, need a sense of balance



- Net Zero construction
- LETI
- UKGBC



ESG Strategy



Thank you,



Barny Evans

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