

## 8. SUSTAINABILITY

### 8.1. SUSTAINABILITY INTRODUCTION

The major contribution that the real estate industry can make to the creation of a sustainable environment is widely recognised, and with this in mind the property investment industry has continuously increased its efforts and activities in this area in the past years. As a consequence, sustainability reporting has become a natural part of a company's annual reports and sustainability initiatives have advanced to play an important role in the operational performance of real estate investment vehicles.

The growing interest led to the discussion of introducing mandatory reporting regulation at both country and EU level with potentially significant implications for the non-listed real estate investment sector. A recently adopted directive requires EU member states in this respect to transpose national law to enforce reporting on environmental, social and employee-related, human rights, anti-corruption and bribery matters.

These guidelines were constructed to cover similar topics, summarised under the ESG framework, and its underlying business models, outcomes and risks of these policies and therefore function as forerunner to future regulatory requirements. It is essential to successfully include sustainability into a long term strategy as well as translate that strategy into annual objectives and targets for implementation. While sustainability has long been understood as reducing the consumption of environmental resources, that definition is now being expanded to also include governance as well as social indicators. In this new context, the level of information required is increasing, so there is a need to balance the delivery of comprehensive data on the one hand but also to not become too granular.

The INREV Sustainability Reporting Guidelines have been revised to form a disclosure framework that delivers meaningful data to increase visibility and insight into a vehicle's ESG efforts and also details their next course of action for improvements. They aim to provide a coherent framework for ESG reporting in line with annual financial reporting and present a clear picture from the vehicle's strategy through to environmental key performance indicators.

To allow easy implementation and consistent reporting methodologies the INREV Sustainability Guidelines have been aligned with current industry standards that are widely adopted in the sector (see chapter 4 Alignment with industry standards).

#### **References in Sustainability Reporting Guidelines:**

The Sustainability Reporting Guidelines include references to other industry standards which are implemented in the non-listed real estate industry; GRESB, GRI and EPRA. The references should support fund managers employing same information to different standards and making logical links in their vehicle documentation. The references only intend to show a topical overlap, they do not refer to identical information. Therefore being compliant with the INREV Sustainability Reporting Guidelines does not automatically lead to compliance with the referenced standards and vice versa. Information that applies to the different standards needs to be processed individually. Merely referring to an attached document – such as the GRESB survey – does not fulfil the principles of the INREV Sustainability Reporting Guidelines and is not sufficient to claim compliance.

### 8.2. REQUIREMENTS AND BEST PRACTICE RECOMMENDATIONS

The guidelines consist of mandatory sustainability reporting requirements and best practice recommendations. To

integrate the guidelines into the INREV Guidelines Compliance Framework the mandatory requirements have been integrated into the Reporting Module.

Therewith an integrated reporting approach is provided adding ESG requirements to the obligatory INREV Guidelines Compliance Framework to reflect current market practice and create the relation between integrated reporting and sustainability reporting.

The mandatory requirements and best practices offer fund managers the ability to choose between different levels of detail and to customise the INREV Sustainability Reporting Guidelines for their own capabilities and investor needs.

While fund managers who are already familiar with ESG reporting and accordingly have ambitious goals can opt for the full set of requirements by including the best practices within the mandatory reporting requirements, those with limited resources or limited investor demands can opt for only the mandatory requirements to comply with the INREV Guidelines.

This flexibility allows vehicles to customise ESG reporting to specific investor needs. The additional guidance in the best practices has two functions: First, to be a guidance for those fund managers wanting to add more detail to their mandatory requirements to support comprehensive ESG reporting, and second to further describe the mandatory requirements and with that help understanding and interpretation of the guidelines. At the same time, the mandatory requirements result in a clear overview of the fund manager’s efforts in ESG matters, as well as their related annual goals and achievements. In addition, the best practices can provide guidance for a self-standing ESG report which can be disclosed alongside the annual reports.

### 8.3. DISCLOSURE

The mandatory requirements have to be reported on annual basis to claim compliance with the INREV Guidelines. However it is best practice to quarterly update investors with a status report.

#### 8.3.1. VEHICLE LONG TERM STRATEGY

	References					
	INREV Reporting Module	INREV DDQ	GRESB RE 2019	GRI	EPRA	UN-PRI

<p><b>ESG-LTS 1.1 Requirement:</b></p> <p>Describe the overall approach to setting a long term ESG strategy for the vehicle. Make reference to the overall governance approach, which is covered in the INREV Corporate Governance Guidelines.</p> <p><b>Detail the long term (2 to 10 years) ESG strategy for the vehicle. As best practice you can consider the aspects set out below:</b></p>	RG.18	3.8.2 - 3.8.4	MA1 PD1	G4-1 G4-2		PR 01
<ul style="list-style-type: none"> <li>Asset management ESG strategy: Provision of asset sustainability action plans, possibly integrated into asset business plans, to describe how the vehicle's long term ESG strategy is implemented on asset level.</li> </ul>		3.8.2	SE4.2			
<ul style="list-style-type: none"> <li>Provision of new build and/or refurbishment ESG strategies.</li> </ul>			NC1			PR 11
<ul style="list-style-type: none"> <li>Provision of an ESG strategy for acquisitions.</li> </ul>			RO3.1			PR 04
<ul style="list-style-type: none"> <li>Provision of a strategy to reduce and/or measure energy, GHG emissions and water and waste measurement.</li> </ul>			PI1.0- PI4.1			

<p><b>ESG-LTS 1.2 Requirement:</b> Detail the vehicle’s approach for ensuring compliance for current legislation relating to ESG issues is in place.</p>	RG.35	3.8.8		G4-2		
<p><b>ESG-LTS 2.1 Best practice:</b> Detail any additional key material aspects for the ESG strategy for the vehicle. Some examples of possible considerations include, but are not limited to:</p>			MA1 PD1	G4-1 G4-2		
<ul style="list-style-type: none"> <li>ESG actions plans at an individual asset level: name the percentage of assets with an individual ESG action plan, detail the scope these action plans and describe the communication and information flow with the asset management.</li> </ul>						
<ul style="list-style-type: none"> <li>Environmental management systems</li> </ul>		3.8.5	ME1			
<ul style="list-style-type: none"> <li>Employee KPIs for ESG: describe if the employees of the vehicle manager perform against set ESG KPIs and how these are set and measured.</li> </ul>			MA5			SG 08

<ul style="list-style-type: none"> <li>Stakeholder activities including tenant liaison and satisfaction measurement strategy, green leases, community engagement strategy</li> </ul>			SE7- SE11.2			PR 12 PR 13 PR 14
<ul style="list-style-type: none"> <li>Policy to decrease travel footprints (e.g. asset level, vehicle manager company level)</li> </ul>						
<ul style="list-style-type: none"> <li>Initiatives to improve biodiversity</li> </ul>						
<ul style="list-style-type: none"> <li>Supply chain management strategy</li> </ul>		3.8.9	SE4.1 SE4.2			
<ul style="list-style-type: none"> <li>Description of how the above mentioned policies and/or strategies have been developed.</li> </ul>			MA4			
<ul style="list-style-type: none"> <li>Innovation, technology and best practice: describe the fund manager's involvement in the production of case studies or similar publications to provide information to the wider industry.</li> </ul>						

<ul style="list-style-type: none"> <li>Industry participation on ESG initiatives: describe the fund manager's involvement, participation or support of promoting ESG initiatives to the industry.</li> </ul>						SG 09
<ul style="list-style-type: none"> <li>Participation in the GRESB survey or/and development of GRESB scores</li> </ul>		3.8.1				SG 09

### 8.3.2. ANNUAL OBJECTIVES

This section breaks down the long term strategy described in ESG-LTS 1.1 and ESG-LTS 2.1 and translates it into a practical action plan on annual basis; including targets, investment and costs, action points. Targets should be quantified as far as possible

	References					
	INREV Reporting Module	INREV DDQ	GRESB RE 2019	GRI	EPRA	UN-PRI
<p><b>ESG-ANN 1.1 Requirement</b> Based on the strategy of the vehicle described in ESG-LTS 1.1, set out the annual objectives and associated targets for the coming 12 month reporting period on the aspects set out below:</p>	RG.27		RO4 RO6	G4-1, G4-2		PR 09

<ul style="list-style-type: none"> <li>Asset management ESG initiatives: Describe the targets that should be reached within the next 12 months with the individual asset sustainability plans, set out the impact on portfolio level.</li> </ul>		3.8.2	SE4.2			
<ul style="list-style-type: none"> <li>New build and/or refurbishment ESG initiatives</li> </ul>			NC1			PR 11
<ul style="list-style-type: none"> <li>ESG initiatives for acquisitions</li> </ul>			RO3.1			PR 04
<ul style="list-style-type: none"> <li>Initiatives to reduce and/or measure energy, GHG emission, water and waste measurement</li> </ul>			PI1.0- PI4.1			
<ul style="list-style-type: none"> <li>Green building certificates and energy ratings: describe the vehicle's approach regarding green building certificates and energy ratings. Detail the current state, the certification scheme(s) and the percentage of the portfolio certified. Set out related ambitions.</li> </ul>			BC1.1, BC1.2  BC1.1, BC1.2			PR 10
<p><b>ESG-ANN 1.2 Requirement</b> Detail objectives for the next 12 month reporting period for ensuring compliance with current legislation in relation to ESG and about preparations for any future legislation that may be undertaken in this period.</p>	RG.35	3.8.8		G4- 2		

<p><b>ESG-ANN 2.1 Best practice</b> Detail other annual objectives and associated targets for the vehicle based on information outlined in ESG-LTS 2.1. Examples may include, but are not limited to:</p>			G4-1		PR 09
<ul style="list-style-type: none"> <li>• ESG actions plans at an individual asset level</li> </ul>					
<ul style="list-style-type: none"> <li>• Environmental management systems</li> </ul>		3.8.5	ME1		
<ul style="list-style-type: none"> <li>• Employee KPIs for ESG: describe if the employees of the vehicle manager perform against set ESG KPIs and how these are set and measured.</li> </ul>			MA5		SG 08
<ul style="list-style-type: none"> <li>• Tenant liaison and satisfaction</li> </ul>			SE7-SE11.2		PR 12
<ul style="list-style-type: none"> <li>• Green lease clauses and memoranda of understandings</li> </ul>			SE10.1		PR13
<ul style="list-style-type: none"> <li>• Stakeholder engagement strategy, including community engagement strategy</li> </ul>			SE1-SE11 SE11.1		PR 14
<ul style="list-style-type: none"> <li>• Policy to decrease travel footprints (e.g. asset level, vehicle manager company level)</li> </ul>					
<ul style="list-style-type: none"> <li>• Initiatives to improve biodiversity</li> </ul>					



• Supply chain management		3.8.9	SE4.1 SE4.2			
• Description of how the above mentioned policies and/or strategies have been developed						
• Innovation, technology and best practice						
• Industry participation on ESG issues						SG 09
• Participation in the GRESB survey or/and development of GRESB scores		3.8.1				SG 09

### 8.3.3. ANNUAL PORTFOLIO INFORMATION

In this section it should be reported against the annual targets described in ESG-ANN 1.1 and ESG-ANN 2.1. Report on the progress that has been made, on the status of initiatives and on what has been achieved.

	References					
	INREV Reporting Module	INREV DDQ	GRESB RE 2019	GRI	EPRA	UN-PRI
<b>ESG-POR 1.1 Requirement</b> Report against annual objectives and associated targets set for the vehicle as set out in ESG-ANN 1.1.	RG.51					PR 09

<p><b>ESG-POR 1.2 Requirement</b> Report against compliance with current legislation requirements and objectives and associated targets for preparations for upcoming legislation.</p>	RG.35					
<p><b>ESG-POR 2.1 Best practice</b> Report against the annual objectives and associated targets as set out in ESG-ANN 2.1.</p>						PR 09

### 8.3.4. ENVIRONMENTAL DATA

	References					
	INREV Reporting Module	INREV DDQ	GRESB RE 2019	GRI	EPRA	UN-PRI
<p><b>ESG-ENV 1.1 Requirement</b> Absolute data and like-for-like Disclose absolute environmental data and like-for-like data for the proportion of the vehicle's portfolio that is in the fund manager's operational control. This should cover:</p>	RG.29					
<ul style="list-style-type: none"> <li>energy</li> </ul>			PI1.0	G4-EN3 ff.	Incl. in EPRA	
<ul style="list-style-type: none"> <li>GHG emissions</li> </ul>			PI2.0 - PI2.2	G4-EN1 5 ff.	Incl. in EPRA	

• water			PI3.0- PI3.2	G4- EN8 ff.	Incl. in EPRA	
• waste			PI4.0- PI4.2	G4- EN2 2 ff.	Incl. in EPRA	
<b>Intensities</b> Report the intensity ratios for energy and GHG emissions per property type. Detail the calculation methodology including applied normalization factors and which types of energy / types of GHG Emissions are included in the ratio.			PI1.0  PI2.0 - PI2.2	G4- EN5  G4- EN1 8	Incl. in EPRA	
The environmental data should be presented in line with GRESB or GRI / EPRA methodology. Please disclose which methodology has been used.						
<b>ESG-ENV 2.1 Best practice</b> Disclose absolute environmental data and like-for-like data for the available tenant data for the vehicle's portfolio. This could include:						
• energy			PI1.0	G4- EN3 ff.	Incl. in EPRA	
• GHG emissions			PI2.0 - PI2.2	G4- EN1 5 ff.	Incl. in EPRA	

• water			PI3.0- PI3.2	G4- EN8 ff.	Incl. in EPRA	
• waste			PI4.0- PI4.2	G4- EN2 2 ff.	Incl. in EPRA	
The environmental data should be presented in line with GRESB or GRI / EPRA methodology. Please disclose which methodology has been used.						

#### 8.4. ALIGNMENT WITH INDUSTRY STANDARDS

This section seeks to outline the alignment of the INREV Sustainability Reporting Guidelines with industry standards recognized to be applied in current market practice. The table below shows the references between the INREV Sustainability Reporting Guidelines, the INREV Reporting Guidelines, the INREV DDQ, the GRESB Survey and the GRI Sustainability Reporting Guidelines.

The references listed below aim to provide an indication of the alignment of the standards without any claim to comprehensiveness.

INREV Sustainability Reporting Guidelines	INREV Reporting Guidelines	INREV DDQ for non-listed real estate vehicles	GRESB RE 2019	GRI Sustainability Reporting Guidelines*	EPRA	UN-PRI
ESG-LTS 1.1	RG.18	3.8.2 - 3.8.4	MA1, PD1, RO3.1  PI1.0-PI4.1, SE4.2  section NC1	G4-1, G4-2		PR 01, PR 04, PR 11
ESG-LTS 1.2	RG.35	3.8.8		G4-2		

ESG-LTS 2.1		3.8.1, 3.8.5, 3.8.9	MA1, MA4, PD1, PD3, ME1, SE7- SE11.2	G4-1, G4-2		PR 12 - 14 SG 08 - 09
ESG-ANN 1.1	RG.27	3.8.2	RO3.1, RO4, RO6  PI1.0- PI4.1, BC1.1, BC1.2, SE4.2  section NC1	G4-1, G4-2		PR 04 PR 09 - 11
ESG-ANN 1.2	RG.35	3.8.8		G4-2		
ESG-ANN 2.1		3.8.1, 3.8.5, 3.8.9	MA5, SE1- SE11, ME1  SE7-SE11.2	G4-1		PR 09 PR 12 - 14 SG 08 SG 09
ESG-POR 1.1	RG.51					
ESG-POR 1.2	RG.35					
ESG-POR 2.1						
ESG-ENV 1.1	RG.29		PI1.0-PI4.1	G4-EN3 ff., G4-EN8 ff., G4-EN15 ff., G4-EN22 ff.	Incl. in EPRA	
ESG-ENV 2.1			PI1.0-PI4.1		Incl. in EPRA	

\*Please note that in addition to the above stated references, GRI defines categories and aspects in the guidelines which further outline economic, environmental and social references to their reporting disclosures which may be in line with INREV reporting requirements.

## 8.5. TOOLS AND EXAMPLES

### 8.5.1. BEST PRACTICE EXAMPLE



#### Introduction

This report presents an example of ESG reporting in alignment with the INREV Sustainability Reporting Guidelines 2016 and aims to support the implementation of the guidelines.

The information is based on a fictional investment vehicle adduced for this example.

The report includes elements to comply with the mandatory reporting requirements as well as elements representing best practice recommendations of the INREV Sustainability Reporting Guidelines.


The mandatory Sustainability Reporting requirements are integrated into the INREV Reporting Guidelines. Claiming compliance with the INREV Reporting Guidelines therefore requires compliance with the mandatory Sustainability Reporting Requirements.






Legend	
	Sustainability Reporting Requirement
	Sustainability Reporting Best Practice

#### Long Term Strategy

The Phoenix Property Fund is a balanced European based property fund covering industrial, retail and office properties.



Taking a sustainability approach is a priority for this fund. We see it as an opportunity to improve the risk-return profile of the fund as well as contribute positively from ESG standpoints while continuing to meet the fiduciary responsibilities of the fund's investors.







	The fund has in place a long term strategy which ensures that we act on the feedback of all identified stakeholders to shape the policy, processes and methods used to manage ESG across the fund.

	The fund sets both long term and short term targets relating to each ESG aspect identified as material for the fund, and report quarterly against targets, at asset and fund level. The fund also ensures that we have a governance structure to identify key material, sustainability aspects for the fund, review policies and processes, set targets and regularly monitor performance against annual and long term targets.
	We measure, monitor and report on all environmental aspects of the fund, and ensure that all quantitative data is externally assured. At an asset level, we undertake sustainability due diligence during all fund acquisitions. We also ensure that all developments and refurbishments employ the best practice sustainability techniques and achieve a sustainability accreditation.
	We recognise our responsibilities to national and European legislation requirements for ESG so we ensure compliance with all applicable ESG legislation. Through our dedicated sustainability manager, we also monitor, manage and mitigate risks due to proposed future ESG legislation.
	To improve our expertise on this issue, the fund will ensure all staff, agents and suppliers involved in the fund management receive regular ESG related training and are incentivised through sustainability targets both in contracts and appraisal processes.
	The fund will also play a role to encourage innovation and industry participation to further the knowledge of sustainability in the property sector. This includes building an online library system to share case studies with all stakeholders in order to promote sustainable performance of property

## Annual Targets

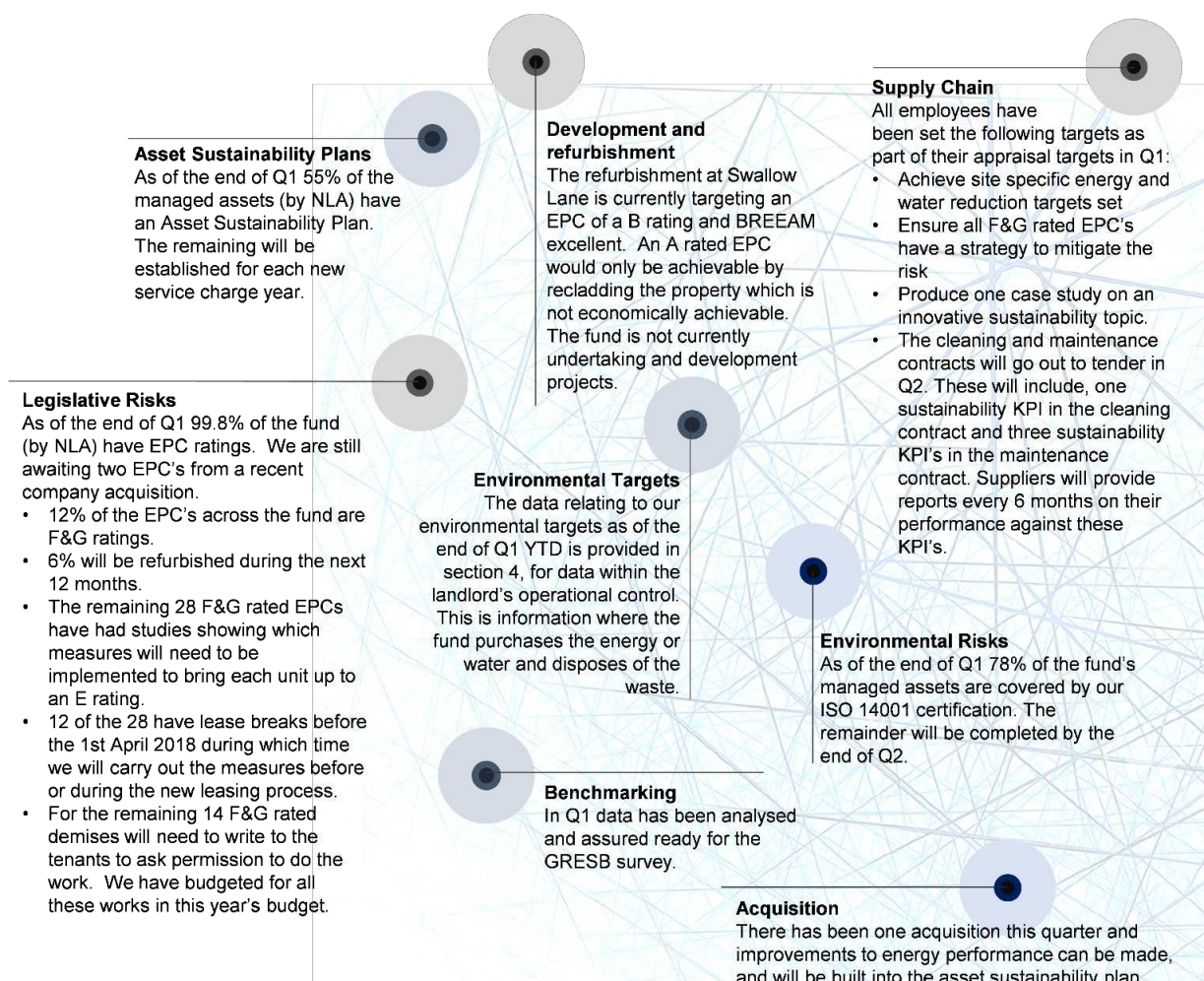
These annual objectives are derived from the fund's overall ESG approach and strategy as set out in section 1. The fund seeks to meet these objectives during the next financial year with regular reports on progress through the fund's quarterly reports, as set out in section 3.

No	Significant Aspect targeted	Measurement	Completion
	<b>Asset sustainability plans</b> Ensure each managed asset has an asset sustainability plan that seeks to reduce energy, water and waste.	Q1	Q1
	<b>Development and refurbishment</b> Achieve an EPC of a B rating and a BREEAM excellent or Lead Gold standard for all major developments and refurbishments.	Report	Quarterly

	<p><b>Acquisitions</b></p> <p>Ensure that all acquisitions are assessed for potential improvements to environmental performance.</p>	Report	Quarterly
	<p><b>Environmental targets</b></p> <p>Reduce energy and water consumption in like-for-like assets by 5% during the year. This will be achieved through various initiatives such as new lighting systems and maintenance improvements. Ensure at least 85% of waste is diverted from landfill during the year.</p>	Percentage reduction comparing YTD	Quarterly
	<p><b>Legislative risks</b></p> <p>Ensure all UK assets hold an EPC and that all F&amp;G rated EPC's have a strategy to mitigate the risks.</p>	Percentage F&G EPCs in the fund by NLA and ERV	Quarterly
	<p><b>Environmental Risks</b></p> <p>Ensure all managed properties hold an ISO14001 certification by the end of 2016.</p>	Percentage of funds covered by ISO 14001	Quarterly
	<p><b>Employee and Supply chain targets</b></p> <p>Set sustainability targets for all employees and monitor progress by year end. Set sustainability KPIs in all new relevant suppliers let during the year.</p>	Targets in employee objectives, KPI's in supplier contacts let.	Q1 Year end
	<p><b>Benchmarking</b></p> <p>Participate in the GRESB benchmarking exercise</p>	Complete survey by end of June	Issue results in September

## Annual Portfolio Information





## Environmental Data



Example Property Fund

Landlord Environmental Data

Quarter 1

	absolute kWh		like for like kWh			Notes
	2015	2016	2015	2016	% change	
<b>Electricity</b>	1,350,000	1,550,000	834,000	810,000	-4%	
<b>Carbon</b>	835,940	969,530	523,215	508,060	-3%	
<b>Fuels</b>	550,000	684,000	350,000	365,000	4%	Gas is degree day adjusted. Increase due to control issues at 5 Bluebird Pace.
<b>Water</b>	absolute m3		like for like kWh			

	2015	2016	2015	2016	% change	Notes
	9,543	84,500	5,438	5,980	5,980	Increase in water use is due to showers being installed in two multi let offices. Hence target will not be achievable this year
	<b>absolute KG</b>		<b>% diverted from landfill</b>			
	2015	2016	2015	2016		Notes
<b>Waste</b>	1,250	1,800	74%	94%		

- We are confident that the electricity and carbon targets for the year can still be achieved once the controls have been repaired at 5 Bluebird Place.
- The increase in water usage due to the two showers being installed at two multi-let offices, mean it will not be able to achieve our like for like water targets this year.

## 8.6. Q&A

### 8.6.1. INTERPRETATION OF REFERENCES

#### **Why do the INREV Sustainability Reporting Guidelines include references to other industry standards such as GRESB, GRI and EPRA?**

These references to other industry standards are included to highlight the overlap: they are intended to support fund managers and investors in employing the same information across different standards and to help make the links in their vehicle reporting.

#### **In order to comply with the INREV Sustainability Reporting Guidelines, is it sufficient to attach the answers to the GRESB Survey?**

No, referencing to answers to the GRESB Survey alone does not mean compliance with the INREV Sustainability Reporting Guidelines. The information required by the INREV Sustainability Reporting Guidelines is more descriptive and detailed. It should however be presented in line with the GRESB, GRI or EPRA methodology.

#### **Does compliance with the INREV Sustainability Reporting Guidelines automatically lead to compliance with the referred standards and vice versa?**

No, the different standards referred to in the guidelines do not all have identical information requirements and so in order to be compliant with each standard they must each be addressed separately.. Therefore, compliance with the other standards referred to does not automatically lead to compliance with the INREV Sustainability Reporting Guidelines and vice versa.

**How do I ensure the information I provide is more descriptive and detailed in order to comply with the requirements of the INREV Sustainability Reporting Guidelines?**

The INREV Sustainability Reporting Guidelines require a precise description of the sustainability policies of managers and vehicles with concrete action plans at the asset level. The Guidelines have been structured to reflect a logical progression from strategy to action to practical outcomes. A long term ESG strategy, stretching from portfolio to asset level, would be expected to produce annual objectives and targets, against which practical progress can be measured, for instance in terms of energy consumption and CO2 emissions.

**8.7. UPDATES**

November 2019: The references to the GRESB survey and UN PRI have been updated.

April 2016: Sustainability initiatives have advanced to play an important role in the operational performance of real estate investment vehicles and sustainability reporting has become a standard part of a company's annual reports. To support this the INREV Sustainability Reporting Guidelines have been revised to increase visibility and provide insight into a vehicle's Environmental, Social and Governance (ESG) efforts and also details their next course of action for improvements.