

Responsible Investment Policy for the Commercial Property Portfolio

Introduction

Responsible investment lies at the core of the Authority's investment beliefs, and is fundamental to how we go about our business. However, how we invest responsibly differs between asset classes. When investing in equities the way in which we address Environmental, Social and Governance (ESG) issues is generally through engagement with companies and voting at company annual meetings, and the Authority's overall responsible investment policy (and those of the Border to Coast Pensions Partnership which sit underneath it) focus on listed assets and other financial investments such as private equity. Investing responsibly in the area of commercial property is a different and much more practical proposition and this policy sets out what the Authority aims to achieve and how in this area.

We can summarise our approach to Responsible Investment in traditional financial assets as:

"To be a good owner of good companies who encourages the good to become better"

Applying the same logic to commercial property as an asset class we can summarise the position we want to achieve as follows:

"SYPA wants to own and develop buildings which meet the highest economically feasible environmental standards and operate buildings in a way consistent with our policies on social and governance issues as applied to other asset classes."

This means that we need to identify specific actions in relation to:

- Buildings we already own;
- Buildings we propose to acquire;
- Buildings we propose to develop;

While the Authority will always aspire to the highest standards in terms of ESG in the area of commercial property there needs to be recognition that the interests of the Authority's tenants also need to be considered. All opportunities to improve the sustainability performance of assets should be considered on the basis of their costs and benefits to SYPA as landlord and to occupiers and other stakeholders.

The Authority will at all times seek to promote awareness and adoption of responsible investment principles by its managers, agents and tenants across the property portfolio.

Buildings we Already Own

When investing in commercial property the Authority is investing in the physical assets and not in the businesses of its tenants. However, the Authority will try to ensure the proper use of its properties by promoting leases that prohibit illegal, immoral and anti-social conduct and requires tenants to follow best practice when considering health, safety and pollution issues, and encourages tenants to review situations where their activities could be considered a high risk to the environment.

The Authority requires both suppliers and customers to comply with existing environmental legislation and to consider draft changes in legislation before they become law. The Authority strives to ensure its buildings are effectively managed and energy efficiency is maintained at optimum levels. Specifically:

- All energy contracts placed by or on behalf of the Authority in relation to multi-let properties or vacant single tenant properties will utilise renewable energy tariffs.
- Where not installed when a building is purchased the Authority will investigate the feasibility of low-carbon technologies (e.g. solar PV) and other measures to improve operational efficiency. Potential improvement measures will be included in each asset's ESG action plan. If not feasible in the near-term, measures will be reviewed regularly, at least every two years.
- Where it is not the when a building is purchased the Authority will with the agreement of its tenants seek to, over time, bring properties to the standards specified in this policy for newly developed properties.

For multi-let properties the Authority and its agents will, where they do not already exist, seek to work with tenants and the relevant local authorities to develop travel plans (and facilities) which promote the use of public transport and active modes of travel (cycling and walking), for example by the provision of new bus stops or cycle parking.

In relation to the buildings which it owns the Authority and its agents will take the following steps across a range of areas:

Supplier selection

Major suppliers are encouraged to adopt good practice RI principles, in particular health and safety, waste management, recycling of materials and promotion of good labour standards.

The Authority will engage in a dialogue with contractors and suppliers over any areas of concern.

Planned maintenance and energy auditing

The Authority intends that planned preventive maintenance (ppm) schedules exist for all managed buildings to ensure regular checking of controls for heating and cooling, hot water and electrical systems.

Operating and maintenance manuals should be available to on site staff. They should

identify optimum settings of plan and systems and correct operating procedures.

Maintenance staff should be aware of the correct operating parameters and compare energy usage against energy targets.

Log books recording all maintenance activities should be held on site.

Energy audits should be undertaken annually to review improvements. Planned upgrading or more energy efficient plant and systems should be considered in older buildings.

Building fabric should be maintained to ensure energy efficiency.

Ozone depletion

All refrigerants present in the building should be identified. The Authority seeks to produce a methodology for replacing ozone depletion refrigerants with new refrigerants, where possible.

It is important to replace Halon fire protection systems as part of a planned programme wherever possible.

Decanting facilities for recovering refrigerants should be provided and the Authority will consider refrigerant leak detection systems where appropriate.

Leak detection and recovery of refrigerants should be specified where practical.

Maintenance facilities should be adequate to monitor the integrity of the refrigerant equipment, and to recover decanted refrigerant.

Recycling

The Authority's managing agents will be encouraged to undertake a waste audit and review the scope for reduction and/or an increase in the level of recycling of the waste produced.

Lighting

The Authority encourages the use of high frequency ballasts with fluorescent light fittings to limit flicker and glare, reduce energy use and extend lamp life, and where possible supports the replacement of such fittings with LED's.

Steps will be taken to ensure lighting levels (allowing for deterioration) are not set artificially high. Where feasible, sensors to ensure lighting is only used in occupied space should be used.

Air Quality

The aim is to ensure air conditioning systems including ductwork, humidifiers and filtration systems, are adequately maintained in accordance with manufacturer's requirements.

Hazardous materials

Awareness of the Authority's Health & Safety requirements is promoted.

The Authority and its agent will identify presence of asbestos in a building and comply with regulations when removing or altering it.

The use of lead pipes for water is now restricted, but may be present in older buildings.

Performance monitoring and action planning

The contract with the managing agent provides all the management objectives for a comprehensive RI policy.

A ESG action plan will be kept on an online platform for all properties. The scope of actions will vary depending upon the size and nature of the property. The platform will enable the monitoring of performance trends against targets for energy, emissions and waste management. An inventory of any ozone depletion substances stored on site will be maintained by the M&E contractor where applicable. Waste management facilities, including records governing the control and disposal of hazardous materials, will be fully documented. Sustainability actions and recommendations for continuous improvement should be regularly monitored and reviewed.

Buildings we Propose to Acquire

In looking to acquire any property there are a number of key environmental and social factors that the Authority will examine in addition to purely financial considerations when making a decision to purchase. These are factors which will ultimately impact the financial performance of any specific asset. In all cases, the aim is to minimise downside risks and capitalise opportunities in order to enhance returns wherever possible.

The factors considered include:

- **Environmental performance:** Poor environmental performance can result in additional costs through having to "retrofit" buildings or higher costs for tenants due to issues such as increased energy use. Issues such as this make such properties less attractive to tenants thus potentially increasing void costs.
- **Connectivity:** this has a number of different aspects which can impact in differing ways for different types of property. Connectivity could apply to transport or to broadband. Thus, for example, a difficult to access office building is less likely to be attractive to tenants potentially increasing void costs.

Generally we will aim to acquire buildings in sustainable locations (relative to their use, the qualification here around use type reflects that a sustainable location for a logistics facility will be different from that for an office building) which have a BREEAM sustainability rating of good or higher (this reflects the top 50% of new non-domestic properties) however it should be understood that not all buildings have BREEAM ratings and so we may also acquire buildings that would in our opinion demonstrably meet this sustainability threshold. There may be occasions where we purchase buildings with lower

sustainability ratings with a view to improving their ratings by way of refurbishment if we believe that the financial returns are sufficiently attractive.

We will positively weight the fact that buildings have existing renewable energy infrastructure such as solar panels, small wind turbines, or ground source heat pumps in investment decision making.

Buildings we Propose to Develop

Clearly where the Authority is looking to develop a property it can seek to achieve an ideal in terms of environmental and social standards. However, there are limitations here, in that, it would make no sense to develop the perfect building from an environmental and social perspective if it resulted in rents that were unaffordable for the types of tenants for which the building is intended. That said, building in features during construction is likely to be more cost-effective than retro-fitting and can in itself be an attraction for some tenants.

Consequently where it is developing property the Authority will wish to deliver projects to at least the BREEAM Very Good Standard which is achieved by the top 25% of non-domestic buildings in the UK.

Where the Authority proposes to develop buildings it will have regard to:

- The relevant local plan, and it will not, for instance, seek to develop an industrial building in an area intended for residential development;
- The economic strategy for the area being promoted by the local authority, and/or Local Enterprise Partnership;
- The principles of sustainable development, in particular looking to opportunities for the redevelopment of brownfield sites rather than greenfield sites, and giving significant weight to a site's transport connectivity in the context of the proposed use.

Any proposed development goes through a number of stages and different responsible investment considerations apply at each stage. The following sections set out the considerations that apply at each stage:

Conceptual stage

Contractor and supplier selection

The Authority will promote awareness of its RI policy among our suppliers. Where environmental risk issues arise, the Authority will negotiate with suppliers and contractors.

The Authority will encourage the adoption of the Construction Industry Board's procedures for selected Projects – the Considerate Constructors Scheme – in order to promote health and safety aspects, and consideration within the neighbourhood.

Life-cycle considerations

Life cycle costing and, where appropriate, whole life costing, are used to establish appropriate building specifications.

Planning and environmental assessment

Planning policy will dictate that in certain circumstances environmental impact studies should be undertaken to assess the potential environmental effects of a development. If required, the scope of this assessment will be determined in consultation with the local planning authority.

Contamination

Ahead of any development (or indeed any asset purchase) checks are carried out for evidence of any contamination.

The Authority undertakes an environmental land survey and record of every property within its portfolio.

Landscaping

The possibility of landscaping to minimise any detrimental impact the development may have is always considered.

Wind

A wind assessment is considered to ensure conditions near the development are satisfactory.

Energy efficiency and low-carbon technologies

Design energy standard initiatives based upon best practice government publications are encouraged.

Where possible, design techniques are used at the conceptual stage to minimise energy consumption. For example, opportunities to use natural ventilation and to use the shape and orientation of the building to maximise day lighting and reduce cooling requirements are considered.

Wherever possible opportunities for renewable energy generation through for example the mounting of solar panels as part of a development are taken.

Detailed design

Awareness of team

The Authority will ensure all participants in the team address environmental issues and are aware of its RI policy.

Demolition and recycled materials

The Authority considers it vital to identify and comply with requirements for disposing of hazardous materials. The Authority will also attempt to recycle materials resulting from demolition. Recycled building materials such as crushed demolition materials should be

considered for filling and for road bases. The use of recycled products should be considered wherever performance criteria can be met.

Design life and flexibility

The durability and flexibility of materials, particularly in relation to their reuse, should be considered at the specification stage.

The need for future alterations can be avoided if careful design and flexibility are built into space planning.

Energy conservation and greenhouse gas emissions

The target is to reduce consumption of fossil fuels directly or indirectly by specifying the use of energy efficient plant and equipment designed to minimise production of carbon dioxide and oxides of sulphur and nitrogen.

High levels of insulation should be incorporated into the building fabric with particular attention to window design.

The Authority will attempt to use natural day lighting to minimise electrical energy use. Thermal recovery devices should be considered in air conditioning systems. The Authority will consider other designs that enable passive heating and cooling of buildings where practicable.

Energy efficient services, appliances and controls are considered in order to further reduce operational energy consumption.

Noise

Engineering systems should limit the external noise they generate and restrict the background noise to an acceptable level at night.

Ventilation

Natural ventilation should be used where possible.

Air intake points should be designed to avoid cross contamination. Filtration should be in accordance with Chartered Institution of Building Services Engineers recommendations and should incorporate monitoring devices to ensure that maintenance procedures are adequate.

Indoor air quality

Fresh air allowance should follow Chartered Institution of Building Services Engineers recommendation. Where appropriate, windows should be of a style that can be opened. Ductworks should provide access points to enable periodic cleaning.

Thermal comfort

Controls should be incorporated to ensure local environments can be maintained without wasting energy by overheating or overcooling of the space.

Lighting and visual comfort

Buildings should be designed to maximise use of daylight, reduce glare and provide external views for occupiers where possible.

The use of low energy luminaires (LED where viable) with high frequency control gear will always be advocated. The use of controls that permit timed zoned switching of luminaires or movement sensors will be recommended where appropriate.

CFCs, HCFCs and Halons

CFCs and HCFCs should not be used as blowing agents in insulation materials. Extruded polystyrene and polyurethane foams should not be used.

Halon fixed or portable fire control systems should not be specified.

The specified refrigerants should offer the lowest ozone depletion potential available at the time of specification, and should take into account planned future legislation.

Lead and solvent based paints

The Authority does not encourage the use of lead based paints. Solvent based paints that may release Volatile Organic Compounds (VOCs) should be avoided as far as possible and used in line with manufacturer's guidance where their use is unavoidable.

Asbestos/formaldehyde

The Authority opposes the use of asbestos or other such deleterious material. The use of building products containing formaldehyde should be avoided where there is an alternative available and all efforts should be made reduce the risk of release from specified materials.

Legionnaire's disease

Awareness of the Authority's water management standards should assist in the design of new plant and systems.

Domestic water services should permit periodic chlorinating.

The design and specification of new plant should be in accordance with the approved code of practice.

Timber and stone

Timber and timber boards, including tropical hardwoods, and specified stone finishes should be obtained from certified sustainable sources.. Timber products should be obtained from sustainably managed resources and the timber merchant's certificate should state the country of origin and plantation.

Landscaping and nature

Internal landscaping (e.g. green walls and planting) should be considered to provide a link with nature for building users. External landscaping, where part of the scope of a

development, should incorporate green space and natural features.

Recycling facilities and storage

Buildings and fit-outs should be designed to enable occupants to easily segregate and store recyclable materials. There should be sufficient space to store recyclable materials and enable them to be collected. Compaction facilities for waste are recommended where appropriate.

Water conservation

Demand for water should be reduced through the specification of water-efficient technologies. Water economy devices should be fitted to urinals and water meters installed to monitor consumption. Water flow regulators should be fitted to taps where appropriate.

Where appropriate, the use of rainwater and recycled grey water should be considered.

Wet evaporative cooling towers should not be used.

Cycling facilities

Secure and dry storage for bicycles together with changing facilities should be provided where feasible.

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