

Committing to zero carbon real estate

Real estate | August 2021



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Our UK Real Estate strategy to reach net zero by 2050 addresses a major source of risk for commercial property investors and aims to deliver better outcomes for all stakeholders

If the world is to avoid more destructive climate change over the coming decades, every industry must change how it operates and strive to reach net zero carbon by 2050, in line with the 2015 Paris Agreement. Given that buildings are responsible for 40% of the UK's carbon emissions¹, with non-domestic properties accounting for just under half that total, the commercial real estate sector has a clear obligation to act.

As a major real estate investor, managing UK funds with a value of around £7.2 billion (as at 30 June 2021), Columbia Threadneedle Investments is determined to be among the leaders in the Real Estate industry's effort to reach carbon neutrality. We have developed and committed to a comprehensive strategy to achieve this. The first step is to recognise that we cannot succeed on our own. Success depends on all stakeholders working together with a common understanding: investors, asset managers, tenants, property managers, advisors and the entire real estate supply chain.

Acting together to reduce our buildings' carbon emissions delivers environmental, social and financial benefits. Already, occupiers are starting to express a preference for buildings with low-carbon footprints, which in turn will bolster financial value. In addition, our pro-active sustainability objectives guard against transitional risks, as policymakers intensify the introduction of new regulations covering the real estate industry in our move towards a low-carbon economy.

¹ Royal Institution of Chartered Surveyors, International Construction Measurement Standards, 2019

Targets for 2050

With this in mind, Columbia Threadneedle has undertaken to reach net zero carbon emissions across our real estate holdings by 2050 or sooner. Our commitment covers emissions from our own directly controlled UK business activities and the emissions we are responsible for as a landlord. In addition, it encompasses all energy, water and waste consumed by our occupiers, as well as all emissions required to produce the materials used in our redevelopments and refurbishments, including transport and end-of-life disposal. Each of our real estate funds will set its own pathway towards our 2050 target date consistent with its investment objectives.

We intend to reduce carbon emissions under our direct control as landlord by 60% from their 2019 levels, using the EU-funded Carbon Risk Real Estate Monitor to set targets on the pathway to 2050. In addition, we have committed to use the UK Green Building Council (UKGBC) Framework to reduce the energy demand of our properties to levels consistent with the goals of the Paris Agreement.

But we only control a portion of the CO₂ emitted from our buildings. A much bigger share is generated by the business activities of our tenants, and the construction work and materials required for refurbishments. We therefore need to work closely with many others to develop and instil ways of measuring emissions from all sources and gather the data we need to monitor progress.

Four-stage hierarchy for reducing emissions

As we act to cut buildings' emissions we will follow the UKGBC Net Zero hierarchy, set out across four areas. First, we will improve the energy performance of our properties through efficiency measures, targeted refurbishments, improved energy controls and collaboration with our occupiers to help them reduce their energy use. Second, we will invest in onsite renewable generation to meet as much of our properties' power demands as possible. Any excess power will be exported, and where onsite generation cannot meet demand we will buy power from verified renewable sources.

Third, we will develop ways to measure the carbon emissions associated with development and refurbishment projects, seeking opportunities to reduce carbon through efficient use of materials, for example by choosing recycled materials. Fourth, if we need to offset remaining carbon balances to reach net zero, as a last resort we will use the most effective and transparent mechanisms available.

Transitioning our real estate portfolio to net zero carbon by 2050 will require detailed planning, collaboration with stakeholders and concerted effort over several decades. That said, much of the groundwork is already in place.

Columbia Threadneedle UK Real Estate has already conducted sustainability audits on its top energy consuming assets to identify opportunities to improve performance, and we carry out environmental due diligence on all prospective investments to assess potential efficiency gains. We are also introducing data sharing and co-operation clauses into new leases to allow for monitoring of occupiers' energy, water and waste consumption.

To ensure that we refurbish buildings to the highest environmental standards, we have drawn up a Refurbishment Guide that must be followed on all refurbishment and development projects. This sets out a range of measures including energy-efficient lighting, heating and cooling systems; the addition of renewable generation capacity such as photovoltaic panels; and the use of automated controls to collect data on energy use and manage building systems as efficiently as possible.

Early progress

While we have a long way to go the early results are encouraging. Buildings held in our sustainability-focused Threadneedle Carbon Neutral Real Estate Fund achieved an average improvement in their Energy Performance Certificate rating from E to B after refurbishment.² The energy-intensity of these buildings once occupied is also good: emissions expressed as kilowatt hours-equivalent per square metre are on average 24% below the typical 2019 level calculated by the UK's Better Buildings Partnership.³

We are determined to build on this progress and deliver real estate assets that meet our climate commitments, work better for their occupiers and deliver safe, sustainable returns for investors. This latest commitment represents the next step on our journey as responsible stewards of our clients' capital.



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² Columbia Threadneedle Investments, as at 30 June 2021

³ Columbia Threadneedle Investments and Carbon Trust, April 2020