EXPERT INSIGHT

The Role of Real Estate in a Sustainable Future

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THE ROLE OF REAL ESTATE IN A SUSTAINABLE FUTURE

Real estate investment has delivered attractive risk-adjusted returns over the last decade, supported by economic recovery after the financial crisis, and highly supportive credit conditions. The impact of emerging socio-political trends on different real estate asset classes has been accelerated by the global Covid pandemic, with sustainability now a key focus given real estate's carbon footprint, and its impact on social well-being and the way we live and work. At the same time, inflationary pressures and normalisation of interest rates pose economic challenges in a market which has seen significant yield compression in favoured asset classes. We adopt a holistic view of the market to address these challenges and opportunities through a strategy designed to optimise outcomes across these axes of impact and return. Based on our experience in both Core and Value-Add investing, we believe that a Value-Add strategy which incorporates 'change of use' projects to reconfigure the building blocks of different asset classes is best-placed to deliver both impact and double-digit return objectives. We call these projects **Value-Add +**.

In addition, the latest vintage of our European real estate strategy will be designated as an SFDR 9 impact fund with impact objectives and measurement at the core of its investment strategy, leveraging on our experience and commitment as a firm to make a positive, measurable contribution to accelerate positive changes for society.

Beyond Core…

The European Real Estate investment market has focused historically on core locations and prime assets, which can be easily bought and sold, in stabilized geographies with clear regulatory constraints and light asset management requirements. This core focus has represented real estate's investment anchor as a provider of typically secure long-term cash flows and as a fixed income bond diversifier. The limited supply of such assets, combined with low or even negative interest rates in bond markets, have been key drivers of price appreciation and yield compression, supported by steady rent increases due to population growth in urban areas and the need for office space. As a result, over the last decade prior to the Covid crisis, investors have enjoyed both attractive real income yields and double-digit returns from private real estate funds, across the strategy spectrum[1].

Over the same period, supported by broad economic recovery in Europe, other trends have emerged to present new investment strategy opportunities and the prospect of enhanced risk-adjusted return premia. These include continuing urbanisation which has driven residential housing demand in markets where there are structural supply shortages; changing consumer appetites and retail behaviour, with continuing growth in digitalisation and e-commerce propelling the need for logistic facilities; as well as broader discussion about the role of the built environment in addressing issues of sustainability, working practices, the amenities of daily life, and social well-being. Positive macro and sectoral tailwinds have therefore helped to generate attractive total returns from real estate asset classes, with low volatility.

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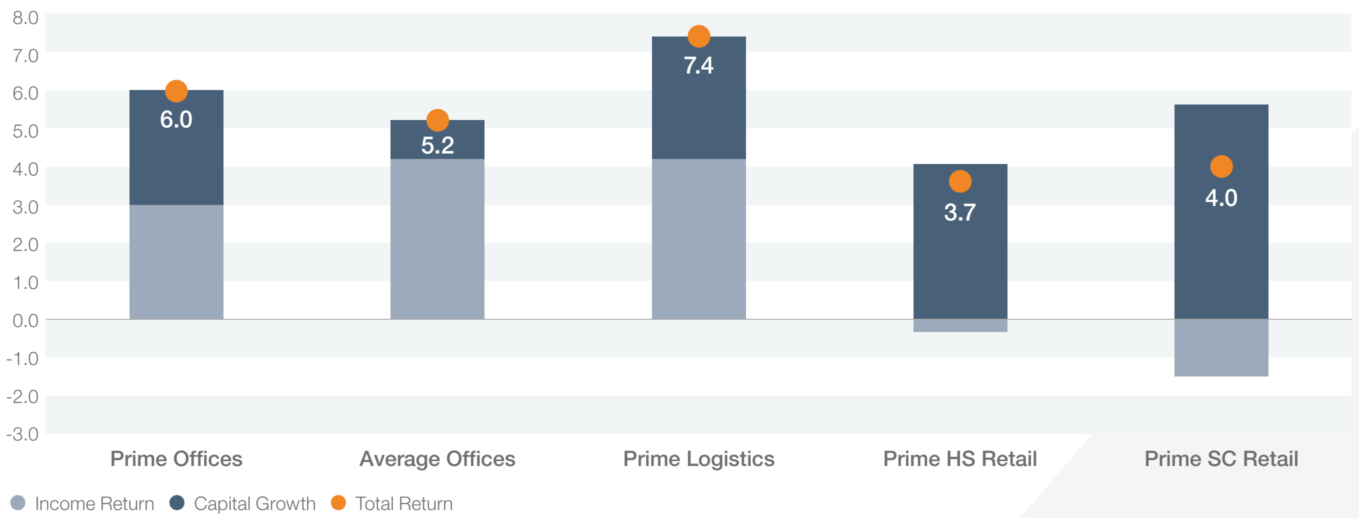
Return Prospects in a Post – Pandemic, Inflationary World

The COVID-19 pandemic, combined with an inflection point in macroeconomic conditions in relation to inflation and interest rate expectations, signal significant changes in outlook. On the one hand return expectations are changing, both in absolute terms and in the composition of returns across different asset classes, while on the other emerging trends are morphing into megatrends which will bring significant changes to the way we live and work in the future.

After a decade of high returns, forecasts for the 5 years from 2021 – 2025 point to lower mid-single digit returns with greater dispersion among assets classes, and capital growth being a greater component of overall return.



Source: BNP Paribas Real Estate European Property Outlook H2 2021

[1] Source: Preqin Quarterly Update: Real Estate Update Q3 2021

With offices and retail representing the mainstay of the cash flows that have underpinned real estate returns, uncertainties around the security and level of rents (both in terms of fundamental demand and measures such as rental moratoriums) have brought greater attention to the operational risks more commonly associated with hotels and other niche sectors, requiring more active asset management in terms of understanding market requirements and engagement with tenants, and greater financial complexity.

At the same time, the events of the last two years have accelerated the sustainability agenda, which is now an absolute priority and offers opportunities for real estate to play a transformational role. Issues of health and well-being have been exacerbated by the pandemic and buildings have a role to become more inclusive. The framework for thermal regulations has also been accelerating. In light of Russia's invasion of Ukraine, the European Commission proposed a plan in March 2022 to make Europe independent from fossil fuels well before 2030.

This backdrop has implications for the development of an investment strategy which can optimize outcomes across the two axes of return and impact. In our view, investment specialisation in single asset classes will need to be replaced with a holistic view of the real estate space, formed through a deeper understanding of the shifts taking place across different assets classes and a nimble response in configuring the different building blocks into a cohesive and impactful investment strategy.

This strategy can be developed in what we believe will continue to be a supportive environment for real estate as a whole, notwithstanding the varying effects of the crisis on different sectors. Solid economic recovery, accompanied by rising inflation and a modest rise in bond yields, should continue to attract investors, faced with negative real interest rates, into real assets that can provide indexed real income growth and capital appreciation. The resilience of prime assets in the light of the pandemic has been notable and, while 2021 investment volumes in retail and offices reflected a cautious approach in the light of consumer trends and working practices (and presents opportunities for nimble and astute investors) demand for residential and logistics assets has remained strong or accelerated. It is our conviction that all these represent solid building blocks for a portfolio strategy that can deliver attractive risk-adjusted returns and deliver meaningful impact.

The Impact Imperative

Real estate has a critical role to play in addressing the necessary and urgent energy transition. Buildings and construction directly and indirectly account for 42% of global energy use and 37% of CO_2 emissions[2], and the latest IPCC report highlighted the urgency and commitment required to reduce its carbon footprint. Governments have increased their efforts to develop regulatory frameworks in support of this, with clear commercial implications for the sector - non-compliance will bring risk of stranded assets and reduced valuations, while the shortage of energy-efficient buildings represents significant development and reconversion opportunities to meet this demand.

The EU Climate Law of 2021 enshrined in legislation the twin objectives of achieving carbon neutrality by 2050 and of reducing GHG emissions by at least 55% by 2030, compared to 1990 levels. Real estate's expected contribution to meeting climate goals has already been incorporated in the European regulatory framework, through the EU's Energy Performance of Buildings Directive (EPBD), the cornerstone of EU buildings legislation, and the Renovation Wave initiative launched in 2020. Real estate will need to achieve a 60% reduction in GHG emissions by 2030 (compared to 2015) to achieve the 55% reduction target across all sectors. The achievement of these targets will require a strong response which will have significant implications for changes in practices in the building sector.

The main levers to achieve this are a 25% reduction in energy demand and over 50% reduction in fossil fuels to achieve an even split with renewables as energy source[3]. The regulatory levers for the implementation of these changes already exist. The EPBD stipulates that all new buildings constructed within the EU must be ***Nearly Zero Energy Buildings (NZEBs)***, with primary energy demand targets for residential and non-residential buildings articulated in $kWh/m^2/year$, calibrated to reflect different climate conditions across Europe. Over 20 EU Member States have published NZEB energy use requirements and, while different methodologies have been employed to measure achievement against target, it is encouraging to note that for residential buildings around a third of States have set their ambition at the bottom or lower than the NZEB primary energy use requirement, while for non-residential buildings over 50% have specified requirements that are more demanding than the benchmark.[4]

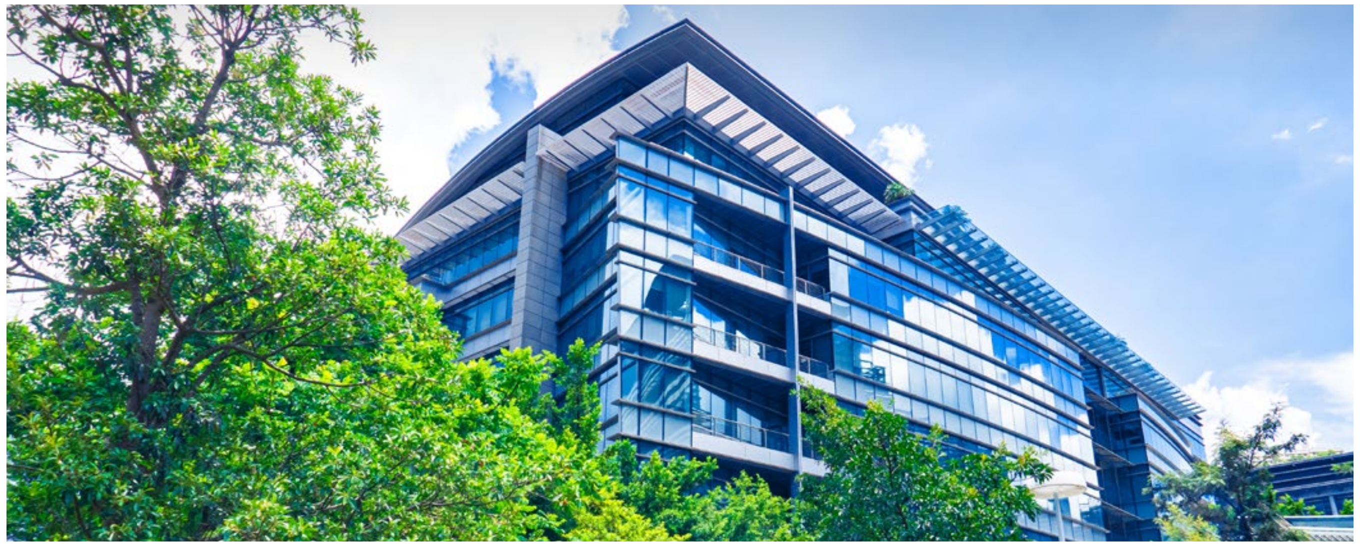
> The European Commission estimates that an extra €275bn of investment per year is needed to bridge the investment gap, the largest climate investment gap in any of the sectors that the Green Deal is focused on.

The Renovation Wave[5] is an initiative launched in October 2020 after the EC's European Green Deal was established at the end of 2019, with the objective to at least double the energy renovation rate by 2030 and to foster deep renovation. Given that 75% of existing buildings are energy inefficient (90% of the EU's 220 million buildings were built before 2001) and that 85% of existing buildings will still be in use by 2050, this initiative has a major role to play in the decarbonisation of existing housing stock. Beyond that it can help to combat energy poverty and provide other social, environmental, and economic benefits.

The European Commission estimates that an extra €275bn of investment per year is needed to bridge the investment gap, the largest climate investment gap in any of the sectors that the Green Deal is focused on. Currently only 1% of buildings undergo energy renovations each year. Analysis undertaken by the Buildings Performance Institute Europe (BPIE) using the European Calculator (EUCalc) suggests that this rate will need to average 4% on average over the next decade. Deep renovation (which incorporates renewable energy sources) will need to increase tenfold from the current 0.2% per year and reach 3% to represent over 70% of the energy renovation mix, in order to align with the 60% emissions reduction trajectory[6].

RePowerEU[7] is a plan proposed by the European Commission in March 2022 to reduce Europe dependency on fossil fuels - particularly gas - and requires immediate action on buildings' energy consumption. Natural gas accounts for one third of energy consumption from the residential sector, most of which is used for space heating. The EU's policy response must prioritise energy renovation and heat pumps deployment further, as they are critical for a resilient European energy system.

[2] Source: IEA – Tracking Buildings, November 2021 focused on energy-related CO2 emissions
[3] Source: BPIE – On the Way to a Climate Neutral Europe, December 2020
[4] Source: BPIE – Assessing Ambition Levels in New Building Standards Across the EU, January 2022
[5] Source: European Commission – A Renovation Wave for Europe, October 2020
[6] Source: BPIE – On the Way to a Climate Neutral Europe, December 2020
[7] Source: REPowerEU - Joint European action for more affordable, secure energy, March 2022



Sustainability Can Improve Returns

There is a growing body of academic research, supported by industry reports, that indicates sustainable real estate attracts higher valuations. These have in the main been focused on commercial properties and the positive impact of green certifications (BREEAM rating and Energy Performance Certificate in Europe) on rental values and growth, operating expenses, vacancy rates, and sale prices[8]. Many have also incorporated analysis of a range of contributing variables, including location, size, building age and quality, lease structures, the green signalling effect, and other less tangible but important social and environmental factors.

While the results of typical hedonic statistical analysis can be strongly affected by the definition of comparable non-certified properties and the choice of control variables, given the heterogeneous nature of individual property assets, the findings generally show that sustainability drivers make a positive contribution to financial returns.

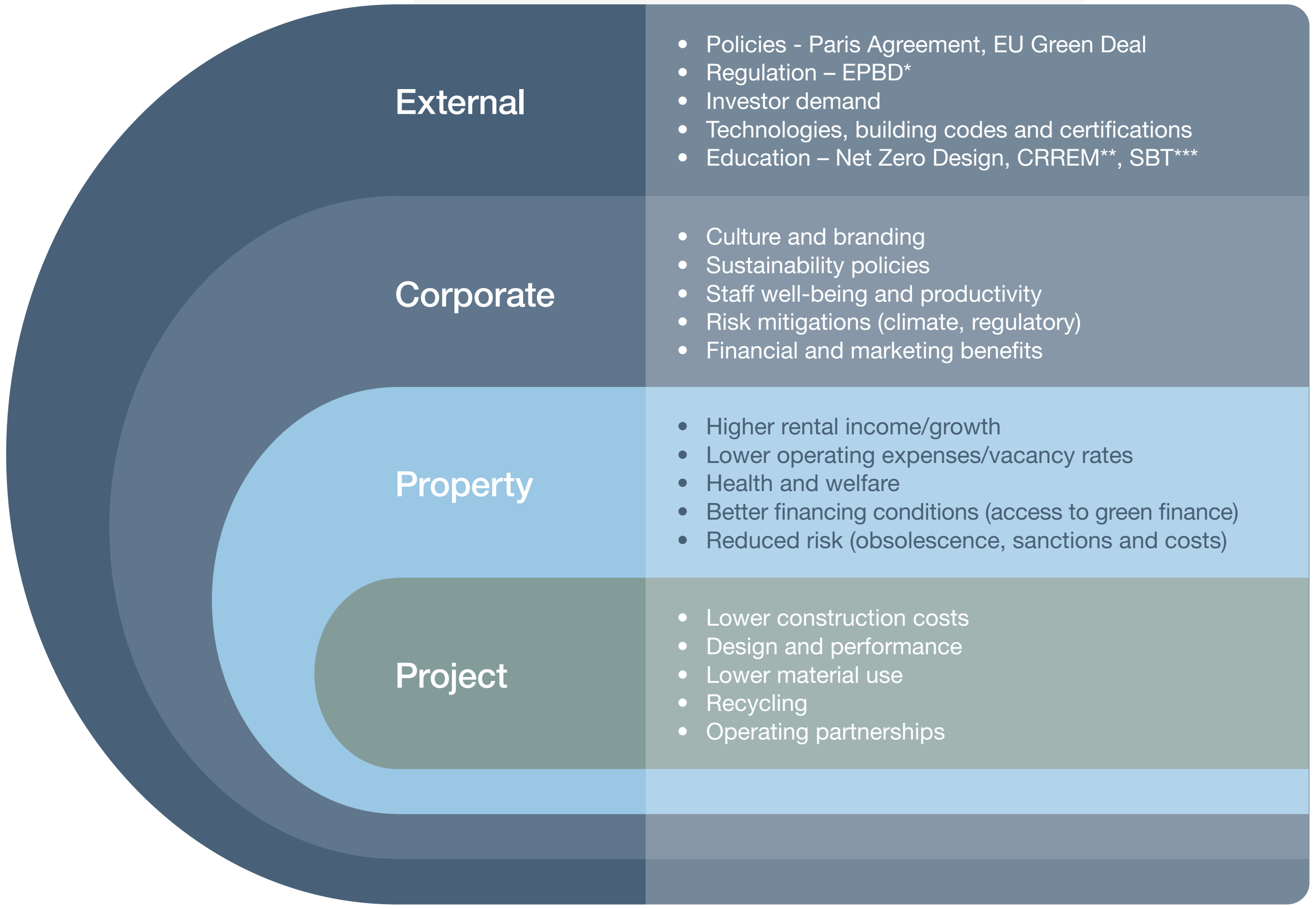
Meta-analysis undertaken by Dalton and Fuerst of 42 studies, spanning 14 countries and both commercial and residential sectors over an 8-year period, identified that the vast majority showed a positive correlation between green certifications and higher rental values and sales premiums compared to uncertified properties, with rent premiums of 5.4% and 8.2% for commercial and real estate assets respectively, and sale premiums of 11.5% and 5.5%.[9]

More recent studies of the London office market by Knight Frank[10] and JLL[11] of BREEAM certified buildings reached similar conclusions – rental premiums of 4% to 11% for BREEAM Outstanding buildings, and a sales premium greater than 10% for BREEAM Excellent or Outstanding.

But certifications such as these represent only part of a suite of sustainability value drivers that span external factors (government policy and regulation), corporate awareness and commitment to address sustainability goals, improved property fundamentals (financial and social), and more efficient and lower cost project implementation. Climate risk and resilience, reduction of carbon footprint (studies have shown that there is little correlation between historical green certification levels and a building's carbon emissions) and a growing emphasis on occupier health and well-being represent a growing voice in the value conversation. A survey of executive leaders by JLL last year showed that around 80% of occupiers and investors considered climate risk as a financial risk, and that a similar percentage of occupiers anticipated that emissions reductions would represent a part of their corporate sustainability strategy within the next 3 years. Over 40% believed that employee health and well-being would be a significant factor in talent attraction and retention.

[8] Source: Leskinen, Vimpari, Junnila – A Review of the Impact of green Building Certification on the Cash Flows and Values of Commercial Properties, February 2020
[9] Source: Dalton and Fuerst – The 'Green Value' Proposition in Real Estate (A Meta-Analysis), 2018 Routledge Handbook of Sustainable Real Estate
[10] Source: Knight Frank – Trends in Global Real Estate, December 2021
[11] Source: JLL – Return on Sustainability, January 2022

Sustainability drivers



* Energy Performance of Buildings Directive ** Carbon Risk Real Estate Monitor *** Science Based Target

Source: Adapted from Leskinen, Vimpari, Junnila – A Review of the Impact of green Building Certification on the Cash Flows and Values of Commercial Properties, February 2020

Increasing recognition of these drivers is also reflected in the fact that the number of companies which have demonstrated their commitment to climate action through Science Based Targets doubled in 2021, a greater increase in number than the total over the previous 5 years. Given the political motivation and more stringent regulation being rolled out to reset emissions reduction pathways and the relative lack of carbon neutral buildings currently, the supply/demand imbalance has significant valuation implications for buildings exposed to stranding risks. More industry practitioners are turning to specialist bodies such as the Carbon Risk Real Estate Monitor (CRREM) to understand what needs to be achieved in quantitative terms.

Certifications are therefore evolving from an assessment principally of design elements to include a range of performance parameters. New certifications such as BREEAM 'Built for Performance' (and LEED Zero Carbon in the US), as well as the growing adoption of other existing ones such as the Global Real Estate Sustainability Benchmark (GRESB) which covers nearly $6 trillion in AUM serve to create greater awareness of how underlying building characteristics can increase values. This is particularly true for early movers in the adoption of such principles, either as occupiers or investors.

Impact in Practice

In our view, an investment strategy that can meet the twin objectives of making the strongest possible positive climate, environmental and social impact, and deliver above market returns, should focus more widely than on just a single asset class and a traditional Value-Add approach. From our experience, change of use opportunities provide the greatest flexibility to address holistically these macro trends. We call this strategy Value-Add +.

Tikehau's Real Estate team has been a pioneer in the identification and execution of change of use projects. When we launched our previous European value-add strategy we anticipated that change of use and development opportunities could represent around a third of the portfolio allocation, based on the emerging trends that have now accelerated following the pandemic in 2020. In practice, change of use projects now represent nearly two thirds of a portfolio of 12 investments. The trends already in play also underpin our latest vintage and support its strategy to invest at least half of the portfolio in Value-Add +.

> With vision, positive political momentum, and the support of local communities such projects allow for a fully 'designed in' and integrated approach to achieving cost-effective and impactful results.

The key benefit of this approach is that it can more comprehensively address key measures articulated by the Global Alliance for Buildings and Construction, founded 3 years later at COP 21 to be the leading platform for governments, the private sector, and intergovernmental and international organizations to increase action towards a zero-emission, efficient and resilient sector.[12] These measures include implementation of ambitious energy codes for buildings and the use of integrated design. The most effective low-cost solutions to deliver the greatest savings in life cycle carbon emissions can be realized at the early stages of a project, involving all disciplines and stakeholders (the community, contractors, designers, real estate developers and manufacturers) in an integrated manner. It also facilitates the integration of nature-based solutions (promoting biodiversity) into the planning and development of projects.

According to PWC's 'Emerging Trends Europe' survey 2021, over 70% of leading real estate practitioners thought that 'change of use' would increase over the next 5 years, with the number who thought that the increase would be substantial over the next 5 years increasing threefold, from 6% to 19%. Offices and retail properties represented the most common building types to be repurposed.

Investment Opportunities

Large-scale developments in strategically important locations give substantial scope to produce positive impacts across a trifecta of sustainability themes – climate, biodiversity, and social well-being and inclusion. With vision, positive political momentum, and the support of local communities such projects allow for a fully 'designed in' and integrated approach to achieving cost-effective and impactful results. Successful execution of such projects depends on a larger toolbox of development and operational skills to address the acceleration of the sustainability agenda successfully, including experience across asset classes, a strong local presence in target markets, and an established network of strong operating partners.

[12] Source: Global Alliance for Buildings and Construction – Decarbonizing the Building Sector: 10 Key Measures, 2021

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Charenton – Bercy*

* Please note images represent computer-generated graphics of projects which have not yet been built

CASE STUDY:
Charenton – Bercy, Paris

What is the project?

It represents an opportunity to develop a substantial mixed-use project of 240,000 sqm on one of the last pieces of land adjacent to Paris. About 52% of the project will be residential (1,500 apartment units and 700 units of co-living, student housing and worker residential), 31% offices. It will also include hotels, a retail offering, and a school.

How attractive is the location?

Very attractive, in our opinion. It is effectively at the entry gate to Paris, on the east side, visible from the Paris ring road, the A4 motorway and the rail network towards Gare de Lyon. It's located between the Bois de Vincennes and the Seine River, so an attractive residential location, and it will also address demand for high quality office space on the east side of Paris, which is currently lacking.

Describe the positive ESG impacts of the development

From a **climate** perspective we are targeting an E+ to C- minimum efficiency per plot and utilizing geothermal energy for heating and cooling. Construction materials are a major source of embedded emissions, and we seek to reduce these through the deployment of wooden structures for parts of the scheme, such as bridges, the school, and offices. The project also aims for an overall recycling rate of more than 90% during construction. The objective is to reduce carbon emissions per inhabitant by 20%. We have also been successful in increasing the density of the project by over 50% and 30% respectively for the residential and office components, which helps to reduce transport pollution.

We should also remember that reduction of carbon emissions on their own cannot solve the climate issue – increasing **biodiversity** has a major role to play. The project targets 25,000 sqm. of newly created green areas, including 60% greening on private plots.

The **social** dimension of the project comprises 400 social housing units (over 25% of residential units), which include co-living and student housing. 4,000 bike spaces have been included. The objective is to create a vibrant, safe, diverse, and attractive community environment which fosters the physical and mental well-being of its inhabitants.

Does the project have ESG certifications?

Yes, it will adopt the BREEAM Code for a Sustainable Built Environment and has been accredited with the Biodivercity and EcoQuartier labels.

What are key factors in the successful execution of such a project?

It is important to have a good understanding and experience of all real estate asset classes – in complex developments such as these getting the mix right is key.

Conversion of retail assets into mixed-use developments – the outlook for the retail sector has for some time been driven by e-commerce and digitalization, with a strong correlation between the rise of e-commerce market share and city centre retail and shopping centre vacancy rates.

The Covid crisis and growing awareness of the climate and sustainability agenda has been changing consumption preferences and patterns which seem likely to be long-lasting. Lockdowns have initiated a trend to support local businesses, smaller and more sustainable brands, and independent retailers. The proximity factor is also more ingrained due to working from home which is expected to remain a feature of office life. According to Mastercard, 74% of European consumers are now more likely to shop in their local communities than they were a year ago. This has affected the shopping centre market, with high vacancy rates resulting in oversupply. This can be addressed through adaptation to meet changing consumer needs and expectations (such as adding services) or repurposing the site to cater for a combination of demands.

CASE STUDY:

Nicholson Shopping Centre, Maidenhead

How did this opportunity come about?

We could describe it as a case of "the wrong asset in the right location" (a common characteristic of Value-Add+ projects). The 18,000 sqm. shopping centre built in the '60s on a plot of 4.5 acres represented a third of Maidenhead's retail offer. With no major investment since the '90s, net income had declined by nearly 50% over the previous 5 years, with a vacancy rate of 16%.

What did you see that the market missed?

The opportunity to acquire an income producing land plot with significant redevelopment potential derived from a combination of compelling value drivers: location, catchment area demographics, residential and office demand, and support from a local authority committed to invest up to £1 billion to regenerate the town centre.

The site is in the heart of the city centre of Maidenhead, a top-tier regional commuter town less than 35 minutes from central London and the City, and only 25 minutes from Heathrow Airport, when the Cross-Rail Elizabeth line is completed. The railway station is a 5-minute walk from the shopping centre, and there is easy access to the M4 motorway.

It benefits from a catchment area of one million inhabitants, with average incomes twice that of the national average.

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Given the strength of its transport connections and proximity to London, Maidenhead enjoys a strong commercial dynamic – Hutchison 3G, Rank Leisure, Abbott Laboratories, FM Global are located there. Demand for office space exceeds supply, giving the opportunity to include brand new office space within the project.

Related to this the local authority estimated that 10,000 new residential units would need to be built over the next 10-12 years, with demand driven by local buyers. Compared to London prices (and where there are over 20,000 unsold prime residential units), there is a deficit of supply at the lower-priced end of the market, below £600 per sq.ft.

What is the scope of the project?

We were granted a building permit to develop a residential-led (59%) mixed-use project of 78,900 sqm, a fourfold increase on the original shopping centre. New offices will account for 32%, and retail 9%.

How have you incorporated sustainability objectives into the project?

From a **climate** perspective the project is targeting a greater than 10% reduction in energy by incorporating renewable, low and zero carbon technologies, and a BREEAM Very Good rating for office units larger than 5,000 sq.ft.

For **biodiversity** it will include green roofing and wildlife friendly planting and seek to reduce water consumption through sanitaryware specification and the inclusion of leak detection technology.

A third of the residential development will comprise retirement units and other **social** benefits will include over 850 cycle parking spaces, 356 EV charging points and 300 parking spaces.

Nicholson Shopping Centre, Maidenhead*

* Please note images represent computer-generated graphics of projects which have not yet been built

Office renovation and 'change of use' opportunities

The numerous lockdowns following the Covid pandemic and the associated shift to working from home has spurred much debate about the future role of the office and investment implications. We see a consensus around three themes: that there will be a lasting increase in the proportion of time that people work remotely; offices will remain key for branding to promote a company's culture to employees and attract talent; and environmental quality of the office and energy standards will have an impact on rents. Progressive regulation will raise the risk of obsolescence as aging inefficient assets fall out of favour.

Rents for prime offices remained resilient during the pandemic and demand for green assets, even if required floor space is reduced, should support rental growth as supply plays catch-up to emerging trends.

In addition to renovations, we also see Value-Add + opportunities where the asset may be repositioned through a 'change of use' project (the 'wrong asset, right location' theme). We recently secured, via an off-market transaction at an attractive price, a recently constructed, award-winning office building in a prime location for urban logistics and light industrial assets. Situated close to the largest river port in France (and 2nd largest in Europe) the location is within two minutes' drive of a major motorway junction which provides access to central Paris within about 20 minutes. Given the lack of available sites and a shortage of logistics and light industrial assets within this radius, we intend to convert the office building into a logistics facility. From an environmental perspective the building already benefits from two certifications, HQE (High Quality Environment) and THPE (Very High Energy Performance), and we have opted for a major refurbishment of the current building instead of a full demolition and reconstruction program to reduce the emissions impact. The scheme will target environmental certifications such as BREEAM 'Excellent', include green roofing, and maintain all natural elements such as the lake and green areas. Using conservative assumptions for project density, construction costs, rental values, and cap. rates we see potential to generate an attractive return premium over traditional Value-Add projects in the office space, which may include the renovation and imaginative upgrading of both prime and non-prime assets in well-established office districts.

Residential opportunities

The urbanisation megatrend, driven by jobs growth, efficient infrastructure and stimulating cultural opportunities, has contributed to rising residential demand and price growth. This has been supported by structural supply shortages, abundant credit availability and low financing rates. The sector has delivered the second highest average yearly return in Europe (7.7%), after logistics, with the lowest volatility. Residential risk-adjusted returns have been attractive compared to other asset classes. With changing perceptions of the outlook for offices and retail, the resilience of the residential sector during the pandemic (given that it is less correlated to cyclical downturns) and the inflation protection it offers, investment in the sector has grown substantially in the last few years. It is forecast to reach 25% of total European investment volume over the medium term and is, according to the most recent INREV Investor Intentions Survey, the preferred sector for investors, on a par with logistics and offices.

Against this supportive backdrop, changes brought about by the Covid pandemic (housing is now a place for work also) and the acceleration of the environmental and social agenda offer significant opportunities for Value-Add + investment to generate higher returns (given that residential yields in Europe are around 2.7%) and make a strong ESG impact. In the context of the latter, major urban regeneration programs and new developments represent large-scale opportunities to deliver on both objectives, and can be complemented by other new developments and conversion of offices into residential units.

Urban regeneration

Our redevelopment of a 14,800 sqm. office and light industrial building in the second largest business park in Paris into a circa 30,000 sqm. residential development, including 25% allocated to social housing, student, and senior living, forms part of a major urban regeneration project under the 2010 Grand Paris Law which set out objectives for the development of new residential neighbourhoods. Our project forms part of a wider local scheme to redevelop former wilderness (including the reforestation of woods) to create a new mixed-use neighbourhood which in total will include 70,000 sqm. of residential space (1,160 flats) and an additional 20,000 sqm. comprising a school, hotel, and retail.

New development

The acquisition of a 49,700 sqm. land parcel in north-west Milan has provided us with the opportunity to develop 37,600 sqm. of primarily residential development (retail will account for 6%), with 28% dedicated to student housing. New residential developments in Italy are notable given that it has the lowest rate of new build in Europe. The location provides direct metro access to the city centre (18 minutes to the Duomo) and is also within two metro stops of the 950,000 sqm. Milan Innovation District (MIND), which comprises a new hospital, the science campus of the University of Milan, the new Human Technopole Research Institute (dedicated to life sciences), as well as 130,000 sqm. of sports and cultural facilities).

Office to residential conversion

In Milan we are converting an old 4,400sqm. office building in a dynamic and prestigious western semi-centre location (the CityLife neighbourhood) into 4,900 sqm. of high-quality apartments. The excellent location has direct public transport access to the city centre (Duomo) and the motorway in around 15 minutes, and the airport in 30 minutes. The area includes the largest shopping centre in Milan and the second largest public park, with a wide and varied retail and entertainment offer within walking distance.

SFDR 9 and Impact Objectives

We believe that the combination of our own experience with the current real estate market outlook and sustainability imperatives validates our decision to launch the new vintage of our Value-Add strategy as an SFDR 9 impact fund.

Key factors in this determination are the evolution of regulatory frameworks with transparent and measurable objectives, government leadership through initiatives to identify and apply nearly Net Zero and sustainability standards, wider availability of information and documentation on how to pilot a Net Zero model, and technical requirements and guidance to support the delivery of carbon neutral buildings. Industry commitment, supported by available technologies, and empirical evidence that sustainable real estate investment can be intrinsically value accretive and scaled through the added dimension of the Value-Add + approach add to this conviction.

SFDR Article 9 is based on two essential requirements: the first being *intentionality*, to incorporate sustainability objectives at the heart of the investment strategy; and the second being *impact measurement and reporting*. The Fund will comply with Article 9 of the Sustainable Financial Disclosure Regulation by having sustainable investment objectives, and by measuring sustainability performance against relevant metrics.

SFDR 9 also stipulates that if a fund has a climate objective it should describe the Taxonomy Regulation (EU 2020/852) objective(s) to which it will contribute and the percentage of investments' revenues which are aligned to the objective(s).

It will also comply with the requirement to issue a Principal Adverse Impact Statement which covers seven criteria including, inter alia, energy efficiency levels, greenhouse gas emissions (GHG), waste production or land artificialisation.

The Fund intends to contribute to the following two objectives set out in Article 9 of the Taxonomy Regulation: *climate change mitigation and climate change adaptation*. It will do so by seeking investment opportunities which may include the capacity to address the relevant EU directives related to the development and renovation of real estate.

In line with SFDR 9 and Taxonomy Regulation the Fund will ensure that investments cumulatively will contribute to these objectives based on sustainability analysis commissioned by the Manager while doing no significant harm to any other sustainable objective set out by the Taxonomy Regulation.

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The Fund's impact strategy is based on five pillars, including the two which comprise the requirements of SFDR 9 (intentionality and impact measurement and reporting). This framework has been developed to reflect best practice according to independent international organisations such as the Global Impact Investing Network (GIIN), the International Finance Corporation (IFC), Finance for Tomorrow and France Invest.

1. **Intentionality** - the Fund will seek Value-Add and Value-Add + opportunities across the office, residential, logistics, retail, and hospitality sectors to reposition and/or realign assets with superior ESG metrics, to deliver attractive investment returns and foster sustainable districts in which to live, work and relax. More specifically, the Fund intends to address a number Sustainable Development Goals (SDG) through *Core Impact Objectives*. These span Climate Action, Biodiversity, and Inclusive Neighbourhoods.

2. **Additionality**, defined as bringing to investments new sustainable features that were not intended before the initial investment. In relation to the *Core Impact Objectives* these are:

   Climate Action: to align 100% of planned development and reconversion assets with the Nearly Zero Emissions Building (NZEB) standard and bring portfolio managed assets towards the Science Based Target (SBT) decarbonisation pathway, aligned with the Paris Agreement goal of limiting global temperature increase to less than 2% and ideally 1.5%.

   Biodiversity: to incorporate a biodiversity plan in 100% of large assets (defined as being greater than 1000 sqm.), developed and managed by an independent expert.

   Inclusive Neighbourhoods: to incorporate inclusive housing (including student, senior co-living, social and affordable housing) on a minimum of 60% of projects that include residential assets, with the investment team liaising with relevant local authorities on the share of the project to be dedicated to inclusive housing.

3. **Impact measurement and reporting** of *Core Impact Objective* KPIs will be undertaken at fund and asset level. At fund level these KPIs include carbon intensity measured in $kgCO_2e$/sqm. (Climate Action); the number and percentage of plans implemented, with a scoring of performance vs plan (Biodiversity); and the number and percentage of social housing units (Inclusive Neighbourhoods). At asset level a range of KPIs will be tracked across the *Core Impact Objectives*, including energy performance, measured in kWh/m^2/year (to reflect NZEB performance), use of renewables as a % of the energy mix, use of bio-based and recycled materials in construction, and recycling rates. Biodiversity indicators will include vegetated areas and green spaces created. Other contributions to the creation of an inclusive neighbourhood will be measured through indicators such as the extent of soft mobility (EV charging points, bike parking spaces) and the proximity to public transport networks.

4. **Alignment of interests** with investors is assured through our substantial financial commitment in the Fund (a feature of all our funds, across all business lines), and the link between the attainment of the Fund's Core Impact Objectives and the level of performance fee.

5. **Independent assessment** and audits will be carried out by qualified and accredited experts in relation to the specific *Core Impact Objectives* and related KPIs.

We believe the current socio-political and macro-economic conditions that are shaping developments in the real estate market present a timely opportunity to launch such a fund – to make a meaningful impact in the transition to sustainable real estate, and to generate sustainable and attractive risk-adjusted returns.

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