

Sustainable Property Investment Report

2023/24

In April 2023 we published our Net Zero Strategy. This sets out a number of targets which will be key to achieving net zero. In this report we examine our progress against these targets.

Strategy Area	Key Deliverables	Target	Progress
Carbon emissions measurements and baselining	<p>Our initial carbon emissions baseline was measured through tenant provided meter readings and through proxy data based upon EPC data.</p> <p>The exercise was conducted by EVORA Global in 2022.</p> <p>The impact of embodied carbon emissions in our refurbishment programme has been assessed through a pilot study with Sharman Grimwade (M&E) and Architype (Architects).</p>	<p>The carbon baseline will be updated annually from 2026 to monitor progress in emission reduction (the next baseline will be 2026).</p> <p>From 2026 the carbon footprint will aim to also include accurate data for embodied carbon resulting from the refurbishment programme and aims to account for new fabric and M&E products where data is currently unavailable for industrial and warehouse sector.</p> <p>The 2026 baseline will include operational and embodied carbon assessments.</p>	We are on track to meet this target. We have started performing embodied carbon assessments at major refurbishments and have begun installing smart meters at a number of our estates. This data will enable us to update our carbon baseline annually and give greater accuracy than the 2022 EVORA Global study, which relied largely on EPC data and estimates.
Improving the accuracy of Carbon emissions data collection	The low percentage of real data in the published baseline dependency upon tenant reporting and proxy data	Smart meters/ data loggers will be rolled out across the Clipstone portfolio, with a target of over 50%	We are on track to meet this target. At the time of writing, we had installed meters across 49% of the portfolio by floor area, and have instructed installations at further sites which will bring us to over 50% coverage by the end of

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	otherwise the baseline will continue to be estimated with a risk of inaccuracy. To address this Clipstone owned smart meters will be installed into units.	coverage by floor area by the end of 2024.	2024.
Progress on plotting a trajectory to Net-Zero	<p>The portfolio has a Net-Zero modelled trajectory resulting in Net Zero by 2050. This is an SBTi aligned target. We aim to improve this and achieve net-zero by 2040.</p> <p>The trajectories are modelled against the Paris agreement to hold temperature rise at 1.5 global temperature and does take into account higher rates of Global warming.</p>	We will aim for a reduction in emissions exceeding 4% per annum, following the trajectory set out in the Evora Carbon Reduction Trajectory to meet or do better than the 2040 net zero target.	<p>In our Greenhouse Gas Emissions Reporting below we provide an estimate for our full carbon footprint for the year ended 30 June 2024 for the first time since our baselining exercise for 2019 and 2020. All of these annual figures used estimates, however the figure for 2024 uses considerably more actual data. The 2019/2020 baselines calculate a carbon footprint of 4,312 tCO₂e. The 2024 figure is 49% below that at 2,212 tCO₂e. This is significantly higher than 4% per annum over 5 years, however the 2019 baseline relied heavily on industry data, which has a higher weighting of heavy industrial occupiers than our portfolio, and therefore more intensive users of energy.</p> <p>We will have a better indication of our progress against this target from 2025 when we are better able to compare like with like.</p> <p>We are undertaking initiatives to reduce carbon consumption through interaction with existing tenants and refurbishment of vacant units.</p>
Operational Energy and Carbon footprint reduction interventions - degasification	<p>We will aim to remove gas from all units subject to:</p> <ul style="list-style-type: none"> - tenant engagement; and - the deployment of suitable innovation including new technology enabled and efficient 	<p>The 'aimed for' target date for degasification through gas ambient heater and water heater removal is 2035.</p> <p>By 2024 there will be a fully accurate inventory of gas</p>	We are on track to meet these targets. We currently have information concerning the gas installations on 207 of the 238 units in the portfolio. Of these 115 have gas in their units. Gas is being removed from units when undertaking refurbishments. In some of these buildings we know that the tenant doesn't use the gas despite there being a supply.

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	solutions.	<p>installations in all units to enable better prioritisation of interventions with tenants.</p> <p>By 2025 a proforma will be developed setting out alternative energy solutions for tenants to follow or adopt.</p>	At 30 June 2024 we had installed 22 gas meters, of which 6 had picked up zero tenant usage, however two of these were only installed in June. We believe c.25 units do not heat their warehouse space and use gas to heat just office spaces, which are far easier to heat with electricity than warehouse spaces. The units therefore should be simpler to switch from gas heating to electric heating.
Proportion of locally generated renewable electricity and energy resilience	<p>The proportion of locally generated and stored electricity will increase as a proportion of the total usage by unit as new and improved technologies become available and can be installed.</p> <p>We will seek to develop a model and draft contract structure selling energy generated from PV to tenants.</p>	<p>The percentage of locally generated electricity will increase. We will aim to increase the production of local renewable energy from solar power, targeting 2 PV system installations a year from 2024.</p> <p>We will aim to generate income from all PV installations.</p>	<p>At the time of writing, we are on site at one of our estates in Crawley, undertaking a major refurbishment of one of the two units on the site, which will include a new PV system. This is the first project we have undertaken on an existing building. Our redevelopment at Chessington included PV panels as a planning requirement and we have had tenants at other estates install systems. This will provide us with valuable experience and lessons for future installations.</p> <p>We are unlikely to have a suitable refurbishment project in the remainder of 2024 for a second PV installations, but we are approaching those tenants we know use enough electricity to warrant the capital expenditure, and where their roofs are capable of supporting a PV system.</p>

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Energy consumption in units - energy efficiency	Linked to our target to decarbonise, we will seek to improve efficiency across the board and set a stretched target for energy consumption across all units.	By 2027 we will operate a stretched target of 40 kWh per square meter mean annual electricity consumption across the portfolio.	<p>We are on track to meet this objective, however as shown below in our Greenhouse Gas Emissions Reporting, the vast majority of our emissions come from our tenants' energy usage, and therefore we cannot directly control them. Our electricity consumption for the year to 30 June 2024 was 67.5 kWh/m². The figure of 69.7 kWh/m² in the report below includes gas. Both of these figures are estimated but based on actual data for around half of the portfolio. We are confident that, despite the fact we cannot directly control tenants' energy usage, our efforts to improve the quality of our buildings, and supporting tenants to reduce their overall usage, we will be able to meet this target.</p> <p>One factor that will likely lead to increases in electricity use is the degasification of our units. This will mean that where space must be heated, and previously it was heated via gas, it will require electrical heating in the future. We will look to mitigate this where possible as part of our refurbishment program, for instance by installing energy efficient systems and where economically viable insulating office areas, and encouraging tenants to localise heating in warehouses, rather than heating the whole space.</p>

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Embodied Energy and Carbon - Building Fabric and Refurbishment	<p>The carbon impact of building works during construction and refurbishment needs to be reduced as up to 42% of UK emissions are from this source.</p> <p>Contractors and Designers and QS teams will be advised to specify sustainable/low carbon materials. While we may alert contractors to potential product substitutions for liability reasons the specifications and warranties will apply to contractor.</p>	<p>We will aim for refurbishment projects for their embodied carbon impact and seek to achieve a target of less than 300 Kg CO₂e per square metre. The embodied carbon target will apply to the 'in construction phase 'A1-A5' in order to reduce the carbon impact of refurbishments. This may also enable better life cycle and building life to be achieved.</p> <p>The outcomes of the Architype embodied carbon pilot study will enable a revised refurbishment specification to be adopted to assist with this aim from 2023.</p>	<p>We have begun performing embodied carbon auditing on major refurbishments. So far, we have conducted two surveys, both on projects with over £500,000 total cost. The embodied carbon for these projects was 109.5 KgCO₂e/m² and 170.3 KgCO₂e/m². Both of these projects achieved results significantly below target. The first project incorporated over cladding to the elevations of several units. This accounted for 56KgCO₂e/m² of the 109.5 KgCO₂e/m² project total. Of the 170.3 KgCO₂e/m² for the second project, 58 KgCO₂e/m² are from the installation of PV panels, and a similar amount from a suspended ceiling system. Neither of these projects required for the roof or external walls to be replaced, or a rebuild of the frame or substructure, which make up the bulk of the upfront embodied carbon in the building. We would rarely look to replace the walls, frame or substructure, but re-roofing is more common, and usually required roughly every 20 years especially where existing units have asbestos roofs. Buildings may require reroofing to be able to support PV panels.</p> <p>New roofs provide an excellent opportunity to add insulation, generate additional natural light and install PV panels.</p> <p>The results of these two assessments show that the target is easy to meet if neither significant replacement of the structure nor reroofing works are being undertaken. We will review this target and could potentially develop a target number with and without reroofing based on these reports and upcoming assessments.</p>

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EPC improvements	We use EPC ratings as an important indicator for our individual units.	By 2028 all refurbishments will be EPC B with C as an absolute minimum.	<p>The percentage of the portfolio with an EPC rating of D or worse has improved over the past 5 years, as shown below:</p> <p>30 June 2020: 59.85% 30 June 2021: 50.34% 30 June 2022: 44.26% 30 June 2023: 39.66% 30 June 2024: 35.92%</p> <p>This shows the progress made in improving the sustainability of our units through refurbishment, and in stock selection of new acquisitions and disposals. We are on track to meet this target, and the majority of refurbishments already achieve a C as a minimum.</p>
Tenant engagement	A systematic programme of events and seminars will be made available to encourage greater knowledge and commitment from tenants driving their businesses	<p>A tenant engagement policy with support materials and online engagement will be targeted for 2024 launch through working with third party providers.</p> <p>An annual tenant engagement metric will be set of circa 10 businesses per annum to include new and existing business supports.</p> <p>A tenant engagement manual will be written and supplied to tenants before the end of 2023 to initiate the engagement process.</p>	We are behind schedule on this target. We have developed a tenant manual which we plan to distribute to tenants before the end of 2024. This manual includes both guidance on sustainability matters, and more practical matters to do with their lease and occupation.

Greenhouse Gas Emissions Reporting

In 2022 we reported on our baselining exercise, which produced baseline carbon footprints for our portfolio for 2019 and 2020. This involved asking tenants to provide their utility usage data to us. We received responses from 25% of tenants. The remainder of the data had to be estimated. The 2019 baseline was 17,288 MWh total energy consumption, equivalent to carbon emissions of 4,312 tCO₂e. Given the time and cost involved we decided not to repeat this exercise again. It provided a useful baseline against which we can benchmark our progress, but we feel there is little value in reassessing again based on largely estimated data. This is why we are now rolling out smart meters, with almost 50% of our floor space now covered. This will enable us to collect tenants' utility usage data remotely and automatically. This is important in calculating our footprint as tenant emissions make up the bulk of our emissions profile. The data can also be used to drive efficiencies on site and inform potential PV installations. We have been able to collect data from these meters for part of the year and so are able to extrapolate these figures and estimate an annual emissions figure for the portfolio. From next year we will have a full year's worth of data from just under half the portfolio, and further data from installations during the year.

In the 2022 and 2023 financial years we did not have any scope 3 data, however we did report on our scope 1 and 2 emissions. This year we have also produced an estimate of our scope 3 emissions.

Methodology and Scope

For both the year ended 30 June 2024 and the year ended 30 June 2023, Scope 1 emissions are from landlord-controlled gas in vacant units. Scope 2 emissions are from landlord-controlled electricity in vacant units and estate-wide supplies.

Scope 3 emissions are tenant-controlled gas and electricity. As noted in the report above, we have installed smart meters at a number of estates, however most of these were done part way through the year, and for some units we have not installed meters at all as of year. Therefore, the figure provided in this report is an estimate based on actual data from units comprising close to half of the portfolio's total floor area. For units where we only had data from part of the year, we extrapolated the figures to the beginning of the year. This is likely to provide an overestimate of the emissions as most of the installations were completed during autumn and winter, and so the data is overweighted to colder and darker months, where occupiers typically use more heat and light. For units where we have no data, we used the average per square foot data we have collected, weighted by EPC rating and excluding outliers, and used this as an estimate for those units' energy usage. For users we know are heavy users of electricity we used the per square foot data from similar tenants. We consider this to be a reasonable method of estimation given the nature of our estates and users.

The figures set out below for carbon emissions are on a location-based calculation, using standard emission factors from the UK Government Emissions Conversion Factors for Greenhouse Gas Company Reporting 2024 and 2023.

Emissions Data

As we have direct control over our scope 1 and 2 emissions, we are able to report them and drive their reduction far more easily than our scope 3 emissions. Scope 3 emissions make up the vast majority of our emissions, however it is still important for us to achieve net zero in scope 1 and 2 emissions. Our scope 1 and 2 energy usage emissions for the year to 30 June 2024 and prior year are set out below, and for the year to 30 June 2024 we have also calculated an estimate of our scope 3 emissions and energy usage.

Energy Usage	Year ended 30 June 2024 MWh	Year ended 30 June 2023 MWh
<u>Scope 1</u>		
Void asset gas	0.1	0.1
<u>Scope 2</u>		
Landlord-controlled electricity	28.9	20.4
Void asset electricity	15.9	1.0
<u>Scope 3</u>		
Tenant energy used at our buildings	10,680.2	not available
Total	10,725.1	n/a
Total (Scope 1 & 2)	44.9	21.5
Intensity - total energy consumption per m ² (kWh/m ²)	69.7	n/a

Sources of Greenhouse Gas Emissions	Year ended 30 June 2024 tCO ₂ e	Year ended 30 June 2023 tCO ₂ e
<u>Scope 1</u>		
Void asset gas	-	-
<u>Scope 2</u>		
Landlord-controlled electricity	6.0	4.1
Void asset electricity	3.3	0.2
<u>Scope 3</u>		
Tenant energy used at our buildings	2,203.1	not available
Total	2,212.4	n/a
Total (Scope 1 & 2)	9.3	4.3
Carbon intensity		
Carbon emissions per m ² (tCO ₂ e/m ²)	14.2	n/a
tCO ₂ e per £m net income after administration costs	137.1	n/a
Carbon intensity (voids)		
kgCO ₂ e per m ² time weighted vacant floor space	3.4	0.5
Carbon intensity (Scope 1 & 2)		
tCO ₂ e per £m net income after administration costs	0.6	0.3
£m net income after administration costs for 2024 financial year	16.1	15.4

As expected, scope 3 emissions account for the vast majority of our overall carbon footprint. This baseline figure is, however, significantly below the 2019 baseline in terms of both overall energy consumption, carbon footprint, and intensity. The EVORA 2019 baseline had an intensity figure of 25.7 tCO₂/m², compared with 14.2 tCO₂/m² above. The 2019 baseline had a total energy consumption per m² of 105.6, compared with 69.7 above. This likely reasons for these gaps are the improvement in the quality of our portfolio since 2019, and the fact that many of our occupiers are not heavy energy

users as we have few tenants engaged in intensive industrial processes, and only one data centre user. One obvious note of caution is that both figures include a large amount of estimated data.

As shown above, for both absolute emissions and carbon intensity for scopes 1 and 2 have risen in the past financial year compared with the previous year, however from an extremely low base. We expect fluctuations in line with the vacancy rates and due to the impact of refurbishment works where contractors need to use on site power. Given the low level that these figures are already at, reducing them will be a challenge. We will of course endeavour to do so, particularly reducing scope 1 to zero, moving to high-quality green tariffs where practicable to drive market-based scope 2 emissions to zero, and looking to improve the efficiency of vacant units through our refurbishment programme.

Our focus on the removal of gas as a source of heat, improving the efficiency of lighting and the thermal properties of the buildings will have some effect on Scope 1 and 2 emissions however their impact will be more prevalent in reduced scope 3 emissions.

Path to Net Zero

In April 2023 we published our Net Zero Strategy, which sets out what we need to do to achieve Net Zero by 2040, with a set of short and medium term targets against which we have reported above. Our strategy includes refurbishments to improve energy efficiency, the electrification of heat given that eliminating the use of natural gas is an integral part of any decarbonisation strategy, generating renewable energy on-site, procuring energy through high-quality green tariffs, reducing the impact of embodied carbon in any refurbishments or developments, and finally offsetting. Our offsetting strategy has already been published on our website; however, we will look to develop this further as we look into the potential to acquire carbon credits for future emissions.

Our refurbishment works are delivering a reduction in operational carbon, Scope 1-3 emissions, however we are aware that, in isolation, it would take years to work through all the buildings. We have therefore developed green lease clauses to ensure any works undertaken by new tenants are required to focus on efficiency and prohibit new gas installations. In addition, we are also offering tenants incentives to improve the efficiency of the units at lease renewal of rent review stage rather than a simple financial incentive.

As well as a focus on operational carbon we are considering the embodied carbon of refurbishments. We are undertaking embodied carbon assessments on major refurbishments and will look to use the knowledge gained from these surveys to target where we can reduce up front carbon on future projects.

In our first year of reporting against our Net Zero Strategy we are pleased with the progress made against our targets, but not complacent about the work still to do over the coming years.

We are cognisant of the fact that the interventions needed to reach net zero will require capital expenditure. We will ensure that any spending is done so on the basis that we consider it economically prudent. We are confident that in the long run the benefit in capital and rental values from making the right interventions will outweigh their cost. The key is ensuring we make the right interventions, and that is what we will look to address as we implement our Net Zero Strategy.

Social and Governance

In addition to our commitments around sustainable property investment, we also have policies on social responsibility and good governance. We require contractors to follow our modern slavery and supplier code of conduct. We produce a Modern Slavery Annual Statement, setting out the steps we have taken to ensure our business, and our portfolios are free from Modern Slavery.

We require staff to abide by our Equality, Diversity and Inclusion policy. We acknowledge that the Property Manager is currently not a diverse company and commit to improving this. We will maintain statistics on our diversity in terms of gender, ethnicity, and socio-economic background. We aim to improve these statistics and will build this into our hiring process. In order to promote the participation of underrepresented groups in the property industry, Clipstone is a sponsor for the Worshipful Company of Chartered Surveyors' Pathways to Property bursary scheme. This involves both financial and practical support for a student to study for and pursue a career in Real Estate. To qualify for the scheme the student must be from a disadvantaged background and meet several socio-economic criteria. We continue to support our student who is about to start his final year at Nottingham Trent. He spent two weeks with us over the summer again this year and we look forward to providing him support with his studies and job applications between now and then.