

# PATRIZIA's ESG journey: navigating sustainability with impactful results

Embarking on an ambitious journey in 2022, PATRIZIA set sail towards a sustainable future, embracing a net-zero carbon strategy. As we navigated through 2023, the year marked the full-scale implementation of our commitment, a testament to our unwavering dedication to decarbonising corporate operations and assets under management by 2040.

*In the ever-evolving landscape of real estate, a paradigm shift is underway—one where the principles of impact investing take center stage. Impact investing goes beyond financial returns; it's a commitment to positive environmental and social outcomes as well, says Mathieu Elshout, Head of Sustainability and Impact Investing at PATRIZIA.*

In a world where sustainability is no longer a buzzword but a guiding principle, the repositioning of assets from brown to green has emerged as a crucial response to evolving market expectations and regulatory standards. *'This paradigm shift isn't just a trend; it's a strategic move that aligns with a global commitment to environmental responsibility and resilient, future-proof investments', adds Elshout.*

## Transformative Impact Investing in Real Estate

Brown-to-green real estate asset repositioning involves breathing new life into environmentally challenged or outdated properties, turning them into sustainable, energy-efficient assets that not only meet the demands of the present but also contribute to a more sustainable future. As we delve into this realm, it becomes apparent that the impetus behind this movement is deeply rooted in the changing dynamics of the current real estate landscape.

This strategic imperative is propelled by a convergence of macro themes that include evolving regulatory standards, the demand for investment that meets high ESG standards, the

urgent need for climate adaptation and resilience, and the integration of cutting-edge technologies. As governments worldwide enforce stringent environmental regulations, investors increasingly prioritise ESG considerations, and communities expect responsible corporate behaviour, repositioning brown assets into green, sustainable spaces emerge as a proactive response addresses the challenges posed by climate change, creating resilient, energy-efficient, and future-proofed real estate assets. In this context, brown-to-green repositioning becomes an essential strategy for real estate stakeholders seeking to thrive in a sustainable and responsible future.

## Why, then, do these assets need repositioning?

The answer lies in recognising the imperative for change. With environmental concerns taking center stage and a heightened awareness of the need for sustainable practices, properties that were once considered brown—environmentally unfriendly or outdated—now demand repositioning to meet the demands of a conscientious market.

Repositioning assets from brown to green not only aligns with evolving market expectations and regulatory standards but is also a response to the increasing demand for eco-friendly and sustainable living spaces among modern consumers. Research underscores the urgency, revealing a substantial decarbonisation funding gap, with over EUR 7 trillion of capital expenditure required for European real estate to meet energy efficiency standards (Source: Colliers). Additionally, there is a significant green premium of approximately 25-30% in tier 1 cities for offices with environmental ratings compared to those without (Source: MSCD). The ongoing trend of tenant rotation into grade A stock with ESG credentials further emphasises the

economic and market advantages of prioritising environmental considerations in real estate. Ignoring these environmental concerns may result in decreased property values, increased operational costs, and potential legal liabilities, underscoring the critical need for brown-to-green asset repositioning.

*"With the confluence of growing European regulation, shifting market sentiment, and the funding gap for decarbonising stranded assets, we see a significant value-add opportunity for those equipped with the tools and expertise to reposition assets from brown to green," stated Edward Pugh, Sustainability Director at PATRIZIA.*

Identifying opportunities for operational upgrades is a key facet of PATRIZIA's strategy. Thorough energy audits and in-house tools guide the identification of capital expenditure

measures aimed at enhancing the energy efficiency of buildings and investee company operations. Before incorporating these measures into business plans, PATRIZIA conducts detailed cost-benefit analyses and strategically plans retrofits to minimize disruption to occupiers, aligning with lease events and equipment replacement cycles.

Decarbonising assets and fund-level strategies form the backbone of PATRIZIA's commitment to sustainability. Currently, the majority of our discretionary mandates have already embraced a fund-level net-zero carbon strategy aligned with our corporate vision. These funds commit to achieving the 2040 target, ahead of the timeframe set out by the Paris Agreement on Climate Change, for commercial advantage, with various pathway goals tracking progress to net zero.

PATRIZIA's innovative internal tools for climate risk assessment and energy efficiency enhancement underscore our proactive approach, ensuring that every acquisition undergoes thorough scrutiny through a comprehensive ESG due diligence process, aligning with the company's commitment to responsible investment practices. Stranding risk analysis, utilising the CRREM tool, and a comprehensive physical risk assessment through forward-looking climate change models, ensures resilience in the face of environmental challenges.

This meticulous approach is complemented by Ambio, our proprietary in-house smart building solution. Ambio includes a unique diagnostic tool that efficiently digitises buildings and optimises technical systems for decarbonisation, from diagnosis to integrated recommendations. Playing a crucial role in our real estate operations, Ambio maximises operational efficiency as a key first step in the energy hierarchy. Furthermore, our



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Head of Sustainability and  
Impact Investing at PATRIZIA

sustainable development guidelines, rigorously applied by our development team, mandates a lifecycle carbon analysis for every development and major refurbishment. This includes quantitative targets for embodied and operational carbon intensity, underscoring our dedication to pioneering and refining the brown-to-green transition at every stage of the real estate lifecycle.

### Recognition and innovation at the fund level stand as a testament to PATRIZIA's commitment to sustainability

The PATRIZIA Hanover Property Unit Trust, recognised with the AREF Investors' Award for Outstanding Achievement 2023 for the third year in a row, has been a trailblazer since 2013, adopting a pioneering fund-level net-zero carbon strategy in 2020. This strategy showcases an innovative approach, proving that sustainability is not just a commitment but a success story within our funds.

Hanover has set itself apart through the adoption of an internal carbon pricing mechanism, a pioneering approach aimed at funding the transition to net-zero carbon. This unique mechanism establishes a provision within the Trust, earmarked for projects offering substantial carbon savings with extended payback periods—projects that might be considered financially unviable under typical market investment criteria. The provision serves a dual purpose: firstly,

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it acts as a financial incentive linked to the carbon footprint, encouraging expedited portfolio decarbonisation, with a lower carbon footprint resulting in a reduced provision. Secondly, the provision functions as a forward-looking sinking fund, supporting future net-zero carbon upgrades, including essential measures with longer payback periods. Calculated annually and adjusted based on identified projects, this innovative carbon provision underscores PATRIZIA's commitment to sustainable initiatives and its proactive stance in advancing towards a net-zero carbon future. *“To achieve net-zero carbon by 2040, innovation is crucial. Embracing new strategies like carbon pricing and adopting the principles of the circular economy will be essential drivers for transformative change”*, according to Ben Lonsdale, Sustainability Director at PATRIZIA.

Key figures and impact metrics further illuminate PATRIZIA's strides in sustainable real estate. In 2023, a total of 1,106 assets underwent stranding risk analysis with the CRREM tool, representing 100% of PATRIZIA's applicable real estate assets. Increased GRESB participation in 2023 resulted in an 8% boost in scores, with three funds earning 5-star ratings and five improving relative to peers. Employee engagement, evidenced by an 88% response rate in our global engagement survey, provides valuable insights into our company culture, highlighting successes and identifying areas for improvement. This holistic approach to sustainability ensures that PATRIZIA not only meets but exceeds the expectations of a conscientious market, making our voyage towards a greener future an inspiring and impactful journey.

## CASE STUDY

### Transforming a brown asset into a sustainable green property

*“Revitalising a 1990's Office Building: A Beacon of Sustainable Transformation”*

In the ambitious endeavour to reshape a 1990's office building in St Albans, just outside of London, into a beacon of sustainability, PATRIZIA executed a comprehensive strategy that transcended traditional boundaries. This holistic approach resulted in a remarkable transformation, showcasing the successful metamorphosis of a brown asset into a vibrant, sustainable green property.

Achievements:

- **EPC Rating Excellence:** Significantly enhanced the EPC rating from D to A, reflecting a commitment to energy efficiency and sustainable practices.
- **Cost-Effective Refurbishment:** Under-budget refurbishment covered internal finishes, building services, and external spaces, showcasing financial prudence and strategic management.
- **Carbon Footprint Reduction:** Avoided 238,901kg of CO<sub>2</sub>e, with 51,160kg diverted from landfill, attesting to a dedication to environmental responsibility.
- **Circular Economic Re-Use:** Donated £204,963 value to community projects through circular economic re-use of previous tenants' furniture and fit-out items, emphasising a commitment to a circular economy.
- **Tenant Engagement and Community Impact:** Successfully engaged with tenants, fostering a sense of community within the building, and actively contributed to community projects, creating a positive impact beyond the property.
- **Terminal Dilapidations Claims Success:** Achieved over 70% recovery of terminal dilapidations claims, indicating efficient financial management and strategic planning.
- **Building Decarbonisation:** Decommissioned the gas-fired heating system and adopted measures aligned with the energy hierarchy, making significant progress in building decarbonisation.
- **Innovative Amenities:** Introduced state-of-the-art amenities, including showers, changing facilities, cycle storage, and EV chargers, enhancing the overall workplace experience.
- **Occupied Renovation:** Successfully conducted challenging cut-and-carve operations while the building remained occupied, showcasing efficiency and minimised disruption.
- **Strategic Tenant Acquisition:** Secured government and blue-chip tenants, underscoring the appeal and success of the revitalised space.

PATRIZIA's exemplary approach to this sustainable transformation serves as a testament to the power of innovation, strategic planning, and a steadfast commitment to ESG principles. This case study stands as a shining example of how a brown asset can be revitalised into a sustainable, green property, setting a new standard for the industry.



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 PATRIZIA

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