Hammerson

Positive Places

Hammerson materiality review 2018

Our Approach

During 2018 and the early part of 2019 we carried out a review with key stakeholders, of the sustainability issues that are material for Hammerson. We carry out this exercise on a four-yearly cycle to ensure our sustainability strategy remains focused on the right issues and our reporting reflects these issues properly, addressing the needs of our stakeholders.

These regular materiality reviews are valuable for the business. Sustainability is a complex and wide ranging subject with a rapidly developing agenda. A clear understanding of the company's key material issues helps us to prioritise our sustainability work. It ensures we focus on those things that are really relevant for our business and stakeholders, both now and over the longer term, and where we can make a meaningful impact. Through the process materiality is examined in two key ways:

I. Significance to the business – including the scale of risk an issue presents, its relevance to our business strategy and the extent to which we can control or influence it
II. Significance to one or more of our stakeholder groups

Within each area we also explore the significance of issues now and our respondents' expectations of how they might change.

The materiality score for each issue is ultimately determined by the significance of the issue for our key stakeholders, the scale of risk it presents to Hammerson, relevance to current business strategy and the extent to which we can influence or control it.

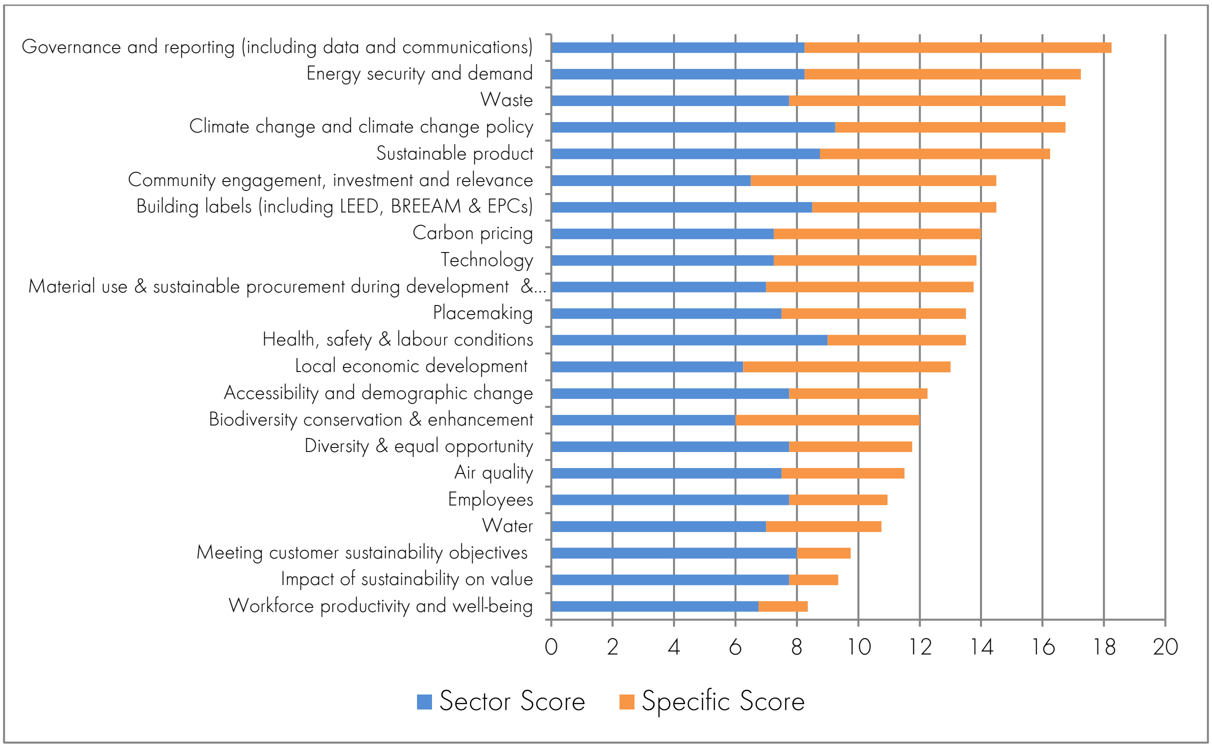
This latter part is particularly important – we need to focus the resources of the business on those areas where we have the most influence and where that influence has the greatest reach and impact. These might not necessarily be the easiest elements to tackle so we also review on the basis of challenge. This means we can prioritise those areas where we have significant control and expect to be able to achieve results quickly, for example reducing our own energy demand, but also allow sufficient planning and time for focusing on areas where we have much less influence or control but potentially have significant reach, for example influencing our tenants to reduce their energy demand.

Understanding the views of our stakeholders is integral to the materiality review. Meetings have been held with a range of different parties to help shape our thinking by exploring their thinking on key market sustainability risks, sector specific sustainability risks and their implications for the business. Many of these risks flow from climate change. These discussions bring a valuable cross sector, external perspective to our thinking. They also help us to see how we communicate our sustainability strategy and actions through a different and often non-specialist lens. These discussions help shape our short, medium and long-term strategic thinking and our communications and reporting strategy, channels and content.

Key findings

Material Strategic Sustainability Issues

One of the challenges our discussions revealed was the range of issues that are considered significant within the sustainability topic area or agenda. We presented a list of 22 issues to be scored for significance and 18 of them received an average score of 7 or more out of 10 showing them to be significant in the view of the respondents. Combining these results with an assessment of the risk each issue presents to the business, the extent of our influence or control over it and our strategic business priorities enables us to place these risks into a priority order. (See table 1 below)



Issues within the top quartile, scoring more than 15 are considered as material for the business. Seven issues fall into this category, some of which are closely related. For example, energy security and demand, climate change and climate change policy and carbon pricing are individual material issues but closely related for the business.

Our analysis of these findings identifies the following six sustainability issues as material for the business:

Issue	Rationale	Geographical Boundary	Organisational Boundary	Limitations
Governance and reporting	Rising expectations of transparency and robustness in reporting of sustainability related risks and opportunities	Reflects each operating jurisdiction of the business	Our business relationships with key stakeholders, particularly direct and indirect investors.	Full reporting is limited to our direct business activities. Reporting on our indirect investments is more limited.
Energy security and demand	Energy is our most material environmental impact and supply is subject to market risk	Reflects each operating jurisdiction of the business.	Direct impact through energy demand for our controlled spaces and for our developments. Indirect impact through tenant energy demand.	Materiality is limited to our direct energy demand.
Climate change risk and policy	Climate change and related policies are already impacting the portfolio and will continue to do so.	Reflects each operating jurisdiction of the business.	The business has direct impacts on climate change through our activities and is directly impacted by climate change	Our monitoring and reporting of climate risk is limited to within our immediate value chain.
Waste and resource use	The use and disposal of materials have significant environmental impacts. As a business we managed significant quantities of waste within our operational portfolio and create demand for significant natural resources through our development activities.	Reflects each operating jurisdiction of the business.	Direct impact through waste management for our controlled spaces and for resource use for our developments.	Excludes our indirect investment holdings.
Community Engagement	Our key assets are located in city centres and benefit from strong, positive relationships with local stakeholders and from thriving local economies. Community engagement supports both.	Reflects each operating jurisdiction of the business.	Our impact is both direct through our investment in local infrastructure and local organisations and indirect through our business relationships.	Excludes our indirect investment holdings.
Sustainable Product	The sustainability credentials of our product impact its market relevance and we expect this to increase in significance.	Reflects each operating jurisdiction of the business.	Our impact is direct – we have control over the environmental performance of our managed assets and over the design of our developments.	Excludes sustainability of the spaces controlled by third parties within our assets and the our indirect investments where we have some influence but not control

A number of notable changes in the relative importance of issues emerged from our discussions this time and new issues have emerged too. One of the biggest changes was the increased importance placed on environmental governance and reporting. This shifted from being a relatively low priority for our stakeholders when we carried out this work in 2014, to being the highest ranked in 2018. There is clearly a much higher expectation of consistent, transparent corporate reporting on a number of issues and sustainability is very much one of them.

New issues that have emerged with at least medium significance include carbon pricing, accessibility and demographic change, air quality and sustainable product. This last issue refers to the extent to which our business product – i.e. the assets that we develop and manage – can be defined as sustainable. This suggests a much clearer expectation that sustainability forms an integral part of the operating procedures for our existing centres and any new developments. The expectation for developments is further underlined by the increased importance of building 'labels'.

The emergence of carbon pricing as an issue relates directly to the increased significance of climate change which was always an important issue but has also risen in emphasis. This is unsurprising given the increasing frequency with which businesses are being affected by extreme weather events. This, combined with the Paris Climate Agreement and the more recent IPCC Report on the risks presented by climate change, have increased awareness of transition risk; the risks that flow from policy interventions that are likely to be required to mitigate climate change. Given the acceptance that climate change is already affecting society and those impacts are forecast to increase, policy interventions focusing on carbon emissions reduction either indirectly through energy pricing or directly through carbon pricing are expected. Other indirect impacts are expected to emerge through the availability and pricing of insurance against climate related events. Investors rightly expect businesses to have a systematic and robust process for understanding their exposure to climate change risk, short, medium and long term, and a strategy in place to manage it.

Material Sustainability Reporting Issues

Demonstrating a clear understanding of the environmental and social impacts of the business is a requirement for listed companies under the Non-Financial Reporting regulations that came into force in 2017. Making sustainability reporting a matter of compliance raises its profile within the Boardroom and is an indicator of the potential risks that are understood to flow from these matters for businesses. This is a relatively significant step forward for reporting since our previous materiality study was completed in 2014 and is an indicator of the level of change we have seen over the last four years. Hammerson has an established sustainability risk framework linked directly to our corporate risk framework both of which are regularly reviewed and updated. These are published in our Sustainability Report and our Annual Report and Accounts respectively.

Our discussions revealed investor thinking is developing quickly on environmental, social and governance (ESG) issues. All the investors we spoke to either embed ESG risk and opportunity into their investment decision-making or are starting to do so. Some either have or are developing in-house expertise on setting ESG strategy and targets for funds and for benchmarking and monitoring of investments. There is a growing expectation that the relationship between sustainability strategy and financial performance is reported through, for example, financial data on energy savings or income from renewables.

Industry benchmarks and the Global Real Estate Sustainability Benchmark (GRESB) in particular are widely used, along with consultancy based benchmarking services, to assess company and fund ESG performance. The increase in the number of GRESB participants is largely driven by this increasing investor demand for company and fund disclosure on their performance against material sustainability issues. There was a view that as sustainability is an expected requirement for market leading companies we need to do more to show how we are different from the pack.

This makes our public reporting channels particularly important as it is the most widely used source of business specific data on our sustainability performance. We are updating our data reporting in response to two specific requests that emerged from the engagement process:

i. to demonstrate where our performance lies against the market. The reporting of a % difference in performance from one year to the next is useful but does not convey to the non-specialist reader whether that is good, average or outstanding. This is a constant challenge where one is achieving continuously improving performance as opposed to one off activities. Continuous performance is of course the more effective strategy but is more challenging to communicate in an exciting way.
ii. to provide assured data and a range of financial and physical denominators to enable all users of our reporting to analyse the data in the ways they need to. We provide intensity metrics but the ESG community often have requirements that are house specific.

One of the key investor requirements is to be able to compare one business with another. The industry benchmarks help to do this by providing a common framework of analysis for corporate policy and processes and setting and achieving of targets. However, the complexity of the real estate sector limits the effectiveness of such benchmarks in understanding the detail behind a company's performance. They are ultimately a starting point and an early warning system; to really understand a specific company's sustainability performance it is necessary to look at the company data itself.

This is where the standards such as EPRA's Sustainability Best Practice Reporting standards (SBPRs) become more useful – by setting clear data and reporting standards they bring us a step closer to being able to compare company sustainability performance. We report in line with the EPRA SBPRs to the Gold standard, and are actively involved with EPRA and other industry organisations on improving reporting and data standards across the industry. For example we also provide data to the Better Buildings Partnership Real Estate Environmental Benchmark, the only industry-wide performance in use benchmarking system for commercial buildings.

There is an increasing focus on significant carbon emissions reductions and on corporates' ability to gather scope 3 data, in particular for tenanted areas. This is a long standing challenge but the increasing awareness of the scale of climate change risk is driving an expectation for companies to take more comprehensive responsibility for emissions flowing from their business activities. It is no longer enough for leaders in this field to be looking only at the emissions from the areas we control if those areas are a relatively small proportion of the space that we asset manage.

The challenge remains, of course, that landlords have very little control over activities within our tenanted areas. Hammerson are fortunate in that our work to develop good relationships with our retailers has enabled us to develop a good understanding of our scope 3 emissions through the voluntary provision of data. We also include data sharing clauses in our new leases, although this continues to be perceived as contentious by many property teams. It will be some time before scope 3 data for whole portfolios will be as widely available or robust as scope 1 and 2 data.

The UN Sustainable Development Goals (UNSDGs) were raised by a number of our stakeholders and have clearly gained traction with major corporates and investors as a helpful strategic framework for sustainability. We identified the UNSDGs that we are most relevant to the business in 2016 and these continue to be supported by our Positive Places strategy and actions. In 2019 we reviewed our activities against the SDGs again and identified 4 additional Goals that our business activities directly support. These are set out in our annual reporting.

Health and Safety has long been a matter taken extremely seriously by Hammerson and one in which our record shows exemplary performance. Stakeholder feedback suggests this has not always been most effectively reported so we have incorporated a specific section within our Sustainability Report and on the Positive Places website to communicate our Health and Safety approach, policies and performance more effectively.

Communication channels and formats

Feedback was positive on our communication channels and formats. However some investors were not using the data we are providing and not yet seeing the real relevance or impact of published ESG data. It was felt that this could be improved by using the EPRA sBPR alongside the EPRA financial numbers in the Annual Report and Accounts (AR&A). In response, this year our key EPRA SBPRs can be found on p.176 of the 2018 AR&A.

Different communication formats were welcomed, in particular the use of films and graphics to convey complex messages quickly, was well received. This is clearly an increasingly powerful format which we are using more and more.

Conclusion

Our 2018 materiality review provided useful insight and feedback on our sustainability strategy. We are already putting the findings to use in our thinking and our asset business plans. Sustainability and related policy, technologies and challenges are evolving quickly so we will continue to work with our stakeholders to ensure our thinking remains aligned and up-to-date and our resources focused on the most relevant and impactful areas.

For more information regarding this materiality review or any other element of our Positive Places sustainability strategy, please contact our Sustainability Team at Sustainability@hammerson.com