Hammerson

Environmental Legislation and Regulatory Risk Review

Environmental legislation and regulation remains high on the political agenda across Europe and much of it is focused on areas that will impact real estate assets. The decision to leave the EU has cast uncertainty across the future of environmental regulation within the UK. However, with the majority of environmental legislation already transposed into UK law and key items such as Minimum Energy Efficiency Standards and ESOS being UK specific we do not anticipate major changes to our legislative responsibilities and obligations over the next 12 to 18 months.

The CRC Energy Efficiency Scheme, Minimum Energy Efficiency Standards and ESOS remain our key areas of regulatory compliance with MEES a major focus of attention currently. CRC EES is drawing to a close in 2019 but we are still reporting under Phase 2 and maintaining our approach of reducing our exposure through operational energy savings.

Our assets in Scotland are subject to Zero Waste to Landfill legislation. This has been effective in promoting good recycling rates and the re-use of organic waste as compost at our Scottish assets. MEES regulations are already in place in Scotland and our assets are compliant.

We continue to promote greater dialogue with policy makers through our work with industry organisations including in particular REVO, Better Buildings Partnership, ICSC and Green Construction Board. This has been effective in many areas but in particular in raising awareness of issues relating to the implantation of the Heat Network Regulations.

Our approach to managing regulatory and legislative risk remains to continue monitoring the legislative and regulatory landscape through industry groups and forums and to ensure the business has strategies in place to manage any risk associated with potential legislation.

	Regulation	Hammerson Actions
CARBON EMISSIONS AND ENERGY	**Energy Performance of Buildings Regulations (England & Wales Amendment) April 2012:** The amendments have a number of key implications including: - The requirement for inclusion of an EPC in the marketing materials for the rental or sale of all properties (domestic and non-domestic). The EPC must be obtained within 7 days of marketing the property where feasible. - Property particulars now have to contain the first page of an EPC rather than just the asset rating. It is mandatory to display Energy Performance Certificates in properties over 500m^2 frequently visited by the public.	**Energy Performance of Buildings Regulations (England & Wales Amendment) April 2012:** EPC certificates have been reviewed for all assets and all units within assets in the portfolios to ensure we have full coverage. As an actively traded and growing portfolio, we work to ensure all assets are fully compliant. Energy improvement works continue to be implemented across the portfolio and energy management plans are in place for all managed assets. Capital expenditure is incorporated in the annual business planning and planned maintenance programmes to ensure projects are managed and implemented in a timely and efficient manner.
	Energy Act 2011: - From 2018, it will be unlawful to let properties with an EPC rating of less than E. - The Act also extends the power of the Secretary of State to implement roll out of smart meters to all homes and businesses from 2013 to 2018.	**Energy Act 2011:** We have taken a proactive approach to preparing for the implementation of these regulations. The portfolios have been reviewed to understand the incidence of F and G rated units. Consultants have been appointed to review these and advise as to the most effective means of upgrading. We are prioritising those assets with lease events ahead of the 2018 implementation date.

		The target it to ensure all at risk EPCs are managed out of the portfolio by end of 2017 and we are on course to achieve this. We are targeting a D rating for all units on the basis that this provides future proofing of the units against rising standards and provides better operational savings for tenants.
	Business Energy Tax Review: The initial phase of the BETR resulted in the withdrawal of the CRC EES as of 2019 and its replacement within a widening of Climate Change Levy to clean energy contracts. This will remove the burden of CRC Compliance from the company. The cost of allowances is £16.90/tonne. Future price rises are linked to RPI.	**CRC:** We are participating in Phase 2 of CRC and continue to drive down our carbon emissions to reduce our environmental impact and CRC liabilities across the portfolio. The increase to energy bills as a result of the extension of CCL has been allowed for in service charge budgets.
	Mandatory Carbon Reporting – April 2013: All listed companies are required to disclose Scope 1 and 2 emissions in their Directors' reports for years ending after 6 April 2013.	**Mandatory Carbon Reporting – April 2013:** We were one of the first companies to have to comply with this regulation and have reported our Scope 1 and 2 emissions in our Annual Reports and Accounts since 2013. We have since extended this to include some of our scope 3 emissions including business travel, waste and water. Our reporting is externally assured.
	Scottish Government consultation on measures to improve energy performance of existing non-domestic buildings: Requirements to implement carbon emissions improvement plans on buildings over $1000m^2$ within a period of 3-5 years.	Energy management plans are in place for our assets in Scotland and improvements are being made as part of our portfolio wide programme of operational energy management upgrades. However our Scottish shopping centres were built under post 2003 Building Regs and are therefore exempt from the Scottish version of the MEES regulations.
	2013 Update to Part L Building Regulations: Part L is updated every three years to ensure government is on track to meet its goal of reducing carbon emissions by 80% by 2050.	**Update to Part L Building Regulations due in 2013**: The Hammerson Design Standard requires that we achieve 25% below Part L against 2010 regulations which is greater than the reduction requirements within the 2013 Part L regulations.
	All non-domestic buildings to be zero carbon by 2019.	This target has been dropped by Government.
	Energy Performance Improvement Obligation Grenelle 2: Regulations for existing buildings came into force in July 2013. **New building regulations for all new commercial buildings (RT 2012):** This is mandatory from January 2013 (28th December 2012 Publication). **New building regulations (RT 2020):** From 2020, all new buildings to be nearly zero energy with renewable energy installations.	**Energy Performance Improvement Obligation Grenelle 2:** Energy efficiency audits and improvement plans for existing assets have been carried out to comply with Grenelle 2 and our 2015 carbon reduction measure. Environmental Appendices are including with all lease renewals and are a standard part of any new letting. We now have environmental clauses included within 64% of leases across the French portfolio. **Directive 2010/31/EU of the European Parliament and of the Council requires buildings to be Nearly Net Zero Energy buildings by 2020**. It is not clear whether or how this will be transposed into UK law or how it will be implemented in France and Ireland, but the target, which focuses on improving the energy efficiency of buildings and on the delivery of renewables is laudable. We have delivered a net zero regulated energy building on one of our retail parks and are planning to deliver another one in 2017. Our Development and Operations teams are working to ensure all our new buildings are as efficient as possible and to improve efficiency in our existing assets.
	Energy Audits Under the French National Energy Code(L.233-1 à L.233-4 du code de l'énergie par la loi n°2013-619) large enterprises have to complete energy audits of energy used on buildings, transport and processes, by 5 December 2015 and every 4 years thereafter.	Our assets in France are not subject to Article 8 regulations. However we are carrying our energy audits on all our French assets to identify effective energy saving measures. We are also implementing BREEAM In-Use to support the on site teams in maintaining good energy efficiency standards.
	Transition for Green Growth Article 5 of France's Energy Transition for Green Growth (La transition énergétique pour la croissance verte) will require energy performance upgrades whenever buildings undergo major renovation	**New building regulations for all new commercial buildings (RT 2012):** DPE (EPC) Regulation for shopping centres published in France in April 2012. All our French shopping centres were audited in 2012. **New building regulations (RT 2020):** Research project into low carbon design undertaken in 2011 in collaboration with IFPEB, Avenir Investir and Ecole Centrale de Paris that investigated the combination of air treatment, glass

		features for windows and thermal flooring required to be able to eliminate the need for air conditioning (Mantes). This regulation is currently draft. We are monitoring its progress and will ensure the potential impact on assets is assessed and managed.
	Regulation	**Hammerson Actions**
WATER	**Flood and Water Management Act 2010:** As of 1st January 2012, the taxpayer has no longer been required to pay for flood or coastal erosion defences to protect new developments. Developers will now be required to pay for defences needed to protect new properties completed, or existing properties converted into housing after this date.	**Flood and Water Management Act 2010:** We continued to carry out water consumption reduction measures and maintain close engagement with our tenants regarding water consumption. We have a strategy for implementing new metering and continue to work on getting greater clarity in terms of water consumption data from the Utility companies. A flood risk assessment was carried out for the portfolio in 2009. This is due for review and update and this will be put in progress in 2017.
	Deregulation of the water supply market in England and Wales in 2017	**The deregulation of the water supply market in 2017** will provide an opportunity for us to go to the market to identify the best service provider. We anticipate this being a good opportunity improve billing and metering services, enabling us to improve water efficiency.
WASTE	**Annual rise in landfill tax:** Landfill Tax reached the upper ceiling of £80 in 2014. It will now be increased in line with inflation and is charged at £84.40 from 1 April 2016 rising to £86.10 from 1 April 2017 and £88.95 from 1 April 2018.	**Annual rise in landfill tax:** We achieved our target of 75% waste recycling a year ahead of target for our UK shopping centres. A new target of 85% recycling rate by 2018 has been set. Our continued success in diverting waste from landfill has resulted in substantial cost savings for the business and our retail customers.
	Zero Waste (Scotland) Regulations came into force on 1 January 2014, banning waste to landfill in Scotland.	**Zero Waste to Landfill** The operational teams in our assets in Scotland are working closely with our waste contractors and tenants to ensure compliance with the regulations in as cost effective manner as possible. We have installed an on site mini-MRF as part of this process. We have also worked closely with the Scottish Environmental Protection Agency to ensure our retail customers are fully informed regarding the regulations and the most effective ways to comply.
	Landfill tax: From a start point of €15 per tonne in 2009, landfill tax reached €32 per tonne in 2015. Whilst much lower than the UK's landfill tax, this still has significant cost implications.	**Landfill tax:** Progress in France has been slower due to a lack of transparency from off-site recycling facilities. This has improved this year. With catering facilities at our managed assets increasing we are looking in particular at the implications of compliance with organic waste recycling obligations.
COMMUNITY	**Localism Act 2011:** Including the creation of Local Enterprise Partnerships and significant changes to the UK Planning System (National Planning Policy Framework & National Policy Statement). Devolved greater power to councils thereby increasing their control over planning decisions. It places requirements for developers to demonstrate their contribution to sustainable communities which potentially increases the level of mandatory and voluntary investments.	**Localism Act 2011:** Our Community Strategy has been implemented on all our developments and we perform on-going collection of community investment data. We are in the process of updating our research on the social return on investment in retail, originally published in 2013, along with a new Placemaking Strategy. We published a Community Engagement Report in 2016 reviewing the impacts of our Community work over the previous three years.
	Revision of the Planning Law for Commercial Buildings developments (Loi d'Urbanisme Commercial) in 2011: Greater power of Mayors in awarding planning permission for commercial buildings and greater emphasis on preserving inner city independent retailers.	**Revision of the Planning Law for Commercial Buildings developments (Loi d'Urbanisme Commercial) in 2011**: We have implemented our Community Strategy across our managed assets and developments and collected comprehensive community investment data. As a core part of our Community Strategy, we have started to implement the Pole Emploi Convention on existing shopping centres, the goal being to make the employment and reporting process easier for tenants. We also collaborate with Initiative France to support local social enterprises.

	Regulation	Hammerson Actions
INVESTORS	**Requirements for increased transparency of non-financial performance in Annual Reports & Accounts of publicly listed companies:** The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 required listed companies to provide information on a range of environmental, social and governance issues within their Annual Report and Accounts.	We go beyond compliance in our GHG emissions disclosures within our Annual Reports & Accounts and social and governance issues are dealt with comprehensively within the Business Review and Governance sections of the report. We undertook investor stakeholder research in 2014 to ensure our communications are providing the community with everything they need and expect.
CUSTOMERS	**Energy Act 2011**: From 2016, a landlord will not be able to refuse a tenant's reasonable request to improve the sustainability of their property. This represents an opportunity for setting up improvement plans that would bring mutual benefits to landlords and tenants.	**Energy Act 2011**: We hold a Retailer Forum twice a year to engage with Energy and Environmental Managers from our retailers. We actively engage with retailers at centre level through regular management meetings and specifically on environmental matters through the Positive Growth Awards scheme which provides an opportunity to explore the environmental performance of a store with the retail staff.
	Installation of electric car charging and bicyle storage: Requiring investment in infrastructure at new and existing assets where the main use is residential or office.	**Installation of electric car charging and bicycle storage:** We anticipate a substantial increase in demand for electric car charging points as take up of electric cars increases. This presents an opportunity to provide a new service to customers and to support staff employed at our sites. We are looking to install charging points as we refurbish and upgrade car parks and to ensure all new assets have sufficient infrastructure to future proof for rising demand.
	Modification of asbestos requirements for existing buildings: Requiring asbestos to be actively searched for and documented in existing assets.	**Modification of asbestos requirements for existing buildings:** Review of asbestos in managed assets performed in 2012.
	Mandatory Environmental Annexes for new and renewed leases for commercial use and retail units: From 1st January 2012 for new leases over 2000m^2 and from 13 July 2013 for existing or renewed leases. Also includes requirements for tenants to provide energy data to landlords.	**Mandatory Environmental Annexes for new and renewed leases for commercial use and retail units:** We communicated with our tenants on Grenelle requirements, including the potential obligation to reduce electricity consumption from electric signs. We updated our tenant fit out guide attached to green leases to include energy efficiency requirements in 2012. Environmental Appendices continue to be implemented in accordance with Grenelle requirements. All individual tenants' energy consumption data is captured in a central database.