

Syntrus Achmea Real Estate & Finance

Incorporation Sustainability Risks in Investments

March 2021

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The impact on people, the environment and society plays an important role in deciding whether or not to invest in certain real estate properties and mortgages. Syntrus Achmea takes its social responsibility seriously and has developed its own ESG strategy. In this strategy, introduced in 2019, we have identified 20 ESG objectives with each objective linked to 5 of the 17 United Nations Sustainable Development Goals (SDGs). Examples of our ESG objectives include reducing our carbon footprint, introducing climate change adaptation strategies, improving the quality of life in neighbourhoods, paying attention to the welfare of our tenants and focusing on affordable housing for specific target groups.

Sustainability risks in investments

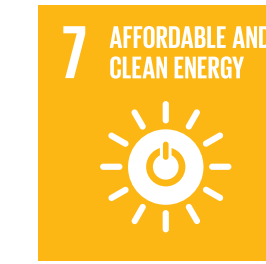
Under our [ESG strategy](#), we incorporate **sustainability risks** in our investment decisions. Sustainability risk – also known as ESG risk – is the potentially adverse effect on the value of an investment as a result of an environmental, social or governance event or circumstance. Environmental risks include climate

change, scarcity of energy resources and pollution. Events in the Social area include rental arrears owing to loss of income and deterioration of the quality of life in neighbourhoods. Governance concerns themes such as stakeholder engagement, business ethics, diversity and directors' pay.

Sustainability presents not only risks but also **opportunities**. Developments in the ESG area can have either a negative or a positive effect on an investment. Syntrus Achmea believes in sustainability as the basis for good and stable returns. That is why we incorporate sustainability risks in our investment decisions and services. Legislation and regulations are placing more and more demands on our investment funds and discretionary mandates with regard to ESG. More information on the integration of ESG-criteria in the investment cycle of Syntrus Achmea can be found in our '[Statement on Adverse Effects on Sustainability](#)'.

Types/forms of sustainability risks

Sustainability risks present themselves in **various forms**. **Climate** is a sustainability risk, e.g. extreme weather conditions resulting from climate change. Flooding due to heavy rainfall, but drought, hot weather and floods can also cause damage to buildings and its users. The costs involved in maintaining or insuring these buildings rise and the value of the buildings may decrease.



Transition risks may also arise. These are financial risks caused by the increasing legal requirements to reduce carbon emissions from real estate. That is why our real estate projects also take account of how we can make things more energy efficient in order to guarantee a sustainable return on them.

Finally, **social factors** may also have an impact on investments. Tenant satisfaction is important, for example, and the attractiveness of the living and working environment has an impact on demand for the available rental properties. Neglecting aspects such as these can lead to reputational damage. Syntrus Achmea aims to mitigate this type of risk for the real estate and mortgage investments.

Real estate & sustainability risks

Sustainability risks play a role when investing in real estate. Syntrus Achmea incorporates sustainability risks by clarifying the exposure of the real estate portfolios to climate risks and their effect on the value of the investments. All buildings are assessed for the various risks that may be involved. Based on these insights, appropriate precautions can be taken to reduce the impact.

With a view to mitigating the transition risks, scenarios for the reduction carbon emissions are analysed, the impact on the return of the various portfolios is

calculated and the corresponding measures for achieving the reduction are determined. This involves looking at the value development of the property based on aspects such as energy labels and the impact of sustainability on the value development and rental and sales opportunities.

To mitigate transition risks, Syntrus Achmea has set itself the target of having the entire real estate portfolio carbon neutral by 2050. To achieve this target, we are investing in insulation and ventilation to reduce energy demand and are opting for sustainable energy solutions such as installing solar panels and using residual heat to heat homes. We also assess what are known as **Physical climate** risks such as:

1. Flooding after primary flood defences fail
2. Flooding caused by short, heavy showers
3. Flooding caused by rising groundwater
4. High temperatures (weather experienced on a hot day)
5. Wildfires
6. Pole rot

We estimate the effects of these **physical climate risks** by placing them in categories from very low to very high, and we estimate the costs and expenses for buildings and their users and the amount of depreciation.



We also ascertain which measures are needed to protect the building and the user against these risks and what the costs of these measures are.

Sustainability risk standards

The liveability score and results of tenant satisfaction surveys are a good indicator of the quality of the available rental properties. Investing in a pleasant living environment, taking an effective approach to complaints, and providing affordable housing increase the attractiveness of real estate and the demand for it. This mitigates the sustainability risks on the social front.

We also apply external standards to supplement the methodologies developed by Syntrus Achmea itself to provide an insight into sustainability risks. By awarding labels based on measurements, we make sustainability risks specific, measurable and comparable. For example, the **energy label** for real estate is one of the best known standards for expressing the sustainability of property. Syntrus Achmea purchases real estate on the basis of a green energy label (A, B or C). The starting point for new property development is always energy label A.

Another certification standard that we apply is **'GPR Gebouw'**. This standard assesses real estate on sustainability by establishing scores in the field of energy, environment, health, quality of use and future value. For new properties we expect a GPR score of at least 7.5 on a scale of 1 to 10.

We also benchmark our sustainability performance in the **Global Real Estate Sustainability Benchmark (GRESB)**. This is a leading international benchmark that can be used to assess the sustainability of real estate funds and portfolios. The results of this assessment provide an indication of the sustainability risks in relation to the market and serve as a comparison for previous years.

Mortgages & sustainability risks

Sustainability risks also play a role in mortgage investments. The main risk of investing in mortgages is the risk that borrowers will not be able to meet their obligation to repay their mortgage. Sustainability aspects form an integral part of managing this risk for mortgage investments.



Making a home more sustainable reduces this risk in two ways:

1. Research¹ has shown that a home with a favourable energy label sells faster and at a higher price. This reduces the risk of problems for the homeowner and limits the risk for the investor. After all, in a forced-sale situation, the home with a more favourable energy label will sell for a higher price, which reduces the chance that the principal amount cannot be repaid.
2. When consumers make their homes more sustainable, this also increases the value of the home. The increase in the value of the home as collateral means a fall in the ratio between the amount of the mortgage and the value of the home (loan-to-value/LTV ratio). A fall in the LTV ratio means that the mortgage may be valued at a lower spread, which could lead to a positive indirect result.

Mitigating sustainability risks thus translates into lower payment arrears and higher proceeds from foreclosures.

Since improving the sustainability of homes reduces the risk of mortgage investments, Syntrus Achmea encourages measures to improve the sustainability of homes in its mortgage investments. We do this by:

- informing consumers about ways of improving the sustainability of their homes and encouraging them to make such improvements;
- offering 'green' possibilities such as finance for energy-saving facilities when consumers purchase or renovate their homes;

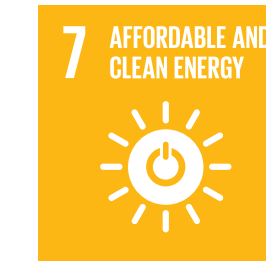
- offering a discount for financing a home with a green label or for making certain improvements to the home that result in a greener energy label.

The benefit of these sustainability improvements is also visible to consumers in their energy bills. This can reduce total housing costs, which can increase a borrower's ability to repay.

Climate risks

Sustainability risks also include **physical climate risks** such as the likelihood of the occurrence of floods, droughts (e.g. subsidence), hot weather and flooding. Studies are performed to assess the effects of these risks on the affordability of the mortgage or the value of the collateral. Depreciation of the collateral or an increase in the mortgage due to additional costs for repairs or prevention have an adverse effect on both the LTV ratio and the overall affordability of the mortgage.

¹ RaboResearch Netherlands, 'A drafty home has more risk than just catching a cold' (August 2019)



Social risks

Syntrus Achmea attaches great importance to providing a customer-oriented service. The Preventive Management ('Preventief beheer') and Special Management ('Bijzonder beheer') departments make it possible to give the customer an insight into and control over their financial situation and financial future.

We strive to prevent payment difficulties through analysis and preventive customer contact based on the AFM guideline. In the case of arrears, we assist customers by searching for a viable solution and doing what is in the customer's best interests. For example, it is possible to offer a customer interest-rate averaging in order to help customers meet the mortgage payment and avoid foreclosure.

Based on the average NIBUD standards, we work structurally on the affordability of the mortgage, taking into account the smallest possible financial impact for our clients.

The key principles are preventing problems relating to the payment and/or affordability of the mortgage, rapid contact with the customer to identify payment problems and a focus on retaining the home.

