

# Timber construction, a sound investment

Syntrus Achmea Real Estate & Finance  
2021





Kajstaden Tall Timber Building, Västerås

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# 1. Introduction

The Dutch housing market is facing major challenges. Because of a housing shortage, around one million new homes will be required by 2030. The scarcity has driven up housing prices, putting affordability for certain groups at risk. All while the Climate Agreement is forcing the built environment to become more sustainable.

Syntrus Achmea aims to improve the affordability of housing and minimise the built environment's impact on climate change at the same time. Although large, the new construction challenge offers opportunities to create sustainably built, affordable homes. Not only to reduce the housing shortage but also to limit the impact on the climate.

The built environment accounts for forty percent of global carbon dioxide (CO<sub>2</sub>) emissions. The Dutch Climate Agreement (2019) sets targets for each sector, including for the built environment. A reduction target of 3.4 megatons of CO<sub>2</sub> by 2030, or seven percent of the total reduction from the Climate Agreement applies for this purpose. Part of that reduction comes from sustainability investments such as insulation and efficient installations for existing buildings that reduce energy consumption. The sustainability requirements in the Buildings Decree (Bouwbesluit) have also increased and the social standard for sustainability will be tightened further.

The residential construction process itself can also play a major role in CO<sub>2</sub> reduction. A lot of CO<sub>2</sub> is emitted when a home is built today, especially because of the production of concrete and steel. Regulations must prevent this in the future. Sustainability standards will be raised for the built environment and polluters will be presented with the bill. This increases the risk of stranded assets<sup>1</sup> for investors in less sustainable real estate. After all, a less sustainable building is harder to sell if the rules become stricter, resulting in a lower value.

The SFDR<sup>2</sup> level 1, which requires investment product providers to report on their sustainability policies, also came into force at the start of 2021. This allows providers to distinguish themselves better based on their environmental impact.

## Bio-based construction

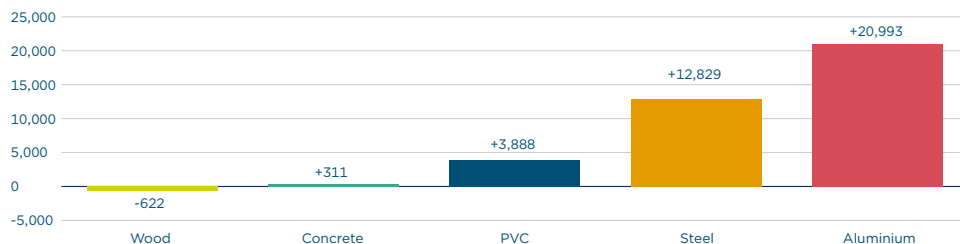
By using more bio-based (natural) construction materials instead of traditional concrete and steel and focusing more on circularity, the CO<sub>2</sub> emissions of new buildings can be minimised. Bio-based materials are natural products that store



<sup>1</sup> Stranded assets are buildings that can quickly depreciate in value or require substantial investments because their sustainability does not meet the expected future standard and they are more difficult to operate and sell because of regulations.

<sup>2</sup> The Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation that came into effect at the start of 2021 and gives investors greater insight into the sustainability of investment funds. In a follow-up phase (level 2), attention will shift to reporting on a large number of sustainability indicators.

## COMPARISON OF NET CO<sub>2</sub> EMISSION FOR VARIOUS MATERIALS (KG)



Source: Centrum Hout

CO<sub>2</sub> during their lifetime. And they are renewable, which means that when they are planted CO<sub>2</sub> is stored again. Examples include hemp, flax and wood. No CO<sub>2</sub> is emitted in the natural production of these materials.

Cross-laminated timber, or CLT, is a strong natural construction material. This makes it suitable for constructing high-rise buildings with CLT. Construction with CLT can also be faster than traditional construction with concrete and steel. And timber construction has a significantly lower CO<sub>2</sub> impact.

CLT is already widely used in single-family dwellings of private clients in the Netherlands. In large-scale construction, the use of CLT is still limited, especially in high-rise buildings. That is because CLT is an innovative construction material and people are still very unfamiliar with its associated benefits.

A small number of apartment buildings have been built with CLT to date in the Netherlands.<sup>3</sup> This position paper discusses the opportunities and challenges of timber construction, the main properties of this construction material and which investment opportunities it offers institutional investors.

By using more bio-based construction materials and paying more attention to circularity, the CO<sub>2</sub> impact of new buildings can be minimised.

<sup>3</sup> Source: Savills (2020)

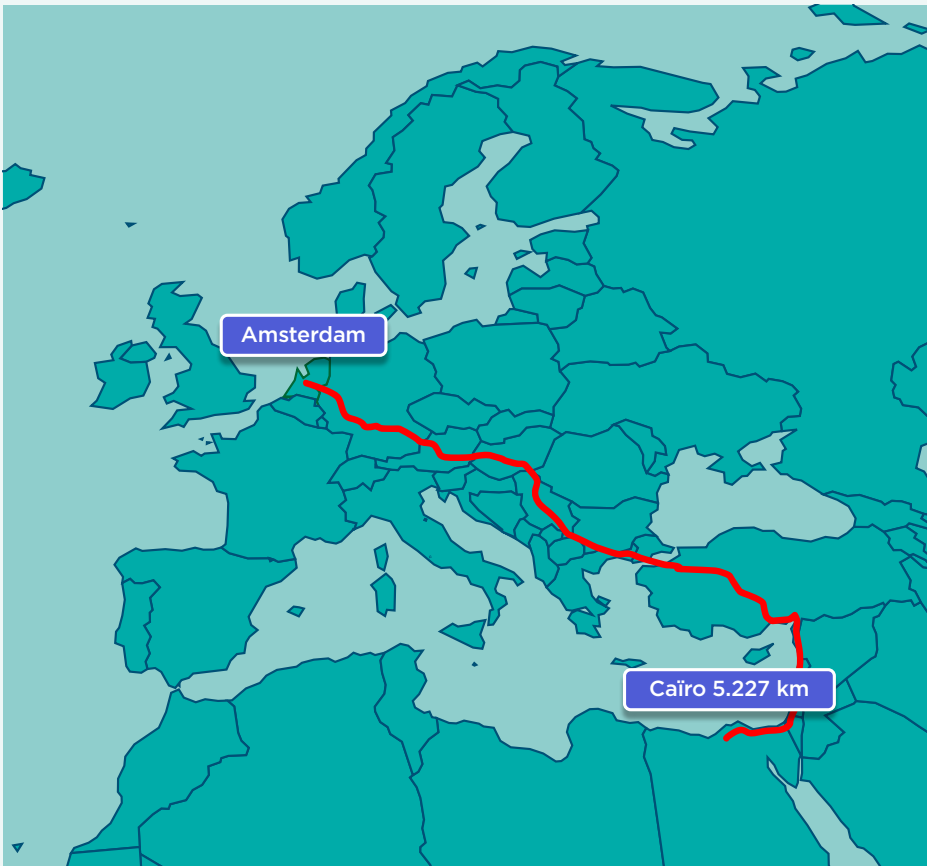
## CO<sub>2</sub> storage



1 m<sup>3</sup> of spruce wood stores 622 kg of CO<sub>2</sub>



This offsets:  
5,227 km of exhaust gas emissions  
from a medium sized car.



## 2. Investing in timber construction – the institutional investor’s perspective

Building with CLT is a relatively new construction method. The number of CLT buildings in Western Europe is limited, especially apartment complexes. This construction technique has been used in other countries for some time.

In Sweden and Norway, hundreds of CLT homes have been built, mainly for the private owner-occupied market. There are several examples of high-rise apartment complexes built with CLT in Australia and Canada.

Investors are aware that the standard for sustainable real estate is rising all the time, also because of the climate agreement targets. Bio-based construction can be seen as a future-proof investment consistent with socially responsible investing.

Research by Savills (2020), commissioned by Syntrus Achmea, for which interviews were held with various national and international institutional investors, shows that most expect the investment market for CLT properties to look more critically at their acquisitions and portfolios. Investing in CLT residential investments thus becomes more attractive.

### Financial return

The available literature states that timber construction is usually more expensive. In the Netherlands, Syntrus Achmea commissioned Urban Climate Architects to research the construction costs of CLT in 2020. Although the material is ten percent more expensive than traditional materials on average<sup>4</sup>, the average construction time with wood is shorter – 15 compared to 21 months – and fewer man-hours are required.

As a result, labour costs are lower, less interest is paid and the property can be rented earlier, which means a quicker return on investment. Total construction costs are thus only grow. Growing social a few percent higher on average than when building with steel and responsibility and increasingly stringent sustainability criteria by governments force investors to concrete. In the first half of 2021, commodity costs for wood, among other things, rose sharply from the previous year. At one point, the price of timber was more than 300 percent higher than the year before. But steel prices also rose by more than 200%.<sup>5</sup>

The price increase stems from the huge increase in construction activity worldwide and demand for construction materials, even though a drop in demand was expected during the pandemic. Demand has thus outpaced supply resulting in a scarcity of materials. Because the prices of other building materials have also increased, building in general has become more expensive.

While there are enough sustainable production forests in the world to meet the demand for wood, there is insufficient capacity for processing it. Higher prices will encourage producers in the timber construction chain to invest in additional production capacity. This can lead to price



reductions in the longer term. CO<sub>2</sub> pricing could also reduce the price difference between CLT and concrete construction. On 1 January 2021, the Industry Carbon Tax Regulation (Regeling CO<sub>2</sub>-heffing industrie) entered into force, which ensures that carbon tax will gradually increase in the period up to 2030 from around €35 per tonne at the end of 2020 to €125 per tonne by 2030. According to calculations by ABN Amro, this will cause the cost price of reinforced concrete to rise by 35 percent, while it has no effect on the cost price of CLT.<sup>6</sup> Although project developers, builders and authorities are paying increased attention to CLT in the Netherlands, there is a general lack of knowledge about timber construction.

Because of this lack of knowledge, timber construction is still viewed as being risky. By developing knowledge, confidence increases and the perception of risk decreases.

By creating a level playing field in regulations, timber construction can also become more attractive. Investor funding can then boost growth by ensuring take-up of the investment product. This results in chain optimisation, in turn creating economies of scale and ultimately leading to cost reductions.

Savills notes that investors see no difference in the operating expenses of CLT buildings and traditionally built homes. However, investors expect CLT homes retain their value longer because of increasingly strict sustainability requirements. Sustainable buildings are viewed as more future-proof. In the long term, regulations, investment demand and scarcity of commodities will increase the value of sustainable buildings. According to investors, the risk/return ratio is at least equal to traditional housing construction.

## Social returns

Besides financial returns, social returns are becoming increasingly important to investors. The call from society, politicians and regulators to do more to achieve climate targets is getting louder all the time. Investors are becoming increasingly aware that in addition to financial returns, they can also positively influence the environment and society through their investments: impact investing. Pension members are calling Dutch pension funds to account for this. Many institutional investors have included impact investing and what are known as ESG goals in their investment policy. This is in keeping with ideas of conscious and integral conduct, taking into account uncosted side effects on society and the environment. Timber construction is well-suited to investments with impact. It reduces CO<sub>2</sub> emissions, contributes towards the climate objectives and sustainably reduces the housing shortage.

Research by Savills shows that institutional investors believe that CLT buildings retain their value longer than traditional buildings. This is consistent with the theory that buildings with higher quality on completion, including in terms of sustainability, have a longer economic life.

<sup>4</sup> Source: UCA (2020)

<sup>5</sup> Refers to prices based on July 2021 futures for timber and hot rolled steel. On the US commodity exchange, contracts for commodities are traded by means of futures in which a price is set in the future (Source: CEC/CME exchange consulted on 9 June 2021)

<sup>6</sup> Source: ABN Amro & Invest NL. Bouwen aan een Houten Toekomst (Building a Future with Timber) (2020)

Increasing risks associated with unsustainable business practices also exist. International agreements designed to help limit climate warming are being translated more and more concretely into specific sectors. And energy standards in the real estate sector are also becoming stricter.

Examples include the stricter BENG rules that replaced EPC labels for energy consumption at the start of 2021 or the label C requirement for offices that will take effect in 2023.<sup>7</sup> Regulations on CO<sub>2</sub> emissions in construction are also expected to be tightened.

Buildings that no longer meet current standards can become stranded assets. Governments are also becoming more aware of the advantages of timber construction. Several municipalities have developed circular area development policies as a condition for land allocation. At the start of 2021, the Amsterdam Metropolitan Region set a goal for one in five new homes to be built with mostly bio-based materials, such as wood, from 2025. It seems logical that municipalities will include timber construction as a condition in tenders and design contests, which will increase the number of timber construction projects and can set the chain in motion.

<sup>7</sup> Almost Energy Neutral Buildings (Bijna Energieneutrale Gebouwen, BENG) and the Energy Performance Certificate (EPC) are methods to measure the energy performance of buildings.





### 3. Building with timber – the production chain perspective

Bio-based materials have been used in construction for thousands of years. Even today, materials such as hemp and straw are still used on a small scale in construction. But wood has been the most widely used material for centuries.

Timber frame construction is particularly popular. This involves building a wooden frame that is then sealed with other materials such as construction board or brick. Timber construction in Western Europe has been limited in recent decades. Because of the negative properties of timber frame construction, such as the fire risk, sound transmission and limited stability, concrete and steel construction were preferred.

But recent innovations in timber construction, especially cross-laminated timber, means timber construction is expanding again. A commonly used variant of timber construction is cross-laminated timber (CLT). These are wood panels consisting of three or more layers of wood cross-laminated with preferably natural glue. This type of wood is at least as strong as concrete and steel, making it possible, in hybrid form, to build high-rise buildings. CLT has its origins in central Europe and Scandinavia, where it was introduced in the mid-1990s. This happened mostly on a small scale and for low-rise buildings. Production was scaled up at the start of the 21st century and CLT was used for building for the first time elsewhere in the world, such as in the UK, USA, Australia and Canada. Other innovative forms of timber construction are also emerging, such as

laminated veneer lumber (LVL) and glued laminated timber (Glulam). For the time being, however, CLT seems to have the best prospects for wide application in construction.

#### Structural features

Because of its layered structure, CLT is a strong product, suitable for complex construction and – combined with concrete or otherwise – can be used in high-rise buildings. While timber frame construction seldom allows for large spans, CLT offers this possibility. One example in the Netherlands is Patch 22 in Amsterdam, where 31 homes have been built.

Another example is the Brock Commons Tallwood House in Vancouver, built with CLT and concrete. The result is an eighteen-storey building that houses four hundred students. After the timber components arrived, construction was completed in 70 days, around four months faster than an equivalent project built with traditional materials.

Because CLT is largely prefabricated, the construction period is shorter. And as the building site is also more compact, it is easier to fit into urban areas. Failure costs are also lower because the factory is computerised and the design is followed to

the millimetre. Assembly and dismantling takes place primarily on the building site, thus limiting exposure to the elements. More and more ready-made modules are also being developed, which further reduce the construction time. Examples include complete kitchens and bathrooms, but also full living units. The shorter construction period also reduces the inconvenience to the surrounding area.

Another structural advantage of CLT is its low weight. As a result, it is possible to

build on more sites than with heavier concrete, and it places fewer demands on the foundations, making it ideal for reconstructing roads and railways or raising existing buildings. One example is the plan for the Southwark Over Station Development in London above an existing underground station. Because of the weight, such constructions in steel or concrete are impossible. Timber construction is therefore extremely suitable for urban infill. An additional advantage of the low weight is that less heavy transport is needed than



Brock Commons Tallwood House, Vancouver



International House Sydney

for concrete. This results in CO<sub>2</sub> savings during transport and reduces nitrogen emissions. As timber construction is also less labour-intensive, fewer construction workers travel to and from the building site and less heavy machinery is needed. This leads to lower emissions and less inconvenience, making it possible to build in places where this would not be possible with traditional construction methods.

### Sound transmission

A negative feature of timber construction is the greater risk of excessive noise. Sound travels more easily through light structures. Because wood is light, sound transmission must be carefully considered beforehand. Sound transmission can be minimised by separating parts of the building, for example with floating floors. Additional sound insulation can also be laid in floors. A common preconceived notion about CLT is fire risk. Wood catches fire faster than concrete. But the outside of a wooden

beam carbonises during a fire and slows the fire down. And the effect of fire is more predictable for wood than for concrete and steel, because steel loses its strength quicker. The risk of collapse for a traditional building is thus greater than for CLT. From a certain thickness of the load-bearing structure, a CLT building thus complies with the fire safety requirements. Providing enough escape routes is obviously still important.

### Low emissions

Limited CO<sub>2</sub> emissions are a major advantage of timber construction. Europe has 227 million hectares of forests, three quarters of which are available for timber production. Enough forests thus exist for producing timber and importing it from other parts of the world is unnecessary. Even so, it is necessary to limit emissions from transport within Europe and ensure that every link in the timber construction chain can help reduce

CO<sub>2</sub> emissions. It is also important that the production forests contribute to biodiversity and there is a management plan to replace felled trees. FSC and PEFC labels are the international standards for sustainable forestry; in Europe, fifty million hectares of forest are FSC-certified and one hundred and twenty million hectares of forest are PEFC-certified.

It is estimated that all the trees in Europe jointly extract 719 million tonnes of CO<sub>2</sub> from the air each year, equivalent to nine percent of Europe's CO<sub>2</sub> emissions.<sup>8</sup> The CO<sub>2</sub> is stored in wood from which CLT elements are made, while new trees are planted to replace the processed ones. This makes wood a completely renewable raw material that is circular: the CLT elements can be reused or recycled, thus extending their useful life. In this way, CLT elements last much longer than the time needed for trees to grow. If reuse is no longer possible, the can also be used as biomass for energy production. As a construction material, timber thus has negative net CO<sub>2</sub> emissions, compared to non-natural materials. According to calculations, one cubic metre of spruce wood stores about six hundred kilograms of CO<sub>2</sub><sup>9</sup>, equivalent to the emissions from driving five thousand kilometres by car or the equivalent of eight household's monthly electricity consumption. Around three hundred kilograms of CO<sub>2</sub> are emitted in the production of one cubic metre of concrete. According to research by the consultancy firm W/E adviseurs (2021), around twenty-five percent of CO<sub>2</sub> emissions are saved with timber construction compared to concrete over the 75-year service life of an apartment building. This takes into account the CO<sub>2</sub> impact of the building (materials and construction), use and disposal phases.

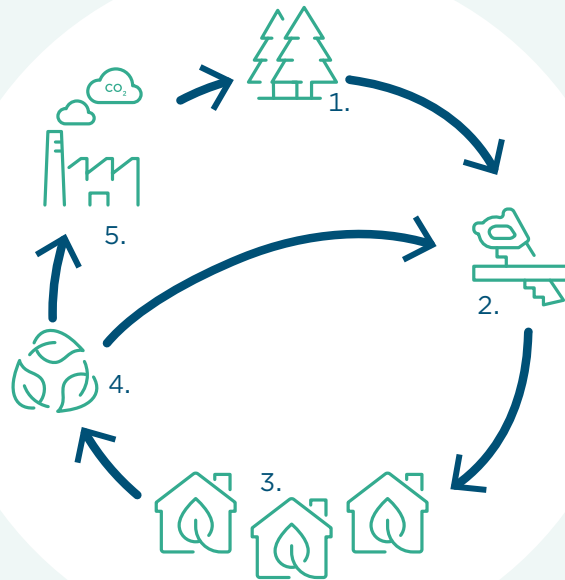
## As a construction material, timber has negative net CO<sub>2</sub> emissions compared to non-bio-based materials.

To identify the actual environmental benefits of CLT over traditional construction (concrete), Urban Climate Architects calculated the advantages in sustainability scores for three common sustainability labels. For all three labels, a CLT building achieved a much higher score than a traditional building. The difference is particularly large with GPR Gebouw. Although the Environmental Performance for Buildings (MPG), a mandatory sustainability test for new buildings, already shows a ten percent higher score, the measurement method does not yet include all important factors for timber construction, such as CO<sub>2</sub> storage. Research by the Netherlands Organisation for Applied Scientific Research (TNO) shows that the contribution to climate change in case of timber construction is half of what the MPG method currently shows. The sector therefore drew up a manifesto at the end of 2020 calling for the MPG method to be revised and presented it to politicians. Over 230 parties operating in the construction sector, including Syntrus Achmea, have signed this manifesto.

<sup>8</sup> Source: State of Europe's Forests 2020 report (2020)

<sup>9</sup> Source: Construction materials pyramid  
[www.materialepyramiden.dk](http://www.materialepyramiden.dk)

## CO<sub>2</sub> CYCLE IN TIMBER



1. Trees extract CO<sub>2</sub> from the air and then store it.
2. Trees are processed into CLT elements in factories and the felled area is replanted.
3. By building with CLT, CO<sub>2</sub> is stored and emissions from concrete production are prevented.
4. After its functional life, wood can be reused for other products.
5. If wood is not reused, it can be used to generate energy (biomass). The stored CO<sub>2</sub> is then released into the air.

### SUSTAINABILITY BENEFIT OF CLT COMPARED TO TRADITIONAL CONSTRUCTION

(SOURCE: UCA, 2020)

Label	Positive difference in the CLT score compared to the traditional construction score
Breem-NL	6 extra credits (total 92)
GPR Gebouw	2.18 additional points (total 10)
MPG (current)	10% higher environmental score





## 4. Living in a timber home – the occupant’s perspective

A key success factor for timber construction is the value that future occupants attach to living in a timber building. Ultimately, it is them, the end users, who will determine the success of a timber home.

### Living comfort

For occupants, the immediate living comfort of a home, as determined mainly by its insulation and indoor climate, is their main concern. Wood has a lower heat conduction coefficient than concrete. This means that wood both heats up and cools down faster. Thermal comfort depends on the weather conditions. On hot days, a room will heat up faster during the day and will cool down faster in the evening and on cold days. Energy consumption is then determined mainly by the insulation and installations used, and the use of renewable energy is essential. In this respect, timber construction does not differ from other construction methods. The statutory sustainability requirements for new buildings are already high. And many institutional investors, including Syntus Achmea, set higher sustainability standards for acquisitions than are legally required.

Another positive property of wood is that it breathes and regulates the moisture content in indoor spaces. This increases comfort and fewer extraction systems are needed. Air quality is improved by wood’s hypoallergenic properties and the reduced emissions of formaldehyde and other volatile organic compounds that can cause health problems. As this means healthier and more pleasant living for occupants,

timber construction has a positive impact on physical health.

**Besides physical health, timber construction also affects mental health.**

### Mental health

One aspect of timber construction worth mentioning and often underappreciated is its effect on mental health. Various studies<sup>10</sup> show that using wood has a beneficial influence on stress, blood pressure and the heart rate. It has a calming and positive effect on users’ subconscious and well-being. This is important in relation to ESG objectives. Studies in healthcare institutions have also shown that wood promotes recovery and reduces the perception of pain. In timber office buildings, employees appear happier and can concentrate better if wood is visibly incorporated in the design. This leads to higher productivity. Although the examples from the studies do not focus specifically on housing, it is expected that the effects will also have a positive impact on the well-being and health of timber home occupants.

<sup>10</sup> Fell (2010); Nyruud and Bringlimark (2010); Rice et al. (2006); Sakuragawa et al. (2005); Tsunetsugu et al. (2002, 2007).

### Environmentally conscious tenants

Interest in a sustainably built home is increasing among occupants. Certain target groups are expected to have an above-average interest in a timber home. The intrinsic motivation will differ from one target group to another. While one target group likes to be at the cutting edge of sustainable living, the other is focused on reducing its own impact on the environment and climate. If timber construction appeals to a form of status, it attracts yet another target group. Consumers associate timber construction with environmental friendliness, aesthetics, health, well-being and living comfort.

Conversely, they still wrongly associate timber construction with fire risk and a short lifespan. Consumers also view cost as a decisive factor. While they are often positive about timber construction, their willingness to pay higher rents has limits.

At Syntrus Achmea, we are working on a Schedule of Requirements for Health & Happiness. The underlying idea is that real estate which focuses on the health and happiness of its users retains its value in use longer, is more future-proof and therefore a better investment.

Timber construction has a clear link to this Schedule of Requirements: nature-inclusive construction, the use of healthy materials and the stimulation of a healthy indoor climate.

## 5. Conclusion

Investing in CLT buildings has many benefits, including the CO<sub>2</sub> reduction to be achieved and the reduced construction period. While there are still several challenges at present, there are also opportunities.

### Challenges

First, CLT use is still limited because it is a relatively new and innovative construction method. It requires architects, builders and developers to have specific knowledge.

Knowledge in the Netherlands is still limited, especially for multi-storey buildings.

The timber construction chain can be optimised only when the demand for CLT housing increases. As the Netherlands has no functioning timber industry at present, CLT is largely imported from nearby countries. The chain in the Netherlands is thus only developed to a limited extent and building with CLT is still expensive.

Risks will diminish as economies of scale take hold. More knowledge and experience will also reduce costs.

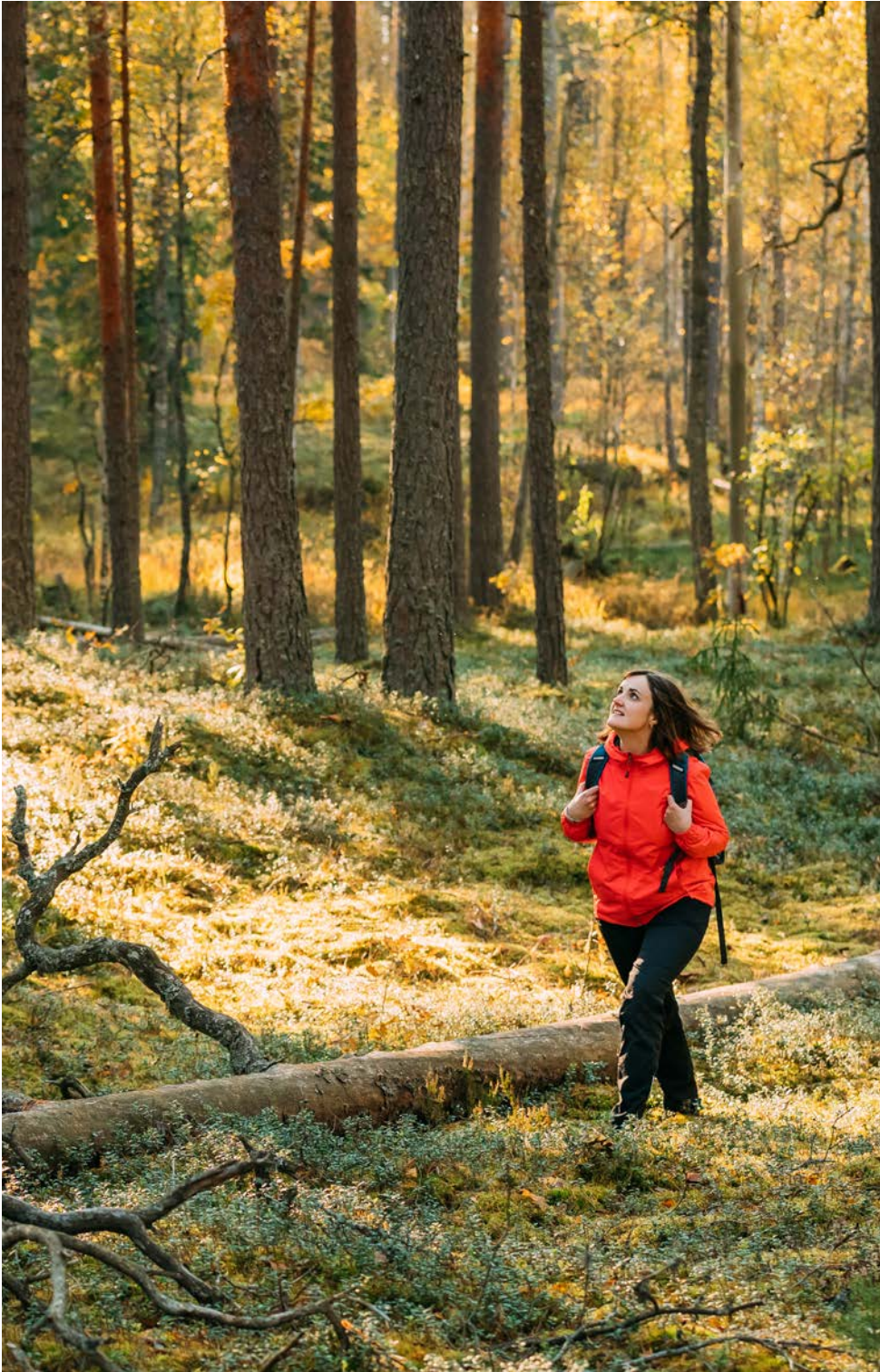
Regulation presents another challenge. CLT can compete properly with traditional materials only if a level playing field is created. Building regulations will have to be adjusted so timber is assessed fairly in comparison to traditional construction methods. For example, the CO<sub>2</sub> storage of wood must be included in the MPG calculation; an initiative for this purpose, supported by the construction sector as a whole, is in progress.

### Opportunities

Changing regulations also offer opportunities for building with CLT. When the regulations take the CO<sub>2</sub> emissions of construction materials into account, timber construction will become a more financially attractive proposition. And if the chain is optimised, homes built from bio-based materials will eventually be cheaper than concrete and steel construction projects. This provides the necessary financial incentives for a successful transition from traditional construction to timber construction.

From an ESG perspective, timber construction also offers many opportunities for institutional investors to make an impact. In relation to sustainability, a large reduction in CO<sub>2</sub> emissions can be achieved and the materials in timber construction can be reused at the end of their functional life in another application. This prevents buildings from becoming stranded assets because of changing regulations.








From a social perspective, building with CLT can reduce the housing shortage in a sustainable and climate-neutral way. Timber homes have a positive effect on the health of their occupants. Wood reduces stress, blood pressure and the heart rate. Timber construction also improves the indoor climate and enhances living by



increasing occupants' concentration and well-being. Investing in CLT creates opportunities to make a sustainable contribution towards reducing the housing shortage. It thus not only offers financial returns, but also sustainability and social benefits.

## Conclusion

With a clear positive attitude towards CLT, the gap between supply and demand can be narrowed and the construction of CLT homes can be expedited. Syntrus Achmea wants to narrow this gap, emphasise the importance of responsible investment and thus accelerate the growth of supply of CLT buildings in the Netherlands.

<h3>1. CO<sub>2</sub> emissions</h3>  <p>CO<sub>2</sub> emissions from wood are negative by -600 kg per 1 m<sup>3</sup>, by comparison: 1 m<sup>3</sup> of concrete emits 300 kg of CO<sub>2</sub>.</p> <p>(Source: Construction materials pyramid)</p>	<h3>2. Expanding forest</h3>  <p>In Europe, there are 227 million hectares of trees, and the forest stock is growing annually by 0.4%.</p> <p>(Source: State of Europe's Forests 2020)</p>	<h3>3. Construction time</h3>  <p>Timber construction is completed six months earlier than traditional construction on average (15 instead of 21 months).</p> <p>(Source: Cazemier, 2017)</p>
<h3>4. Construction costs</h3>  <p>The costs of timber construction are 2.6% higher than for traditional construction. However, because of the shorter construction time, timber construction can be put into use more quickly, thus increasing the return.</p> <p>(Bron: Cazemier, 2017)</p>	<h3>5. Maintenance</h3>  <p>The operating expenses for buildings constructed from CLT are the same as for traditionally built homes.</p> <p>(Source: Savills, 2020)</p>	<h3>6. Fire safety</h3>  <p>A CLT building complies with the main fire safety requirements and is no more prone to fire than a steel and concrete building.</p>
<h3>7. Wood brings happiness</h3>  <p>Various studies show that the visual use of wood in buildings has a positive effect on users' mental health and well-being.</p>		



Kiln Apartments, Portland



Patch22, Amsterdam  
Development: Lemniskade Projecten; design: FRANTZEN et al; photo: Luuk Kramer.

# About Syntrus Achmea Real Estate & Finance

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## Who are we?

- We are an asset manager specialised in mortgages and real estate.
- We manage over €37.5 billion in residential, retail, healthcare real estate, offices and mortgages.
- We work for more than 70 clients, pension funds, and other institutional investors.
- We are part of the Achmea Group.
- We operate in the Netherlands, the rest of Europe, North America and Asia.
- We employ 537 people.

## What is our mission?

- We choose sustainable investments. This involves offering our stakeholders a solid financial future in an attractive living environment.
- Financial and social returns go hand in hand.

## How do we work?

- We carry out transparent, informed and substantiated business cases.
- We connect based on the conviction that synergy leads to the best result.
- We innovate: our innovations contribute to a sustainable living environment.
- We improve: reflection and self-knowledge are essential to our ability to continuously adapt.
- We maintain the highest standards in governance, compliance and risk management.

[www.syntrus.nl](http://www.syntrus.nl)

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## For more information

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Syntrus Achmea is taking the lead, but we cannot do without our partners. Only together can we make our cities future-proof. Do you share our vision? Then join us. Contact us for more information



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Contribution of:



# PME pension fund: ambassador for timber construction

As an investor, PME feels a responsibility to impact positively on the world with its investments. And it also considers the impact of the world on its portfolio.

Climate change, its consequences and the loss of biodiversity are factors that risk PME's ability to make a return. Meanwhile, our investments have an impact on the world. By funding solutions to social problems, such as investing in energy transition and affordable housing, we achieve added value for society alongside financial returns. The challenge facing the Netherlands to provide sufficient affordable housing is great, but the challenge to do this sustainably is even greater.

As PME is a long-term investor, we already need to be aware of the value of our real estate investments in a post-energy transition world. We do this to secure a good pension for our participants and pensioners, and a liveable world for everyone.

Efforts to make the residential portfolio more sustainable have thus been ongoing for some time. At the end of June 2021, 97% of the homes in the portfolio had a green label. A roadmap with more sustainability measures has been drawn up to halve CO<sub>2</sub> emissions by 2030, and to make the residential portfolio energy-neutral by 2050. PME also strives for the highest possible GRESB score of the residential portfolio. At the end of 2020, this score was 80 out of a possible 100 points.

## Timber construction from a climate policy perspective

The climate crisis calls for a sustainable solution to the housing shortage in the Netherlands. Based on its responsibility as a pension fund, in which both financial return and social interests take centre stage, PME wants to contribute to a solution for this complex problem. Investing in a climate-neutral building technique such as timber construction not only avoids climate risks, but also allows PME to invest in a healthy living environment that simultaneously helps accelerate the solution to the housing shortage.

Given the significant challenge of meeting the targets of both the Paris and Dutch Climate Agreements, now is the time to bring about a system change in the construction sector and make the switch to timber construction.

PME also continues to take further climate policy initiatives. One such initiative is working towards a Paris-aligned real estate portfolio.



## Timber construction from a real estate portfolio perspective

As a pension investor, PME wants to use its investments to inspire positive social developments. In the real estate portfolio, PME uses targeted impact investments in affordable housing, healthcare real estate and student accommodation for these assets to add value to society. By the end of 2020, PME provided affordable rental housing to almost 3,000 households.

Because of increased sustainability standards and positive expectations for the growing investment market in CLT products, timber construction is an attractive investment opportunity that can ensure a future-proof and sustainable real estate portfolio.

Besides supplying more affordable housing, investing in timber construction has an even greater impact by reducing CO<sub>2</sub> emissions and creating a healthier living environment.

Timber construction has thus been added as a new investment theme to the existing impact investment portfolio and this has also been recorded in the real estate mandate. The intention is for a substantial part of the new residential portfolio investments to be in timber construction. As with all new investment developments, the process of investing in timber construction is gradual. In the timber construction category, PME aims to invest in buildings that use as much wood as possible responsibly.

## Challenges

Although timber construction is becoming more widespread, the scale is still limited. It is thus a challenge for an investor like PME to find suitable investment opportunities. As PME's real estate manager with extensive expertise in this field, Syntrus Achmea leads the market to assist us in this regard.

Socially speaking, timber construction still has a lot to prove. Doubts about safety and affordability persist, even though it can rival traditional construction on both counts. Emphasising the benefits for liveability, flexibility and climate impact should tip the scales in favour of timber construction.

Ultimately, central and local governments play a vital role in setting requirements that project developers must meet when preparing for new construction. For example, municipalities often set conditions for the affordability and sustainability of new homes. Imposing the use of timber instead of traditional construction as a condition can promote the use of timber construction. To this end, it is important that policymakers are aware and fully informed about the social importance and benefits of building with timber.

But upscaling depends on the commitment of several stakeholders. PME believes this can be achieved through intensive cooperation with various parties, including asset manager Syntrus Achmea.



## About PME pension fund

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### Who are we?

- We manage the pension entitlements of around 630,000 current and former employees in the metal and technology industry
- The sector comprises over 1,400 large and medium-sized enterprises
- Invested assets amount to approximately €62 billion
- In terms of assets, PME is the fifth largest fund in the Netherlands

### What is our mission?

- We provide a good, personal, affordable and sustainable pension
- PME chooses to achieve its financial goals in a way that contributes to a world that will also be liveable and socially equitable in years to come.
- PME chooses a good pension scheme with an attainable ambition for all participants
- PME chooses to provide digital and personal services to participants and employers
- PME chooses cooperation to be more innovative, more efficient and to restore trust

[www.pmepensioen.nl](http://www.pmepensioen.nl)



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