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OP Real Estate Asset Management Ltd

# Principles for Responsible Real Estate Investment

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## 1. Introduction

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OP Real Estate Asset Management Ltd (OP REAM) is part of OP Pohjola's Wealth Management segment. The main principles of sustainable and responsible investing in Wealth Management are approved by the Management Team of the business segment in question. The Board of Directors of OP Real Estate Asset Management also approves these policies, and the company follows them in its investment operations. OP Real Estate Asset Management's Principles for Responsible Real Estate Investment complement the principles for responsible investment of OP Asset Management Ltd (OP Asset Management) and OP Fund Management Company Ltd (OP Fund Management Company).<sup>1</sup>

OP REAM serves its clients in real estate asset management. Investment assets managed by the company consist of residential and commercial real estate and land and forest assets in Finland, and investments in real estate funds and debts in Finland and internationally. The ESG steering group of OP REAM coordinates ESG work in real estate investments. The sustainability programme and the ESG measures are integrated as part of real estate investment portfolio management. The sustainability programme is updated whenever necessary, and its progress is monitored regularly. Our sustainability targets guide our investment activities and define the measures outlined in our sustainability programme. Sustainability targets are also taken into consideration in our personnel remuneration policy.

OP Fund Management Company, OP Asset Management and OP REAM were among the first Finnish fund managers to sign the UN Principles for Responsible Investment (UNPRI) in 2009. As signatories to the UNPRI, we are committed to developing the competence of all our employees in sustainable responsible investing.

This document describes the key principles and procedures used to assess the sustainability factors of real estate, forest and debt investments managed directly and indirectly by OP REAM.

## 2. Responsible investing at OP REAM

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### 2.1 Openness and cooperation

Openness and cooperation are essential principles of responsible real estate investment. OP REAM participates actively in initiatives and cooperation projects within its industry. We are committed to openness in all our operations. We report regularly on our Environmental, Social, Governance (ESG) performance and share information about sustainability with our stakeholders. We cooperate with other investors, industry associations and authorities to develop and promote sustainable and responsible investment practices. We engage in active dialogue with energy providers and construction firms on new solutions in energy production and low carbon construction. We present solutions that develop responsibility to our tenants and strive to influence tenants to adopt more responsible practices in our rental properties.

Our investments consist mainly of housing or real estate companies owned fully by a fund or other customer. As part of OP Pohjola, we support the UN's Global Compact initiative and follow the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights. To the extent that investments are made in companies, it is verified that the company adheres to good governance practices. When

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<sup>1</sup> <https://www.op.fi/en/op-financial-group/responsibility/responsible-business/sustainable-investment>

assessing good governance, the issues considered include the appropriateness of the target company's corporate governance structure, the target company's actions in relation to its personnel, and the target company's reward and taxation practices. In assessing good governance, we use our own qualitative analysis if no external data is available. We regularly carry out qualitative analysis of good governance in the target companies.

In accordance with the UN principles on business conduct and human rights, companies must observe due diligence. By observing due diligence, companies prevent adverse impacts on human rights and avoid causing or contributing to human rights violations. As a rule, due diligence is observed by ensuring that our activities comply with regulations.

In 2011, OP Pohjola signed the UN Global Compact initiative and undertook to comply with the ten principles in the areas of human rights, labour, the environment and anti-corruption. The principles of the UN Global Compact are based on the Universal Declaration of Human Rights, the Declaration of the International Labour Organisation (ILO) on Fundamental Principles and Rights at Work, the UN's Rio Declaration on Environment and Development, and the UN Convention Against Corruption.

The Global Compact principles are included in all OP's new supplier agreements. Our employees are expected to follow the principles of the Global Compact and participate in all corporate responsibility training courses on the principles. The responsibility to observe due diligence also extends beyond our own operations to our supply chains and partners. OP REAM ensures that its operations meet the sustainability requirements placed by OP Financial Group on suppliers.

## 2.2 Promoting sustainable and responsible investing

OP REAM promotes sustainable and responsible investing within the real estate sector as a whole. Among other measures, this includes participating in working groups and development projects in the industry. We actively participate in various sustainability-linked initiatives and events, and support the development and implementation of industry standards. We actively monitor developments in the assessment of ESG factors in real estate investments and develop our operations based on recommendations by RAKLI<sup>2</sup>, FIGBC<sup>3</sup> and INREV<sup>4</sup>, among others. We monitor changes in regulations at the European and domestic levels, and strive to anticipate and prepare for potential changes.

OP Real Estate Asset Management seeks to achieve carbon neutral energy use by 2030 in our direct real estate investments when we are responsible for sourcing energy. We also strive to achieve carbon neutral construction by 2050. We promote these goals by reducing energy consumption and producing and purchasing renewably sourced energy.

We are committed to initiatives that promote carbon neutrality and thereby contribute to our sustainability targets. We are signatories to the World Green Building Council's Net Zero Carbon Buildings Commitment as well as the Net Zero Asset Managers initiative. We were also one of the first companies in Finland to sign the Green Deal demolition examination agreement by the Ministry of the Environment and RAKLI. The aim of the

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<sup>2</sup> RAKLI is the Finnish association of professional property owners, real estate investors, corporate real estate managers and construction clients. In addition to representing its members' interests and developing the industry's practices, RAKLI produces information on the industry's future and best practices and tools that help members develop their operations.

<sup>3</sup> FIGBC (Green Building Council Finland) is an impartial and non-profit expert organisation serving the Finnish real estate sector, whose goal is that the built environment is a key part of the solution to climate change.

<sup>4</sup> INREV is the European Association for Investors in Non-Listed Real Estate Vehicles and the industry's leading platform for sharing knowledge.

Green Deal demolition examination commitment is to promote the circular economy.

Our forest investment activities are guided by the recommended good forestry practices by the forestry, environmental and climate sectors. The recommendations are part of efforts to achieve the objectives of the Finnish National Forest Strategy. Forest biodiversity is safeguarded by the PEFC<sup>5</sup> and FSC<sup>6</sup> forest certifications.

### 3. Integration of ESG in investment analysis and decision-making

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#### 3.1 Consideration of sustainability factors in general

Responsible real estate investing begins with the integration of ESG principles in investment decisions. OP REAM is committed to assessing the environmental and social impacts and good governance principles of each investment before making an investment decision. ESG integration, or the consideration of ESG factors in investment analyses and decisions, provides relevant additional information about the investment.

Identifying the key sustainability factors of investments is important to ensure that our investments are protected in the long term. In real estate investing, ESG integration means that investment decisions have taken the key sustainability factors of real estate investments which may have an impact on the future value, return on investment or marketability of the investment into consideration. Sustainability factors are also assessed during the period of the investment's ownership.

We ensure good governance, transparency and anti-corruption measures by identifying and investigating our partners' backgrounds. We follow OP Pohjola's guidelines for anti-corruption and money laundering, and our employees are trained in fighting corruption and money laundering.

#### 3.2 Real estate investing

As a major Finnish real estate investor with a human face, we have the opportunity and responsibility to cut back emissions and take action to mitigate climate change. We have identified different sustainability factors that we take into consideration in our investment analyses and decisions. We collect key ESG data for the investment analysis and decision. Observations from the analysis are included in the investment decision proposal presented to the investment committee. One of the focus areas of OP REAM's sustainability programme is promoting carbon neutrality. We pay particular consideration to climate risks, energy efficiency and the life cycle planning of properties.

Most of our funds investing in direct real estate assets have a minimum allocation of 20% in sustainable investments. To achieve this goal, we take the criteria of the EU Taxonomy on the purchase and ownership of real estate into consideration whenever possible. We promote low-carbon construction and monitor the carbon footprint of our projects. We explore opportunities for renewable energy production and use. We strive to promote wooden buildings as a low-carbon alternative to stone construction and conversion projects in favour of new construction.

Our investment decisions are also based on the location and accessibility of the property. The location of the property has a significant impact on the probability of physical climate risks such as the risk of flooding. In terms of accessibility, our investment decisions are influenced by access to public and light transport infrastructure and

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<sup>5</sup> Programme for the Endorsement of Forest Certification schemes

<sup>6</sup> Forest Stewardship Council

proximity to services. We consider the charging options for electric cars in the construction phase by either installing charging stations or ensuring that they can be installed later. We also take cycling infrastructure into account in the construction phase by including storage and social facilities in designs.

We take the wellbeing of users into consideration as part of social responsibility. In construction projects, we take the health impacts of properties into consideration through material selections and the quality of construction. We prioritise materials of emissions class M1. The office buildings we construct meet the S2 class of the Classification of Indoor Environment<sup>7</sup>. In project design, we strive to take the convertibility of properties and the circular economy into consideration. To ensure the quality of construction, we have prepared a separate construction guide for contractors.

A plan for waste management and its environmental impacts is prepared for larger construction sites to minimise the impact on the environment. The starting point of the plan is to prevent environmental pollution and minimise the adverse effects of the construction site. A foreman appointed to the site is responsible for enforcing the site's plan for waste management and its environmental impacts. For each site, we also appoint a safety coordinator and responsible occupational health and safety manager, who will monitor and be in charge of safety on the worksite.

We require a waste management plan to be drafted before a project is launched, and data on waste volumes must be submitted after each project has ended. We also facilitate better recycling of demolition waste as part of the Green Deal demolition examination agreement. When purchasing construction services, we require our contractors to be certified by RALA<sup>8</sup> as proof of continuous sustainability of operations.

### 3.3 Forest investments

Forests sequester CO<sub>2</sub> and serve as carbon sinks. When the reforestation rate exceeds deforestation, forests act as expanding carbon sinks.

In our forest investments, we have identified several physical and transition risks climate change causes. Global warming caused by climate change may have both positive and negative effects on forest property. A positive effect is a longer growing season, causing forests to grow faster than previously. At the same time, a warmer climate can pose many kinds of risks. Good forest management and preparing for forest damage are the primary means for preventing the physical risks of climate change.

We have identified the increased frequency of storms and insect damage caused by droughts and increased risk

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<sup>7</sup> The quality of indoor air, thermal conditions, as well as lighting and acoustic conditions, comply with the regulations issued under the Land Use and Building Act and the minimum requirements set by the Health Protection Act. Meeting the requirements of the regulations does not necessarily require the use of S3 class target values. Target and design values for different quantities can be selected from different quality classes. If necessary, the value of a particular quantity can be defined on a case-by-case basis.

<sup>8</sup> The Finnish Construction Quality Association RALA collects data on construction industry companies and evaluates their operating practices. RALA certification indicates that the company meets the requirements of the Finnish Contractors' Liability Act, the technical competence and resources of its personnel and machinery have been verified, the company has valid liability insurance, and its financial statements conform to legal requirements.

of forest fires as major climate risks to forest investments. In addition, warmer winters may cause difficulties for timber extraction. Trees felled by storms may cause financial losses to forest owners and increase the risk of insect damage.

Our forests are managed in accordance with the principles of good forest management. In our forest investments, besides seeking financial return, we strive to protect biodiversity and increase carbon sequestration. The fund's forests are sustainable investments, which means, among other things, that the rate at which tree stands grow surpasses felling and harvesting in the long run, thereby increasing the forest's capacity as a carbon sink. For each forest investment, we calculate the forest's carbon sequestration capacity and assess biodiversity indicators and potential for nature restoration. In the analysis, we also assess the asset's road network and share of peatland in proportion to total land area. A good road network ensures that timber can be harvested, even during warmer winters. Peatland requires good conditions for timber harvesting due to poor bearing capacity. Good road infrastructure is also necessary for clearing trees felled by storms or snow and helpful in wildfire suppression.

When purchasing, we investigate the asset's tree stand volume and potential for sustainable timber harvesting, and review the current state of the asset's forest management. If the asset has a backlog of forest management tasks such as sapling or young forest maintenance, we take them into account and commission the maintenance work to be carried out as soon as possible after purchasing the asset.

### 3.4 Real estate fund and debt investment

In real estate fund and debt investment, the investment assets are managed by an external asset manager. The main focus of our ESG analysis is the assessment of the external asset manager's sustainability. By choosing our underlying investee funds carefully, we can trust them to comply with the principles for property acquisition and management described in the fund rules.

Among other themes, sustainable fund investment examines factors such as responsible investment policies and statements, resources allocated to responsible investment, ESG integration, and ESG reporting. Based on the review, we assess the level of the external asset managers' responsible investment.

As part of the investment analysis, an ESG statement is prepared on the potential investment. The statement is required for the investment decision by the investment committee. In ESG statements for external funds, we comply with the criteria of OP Asset Management for new external asset managers. OP Asset Management has also determined a set of minimum criteria that new asset managers must meet. These minimum criteria are determined accordingly for each asset class and/or fund type. The minimum criteria take the general development of sustainable and responsible investing and climate commitments made by OP Asset Management and OP REAM into consideration. According to the minimum criteria for debt and equity funds, new external asset managers must have a sustainable investment policy in place, and take climate aspects and sustainability themes into consideration in their operations and shareholder engagement activities. The minimum criteria are updated whenever necessary.

## 4. Active ownership

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## 4.1 Real estate investing

Active ownership means that the investor not only purchases the properties but actively manages and develops them according to sustainability principles. We engage in active ownership to promote sustainable business in our investments. This includes dialogue with the tenants of properties and other stakeholders. We monitor the taxonomy alignment of our owned properties at the portfolio level as part of the minimum target set for real estate investments. Alignment with the EU taxonomy is examined regarding the acquisition and ownership of buildings in terms of the standardised economic activities and regarding the climate change mitigation criteria in terms of the standardised environmental objectives.

Systematic real estate maintenance is the most important aspect of our sustainable real estate asset management. Our property and energy managers actively monitor the consumption data and technical condition of properties. Repairs, energy investments, adjustments and technical improvements are carried out on an ongoing basis as required. Our properties are connected to an energy monitoring system that produces up-to-date consumption data for use in comparisons between similar properties. We favour zero carbon energy sources when purchasing energy and explore new possibilities for renewable energy production in our existing properties. We carry out energy audits and environmental certifications of our properties whenever necessary.

We have promoted consumption-based billing of water, energy and waste management to encourage tenants to improve the efficiency of their activities. We monitor developments in digital solutions and adopt new solutions through pilot testing. We encourage users to take up sustainable practices by communicating about the energy consumption of properties and by campaigning annually on different sustainability themes as part of Motivas's energy conservation week.

We develop sustainable transport opportunities for our tenants through the measures described in section 3.2. In addition, we systematically develop waste management with our partners by improving waste facilities, increasing recycling opportunities and providing training to users.

The wellbeing of our properties' users is important to us, and we strive to identify risks to indoor air quality in advance. We have developed our network of service providers to enable us to easily intensify the monitoring of indoor air conditions. We ensure the sustainability of our supply chains by means of contractual obligations and audits.

We strive to take our tenants' changing needs into account and invest in tenant satisfaction with the aim of minimising turnover. Before signing lease agreements, we identify our tenants and screen them for sanctions and carry out a comprehensive background check on their financial standing, line of business and suitability, and ability to fulfil contractual obligations. Our policy of hard collateral minimises the risks of lease agreements.

Guidelines on sustainable activities are appended to each lease agreement. We comply with the recommendations of the Finnish Landlord Association on good leasing practice and treat our tenants equally. We regularly collect feedback from our tenants on their satisfaction and changing needs. We strive to resolve possible problems during the lease, such as a change in business environment, pandemic, sudden illness or unemployment with the tenant. We thus try to ensure the continuity of viable businesses and tenant relationships despite temporary setbacks.

## 4.2 Forest investments

Both cyclical harvesting and continuous cover forest management practices are used. The forest management

practice to be used in any given forest is selected by an external expert on a case-by-case basis.

All our forests are PEFC-certified, and some are also FSC-certified. The certificates are proof of sustainable operations and that timber is legally and sustainably sourced. The principles and criteria of the certificates specify the key elements and requirements for environmentally healthy, socially beneficial and financially profitable forest management. The FSC certificate has stricter requirements than the PEFC certificate, including that at least 5 per cent of forest land must be excluded from commercial use. Audits are used to ensure that the certification criteria are enforced during forest management. The audits review factors such as the width of protective zones around waterways and the adequacy of retention tree stands in clearfelling. Certifications are particularly helpful for ensuring the preservation of biodiversity in forests.

We have prepared a sustainability programme for our forest investments with the aim of expanding our forests as carbon sinks and protecting and promoting biodiversity. We are committed to the reforestation of non-productive land such as farmland that has been retired from agricultural use. We are also fertilising forests to improve growth. The primary means of fertilisation is wood ash, which does not cause emissions to waterways. We are also involved in the restoration of bogs to improve biodiversity. We do not participate in the establishment of new peat production areas.

We lease hunting rights to our forests to local hunters to support recreational hunting and reduce the amount of road and forest damage caused by elk and deer. We offer our forests for recreational use with expanded freedom to roam by enabling opportunities for the construction of hiking routes. We take a positive view of local nature conservation projects such as the conservation of waterways and restoration of habitats for migratory fish. We also lease our forests for wind and solar farms to promote opportunities for zero carbon electricity production.

#### 4.3 Real estate fund and debt investment

In our investments in target companies and funds, we are actively involved in the governing bodies of funds and exercise our vote to promote sustainable practices. OP REAM influences the sustainability of underlying investee funds through its active investment policy. We monitor the enforcement of ESG themes by reviewing the fund's reports, communicating with the asset manager, attending fund meetings, exercising our possible seat on the board or investment committee, and visiting the properties in person. We also send out annual ESG surveys to external funds' asset managers to monitor the enforcement of ESG issues in the underlying funds and assess measures taken by the asset manager to improve sustainability.

The permitted domiciles of underlying investee funds and the criteria used to evaluate whether a domicile is permitted are listed in OP Asset Management's Principles for Responsible Investment, which are also observed by OP Asset Management.

### 5. Sustainability reporting and monitoring

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Sustainability reporting and monitoring are key tools in the implementation and development of sustainable and responsible investing principles. OP REAM reports on its sustainability activities regularly and extensively. Each year, we publish a broader ESG report in which we describe our tangible measures and achievements during the year. We monitor the environmental impact of our properties and strive to continuously improve the quality and effectiveness of our sustainability measures. It is important for us to ensure that our sustainability measures meet the expectations and requirements of investors, clients and other stakeholders. We publish quarterly



investor reports on our funds aimed at institutional investors, including information about current ESG issues.

We also report on the sustainability impacts of our properties annually as part of the EU's finance disclosure obligations. As a rule, we report on our direct real estate investments in accordance with Articles 8 and 9 of the EU Sustainable Finance Disclosure Regulation (SFDR). Information required under the EU SFDR is also published as part of the Annual Report of OP Fund Management Company. As part of the reporting, the funds disclose the proportion of investments aligned with the EU Taxonomy of the fund's total investment assets.

OP REAM considers the principal adverse impacts of its investment decisions on sustainability factors. This statement is issued in the manner required by the EU SFDR (2019/2088, Article 4).

We publish other reports annually as part of our voluntary sustainable investment commitments in the manner required by each commitment. We also participate in GRESB reporting for selected funds.

## 6. Conclusion

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Our goal is to promote sustainable and responsible investing and transparency within our industry. We base all real estate investment strategies of our business on these principles of responsible investment and communicative extensively and transparently on the sustainability of our investments in accordance with these principles. These principles for responsible real estate investment are reviewed at least once a year and updated whenever necessary.