

ESG reporting in social housing



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Northern Ireland Housing Conference, Belfast, March 20th 2024

RITTERWALD advises the residential real estate sector in Europe and has expanded its services with the establishment of HYSTAKE

Introduction RITTERWALD and HYSTAKE



Since 2011 RITTERWALD is a pan-European consulting firm (35+ consultants)



In 2023 RITTERWALD co-founded HYSTAKE Investment Partners a pan-European investment boutique





- Applying proven European business concepts in housing and energy management
- Developing sustainability strategies as part of business planning
- Engaging pan-European industry network for international lenders and investors
- Focus on tailor-made and long-term optimal capital allocations
- Advising businesses and investors on corporate, portfolio and investment strategy issues as well as increasing ESG requirements
- Accompanying transactions, M&A, restructurings and refinancing measures

- ➔ HYSTAKE and RITTERWALD collaborate to provide a comprehensive approach to advising clients on real estate investments, as well as restructuring and operational support for companies
- ➔ HYSTAKE's and RITTERWALD's exceptional blend of operational, strategic, and capital market-related consulting delivers unparalleled value to their clients

With various services RITTERWALD enables social housing providers to demonstrate and enhance their ESG credentials

RITTERWALD's sustainability services

- 1 Certified Sustainable Housing Label

- 2 External Assessment of ESG Reports
- 3 Limited Assurance Provider for Sustainability Performance Targets (SPT)
- 4 Materiality Analysis
 - prioritise corporate sustainability
- 5 Climate Transition Planning

- 6 (Updates) Sustainable Finance Framework ICMA-LMA compliant

More information about our sustainability services can be found on our refreshed website:

<https://www.sustainable-housing.eu>



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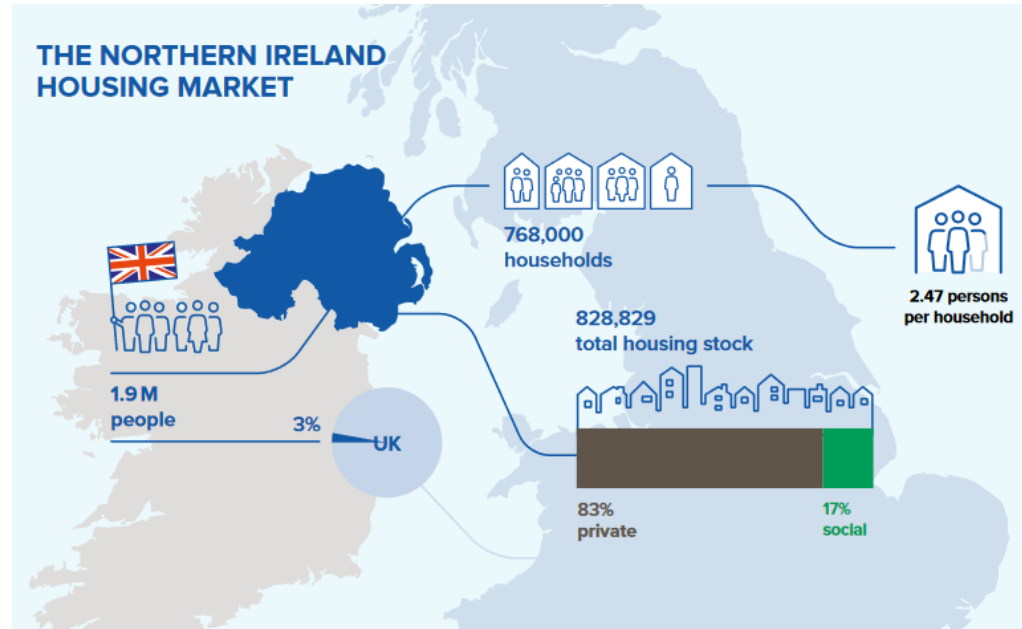


A

Our Understanding of Northern Ireland Social Housing Market

Understanding the Northern Ireland Social Housing Market

Northern Ireland Housing Market



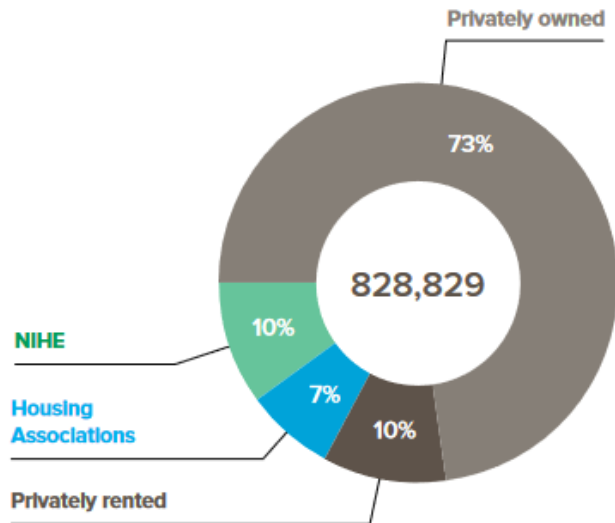
HOUSING MARKET

- **Social housing in Northern Ireland** developed in parallel to the post-war growth of Council housing in the UK
- Social Housing played an **important role** at the **end of the 1960s** with the start of **The Troubles**
- As of **March 2023**, there were **45,105 people** on the **Housing Executive waiting list**

→ **Northern Ireland housing** bodies call on **new government** to make **housing priority** in **Programme for Government (PfG)**

Understanding the Northern Ireland Social Housing Market

Northern Ireland Housing Stock at a glance: NIHE and NIFHA

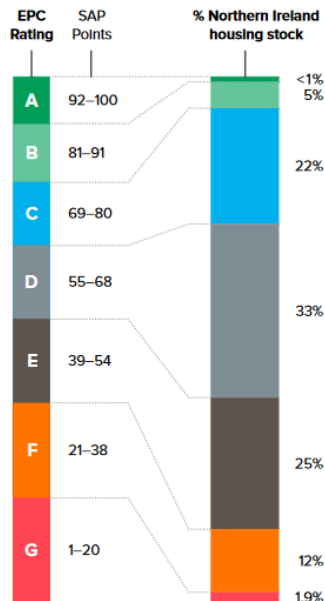


SOCIAL HOUSING

- Following the start of the protests, the **Housing Executive Act** was enforced in **1971** and gave birth to the **Northern Ireland Housing Executive (NIHE)**:
 - NIHE took over **local housing responsibilities** from the **61 local councils**
 - NIHE engaged in **improving the housing conditions** across Northern Ireland by **building new homes** and **renovating or demolishing unfit dwellings**
- The **Northern Ireland Federation of Housing Associations (NIFHA)** was created in **1977** to represent the -now- **20 Registered Housing Associations** active in Northern Ireland
- In **2023**, about **17%** of the total housing stock in Northern Ireland is **social and affordable rented homes**, provided by the **NIHE (60%)** and **Registered Housing Associations (40%)**

Understanding the Northern Ireland Social Housing Market

Challenge is pathway to net zero of legacy housing stock

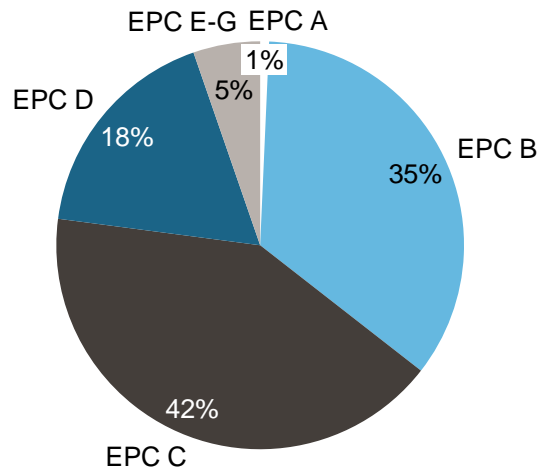


- A report published in **May 2023** by the **Forum for a Better Housing Market** found that **75% of the Northern Ireland housing stock (800,000 home+)** is below EPC rating band C.
- In **2021**, the **NIHE** published a report **evaluating the cost of retrofitting NI dwellings to EPC band C or B.**
 - **Retrofitting to a band C** would cost **£2.4bn**, with a mean cost of **£6,200 per dwelling**,
 - **Retrofitting to a band B** would cost **£9.2bn**, with a mean cost of **£15,600 per dwelling**
- To contribute to the **UK Net-Zero emissions 2050 target**, the **Northern Ireland Assembly** approved the **Climate Act in 2022**, which sets out the **decarbonisation targets** for the region.
- In response to this legislation the **Northern Ireland Executive** developed the “**Path to Net Zero Energy**” **action plan**, which details several measures contributing to **decreasing carbon emissions by 48% by 2030** and **becoming net-zero by 2050: ambition to create a multi-year Energy Efficiency Programme with a fabric-first approach to housing retrofit**

Understanding the Northern Ireland Social Housing Market

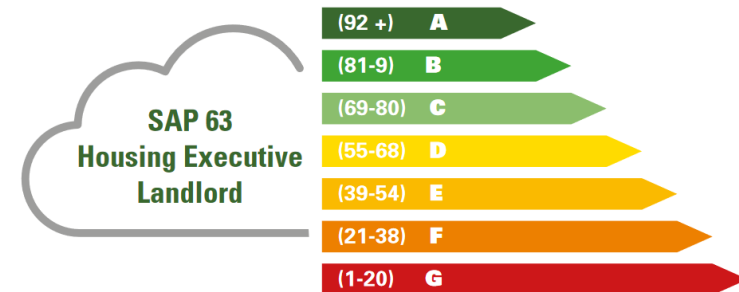
EPC Ratings of NIFHA and NIHE

NIFHA - Average SAP 73 (Band C)



Total stock: 57,300

NIHE – Average SAP 63 (Band D)



Total stock: 83,913



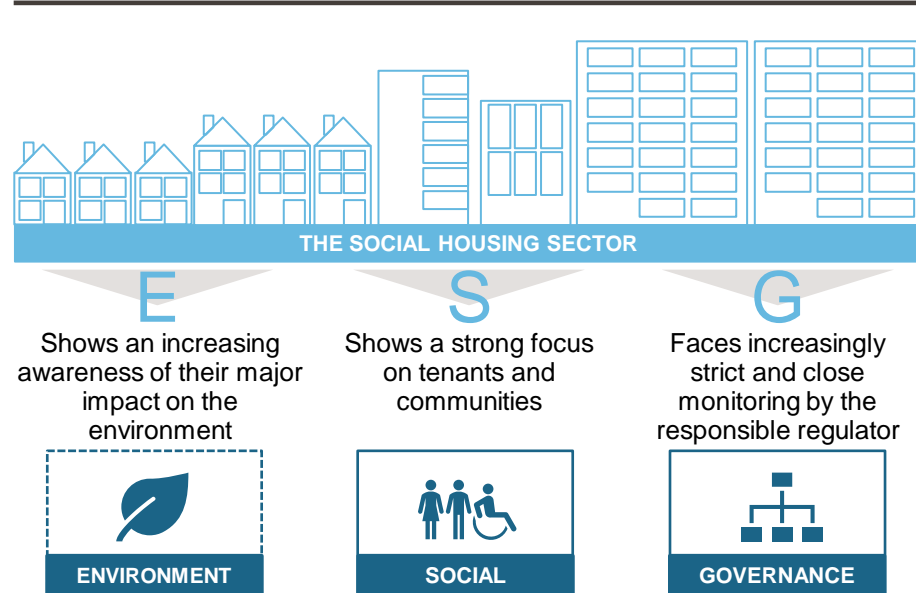
B

Let's talk ESG and social housing

ESG evolved from a niche into a mainstream market for sustainable finance in the housing industry and is here to stay

ESG is anything a housing association does and stands for

WHY IS THE SOCIAL HOUSING SECTOR SUSTAINABLE?



- +
- Growing importance for Debt Capital Markets (DCM)
- Housing Associations are Social at their core and show strong Governance through regulatory requirements
- Enhancing Environmental measures is the main challenge

Housing Associations work on their ESG Strategy and should position ESG at the core of their business operations: from nice to have to must have

The mission is to align the climate transition planning (towards net zero carbon) of lenders and borrowers

Climate transition plans example from banks serving Northern Ireland housing sector

- 1** Commitment & Scope


- 2** Methods


- 3** Objective & Action plan


- 4** Governance & Monitoring



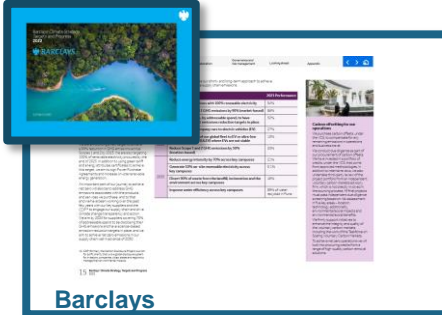
Danske Bank

The screenshot shows the title page and a table of key metrics for Danske Bank's Climate Action Plan. The table includes categories like '2030 Net Zero emissions intensity reduction target', '2030 temperature change relative to target', and '2030 emissions reduction target'.



NatWest Group/Ulster Bank

The screenshot shows a report titled 'Championing potential' with the subtitle 'A relationship bank for a digital world'. It features a timeline and various data points related to digital banking and climate goals.



Barclays

The screenshot shows a detailed section of Barclays' climate transition plan, including a table with various metrics and a section titled 'Climate-related risks'.

Gaps in data and uniform guidance hamper the tracking of financial sector net zero commitments and transition

Financial sector net zero commitments and transition



- Consistent quantitative metric(s) across frameworks
- Quantitative metric(s) with partial consistency across frameworks
- Some quantitative metric(s) with partial consistency across frameworks
- Limited quantitative metrics(s) with limited consistency across frameworks
- No quantitative metric(s) proposed by the frameworks

GHG emission metrics	
Historic and current GHG emissions	
GHG emission targets (short, medium and long term)	
Alignment assessment with a benchmark, including the Paris Agreement	
Use of offsets as a stand-alone metric (current and future use)	
Portfolio composition metrics	
Portfolio share in low GHG assets and climate solutions	
Portfolio share in assets consistent with net zero, or with targets based on an alignment assessment	
Portfolio share in carbon-intensive assets and assets exposed to transition risks and phase-out	
Investment allocation practices driving GHG emission reductions	
Overall portfolio composition and sector coverage	
Engagement metrics	
General engagement/stewardship practices	
Voting procedures and practices	
Engagement escalation process	
Collaborations and alliance engagements	
Advocacy-based activities	
Strategy and governance metrics	
Remuneration linked to climate performance	
Management/Board oversight and accountability	
Integration of climate considerations in internal reporting and analytical processes	
Integration of climate considerations in strategic decision-making and investment strategies	
General strategy on climate goals and transition plans	

Housing Associations are Social at their Core, Governance Metrics are often yes/no – Environmental Metrics as main challenge

Insights into data availability from CSHL holders



Data in the Environmental Dimension is often hard to gather due to:

- **Lack of consistency:** Changing calculation methods throughout the years make comparison difficult
- **Measured** values are captured **by third parties – no direct access**
- Quantitative data needs **updating and structure** to account for **changes in portfolio**



Data in the Social Dimension shows:

- Most Social data relies on **qualitative measures** (case studies, examples)
- Quantitative criteria are often already established by the **regulator**
- Well-established and acknowledged **definitions**



Data in the Governance Dimension show:

- Most Governance data relies on **qualitative measures** (case studies, policies)
- Housing Associations struggle the most with providing concise answers for their **Sustainability Commitment** (Materiality Analysis, Climate transition plans etc.)
- These new strategic documents are only recently emerging and are **linked to E data**

European lender survey: Growing ESG relevance leads to the need for enhanced ESG data management in the housing industry

Survey on ESG data requirements among lenders and investors in Europe





CONTEXT AND SURVEY DESIGN

- Increase in **regulatory** and **legal ESG requirements** for the **housing industry**
- **RITTERWALD** conducted a **survey** to get a better understanding of **lenders** and **investors' interest in ESG data**
- Questions on **sustainable finance products**, alignment of **carbon emission reduction targets** between lenders and housing providers, **environmental data requirements** from lenders to housing providers, relevance of **climate related KPIs**

PARTICIPANTS

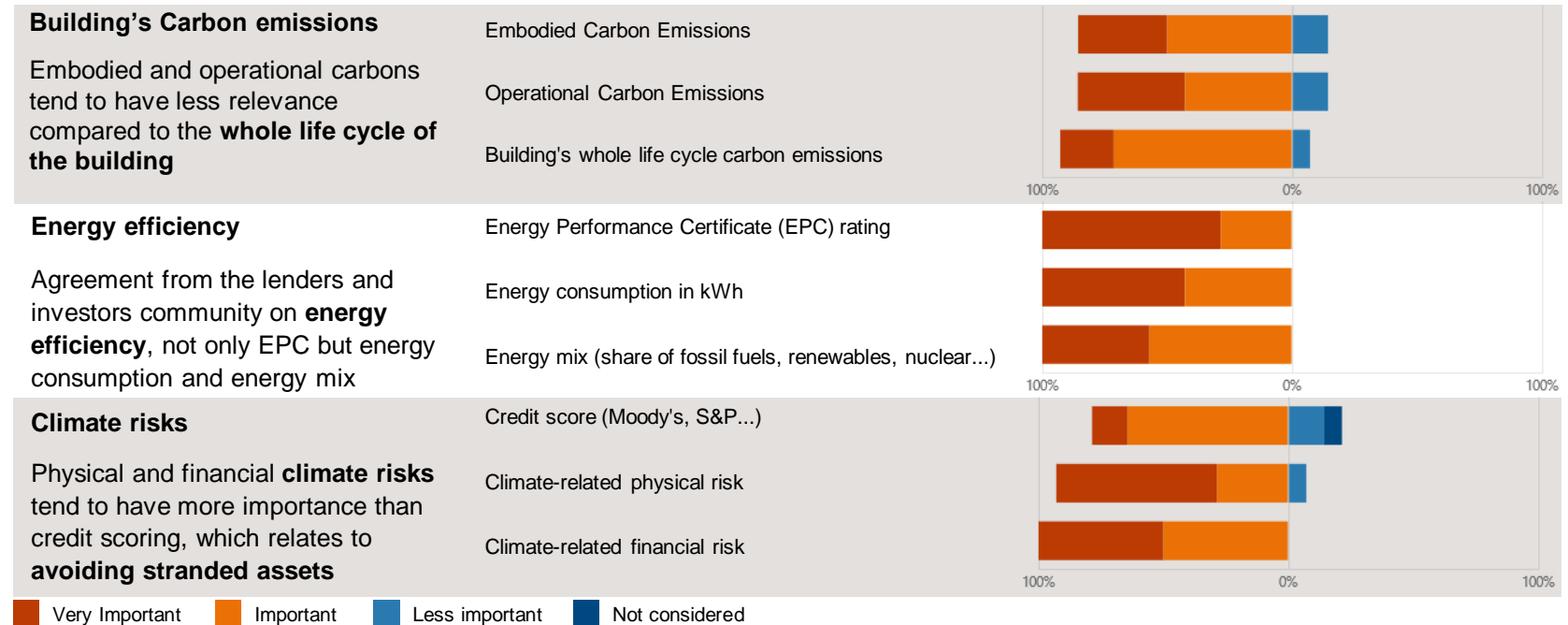


OUTCOME AND TAKE-AWAYS

- High emphasis on **energy-related KPIs about the stock**: EPC rating, and energy consumption particularly. **Climate-related financial risks** also of high interest 
- In general, **KPIs dealing with use of the building** (unveil the need for **regular** and **reliable information/data collection**) 
- **Medium-term alignment** preferred (3-5 years) when **ESG data** will need to be **certified** but **different opinions** on **alignment time horizon** 
- **Danger of stranded assets** translates into **investments** directed towards **environmental purposes** with sustainability-linked loans & bonds, green loans & bonds 

European lender survey: EPC rating still most used, but carbon emissions and climate related -physical- risk data gain importance

Climate related KPIs of borrowers important for lenders and investors



RITTERWALD's Certified Sustainable Housing Label is a thorough certification process with ESG Catalogue of circa 50 Criteria

imug | rating
2024 Update
in collaboration with
imug | rating

Clusters and Advantages of the Certified Sustainable Housing Label

E	S	G
I. Decarbonisation	I. Affordability & Accessibility	I. Sustainability Commitment
II. Local Electricity Production form Renewables	II. Sustainable Living Environment	II. Compliance & Corporate Governance
III. Sustainable Housing Delivery & Retrofitting	III. Tenant Wellbeing & Support	III. Non-Discriminatory Working Conditions & Inclusive Workfield
IV. Sustainable Living Environment	IV. Employee Wellbeing & Development	IV. Tenant Information & Representation
V. Tenant Engagement	V. Special Score	V. Special Score
VI. Resource Consumption within the Organisation (Administrative Offices)		
VII. Special Score		
≈ 35% of the total score	≈ 35% of the total score	≈ 30% of the total score



Financial Advantages

Increase the investor base through **access** to specialised **ESG investors**

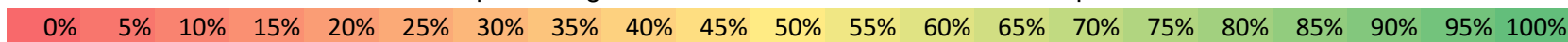
Improve financing conditions (pricing and risk assessment)

Further Advantages

Anchor sustainability topics within the organisation

Facilitate sustainability reporting and more details

The evaluation results in a percentage assessment based on the number of points achieved/total score





Best Practices with UK holders of Certified Sustainable Housing Label Hosted by Metropolitan Thames Valley

Best practice Meeting 2023

Label holders attending:



Best practice topics presented:

- Energy Consumption
- Production of renewable energy
- Support services to tenants
- Materiality analysis
- Special scores – Environmental and Social dimensions
- Convene – ESG data platform (successfully finished)
- Convene – ESG data platform (in progress)



Walsall Housing Group (whg) awarded as latest label holder



C

ESG Reporting

Three Housing Associations in Northern Ireland are already reporting against the SRS

Housing associations reporting against SRS

CHOICE HOUSING



CONNSWATER



RADIUS HOUSING



Sustainability regulatory requirements result in action plans for carbon reductions by housing providers, lenders and investors

Evolving regulatory frameworks in the UK

	<i>Indirectly relevant for Housing Companies</i>	<i>Relevant for Housing Companies</i>	UK Sustainability Reporting Laws & Regulation	
	How is sustainability addressed in investment objectives?	What is (ecologically) sustainable?	Who <u>has to</u> report on sustainability and what <u>has to</u> be reported about?	
	Still pending	Still pending	Sustainability Reporting	
Description Regulation	SDR¹⁾ Specifies disclosure obligations of financial market participants towards investors and asset owners	UK Green Taxonomy Classification system that shall define the requirements for sustainable corporate activity	SECR²⁾ Disclosure of energy use, carbon footprint, and GHG emissions in annual financial reporting	CRFD³⁾ TCFD Streamlined TCFD Reporting
Target group	Mainly financial sector (investors, banks, creditors)	Not clear yet	Impact on private companies to which 2 of the criteria apply: >250 employees net turnover > £36M balance sheet total > £18M	public and private UK companies with over £500M in annual turnover or 500+ employees
Status	Expected to be finalized and take effect: 2023	Tbd, final implementation decision shall follow in 2023	As of FY 2019	In Effect, expected to change for FY 2023

- 1) SDR = Sustainability Disclosure Requirements
- 2) SECR = Streamlined Energy and Carbon Reporting
- 3) CRFD = Climate-Related Financial Disclosures

The connection of the new EU-Reporting Standard (ESRS) with related frameworks shows the comprehensiveness of ESG-reporting

CSRD/ESRS Topics and their related frameworks and enablers

ESRS Topic	Related frameworks and enablers
E1 - Climate Change	
E2 - Pollution	
E3 - Water & Marine Resources	
E4 - Biodiversity & Ecosystems	
E5 - Circular Economy	
S1 - Own Workforce	
S2 - Workers in the Value Chain	
S3 - Affected Communities	
S4 - Consumers & end-users	
G1 - Business Conduct	

RITTERWALD's contribution to the Sustainability Reporting Standard

RITTERWALD – an endorser & contributor

WORKING GROUP OF 17 CORE PARTNERS

- Developed and owned by the social housing sector to collectively **tell their ESG story**
- SRS is **endorsed by 110+ housing associations and 35+ lender and investors**
 - **Trust in the nature of the SRS** (alignment with their ESG credit application questionnaires)
 - Can **contribute to cost of infrastructure SRS** (secretariat)
- SRS 2.0 released in September 2023
 - introduced **reporting on all criteria**, or explain **the reason behind not reporting (comply or explain)**
 - More focus on **tenant satisfaction** and **scope 3 emissions among others**



MAIN CONTENT OF SECTOR STANDARD

- So far, **140+ organisations** (110+ housing associations and 35+ lenders and investors) have committed to be **adopters/ endorsers of the Standard**
- Participating **housing associations** will **report** against the standard **on an annual basis**
- Participating **lenders and investors** will **use the standard** in their **investment and credit policies**, processes and/or product design

Based on the **experience from the UK**, RITTERWALD is part of a consortium that launched the **first ESG Standard for Community Housing in Australia** in March 2023



Reporting ESG data as a two-sided effort: lenders and borrowers are on the same sustainability journey with similar data challenges

Overview ESG-Reporting Developments UK Market

STARTING POINT 2020

- **Main driver for development of SRS: reduce and simplify the extensive and diverse data requests from lenders** in their credit approval policies
- HA can **compile selected data of good quality**

ESG reporting landscape is still evolving

ESG data seem to expand

→ instead of prioritising reduced number of unambiguous data points

Lenders cannot always support their ESG performance with proper data

1. Lenders should not request extensive data in addition to the SRS

2. SRS should focus on less but better data

NEED FOR EXTERNAL VERIFICATION

- **Self-certification will no longer be sufficient**
- **Anticipates future non-financial reporting requirements: Sustainability Disclosure Requirements (SDR)**
- Short term: **improving the quality of data** and reporting → HA can be confident in their **target setting**
- Open a new world of **sustainable finance** → diversify lender base



NEED FOR BENCHMARKING

- **Setting standards to uniform/integrated reporting**
- Will gain **importance for lenders and investors: assess risks, compare borrowers**, meet the growing demand for **sustainable investment products**

RITTERWALD's external assessment provides guidance on improvement potential in the publicly available ESG report

Performance overview

EXTERNAL ASSESSMENT

	CRITERIA	Measurement Unit	Performance Levels				Evidence (Example)
			Insufficient	Sufficient	Good	Great	
ENVIRONMENTAL	1 Energy performance existing stock  Distribution of EPC ratings of existing homes	% of Homes • rated A • rated B • rated C • rated D • rated E or worse • without EPC rating		Availability of EPC ratings for >75% of stock	75 – 95% of stock covered	>95% of stock covered	Graph EPC Distributions
	2 Energy performance new construction  Distribution of EPC ratings of new homes						
	3 Carbon emissions Does the housing provider report on CO2 emissions?	Yes/No Quantitative response		Scope 1 and 2 OR embodied and operational carbon emissions reported on	Scope 1, 2, AND Operational and embodied carbon emissions reported on	Scope 1, 2, 3, operational and embodied carbon emissions reported on	Breakdown of the scope 1,2 and 3 emissions

EXPLANATION

- **14 SRS criteria** are assessed, out of which 6 are **environmental**, 4 **social** and 4 **governance**-related
- There are **4 levels of evaluation of individual criteria**: insufficient, sufficient, good and great
- There are **3 ranking levels of data quality of ESG report**: poor, satisfactory and exemplary
- An additional **Assessment Statement** explains the performance achieved. Furthermore, it provides **recommendations on improvement potential** within the evaluated ESG report.

Until now, 3 Housing Associations have published an ESG Report against the SRS, others are considering?

Current status ESG-reporting Northern Ireland Housing Associations



ESG REPORTINGS

Choice Housing:	ESG Report 2022/23	ESG Reports
Connswater:	ESG Report 2022/23	
Radius Housing:	ESG Report 22/23	

APEX:	Sustainability Strategy 2023-2026	Reports with ESG-related Data
Co-ownership:	Climate Change Strategic Response 2023	
	Value for Money Summary 2022/23	
Newington HA:	Value for Money Statement Review 2022/2023	
Rural Housing:	Value for Money Statement 2022/23	

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D

Wrap up

ESG data management is a key enabler for housing associations to demonstrate and enhance their ESG credentials in their ESG report

Leadership is key in developing pathways for ESG data management

Leadership is critical

for ESG Data Management



ESG is developing as an **integral part of the corporate strategy** and trickle down in the day-to-day business operations



Data management is boardroom business: Leadership should acknowledge data as **key asset** next to staffing, capital and its tenants



Demonstrating ESG credentials based on verified data is a powerful tool to prove that the housing association has a **solid (adjusted) risk-return ratio.**

Pathways

to ESG Data Management



Energy data management needs highest priority: carbon counting, energy efficiencies of homes, energy consumption by tenants.



ESG reflects the **intrinsic values of your organisation** embedded in your corporate strategy



RITTERWALD's **Certified Sustainable Housing Label** builds a strong and solid foundation for ESG data **gathering** and **ESG reporting.**

RITTERWALD-EFL Sustainability Reporting for social and affordable housing providers across Europe

Report published in September 2023 and available on RITTERWALD's website

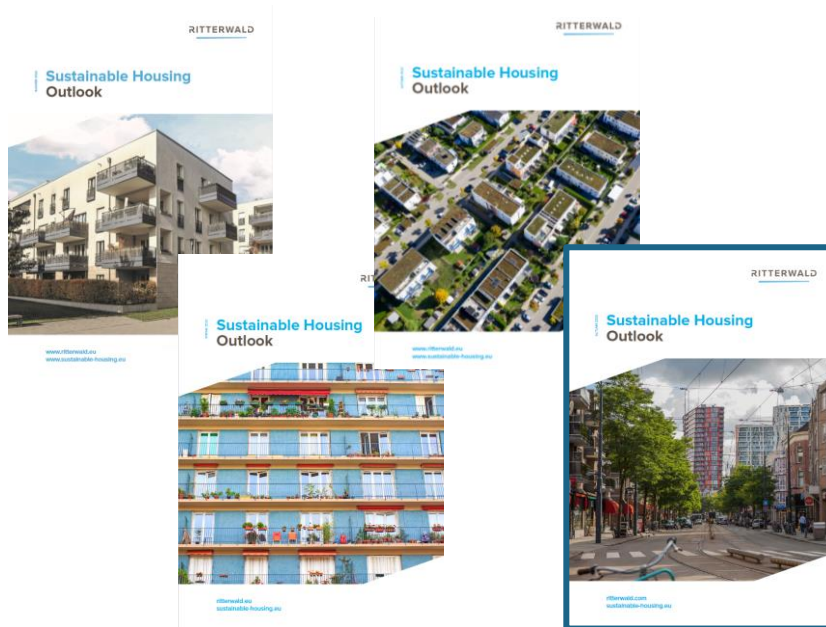


CONTENT

- **Regulatory and compliance landscape** within the **EU** and the **UK**
- **Guidance** to social and affordable housing providers on **compliance** with **current** and **future** sustainability reporting directives and standards
 - **CSRD/ESRS** in EU
 - **SECR** and **CFRD** in UK
- Survey among EFL members: groundwork for future **compliance needs** with **data management**, **decarbonisation strategies**, **climate transition planning**, and **sustainable finance**
- Insightful and timely report on the **development** and **implementation** of **pathways to reduce carbon emissions** in **residential assets**

The fourth edition of RITTERWALD's Sustainable Housing Outlook focuses on urban (re)development opportunities

First Edition 06/22, Second Edition 10/22, Third Edition 05/23, Fourth Edition 11/23



CONTENT NOVEMBER 2023

- Sustainable urban development in the EU under the umbrella of the European Green Deal
- RITTERWALD sustainable urban development examples from the Netherlands
- (Re)development momentum in the UK with the The Levelling-up and Regeneration Bill becoming law
- Northern Ireland's sustainable housing development and regeneration schemes

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With care and vision.



RITTERWALD

CONSULTING

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