



**Sustainable Investment Policy  
July 2012**

Grainger plc is a committed and responsible long term investor/manager primarily focussed on owning and managing residential assets in both the UK and Germany. We actively promote sustainability issues both amongst our workforce and in maintaining our asset base. Our primary objective is to deliver superior returns to our investors through exposure to the residential property market. As part of our long term strategy to deliver these returns we are acutely aware of our responsibilities and commitments in reducing any potentially adverse environmental and social impacts generated by our investment and management activities. Furthermore, the policy outlined below sits within our broader risk management framework.

At Grainger plc acquiring residential property assets is a fundamental part of our business. In simple terms we acquire assets that we believe will offer opportunities for both capital and rental value appreciation. As part of the acquisition process we have a number of considerations. Our primary considerations can be summarised as follows;

- valuation of the asset
- location of the asset
- asset enhancement opportunities that may be derived through refurbishment and effective tenant management
- potential future environmental and social impacts that may have an adverse effect on both the future value of the asset and the cost of managing the asset.

Our appraisal process has two definitive parts to it. Part one is the initial valuation from which we will ascertain whether it is an asset that we are interested in purchasing and the second part is the legal due diligence process that our retained legal advisers will conduct once we have had an offer accepted.

In the first part of the process, which will generally be conducted by our in-house sales and valuation team, there are a number of sustainability factors that are taken into account. These are;

- age of the asset
- type of construction
- type and age of windows e.g. whether they are double glazed
- condition of the roof
- external condition of the asset
- does the property benefit from central heating
- proximity of the asset to transport hubs
- proximity of the asset to landfill sites
- proximity of any overhead power transmission
- immediate flooding concerns
- any other obvious environmental risks that may impact both the future value and running cost of the asset.

If during this phase of the acquisition process we have concerns over any of the above, depending on the severity of our concern, we may well decide not to proceed with the acquisition.



Furthermore, it is at this stage that we review the EPC (energy performance certificate) – the vendor is required by law to provide this as part of the marketing particulars. It measures the energy efficiency of a property based on its structure and appliances, and reviewing this gives us a better understanding of the property. Although its results tend not to have a dramatic impact on our valuation figures, it does provide us with information with regard to how to improve the energy efficiency of a property through upgrades and refurbishment. The results of the EPC then form part of the asset management strategy for the asset once the acquisition has completed.

On the assumption that we do not have any significant concerns in respect of the asset and that our offer is accepted we will then instruct our legal advisers to commence the due diligence process. As part of this process our legal advisers will undertake a series of processes, of which a significant number of these relate to the sustainability of the investment. The two main elements of this process are as follows;

- **Replies to enquiries** - as part of the due diligence our legal advisers will essentially ask the legal advisers acting for the seller a number of questions relating to the asset. For example they may ask whether the property has ever suffered from subsidence or has ever flooded.
- **Searches** - our legal advisers generally undertake three main searches. These are as follows;
  - **drainage search** - this search will highlight any issues relating to drainage and will confirm whether the prospective acquisition is connected to both mains drainage and mains water.
  - **local search** - this search will generally confirm that the prospective acquisition has unobstructed access to an adopted highway, that there are no outstanding building regulation issues and will also reveal the planning history of the asset.
  - **environmental search** - the primary purpose of this search is to highlight whether an asset is situated in an area at risk of flooding. Flooding generally falls into two distinct categories. Firstly, that an asset is situated in an area at risk of surface water flooding; and secondly whether or not an asset is situated in an area subject to flooding taking flood defences into account. Should the report highlight that the asset is in an area which is at risk from either surface water flooding or other forms of flooding, it will estimate the risk on the basis of an event happening on average every 75, 100 or 1,000 years. Our general policy is to not proceed with the acquisition of an asset that is situated in an area at either medium or high risk of flooding. Should the area where the asset is situated be a low risk area we will assess the level of risk and this will influence our decision of whether to acquire the asset or not. The environmental search will also highlight other factors that may influence our investment decision, such as;
    - is the asset situated near either landfill and/or other waste management facilities.
    - is the area a radon affected area.
    - are there overhead transmission lines in the vicinity.



With the exception of whether an asset is at either medium or high risk of flooding, which will generally terminate our interest in the acquisition, the other factors will be reviewed in detail and depending on the severity of the issue may result in us seeking a price reduction or terminating our interest altogether.

The policy outlined above is generic regardless of the tenancy type that the asset being acquired is subject to. For example an asset that we are acquiring which is subject to a regulated tenancy will be valued on the basis that it is in unmodernised condition. The unmodernised condition of the asset will generally be reflected in the EPC's energy efficiency rating. If the rating is either F or G we will then have to decide whether it is an asset we want to acquire on the assumption that from 2018 a property must be level E or above to be able to let it on an assured shorthold tenancy. If we do decide to proceed with the acquisition the poor energy efficiency rating will be noted on the final acquisition report. The cost of any improvement works required will be reflected in the final acquisition price. Generally however, a poor energy efficiency rating would not deter us from acquiring an asset subject to a regulated tenancy.

If however, the asset is subject to other forms of tenancy type such as an Assured Shorthold Tenancy the energy efficiency rating will have a much bigger bearing on our decision to acquire the asset or not. If the strategy for the asset being acquired is for it to be retained and re-let on an on-going basis an EPC will be required before each new letting, the rating is therefore of significant importance. It may be the case that we would acquire the asset and then undertake the necessary improvement works and the cost of these will be reflected in the acquisition price. If however, the cost or nature of the works are considered to be particularly onerous this may well influence our decision not to acquire the asset.

In certain instances it may be the case that we acquire assets that are either yet to be built (i.e. off plan) or that have been very recently constructed. In these instances there are a number of other factors that we would take into account when appraising the opportunity. These factors are as follows:

- **Code For Sustainable Homes;**  
The code's aim is to reduce carbon emissions and create more sustainable homes for the future. It is our policy to only acquire assets that have been constructed to Code 3 as a minimum.
- **Lifetime Homes;**  
This is a design standard that aims to provide accessible and adaptable accommodation for residents resulting in easier modernisation and longer life of the developments.
- **Building For Life;**  
This is a national standard for well-designed homes and neighbourhoods.
- **Secured By Design;**  
Secured by design focuses on crime prevention at the design, layout and construction stages of the development.



As part of our responsible investment policy not only do we carry out extensive due diligence with regard to assets that we are acquiring but we also continually assess the assets that we own. Our asset managers carry out regular portfolio review meetings with our in-house property management team. As part of the review process amongst a number of factors that will be considered and discussed is the condition of the asset and its potential environmental impact. Those assets that we consider to have the greatest environmental risk will potentially be disposed of, should any remedial action not be considered economically viable.

Signed:   
Nick Jopling, Executive Director

Date 30/9/12