

# VALUE

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In an economic downturn, the importance of interrogating costs in the business grows, as does determining the value those costs go on to generate. Sustainability is generally viewed as a cost centre within a real estate business, albeit one that can have a positive impact on other income-generating or investment areas, such as leasing or development. At Hammerson, our objective is to pursue a sustainability strategy which creates value for our shareholders, partners and occupiers.

Central to the success of this strategy is the ability to identify how different sustainability initiatives create value, and whether this value creation is direct and measurable, or indirect, but deemed to be of positive influence. This section aims to explain the link between sustainability and value in Hammerson's business, and for its occupiers, and to explain the focus of our investment in sustainability initiatives.



**David Atkins**  
UK Managing Director

**Initiatives identified by Hammerson fall under one or more of our key focus areas, and directly reduce costs or are viewed to have an indirect positive impact on our profits.**

## **RESOURCE USE: Reducing costs of energy and waste disposal** **Direct**

Hammerson owns and manages some 1.4 million m<sup>2</sup> of retail space and a further 255,000 m<sup>2</sup> of offices. Energy, water and waste represent costs in the management of these assets.

A proportion of these costs are recharged to occupiers as part of the service charge. Hammerson seeks to help its customers control costs by managing consumption of natural resources, thereby maintaining low service charges.

### **Energy**

Over the past two years, energy costs in the UK have increased by 80%. The scale and rapidity of these cost increases – gas costs alone doubled in a single month in November 2008 – have become a real problem for businesses as something which has traditionally been viewed as a fixed cost becomes one of the most volatile. With new carbon budgets imposed by the Climate Change Act and a cap and trade scheme for companies, costs will continue to increase.

### **Waste**

Having introduced rigorous targets for carbon reduction, the UK Government has turned its attention to waste. With landfill sites running out, tax on waste to landfill is increasing at £8 per tonne per year, meaning there is an economic imperative for companies to increase their reuse and recycling of waste. Put simply: why would you pay £32 per tonne – and rising – to send waste to landfill when you can recycle or reuse at zero cost or even make money from paper, plastics and cardboard?

This is not just an asset management issue. Waste & Resources Action Programme (WRAP), a government-backed initiative, estimates the value of materials wasted on an average construction project at around 2% of a project's total cost. The cost of waste on a £500 million retail development would, on this basis, be up to £10 million. (For details on how we reduced the cost of waste at our Cabot Circus development in Bristol, please see page 36).

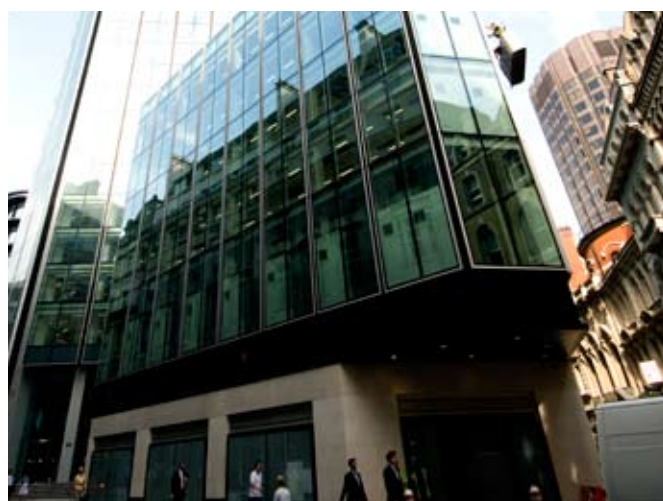
## **CUSTOMERS: Energy performance ratings** **Indirect**

Hammerson's objective is to create properties which businesses want to occupy. As a result of the EU's Energy Performance of Buildings Directive (see legislation page 44), all buildings will in future be graded A (highest) to G (lowest) based on their energy efficiency. This is likely to result in potential occupiers "looking for the label" when they seek new premises.

Would a leading blue-chip office occupier or retailer move into a G-rated building? Probably not. We believe, therefore, that there is value in adopting initiatives which will improve the energy rating of a building in order to attract a wider range of occupiers, maintain competition for space and preserve the building's value.

We have obtained Energy Performance Certificates for buildings across our portfolio. These, however, represent theoretical performance. We are lobbying Government to expand the scheme to reflect actual performance of buildings through the introduction of Display Energy Certificates, currently used for public sector buildings.

**Energy Performance Certificates: 125 Old Broad Street, a major refurbishment of the former Stock Exchange Tower in the City of London, was awarded a "C" rating, the norm for a commercial building according to information published by the Department of Communities and Local Government.**



## COMMUNITY REGENERATION: The value of development

### Indirect

The 2008 Planning Act identifies the need for a development to create value for the local community. A well thought-out retail-led regeneration scheme has the potential to boost spending as well as civic pride, triggering further investment in the city. More prosperous local residents should spend more at our shopping centre, leading to greater competition among retailers for space, thereby supporting the value of the buildings.

For example, the development of Highcross is expected to boost net spending in the city by around £58 million p.a. This is forecast to give a direct boost of around £31 million per year to the city's domestic product and an annual £19 million boost to the wages of people employed in Leicester. The scheme is expected to boost employment by around 710 jobs. Without Highcross, the impact of competing developments is likely to have resulted in a loss of jobs and domestic product in the city.

## SUPPLY CHAIN: Creating energy centres

### Direct

Hammerson develops and manages large buildings, frequently comprising a variety of uses: retail, offices and residential.

In new projects we are looking to reduce our environmental impact. A simple way to improve efficiency, and reduce future spend on energy, is to centralise all plant equipment. By including power production on site it is possible to create an energy centre. All projects in Hammerson's development pipeline include energy centres as part of their overall plan to reduce carbon emissions.

The extension of this idea, which we are exploring in designs for a number of our future developments, is an energy utility or ESCO (Energy Service Company). These are created in partnership with local authorities, and work on the premise that different classes of occupier – retail, office and residential – have different peak points in their energy use, so can operate off the same centralised energy centre. Such initiatives have the potential to reduce Hammerson's capital costs significantly in the development phase and create an additional income stream from the completed asset. At our proposed Brent Cross extension, we have extended this idea to include the conversion of waste into energy, helping London to meet its Government target of creating 170 waste-to-energy plants by 2025.

## CLIMATE CHANGE AND ENERGY: Energy performance companies funding sustainability initiatives

### Direct

We look carefully at the return on investment and payback period of each of our sustainability initiatives before making a decision on whether to proceed. In some cases, an initiative may appear worthwhile, but the payback period may be too lengthy to merit investment. One solution is to sign energy performance contracts whereby a third party funds an initiative, and its investment is repaid through the savings generated by the initiative. For example, at Bullring, Birmingham, lighting specialist Weblight installed a solution which cost £317,000, and is designed to save around £91,000 per annum. Weblight will be paid from these savings until its capital investment is recouped – a 41 month period based on the company's own savings estimates. This solution means that we are able to introduce initiatives which have a longer payback period than we would normally consider, but which can still demonstrate savings.

## REPORTING: Maximising the attractiveness of Hammerson to a broad range of potential equity investors

### Indirect

In Europe, the broad Socially Responsible Investment (SRI) market is now estimated to represent 10-15% of total European funds under management.\* This represents growth of 36% since December 2002. In May 2008 we carried out research into the CR and SRI policies of our top 21 equity investors by value. This research demonstrated that 71% of these investors have a CR commitment and/or report on CR issues and that 62% have an SRI policy in place.

This research demonstrates that measuring and reporting is increasingly important if the company is to ensure it is not excluded from specific funds. It also suggests that a proactive CR strategy is something which can influence the investment decisions of some equity investors. With this in mind, Hammerson is seeking to improve its CR reporting through the introduction of the Connected Reporting Framework and by following GRI guidelines for its CR report. We also continue to engage with SRI investors: in 2008, for the first time, we ran an SRI investor tour, taking 15 SRI analysts and investors to our development at Highcross, Leicester.

\*Source: Eurosif 2006. Broad SRI refers to funds under management which include environmental, social and/or corporate governance requirements in their investment criteria. Rather than practising simple negative screening, the broad SRI approach seeks to use shareholders' influence in order to improve a company's social or environmental behaviour through dialogue, pressure and voting at AGMs.