

‘Second Opinion’ on WDP’s Green finance framework

March 29th 2018

Summary

Warehouses De Pauw Comm,VA (WDP)'s Green finance framework, together with its sustainability policy, climate ambitions and reporting standards, provides a sound base for climate-friendly investments. The Green finance framework lists eligible project categories that support the objectives to promote the transition to low carbon, climate resilient growth and a sustainable economy. The issuer has informed us that proceeds from the first issuance under this framework will be allocated to refinancing green building projects with an environmental certification and its solar portfolio. According to WDP the company performs lifecycle analysis for all their projects.

With this Green finance framework, WDP has the possibility to issue Green Bonds, Green Private Placements and Green (Syndicated) Loans. According to the company the purpose of the planned transaction is a green private placement although in the future other products can be considered. The company has informed us that fundraising through equity does not fall under the scope of the Green finance framework. We have assessed the framework using the same methodology as when we assess a green bond framework's alignment with the Green Bond Principles (GBP). In our view the framework is also aligned with the newly launched Green Loan Principles (GLP) that builds on the GBP. WDP intends to provide reporting on a portfolio level via its Sustainability Report and will provide information on avoided CO₂-emissions and renewable electricity generated for the entire portfolio. According to the company it will report on the entire green finance framework portfolio to make it possible for every investor or lender, to calculate their impact based on e.g. carbon avoided per Euro.

WDP has a good governance structure and fit-for-purpose procedures that support sound management of proceeds. It is encouraging that the company sees the link between sustainability and risk management, business opportunities and long-term financial performance. The framework includes regular and transparent reporting about green bond project achievements to investors and the public. According to the company the proceeds will be systematically managed and tracked. To enhance accountability CICERO encourages external auditing of the management of the proceeds.

Based on the project category shadings detailed below, and consideration of the issuer's systematic sustainability work and governance structure of WDP in terms of management and use of proceeds, we rate the framework CICERO Medium Green. This Green finance framework includes a broad range of projects related to green buildings. The framework allows for the possibility of light to dark green project types, all of which are necessary to meet the climate change challenge. To make sure that substantial energy efficiency is achieved CICERO further encourages to introduce quantified energy efficiency threshold to qualify under the framework and to introduce broad monitoring of energy usage



°CICERO
Medium Green

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1 Introduction and background

As an independent, not-for-profit, research institute, CICERO (Center for International Climate and Environmental Research - Oslo) provides Second Opinions on institutions' framework and guidance for assessing and selecting eligible projects for green investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The Second Opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered during meetings, teleconferences and e-mail correspondence with the client.

CICERO is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report. ENSO encourages the client to make this Second Opinion publically available. If any part of the Second Opinion is quoted, the full report must be made available.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO does not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion of WDP Green finance framework and policies for considering the environmental impacts of their projects. The aim is to assess the WDP Green finance framework as to its ability to support WDP's stated objective of promoting the transition to low-carbon and climate resilient growth.

This Second Opinion is based on the Green finance framework presented to CICERO by the company. Any amendments or updates to the framework require that CICERO undertake a new assessment. CICERO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments, and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with ‘shades of green’

CICERO/ENSO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green finance framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society. The shading methodology also aims at providing transparency to investors when comparing Green finance frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a ‘shade of green’ to the Green finance framework of WDP:

- **Dark green** for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- **Medium green** for projects and solutions that represent steps towards the long-term vision, but are not quite there yet.
- **Light green** for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil-based processes).
- **Brown** for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations also factor in, as they can give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer.

2 Brief Description of WDP 's Green finance framework and rules and procedures for climate-related activities

Warehouses De Pauw Comm,VA is a Belgian company operating as a BE-REIT specialized in developing, owning and managing of warehouses. WDP offers its customers a variety of storage facilities and distribution centers, of which many are available for medium or long-term rent. WDP's total portfolio consists of approximately 180 sites. WDP is the sole owner of all the sites. The company is a commercial enterprise offering logistics and warehouse real estate solutions to its clients, who are a combination of logistics service providers and end-users. According to WDP, the company is the warehouse rental market leader in the Benelux countries. WDP's main areas of operations are Belgium, the Netherlands, Luxembourg and Northern France, the company is also growing its presence in Romania. WDP is listed on the Brussels and Amsterdam stock exchanges of Euronext.

According to the WDP Green finance framework, the company strives to reduce the climate footprint of its portfolio and meet and exceed standard environmental performance criteria. The company has a focus on the broader environmental performance of its buildings. WDP was the first logistics real estate developer to obtain a BREAAAM certification for a logistical site in Europe. The company has 12 certified buildings in its portfolio, representing around 10 percent of the value of the standing operational portfolio.

With this Green finance framework, WDP has the possibility to issue Green Bonds, Green Private Placements and/or Green (Syndicated) Loans. According to the issuer, the purpose for the first planned transaction is a green private placement although in the future other products can be considered. The company has informed us that fundraising through equity does not fall under the scope of the Green finance framework. We have assessed the framework using the same methodology as when we assess a green bond framework's alignment with the Green Bond Principles.

Definition:

Eligible projects are within the categories renewable energy, green buildings, energy efficiency, waste management, clean transportation and sustainable water management. The proceeds of the green bond, private placement or loan can be used to finance and refinance eligible projects completely or partly. Eligible projects will be added to a "green portfolio". If a project no longer meets the eligibility criteria, WDP will remove the project from the green portfolio and has the ambition to replace it with an eligible project as soon as reasonably practicable. Coal and nuclear power projects are excluded.

The issuer has informed us that proceeds from the first issuance under this framework will be allocated to refinancing green building projects with an environmental certification and its solar portfolio.

Selection:

According to the framework, WDP will use a two-step process to select eligible projects. WDP's internal departments will first suggest projects to be added to the green portfolio. In the second step, the Sustainable Executive Committee (consisting of the Sustainability Manager and a representative from the Treasury department) will evaluate these suggested projects as to their compliance with the framework's eligibility criteria and the company's internal policies. The committee will take decisions on consensus basis.

Management of proceeds:

The net proceeds of the green bond, private placement or loan will be managed by WDP's treasury team on a portfolio basis. As long as a green bond, loan or private placement is outstanding, an amount equivalent to the proceeds of the green bond, loan or private placement will be allocated to Eligible Projects on at least an annual basis. There will be no separate bank account. According to the issuer, the outstanding green assets should at all times be larger than the outstanding green financing. According to the company the proceeds will be systematically managed and tracked. The company will track the green assets. Solar panels and BREEAM buildings will be measured separately. The issuer has informed us that these will make up the bulk of the green assets. For other investments such as LED lighting, geothermal and other investments, these are included in the total historical investment cost of a building. Additionally, the green financings will be tracked in the enterprise resource planning (ERP) software. To enhance accountability CICERO encourages external auditing of the management of the proceeds.

Transparency and Accountability:

WDP will on an annual basis report to investors on the portfolio of eligible assets. WDP will report on the total outstanding amount of issued green loans, bonds or private placements, the allocated amounts including a breakdown by type of eligible assets, and on any unallocated amounts.

WDP intends to provide reporting on a portfolio level via its Sustainability Report and will provide information on avoided CO₂-emissions and renewable electricity generated for the entire portfolio. According to the company it will report on the entire green finance framework portfolio to make it possible for every investor or lender, to calculate their impact based on e.g. carbon avoided per Euro. WDP will publish this second opinion on its website.

The table below lists the documents that formed the basis for this Second Opinion:

Document Number	Document Name	Description
01	WDP Green finance framework	
02	WDP Corporate Social Responsibility Report	

03	Summary development policies	Short summary of internal policies
04	Press release 28.04.2010	On CO2 neutral portfolio
05	List of some green asset examples	
06	Annual financial report 2017	

Table 1. Documents reviewed

3 Assessment of WDP Green finance framework and environmental policies

Overall, the WDP Green finance framework provides a detailed and sound framework for climate-friendly investments.

The framework and procedures for WDP's green finance transactions are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of the issuer's systematic sustainability work and governance structure of WDP in terms of management and use of proceeds, we rate the framework CICERO Medium Green. This Green finance framework includes a broad range of project categories in green buildings. The framework allows for the possibility of light to dark green project types, all of which are necessary to meet the climate change challenge.

Eligible projects under the Green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Renewable Energy	On site: Solar power Wind power Geothermal power	Dark Green ✓ The company aims to cover as much as possible of its properties rooftops with solar panels. ✓ Consider documenting emissions during construction. ✓ WDP has informed us that geothermal, which may carry some risks, is currently limited

within the overall portfolio. WDP has a couple of geothermal installations, amongst others in WDP HQ in Wolveterm (Belgium). WDP is now testing the technology and will in the future make sure that it avoids high emission projects.

Green Buildings

Medium to Light Green

Development of premises with gross floor area > 5,000m² certified at least BREEAM 'Very Good' or LEED 'Gold'

Development of premises with gross floor area < 5,000m² certified at least BREEAM 'Very Good' or LEED 'Gold' *indicative* label

- ✓ In a 2050 perspective, the energy performance of buildings, is expected to be improved, with zero emission building technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments.
- ✓ Certification standards differ considerably in their requirement for energy efficiency and reduction, biodiversity and stakeholder engagement.
- ✓ Should consider lock-in effects of domestic fossil fuel consumption for transport and heating/cooling
- ✓ This category receives a medium to light green shading because there are no additional energy efficiency requirements.

Energy Efficiency

Measures in existing facilities

Medium Green

Isolation

LED relighting

Motion detectors

Energy monitoring tools

- ✓ Be aware of lock-in and rebound effects.
- ✓ No quantified energy efficiency threshold to qualify under the framework. Energy efficiency improvements are however measured and analyzed in advance with consultants. The company also has in place post-investment measurement.

	✓ WDP is currently considering to roll-out energy monitoring over its total portfolio.
Waste management	Dark green
Investments to improve the recycling rates	✓ WDP has informed that waste incineration is not considered.
Clean Transportation	Dark Green
Electric vehicle charging stations	✓ Well aligned with a low carbon transportation future
Bicycle facilities	
Sustainable Water Management	Dark Green
Reduce drinking water consumption	✓ Important projects to improve climate resilience in buildings
Capturing and recycling rain water	
Green roofing	

Table 2. Eligible project categories

Strengths

The company has ambitious climate goals. The total emissions from the company is increasing due to an increase in size of the overall portfolio, however, emissions per square meter is reduced from 2016 to 2017. WDP's medium-term goal is to achieve CO₂ neutrality in its property portfolio by a variety of measures ranging from energy efficiency improvements and renewable energy installations. The company has already experienced difficulties achieving this goal with business expanding. WDP had originally a target to become carbon neutral by 2012, based on the portfolio in 2010. However, when WDP started to grow substantially, the company decided that it was not realistic to set an exact timeline on the ambition to become carbon neutral. WDP continues to invest in energy efficiency measures in existing buildings, in sustainable development projects to reduce its footprint, and invest in renewable energy to offset its footprint. Currently, WDP is expanding its solar energy capacity from 60MWp to 85MWp, with a medium term goal of reaching 100MWp. It is encouraging that the company sees the link between sustainability and risk management, business opportunities and long-term financial performance.

It is still the company's ambition to in the medium-term become a carbon neutral company. To offset carbon footprint the company invests in renewable energy. According to the company the excess electricity that is transferred to the grid adds to the offsetting component.

According to WDP's Sustainability Report, the annual reporting follows the standards developed by the European Public Real Estate Association (EPRA), an organization that represents publicly listed European Real Estate companies. The reporting standards are based on the Global Reporting Initiative (GRI), according to EPRA.

When selecting external construction partners (engineering companies, architects, contractors, suppliers), WDP envisions a long-term partnership rather than a single time cooperation. Potential subcontractors are screened in advance from a financial point of view and on their activities and track record in terms of operations, clients, activities, safety regulations and corporate social responsibility.

According to the issuer, the company works closely with a potential tenant. WDP completes the specifications of the project to accommodate the expectations of the tenant with due consideration to the durability of the building and the reduction of the total cost of ownership throughout the lifecycle of the projects. WDP accommodates specific sustainability requirements from the potential tenant. According to WDP the company performs lifecycle analysis for all their projects.

Weaknesses

There are no obvious weaknesses in WDP's Green finance framework.

Pitfalls

CICERO takes a long-term view on climate change. In the green project selection, WDP will use the results of certification assessments. Green building certifications include many important environmental aspects. However, these certifications alone do not necessarily ensure improved energy performance or that resilience aspects are taken into considerations. For example, it is possible to achieve a LEED Gold certificate with no energy efficiency credits. The green building category receives a medium to light green shading because there are no additional energy efficiency requirements to the certifications. With respect to BREEAM certification, the company is currently reviewing their policy because of certification costs. An alternative is to invest directly in energy efficiency measures. To make sure that substantial energy efficiency is achieved, CICERO encourages to introduce quantified energy efficiency threshold to qualify under the framework and to introduce broad monitoring of energy usage.

The long-term goal of low carbon societies will eventually require a near phase out of fossil fuels, and marginal climate improvements today should not come in the way of more future oriented solutions that eventually require a near phase out fossil fuels. One should avoid investments in projects that lead down 'blind alleys' or lock-in effects that make it more costly to take the next necessary steps towards a low carbon and climate resilient future. For investment in buildings it is important to consider such lock-in effects of e.g. domestic fossil fuel consumption for transport and heating/cooling.

Efficiency improvements may also lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. WDP should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

Impacts beyond the project boundary

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

Appendix: About CICERO

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen inter-national climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of inter-national agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO received a Green Bond Award from Climate Bonds Initiative for being the biggest second opinion provider in 2016 and from Environmental Finance for being the best external review provider both in 2017 and in 2018.

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-car-bon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

cicero.oslo.no/greenbonds

