Workspace Green Finance Framework

WORKSPACE®

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1 Introduction to Workspace

Workspace Group ("Workspace" or "The Group") is a FTSE 250 listed Real Estate Investment Trust ("REIT") which owns, develops and directly manages circa 60 business centres in London. The current portfolio of flexible offices, covering some 4 million sq. ft., is valued at £2,450m.

Driving forward our Environmental, Social and Governance ("ESG") agenda is a top priority for Workspace. As a long-term owner of historic properties across the city, we play a key role in the employment-led regeneration of areas all over London. We take seriously our responsibility to positively impact local communities, while reducing our impact on the environment.

Our rolling refurbishment and redevelopment programme aims to retain as much of the original buildings as possible, transforming them into modern spaces, whilst reducing the whole life-cycle carbon emissions as well as retaining the history of the sites. The rolling programme has transformed our portfolio which now has 12 BREEAM rated energy efficient assets, with future refurbishment and redevelopment works planned in the pipeline to improve the standard further.

2 Sustainability at Workspace - Doing the right thing

ESG has become increasingly important to our stakeholders, particularly customers, investors and employees. In order to attract London's brightest businesses, we need to exceed their ESG expectations and ensure our service can provide them with the tools to manage their own environmental and social impact.

Our ESG strategy covers our development practices, operational emissions and our social impact. It ensures that we operate responsibly in our dealings with all stakeholders and reinforces our commitment to the sustainable long-term growth of our business and employment-led regeneration of London. Working alongside our suppliers, partners and customers, we are confident that we will reduce our carbon footprint, build climate resilience and help create healthy sustainable communities.

In September 2019, Workspace signed up to the Better Building Partnership ("BBP") Climate Change Commitment to deliver net zero carbon real estate portfolios by 2050. Since then we have carried out a review of our business and value chain emissions and have now brought this forward to 2030. To help us achieve our net zero carbon goal, we will be reducing our emissions across our operations and value chain in line with our approved science-based targets, which are in turn aligned with limiting the global temperature rise to 1.5°C above pre-industrial levels.

2.1 Our sustainability objectives and targets

Our three key ESG objectives are:

1. Create a sustainable climate resilient portfolio through our responsible investment, development and refurbishment programme.
2. Actively manage our buildings in an efficient way to reduce our operational carbon emissions and to provide a healthy productive environment for our customers.
3. Support all our stakeholders to collectively improve our environmental and social impact collectively through effective communication, training, transparent reporting and community engagement.

The Group's success in achieving these objectives is measured through three of its key performance indicators ("KPI"): BREEAM ratings for major developments and refurbishments, Energy Performance

Certificates ("EPCs") for its buildings and performance against our science-based carbon targets. Founded on these KPIs, our commitments are the following:

- Achieve minimum EPC A for new developments and B for major refurbishments.
- All new developments and major refurbishments to target BREEAM Excellent standard unless it is not feasible due to site constraints.
- Our science-based targets:
  - Reduce absolute Scope 1 GHG emissions 42% by FY2030 from a FY2020 base year
  - Continue annually sourcing 100% renewable electricity through FY2030
  - Reduce Scope 3 GHG from capital goods 20% per square foot of net lettable area by FY2030 from a FY2020 base year

2.2 Our sustainability policies

Our sustainability programme is underpinned by a number of policies, governed by our core sustainability team, which outline the standards we commit to, and require our stakeholders to adhere to. More information on our policies and how each is managed can be found on our website here.

2.3 Governance

The highest level of responsibility for our ESG strategy, accountability and performance lies with our Chief Executive Officer and the Board of Directors. The strategy is led by our sustainability team and implemented by our ESG committee which is made up of employees from across the business to drive progress towards our targets. The sustainability team reports directly into our Development Director who has responsibility for sustainability at the Executive Committee level, where overarching progress and performance against our targets is governed. Periodic progress against our sustainability targets and any emerging risks or issues are reviewed at the Board (and relevant Board Committees) and at the group Executive Committee.

2.4 Sustainability disclosures and recognition

Workspace's ongoing sustainability commitments have been recognised externally:

Workspace achieved an "A" in the 2020 Climate Disclosure Project ("CDP"), earning a position on CDP's Climate A List for our leadership in environmental transparency. CDP score over 8,000 companies from A to D- on the quality of their climate disclosure and action towards a low-carbon future.

The Group has developed a set of science-based targets which are aligned to the goals of the Paris Agreement and the IPCC's 1.5°C report. These targets have been approved by the Science Based Targets initiative (SBTi) and cover both our operational emissions and our embodied carbon emissions.

Workspace have achieved a Gold award for reporting in line with the 2020 European Public Real Estate Association Sustainability Best Practice Recommendations ("EPRA sBPRs") for the seventh year in a row. The EPRA sBPRs Awards are intended to raise the standards and consistency of sustainability reporting for listed real estate companies across Europe. As with the EPRA financial BPR Awards, each year EPRA recognises companies which have issued the best-in-class annual sustainability performance report.

More information on our awards and accreditations can be found here.

2.5 Rationale for a Green Financing Framework

Workspace's sustainability programme has been in place for several years. Our programme is now integrated and embedded into our organisation so that acting sustainably and responsibly is just part of how we operate.

Continuing to strengthen that focus means embedding Doing the Right Thing further across our decision making, including our financing strategy. Our aim is therefore to ensure our financing supports, and is aligned to, our sustainability strategy, through issuing Green Debt Instruments ("GDI").

Through the establishment of this Green Finance Framework, Workspace is giving investors the opportunity to target their investments towards environmentally friendly projects within the REIT space. As a result, Workspace hopes to attract ESG-focused debt investors.

3 Green Finance Framework

Workspace has developed this Green Finance Framework, which is in alignment with the Green Bond Principles ("GBP") as administered by ICMA (2018 edition), and Green Loan Principles ("GLP") as administered by LMA (2021 edition).

With this Green Finance Framework, Workspace has the possibility to issue a variety of GDIs, including Green Bonds, Green Private Placements and Green Loans.

When issuing such instruments, Workspace intends to follow best market practice around the following core components:

1. Use of proceeds
2. Process for project evaluation and selection
3. Management of proceeds
4. Reporting
5. External review

These will be set out in the subsequent sections.

3.1 Use of proceeds

An amount equivalent to the net proceeds of the GDIs issued by Workspace will be exclusively used to finance and/or refinance in whole or in part new or existing Eligible Green Projects ("EGPs") in the below categories, together forming the "Eligible Green Project Portfolio".

ICMA/LMA Category for use of proceeds	Description of project types and associated criteria	Reference financial line item	Alignment to UN Sustainable Development Goal
Green buildings[1]	1. New developments or major refurbishments of commercial buildings that target and receive third-party verified green building certification and subsequently achieve the following: • Achieve minimum EPC A for new developments and EPC B for major refurbishments. • All new developments and major refurbishments to target BREEAM Excellent or Very Good standard.[2] Other certification standards may become applicable over time and will be introduced into the eligibility criteria as appropriate. 2. Other refurbishments which result in a demonstrated energy efficiency improvement of at least 30% OR a measurable improvement in the EPC rating of the existing building or spaces. Measurable improvement in the EPC rating is defined as an improvement of at least two rating bands where a building or space has a current EPC rating below C.	1: Asset value 2: Capex and Opex	7 & 11
Eco-efficient and/or circular economy adapted products, production technologies and processes	Procurement of sustainable, energy-efficient and recycled building materials that fulfil the requirements of the green building certification standards listed above. For example, FSC/PEFC timber, low embodied carbon concrete, recycled and recyclable flooring etc. Where suitable, new developments and major refurbishments to target SKA rating Silver or Gold [3]	Opex	11
Renewable energy	1. Projects relating to generation of on-site renewable energy, such as the investment, installation and deployment of on-site solar and wind systems 2. Purchases of renewable energy (REGO certified). As our portfolio is entirely based in built up areas in London, options to fully meet our energy needs through on-site renewable are relatively limited. Therefore we also include the purchase of renewable energy. [4]	1: Opex, 2: Capex	7 & 13
Energy Efficiency	Projects relating to energy efficiency which have a clear, demonstrable improvement on the efficiency of the building or space. This can include the adoption of systems for optimising energy management in new and existing buildings, such as building management systems ("BMS"), new installations or upgrades to mechanical, electrical and lighting systems and new installations or upgrades to HVAC systems. This also includes insulation and facades which allow for improved natural light and passive ventilation (e.g. openable windows).	Capex	7 & 13
Climate change adaptation	Project works relating to climate change adaptation (e.g. the installation and upgrades of enhanced flood protection systems or additional insulation to strengthen building resilience to climate change impacts, such as extreme weather events and natural disasters).[5]	Capex	13

[1] For developments and major refurbishments meeting the Green Building criteria Workspace will also seek to achieve a minimum Considerate Constructors Score (CCS) of 38/50.

[2] Due to the significant levels of embodied carbon involved in construction, when considering whole life-cycle carbon emissions it is often better to refurbish existing buildings rather than demolish and re-build. Dependent on the constraints of the individual site, in some cases this may mean that it is not feasible to achieve BREEAM Excellent and for these refurbishments we target a minimum standard of BREEAM Very Good.

[3] As administered by the RICS - https://www.rics.org/uk/about-rics/responsible-business/ska-rating/

[4] The REGO (Renewable Energy Guarantees Origin) scheme certifies that electricity we are sourcing is from renewable sources. We have proactively sought to reduce our scope 2 market-based emissions through the purchase of REGO-certified renewable energy as part of our commitment to meet science-based targets.

[5] Prior to commencing such projects, Workspace will conduct (or have a third-party conduct) a climate risk assessment to determine the needed enhancements for climate change adaptation and resilience purposes.

ICMA/LMA Category for use of proceeds	Description of project types and associated criteria	Reference financial line item	Alignment to UN Sustainable Development Goal
Pollution prevention and control (waste management)	Projects relating to pollution prevention and control, such as the installation of waste facilities, systems and equipment that are used for the collection and separation of waste which allows for higher levels of recycling and recovery.	Capex	12 & 13
Clean transportation	Projects relating to improving accessibility to clean transport, such as bicycle racks, bicycle lifts and associated facilities e.g. showers and bike stands. Investment and expenditures relating to the installation of electric vehicle charging points and any investment in electric vehicles.	Capex	11
Sustainable water and wastewater management	Projects relating to sustainable water and wastewater management, such as installing water Automated Meter Reading ("AMR") devices, sustainable urban drainage systems ("SUDs"), wastewater recycling, and installation of water treatment systems and equipment which improve water efficiency.	Capex	12 & 13

Dependent on the nature of the project, the investment in the EGPs can be measured through asset value, capital expenditure ("Capex") or operating expenditure ("Opex").

For capital or operating expenditures, a look-back period of up to 36 months prior to the time of debt issuance will be applied.

Workspace intends to allocate an amount equivalent to the net proceeds raised by the GDI to Eligible Green Projects within 36 months of issuance.

From time to time, and in accordance with its well-established business model, it is expected that the Group will dispose of buildings or other assets that were partly financed by GDIs. When this occurs, the Group will identify new EGPs to continue to meet its Use of Proceeds commitment under the GDI. Further information in set out in Section 3.3.

See Appendix 4.1 for case studies on a selection of Green projects.

3.2 Process for Project Evaluation and Selection

3.2.1 Structure and tasks of the ESG Committee

Workspace's sustainability team is responsible for developing and implementing the Group's sustainability strategy and for reporting on the performance against this. Its work is governed and overseen by the ESG Committee which provides sustainability updates directly to the Executive Committee and the Board.

The ESG Committee meets at least monthly and acts as a guardian for the Group's sustainability strategy, and, in doing so:

- Evaluates performance and monitors progress against targets and initiatives, which include the Group's science-based carbon targets, energy efficiency, and greenhouse gas emissions linked to climate change. Performance is reported on a traffic light basis (red, amber and green).
- Assesses emerging legislation, key issues and risks to ensure the business is proactive and diligent in its approach.
- Reviews the sustainability strategy in the context of the objectives it is intended to achieve.

Prior to the commencement of a project, capital expenditure incurred by the Group requires approval by the Capital Committee, Investment Committee, Executive Committee or the Board in accordance with specified tiers of delegated authority limits. Before approval is given to a project, it is appraised to assess the financial returns likely under a number of scenarios; a full risk assessment is produced and the benefits to, or impacts on, other stakeholders are considered.

3.2.2 Green Finance Committee

As part of the management of its Green Finance Framework, Workspace intends to set up a Green Finance Committee. This Committee includes:

- Chief Financial Officer (chair)
- Development Director
- Asset Management Director
- Head of Sustainability
- Where required, support from other members of the sustainability team, the finance team, and the property team as appropriate

The committee will meet not less than every 12 months.

The Workspace Green Finance Committee will be responsible for final approval of:

- Updates to the framework, to ensure alignment with relevant market standards and Workspace's sustainability strategy
- Selection of GDIs aligned with the framework – ensuring that any GDIs meets the necessary requirements
- Selection of EGPs
- Management of proceeds
- Reporting on the use of proceeds and their impact
- Overseeing external review process of the framework

Approved budgets and actual spend on EGPs that meet the GBP and GLP criteria are then tracked and reported internally. External reporting and monitoring requirements to be met are set out in section 3.4.

3.3 Management of Proceeds

Workspace intends to allocate an amount equivalent to the proceeds from the GDI to an EGP Portfolio, selected in accordance with the use of proceeds criteria and the evaluation and selection process presented above. Proceeds will be managed by Workspace's Finance Department, who will establish a register tracking all investments in the EGPs.

Funds will be drawn from the GDI to finance only the qualifying expenditure on EGPs or to refinance expenditure on green projects which has previously been funded from other sources. Any unallocated surplus funds from GDI will be managed by the Group's finance team they may be used to repay revolving credit facilities (including green RCFs), placed on short-term fixed interest deposits or on the overnight money markets with counterparties that comply with the Group's Treasury policy.

The Group aims over time, to achieve a level of allocation for the EGPs which matches or exceeds the balance of net proceeds from its outstanding GDIs.

3.4 Reporting

As per market standards, Workspace will disclose publicly both allocation and impact information in relation to GDIs issued annually until full allocation.

Allocation report

Workspace will make and keep publicly available (on the company website) a report on the allocation of net proceeds to the EGP Portfolio, and wherever feasible a report on the impact of the EGP Portfolio, at least at the category level

The report will set out:

- Annual reporting on the allocation of net proceeds. More specifically, Workspace will report on:
  - The aggregated amount of allocation of the net proceeds to the EGP at category level;
  - The proportion of net proceeds used for financing versus refinancing; and
  - The balance of any unallocated proceeds invested in cash and/or cash equivalents

This information will be reviewed by an external independent third party (see 3.5).

Impact report

We believe it is important that we demonstrate to our stakeholders the impact of the green funding on our portfolio. Therefore, where feasible and reasonably practicable, we will periodically provide qualitative and quantitative environmental performance reporting of the EGPs. A range of indicators will be used to demonstrate performance, including:

ICMA/LMA Category for use of proceeds	**Potential KPI Reporting Metrics**
Green buildings	# Building Excellent Standard certification achieved (system & rating) across the portfolio
Eco-efficient and/or circular economy adapted products, production technologies and processes	% timber sourced from certified sustainable sources (FSC Equivalent) Carbon emissions intensity reduction compared to previous baseline (tCO2e/m2) # embodied carbon assessments completed for new developments and major refurbishment projects
Renewable energy	Onsite renewable energy generation capacity (KWh) Renewable energy purchased (KWh) / % of electricity contracts on a green tariff
Energy Efficiency	Total Energy Consumption (KWh) Energy savings achieved (kWh/m2) Scope 1 and 2 emissions reductions achieved against baseline (tCO2e) Carbon emissions intensity reduction compared to industry benchmark (tCO2e/m2)
Climate change adaptation	% of properties with a Building Management System (BMS) and smart sub-metering installed # of gas heating systems replaced by air source heat pumps or equivalent Spend on wall and roof insulation (GBPm) % of investments where ESG has been applied into acquisition due diligence
Pollution prevention and control (waste management)	% Recycling rate % Non-hazardous demolition waste by weight diverted from landfill
Clean transportation	# of EV charging points # Number of bicycle storage installed # Storage facilities installed
Sustainable water and wastewater management	Total Water Consumption (m3) Annual Water consumption intensity against industry benchmarks (m3/m2)

The above list is not exhaustive and may change over time. Each project may not necessarily report against all indicators, however the performance indicator(s) chosen for reporting will be appropriate to the EGP type.

3.5 External Review

Workspace commissioned DNV GL Business Assurance Services UK Limited ("DNV GL") to conduct an external review of this Green Finance Framework against the International Capital Market Association ("ICMA") Green Bond Principles 2018 ("GBP"), and the Loan Market Association ("LMA") Green Loan Principles 2021 ("GLP").

This second party opinion will be available on the Workspace website.

Workspace intends to request a limited assurance report regarding the allocation of the proceeds from any GDI issued under this Green Finance Framework.

Appendix

Case studies: green development projects

Here are some examples of completed projects which demonstrate our activities associated with the categories within the use of proceeds. We also have projects in the pipeline which are targeting BREEAM Excellent and above.

1. New Development: Brickfields, Hoxton

Completion date: 2019/20
Size: 57,000 sq. ft NLA
Cost: £28.9m (total project cost)
Categories for eligibility: Green Building 1
Green Credentials: BREEAM Excellent (design stage, awaiting final certificate) & EPC A

Built specifically for heavy engineering works in the 1970s, Cremer Street Studios in Hoxton had low floor to ceiling heights, poor quality brick and concrete which meant that it didn't meet the requirements of modern businesses today. We therefore decided to demolish and create a brand-new centre, renamed Brickfields, designed to BREEAM Excellent standard, whilst retaining 65% of the existing foundations and saving embodied carbon.

Workspace trialled a bespoke Soft Landings approach for the Brickfields development. Soft Landings is a BSRIA-led building delivery process which smoothed the transition from design and construction, through to operational performance for customers. A three-year aftercare process is now set to close the gap between predicted and actual building performance, maximising efficiency, reducing energy costs and cutting carbon.

Examples of sustainability features aligned to the use of proceeds:

Eco-efficient and/or circular economy adapted products, production technologies and processes:

- The brick and concrete demolition waste was crushed and almost all re-used on site. The steel reinforcement was separated and recycled.
- Since it is predominantly dry construction, the building can be disassembled and separated into components which can be re-used. The use of an engineering brick with a weak class 4 mortar is intended to permit separation and re-use of bricks.

Energy efficiency:

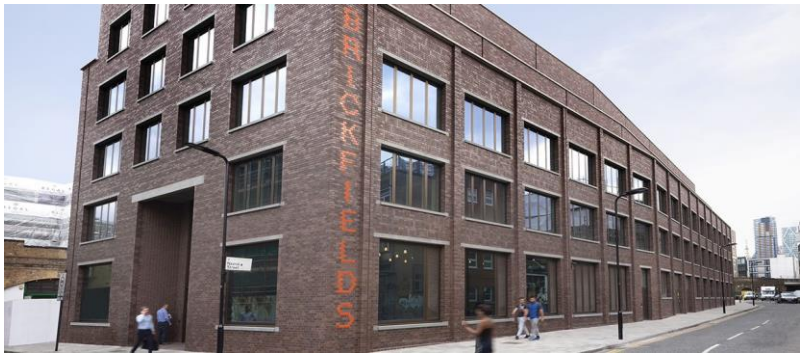
- Highly insulated following current best practice, and highly airtight.
- Common parts are naturally ventilated, and the studios, which have exposed concrete soffits for high thermal mass, are ventilated by opening windows and mechanically heated and cooled.

Climate Change Adaption:

- Low-carbon heat through high performance roof mounted Air Source Heat Pumps and Variable Refrigerant Flow units in each studio.
- Steel frame construction with a clear and generous services zone, tall ceiling heights and good daylight offer substantial adaptability in terms of subdivision and re-servicing. The combination of durability and flexibility should offer a long useful life.

Clean Transportation:

- Zero parking, with 108 cycle parking spaces.



2. Major Refurbishment: Edinburgh House, Vauxhall

Completion date: 2018/19
Size: 68,898 sq. ft NLA
Cost: £20.5m (total project cost)
Categories for eligibility: Green Building 1
Green Credentials: BREEAM Very Good standard (design stage, awaiting final certificate)

The Edinburgh House project comprised a major refurbishment and extensions to an existing 1960's office building. The building value was £18.4m in September 16 (project was approved at IC in December 16) and value is now £34.7m (at September 20). Our refurbishment has improved its energy efficiency significantly, reducing the regulated CO2 emissions by approximately 60%.

The principal alterations included lateral extensions of the offices at 3rd and 4th floor levels over existing flat roof areas and the conversion of the previous lower ground floor car park to form further business units and house bike storage, showers and plant rooms. The main entrance was relocated to give better access to a new reception area. There is a newly created two storey atrium space at the centre of the building constructed over the previous car park area. This includes a café, meeting rooms and break out areas.

Examples of sustainability features aligned to the use of proceeds:

Renewable Energy:

- A solar photovoltaic system on the roof further reduces the building's regulated CO2 emissions by around 2%.

Energy efficiency:

- The entire building is connected to a sophisticated Building Energy Management System (BEMS) which allows our Facilities Managers to control the building remotely and each customer can log onto the online portal to view and manage their energy consumption in real-time.
- Installation of new LED and PIR lighting throughout the building.
- There is plenty of natural light entering the building from the exterior and the interior atrium.

- Installation of new solar shading to extensions to minimise solar gains to the units, hence reducing the cooling demand.

Pollution prevention and control (waste management):

- Specialist waste partners appointed to enable necessary diversion from landfill on all arising's and on-site segregation of waste being undertaken.

Sustainable water and wastewater management:

- Taps fitted with PIR sensors
- Water shut off valves linked to lighting sensors have been installed to avoid water leakage.

3. Sustainable Fit-out: Gray's Inn Rd, Holborn

Completion date: 2019/20
Size: 17,044sq. ft NLA
Cost: £ 2.8m (total project cost)
Categories for eligibility: Eco-efficient and/or circular economy adapted products, production technologies and processes
Green Credentials: Silver SKA Rating

The project was a SKA rated fit-out of the lower ground, ground, 4th – 6th floors at 60 Gray's Inn Road with a 20-week programme. SKA rating is an environmental assessment method, benchmark and standard for non-domestic fitouts, led and owned by RICS. SKA has a major focus on materials and waste which meant that many of the GPMs linked into the main contractor's procurement chain, delivery notes and waste records. The level of detail required to sign off each individual element was above and beyond what the main contractor would ordinarily provide. Therefore, standalone workshops were undertaken to ensure the correct measures and reporting procedures were in place to ensure certification was achieved.

Examples of sustainability features aligned to the use of proceeds:

Eco-efficient and/or circular economy adapted products, production technologies and processes:

- All new products were sustainably sourced, for example the timber floor was FSC
- Paints were certified with an EU Ecolabel and recycled with 90% recycled content or supplied with IS014025 standards

- Wall tiles had at least 70% recycled content with an EU Ecolabel or ISO 14025 standard.
- Kingspan Raised Floor – manufacture red with 100% recycled and recyclable content or supplied with IS014025 standard
- The procurement chain ensured that materials with only the highest level of environmental certification were used on the scheme

Pollution prevention and control (waste management):

- 100% of the stripped-out materials was diverted from landfill and recycled.