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Market Watch Newsletter

Lockton Global Real Estate & Construction

March 2022



Welcome to the latest edition of our newsletter. In this issue, we look at the risks associated with electric vehicle charging stations, how to tackle an upsurge in escape of water claims on construction sites, and the topic of green leases. We also have Justin Warents sitting down with Andrew Pinto to discuss the life sciences sector.

All Covid-19 restrictions in England were lifted last week. Then, just as we thought the world might be returning to some form of normality, Vladimir Putin ordered Russian troops into Ukraine. This is a brutally tragic development for the people of Ukraine. May we take this opportunity to extend our deepest sympathy and support to our global partners in the region at this terrible time.

The UK has certainly had its share of major storms recently. Storm Franklin was the third named storm in a week - following hard on the heels of Storms Dudley and Eunice - the first time this has happened since we started giving storms names in 2015. It is too early to say definitively whether these storms are linked to climate change. With the clocks changing later this month, hopefully we'll soon see some warmer weather, along with the longer days.

The insurance market is currently seeking to address issues around sustainable timber construction, most notably cross-laminated timber. Lockton is engaging with more than 20 insurers in the real estate market to understand their mass timber capacity. For anyone looking for more information on the insurance challenges surrounding mass timber construction and some potential ways forward, the [RISC Authority's white paper](#) provides a useful guide.

Brexit and the Covid-19 pandemic have created the perfect storm over the past two years, combining to drive claims inflation and hinder reinstatement processes. Over the next twelve months, we expect to see supply chain capabilities recovering. Improvements in the availability of materials and skills should relieve some of the inflationary pressure on claims.

Finally, some internal news and I would like to welcome Chris O'Halloran. Chris joined the practice last month as Chief Operating Officer. As our team continues to grow, Chris will be playing a key role on the operational side of the business.

As always, we would love to hear from you with any comments or suggestions, and we are always happy to help wherever we can.



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HAVE YOUR SAY

If you have any comments on this issue of our newsletter or would like to contribute an article to a future edition, please contact us at:

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Electric vehicle charging stations: What you need to know

Electric vehicles (EVs) continue to grow in market share as businesses, governments and individuals consider them a key pillar in achieving carbon neutrality. To support wholesale adoption of EVs, more charging infrastructure is required.

Landlords and developers can take advantage of this opportunity by introducing charge points in their developments, though they will need to be considerate of the property risks involved.



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Meeting growing demand

EV adoption has increased both nationally and globally over the last few years, and 2021 saw many major car manufacturers announcing pledges to pivot production towards EVs. Sales data from western Europe showed EVs outselling diesels in December 2021^[1].

While the EV market is booming, the greatest barrier to adoption is a lack of charging infrastructure. In the UK, this was described as “uneven and patchy” by the Competitions and Markets Authority report^[2]. This is demonstrated in the infographic below showing the number of public EV charge points per 100,000 people.



To meet the government’s commitment to ending the sale of new petrol and diesel cars and vans by 2030 (supporting the legally binding commitment for the UK to be net zero by 2050), The Climate Change Committee estimates that the number of charging points will need to increase significantly in the next eight years.

Estimated charge points required by 2030

Charge point speed	2020	2030	Increase	Size of increases 2020-2030
3-7kW	8,500	48,600	40,000	6x
22kW	9,700	106,300	96,600	11x
50kW	3,000	121,700	118,700	41x
150kW	300	5,000	4,700	17x
Total	21,500	281,000	260,000	12x

This presents an opportunity for landlords to review their own asset portfolios and help break down this EV adoption barrier. However, when implementing changes to infrastructure, it's important to consider the risks and make sure accurate cover is in place.

What property risks do landlords face when implementing charging infrastructure?

1. Installation

Access is often partially blocked to the property during the installation period, which can cause disruption. As well as this, shallow excavation is sometimes required, which can cause damage if not completed by a competent contractor with a proven body of work behind them.

2. Electrical load

When seeking a competent contractor, including an M&E specialist, due care should be paid to whether the existing circuit can support the EV charge points. Suitable amendments should be made to ensure the appropriate electrical load is dedicated to the EV charge points.

3. Unattended charge points

Unattended charge points run the risk of being tampered with, accidentally damaged or vandalised.

4. Ventilation

Lithium-ion battery fires tend to be characterised as both intense and prolonged. A review by Exponent commissioned by the National Fire Protection Association cited one test where it took 22 hours to extinguish the fire driven by high concentrations of toxic fluoride gases that could not be extracted ^[3].

5. Impact risk

This risk will depend on whether the charging points are external or internal and the level of passing traffic.

Liability risk considerations

Landlords installing charging points will also need to pay due consideration to potential liability risks.

The majority of liability risks, including third party property damage and injury, can be addressed contractually with the manufacturer, installer, and contractor (if different) for maintenance. Landlords should seek legal advice if any party involved in the supply, installation or maintenance requires "holds harmless" wording to be inserted into their engagement.

While the contractual language will be a key consideration, especially on ensuring any third party claims are directed to the correct responsible party, the landlord should also look to ensure that all EV charge points have:

- Surrounding areas clearly marked for EV parking to avoid the scenario of cable stretching;
- Clear and unambiguous instructions on which EVs the charge point can accommodate;
- The manufacturer's instructions on safe usage;
- Regular inspections to ensure that they are fit for purpose and that no signage/markings have been defaced.

What steps can be taken to mitigate these hazards?

- Fire safety management framework, including the fire risk assessment for the premises, should be updated to reflect the introduction of EV charging points;
- Consideration should be given as to whether the fire suppression and detection equipment are sufficient to meet the installation of EV charging points if being retro fitted;
- EV charging points should be sited to ensure an adequate clear area for allowance of safe charging. Bays will need to be signed and marked prominently;
- On-site representatives of the landlord/developer should be familiar with manual isolation of EV charging points based on manufacturer instructions;
- The contractor, engaged for both installation and maintenance, should be suitably competent with appropriate third-party liability insurances depending on the number of EV charging points present;
- EV charge should be placed on raised islands and protected with bollards or metal barriers to reduce impact risks;
- CCTV cameras can be used to ensure coverage of EV charge points;
- A dedicated circuit should be used for EV charge points.

For further information, please contact



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Tackling rising escape of water claims on building sites

A rise in escape of water claims is becoming a concern for insurers. According to Aviva, water damage is the second most common cause of loss on building sites and 65% of construction sites suffer water damage at some stage of the build. Implementing strict risk mitigation protocols will benefit construction firms, not only in insurance renewal negotiations, but also by avoiding project completion delays and retroactive action on completed work.

Water leak claims surged 30% in Q1 2021 compared to the same period in 2020 in the UK. According to the Association of British Insurers (ABI), escape of water claims are costing UK insurers £2.5 million a day, which equates to nearly £1 billion a year.

The most common cause for these claims from construction firms is poor workmanship, particularly in relation to push-fit pipework. A significant number of these losses have occurred as projects near practical completion, when the fitting out has already taken place or is nearing its conclusion. This unfortunately results in increased damage and higher rectification costs - especially if the leak manifests over the weekend, when a site is typically vacant.

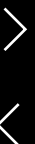
The consequences

Suffering a leak on site will not only cause damage and disruption. In most cases, it will also result in an impact to the project programme. This delay in completion could cause consequential financial losses to the owner. Examples of this include the ability to earn rental income where the asset is to be retained, or selling the completed units when the development is speculative.

The insurance market has adopted a harder stance due to the claims payments made for these types of losses. This has been in the form of both higher premiums and substantially increased water damage deductible levels.

Alongside the hardening insurance market, a collaborative effort from insurance trade bodies is pushing to increase awareness of the help available to homeowners with escaped water issues, and is also targeting improved education and training for workmen.

Insurers have additionally attempted to further mitigate exposure by working with risk engineers to suggest risk management solutions that can also be implemented.



What help is at hand?

One of the key areas insurers have identified is having a comprehensive construction water management plan. This plan should provide the overall approach for water management during the course of the construction, including emergency plans in response to an incident.

The Construction Insurance Risk Engineers Group (CIREG) created a best practice guide entitled 'Managing Escape of Water Risk on Construction Sites'. Their approach is similar to The Joint Code of Practice on the Protection from Fire of Construction Sites (JCOP), where the objective of the Code is the prevention of fires on construction sites. The CIREG document has been endorsed by the UK Contractors All Risks (CAR) Underwriters Group and is widely credited within the insurance market, bringing tangible benefits on premium and excesses where a compliant plan is utilised.

Whilst it is imperative that careful consideration should be given to design, installation, testing and commissioning standards, some advances in technology can also prove invaluable in mitigating risk.

Measures such as monitoring water flow and automatic flow detection shut-off systems should be contemplated at an early stage, if their inclusion is feasible. Certain insurers will now actually impose a requirement for installation of such shut off systems, especially for high rise residential projects.

Benefits of robust water risk management are clear for the purpose of both insurance procurement and commercial protection.

Should you wish to discuss best practice for water risk management in more detail, please contact:



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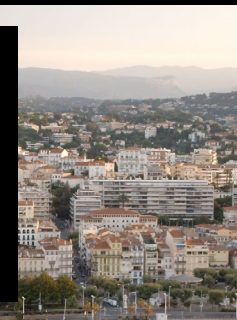


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Meet us at MIPIM

15TH - 18TH MARCH 2022



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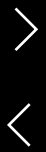
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Green leases; a step in the right direction for landlords

The great and the good of the global political ecosystem descended on Glasgow late last year for COP 26. Its core aim was as simple as the solution is complex: to inhibit the worst effects of global warming by reaching net zero on greenhouse gas emissions.

The solution is complex because the way humans operate is not currently set up for achieving net zero. This clearly applies to private capital. As Mark Carney said, *'Companies, banks, insurers, and investors all have to adjust their business models and develop credible plans for the transition to a net-zero economy and implement them'*.

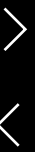
While change has to be global, there are good reasons why the real estate industry may need to change more than most. According to the UN Environmental Programme, the sector contributes 30% of global annual greenhouse gas emissions and consumes around 40% of the world's energy.

Aside from the obvious moral pressure for commercial real estate to change, the government is starting to apply some pressure of its own. The predominant way the government is currently exercising influence over the real estate industry is through minimum energy standard initiatives. These require minimum energy performance certificate asset ratings before premises can be let or continue being let.

Government pressure aside, commercial pressure is also growing. It is clear that ESG credentials are increasingly a priority for investors – particularly funds and large institutional investors. Many companies are taking Mark Carney's advice and setting net zero targets.

So what can the commercial real estate industry do? One industry-wide option would be to move towards greener leases. When we discuss this with our clients and their asset managers, they are often surprised at how easy this would be. A green lease is not a fundamentally different animal from the leases currently used across the commercial real estate industry.

The term 'green lease' simply describes any lease that incorporates some kind of provision aimed at improving a building's sustainability. This is not limited to reducing emissions and energy consumption. It also takes in issues like water management, waste management, use of sustainable materials, and green transport. In this sense, most commercial leases are already green leases in reality, as most contain green provisions.



So when we suggest moving towards greener leases, we are really just suggesting including tougher green clauses than the 'light green' clauses typically suggested by landlords and accepted by tenants. That means moving from weak, purely aspirational provisions towards provisions with consequences attached to failure to meet measurable green targets or standards relating to how a property is used, or failure to carry out any green improvements necessary. These might include clauses that:

- a. prohibit the tenant from exceeding an agreed level of energy consumption;
- b. prohibit the tenant from carrying out works that detrimentally impact the building's energy efficiency; or
- c. entitle the landlord to enter the premises to carry out works recommended by an energy performance certificate, and a right to recover such costs from the tenant through the service charge or otherwise.

Dark green lease clauses like these will likely meet resistance where one party is seeking to put associated costs on the other because, understandably, tenants typically approach lease negotiations with a view to minimising their liabilities. There are real mutual benefits, however, that can flow from meeting these standards and targets, and from carrying out such improvements. So industry agreement on where these costs should lie or, on how they should be apportioned, is clearly overdue.

In the meantime, landlords may see greater success in passing these costs on to tenants if they include green provisions in tenant regulations, estate regulations, or in an environmental handbook or memorandum of understanding that sits outside the lease, as these typically attract less intensive scrutiny in negotiations with tenants.

Fladgate has extensive expertise in providing legal advice on green leases, and we welcome any queries you may have.



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**Lockton Global Real Estate & Construction are
delighted to invite you to our charity Texas
Hold'Em**

POKER TOURNAMENT

In aid of the Lockton Charity of the year



30TH JUNE 2022

Time: 6.00 pm - 11.30 pm

Location: Leonardo City Hotel,
8-14 Cooper's Row,
London,
EC3N 2BQ

Dress code: Smart casual

View the full invite [HERE](#).

**To reserve your seat, please contact Abby North
at abby.north@lockton.com**

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Q&A with Andrew Pinto, former advisor to Life Science REIT plc

Lockton's Justin Warents speaks with Andrew Pinto, former Finance Director at Ironstone Asset Management, about taking Life Science REIT public in November 2021 as well as what lies ahead for the life science sector.

Justin: Firstly, congratulations on the first and incredibly successful listing of Life Science REIT plc! Can you tell us more about your involvement in the IPO and what made you want to get involved?

Andrew: I was offered the job because I have undertaken major capital-market transactions before and also have a life science degree in microbiology, so always maintained an interest in biotechnology.

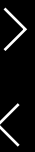
I can imagine it must have been a stressful yet exciting time for everyone involved. What do you think the secret was to raising £350m and being the largest London listed UK REIT IPO since 2016? Follow trends from America and get in quick! There was no secret formula. There has been a huge increase in investment into the sector due to the growing global population, who all need food and medications for old and new diseases.

Is there anything you would have done differently? Not really, we had wonderful advice from Panmure Gordon, Jefferies and Gowlings.

Was this your first IPO, or have you been involved in others? I was involved in the IPO of McBride plc in the 90s. I was just a newly qualified accountant back then. We had a small head office, so the work was shared out and I had great exposure to the transaction. I was also heavily involved in the reverse takeover of Terrace Hill Group plc by Urban & Civic. I have listed a lot of Eurobonds and issued US private placement debt before, which is a very similar process.

After such a successful listing, what did you do to unwind after the REIT went public in November? I don't think I have unwound yet! It was immense hours, 7 days a week and I only had half a day off for my mother's cremation and a day to drive my daughter to uni.

In your opinion, do you think we would have seen the same level of investment had the Covid-19 pandemic not happened? Yes, Covid-19 has just focussed eyes on the sector, but the fundamentals were there.



What do you think has caused the surge in demand for life science real estate? More people in the world and an ageing population globally. Then there's the use of life science to find treatments for established diseases and illnesses. Lastly, the zoonotic disease threat. Put all of those together and you've got a perfect opportunity for growth in the sector. The sector needs space. We are lucky in the UK to have four of the world's top scientific universities, so we are over-endowed with brainpower.

Where do you see the future of life science investment going and where do you think the hot locations are outside of the Golden Triangle? There's more to life than the triangle, examples are the Midlands, like Warwick, where I went to university, the North and of course, Scotland and Ireland.

What challenges do you think the sector could face in the next decade? There could be a levelling up in the supply and demand imbalance, so it is important to build well in the right places and have a good offering, i.e. curate the environment.

What are the advantages and disadvantages of a Life Science REIT? The advantages are that it gives the normal person in the street the chance to participate in investing, as it was a retail offer as well as institutional. Also, the ability to go back and have rights issues quickly and easily. The disadvantage is the cost of the IPO, typically 2% of funds raised.

We both started our careers in finance, I decided to go down the insurance route, what's next for you? Another IPO? Most probably, I think that's quite likely, given my experience. I'm open to conversations with people. We went from start-up to IPO in 5 months, with just 2 of us to start with, so I like to think I know a bit about the process now!

The Covid-19 pandemic has meant most of us have spent time getting to know our home turf. If you could travel to anywhere in the world, where would it be and why? I'd like to get to my house in France, which I haven't seen for 2 years, other than on Google maps!

What is the most valuable piece of advice you have received and carried throughout your career? Be positive, be cheerful, be kind to everyone, work hard, help others and honour your promises. Also get a good solicitor (because some people don't honour their promises). Lastly, don't eat yellow snow!

Brilliant. Thank you for your time. One last question: can you tell us something most people don't know about you? I love to cook. The kitchen is the closest thing I have to a lab in my house!

I have a question for you, Justin. What are the risk and insurance challenges associated with life science real estate? Research and development, manufacturing, warehousing, and office space can all be found in a life science asset, all of which present different risks for insurers to consider. This diverse risk pool means that insurers are essentially providing capacity for a multi-risk asset class. Information gathering is key and underwriters are likely to require a significant amount of data with regard to tenant processes and risk management protocols in place on site.

Use of heavy machinery as well as the potential for explosive chemicals to be stored and tested in the labs will be key considerations for insurers, as well as how the building is constructed and whether there are any combustible materials used.

Understanding the processes is key when placing insurance for potentially high risk exposures, and so we recommend that active engagement with insurers is vital to help us negotiate the best outcome.



For further information on risk and insurance queries relating to life science, please contact:



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Past events

CLAIMS CODE WEBINAR: THE UNCONSIDERED CONSEQUENCES OF GOING GREEN

WATCH RECORDING [HERE](#)

WEBINAR: UNDERSTANDING CYBER RISKS IN THE REAL ESTATE SECTOR

WATCH RECORDING [HERE](#)

WEBINAR: WHY SHOULD BUSINESSES BE CONCERNED ABOUT MODERN SLAVERY?

WATCH RECORDING [HERE](#)

Upcoming events



SAVE THE DATE: PROPERTY ISSUES SEMINAR

WEDNESDAY, 27TH APRIL, 9:15AM - 12:30PM

Join us on Wednesday, 27th April for our next Property Issues Seminar. After some uncertainty we finally look forward to welcoming you back to our offices for what will be our 44th Property Issues Seminar.

Speakers to be announced shortly.

HAVE YOUR SAY

If you have any comments on this edition of our newsletter or would like to contribute an article to a future edition, please contact us at: locktongreac@lockton.com

Meet us there

BISNOW: UK LIFE SCIENCES REAL ESTATE ANNUAL CONFERENCE

8TH MARCH

[Justin Warents](#) will be attending, please get in touch if you would like to arrange a time to meet.

SHEDMASTERS

25TH MARCH

[Jonathan Hackett](#) will be attending, please get in touch if you would like to arrange a time to meet.

INDUSTRIAL & LOGISTICS CONFERENCE

31ST MARCH

[Jonathan Hackett](#) will be attending, please get in touch if you would like to arrange a time to meet.

RIMS

10TH -13TH APRIL

[Tom Hester](#), [James Cook](#) and [Stephen Leeming](#) will be attending, please get in touch if you would like to arrange a time to meet.

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