

How one fund managed its BNG obligations directly and benefited a whole community



PROJECT:
Biodiversity Net Gain



COMPANY:
abr dn



LOCATION:
London, UK

Challenge

abr dn’s AIPUT (Airport Industrial Property Unit Trust) was taking forward a slew of property developments around its core Heathrow investments. New English legislation requires developers to prove 10% Biodiversity Net Gain (BNG) on all new developments – if this isn’t possible, then BNG credits can be purchased at a premium from local providers. BNG rules stipulate that credits must be local and the best match for the habitat being destroyed – the less demonstrable this is, the greater the cost of the credits. The fund faced a significant BNG challenge across its six development projects and, with little prospect of being able to attain the 10% gain on site, needed to find a cost-effective offset solution.

Solution / Approach

The fund had a 90% focus on Heathrow Airport, where all the proposed developments were taking place, and where a unique opportunity to create a biodiversity bank

presented itself. Fortuitously, one of these developments was set to take place on a 8 hectare brownfield site that formed a small part of a larger 30 hectare greenfield holding west of Heathrow. The undeveloped area was part of the London Green Belt and was considered land that could not be developed. This area constituted a significant portion of the few undeveloped lands in the Local Authority (LA) and met all the usual criteria for classification as Green Belt. The LA was known for carefully protecting this status.

Therefore, it was determined that these fields of grass, brooks and hedgerows could be converted into a bank for the creation of BNG credits for the fund’s use, while also providing a significant amenity for the surrounding towns, villages and suburbs. Additionally, promoting this scheme would not only assist the fund in securing planning approval for its development on the brownfield portion, but any excess credits could also be sold to generate income and help justify the capital invested in the scheme.



Results

An ecologist was instructed to survey the holding, the results of which were used to design a habitat-creation plan that made the most of the existing drainage, structure and ecology of the site. It was then discovered that, the use of the Wilder Carbon Standard, could generate carbon as well as biodiversity credits, and use the scheme to assist the fund in reaching its Net Zero (NZ) ambitions. A range of schemes were presented that sat somewhere on the spectrum between focusing on carbon (more planting of trees with high yield classes) and biodiversity (less planting, more natural regeneration and structural interventions). A design was chosen that prioritised BNG needs as well as creating a generous buffer of biodiversity credits for contingency and potential onward sale. Woodland carbon units provided a small but significant contribution to the fund's offsetting requirements. An audience was sought with the local planning officers to discuss the scheme in the wider context of abrdn's commercial development proposals.



Company

abrdn is a global investment company that helps clients and customers plan, save and invest for the future. The company manage and administer £506bn AUMA (as at 30 June 2024) and is structured around three businesses – investments, adviser and interactive investor – focused on the changing needs of the clients. As a diversified group, has positioned themselves for growth in a changing investment landscape. The focus on four key strategic priorities enables meeting the needs of clients across a range of markets.

Outcome

The proposals were warmly received by the LA. The brownfield land had already been identified for development in the local plan, and the c. 30,000 sqm industrial unit would be a welcome source of employment and business rates. They leapt on the habitat creation scheme as an ideal use for what was previously under-utilised and inaccessible agricultural land. Although several of the other property developments were in different Heathrow LAs, they agreed to broker concessions for the fund that would allow the BNG credits to be used for these schemes without the usual premium. Access and amenity plans were conceived that might see the LA contribute to the costs of facilitating public access and interpreting what was effectively a large-scale community rewilding initiative in an otherwise heavily developed and industrialised outer-London suburb.

Sadly, that was as far as the project progressed. Management of the fund passed to a subsidiary that had been acquired by abrtn as an in-house specialist in the booming industrial and logistics sector a few years prior. The BNG proposals didn't find favour there, and in any event, market conditions changed and several of the developments no longer made financial sense.

The model for 'insetting' RE fund biodiversity and carbon requirements was now proven, however. Another abrtn fund had already acquired a 1500 hectare estate in the Scottish Highlands to generate nature-based carbon credits for its offsetting needs. Several other funds had strategic landholdings that could be converted in a similar manner to the Heathrow example. Though they would be unlikely to provide a suitable fund BNG bank given fewer developments and the corresponding lack of demand for credits, added to the national spread of assets and weakened localism arguments, the potential income from onward sale was attractive, as was the carbon offsetting opportunity and wider ESG profile and co-benefits. Again, wider market forces have prevented real estate funds following this mode. Instead abrtn has focused on creating a bespoke product for investing in nature-based carbon at scale. However, the market need for suppliers of BNG credits has only grown, and when the real estate market improves and fund flows turn positive, it makes sense for institutional funds to explore this model in earnest.

