

Environmental and Social Review Summary (ESRS) Habi – Structured Loan – Credit Facility – MEXICO

Original language of the document: Spanish
Issuance date: May 2022

1. General Information of the Project and Scope of IDB Invest's Environmental and Social Review

This transaction consists of revolving financing in favor of Corporativo MCNEMexico, S. de R.L. de C.V. (“Habi” or the “Company”), to source and accumulate a new stock of eligible homes for future renovation and sale in the Mexican market (the “Transaction”).

The Transaction’s Environmental and Social Due Diligence (ESDD) involved an assessment of the technical, environmental, health, safety, security, and social documentation submitted by Habi. Thus, and given the mobility restrictions imposed by the COVID-19 pandemic, this assessment included telephone calls with the Company’s technical teams (sustainability, human resources, health and safety, etc.).

2. Environmental and Social Categorization and Rationale

The Transaction has been classified as a Category B operation under IDB Invest's Environmental and Social Sustainability Policy, given that the environmental and social (E&S) impacts it could produce are limited, reversible, and can be easily managed. The main risks and associated potential impacts include: (i) risks associated with the working conditions, the occupational health and safety (OHS) of workers hired for housing renovation; (ii) solid waste generation; (iii) noise generation resulting from housing renovation activities; and v) potential impacts to communities due to increased vehicular traffic in housing renovation projects. These impacts and risks are estimated to be of medium-low intensity and short duration.

3. Environmental and Social Context

Habi currently operates in the metropolitan areas of Mexico City and Guadalajara. It relies on specialized companies to renovate the properties it purchases. With the exception of very specific cases requiring an expansion or structural improvement to the property, home remodeling is cosmetic, so the average remodeling period takes between 5 and 10 calendar days.

4. Environmental Risks and Impacts and Proposed Mitigation and Compensation Measures

4.1 Assessment and Management of Environmental and Social Risks and Impacts

4.1.a E&S Assessment and Management System

Habi is in the process of developing its Environmental and Social Management System (ESMS), which will include policies, procedures, and manuals related to its contractors' E&S management.

4.1.b Policy

Habi will develop an environmental, social, and occupational health and safety policy that specifies: (i) the officer in charge of ensuring its enforcement, responsible for its execution and obtaining the necessary resources for its implementation; (ii) how the policy will be communicated; (iii) the mechanism to measure and communicate continuous improvement, for its implementation; and (v) its date of entry into force.

4.1.c Identification of Risks and Impacts

While Habi is aware of labor and OHS risks, to date, it lacks a formal methodology for their identification.

4.1.d Management Programs

Habi will develop procedures to address risks arising from redevelopment activities, including OHS risk management, as well as integrated waste management and road safety. It will also update its construction contracts to ensure that its contractors: (i) respect workers' legal labor rights in terms of wage payment, control of working hours, overtime; (ii) adopt the Company's management programs.

4.1.e Organizational Capacity and Competency

Habi has the right people to manage environmental, social, and labor issues appropriately, taking into account the Company's risk level and business model.

4.1.f Emergency Preparedness and Response

Habi will develop Emergency Preparedness and Response Plans (EPRPs) for its corporate offices in Mexico, as well as an EPRP preparation framework to be implemented by each contractor. Contractors' plans will identify the most likely emergency situations related to their work and propose the response for each case.

4.1.g Monitoring and Review

To date, Habi does not track its E&S performance. The Company will therefore develop a procedure to monitor and evaluate the implementation of its ESMS, including the monitoring and evaluation of its contractors' E&S performance.

4.1.h Stakeholder Engagement

The Company's interaction with the communities is scarce and limited to ethical hotlines and social media channels. Nevertheless, the level of interaction with the communities is consistent with Habi's business model because the negative effects generated in the population are temporary and of medium-low intensity.

4.1.i External Communication and Grievance Mechanisms

Communities can submit their requests, complaints, claims and suggestions (RCCS) explicitly or anonymously to lineaetica@tuhabi.mx and the ethics hotline (559 225 2271). To date, however, Habi has not developed a procedure to adequately manage the RCCSs it receives.

4.2 Labor and Working Conditions

4.2.a Working Conditions and Management of Worker Relationships

Habi has 620 direct employees, 42% of whom are women. The Company also has 83 indirect employees, who operate under a commercial commission contract.

4.2.a.i Human Resources Policies and Procedures

The working hours, working conditions and employment conditions offered by Habi are in line with the provisions of the Mexican Federal Labor Law. To date, however, the Company has no documented human resources policies and procedures.

4.2.a.ii Working Conditions and Terms of Employment

While Habi complies with local legislation regarding working conditions (working hours, overtime accounting and payment, disciplinary measures, and grounds for termination of employment), it has yet to document its human resources procedures.

4.2.a.iii Workers' Organizations

Although Habi's workers are not unionized, the Company allows free association of workers and collective bargaining as required by Mexican law.

4.2.a.iv Non-discrimination and Equal Opportunity

Habi does not discriminate against its employees on physical, racial, sexual, religious, or political affinity grounds.

4.2.a.v Retrenchment

Habi has not reported any collective layoffs in the last three years, nor does it have any plans for downsizing its workforce.

4.2.a.vi Grievance Mechanism

Habi employees have several channels through which they can file complaints and grievances, including a dedicated payroll mailbox, the ethics hotline and a form that allows anonymous complaints. Nevertheless, as part of its ESMS, Habi will develop a procedure to document the operation of the internal grievance mechanism.

4.2.b Workforce Protection

Mexico is a signatory to several conventions and treaties of the International Labor Organization (ILO) related to the rights of workers. Habi does not employ child labor or engage in forced labor practices.

4.2.c Occupational Health and Safety

The main OHS risks relate to the renovation work on the real estate acquired by Habi. These risks include: electrical shocks, blunt force injuries and cuts, and ergonomic risks. Although the Company is aware of these risks, it has yet to develop procedures to identify and manage them adequately.

4.2.d Provisions for People with Disabilities

Habi does not discriminate against people with disabilities. To date, however, it has not developed specific human resources policies and procedures to protect the rights of persons with disabilities, including their conditions of employment, access, and exit.

4.2.e Workers Engaged by Third Parties

Real estate remodeling work is performed by specialized companies contracted by Habi. Although the latter is aware of its responsibility towards workers engaged by these third parties, it has yet to document procedures to manage the occupational and OHS risks of its outsourced workers.

4.3 Resource Efficiency and Pollution Prevention

4.3.a Resource Efficiency

Habi is evaluating the possibility of including measures to improve the energy and water efficiency of the remodeled buildings, such as: the installation of efficient lighting fixtures, the use of efficient water heaters, and the incorporation of thermal insulation in floors, ceilings, and walls.

4.3.b Pollution Prevention

Habi's activities could generate noise and vibrations. The associated impacts, however, are estimated to be of medium to low intensity given that they are limited to the property remodeling stage.

4.3.b.i Waste

Common solid waste (wrappings), recyclable waste (metal, plastic, paper, and cardboard), construction waste, and hazardous waste (canvases or containers with solvents, paints, resins, or other chemical substances) is generated during the remodeling of the properties. Habi will develop procedures to manage this waste and will ensure, through contractual obligations, that the specialized service companies it uses adopt them.

4.4 Community Health, Safety and Security

4.4.a Community Health and Safety

The activities carried out by the companies subcontracted by Habi to renovate the properties could generate risks in the communities, mainly in terms of road safety. In this sense, Habi will develop road safety guidelines to be used by service providers as part of their contracts.

4.4.b Security Personnel

Since Habi's main business activity is the individual renovation of used apartments through specialized service companies, the Company does not employ security personnel.

4.5 Land Acquisition and Involuntary Resettlement

Since Habi's business model consists of acquiring and redeveloping existing properties, the Transaction will not involve land acquisition and will not generate involuntary physical or economic displacement.

4.6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

Since Habi's activities take place inside existing dwellings in heavily anthropized areas, the Operation will have no any impact on biodiversity.

4.7 Indigenous Peoples

Since Habi's activities take place inside existing dwellings in consolidated urban or semi-urban areas, the Operation will have no impact on Indigenous peoples.

4.8 Cultural Heritage

Since Habi's activities take place inside existing non-heritage dwellings previously used for that purpose, the Operation will have no impact on Cultural Heritage.

5. Local Access of Project Documentation

The documentation relating to the project can be accessed at the following link: <https://www.tuhabi.mx/>