

Sustainable Finance

FUNDAMENTALS

OVERVIEW

The transition to a low-carbon economy and net-zero emissions by 2050 will require substantial capital investment. This explainer provides an overview of sustainable finance fundamentals for commercial real estate companies and funds.

CORE CONCEPT

Sustainable finance refers to financial activities that integrate environmental, social and governance factors to promote sustainable economic growth. Sustainable finance mechanisms most relevant to commercial real estate are as follows:

USE OF PROCEEDS



Green Bonds: bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects.



Social Bonds: bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full, new and/or existing eligible Social Projects.



Sustainability Bonds: bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance in part or in full, both Green and Social Projects.



Green Loans: loan instrument and/or contingent facility (such as construction loans, guarantee lines or letters of credit) made exclusively to finance or re-finance, in part or in full, new and/or existing Green Projects.

GENERAL PURPOSES



Sustainability-Linked Bonds: bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability Performance Targets.



Sustainability-Linked Loans: loan instrument and/or contingent facility (such as construction loans, guarantee lines or letters of credit) which incentivise the borrower's achievement of material and ambitious, predetermined Sustainability Performance Targets.

DEFINITIONS

Use of Proceeds

Instrument where the amount equal to the net proceeds is dedicated to financing eligible projects.

General Purposes

Instrument where the proceeds are primarily for the general purposes of an issuer in pursuit of predefined KPIs and SPTs.

Green Projects

Projects that provide clear environment benefits, which are assessed and, where feasible, quantified by the issuer.

Social Projects

Projects that provide clear social benefits, which are assessed and, where feasible, quantified by the issuer.

Key Performance Indicators (KPIs)

Quantifiable metrics used to measure the performance of selected indicators.

Sustainability Performance Targets (SPTs)

Measurable improvements in KPIs on to which issuers commit to a predefined timeline.

Note: Social Loans and Sustainability Loans are additional sustainable finance mechanisms that are less common across commercial real estate than those described above.

Source: ICMA/LSTA (adapted)

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FINANCIAL INSTRUMENT GUIDANCE

The principles and guidelines below outline global best practices around issuing bonds or loans that serve social and/or environmental purposes and are published by the International Capital Market Association (ICMA) and Loan Syndications and Trading Association (LSTA).

USE OF PROCEEDS



Core Components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Key Recommendations:

1. Bond Frameworks
2. External Reviews

Commercial Real Estate Projects:*

Green Projects:

- Green buildings
- Energy efficiency/Low carbon retrofits
- Renewable energy
- Climate change adaptation
- Biodiversity and conservation
- Clean transportation

Social Projects:

- Affordable housing
- Socioeconomic advancement and empowerment
- Programs designed to prevent and/or alleviate unemployment from socioeconomic crises or climate transition projects

GENERAL PURPOSES



Core Components:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond Characteristics
4. Reporting
5. Verification

KPI Criteria:

KPIs should be:

- Material to the corporate issuer's core sustainability and business strategy,
- Under management's control,
- Measurable or quantifiable on a consistent methodological basis,
- Externally verifiable, and
- Able to be benchmarked

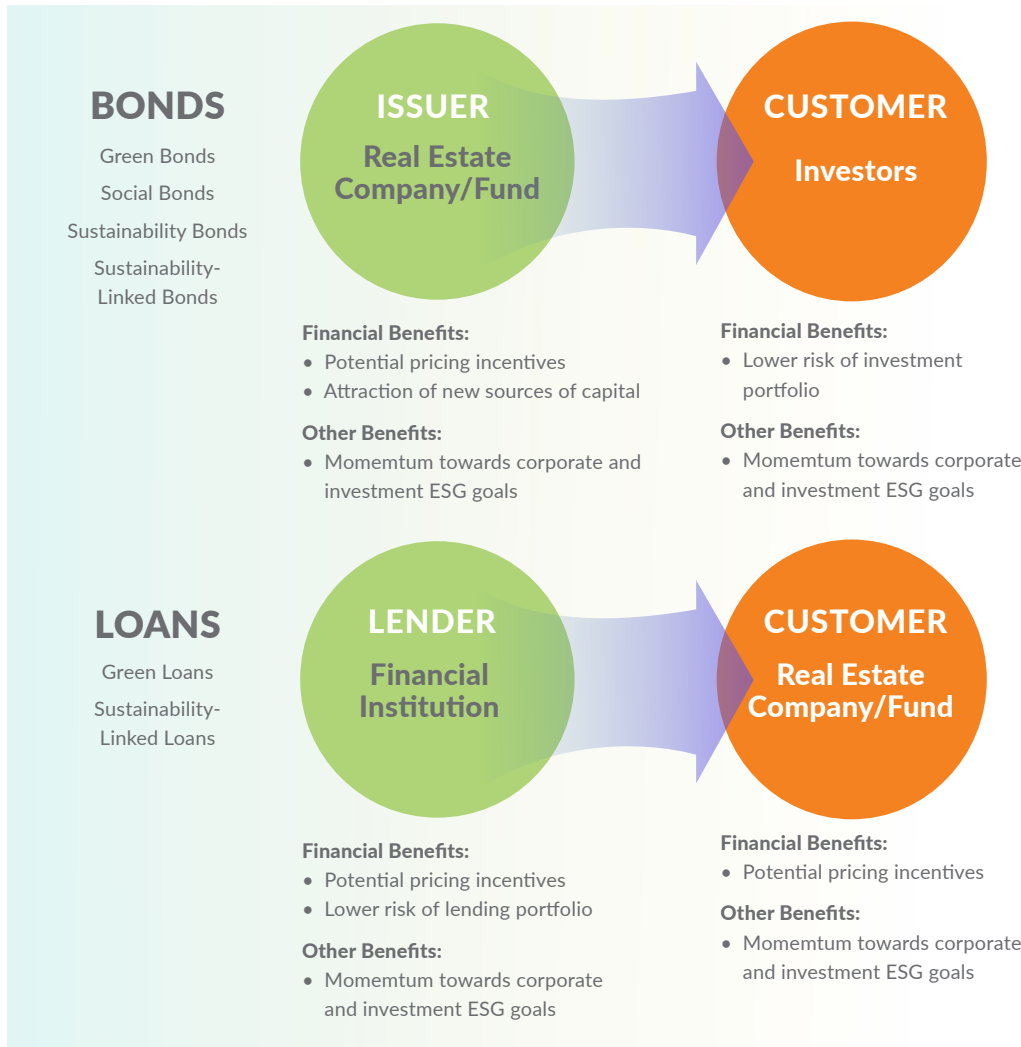
Commercial Real Estate KPIs:*

- Carbon emissions
- Energy consumption
- Diversity, Equity & Inclusion
- Green buildings

* Non-exhaustive list.

STAKEHOLDER BENEFITS

Sustainable finance mechanisms provide benefits across a range of stakeholders, including the following:



SPOTLIGHT



Canada Infrastructure Bank (CIB)

The Canada Infrastructure Bank (CIB) is a federal Crown corporation established to ensure Canadians benefit from modern and sustainable infrastructure through partnerships between governments and the private sector.

Their Building Retrofits Initiative (BRI) provides attractive financing for building decarbonization projects in order to reduce investment barriers and drive carbon savings.

Private sector building owners of commercial, industrial, and multi-unit residential buildings are eligible for financing.

Financing can be accessed through three different approaches:

1. Direct investment loans to owners of single or multiple buildings (\$50M minimum),
2. Participation and agency agreement with first ranking mortgage lenders,
3. Privately-owned special purpose vehicles (SPV) created for parties such as:
 - Existing Energy Service Companies (ESCO) and contractors, or
 - Property management firms, or
 - Third-party investors

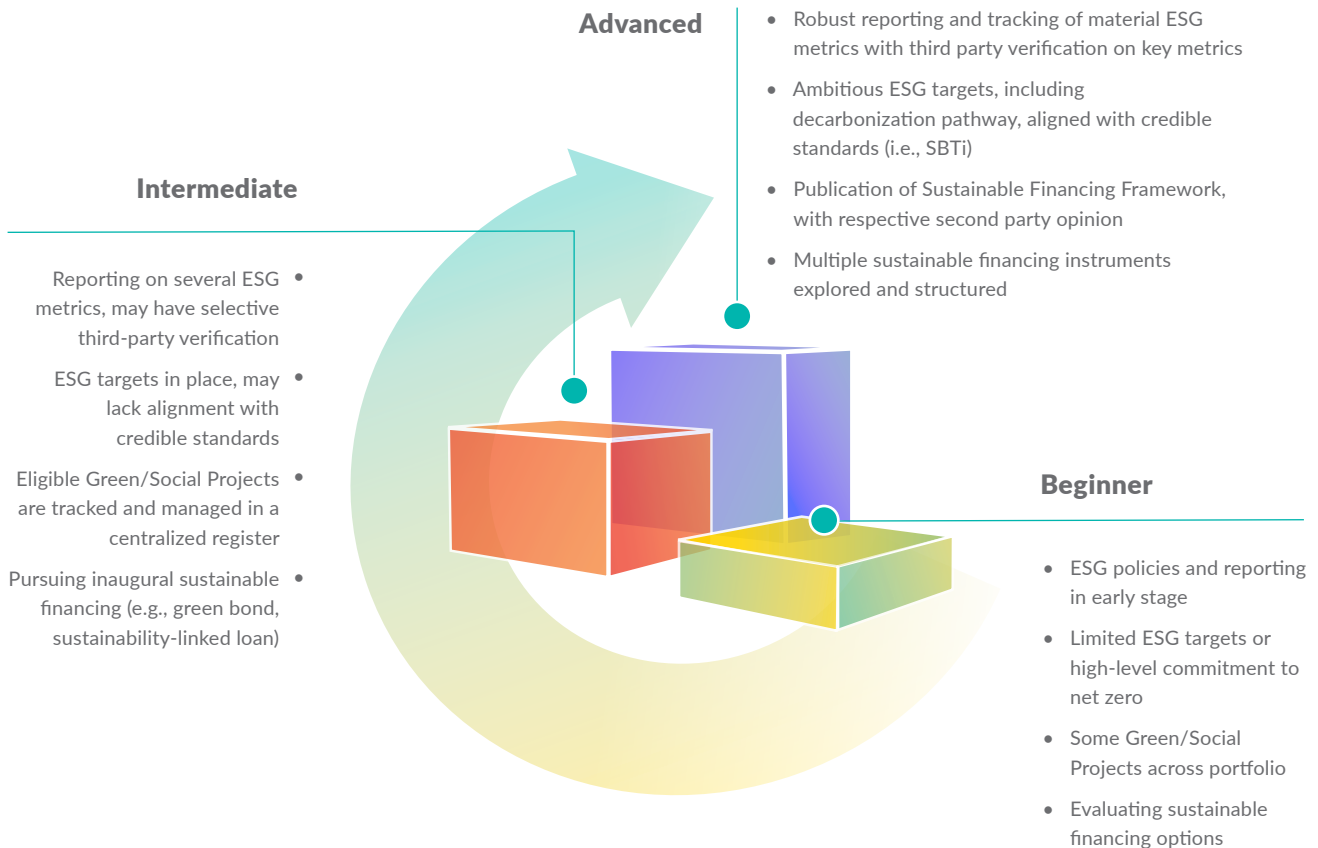
REPORTING & VERIFICATION

	Annual Reporting	Verification
Use of Proceeds		
Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments. The annual report should include a list of the projects to which proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact.	✔	✘*
General Purposes		
Issuers of SLBs & SLLs should publish, and keep readily available and easily accessible (1) up-to-date information on the performance of the selected KPI(s), (2) a verification assurance report relative to the SPT(s), and (3) any information enabling investors to monitor the level of ambition of the SPT(s). This reporting should be published at least annually.	✔	✔

Note: External reviews are strongly recommended and industry best practice. It is recommended that issuers appoint (an) independent provider(s) to assess alignment of their respective finance framework with the core components of the ICMA Principles prior to issuance. A Second Party Opinion from an institution with environmental/social/sustainability expertise that is independent to the issuer is one of the most common external review types.

PERFORMANCE SPECTRUM

A successful Sustainable Finance program requires a strong foundation within organizations as well as a series of clear and sequenced actions. “Beginner”, “Intermediate” and “Advanced” performance levels are summarized below.



KEY REFERENCES



The International Capital Market Association brings together members from all segments of the wholesale and retail debt securities markets to promote the development of the international capital and securities markets, pioneering the rules, principles and recommendations which have laid the foundations for their successful operation.



The Loan Syndications and Trading Association brings together thought leaders from major firms industry-wide to promote a fair, orderly, efficient, and growing corporate loan market while advancing and balancing the interests of all market participants.



Climate Bonds Initiative is an international not-for-profit organisation working to mobilise global capital for climate action. Climate Bonds has played a central role in integrating science-based definitions in line with the Paris Agreement into the green bond market.



Industry initiative that brings together lenders in the private credit and syndicated loan markets to improve transparency and accountability. The ESG IDP has established a template that provides borrowers with a harmonised and standardised means to report ESG information to their lenders.