



Green Tagging: Mobilising Bank Finance for Energy Efficiency in Real Estate

REPORT FROM THE BANK WORKING GROUP 2017

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Climate Strategy & UN Environment Inquiry



The Financial Case for Green Tagging, Steps to Catalyze the Finance Market for EE



- **Green Tagging** refers to a systematic process whereby banks identify the environmental attributes of their loans and underlying asset collateral as a tool for scaling up sustainable finance.



1

There would be a leap in market transparency on the flows of finance to **energy efficient** assets and products

2

This data could provide valuable information on the portfolios of **energy efficient** loans that could be packaged as asset backed securities into green bond

3

It would provide the basis for evaluating the financial performance of **energy efficient** loans relative to their inefficient alternatives



The Financial Case for Green Tagging

Global Dimension



- The **gap** between what is **being financed** and **what is needed** is considerable.

- **UN SEforAll** estimates that **US\$560 billion a year is needed to double the global rate of EE improvements** – but only around US\$200 billion is currently being deployed

- Interest is also growing in the so **far largely untapped potential for issuing green bonds** backed by energy efficient buildings and vehicles.

- The **green bond market** has seen exponential growth over the past few years, from **US\$ 11 billion** of annual issuance in **2013** to surpassing the **US\$ 100 billion** landmark in November **2017**.

European + National Dimensions



- Europe needs **€180 billion** in additional annual **clean energy investment**, **three quarters of which is required for EE in buildings**, to keep the increase in global temperatures to well below 2 degrees Celsius.
- Making this happen will require **European banks** to better understand the **environmental performance** of their housing **loan book**.
- **France: Disclosure.** Article 173 of the Energy Transition law²⁸ requires **listed companies** and **FIs** to show how their activities are aligned to a **low-carbon economy**.
- **The UK: Green mortgages:** Policymakers are also increasingly focused on how to **encourage green mortgages to close the energy efficiency investment gap**.

Current Practice in Green Tagging: Results from the European Bank Working Group



- 10 European banks took part in a 20-question survey and review process during 2017:



Berlin Hyp

BBVA

 UniCredit Group

LLOYDS BANK



S|E|B

Triodos  Bank

HSBC 

 Volksbank
Banca Popolare

ING 

Bank Survey Addressed 3 Main Areas:

1

Separating the broad **Green Tagging** concept into its component parts

2

A deep-dive into the use and potential for green tagging residential mortgages and commercial real estate loans

3

A set of forward looking questions designed to orient thinking through the regulatory context for green tagging and connect to other initiatives working in this space.



Results from the European Banking Survey

Current Practice in Green Tagging: Internal Leadership & Interest and Implementation



Observed level of interest in Green Tagging by different bank departments

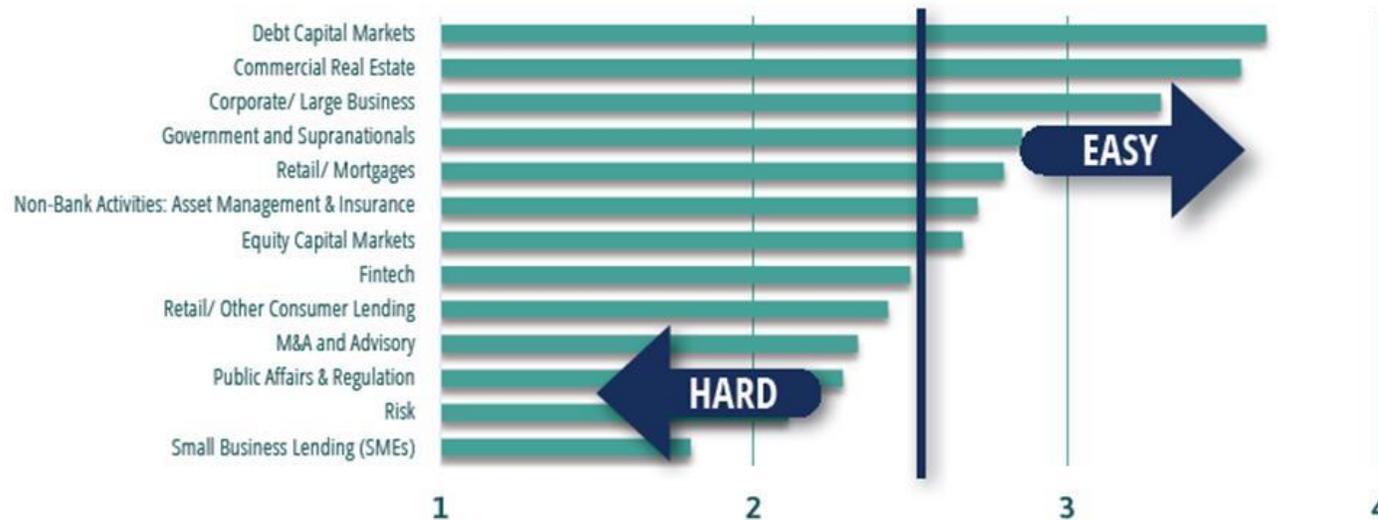


- Leading the interest in green tagging is commercial real estate where over half of banks noted that a green taxonomy was already being used.
- Debt Capital Markets also leads in interest as well as units which work with large businesses and corporates.

Current Practice in Green Tagging: Internal Leadership & Interest and Implementation



Ease of integration of Green Tagging in different bank departments



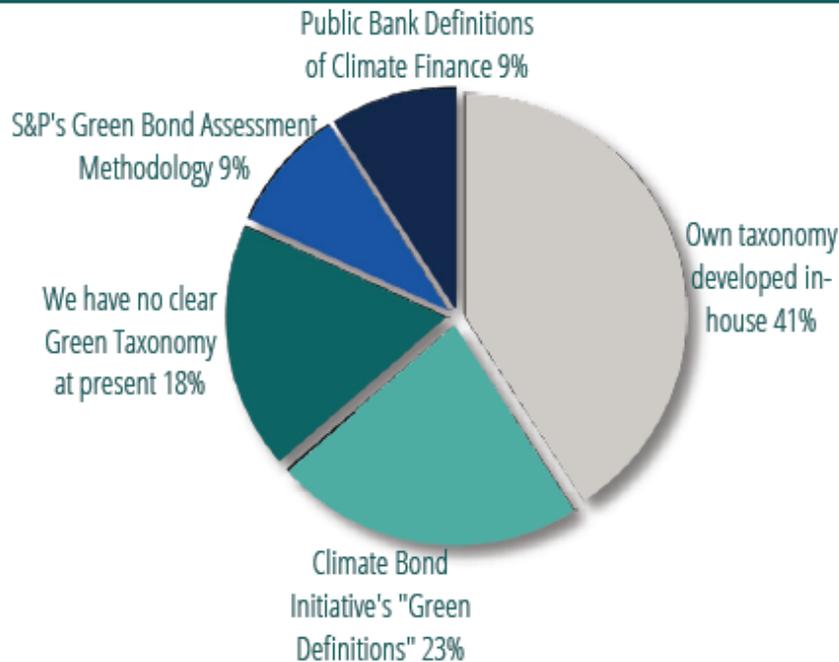
- There is a significantly stronger interest in green tags from the corporate and large business bank lending areas, than from those covering SMEs with banks suggesting it would be significantly easier to
 - Implement **green tags** across their large corporate businesses (where five already do) than for loans to SMEs



Current Practice in Green Tagging: Definitions

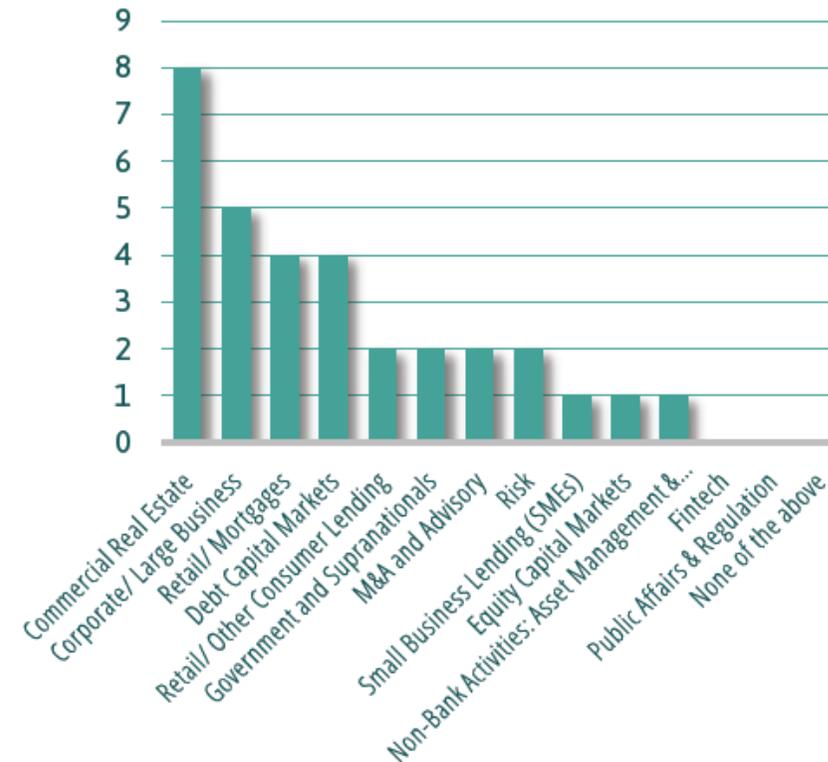


Definitions of “Green”



- Over 40% of responders note that their bank uses its own definition of “green” with the most popular external public definition set being those provided by CBI – and some of the own approaches also are influenced by these

Which Departments already use some definition of “Green”



- The divergences in “green definitions” were explained by some banks because internally each sector and product has developed its own “sustainable business growth strategy”.

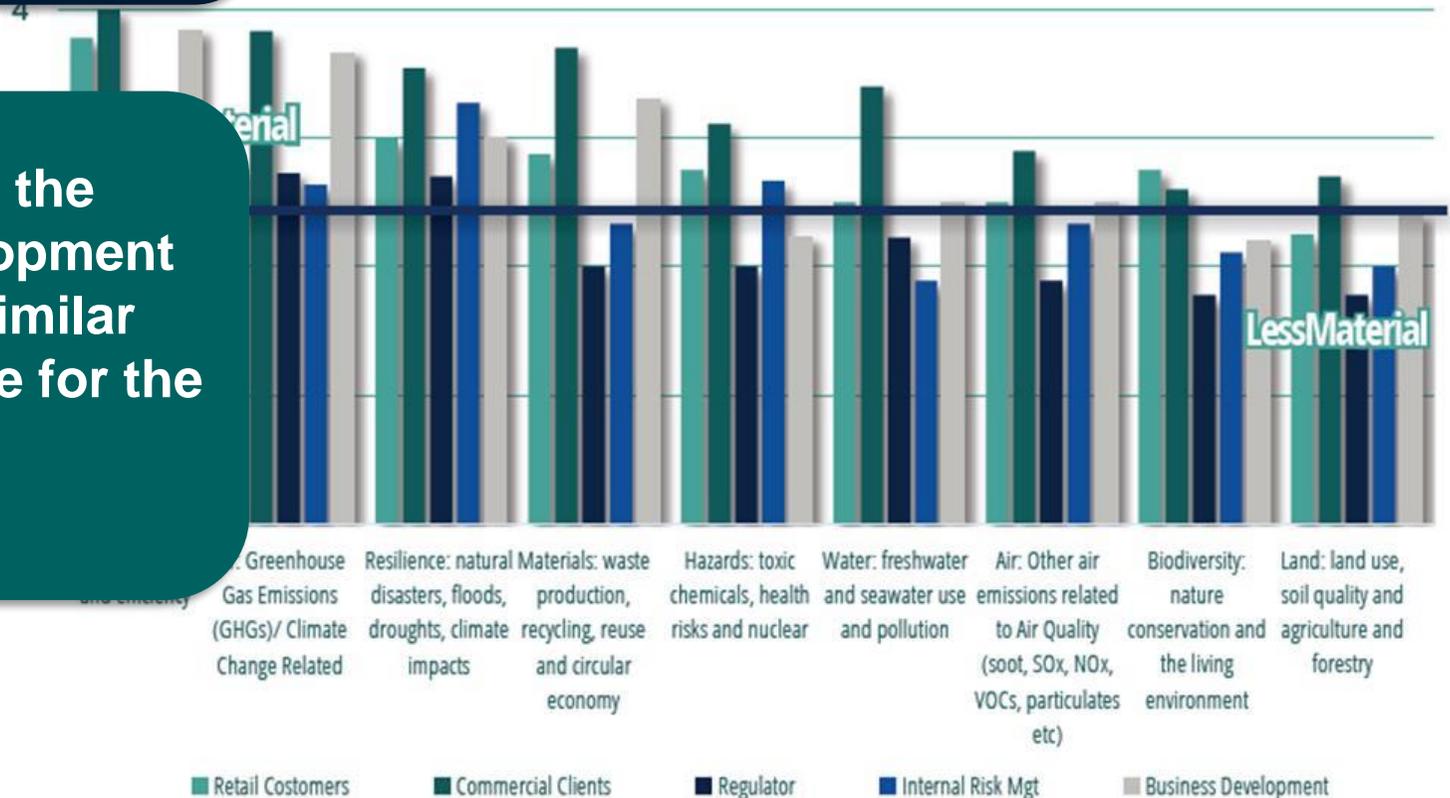
Current Practice in Green Tagging: Materiality



Banks' commercial clients represent the major pull factor for green tagging.

How Banks see the Materiality of Different Components of "Green" to different Stakeholders

For this reason, the business development teams show a similar materiality score for the leading green components.



Green Tagging in Commercial Real Estate

Value Drivers for “Green Tagging” of Commercial Real Estate



The drivers of this advance are:

- An increased access to green bond markets
- Increased value of green properties
- Improved climate disclosure

And an expected positive correlation between loan performance and the energy performance of the underlying building

Green Tagging in Commercial Real Estate



While the barriers for greater deployment are weaker than the drivers

"Strength" of Commercial Real Estate

Lack of evidence for positive correlation between loan performance and green attributes

A lack of internal resources and costs of inclusion of additional fields as well as higher quality energy performance data and more evidence for green and economic performance correlation are considered meaningful



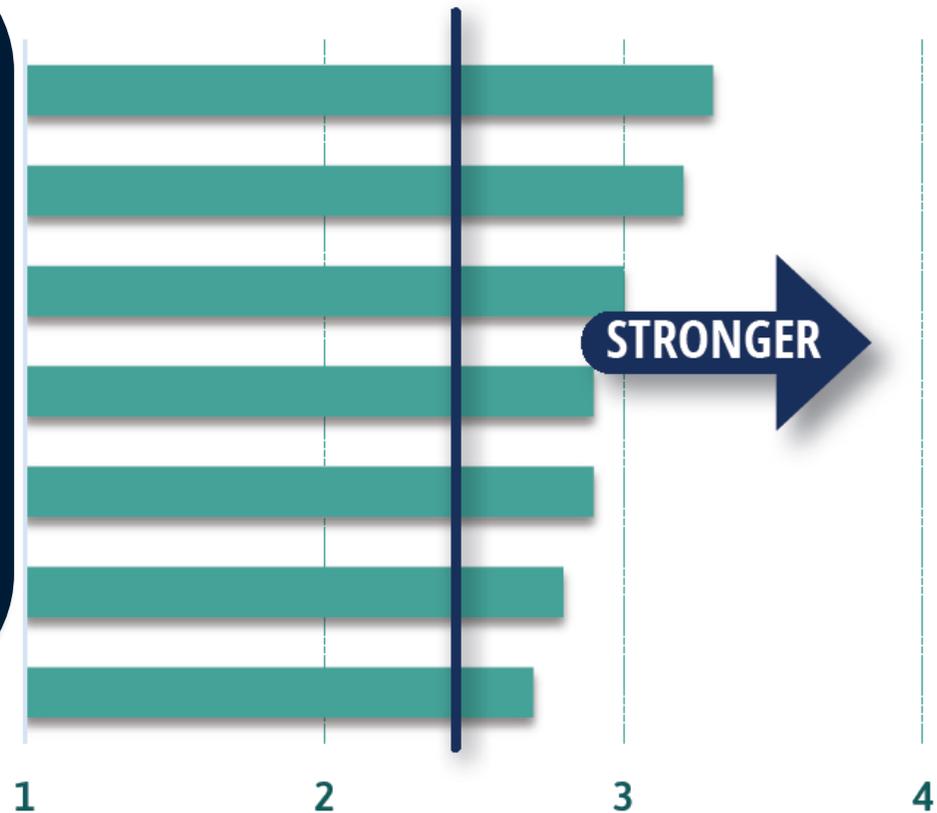
Green Tagging in Residential Mortgages



Value Drivers for “Green Tagging” of Residential Mortgages

Compared to commercial real estate, the drivers of “green tagging” in residential mortgages relate more to:

- Improved climate disclosure
- Access to the green bond Markets
- Better risk management and regulatory compliance



Green Tagging in Residential Mortgages



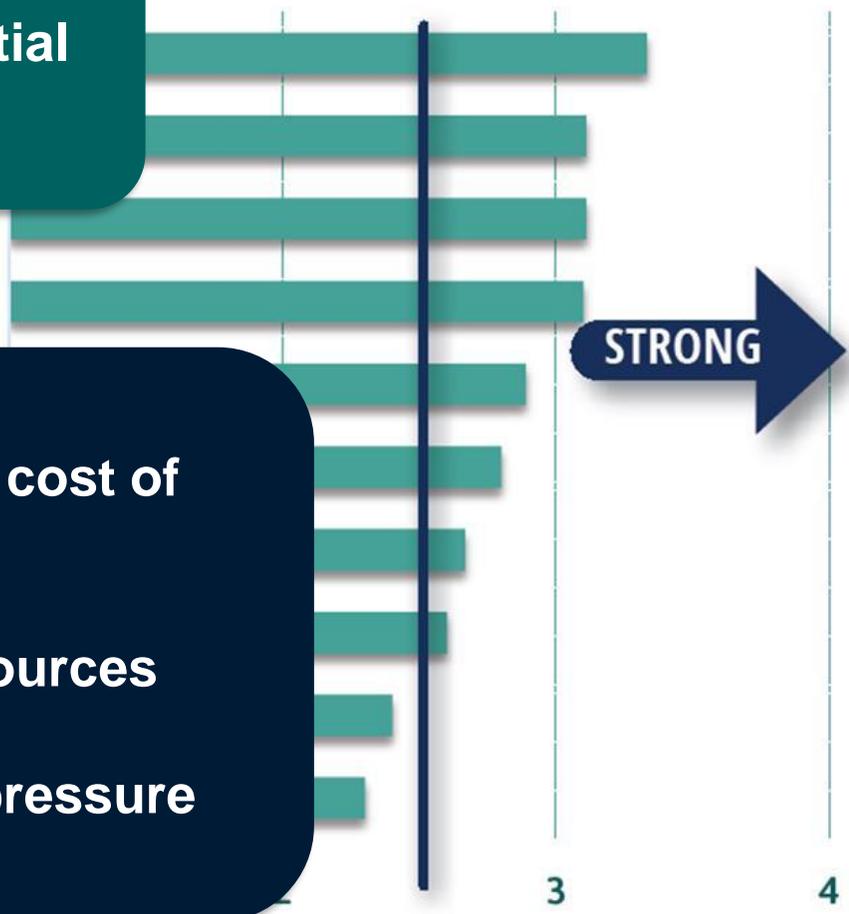
Barriers to Green Tagging in Residential Mortgages

Key barriers for green tagging in residential mortgages

Historically, EPC label was not available for residential mortgages

No current regulatory benefits to attaching "green attributes" to residential mortgages

Lack of internal resources to implement



- Issues of the increased cost of green data inclusion,
- The lack of internal resources
- The lack of regulatory pressure

Green Tagging in Residential Mortgages



Mapping of Green Data for Residential Mortgages

The data required for green tagging of residential mortgages seems to fit well that already available

through combining data from EPCs and existing mortgage records.



Existing and Future Progress on Green Tagging



Timings of Green Tagging

How long has your bank been thinking about "Green Tagging" for any kind of real estate ?

How many years data can you/ have you run a backwards looking correlation for correlation for property energy efficiency performance vs credit performance ?

How long did it/ would it take to integrate "Green Attributes" as extra fields in the bank's mortgage records ?



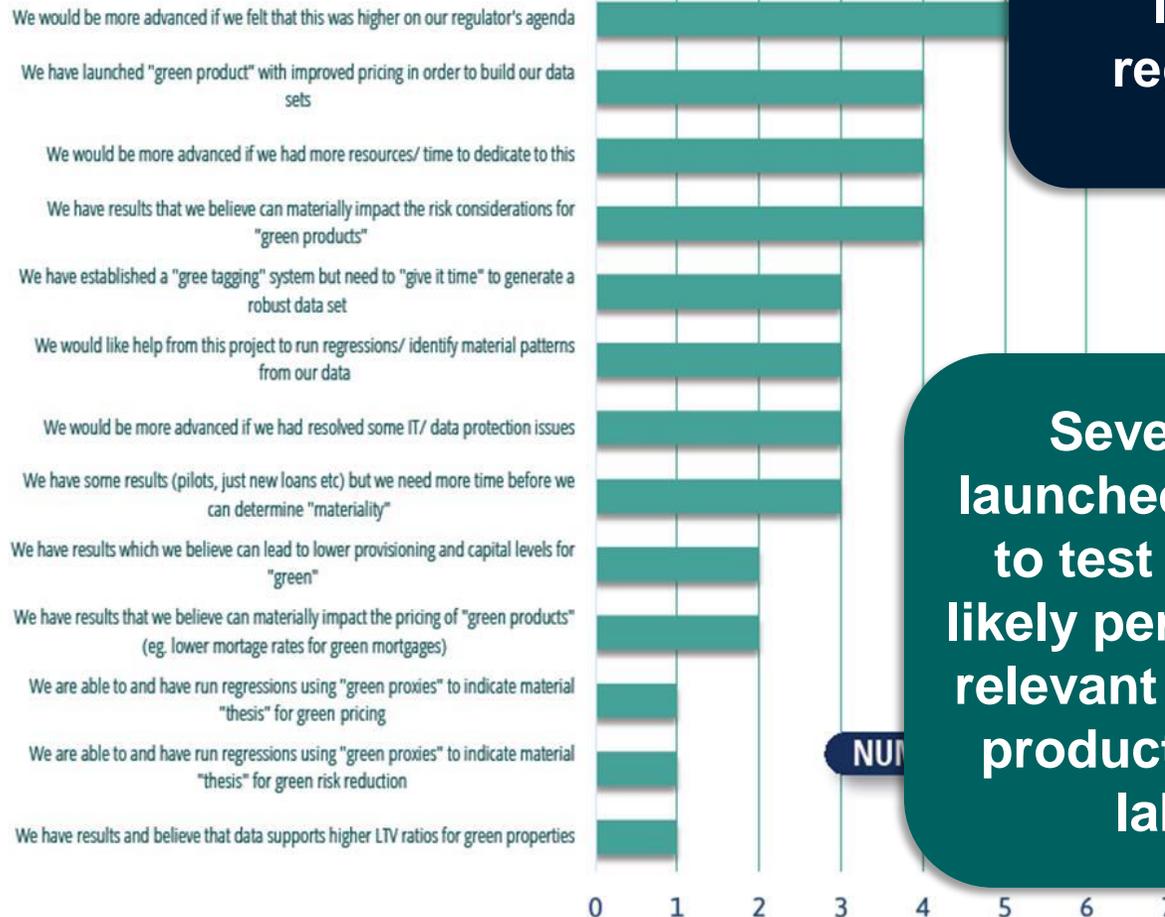
While the average amount of time the surveyed banks have been considering Green Tagging is four years

Several of these have been attaching green attributes to the properties that back residential or commercial mortgages for the last three years, on average

Existing and Future Progress on Green Tagging



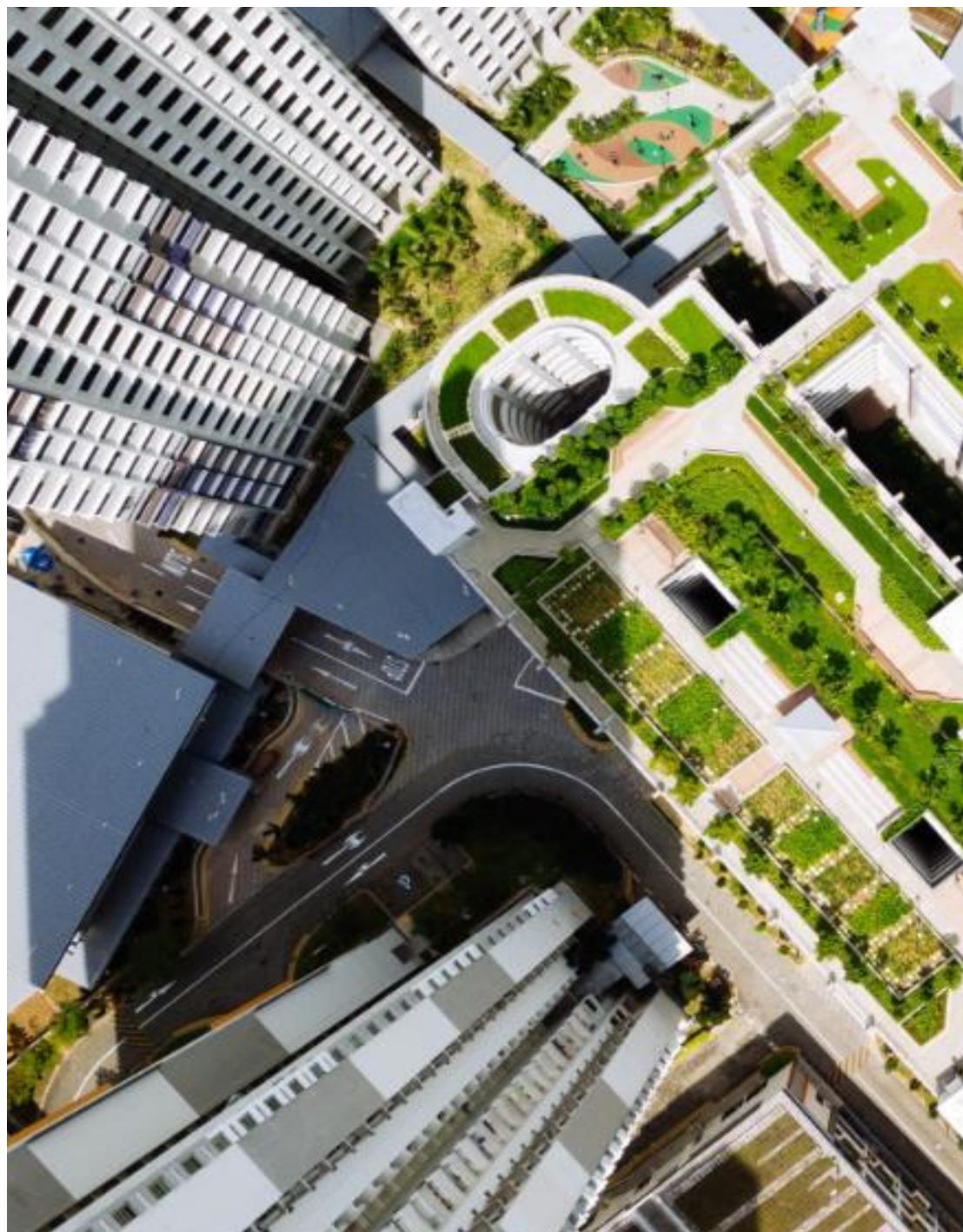
What can accelerate Green Tagging in Banks



To accelerate green tagging, clearly banks look towards their regulator's agenda to detect its priority



Several of the banks have launched green products already to test their theses around the likely performance and to compile relevant data on how these green products compare to their non-labelled equivalents.



Bank Case Studies





Tool Directed at Commercial Clients

- Connects borrowers with technical partners to implement solutions and highlights the multiple government subsidies available.
- ABN AMRO will finance 100% of the investment and has reserved EUR 1 billion for this purpose.

Tool Directed at Homeowners

- Provides customers an overview of the sustainability of their homes and the potential positive impact of 'green' improvements regarding: payback time, comfort and environmental contribution.
- Clients requiring personal advice can be assigned an Energy Passport – a customised digital report detailing how they can make their homes more sustainable.



ABN AMRO own Buildings

- **50% of the buildings occupied by ABN AMRO have an A energy label. In the case of properties owned by bank, the proportion of is higher at 89%.**
- **Improving the sustainability of its own properties will give the bank key insight and expertise which will be shared with its partners and clients.**



Innovative Approach to Green Finance

Following the success of the issuance, the banks took important steps:

- Its Loan Monitoring System was amended to systemically record sustainability and EE data of the commercial real estate it finances
- A Green Building Commission was installed
- Bank's unified Green Bond Programme, now allows for the issuance of green bonds in a covered bond and a senior unsecured formats.
- By 2020, 20% of Berlin Hyp's mortgage portfolio ought to consist of loans for energy efficient and sustainable commercial real estate.
 - This goal is supported by a 10 basis points discount for loans for green buildings.



**German Regulation
Makes Pfandbriefs
Attractive to
Investors**

- 2005's, the German Pfandbrief Act establishes high level requirements pertaining to the protection of investors.
- Act mandates the level of security offered by a Pfandbrief to be equal to government bonds.



Spain's Most Active FI in the Green Bond Market

Having taken part in placing of €8.275 billion in the first 9 months of 2017, the bank has acted an advisor in the following bonds:

- SSE's (€650 million)
- ADIF AV's (€600 million)
- Repsol's (€500 million)
- Community of Madrid's (€700 million) inaugural public bonds.

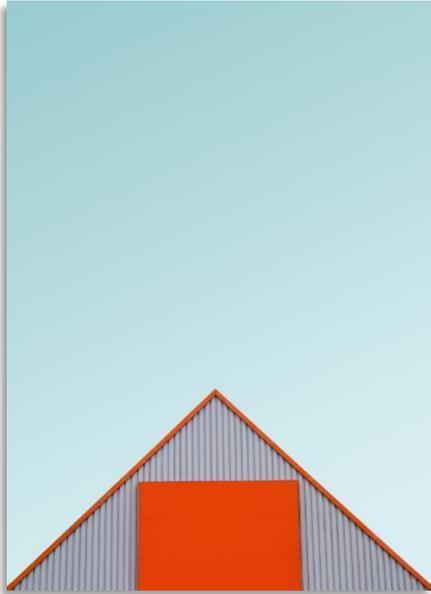
In 2016 the bank acted as lead manager in the following:

- Acciona Green Bond Private Placement
- Iberdrola 3rd Green Bond
- EDF Green Bond
- Mexico City Airport
- Nacional Financiera
- ICO 2nd Social Bond
- Caja Rural de Navarra Sustainable Covered Bond

**BBVA's
Responsible
Business model**

- **Prioritizes the creation of solutions to environmental and social challenges**
- **As a signatory of the Green Bond Principles (GBP), BBVA intends to expand its work with Green Bonds**





Potential Borrowers Get Detailed Energy Options

Entering data on their buildings (e.g. floor area, age and type) they get:

1. **10 feasible energy saving measures on how to lower energy costs and reduce CO2 emissions**
2. If app's **assessment** result in annual energy savings of **over €15k per building**, clients are offered an on-site **BREEAM as** well as an energy audit at no cost.

App's Results are Impressive

1. Used to assess 18k buildings, equivalent to 10 million sqm (65% of ING Real Estate Finance financed portfolio).
2. ING seeks to encourage 5,000 Dutch clients to 'green' their portfolio (28k buildings).

Office Buildings + Green Energy Label Requirements

- In 2018 ING will only provide finance for Dutch office buildings that meet Green Energy Label requirements.
- Policy is aligned with Dutch regulation mandating buildings housing office space from 2023 onwards to have a minimum of a C energy label to be rentals.





£1billion Green Loan Initiative for CRE Lending

Provides incentives for clients through discounted loan margins to:

1. Improve the energy Efficiency of their investment portfolios
2. Cut carbon emissions

Benchmark Sustainability Performance Tool

Developed with UK's Trucost – enables the bank to:

1. Assess the initial eligibility for green loans
2. Determine and set appropriate energy/CO2

Assessment Criteria for Lloyds Bank's Green Lending Scorecard

Property's Sustainability Credentials

- Energy Intensity
- Green Certification e.g. BREEAM, LEED
- Exposure to Minimum Energy Efficiency Standards
- Carbon mix of energy supplies

Borrowers' Sustainability Credentials

- Corporate targets
- Sustainability certification programmes
- Sustainable management practices
- Occupier engagement strategies



SEB's Own Green Bond

Issued in early 2017 valued at € 500 million. Eligible Assets:

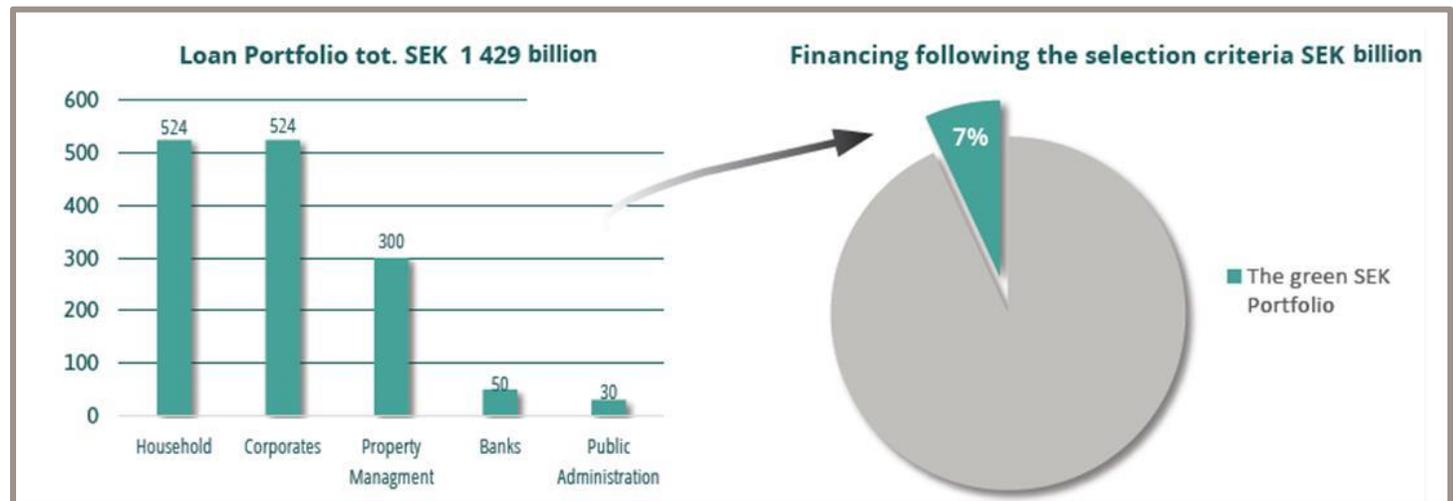
1. Loans to finance and/or refinance projects within the EU and the Nordic region targeting
2. SSA Green Bonds

Green Virtual Balance Sheet

1. **Investors:** separate green financing library offers them a user friendly tool to manage their own green bond portfolios
2. **Issuers:** this tool allows them to benchmark themselves



SEB's Initial Green Loan Portfolio





Triodos Sustainable Real Estate Screen

Combines a series of environmental traits in buildings with issues such as:

- Quality from the perspective of the users
- Experiential value
- Financial returns it produces

Triodos relies on this screen at different stages for two purposes:

1. When buying a property, the screen becomes an assessment tool.
2. During the management phase, to monitor and enhance the quality of the properties.

Triodos Vastgoedfonds

Europe's first sustainable, listed property fund. 2016 Impact indicators:

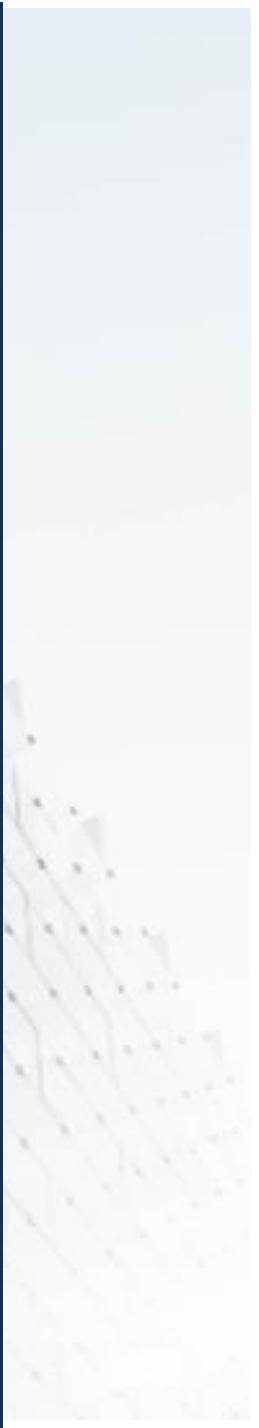
- CO2 emissions of 2,466 tonnes avoided (2015: 2,528 tonnes)
- Total generation capacity solar energy 129 kWp

The average energy use of the buildings in portfolio is 30% lower than the average energy use of office buildings in the Netherlands!



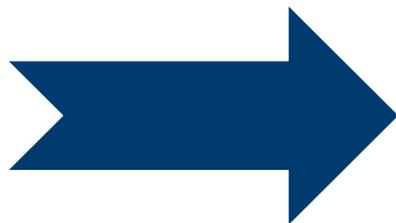


Lessons and Next Steps

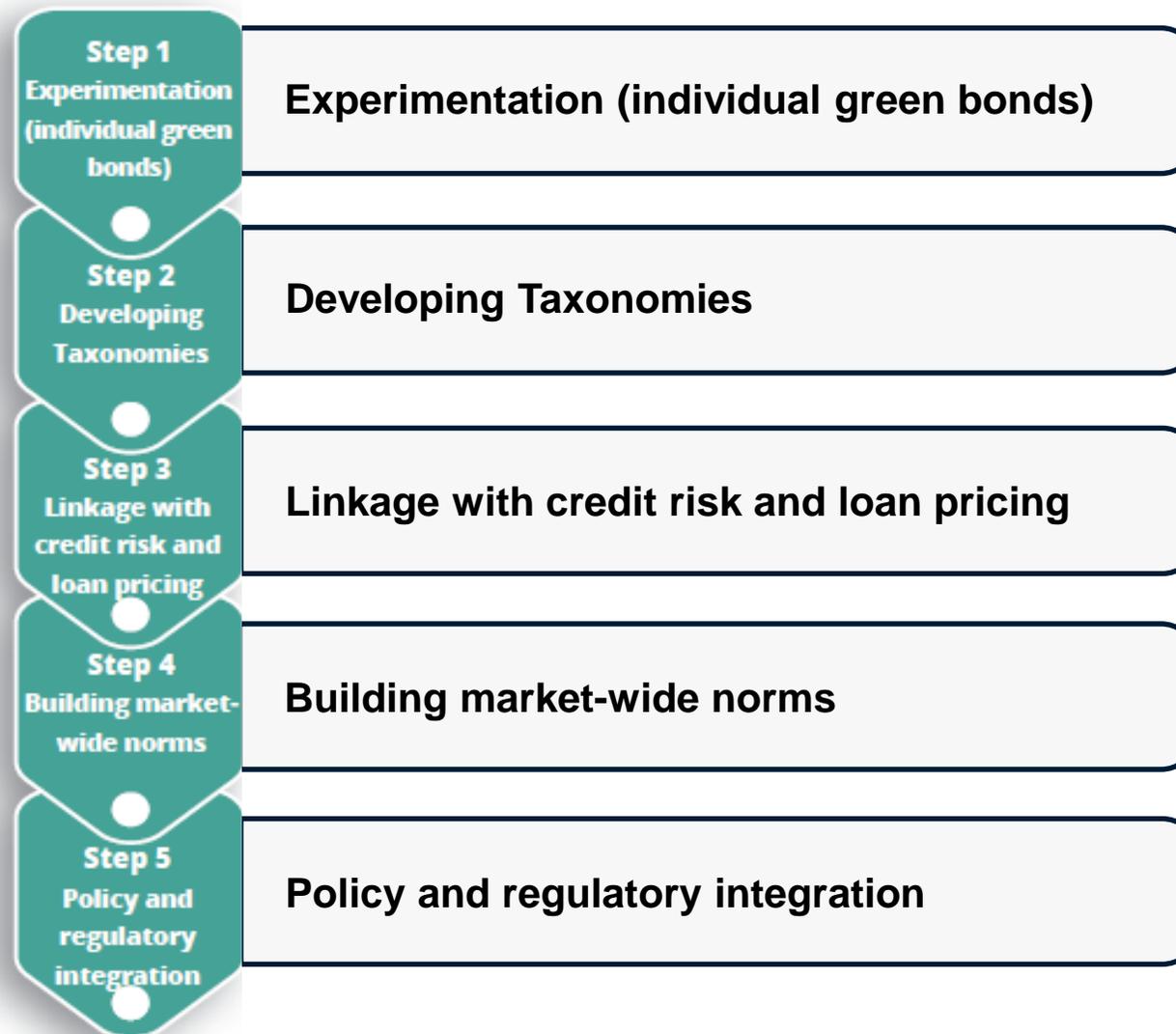


Lessons and Next Steps: Practice is Evolving, Not Yet Systematic

- **Survey Showed Green Tagging is Evolving Rapidly!**



- **A life-cycle of this agenda can be outlined in five steps:**



Lessons and Next Steps: Lessons from Survey on Current Green Tagging

Progress with green tagging involves:

- **Market-wide actions which individual banks cannot accomplish notably in terms of common norms**
- **Regulatory refinements**

1

Commercial ahead of retail

2

Definitions are Critically Important

3

Simplify and Automate

4

Energy efficiency and Climate lead

5

Moving ahead of the Data

6

Regulatory Opportunity

7

EPCs have a central role

8

Internal Priority is Key

9

Leaders are Ready

10

Moving to Performance Analysis

The Future of Green Tagging, Recommendations + Next Steps

- **These 5 steps could be made during 2018 and would help to move green tagging from an interesting field of experimentation into a mainstream and trusted tool for expanding EE finance.**



1

Assess the quantitative relationships between building performance and loan performance

2

Build a common EU database of EPCs and other building data

3

Evaluate the links between building performance and regulatory capital

4

Focus on real estate as a pilot for a common classification system

5

Connect green tagging with the new EU securitisation rules

Thank you!

Please download report at:

UN Environment & Climate Strategy websites

Comment @ClimateSt and #EEFIG



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**Inquiry: Design of a
Sustainable Financial System**

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