



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

**REPORT FROM THE BANK
WORKING GROUP 2017**

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Inquiry: Design of a
Sustainable Financial System



EeMAP
Energy efficient
Mortgages
Action Plan

**La Hipoteca Eficiente:
Como crear una
hipoteca estandarizada
de eficiencia energetica**

Madrid, March 22nd 2018

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Triodos Bank

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



- **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.



- 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**.

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



UniCredit Group



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

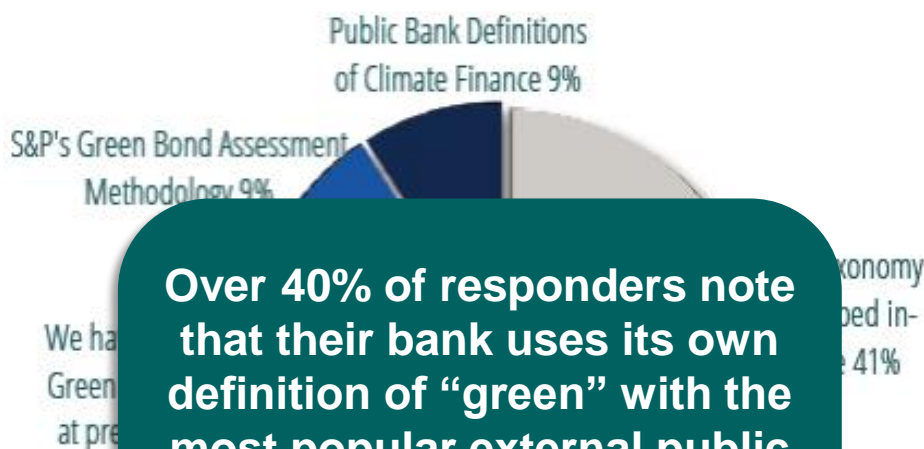
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A set of forward looking questions designed to orient thinking through the regulatory context for green tagging and connect to other initiatives working in this space.

Current Practice in Green Tagging: Definitions

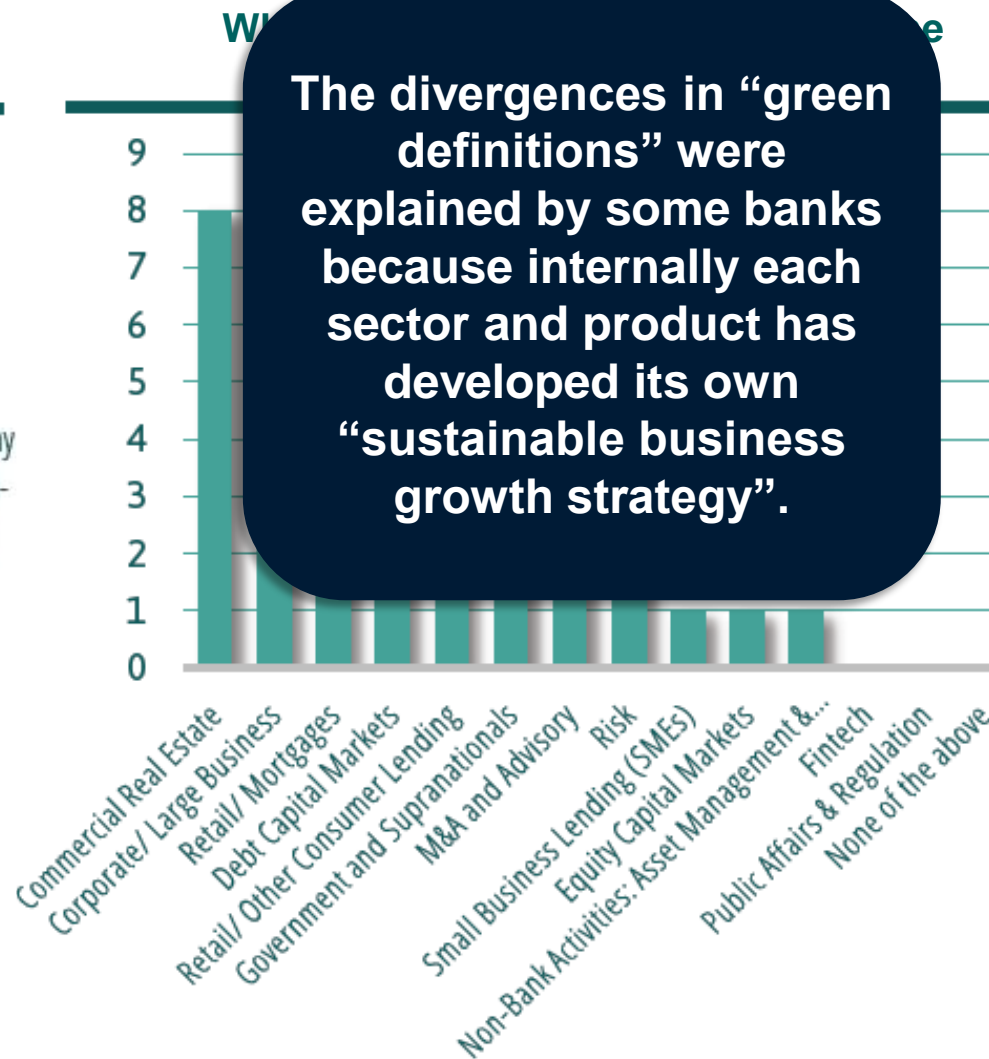


Definitions of “Green”



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



Green Tagging in Commercial Real Estate

Value Drivers for “Green Tagging” of Commercial Real Estate

“Green tagging” of commercial real estate facilitates access to green bond markets

“Green Properties” are more valuable than non-Green ones

“Green tagging” of commercial real estate improves climate-related disclosure

Likely positive correlation between loan performance and energy performance of underlying building

Attaching “Green data” to commercial real estate loans enables better risk management

“Green tagging” of commercial real estate loans facilitates regulatory compliance

“Green labelling” of commercial real estate improves customer up-take and sale

1

2

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

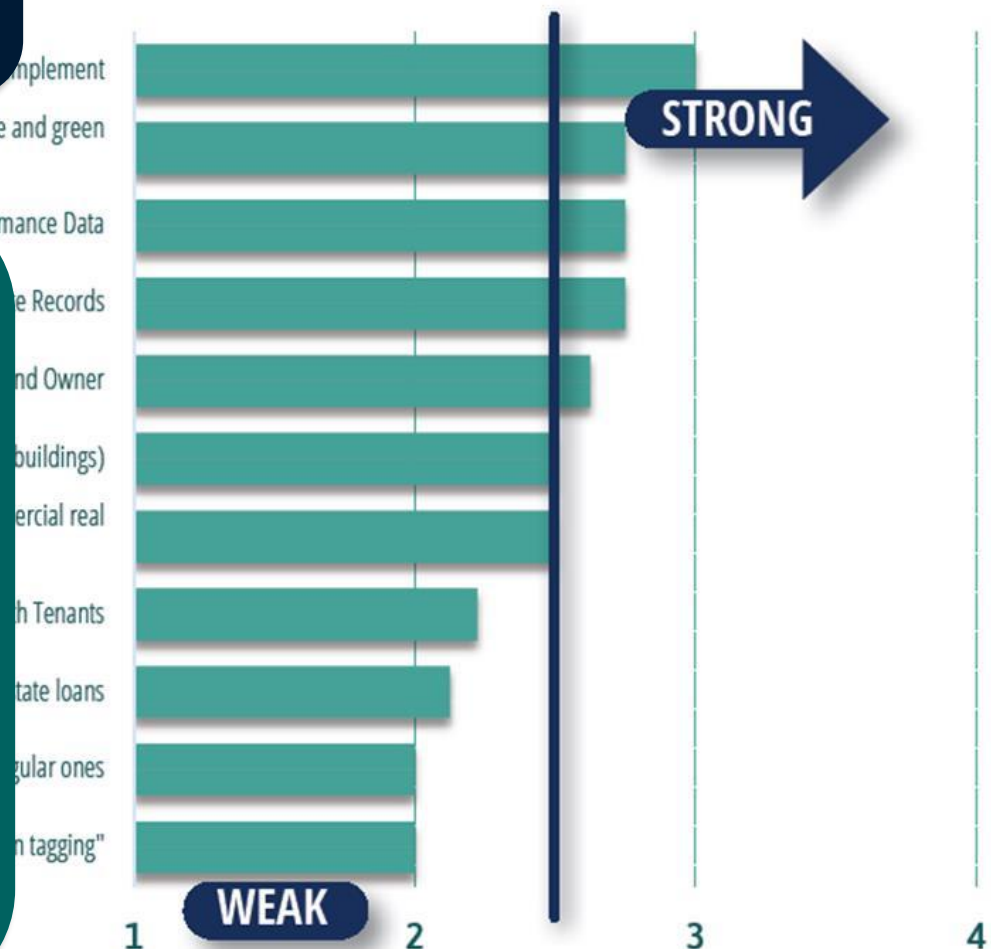


While the barriers for greater deployment are weaker than the drivers

" 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



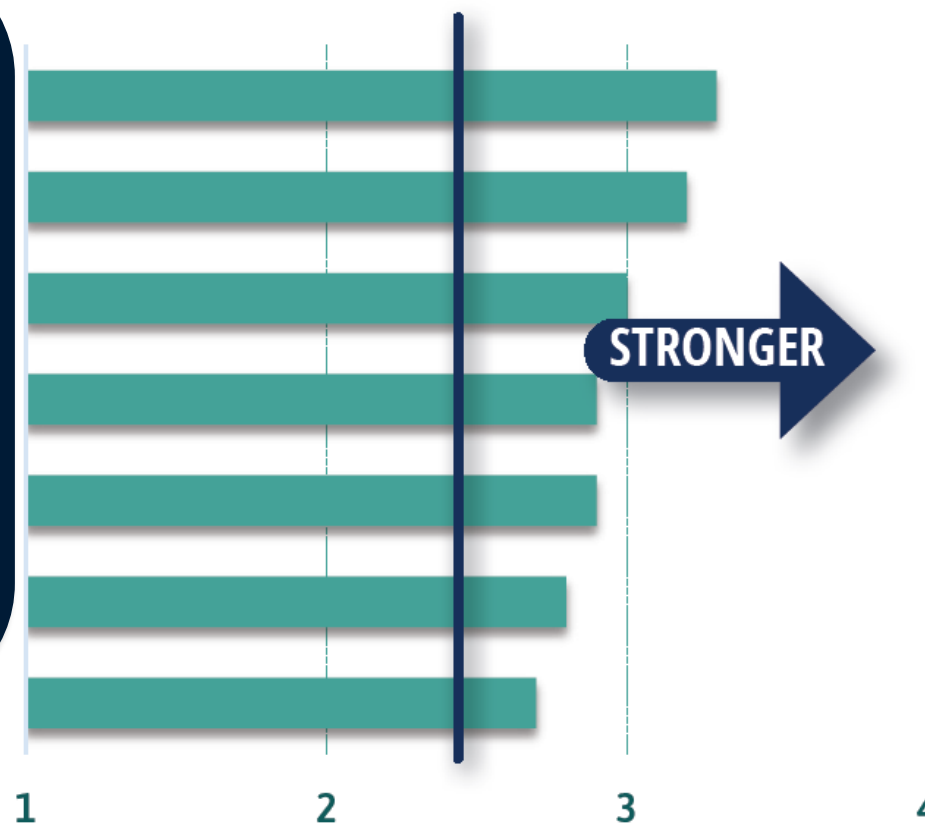
Green Tagging in Residential Mortgages



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

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

Lack of internal resources to implement

Lack of

Lack of evidence

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

STRONG

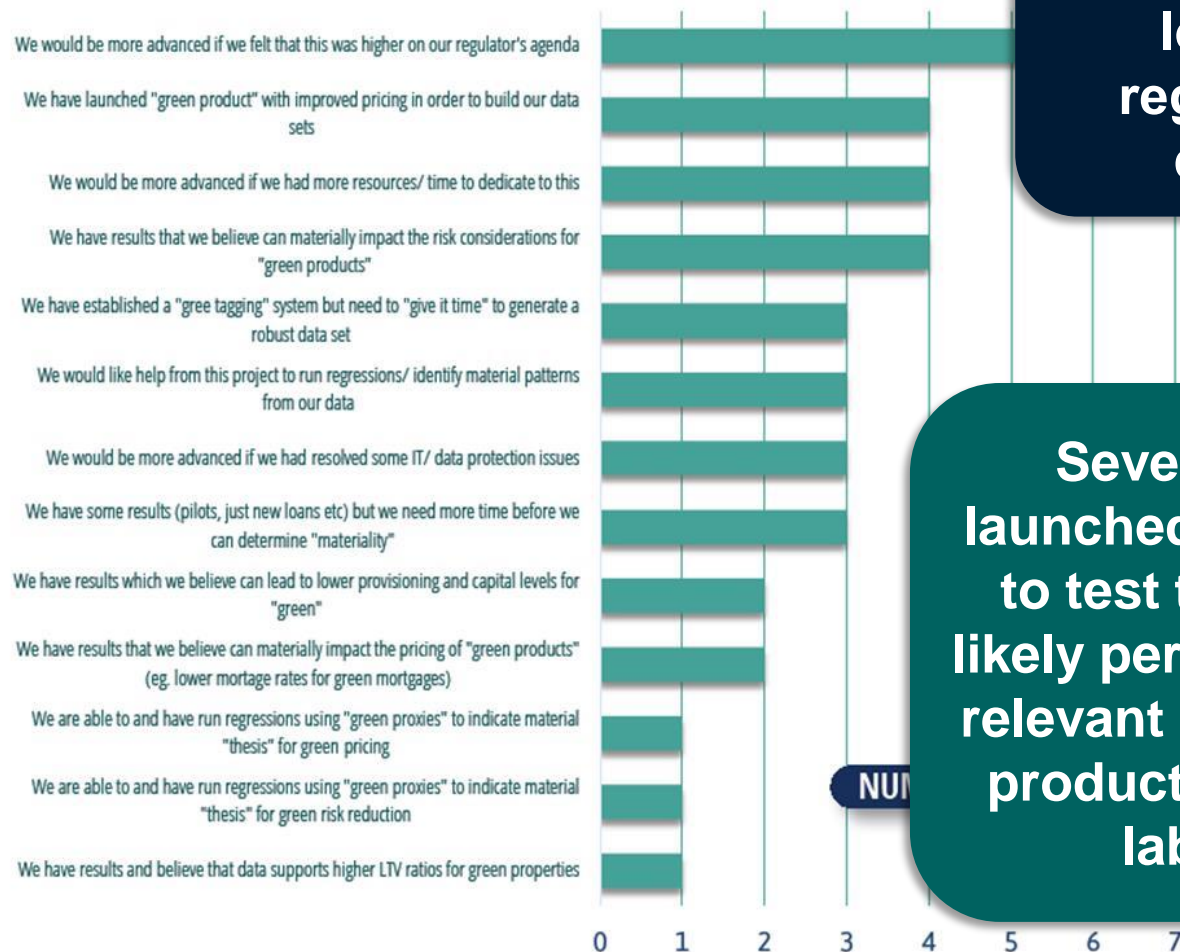
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Existing and Future Progress on Green Tagging



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.

Triodos Bank Sustainable Property and Private Sustainable Mortgages



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!





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 as 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





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**

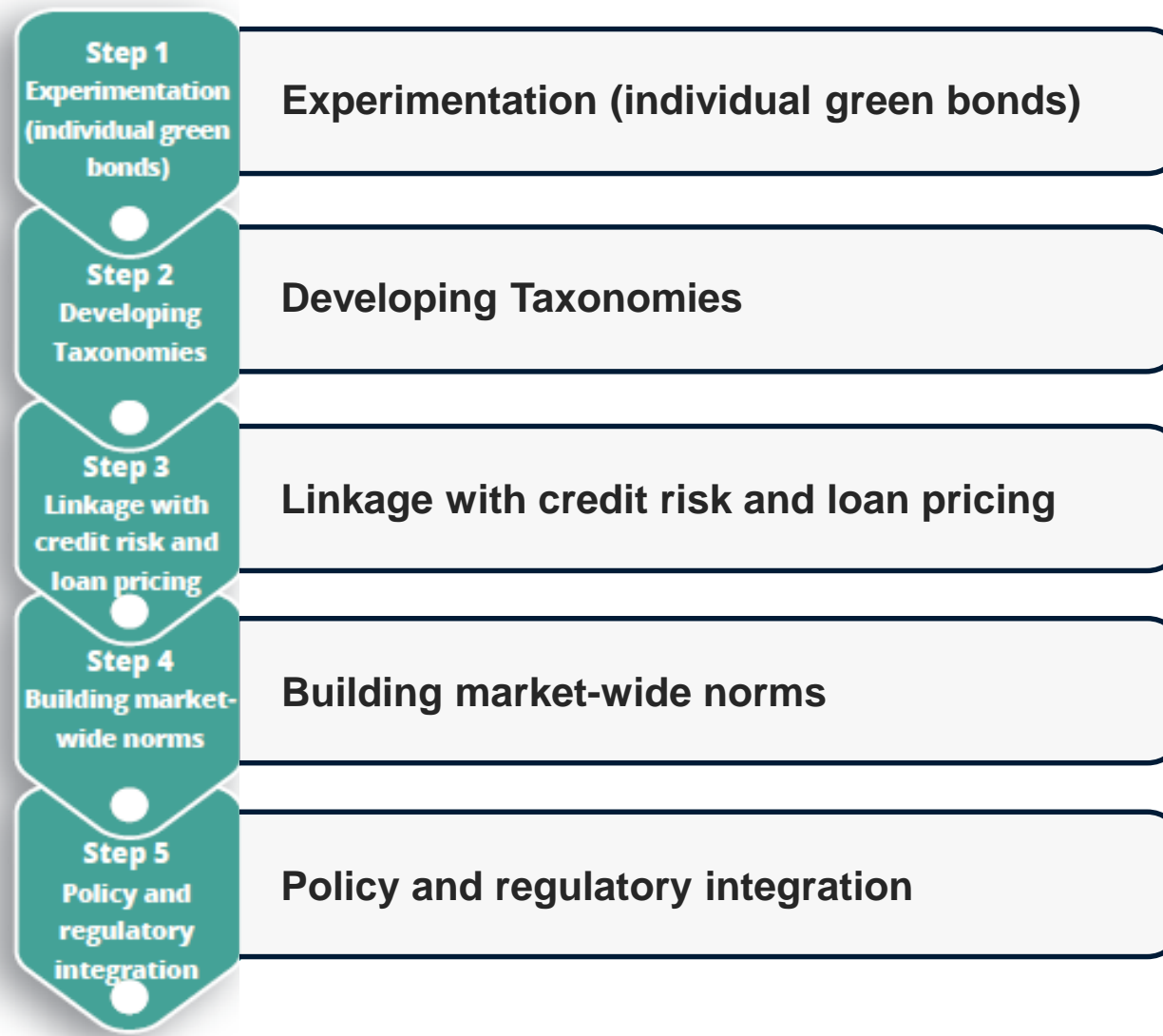
- 2005's, the German Pfandbrief Act establishes high level requirements pertaining to the protection of investors.
- Act mandates the level of security offered by a Pfandbrief to be equal to government bonds.

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:**



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



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Sustainable Financial System**

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