Trends

In the second year of the annual GRESB Real Estate Debt Assessment, three trends emerged:

1. Lenders are enhancing loan underwriting protocols using ESG-based risk management best practices.
2. New debt financing products are specifically designed to target certified green buildings or retrofit opportunities.
3. REITs are issuing more green bonds in advance of anticipated increased capital market demand.

The 2016 GRESB Real Estate Debt Assessment represents the current state of ESG in lending practices as informed by leading primary lenders and private equity investment management firms.

Results show a wide distribution – leaders report systematic underwriting, lending and monitoring programs in various stages of maturity, while quite some lenders still display ad hoc ESG-based risk management with minimal infrastructure required for effective portfolio monitoring.

A clear majority incorporate borrower ESG performance into both due diligence and ongoing loan monitoring. This year’s leaders maintain a clear majority incorporate borrower ESG performance into due diligence and ongoing loan monitoring.

Best Practice

“Colony Capital utilizes a comprehensive borrower ESG risk assessment that informs and monitors adherence to our sustainability standards for property improvements for loans exceeding $10 million. Colony uses these tools to ensure borrower adherence, evaluate impacts on our loan portfolio and identify management opportunities for future process adjustments.”

2016 GRESB Debt Assessment Participant List

- ABN AMRO Bank
- Atrium Finance
- Aviva Investors
- Colony Capital, Inc
- DRC Capital
- Hermes Investment Management
- Intermediate Capital Group
- ING Wholesale Banking
- LaSalle Investment Management
- Mesa West Capital
- PGIM Real Estate
- Standard Life (3 funds)
- Syntrus Achmea
- TIAA Henderson Real Estate
- UBS Asset Management (2 funds)

GRESB Rating

The GRESB Rating is an overall measure of how well ESG issues are integrated into the management and holdings of real estate companies and funds. The rating is calculated relative to the global performance of reporting entities.

Case Study

“TIAA-Henderson Real Estate (TH) utilizes a combination of borrower information, third party surveys and internal processes including an ESG assessment of the borrower and asset to develop a comprehensive risk profile. Results inform our due diligence as evaluated by the Real Estate Debt Investment Committee – this includes Heads of Risk, Treasury, Compliance and Sustainability along with other senior management. The investment committee must approve all transactions.

Where material ESG risks are identified, REDIC will ask the Fund to further investigate ultimately resulting in either rejecting the transaction or appropriately pricing the risk(s) as identified. Two particularly material risks are (1) flood risk and (2) compliance with the England and Wales Minimum Energy Efficiency Standards.

TH’s Head of Sustainability participates in fund strategy reviews including asset performance against benchmarks, makes formal presentations at Board of Director meetings and produces a quarterly dashboard report to the TH Real Estate Operating Committee.”

Leading Lending Program

“ING offers clients a sustainability loan application supplement detailing energy savings possibilities, measures available, and expected return on investment. This differentiated loan programme allows ING flexibility to finance a building at a 5% higher LTV coupled with an 0.5% interest rate discount, making it possible for borrowers to finance the full sustainability investment upgrade.”
Social Bonds

Social bonds are a new capital market product, a direct result of the 2016 update to the Green Bond Principles. Several major issuers stepped forward this year including the EUR 1 billion offering from BNG Bank, a AAA-rated Dutch financial institution that will fund affordable housing projects.

Social bonds aim to address or mitigate one or more specific social issues, seeking to achieve positive social outcomes for target population(s) via:

- Basic infrastructure – clean drinking water, sewers, transport
- Access to essential services – education & vocational training, healthcare, financial services
- Affordable housing
- Employment generation including microfinance
- Food security

Often referred to as “social impact bonds”, these instruments combine components of performance-based financing and public-private partnerships. Typical issuers are government or quasi-government agencies who benefit from the targeted outcomes through lower program costs, increased health/safety/welfare, or a combination of both.

The GRESB Green Bond Guidelines for the Real Estate Sector contemplate outcome-based social measures within its framework. Real estate companies, lenders and fund managers can participate in social bonds by targeting health and well-being attributes within their investment portfolio, delivering affordable housing units, or adding essential services to their investment strategy.

**Green Property Bonds**

GRESB Members lead the REIT market with about $7.2 billion in green bond issuance to date. Over 90% of REITs issuing a green bond participate in the annual GRESB assessment. The capital markets increasingly embrace real estate debt financing tied to ESG factors such as energy/water efficiency, transit-oriented development, and sustainable land use.

**GRESB Investor and Bank Members**

Institutional capital represented by 58 GRESB Investor Members

$7.6 trillion

About GRESB

GRESB is an industry-driven organization committed to assessing the environmental, social and governance (ESG) performance of real assets globally, including real estate portfolios (public, private and direct), real estate debt portfolios and infrastructure. More than 200 members, including 58 pension funds and their fiduciaries, use GRESB data in their investment management and engagement process, with a clear goal to optimize the risk/return profile of their investments. For more information, visit www.gresb.com.