EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Green bonds: driving sustainable change in European Listed Real Estate

Green bonds are firmly on the European financial agenda, which has been fuelled by appetite from both policymakers and industry. Recently the European Commission committed to raising 30% of its Next Generation EU funds through green bonds and introduced a new standard. At the same time, the investment community demand for sustainable products has grown drastically driven by the hunger of investors to demonstrate their contribution to global sustainable goals.

Listed real estate has been at the heart of the action when it comes to green bonds, and this report provides a snapshot of how this is progressing. These developments are here to stay – it is now up to us to ensure they make a difference.

1 About the analysis

The study delves into 29 European listed property companies, EPRA members*, that issued green bonds up until 30 June 2021. The sample includes only outstanding bonds excluding those that have matured.

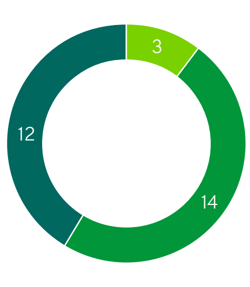
Total size of green bonds issued between 2014 and 2021-H1

€17.3bn

* FTSE EPRA Nareit Index Constituents

1. Number of issuers by market size

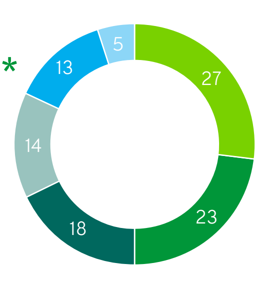
- Small cap less than €1bn
- Medium cap €1bn – €5bn
- Large cap over €5bn



48% of the issuers in the sample represented by medium cap companies

2. Subsectors representation*

- Diversified
- Industrial
- Office
- Retail
- Residential
- Industrial & Office

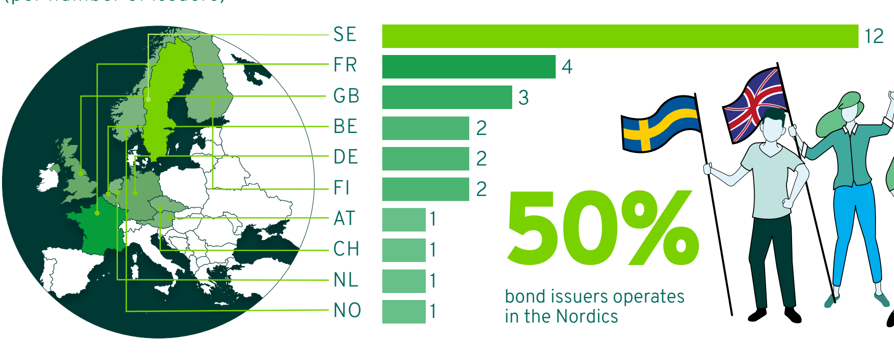


*As defined by FTSE EPRA NAREIT developed index classification

27% of total green bonds size has been issued by diversified sector players

3. Country

(per number of issuers)



50% bond issuers operates in the Nordics

2 A more mature market, but still with high growth potential

Green bonds have continued to grow and evolve within the European listed real estate sector. The market is maturing, and this will provide a robust platform for future expansion.

In the last 5 years listed real estate companies have raised a significant amount of capital using green bonds → Leading to decreasing dispersion and volatility in the financial figures for green bonds → Creating a deeper and more mature market that facilitates the development of sustainable green projects

The cost of capital faced by listed real estate companies in Europe when of issuing Green bonds has decreased in the last 5 years, showing a similar trend to the one observed for corporate bonds and government bonds, although slightly better in terms of the coupon rate.

Spread between Weighted Green Bonds' coupon rate and 10y German Bonds' yield

124bps reduction of the spread between the weighted coupon rate of green bonds and 10y German bond yield between 2014 and 2021

Spread between Weighted Corporate Bonds's coupon rate and 10y German Bonds' yield

118bps reduction of the spread of corporate bonds between 2014 and 2021

Methodology

For the market analysis and the comparison between traditional and green bonds methodology, we conducted an indirect quantitative approach. From the traditional bonds side, EPRA publishes a monthly Loan-To-Value report which includes EPRA constituents weighted corporate bonds rates. Departing from this, we scrutinized the green bonds coupon rates and computed the weighted rates accordingly for each year starting from 2014 – as of 30th June 2021. As the comparison nature is indirect and needed a bridge within a derivative that has similar characteristics, we also derived 10-year German bonds yields on a yearly basis for the same periods and decided to use it as a benchmark of spread calculation for both traditional and green bonds weighted coupon rates for each year. Hence, the market trend can be depicted as shown in the graphs above

3 Projects financed by green bonds

Across Europe and beyond, green bonds are already funding a broad range of projects that are helping to tackle climate change and sector decarbonisation on several fronts.

Green buildings

New development, major renovation, existing and acquired properties that meet certain criteria such as:

1) certain level of voluntary sustainability certifications (LEED, BREEAM, HQE, DGNB, Minergie, SNBS, Miljobyggnad)
2) EPC A and B, or
3) Primary Energy reduction of 30% after renovation

Energy efficiency

e.g. Replacement of windows, insulation, combined heat and power (CHP) plants

Renewable energy

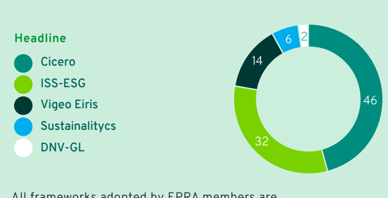
On-site and off-site e.g. photovoltaic panels, wind turbines

Clean transportation

e.g. EV charging stations, bicycle garages and lanes, walkways

Green bonds standard and second opinion

All green bonds frameworks published publicly by the issuers have been reviewed by a second party, in charge to give opinion on the framework adopted and verify its credibility, impact and alignment with the recognised standards.



All frameworks adopted by EPRA members are aligned with ICMA Green Bond Principles 2018.

4 EPRA members' financing in action

EPRA members are using green bonds to both refinance buildings within their existing portfolios and fund new developments and acquisitions. This is creating positive change in several key sectors.

Existing buildings within companies' portfolios

New developments and aquisitions

Based on the information made available through monitoring reports, on annual or semestral basis by the issuers

Sector breakdown and building use (sq m)

21.4m Office

10.8m Retail/ Shopping centres

0.6m Residential

0.9m Education

0.1m Hotel

1.0m Industrial / Logistic

20.4m Mixed-use

5 Green bonds' positive impact in numbers

Green bonds are already delivering a tangible and quantifiable impact when it comes to climate change mitigation and adaptation. There are benefits beyond the environment too: the projects also stimulate economic growth on a local and national level, aiding the recovery.

The projects already financed have generated the following impacts

3.6m sqm Certified buildings

19,377 tCO² avoided/year Associated to energy efficiency investments

22,648 tCO² avoided/year associated to installation of renewable energies

58 tCO² avoided/year Associated to clean transportation

€7bn represent the amount of green debt already allocated to eligible projects, corresponding to the 40% of the total size of green bonds issued since 2014 up until 30 June 2021 by EPRA members.*

*The impacts calculation is limited by the availability of the monitoring reports that for some companies weren't available publicly. We do estimate that the overall impact is much higher but not possible to quantify exactly due to this limitation.

6 Best practices of green and sustainability bonds in listed real estate

Green bonds are now one of the most popular financial instruments following continued growth in 2020 and 2021. Demand for green bonds will only grow stronger, and we expect to see more evolved variations of the product as demonstrated by the emergence of social bonds during the pandemic. Sustainability-linked bonds – which go beyond the traditional use of the proceeds model – are also growing. These trends are confirmed by best practice among listed real estate actors.

Hammerson issued the very first Sustainability-Linked Bond in European listed real estate

The new Sustainability-Linked bond presents an innovative approach to supporting Hammerson's ambitious Net Positive vision and reducing our carbon footprint. The new Sustainability-Linked Financing Framework aligns our existing Net Positive strategy with our Financing strategy. In addition to supporting our sustainability objectives, the bond enabled us to proactively manage our debt maturity profile and to capitalise on attractive conditions in the public bond markets.

Himanshu Raja
CFO, Hammerson

1st

Gecina became the first company in the listed real estate to have a fully green euro bond financing program

1st

Thanks to the support of our bond holders, we have requalified 100% of our €5.6bn existing Bonds into Green Bonds within a global, dynamic and innovative approach. This transformation allows our financing structure to be fully aligned with our CANOP-2030 plan, targeting net zero carbon emissions for our operational portfolio. In addition, it gives us access to the strong demand from investors for Green Bonds as shown by our €500m June issuance with a 15 years maturity at 0.875% coupon.

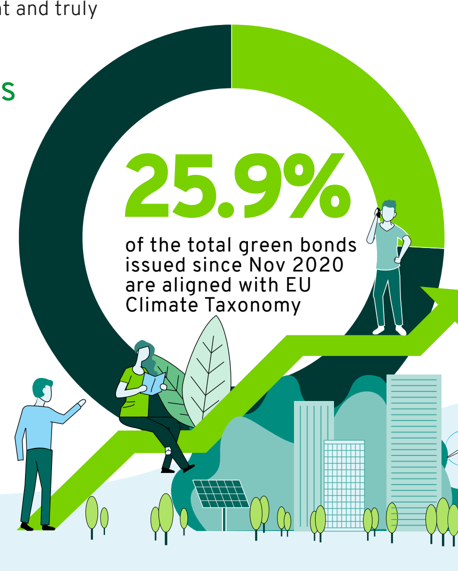
Nicolas Dutreuil
Deputy CEO in charge of Finance, GECINA

7 Towards a more robust regulatory regime

There is still an important amount of work to do to regulate green bonds well at an EU level, to help develop a more transparent and truly environmentally friendly industry.

Share of Green bonds aligned with the EU Climate Taxonomy

- EU Taxonomy aligned green bonds
- Non EU taxonomy aligned green bonds



25.9% of the total green bonds issued since Nov 2020 are aligned with EU Climate Taxonomy

Reference to the report for further reading:
www.epra.com/sustainability/sustainability-library

For more information, please contact EPRA team at:
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