Transcript: Green lending across Europe

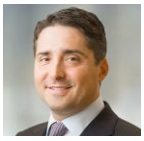
Lending volumes are down in 2024, but proportionally, green loans are up. Why is that?

Dave White: Green lending for us has really become a larger part of our business and increasingly so in recent times. It's certainly something that is driven by demand from our borrowers and gives us a competitive edge in our ability to provide those green loans in this environment.

Brett Ormrod: I think it's important for us to just define what green loans are first. A green loan is a form of project financing that enables us to fund projects that make a substantial contribution towards an environmental objective.

Of course, many of these environmental objectives are linked to decarbonization efforts, which are important when we consider our global 1.5° ambition.

Authors:



Dave White

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As the built environment is the cause for just under 40% of global emissions annually, our sector is vital when it comes to deploying green capital for the transition. Many of our investors are embedding sustainability and particularly decarbonization into their funding requirements now.

How are green loans affecting the market?

Dave: The lending markets on the whole have really become a two-tiered market, with green loans becoming far more prominent than they ever have before.

And this is largely driven by two factors, on one side, our investors and on the other side, our borrowers. And each of those groups have their own sustainability goals, so it's more and more critical that we can help provide solutions to achieving those goals.

Real estate in particular is a substantial proportion of green lending in today's environment.

Brett: Indeed, the market dynamics here are very interesting. The EU estimates that Member states will need to invest approximately €275 billion every year from now until 2030 in order to have any hope in bridging this investment gap and in order to reduce their emissions by 55% by 2030.

How are sponsors and investors responding to sustainability challenges?

Dave: We're really seeing a big push to refurbish existing stock in today's environment, and this pent-up demand really drives the need for green loans on the surface.

Interestingly, JLL recently ran a survey and 83% of respondents said that they view climate risk equal to financial risk. Sponsors in turn we're seeing adjust their plans on a regular basis, and this is compounded by expectations on regulations, which will in turn impact capital allocations.

Brett: Indeed, ESG requirements are certainly growing and becoming more entrenched into the investment decision making process. And as you said, this is in part being led by regulation, notably SFDR and the EU taxonomy that have all seen an increase in investor interest in Article 8 and Article 9 funds.

Dave: Absolutely. And this requirement for more funding really just equals demand for green loans.

What do "green" assets mean for investors' bottom lines?

Brett: We've seen growing evidence emerge that shows sustainable assets outperform more traditional assets, and this is typically in the form of higher rent and low operating costs.

Dave: Absolutely. And in turn, what this does is it lowers the risk points driven by increased liquidity focus on this more resilient cash flow profile. This helps with comfort around how we underwrite exits for our sponsors, whether that's via sale or refinancing.

And ultimately, what that means is borrowers are seeing much more attractive borrowing terms, really driven by this fundamentally more resilient investment profile.

How would you summarize the opportunity for green loans and greener assets?

Dave: With regulatory deadlines looming, the opportunity for green loans is only going to continue to get bigger.

Brett: Indeed, the world is only moving in one direction towards decarbonization. Governments are going to punish this more as time goes on and partly through potentially a carbon tax, and the activity that we're seeing in green lending is in part a realization of this.

Occupiers, buyers and the underlying investors themselves are increasingly carbon conscious and this is driving a potential undersupply of product that they can lease, buy or invest in.

Dave: And really this will continue to drive both supply and demand for our investors and our borrowers, and ultimately, I'm thankful that we have a platform that's capable of providing these solutions.