Impact finance for real estate

The rapid growth of impact finance in recent years has seen sustainability and socially responsible investing move to the top of the agenda.

Malcolm Headley and Christina Tennant argue that real estate finance has to be at the heart of impact finance discussions.

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Malcolm helps clients with their real estate requirements, whether they are acquiring, developing, leasing, managing, disposing or financing. With real estate transactions becoming more complex, he understands the commercial drivers, manages the process efficiently and delivers within often challenging timescales.

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Christina has a wide range of experience in commercial property transactions, acting for investors who are buying and selling properties, and for landowners and developers on the acquisition and development of sites.

In these times of climate emergency and social change, impact finance is becoming increasingly important to real estate investment. The remarkable increase in impact finance in the last few years signals the beginning of a fundamental change in the economy.

Known variously as 'green loans', 'socially responsible investing', 'ethical financing' and 'sustainable financing', impact finance aims to deliver a positive environmental and social contribution, as well as achieving an attractive financial return.

On 2 July 2019, the Department for Business, Energy and Industrial Strategy published the government's Green Finance Strategy, '*Transforming finance for a greener future*'. The strategy aims at:

- aligning private sector financial flows with clean, environmentally sustainable and resilient growth; and
- strengthening the competitiveness of the UK financial services sector.

The catchphrases are 'greening finance' and 'financing green'. This is important to distinguish from so-called 'green washing', which the FCA has described as 'marketing that portrays an organisation's products, activities or policies as producing positive environmental outcomes when this is not the case'.

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The Green Loan Principles were published by the Loan Market Association and others in March 2018 (and were extended in December 2019). In March 2019, they were followed by the Sustainability Linked Loan Principles.

Impact finance can take a variety of forms, whether predicated on a 'green loan' – where the finance is used for 'Green Projects' (such as sustainably accredited buildings, affordable housing and community buildings) – or based on a sustainability linked loan, which incentivises improvements in the borrower's sustainability (judged against key sustainability performance indicators) with cheaper loan terms.

Bloomberg data identified worldwide green and sustainability linked loans to have exceeded $99 billion in 2018 (for which sustainability linked loans accounted for $43.2 billion). The figures in 2019 easily surpassed this, with borrowers raising $62 billion of sustainability-linked loans globally in just the first nine months of 2019.

Buildings account for around one-third of global greenhouse gas emissions and devour 40% of the world's energy. Buildings consume energy and resources during every phase of their lifecycle – from construction and operation, to upkeep and redevelopment. Equally buildings are central to every element of people's lives – their home, workplace, education and leisure.

Real estate finance therefore has to be at the heart of any impact finance discussion. Real estate asset owners, investors and funders are beginning to acknowledge and recognise their fiduciary role to manage environmental and social concerns as a fundamental part of their business practice and management.

Lenders such as Schroders, BNPP, ING and Triodos are now heavily promoting sustainable real estate finance. The market for impact finance is likely to accelerate in the coming years.

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