

Unlock Sustainable Finance for Retrofits of Legacy Stock of Approved Housing Bodies



Presentation at Report Launch Environmental Leadership Housing Alliance

Dublin, September 19th 2023

Today's speaker Ad Hereijgers, Business Development Director and Sustainability Lead at RITTERWALD Consulting

Speakers Introduction



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Publications in eolas magazine – 2020/22

Sustainable business performance of social housing providers

- Unveils the potential of Approved Housing Bodies to disclose great ESG credentials

Approved Housing Bodies are key to growth of social housing sector in Ireland

- Describes several development pathways for AHBs to successfully grow and prosper

Pan-European perspective on Ireland's rental housing challenge

- Stresses the key role of AHBs in providing for high affordable housing demand

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RITTERWALD successfully advises the real estate sector in Europe and is expanding its services with the establishment of HYSTAKE

Introduction RITTERWALD and HYSTAKE



Since 2011 RITTERWALD is a pan European consulting firm (35+ consultants)

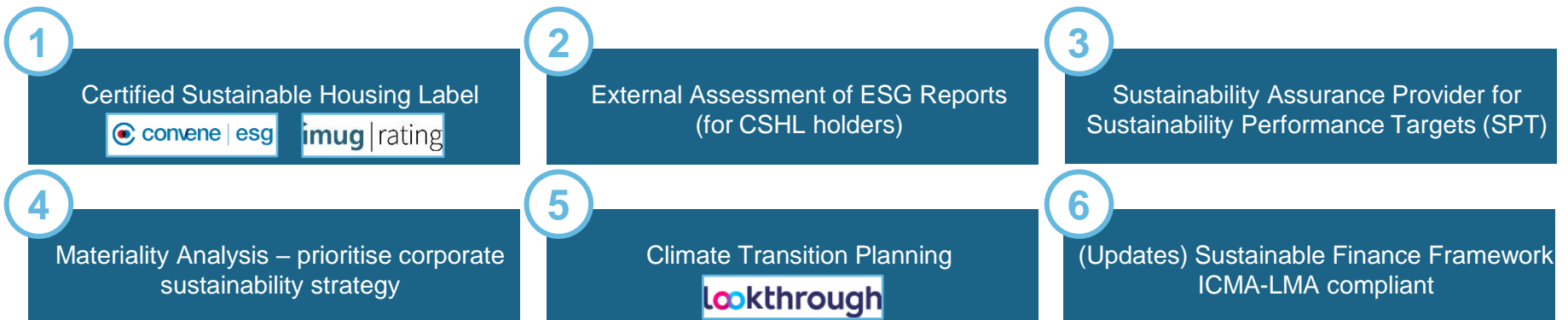
- Applying proven European business concepts in housing and energy management
- Developing sustainability strategies as part of business planning



In 2023 RITTERWALD co-founded HYSTAKE Investment Partners a pan European investment boutique

- Focus on tailor-made and long-term optimal capital allocations
- Advising businesses and investors on corporate, portfolio and investment strategy issues as well as increasing ESG requirements

RITTERWALD enables clients to demonstrate and enhance their ESG credentials with various services



Current must-read report for stakeholders in Irish social housing

If recommendations of SustainabilityWorks are followed, AHBs could lead by example

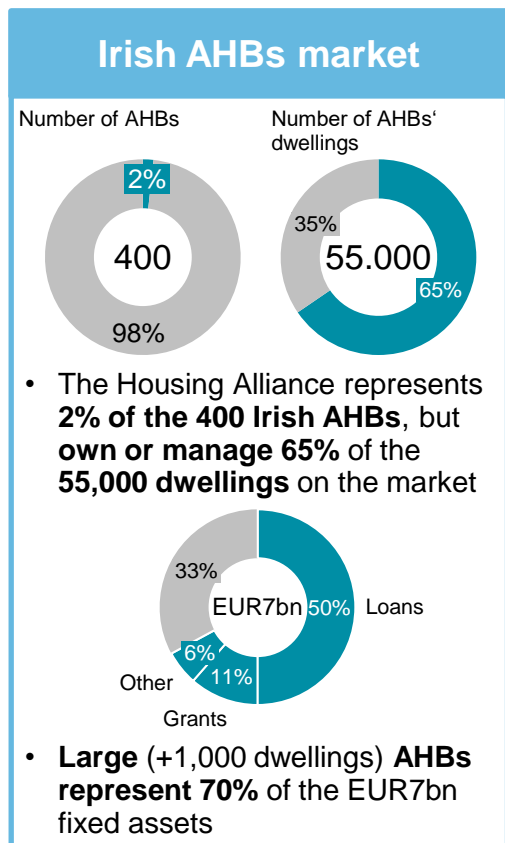


Feedback on SustainabilityWorks report

- Appears **at the right moment**
- Recommendations that **matter**
- Lack of **solid baseline of climate targets for AHBs**: only 2025 and 2030 national climate targets are included
- Approved Housing Bodies need to work closely together to create **economies of scale** to **manage the retrofit supply chain** (cost efficiencies), **apply new technologies** (affordability), and **collaborate with government**
- Importantly, the report shows that providing effective **climate leadership by AHBs** need, among others, **access to sustainable debt finance**, the focus of my contribution

Approved Housing Bodies are relatively small as a sector, but key in growing and sustaining social and affordable housing in Ireland

Perspective of Housing Alliance as market leader



National Climate Targets for the residential sector in Ireland

Theme	2025	2030
New Buildings	All new dwellings designed to NZEB; 170k using heat pumps	All new dwellings are Zero Energy Building 280k using heat pumps
Retrofits	120k retrofitted to B2 45k using heat pumps	500k retrofitted to B2 400k using heat pumps
Decarbonisation of residential heating	0.7 TWh district heating 0.4 TWh renewable gas Reduction of demand	2.5 TWh district heating 0.7 TWh renewable gas Reduction of demand

Snapshots from Housing Alliance members' annual reports

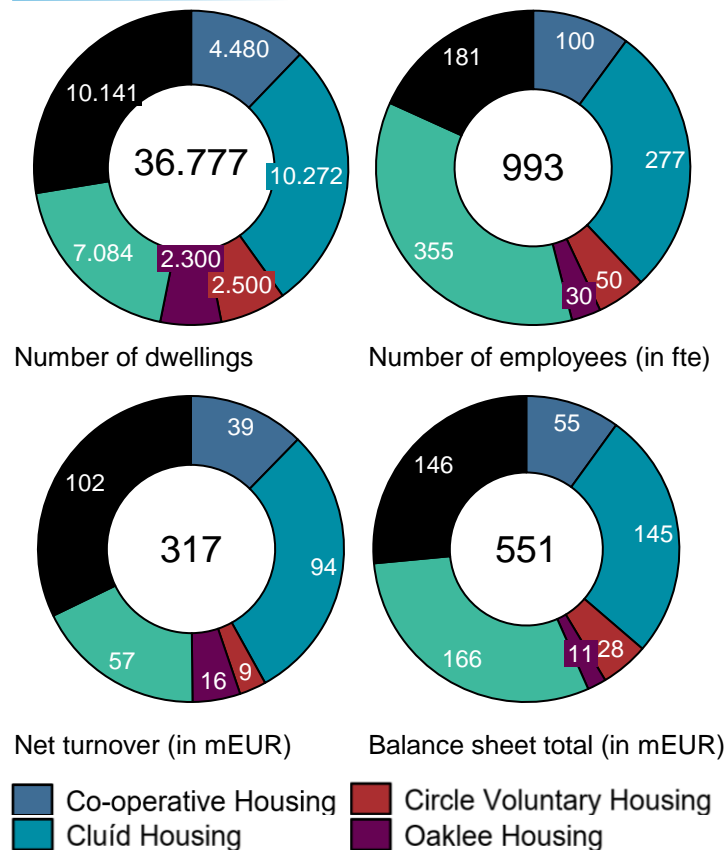
- Announced **retrofit plans**
- Report on completed retrofits** including carbon savings
- Minimum BER A2 for new built**
- Energy efficient measures** through boiler replacement

■ Housing Alliance
 1) Numbers represent the total housing stock of the country (housing associations and local authorities)

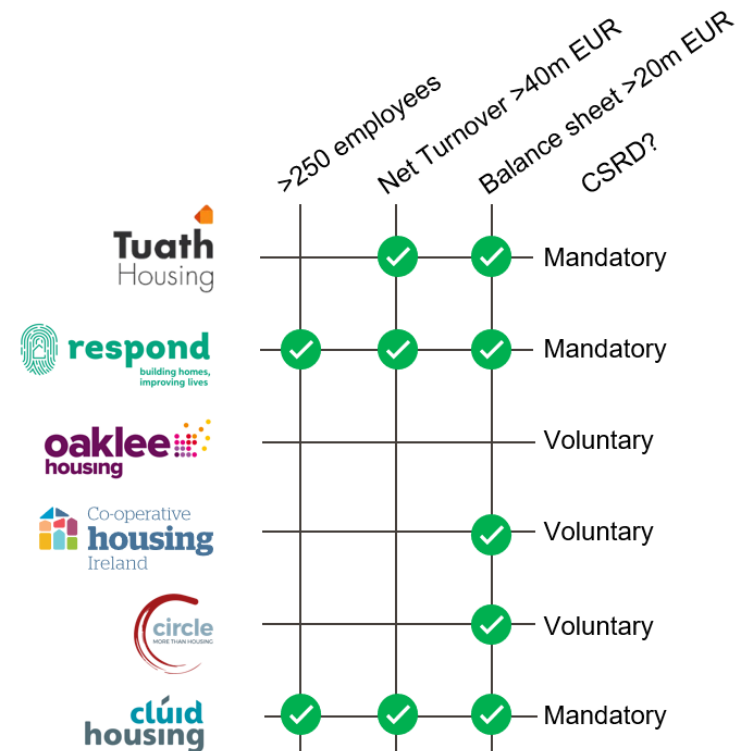
Members of Housing Alliance show strong corporate profile and must comply to CSRD in 2025 either mandatory or voluntary

Overview of the Housing Alliance members' profiles

Profile Housing Alliance



Compliance with CSRD regulation



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Conditions to Unlock Sustainable Finance

- 1 **Enable increase in debt capacity: assess critical financial metrics**
- 2 Enhance ESG data management: sustainability-linked loans require performance targets
- 3 Comply with EU reporting standards: CSRD/ESRS affect supply chain in social housing

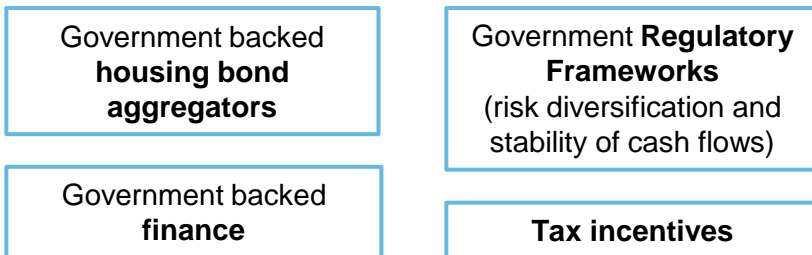
Enable increase in debt capacity (1/2): Assess critical financial metrics

Increasing debt finance requires restructuring of balance sheet



Private investment enablers

- Success factors of private investment in social and affordable housing for risk-adjusted returns
 - **Longstanding Support Structure**
 - **Policy Tools**
- Examples of attainable government backed schemes



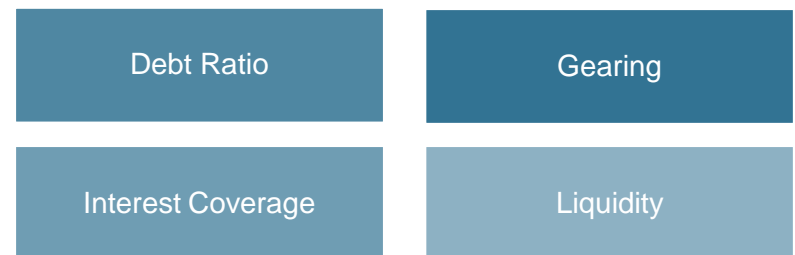
Private investment barriers

- Insufficient scale
- Lack of quality data
- Reputational risk
- Unfavourable market conditions,
- Unsuitable forms of government support



Relevant KPIs for lenders and investors

- The switch from capital funding to revenue finance enhances the credit quality importance of AHBs
- Lenders and investors measure credit quality with key statistics:



- KPIs disclosure from Co-operative housing Ireland's annual report



Ratios/KPIs	2021	2020
EBITDA Margin	58%	49%
EBITDA Interest Cover	252%	232%
Debt Service Cover	145%	146%
Gearing	64%	55%
Gearing excl. CALF	46%	39%
Liquidity	174%	203%

Enable increase in debt capacity (2/2): Align retrofit goals with climate transition plans of lenders

Climate transition plans example from banks serving AHB sector (current and in future)

- 1** Commitment & Scope
- 2** Methods
- 3** Objective & Action plan
- 4** Governance & Monitoring



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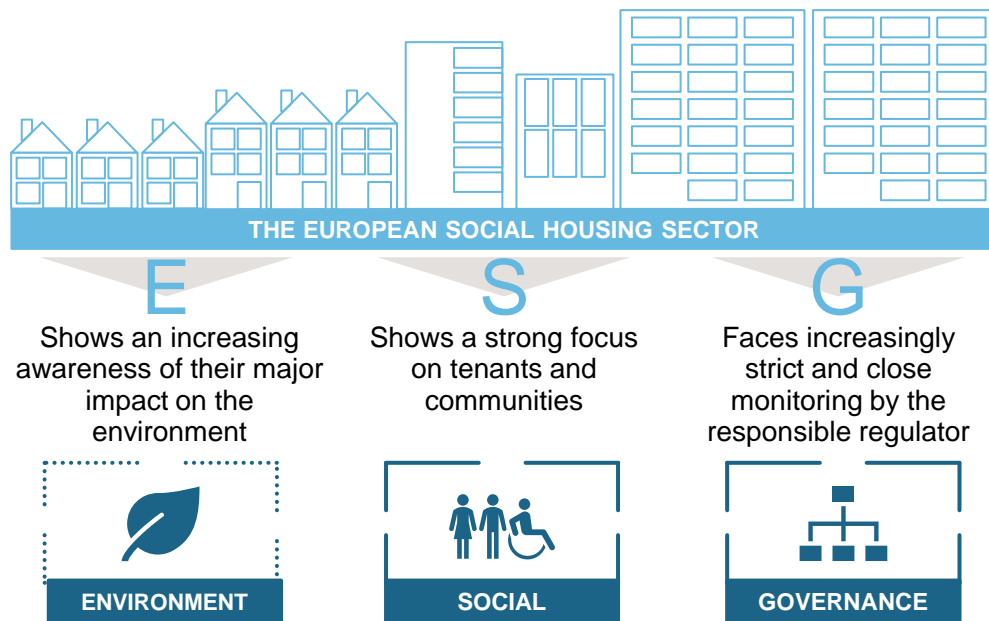
Conditions to Unlock Sustainable Finance

- 1 Enable increase in debt capacity: assess key critical financial metrics
- 2 **Enhance ESG data management: sustainability-linked loans require performance targets**
- 3 Comply with EU reporting standards: CSRD/ESRS affect supply chain in social housing

Enhance ESG data management (1/2): AHBs should demonstrate ESG credentials to attract public and private sustainable finance

Social Housing is at the forefront of ESG that is here to stay

WHY IS THE SOCIAL HOUSING SECTOR SUSTAINABLE?



- Growing importance for Debt Capital Markets
- Approved Housing Bodies are capable of demonstrating link to selected SDGs
- Approved Housing Bodies are Social at their core and show strong Governance through regulatory requirements (AHBRA)
- Enhancing Environmental measures is the next goal (driven by debt capital markets)

Approved Housing Bodies need to actively work on their ESG credentials and position ESG at the core of their business operations

Enhance ESG credentials (2/2): Certified Sustainable Housing Label is a verified certification process with 50+ ESG criteria

Clusters and Advantages of the Certified Sustainable Housing Label

imug | rating
2022 Update
 in collaboration with
imug | rating

E	S	G
I. Decarbonisation	I. Affordability & Accessibility	I. Sustainability Commitment
II. Local Electricity Production form Renewables	II. Sustainable Living Environment	II. Compliance & Corporate Governance
III. Sustainable Housing Delivery & Retrofitting	III. Tenant Wellbeing & Support	III. Non-Discriminatory Working Conditions & Inclusive Workfield
IV. Sustainable Living Environment	IV. Employee Wellbeing & Development	IV. Tenant Information & Representation
V. Tenant Engagement	V. Special Score	V. Special Score
VI. Resource Consumption within the Organisation (Administrative Offices)		
VII. Special Score		



Financial Advantages



Increase and diversify lender base through **access to sustainable finance**



Improve financing conditions (pricing and risk assessment)

Further Advantages



Anchor sustainability topics within the organisation



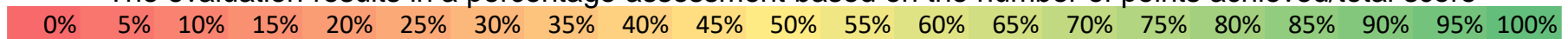
Facilitate sustainability reporting and more details

≈ 35% of the total score

≈ 40% of the total score

≈ 25% of the total score

The evaluation results in a percentage assessment based on the number of points achieved/total score



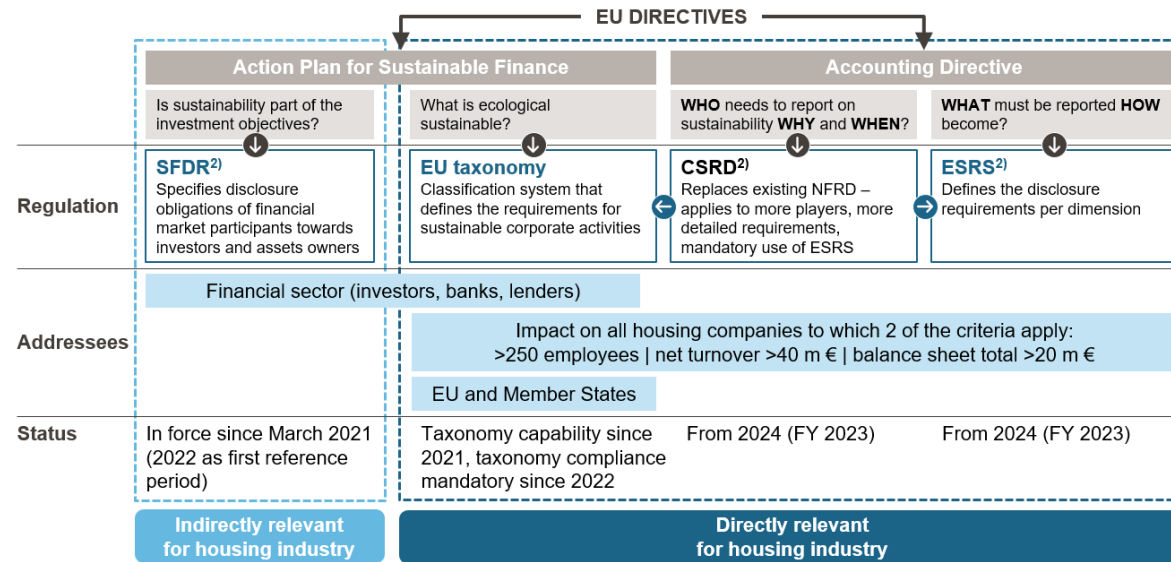
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Conditions to Unlock Sustainable Finance

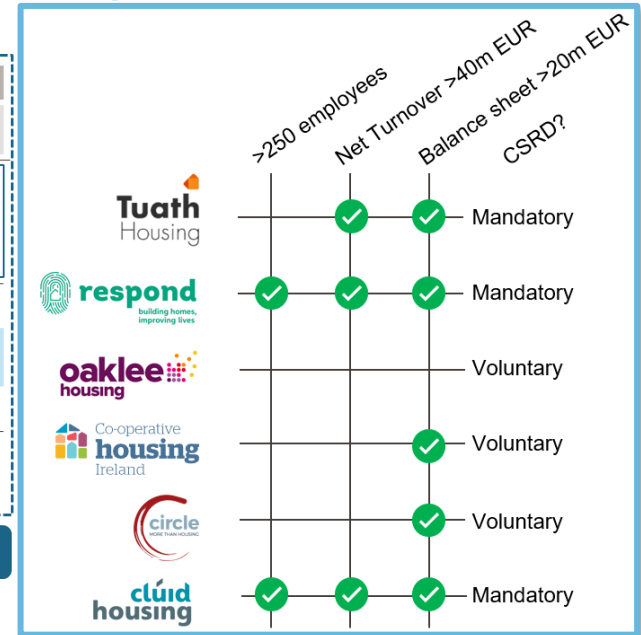
- 1 Enable increase in debt capacity: assess key critical financial metrics
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Comply with EU reporting standards (1/2): EU regulatory environment outlines future reporting obligations for the AHBs

Overview of EU directives



Compliance to CSRD

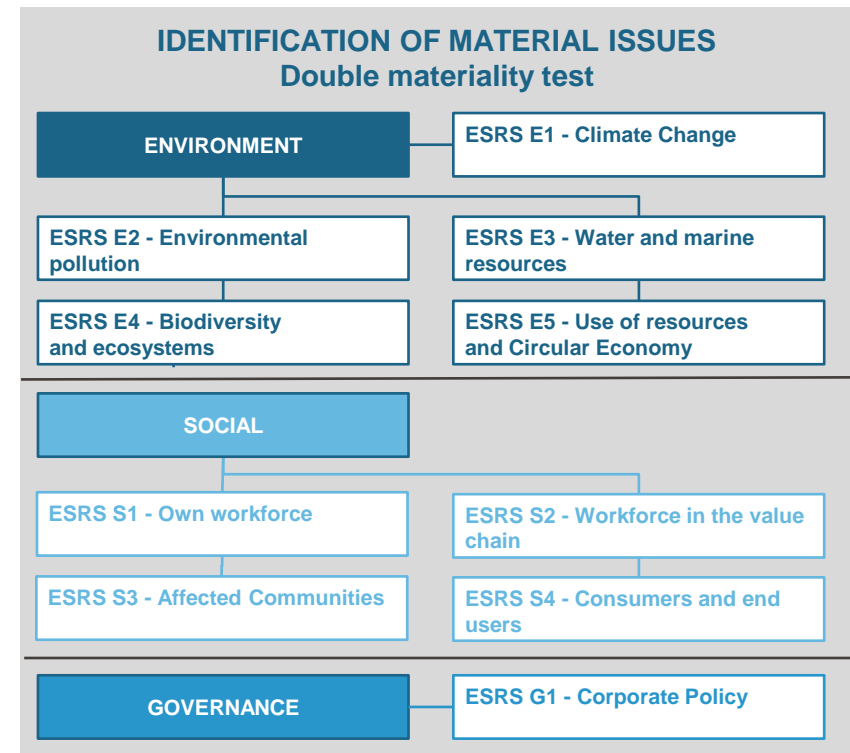
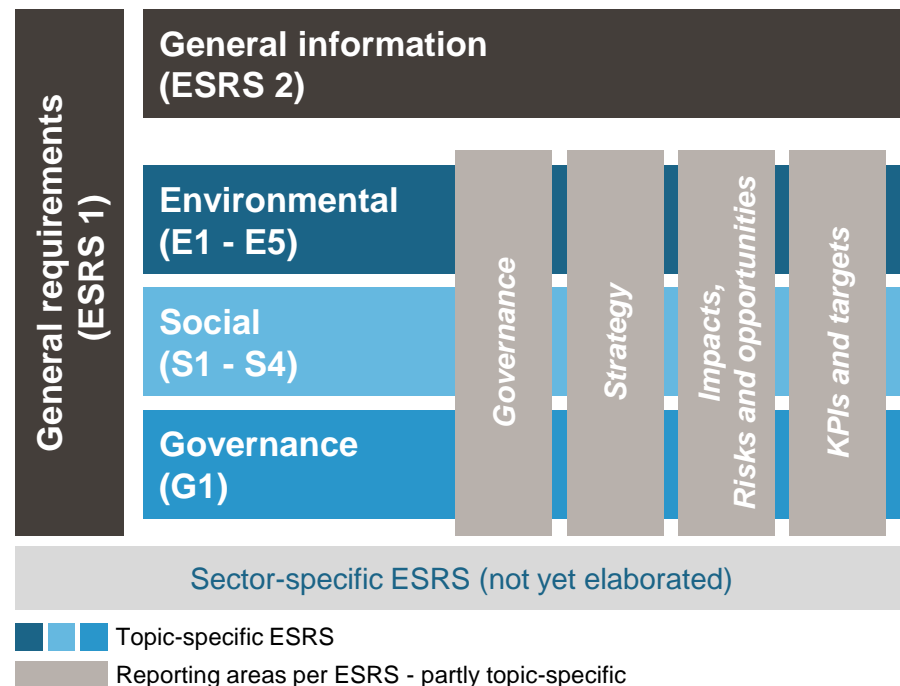


1) Not all sectors are included in the EU taxonomy
 2) Sustainable Finance Disclosure Regulation (SFDR), Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standard (ESRS)

Comply with EU reporting standards (2/2): reporting against the ESRS provides the baseline to AHBs for ESG disclosures

ESRS thematic clusters and topics to be reported on

Overview ESRS




Key features of ESRS reporting

- **Double materiality analysis:** impact of climate on the company and impact of the company on the climate
- Consideration of **upstream** and **downstream value chain** activities


Conclusion: Environmental leadership of AHBs starts with incorporating intrinsic ESG values across the organisation

Economies of scale should enable Housing Alliance to unlock sustainable finance



Debt Capacity

- Enable **increase in debt capacity** by meeting lenders' thresholds in key financial metrics. This might require **restructuring of the balance sheet**




ESG data

- Organise your **ESG data management** with focus on environmental (carbon) data



Reporting compliance

- **Get ready for CSRD/ESRS compliance**



Environmental Leadership

- **ESG reflects the values of your organisation** embedded in your **corporate strategy** supported by a **materiality analysis**
- ESG data will help you on your journey: it is a long way, but **you have already started. Stay on the main road, avoid distractions.**
- You can only report successfully if you can **demonstrate your ESG credentials supported by reliable quality data**
- **Engage your entire organisation:** sustainability teams will work side-by-side with treasury teams.

RITTERWALD-EFL Sustainability Reporting for social and affordable housing providers across Europe

Report published on 7th September 2023 and available on RITTERWALD's website



CONTENT

- **Regulatory and compliance landscape** within the **EU** and the **UK**
- **Guidance** to social and affordable housing providers on **compliance** with **current** and **future** sustainability reporting directives and standards
 - **CSRD/ESRS** in EU
 - **SECR** and **CFRD** in UK
- Survey among EFL members: groundwork for future **compliance needs** with **data management, decarbonisation strategies, climate transition planning, and sustainable finance**
- Insightful and timely report on the **development and implementation of pathways to reduce carbon emissions in residential assets**

RITTERWALD Sustainable Housing Outlooks are available on our website. Next edition forthcoming in November 2023

First Edition June 2022, Second Edition October 2022, Third Edition May 2023



CONTENT JUNE 2022

- ESG in social housing
- Sustainable bond issuances on the rise
- Alignment with UN Sustainable Development Goals
- Trends in Sustainability Regulations
- Sustainability Reporting Standard in United Kingdom
- Sustainable Housing Policies for selected European Countries

CONTENT OCT 2022

- Energy on the heels of Fabric First
- Energy Management Models for Housing Providers
- Heat Pumps
- Scotland – global green energy powerhouse?
- ESG funding after inflation rates are moving ‘back to normal’
- ESG news from housing providers

CONTENT MAY 2023

- Changes in Sustainability Regulations
- Retrofit in selected European countries
- Sustainability in French Social Housing and existing reporting
- ESG news from housing providers and highlights from the ESG ecosystem

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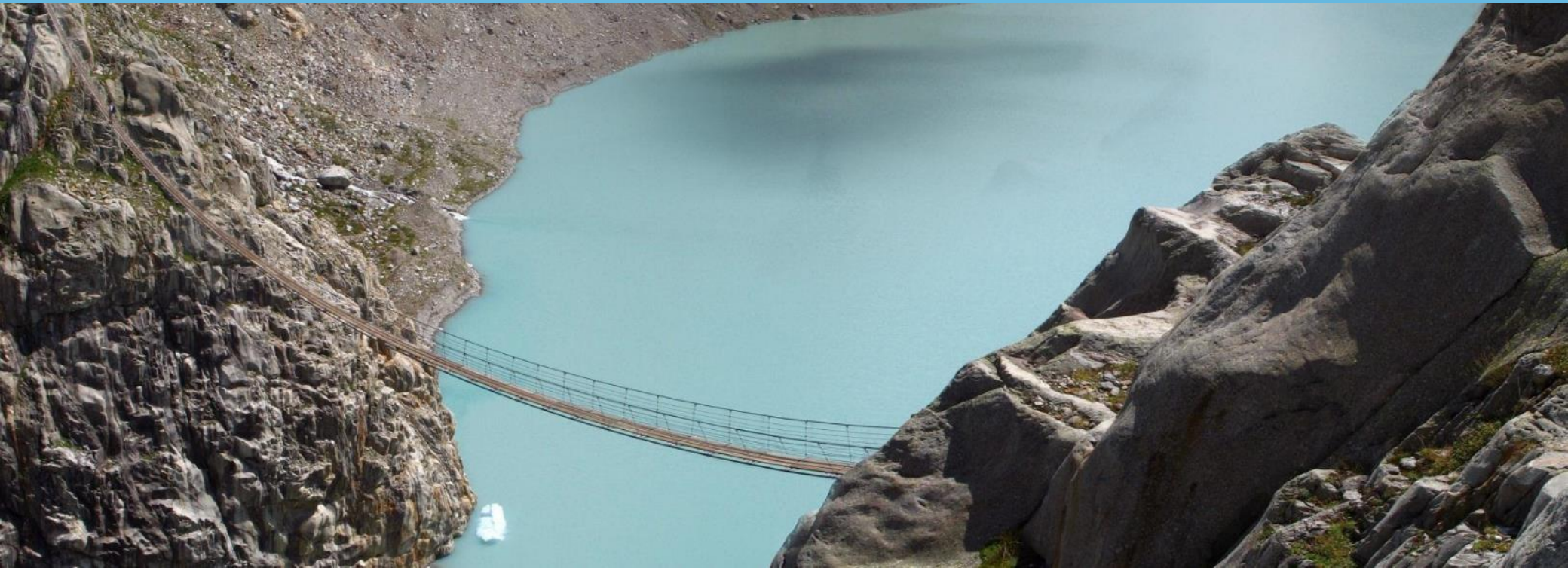
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