

A background image showing a city street scene with modern buildings, tram lines, and green trees. The scene is captured from a low angle, looking up at the buildings and the overhead tram infrastructure. The sky is overcast with grey clouds. The buildings have a mix of brick and modern glass facades. There are green trees in the foreground and middle ground. The overall atmosphere is urban and modern.

Outcome EFL survey among housing lenders

Roundtable EFL Finance and Investment Group, introduced and moderated by Corné Koppelaar (Places for People), Ad Hereijgers (RITTERWALD) and Gregoire Castaing (Vilogia)

Polylogis Offices Paris, February 8, 2024




A

Understanding the operating context of housing lenders

14 Lenders and investors filled out the (environmental) data requirements for social and affordable housing providers survey

Survey set up

 Survey was sent to **25 lenders and investors**

 Received **14 answers** (status Feb 5-2024)

- 1 Pan-European
- 7 United Kingdom
- 3 Germany
- 2 Netherland
- 1 France



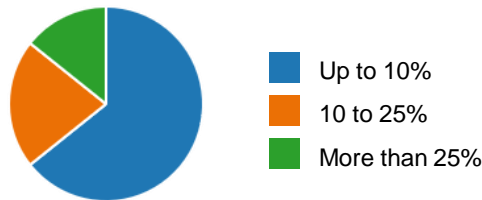
→ **All** plan to **maintain** (20%) or **extend** (80%) their **exposure to social and affordable housing**

Lenders expect growth in sustainable finance by offering a variety of debt instruments with loans and bonds

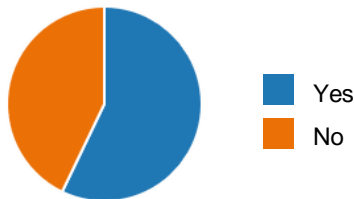
Outlook

GENERAL FINDINGS

Expected sustainable finance growth rate for the next 2-3 years



Lenders do issue housing bonds on own loan book and lend to social and affordable housing providers



DEBT INSTRUMENTS

Sustainability debt instruments offered to social and affordable housing:

- Sustainability-linked bonds and loans



- Green bonds and loans



- Social bonds and loans



- Sustainability bonds

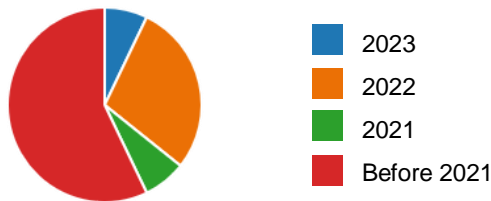


Lender’s climate transition planning gains importance – including strategies to avoid stranded assets

Climate transition planning

GENERAL FINDINGS

Year of 1st publication Climate Strategy/Transition Plan:



Lenders who offer sustainability debt instruments are **not necessarily part of specific banking alliances**



STRANDED ASSETS

Avoiding stranded assets in loan portfolio:

- Decarbonisation plan assessment of new loans, e.g. by use of a Carbon-Risk Management Tool (CRREM) and Partnership for Carbon Accounting Financials (PCAF)
- Scenario analyses: Divestment from the sector, Mixtures of TCFD, Transition Planning, Net Zero Banking Alliance (NZBA), Risk screening of physical climate risks

In UK context:

- Climate Change Committee provide several pathways at a sectoral level

In Germany:

- requirements from Energy Performance of Buildings Directive (EPBD) and German’s Energy Act (GEG) should be considered

Lenders and investors perceive a positive momentum of sustainability and financing in the sector

Comments in the survey

- “We will see **conflicts of interest** between “**social**” and “**environmental**” focus. There must be a good balance between them especially for housing. Political steering and KfW programs are not stable. The **requirements** are **too complex** and too “**binary**” (taxonomy).”
- “It is pleasing to note the **sector** has been an **early adopter of sustainability and finance**, strongly supported by sector advisors and generally embedded in within RPs corporate strategy.”
- “The **SRS framework** released in 2020 has been a good framework from those Registered Providers earlier in their journey. **Sustainability reporting** is now **core to most Registered Providers** and from what we have evidenced, provides an **annual update on progress against targets** and commitments made in the previous year.”
- “Funders and the sector need to continue to focus on some of the following areas to maintain the positive momentum of sustainability and financing in the sector:
 - **accurate** and **timely data**
 - **clarity** on what is **required** by all parties (funders and RP’s)
 - **positive scrutiny** of **KPIs**
 - **accessibility** and **support** for all”
- “A lot of Key Outcome Indicators will be **described by EU: CSRD** and **taxonomy**. That will be leading!”

Roundtable Discussion Bridging ESG Data Gaps

Lenders and investors participating in roundtable (in person or online)





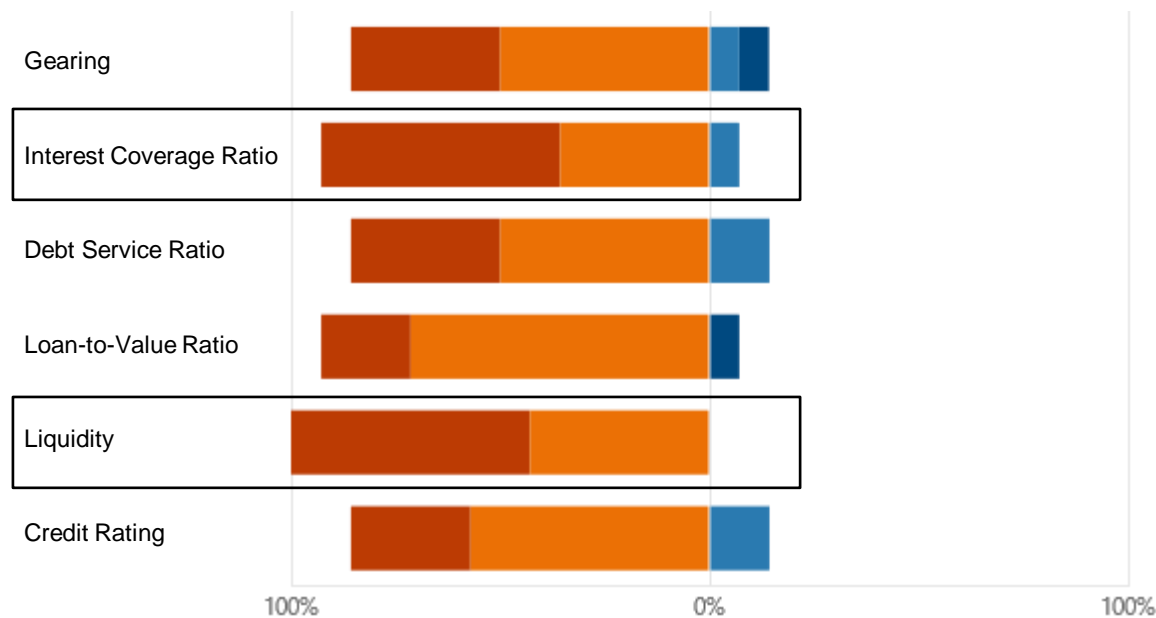
B

Environmental-related data requirements

Interest Coverage Ratio and Liquidity are the most important financial data considered for granting loans and issuing bonds

Financial KPIs of borrowers important for lenders and investors

RANKING FINANCIAL KPI BY IMPORTANCE



COMMENT

*“We have to distinguish between **KPIs on a single loan** (e.g. LTV) and on the **company’s aggregated level** (e.g. operating cashflows; financial strength for modernisation plans). The **classification of the whole building stock** in energy efficiency classes and the **investment needs for the next years** will be more relevant in the future for lenders.”*

Very Important Important Less important Not considered

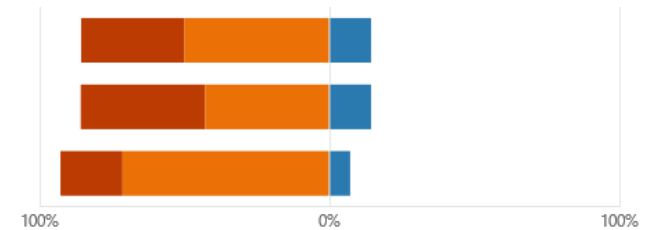
EPC rating still most used, but carbon emissions and climate related -physical- risk data gain importance

Climate related KPIs of borrowers important for lenders and investors

Building's Carbon emissions

Embodied and operational carbons tend to have less relevance compared to the **whole life cycle of the building**

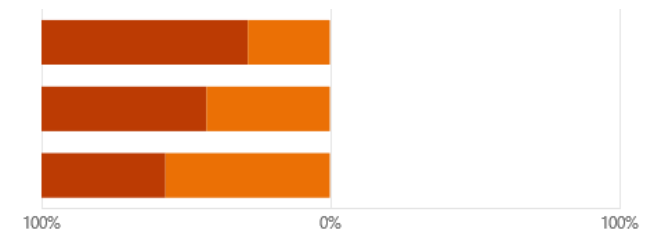
- Embodied Carbon Emissions
- Operational Carbon Emissions
- Building's whole life cycle carbon emissions



Energy efficiency

Agreement from the lenders and investors community on **energy efficiency**, not only EPC but energy consumption and energy mix

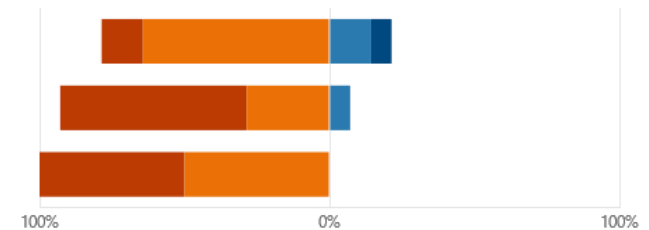
- Energy Performance Certificate (EPC) rating
- Energy consumption in kWh
- Energy mix (share of fossil fuels, renewables, nuclear...)



Climate risks

Physical and financial **climate risks** tend to have more importance than credit scoring, which relates to **avoiding stranded assets**

- Credit score (Moody's, S&P...)
- Climate-related physical risk
- Climate-related financial risk

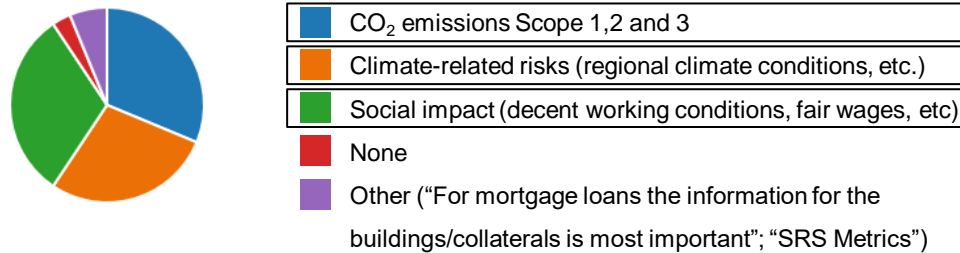


Very Important Important Less important Not considered

Supply chain in housing industry contains also social impact information which is relevant to lenders and investors

Housing industry supply chain information

INFORMATION CONSIDERED FROM SUPPLY CHAIN



The housing industry supply chain does not only include environmental but also social impact information, relevant to lenders and investors

COMMENTS

- **Biodiversity** and **nature** will become more relevant (TNFD)
- Additionally considered **environmental climate-related KPIs** mentioned by lenders:
 - **Carbon footprint**
 - **Low carbon pathway**

Environmental-related data requirements

Discussion round #1





C

Social and governance related data

Not only environmental but also social and governance KPIs gain importance by investors and lenders

Additional considered KPIs by lenders and investors

SOCIAL AND GOVERNANCE KPIS



Climate-related:

- **Paris** and **EU taxonomy alignment**
- **Thermal comfort** (whilst a social KPI) is directly climate-related



Others:

- Public infrastructure (transportation)
- Human rights
- Availability of data
- Money laundering
- Corruption index

COMMENTS

- For **Sustainability-Linked Loans (SLLs)**: **variety of sustainability-related KPIs** proportionately balanced using the knowledge of the borrower and considering all three ESG dimensions
- **Mitigations** for **climate risks** should be **transparent** (e.g. insurance) for taxonomy alignment
- **Biodiversity** and **nature** will become more relevant
- In general, there should be a limitation on the number of key only KPIs

→ **Reduction of complexity** is needed

Social and governance related data

Discussion round #2





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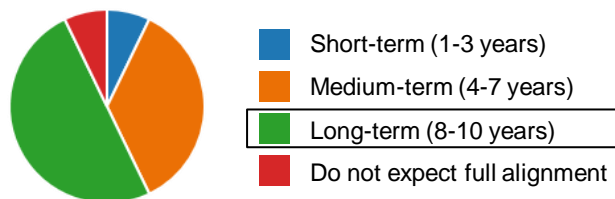
Alignment of Carbon Emission Reduction Targets

Understanding when and how housing providers should be ready to meet the reporting expectations of lenders and investors

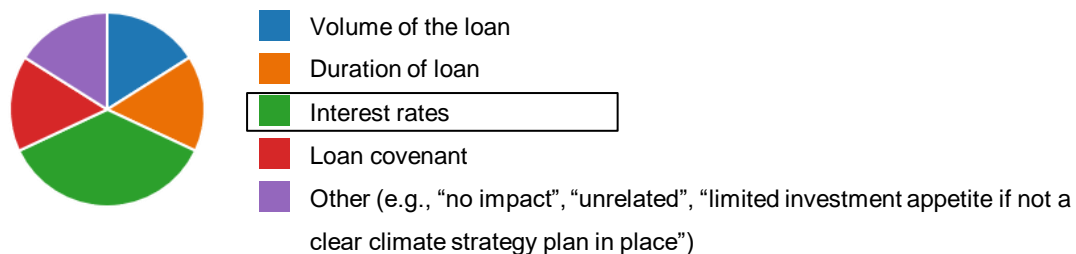
Alignment to carbon reduction pathway

TIME HORIZON AND COST OF CAPITAL

Expected time horizon for housing providers to align differs among lenders:



Interest rates seem to be affected the most by the alignment of housing providers to climate transition



CARBON REDUCTION

- Lenders and investors are **moderate on scheduling** achieving their **carbon emission reduction strategy**
- For now, lenders and investors **expect housing providers to align partially** with their **carbon emission reduction goals**
- Expectation of **audited ESG** data submission within the **next 2 years** (43%) or the next **3-5 years** (57%) assessed by **accredited consultants, auditors, other second-party opinion providers or credit rating agencies**

Alignment of carbon emission reduction targets

Discussion round #3





E

Outlook and Take-aways

Growing interest from lenders and investors in sustainable finance for social and affordable housing providers

Outcome survey and take-aways



Regarding **data collection**, the emphasis seems stronger on **energy-related KPIs** of **residential assets**: EPC rating, and energy consumption. **Climate-related financial risks** are of high interest as well



Medium-term alignment seems preferable (3-5 years) when **ESG data** will need to be certified, even though the financial sector seems to have different opinions on the alignment time horizon



Danger of stranded assets translates into investments directed towards environmental purposes with sustainability-linked loans & bonds, green loans & bonds.

Sustainability Reporting for social and affordable housing providers across Europe is published in September 2023

Report published and available on EFL and RITTERWALD website

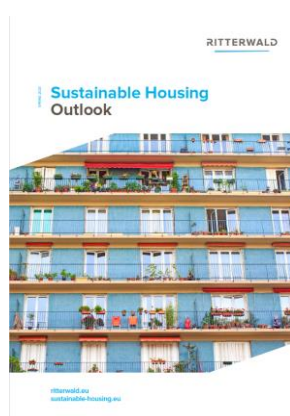


CONTENT

- **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 the 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**

The fourth edition of RITTERWALD's Sustainable Housing Outlook focuses on urban (re)development opportunities

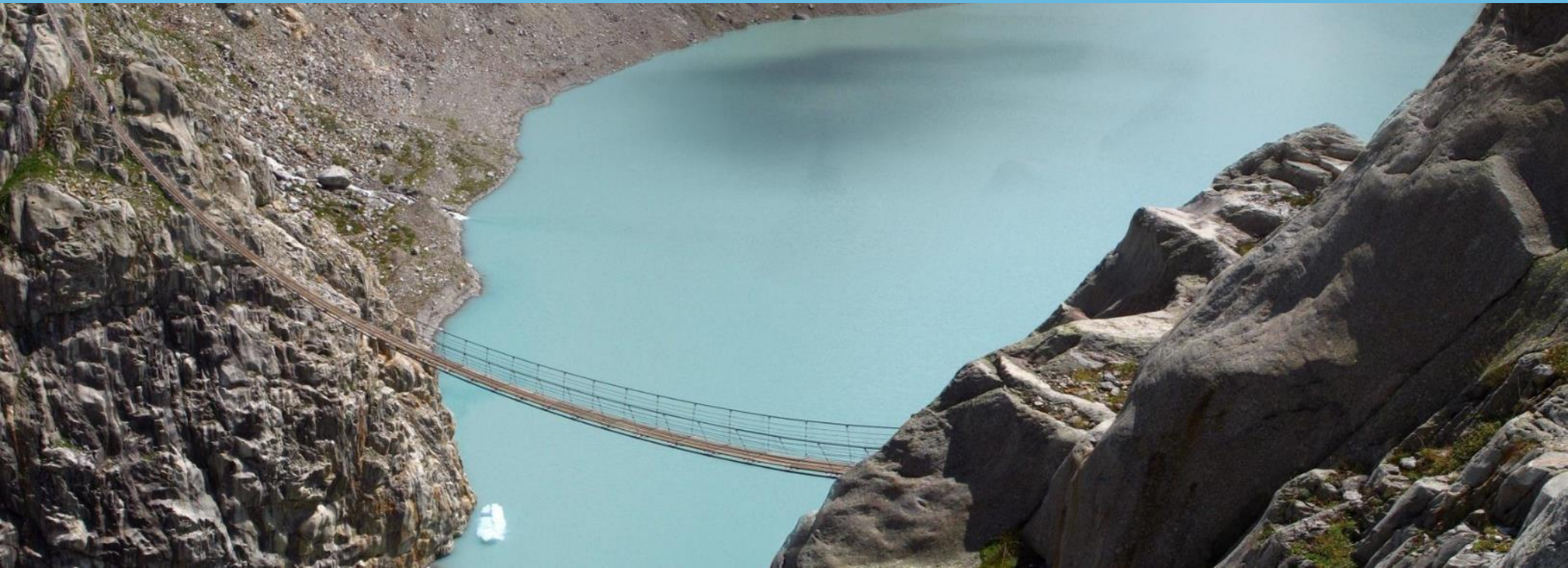
First Edition 06/22, Second Edition 10/22, Third Edition 05/23, Fourth Edition 11/23



CONTENT NOVEMBER 2023

- Sustainable urban development in the EU under the umbrella of the European Green Deal
- RITTERWALD sustainable urban development examples from the Netherlands
- (Re)development momentum in the UK with the The Levelling-up and Regeneration Bill becoming law
- Northern Ireland sustainable housing development and regeneration schemes

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