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EXECUTIVE INSIGHTS

Sustainable Finance Roundtable Breakfast

Q2 2024

Transitioning the Real Estate Sector to a Lower Carbon Economy: *Opportunities and Challenges*

Executive Summary

Innovative financing models, government incentives, and cost-saving measures offer promising avenues for companies in the real estate sector to play their part in the transition to a lower carbon economy. Buildings contribute to 40% of global emissions, with approximately 70% coming from operations and 30% from construction. Addressing optimal energy efficiency stands as a cornerstone in mitigating carbon emissions. Prioritizing energy-efficient design, technologies, and operational practices reduces environmental impact and yields cost savings. But challenges such as upfront high initial investment costs and retrofitting complexities exist. Enhancing the resilience of buildings against climate change also necessitates multi-stakeholder collaboration and the implementation of new industry standards. Governments can incentivize climate-resilient buildings through design principles and regulations. Achieving long-term sustainability in construction will not be an easy feat, so the financial sector, real estate developers and regulators need to plan accordingly.

Source: The exclusive content within this Executive Insights Report was harvested from the Mashreq Sustainable Finance Roundtable on June 10, 2024, and produced by Gulf Intelligence. Quotes are not verbatim, and any future use of this material must cite Mashreq and the event in full.

"ESG adoption in the Middle East real estate sector has emanated from consumer investor demand because of the realization that it brings income incentives. We've seen rental growth and premiums for certified versus non-certified buildings, and high occupancies. Furthermore, government regulatory incentives around green buildings and increased transparency have propelled this adoption."

Hasnain Raza
Senior Vice President, Unit Manager, CIBG – Real Estate Head
Mashreq

"Sustainable finance does not, per se, come at subsidized rates. However, many incentive schemes are offered, such as sustainability-linked structures with embedded pricing reductions as and when the client makes progress on its sustainability journey. In addition, due to supply and demand forces, clients are getting more competitive offers due to the scarcity of Sustainable projects."

Husam Abdel Al
Head of Sustainable Finance Investment Banking
Mashreq

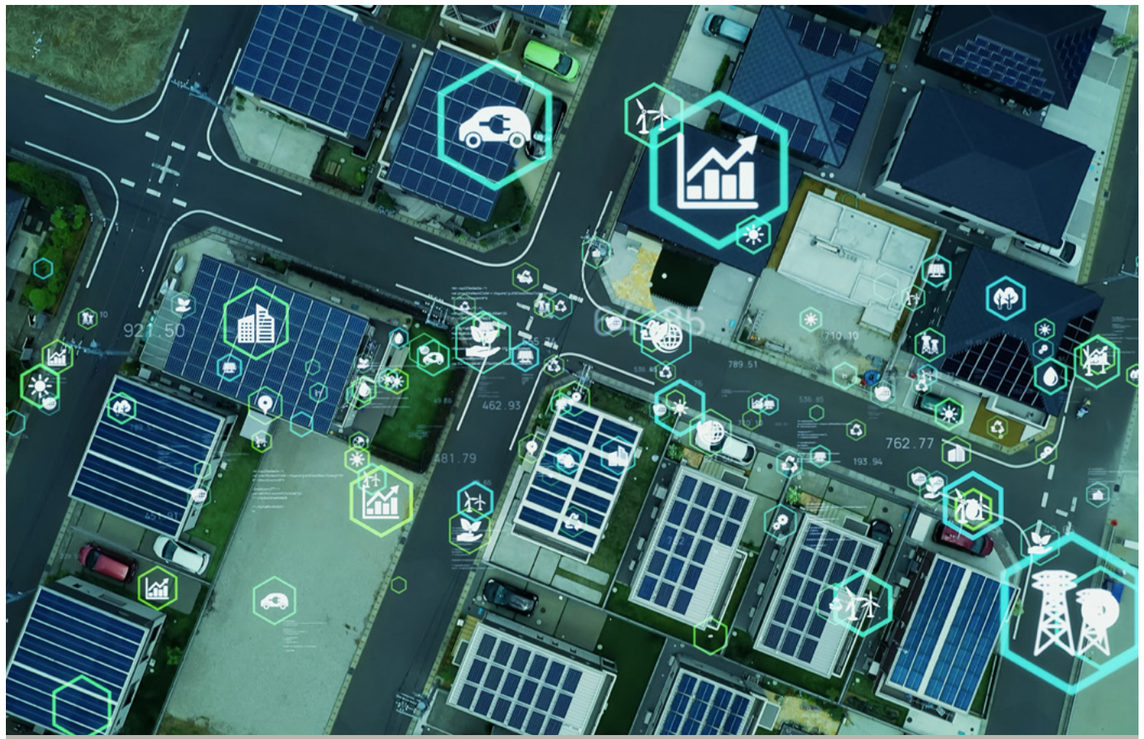
GREEN FINANCE GAINS MOMENTUM

Sustainable finance in the GCC real estate sector has a bright future and is already being demonstrated in projects such as Saudi Arabia's Neom Red Sea development and retail operations run by conglomerates like Majid Al Futtaim in the UAE. Regulation for green construction and operations is a work in progress and developers have been responding accordingly and planning proactively. Building operators are also attempting to coordinate common objectives to reduce emissions, with their scope 2 and scope 3 suppliers, so it's very much a multistakeholder approach.

At COP28 in December 2023, financial institutions announced a $1 trillion commitment to sustainable finance through to 2030. ESG criteria may carry an added risk and weaken a client's credit profile and a bank's risk appetite, impacting pricing. However, this should not discourage customers. Ultimately, being green leads to better market defense and penetration, meets stakeholder demands and allows for better financial returns because of more efficient operations. Sustainable finance might come at a higher initial cost, but the monetary and non-financial returns will deliver, long term.

TICKING THE ESG BOX

Different green credentials and certifications give clients and banks higher assurances and encourage sustainable finance in real estate. In more mature markets like Europe, banks and investment managers typically ask for third parties to give certifications to ensure any financing is accredited. In central London prime office space, there's a defined rental premium for buildings that are more energy efficient, so they are not only reducing operational expenses but also driving top line revenue. In addition, for investors who are in the market to buy, green buildings are more attractive. Taking the long-term view drives value for developers.



ESG IN REAL ESTATE FINANCE

93%
of global institutional investors consider ESG and sustainability in real estate investment decisions.

Source: Funds Europe https://www.funds-europe.com/93-of-real-assets-investors-consider-sustainability-a-key-factor/

30%
increase in green debt finance proceeds allocated to buildings in 2021, compared to 20% in 2014.

Source: OECD https://www.oecd-ilibrary.org/docserver/fa86b326-enpdf?expires=1718794988&id=id&accname=guest&checksum=400FF857661C9BA458400FC2D571503A

$152bn
investment allocated to green buildings globally in 2019, out of total $5.8trn spend on construction and renovation.

Source: IEA & UNEP https://globalabc.org/sites/default/files/inline-files/2020%20Buildings%20GSR_FULL%20REPORT.pdf

$24.7trn
estimated investment opportunity for new green buildings in emerging markets by 2030 including $17.8trn for East Asia-Pacific and South Asia.

Source: IFC https://www.ifc.org/en/insights-reports/2019/green-buildings-report

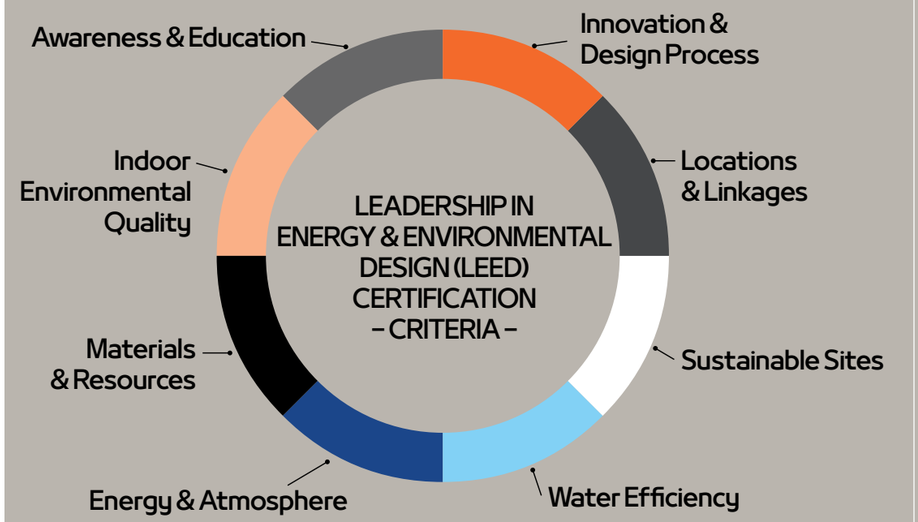
$1.13bn
estimated investment opportunity for new green buildings in MENA.

Source: IFC https://www.ifc.org/en/insights-reports/2019/green-buildings-report

RETROFITTING COMES AT A COST

Sustainable finance is less complex with green field projects. Tapping into brownfield developments is complicated as the business model is already established in terms of cost so any retrofitting does create an added burden. But in both cases, green or brown, regulation is key for setting standards for decarbonization. Finance is available for retrofitting brownfield developments and the tools and technology are there. But there is sometimes ignorance around what those are. Take the obvious advantage of district cooling in the UAE, which can help achieve carbon reduction by providing economies of scale and less energy waste. UAE government research data has shown that 30% energy savings can be attained by moving to district cooling. But for this to happen, better urban planning is required where services can be clearly defined and identified. As things stand today, there is minimal integration and onboarding between developers and government urban planning and services. Collaboration is critical to sustainability.

GOING GREEN



Source: US Green Building Council https://sensgreen.com/leed-certification-iot-unlocking-sustainable-green-buildings/

LEED CERTIFIED BUILDINGS AS OF 2023

105,000
Global

44,000
US

386
UAE

X2
Green buildings globally projected to double every three years.

Source: AlphaSense https://www.alpha-sense.com/blog/trends/green-building-transforming-real-estate/

$425.4bn
forecasted global market size of green building materials by 2027.

Source: BusinessWire https://www.businesswire.com/news/home/20211011005255/en/Insights-on-the-Green-Building-Materials-Global-Market-to-2027---Featuring-Andersen-BASF-and-CertainTeed-Among-Others---ResearchAndMarkets.com

20%
average reduction in energy consumption by adopting smart building technologies.

Source: BCG https://www.bcg.com/publications/2022/winning-strategic-race-to-sustainability

30,000
buildings Dubai aims to retrofit by 2030.

Source: Dubai Supreme Council of Energy https://mediaoffice.ae/en/news/2023/June/26-06/Dubai-Supreme-Council-of-Energy-reviews-performance-of-the-Building-Retrofit-programme-in-Dubai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