

Article Information

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Green Finance in the Australian Commercial Property Market

Many property industry players have financed billions in projects through green finance in recent years. Major banks have offered green loan products to fund energy efficient commercial properties. As of June 2022, approximately AUD10 billion (around about 3%) of Australian commercial property debt was green loans. Commercial property investors may therefore refinance existing debt with green finance for lower pricing while upgrading the property to make it green or energy efficient.

For companies that are considering acquiring green buildings or upgrading existing buildings, green loan would be a better option, considering its significant cost advantages and the positive public images brought to the company.

Green Projects in Commercial Property Market

Green loans are any type of debt financing instruments made available exclusively to finance, or re-finance, eligible green projects. Typical green projects in the commercial property market include:

1. **green buildings** which meet regional, national or internationally recognised standards or certifications, such as Green Star Rating certified by the Green Building Council of Australia;
2. **renewable energy** production, storage systems, transmission, appliances and products, such as installation of solar panels;
3. **energy efficient** district heating, smart grids, appliances and products in new and refurbished buildings;
4. **pollution prevention and control**, including reduction of air emissions and water pollution, greenhouse gas control, waste prevention and reduction, waste collection, recycling and energy/emission-efficient waste to energy;
5. **terrestrial and aquatic biodiversity restoration, conservation and enhancement**, such as urban ecosystems;
6. **clean transportation**, including infrastructure for clean energy vehicles;
7. **sustainable water and wastewater management**, including sustainable infrastructure for clean or drinking water, wastewater treatment, and smart irrigation; and
8. **circular economy adapted products, production technologies, processes and business models**, such as the design, production and introduction of reusable, recyclable and refurbished materials, components and products, circular business models, tools, services and practices and certified eco-efficient products.

Green Loan Framework

Financiers usually require borrowers to provide a green loan framework demonstrating how the proposed loan will satisfy with the four core components under the Green Loan Principles (GLP), being:

1. Use of Proceeds

The net proceeds of green loan or an amount equal to these net proceeds must be used exclusively for green projects, including expenditures in support of green projects such as training, monitoring, research and development and finance costs.

2. Process for Project Evaluation and Selection

Borrowers should disclose its environmental sustainability objectives, the process of determining that the projects are green, and the process to identify and manage ESG risks. Borrowers are also encouraged to have a process to

identify mitigants to material risks of negative social or environmental impacts.

3. Management of Proceeds

The proceeds of green loan should be credited to a dedicated account, or otherwise tracked in an appropriate manner, and attested to through a formal internal process linked to the lending and investment operations of the green project.

4. Reporting

Borrowers should report on the use of green loan proceeds in accordance with the finance documents.

Green Loan Process

Stage	Key Activities
1. Structure Green Loan	<ul style="list-style-type: none"> • Identify relevant green projects for loan proceeds • Prepare the green loan framework • Engage second party opinion provider/verifier if required
2. Negotiate Terms	<ul style="list-style-type: none"> • Confirm scope of green loan undertakings • Set up consultation scheme for non-compliance • State non-compliance does not breach finance documents
3. Enter into Green Loan	<ul style="list-style-type: none"> • Green finance framework and second party opinion required • Additional certifications (e.g. green building) may be needed • No mixed green/non-green tranches
4. Use of Proceeds	<ul style="list-style-type: none"> • Proceeds (or equivalent) must be used solely for green projects • Use dedicated account(s) • Maintain internal governance for tracking funds
5. Reporting	<ul style="list-style-type: none"> • Report on use of proceeds per finance documents • Reporting may be project-based or portfolio-based • Ratings/certificates may need renewal

Review Methods

Review Type	Description
Second Party Opinion	Provided by an SPO provider
Verification	Assurance by auditors or ESG rating providers, external attestation, certification by certifiers
Rating	Given by a specialist research provider or rating agency
Self-Certification	By a borrower with internal expertise to confirm alignment with Green Loan Principles (GLP); may be sufficient in some cases