

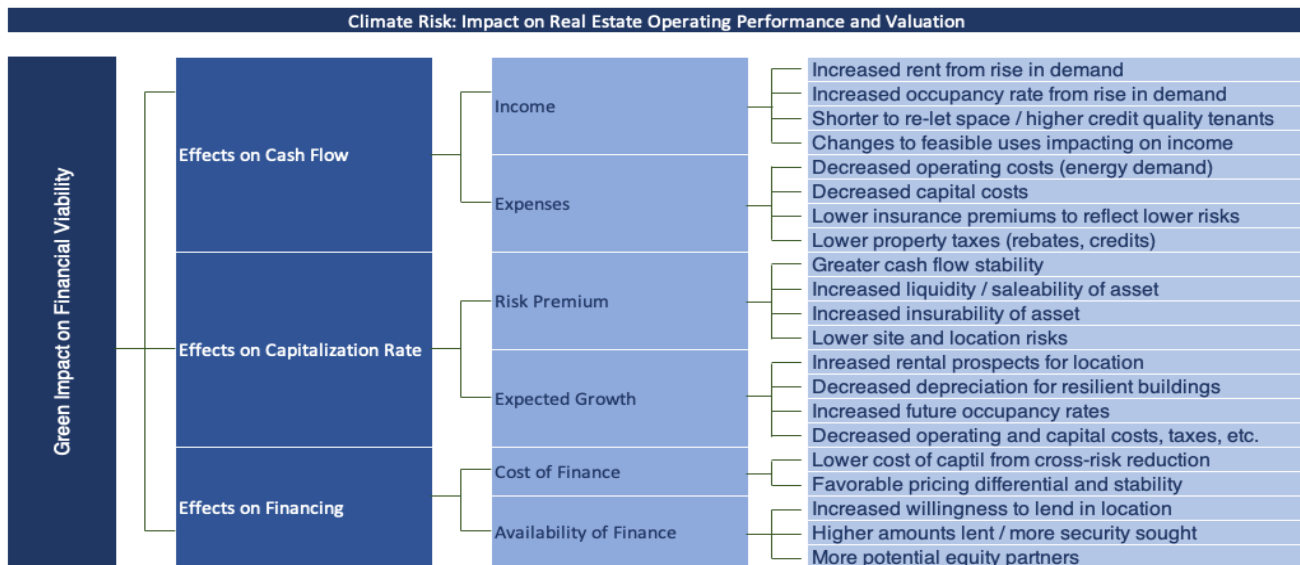
## Green Real Estate Reimagined: Generating Alpha with Sustainable Real Estate

The green real estate capital markets face an unprecedented supply and demand disequilibrium.

Asset managers, investment banks, commercial banks and large-scale real estate investors are increasingly demanding higher degrees of climate and environmental performance at a project, property and portfolio level. Yet there is not an adequate supply of these investments - whether they are CMBS Conduit or Fusion deals or Private Label or Agency RMBS pools - that meet the climate and environmental ambitions of financial institutions committed to sustainability objectives of central banks, international policy makers and their own shareholders and creditors<sup>1,2,3</sup>.

The financial sector is increasingly seeking 'Transition Alpha' as the green real estate sector is being shaped by forms of progress driven by positive exponentials with hard-to-abate property sectors becoming increasingly climate-aligned and climate capital that has been sidelined by lack of supply increasingly flows towards environmentally performant companies<sup>4,5,6</sup>. Investment banks, commercial banks and regional banks can look to the opportunities presented by the 'Transition Tipping Point' in the green real estate capital markets to not only help large-scale property managers deliver on market demands but also create positive economic and financial outcomes for their own shareholders and creditors<sup>7,8</sup>. The above-market returns they achieve in climate-aligned real estate will be complemented by a lower cost-of-capital and increased balance sheet capacity<sup>9</sup>. The combination of these factors will be particularly advantageous in a macroeconomic environment shaped by rising interest rates and a financial sector facing higher risk of balance sheet pressure.

Identifying both the risks and opportunities presented by real estate decarbonization strategies is increasingly important to understanding the implications of climate risk on real estate operating performance and fair value.



<sup>1</sup> Climate Bonds Initiative. (1 April 2023). Climate Bonds Standard Version 4.0: Globally Recognized, Paris-Aligned Certification of Debt Instruments, Entities and Assets Using Robust Science-Based Methodologies. Available [here](#).

<sup>2</sup> Climate Bonds Initiative. (1 April 2023). Buildings Criteria: The Buildings Eligibility Criteria of the Climate Bonds Standard and Certification Scheme. Available [here](#).

<sup>3</sup> Climate Bonds Initiative. (2023). Aligning Buildings with the Paris Climate Agreement: Insights and Developments from the Green Bond Market. Available [here](#).

<sup>4</sup> Goldman Sachs. (11 November 2021). Carbonomics: The Dual Action of Capital Markets Transforms the Net Zero Cost Curve. Available [here](#).

<sup>5</sup> Bank of England. (1 March 2023). Staff Working Paper No 1016. The Greening of Lending: Mortgage Pricing of Energy Transition Risk. Available [here](#).

<sup>6</sup> Network for Greening the Financial System. (1 June 2023). NGFS Survey on Climate Scenarios: Key Findings. Available [here](#).

<sup>7</sup> Lazard Asset Management. (1 December 2020). What Is The Future of Green Building? Available [here](#).

<sup>8</sup> Goldman Sachs. (18 October 2021). Building for Tomorrow: Diving Into Green Buildings. Available [here](#).

<sup>9</sup> Morgan Stanley. Institute for Sustainable Investing. (2019). Sustainable Signals. Available [here](#).