SUSTAINABLE FINANCE REPORT

PUMA PROPERTY FINANCE

The landscape of sustainable finance in the property sector

Charting the availability and understanding of sustainable finance and developers' barriers to adoption

Research by:
Puma Property Finance and The UCL Centre for Sustainable Governance and Law in the Built Environment

UCL CENTRE FOR SUSTAINABLE GOVERNANCE AND LAW IN THE BUILT ENVIRONMENT

Key findings

1. There is a clear lack of transparency from many lenders about their sustainable finance offer and the criteria developers need to meet to access it
2. The market demand for sustainable finance is not yet strong enough to spur on lenders
3. Developers still believe that it costs significantly more to create a sustainable building and to access sustainable finance
4. Developers acknowledge their lack of knowledge about sustainable finance and have a clear desire to know more
5. There is an opportunity for lenders to not only share knowledge about sustainability but to lead the built environment towards improved environmental performance

Sarah Milne
Head of Impact,
Puma Property Finance

What's holding back sustainable construction?

By Sarah Milne

In 2024, we launched our research exercise with three questions in mind: what sustainable finance solutions exist in the built environment; how motivated are developers to access it; and what is their overall attitude to sustainability? The answers have opened our eyes to the current landscape.

Firstly, there is a huge lack of information and transparency surrounding developers' sustainable finance options. Where lenders do offer it, they rarely provide any detail surrounding the criteria a property or scheme would need to meet in order to access it and see a financial benefit, such as a lower interest rate. This is undoubtedly holding developers back from pursuing a sustainable finance option.

Secondly, developers' main barrier to improving the environmental performance of a property is that they believe it will cost a lot more. Across the built environment, there is still a pervading belief that sustainability is philanthropy. We need to challenge that mindset.

Planning for a building's environmental performance early on can be both cost-effective and accessible for developers. In addition to costs, they need to consider the potential savings on energy consumption, material waste and ongoing operational costs – while taking into consideration that the cost of green building materials and technologies continues to decline as they mature.

In reality, improvements can be the result of many small changes. For example, it is estimated that changing to a water-saving faucet and tap could potentially reduce the water consumption by 26% and also leads to lower energy demand for heating and pumping water. To make a difference, developers can start by looking at the small decisions that have an impact, rather than becoming overwhelmed by not knowing where to start.

We know that sustainable properties perform better financially; they let up quicker, thus have lower void periods, lower operational costs and can command a higher rental premium. Legislation is soon going to increase the need to improve environmental performance, but the business rationale for pursuing sustainability is there already. If developers don't see this, they are missing an opportunity.

There's a role for lenders of sustainable finance to help developers lead change, which is what Puma Property Finance is seeking to do through our partnership with The UCL Centre for Sustainable Governance and Law in the Built Environment. The research team is helping us understand how we can increase the reach of our own Impact Lending Framework and inspire the built environment to become more sustainable, more quickly.

> "To make a difference, developers can start by looking at the small decisions that have an impact, rather than becoming overwhelmed by not knowing where to start.

Kell Jones

Lecturer in Construction Procurement and Supply Chain Management, The Bartlett School of Sustainable Construction, UCL

The goal of our research

By Kell Jones

When Puma Property Finance asked us to help them explore the market for sustainable finance, we decided to approach the task in three ways. First, with desk research of 85 lending companies to understand what is on offer and how they are funding it. Second, we sent a questionnaire to around 500 developers to understand their views on the lending landscape and sustainability. We followed some of these surveys up with interviews to deepen our understanding.

The second approach proved trickier than the first. Those developers who did complete our survey were likely to already be part of conversations surrounding sustainability. The slightly muted response from other developers suggests that the majority still have a long way to go to reduce properties' environmental impact to meet upcoming changes in the regulatory landscape.

Our findings from the study highlighted how the position of both developers and sustainable finance providers align with our expectations from academic studies. Clearly, on both the supply and demand side there are early adopters – those positioning themselves to take advantage of the increased awareness of the need for sustainable outcomes – the early majority, and those who are ignoring the agenda – late adopters and laggards.

The results of the study highlight a clear path forwards. For a start, there's a need to demystify sustainable finance. Developers are time poor, with little time to hunt for specifics around a finance offer and how to access it. We should also acknowledge that in a tight-margin business, adoption of sustainable measures boils down to the bottom line. The market needs convincing that taking a more sustainable approach doesn't have to hit margins but can create value.

Pleasingly, the results of the study show that there's a clear group of people who want to share knowledge and push the agenda. Construction and real estate tend to operate in siloes but there's a real need to have a broader conversation, to socialise these ideas and demystify the advantages that can be created by doing little things that make a big difference.

Inevitably, sustainable development will become the norm as global regulations enforce it. We need to support those who are keen to accelerate change.

> “The market needs convincing that taking a more sustainable approach doesn't have to hit margins but can create value.

Research findings

The team at The UCL Centre for Sustainable Governance and Law in the Built Environment carried out research during the summer and autumn of 2024.
This work had three parts:

A review of the publicly available information on the websites of 85 lending companies about the sustainable-development focused products that they offer.

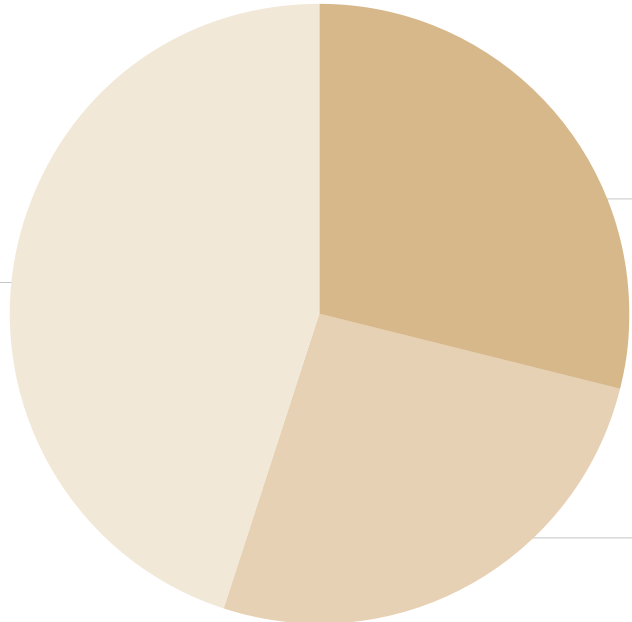
Interviews and conversations with members of both development and sustainable finance communities to gain an overarching understanding of the market dynamics.

A questionnaire sent to developers with the aim of gaining a better understanding of their drivers for and barriers to the use of sustainable finance.

The lack of transparency in sustainable finance

Our desk research identified a spectrum of engagement with sustainable lending from finance providers. The majority (45%) which are typically smaller, private lending companies have little mention of sustainability on their websites and little clarity on whether they offer sustainable lending products. In comparison, just 29% of those we reviewed offered any sustainable finance solutions at all, presenting their product offers and lending criteria clearly and transparently. A similar proportion, 26% offered no sustainable finance solutions.

Lending companies that offer sustainable finance solutions



45%

Unclear whether they offer any sustainable finance solutions

29%

Offer sustainable finance solutions

26%

Don't offer sustainable finance solutions

A review of the publicly available information on the websites of 85 lending companies about the sustainable-development focused products that they offer.

Lack of transparency

A number of companies present financed sustainable projects on their websites, detailing and highlighting the sustainable outcomes of those projects, but with limited information about the lending conditions.

In comparison, companies that are typically larger, well-capitalised organisations often operating with or in the EU typically outline the lending they'd be prepared to make (generally aligned to the EU Taxonomy), but detailed product information was hard to find.

Lack of ambition

Many of the lending examples, not products, presented by lenders had relatively limited aspirations, often based on achieving a BREEAM or EPC rating below the highest level. Similarly, most products reviewed at the retail product level were driven by EPC ratings.

Lack of opportunity

Although there are lenders that offer sustainable products or finance sustainable projects, interviewees said that these loans represent a very small proportion of their overall business. As such, lenders feel that there isn't a big enough market of which to take advantage. This could be partly due to the lack of transparency surrounding loans underwritten by sustainable finance offerings that are currently available.

Many product providers are adopting a wait and see attitude. They may be willing to loan to a more sustainable project at slightly lower than typical rates to secure the work, and these projects provide excellent collateral for marketing. When the market does move, they are positioning themselves to be ready to launch quickly.

Financing sustainable loans

Encouraging borrowers to take more ambitious sustainable developments may require incentivisation. This usually involves some form of discount on the borrowing costs, or lower fees.

The research identified two broad approaches towards creating space for discounts: margin sacrifice and scale.

- **Margin sacrifice:** Reduce the income from a loan, either through a discounted interest rate or lower fees, or offer a rebate if the agreed criteria were met. This approach can be viable where volumes are low, but if the product were to scale, lenders and investors would need to have a long-term commitment to accepting a lower return.
- **Scale:** Greater scale can open opportunities to raise new funds to support the discounted offer. These are frequently over-subscribed, by as much as three times. Issuers can trade off potential investors to improve their borrowing rate and enhance their ability to offer discounts. These larger lenders are also better able to absorb the administrative costs of creating the necessary lending frameworks.

Barriers developers' face in building more sustainably

This section summarises interviews with members of both the development and sustainable finance communities plus a questionnaire sent to developers.

Developer motivations to do more

In our survey of developers, 81% of respondents said they already go beyond the regulated minimum in terms of sustainable development, while a third reported having used sustainable finance. This suggests that our questionnaire respondents may be over-represented by developers whose aspirations align with the goals of sustainable development. It lends weight to our observation that the general market interest in the topic of sustainable finance may be quite low.

Where you go beyond the required minimum, which of the following factors influence your decision to develop a sustainable building?*

	Client requirements	Planning requirements	Shareholder pressures	Funding requirements	ESG requirements	Personal responsibility	Long-term performance	Portfolio value
EXTREMELY IMPORTANT	38%	31%	44%	25%	19%	27%	44%	50%
IMPORTANT	44%	50%	38%	38%	44%	53%	38%	0%
QUITE IMPORTANT	19%	19%	19%	31%	38%	20%	19%	50%
NOT IMPORTANT	0%	0%	0%	6%	0%	0%	0%	0%

Of those who go beyond the minimum, collectively 100% said that portfolio value was an extremely or quite important factor in their decision to do so, which highlights' the importance of asset value and income to developers. Long-term performance and shareholder pressure were also highly selected factors. This suggests that citing long-term value is a good mechanism to inspire developers to be more sustainable.

* Based on a questionnaire with property developers.

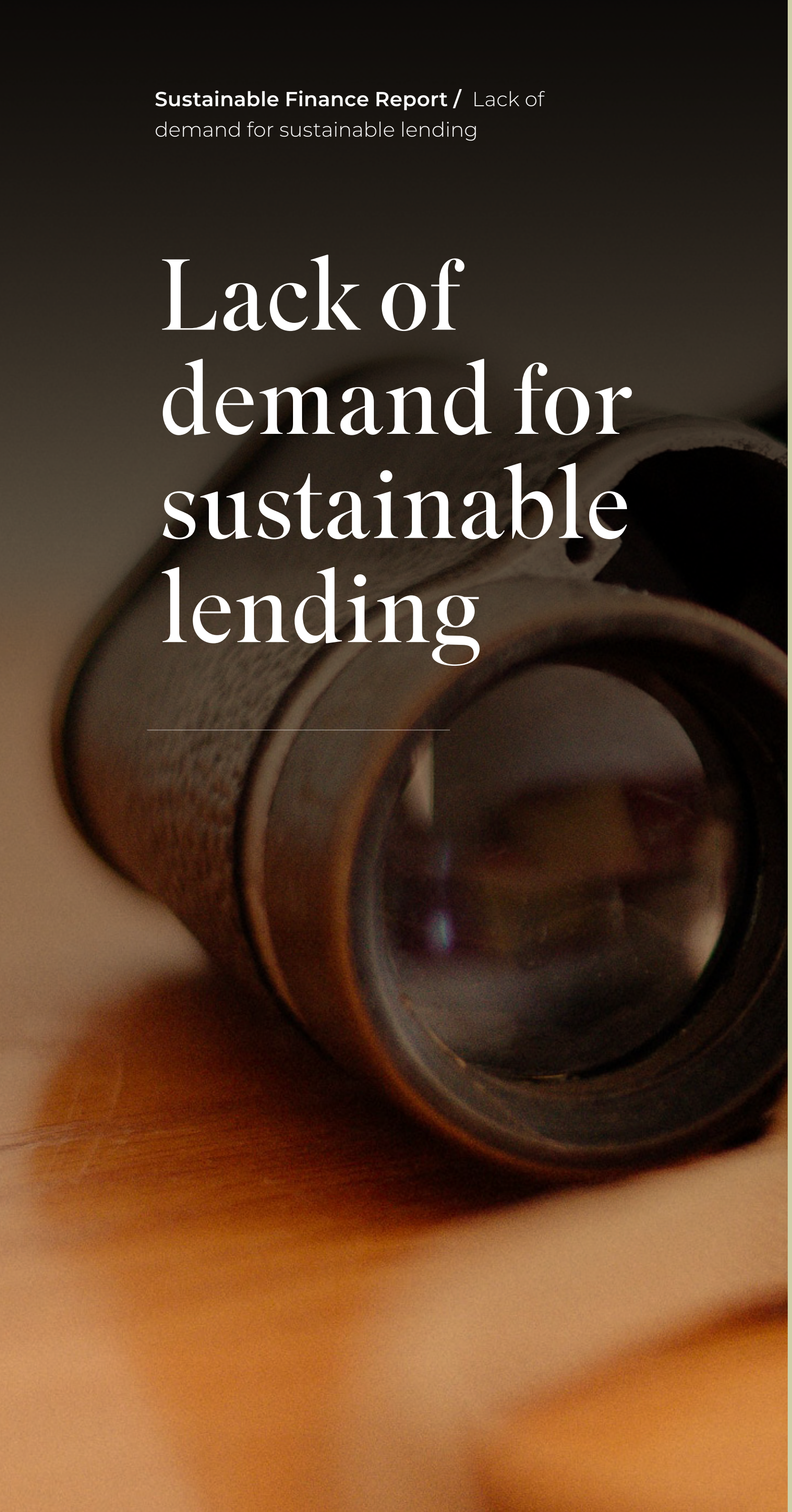
Lack of demand for sustainable buildings*

Cost of delivering solutions	100%
Lack of recognition within valuation	52%
Lack of market / customer demand	47%
Lack of knowledge of relevant sustainability factors to consider or tackle	21%
Time constraints to consider design changes	21%
Lack of knowledge how to deliver sustainable projects	16%
Sometimes can result in unintended consequences eg high cost for customers	5%
Market availability of true low carbon materials, lack of knowledge on refurbishment, lack of government clarity on minimum standards and UK pathway to net zero	5%

* Based on a questionnaire with property developers.

Turning to what stops developers pursuing sustainable solutions, every respondent selected costs. Just over half (52%) cited a lack of recognition within valuation, closely followed (47%) by a lack of customer or market demand. While this contradicts the reasons above for why some developers go beyond the minimum, it also suggests there is further for the market to go in terms of recognising the benefits of sustainable buildings.

Interviewees said that despite the growing evidence base of longer-term benefits for consumers and developers to create buildings more sustainably, demand to do so in some sectors is not currently at sufficient scale to shift the market. Price and location continue to be a much more important consideration than sustainability in both the commercial and residential markets.



Lack of demand for sustainable lending

Adoption of sustainable finance*

Have you used sustainable finance?

Yes	32%
No	36%
Maybe, I don't know	32%

A third (32%) of respondents had used sustainable finance, while the same percentage didn't know. Of those who hadn't used sustainable finance before, 38% said they needed a better understanding of it before they would consider it, while 43% were unaware of the opportunities to use sustainable finance.

Of those who had used sustainable finance, half did so to be sure that they used a lender aligned with their values.

A third (33%) said it was because they wanted a finance solution that helps them highlight that their building has met robust criteria. The requirements of sustainable finance improved sustainable outcomes in only half of the projects it funded.

* Based on a questionnaire with property developers.

The cost of securing sustainable finance

Aside from anticipated higher costs of constructing a sustainable building, interviewees believe that it costs more to access sustainable finance. One interviewee described the perception of sustainable finance processes as ‘frictionful’. Even if a company has decided to use sustainable finance, the process of finding and shortlisting providers, agreeing on the terms, and providing evidence represents friction in the transaction that adds complexity and cost to the process.

One further impact of these supposed additional transaction costs is that they begin to squeeze the expected margins on sale. Interviewees said ‘they don’t see the value coming through’ in sales revenue.

Should sustainable finance be cheaper than comparable non-sustainable finance?*

6%

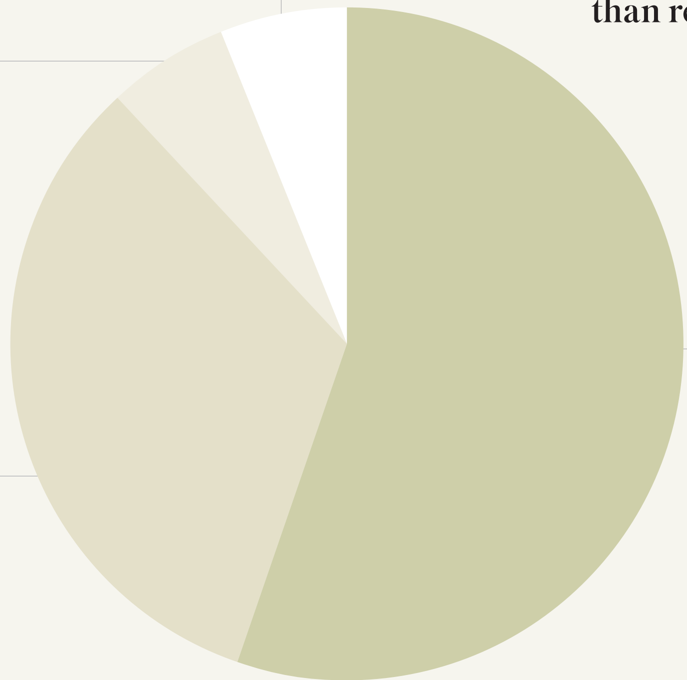
NO - they should be the same

6%

NO - they can be the same, as it is attractive for value alignment

33%

YES - to make up for the money spent in complying



55%

YES - we want to encourage the uptake of these funds to drive change

Almost all respondents (88%) felt that sustainable finance should be cheaper than regular finance.

* Based on a questionnaire with property developers.

Our Impact Lending Framework

Puma Property Finance's [Impact Lending Framework](#) is an innovative, market-leading offering to incentivise developers to adopt stretching sustainability measures and genuine socially impactful projects.

Developments that qualify for an Impact Loan can benefit from up to a 1% reduction in their cost of finance, with the benefit paid at the conclusion of the project to ensure the Framework delivers real, tangible impact.

Find out all the details about the Framework, the Sustainability Criteria and Social Impact Criteria and how to qualify for an Impact Loan on our website.

Appendix: How we conducted our research

Supply side data review

Together with Puma Property Finance, the research team identified 85 companies that provide development finance, including banks and alternative lenders. These were a mix of scales, ownership and geography, but with a bias towards the UK and European markets. The companies were chosen from the Real Estate Capital Europe top 50 lenders list and supplemented by Puma Property Finance and the research team from The UCL Centre for Sustainable Governance and Law in the Built Environment.

The research team spent more than 150 hours researching, collating, summarising, reviewing and validating data. They reviewed each company's website for sustainable finance products and the conditions under which the products were available. Where there was no clear evidence of a formal product, examples of sustainable lending were documented, along with any declared sustainability outcomes and conditions.

Demand side and industry dynamics

The survey was initially distributed across the developer community, covering multiple sub-sectors. To extend the reach of the survey, it was also circulated on LinkedIn, with support from UCL, Puma Property Finance, Estates Gazette and professional networks.

In total, some 1,500 emails were sent to potential respondents, with approximately 500 being sent to company mail addresses, and approximately 1,000 emails sent to named individuals, whose mail addresses were collated from the public domain.

Industry dynamics

To better understand the dynamics in the broader market, we carried out interviews. In total, seven conversations were held with developers/surrogates, independent finance providers, real estate investment managers and experts in the retail sustainable finance product market.

Get in touch

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