

Funding the Green Revolution – the role of property finance in driving sustainable and socially impactful construction

Paul Frost, Managing Director of Puma Property Finance, discusses how the property finance market can fuel the adoption of more sustainable development, the business' new Impact Lending Framework and its ongoing partnership with UCL's Bartlett School of Sustainable Construction.

The commercial property sector has dealt with its fair share of challenges in recent years. The pandemic not only shifted output but also dramatically changed how we live and work in ways that show no signs of reversing. The subsequent inflationary environment that we are all now experiencing is putting pressure on developer margins, operating costs and asset values. Against this backdrop, the UK continues to grapple with a chronic undersupply of housing stock and a growing population that needs housing solutions.

With such headwinds, are sustainability considerations a luxury that the industry cannot presently afford to indulge? At Puma, we don't think so. In fact, quite the contrary; we are firmly of the view that sustainability needs to be front and centre of the UK's strategy to Build Back Better (remember that?) And we want to explore how our part of the market – the property finance industry – can best support the developer and investor community who will be fundamental in determining how successfully we as a nation will rise to this challenge.

Tackling challenges and changing mindsets

ESG is a commonly used term. One of the initial hurdles to the adoption of more 'ESG-friendly' behaviours can be the multitude of different ways to measure "impact" and deliver change (of which more below...). But change there most certainly needs to be. On the environmental front, [nearly 40% of global carbon emissions](#) come from the built environment and the carbon footprint of the construction industry is significant.

As an industry, we may have been asleep at the wheel for far too long, but there are increasing signs of a waking from this slumber. With arguably 'soft' targets in place such as the UK Government's 2050 net zero strategy, as well as 'harder' regulations such as the requirement for all commercial buildings to have a minimum EPC rating of 'B' by 2030, it is estimated that [£90bn will be invested](#) across the 'green building' sector in the UK by 2030.

The goals of sustainable construction, as we see it, are to reduce the industry's impact on the environment. Sustainable construction initiatives may include using renewable and recyclable materials, minimising the embodied energy in building materials, reducing the energy consumption of the finished building, tackling on-site waste and protecting the natural habitats during and after the construction phase.

With such significant change needed, this won't happen overnight, and it comes with multiple challenges. Cost is often cited as a prohibitive factor, particularly in the current inflationary times as contractors are under increasing pressure to reduce costs where possible. Sourcing sustainable materials can also be difficult as in many cases, they are simply not widely available or are only produced in small quantities. The [Deloitte London Office Crane Survey \(2022\)](#) highlighted that, according to developers, cost is the biggest barrier to office development (100% of respondents), followed by the demands of meeting ESG requirements (93%).

In the residential market, consumer trends are not yet highlighting any material 'green premium'. Recent research from Zoopla identified no significant differences in the sales prices achieved for otherwise comparable properties between those with EPC 'A' or 'B' ratings versus those

scoring 'F' or 'G'. And anecdotal evidence suggests that buyers of new homes are often resistant to sustainability measures such as lower pressure water fixings or externally fitted heat pumps. The recent [Sustainable and Affordable Housing Report](#) from the World Green Building Council challenges the notion that affordable and sustainable housing is not a mass market solution, but there's clearly a huge amount of work still needed to turn this into reality.

Building a partnership to explore potential solutions

With so much conflicting debate around sustainable construction, it can be difficult to know where to start when it comes to potential solutions. In this context, perfection can often be the enemy of the good. At Puma Property Finance, which provides funding of £10m to £50m for residential and commercial developments across the UK, we focus on the sustainability credentials of the projects we support as part of our underwriting process.

We know that more needs to be done and we're just a tiny cog in a huge machine so last year we partnered with UCL to support their creation of a new world-class research centre focused on developing sustainable practices in the construction industry. The School's 'Centre of Sustainable Governance and Law in the Built Environment' will seek to bring together the voices of industry, public policy and academia to provide a more holistic approach to the understanding of sustainability practices in the built environment. It is our view that only by uniting all stakeholders in the debate can we hope to land upon solutions that are seen as sufficiently rigorous, objective and independent to encourage wide-scale adoption.

So, where next? Walking the walk with our new Impact Lending Framework

Despite the ongoing economic headwinds, in our view the long-term direction of travel for sustainable and impactful construction seems clear. At Puma, we are concerned with how the property finance sector can best help to drive and accelerate this trend and with that, we are immensely proud to have recently launched our Impact Lending Framework, which is the culmination of many months of thought and consultation.

We take both our environmental and social responsibilities seriously at Puma and believe property lenders are uniquely placed to incentivise the adoption of more sustainable and impactful practices within the built environment. The new Framework has been carefully designed to reward developers who actually deliver, not just aspire to deliver, impactful projects.

The Framework has been established to provide direct financial benefits to property developers across the UK who are implementing measures in their vision and designs that deliver meaningful and impactful change. It sets out criteria under which prospective development projects can qualify as an Impact Loan. The criteria have been designed to make use of independent, industry-accredited measures, which will be subject to external, third-party verification.

Qualification as an Impact Loan will provide direct and tangible financial benefits to borrowers in the form of a fee reduction on final repayment of the loan. Borrowers will receive either 0.5% or 1.0% of the total drawn loan amount as a fee reduction, and loans will qualify under two sets of criteria:

- **Sustainability Criteria** – these criteria have been designed to encourage the adoption of sustainable methods of construction, and thoughtful design to encourage efficient long-term building usage.
- **Social Impact Criteria** – these criteria have been designed to encourage investment into areas of higher deprivation or to support the provision of increased affordable housing.

This Framework is our next step towards moving the dial and we sincerely hope it will be the encouragement developers and other lenders need to take that next step too. *For more information on the Puma Property Finance Impact Lending Framework, read more [here](#).*