

Regulators, Occupiers, Investors, Lenders and Valuers –  
Can They All Work Together to Decarbonize Commercial  
Real Estate?

The Counselors of Real Estate® European Chapter ESG  
Learning Sessions

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# Introduction/background: CREFC Europe

- Non-profit membership association for real estate finance in Europe
  - ~170 member firms, skewing to the lending side
  - Policy work, events and networking, thematic industry initiatives
- Sitting at the ‘hinge’ between real estate and finance
  - Better connected with real estate in the market, more focused on finance in policy/regulatory terms
- ESG as an area of interest
  - Large number of official and industry initiatives, broad market interest
  - Definitions, standards, priorities, etc. yet to settle
  - Persistent misalignment between real estate and finance policy frameworks (built environment policymakers and financial regulators don’t seem to talk to each other much)

# ESG and regulation (in the real estate finance context)

- Lender focus is getting principal repaid – how do ESG considerations affect this?
  - Regulation that affects collateral value is critical (notably Minimum Energy Efficiency Standards)
  - But what do regulatory capital rules, climate disclosures and climate stress testing incentivize? (Spoiler alert: not brown-to-green strategies)
- With the right regulatory incentives, lenders can drive decarbonization
  - A handful of lenders can reach many (especially non-institutional) real estate borrowers
  - Lenders can provide a combination of advice and finance
- But that also requires data and market-accepted metrics and standards
  - It is for the real estate industry and policymakers (rather than lenders) to take the lead here with measurement standards, green leases, solutions to privacy issues for data sharing, etc.
  - Standards and regulation must cover embodied as well as operating carbon, actual performance as well as building spec – and we need regulatory consistency and medium-term certainty

# Taking a step back to see the bigger picture...

- The institutional (low/un-leveraged, Paris-aligned) market and the rest
- ESG/sustainability: hard to define, and different strands may not align
  - Climate risk or resilience? decarbonisation? a just transition? a full suite of E, S and G factors?
- Prioritising decarbonisation of the built environment
  - Is it helpful to talk in binary terms about “green”/“sustainable” buildings and stranded assets?  
Most buildings simply need to be retrofitted/improved
- The owner/occupier relationship
  - Interests are not aligned, ‘green’ leases are not widely used and data is not routinely exchanged
  - Is different regulatory treatment of rented and owner-occupied property well-founded?
- Paying for improvements: what should lenders – or the taxpayer – contribute?



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