

CapitaLand Sustainability-Linked Loan Case Study

October 2019

Sustainability-linked loans in Asia's real estate sector

SUMMARY

After securing the first and largest sustainability-linked loan in Asia's real estate sector from DBS Bank (DBS). The CapitaLand Group has signed new sustainability-linked loans with Credit Agricole Corporate & Investment Bank (CACIB), Natixis Bank and Société Générale to raise a total of S\$600 million to date.

CapitaLand has the flexibility to use these sustainability-linked loans for general corporate purposes.

The five-year multicurrency sustainability-linked loans will see interest rates reduced based on CapitaLand's achievements of environmental, social and governance metrics.

COMPANY

CapitaLand is one of Asia's largest diversified real estate groups. Headquartered and listed in Singapore, it owns and manages a global portfolio which spans across diversified real estate classes. The portfolio includes commercial, retail, business park, industrial and logistics, integrated development, urban development, as well as lodging and residential. With a presence across more than 200 cities in over 30 countries, the Group focuses on Singapore and China as its core markets, while it continues to expand in markets such as India, Vietnam, Australia, Europe and the USA.

PARTNERS INVOLVED

The following banks were involved in the loans:

- DBS
- Crédit Agricole CIB (CACIB)
- Natixis
- Société Générale
- And RobecoSAM is an investment specialist focused exclusively on Sustainability Investing.

SUSTAINABILITY FINANCING

What is a Sustainability Loan?

A sustainability-linked loan extends beyond the conventional concept of being 'green' or attaining a green rating. Sustainability covers three broad areas – Environment, Social and Governance (ESG) With this sustainability-linked loan, CapitaLand has the flexibility to use the loan for general corporate purposes and not just towards funding a specific green project.

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Sustainability-linked loans provide a financial incentive to companies keen to improve their ESG performance. These loans are structured on the premise that ESG performance is one of the key driving factors of a company's financial performance. For this facility, the ESG performance of CapitaLand is evaluated based on RobecoSAM Corporate Sustainability Assessment ("CSA"), which is conducted annually. If the performance targets are met, the interest rate for part of the loan will be reduced, bringing down the company's cost of debt.

This is different from other loans in the market such as green loans or green bonds:

1. Green Loans: Proceeds from green loans' can only fund specific projects with positive environmental benefits as defined in the principles of green loan extended. Projects are not just limited to green real estate. These may also include projects that encourage a switch to renewable energy, pollution prevention and control, sustainable natural resources management, biodiversity conservation, climate change adaptation and more.

2. Green bonds: Similar to a green loan, a green bond is a bond specifically earmarked for use on specific projects that are positive for the climate and environmental. These bonds are typically asset-linked and backed by the issuer's balance sheet.

Benefits and motivation

1. Flexibility: CapitaLand has the flexibility to use the money obtained for general corporate purposes, whereas the proceeds from green loans or bonds must be used to fund specific projects.
2. Efficiency: CapitaLand choose CSA scores over other ESG ratings/rankings to leverage CapitaLand's participation in the independent SAM assessment. This allows for greater efficiency and alignment with CapitaLand's ongoing ESG efforts. In other words, it means that CapitaLand don't have to hire an additional assessor. Through these annual assessments, CapitaLand obtain an ongoing performance measurement against a robust set of ESG indicators for the listing in the Dow Jones Sustainability Indices.
3. Financial benefits: CapitaLand is able to use this new opportunity to reap additional financial outcomes from the successful and early integration of sustainability into its business

This loan is explicitly linked to the company's listing in the Dow Jones Sustainability World Index. As such, CapitaLand can benefit directly from its outstanding sustainability performance as a long-standing member of the DJSI World and the only Asian company among the top 10 real estate firms in the index in 2018.

Dovetailing CapitaLand's ESG efforts with its cost of funding allows CapitaLand to further demonstrate its commitment to embedding sustainability into its business in the long run and is core to its role as a responsible real estate company.

Through this loan, CapitaLand also hope to spur further positive corporate accountability and encourage others in the business community to adopt good sustainability practices.

LESSONS LEARNT

Long term commitment to sustainability

Securing an ESG-linked loan requires a strong and long term track record and future commitment to sustainability. Companies need to measure up against the robust assessment of their ESG practices to obtain and maintain the loan throughout the tenor of the loan. Interest rates on the sustainability-linked loan may be further reduced on a tiered basis, dependent on the company's ESG efforts.

CapitaLand started its sustainability journey a decade ago and has consistently done well in its ESG efforts. In this instance, the loan is explicitly-linked to CapitaLand's listing on the Dow Jones Sustainability World Index. CapitaLand is one of only two Singapore companies to enter the DJSI World. CapitaLand is also the only company in Asia amongst the top 10 real estate firms in the index in 2019. CapitaLand has been included in the index for eight years in a row and is also the longest-standing Singapore company in the DJSI Asia Pacific for 11 years consecutively.

CapitaLand also came in first place across four categories in the Global Real Estate Sustainability Benchmark (GRESB) 2019. Internationally, CapitaLand is the leader in the Global 'Diversified – Listed' category.

In the region, CapitaLand was the leader in the Asia-Pacific 'Diversified', Asia 'Diversified' and Asia 'Diversified – Listed' categories.

Be clear in your objectives

Companies need to understand why their own objectives and assess the various fund-raising options available to them. If companies are seeking to fund a single environmental project, a green loan or green bond may be more suitable.

Working with like-minded partners

It is also important to seek like-minded partners. Working with committed partners such as DBS, CACIB, Société Générale, Natixis and RobecoSAM to capture the tangible benefits of good sustainability practices.

With DBS, CapitaLand broke new ground by clinching the first and largest sustainability-linked loan in Asia's real estate industry.

CapitaLand is also the first company in Asia to partner with Societe Generale for a sustainability-linked loan. It is also the first real estate partner in Asia for Credit Agricole Corporate & Investment Bank and Natixis for a sustainability-linked loan.

OUTCOME OF IMPLEMENTATION

Feedback from government partners and industry has been positive. Amid growing expectations of companies to adopt more sustainable practices, obtaining this ESG-linked loan is seen as evidence of our sustainability practices, our ability to capitalise on the value of corporate sustainability, and our commitment to continually delivering long-term value for our stakeholders.

INFORMATION

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