

Green Exits

An EU Taxonomy initiated strategy framework for Nordic housing funds

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Agenda

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Introduction

2

**Developing the
initial Green Exit
Framework**

3

**Insights from the
interviews**

4

**Discussion and
conclusions**

1. Introduction

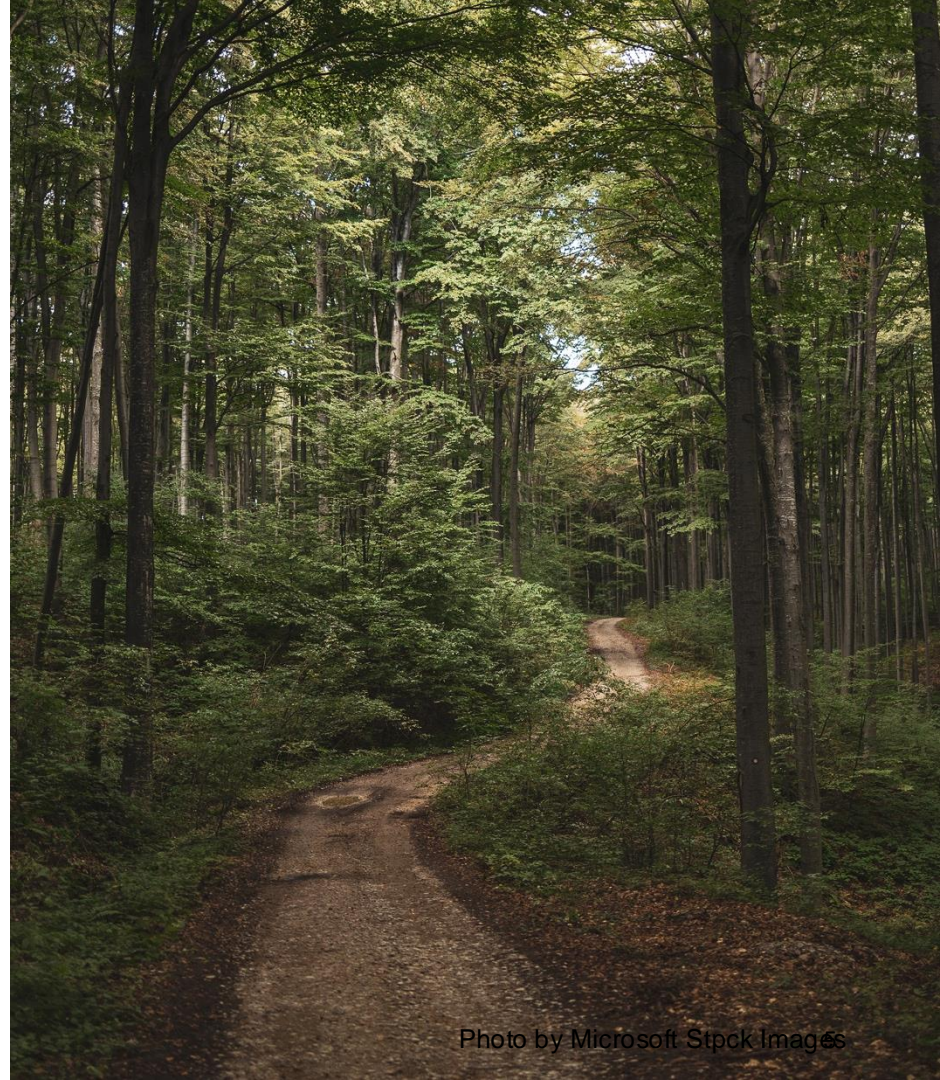
Why should we be interested in “green exits” of real estate funds?

- Private equity real estate (PERE) funds have gained **increased attention** among investors in the past two decades
- Success of a PERE fund is **manifested** in its exit; the **track record of a fund manager** is based on successful exits
- Sustainability standards and regulations affect PERE funds, yet little is known about how exactly fund managers can **leverage** these in their exit strategies, i.e., make a “green exit”

RESEARCH QUESTION

What kinds of pathways can a Nordic residential real estate fund choose to ensure a “green exit”?

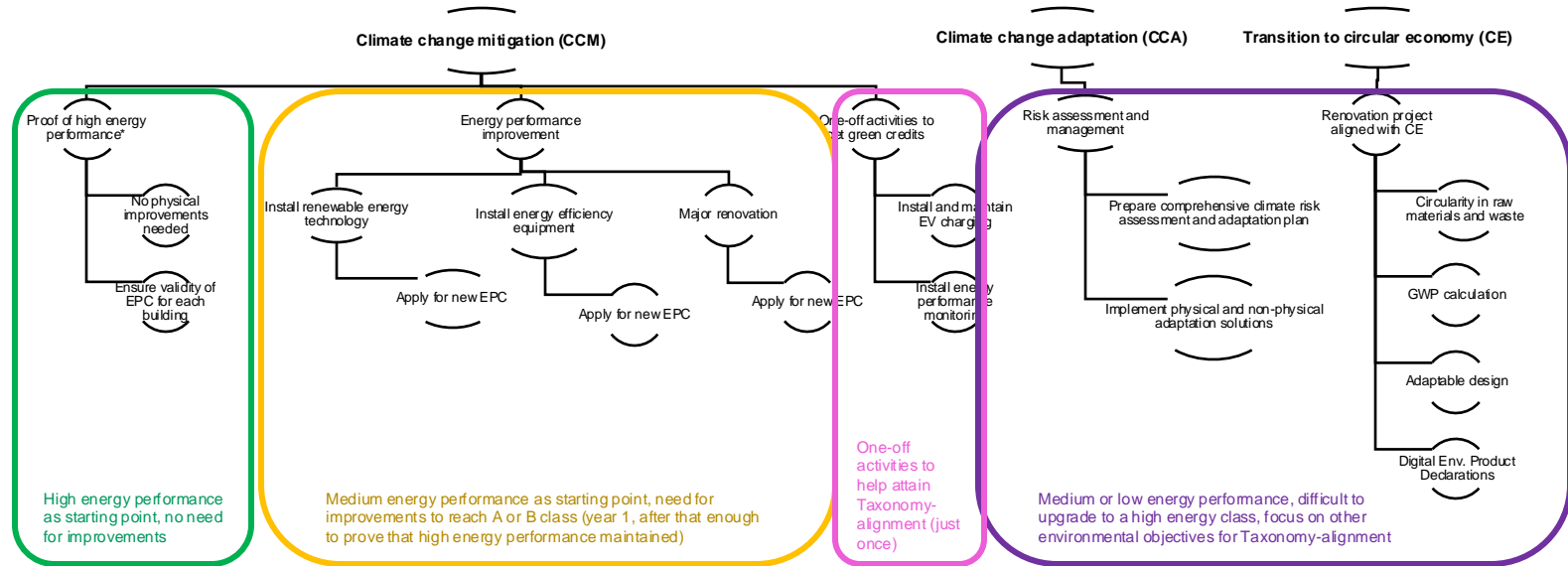
- EU Taxonomy seen as key “enabler” for green exits
- Energy performance level of buildings used as the determining factor for pathway alternatives
- Only *substantial* contribution criteria to environmental objectives *relevant for the ownership of buildings* taken into consideration (other Taxonomy conditions and environmental objectives excluded from the scope)



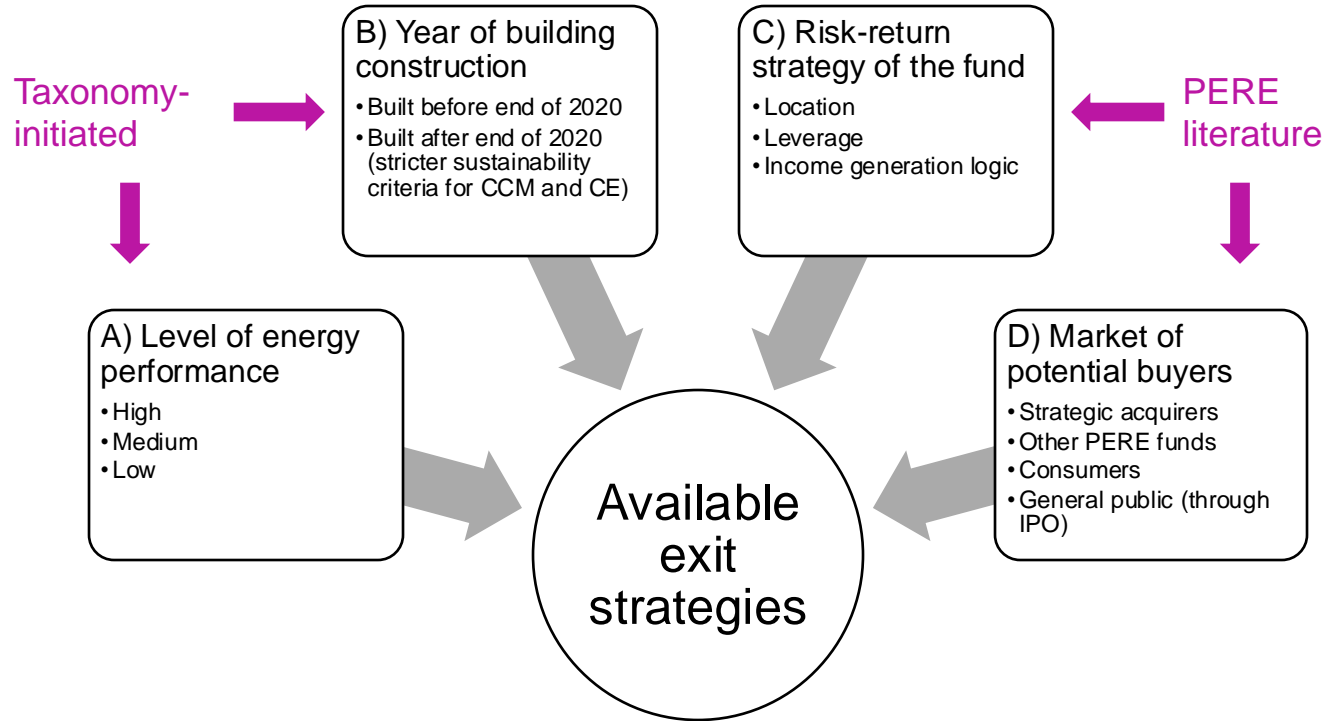
2. Initial Green Exit Framework

EU Taxonomy pathways for building owners

(only substantial contribution criteria included)



Initial Green Exit Framework



3. Insights from the interviews

Testing the initial framework

1. Two informants from the real estate sector

- Residential PERE company with a typical value-add fund strategy (Informant 1)
- Property management company providing services for, e.g. PERE funds (Informant 2)

2. Two semi-structured, 1-hour long interviews

- Purpose to find out which factors relevant for green exits and how the EU Taxonomy affects exit strategies
- AND to collect feedback on the feasibility and relevance of the initial green exit framework

Key insights from the interviews (1/2)

- **“Green premium” believed to exist in the market, yet no conclusive data on its exact value**
 - Key contributing factors: excess earnings from decreased risk premium and cost of capital, and sales premium from higher asset valuation
 - Green assets have a larger buyer base and consequently higher liquidity in the market → “green exits” considered a relevant concept
- **Definition of “green” dependent on buyers’ and financiers’ standards**
 - Banks must follow specific sustainability regulations which trickles down to the loan prerequisites and conditions, affecting real estate transactions
 - Huge differences in expectations and interests between a long-term investor (e.g. pension fund) vs a short-term investor (e.g. opportunistic, development-oriented PERE fund)

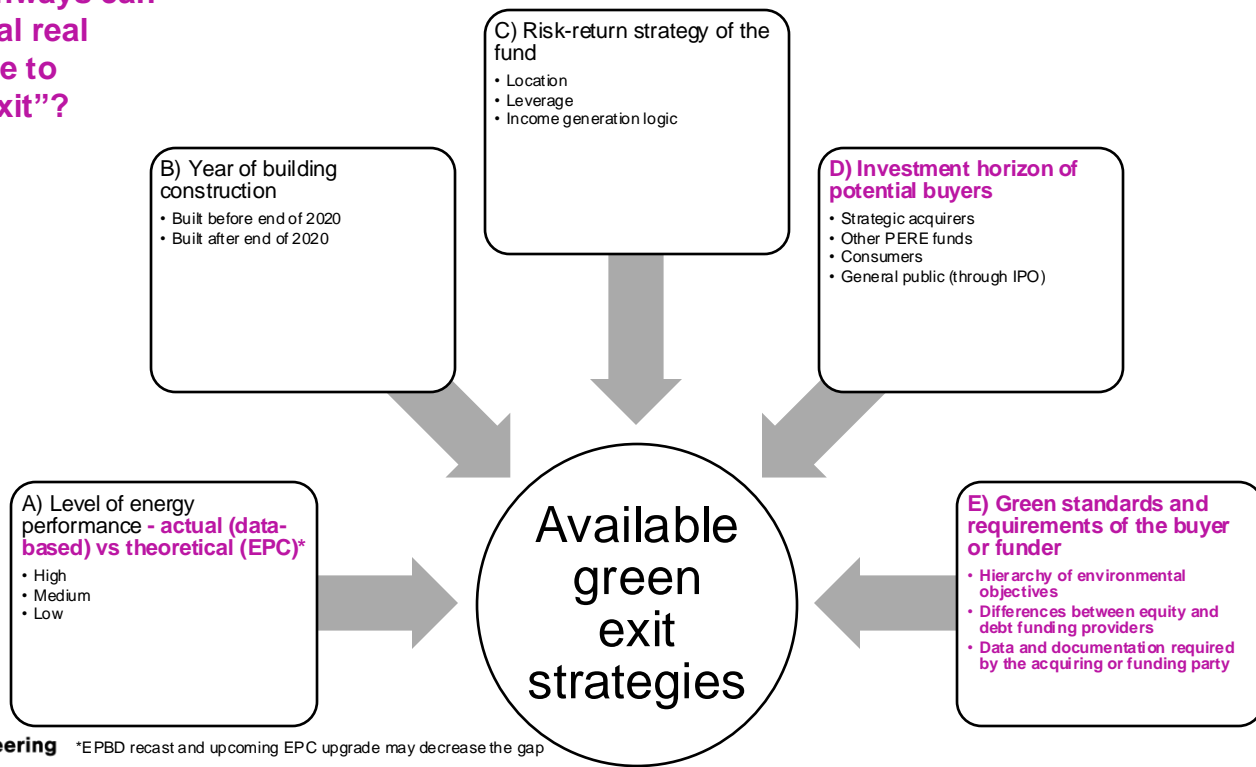
Key insights from the interviews (2/2)

- **Taxonomy alignment is only one aspect of “green exits”**
 - Just being Taxonomy-compliant is not considered an advantage per se, rather a minimum-level (at least concerning the energy performance)
 - “Best-in-class” green assets perform well “in all aspects of sustainability”
- **Currently, emphasis on climate change mitigation**
 - **Energy performance** easily quantifiable and thus EPCs a key sustainability metric used by banks
 - Importance of **climate change adaptation** dependent on the building location and the investment horizon of the buyer
 - **Circular economy** currently not relevant due to obstacles in the implementation of the Taxonomy criteria and lack of demand from the investor market (construction sector more progressive?)

4. Discussion and Conclusions

Discussion: Revised Green Exit Framework

What kinds of pathways can a Nordic residential real estate fund choose to ensure a “green exit”?



Conclusions

- In theory, Taxonomy offers **many alternatives** for making an asset or portfolio “green”
- Based on the findings, however, the **Taxonomy alone is not sufficient proof of sustainability** for buyers or financiers
- While energy performance is still the most-used metric for sustainability (in the Taxonomy and by e.g. banks), other green indicators are needed for **green premium**
- A **number of factors** impact the availability of green exit strategies
 - Important considerations for policymakers, practitioners and academics
 - More research needed on the developing definitions of “green” and the linkages between stakeholder requirements in exit situations



Thank you!



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