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GREEN BONDS

Bonds are the largest source of capital in the global market. Many of the financiers and investors who offer bonds are interested in the environmental impact of the projects they fund. Green bonds provide a stable channel for investors to provide capital for projects that promote sustainability or mitigate climate change.

Bond labeling has been a popular tool since bonds were created. Labeled bonds have been used to fund the railroad, aircraft, highway, and war industries. Retailers are starting to take advantage of the benefits green bonds have to offer.

Why should you use it?

- Your company wants to pursue high capital, portfolio-wide installations or retrofits through a single initiative or funding mechanism.
- Your company wants autonomy over spending and doesn't need third party project management.
- Your company wants to make a public splash and be viewed as environmental leaders.

Who has used it in the past?

According to the Climate Bonds Initiative, the global aggregate of green bond issuances increased from approximately $11 billion in 2013 to $41 billion in 2015. Corporations were the second largest issuer of green bonds (after development banks) in 2014, responsible for 33 percent of total issuances. In 2016, the green bond market is expected to top $50 billion.

In February 2016 Apple issued $1.5 billion in green bonds. They plan to use the proceeds to fund renewable energy projects, energy and water efficiency upgrades across its facilities, research and development into greener materials, and projects focused on recycling and materials recovery.

In May 2016, Starbucks announced its first sustainability bond issuance. The company will use the net proceeds from the offering of $500 million to enhance its sustainability programs around coffee supply chain management.

Other recent issuers have been Regency Centers, Vornado Realty, Bank of America, Solar City, and Unilever.

What are the advantages?

- **Quantity** – a single green bond offering could fund almost any set of retrofits across an entire portfolio, or even fund new store construction.
- **Lower cost of capital compared to similar offerings** – Regency had no trouble attracting investor interest despite offering a bond yield 11 to 60 basis points lower than other similar REIT offerings. A 2015 Barclays report found green bonds priced at 20 basis points below non-green bonds.
- **Ease of qualifying** – the International Capital Market Association publishes official Green Bonds Principles, and it is likely that any project with a notable sustainability component would qualify.
- **Positive press and improved company image** – Early adopters of green bonds have garnered substantial media interest.

Better Buildings® U.S. DEPARTMENT OF ENERGY

This resource was completed with support from the Department of Energy's Office of Energy Efficiency and Renewable Energy and the Better Buildings Initiative to highlight innovative proven energy solutions from market leaders in the Retail sector. Find more ideas at the Better Buildings Solution Center at betterbuildingssolutioncenter.energy.gov

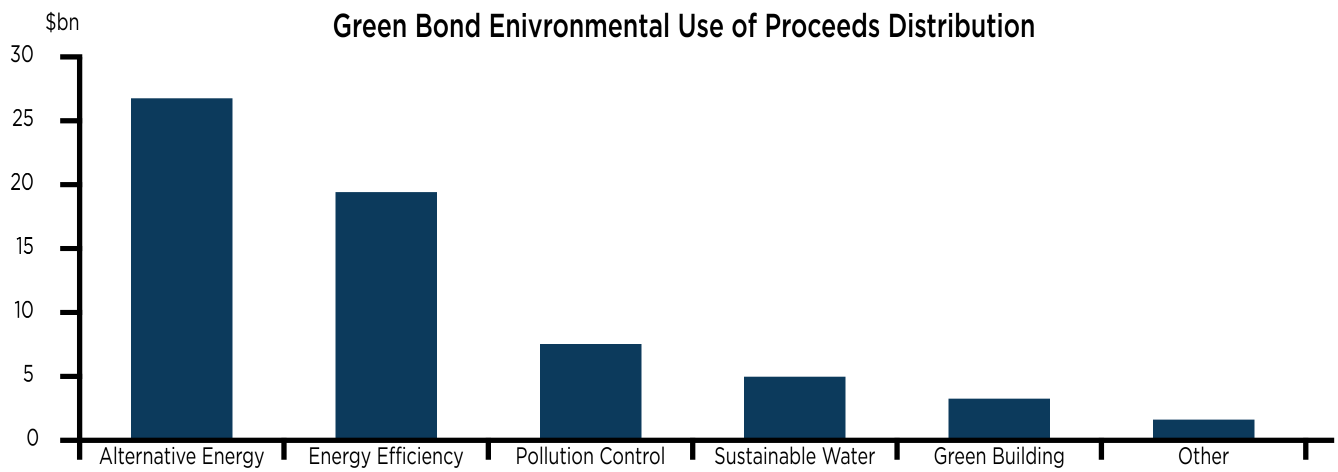
What are the downsides?

- Green bond issuances are typically large ($5 million or greater).
- A high level of certainty in energy reductions is required to ensure bond obligations can be met via green projects.
- Using bonds proceeds for sustainability is unique; it might be an unfamiliar concept to pitch internally.

Who should you talk to next?

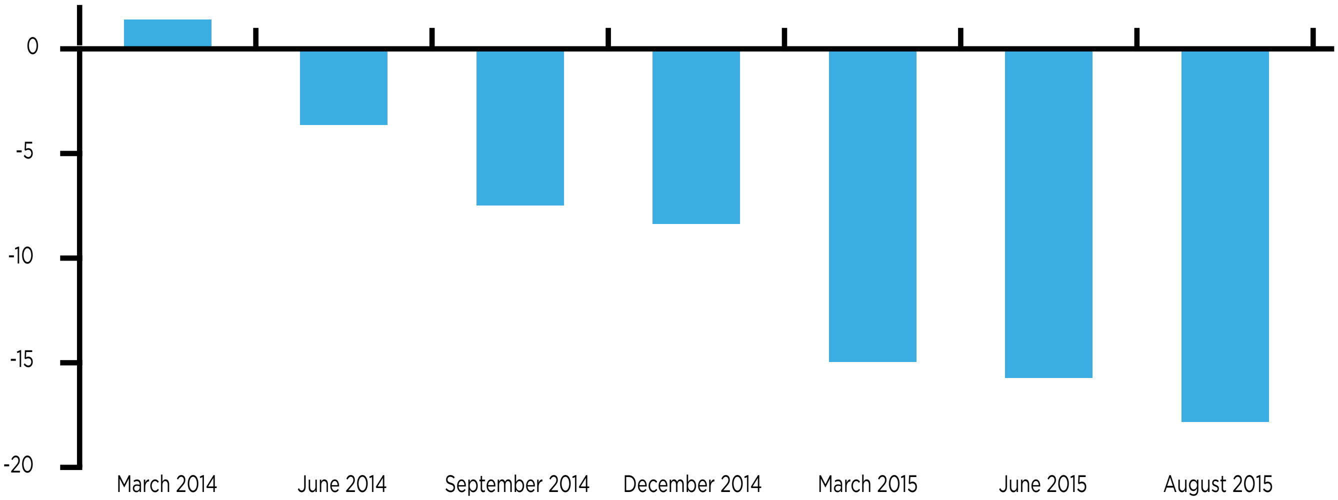
- Talk to your internal finance team to learn about the company's history and comfort issuing bonds.
- Reach out to bond issuers and underwriters, as most are equipped to offer green bonds. If your company has previously issued bonds, standard channels to market should be sufficient.
- Refer to the Climate Bond Initiative, which maintains a database of experienced green bond underwriters and third party verifiers.

Green Bond Enivronmental Use of Proceeds Distribution



Note: Data displayed are the six use of proceeds sub-indices of the Global Green Bond Index, as of September 11, 2015.

Green Bond Investor Premium Has Increased Over Time (bp)



Note: Regression coefficient on green bond variable in seven cross-sectional samples of the Global Credit Index

Source: Barclays Research

GREEN BONDS IN THE MARKET

Green bonds, a type of debt used to fund projects yielding environmental benefits, have grown in recent years. According to the Climate Bonds Initiative, the global aggregate of green bond issuances increased from approximately $11 billion in 2013 to $41 billion in 2015. Corporations were the second largest issuer of green bonds (after development banks) in 2014, responsible for 33 percent of total issuances. In 2016, the green bond market is expected to top $50 billion. Forecasts suggest the green bond market will grow to over $1 trillion in annual issuances by 2020.

Green bonds are fixed income instruments with funds earmarked for projects that advance climate change mitigation, energy efficiency, and other areas of sustainability. They are attractive to investors that value protecting the environment as well as companies looking for a simple and stable source of capital.

In February 2016 Apple issued $1.5 billion in green bonds. They plan to use the proceeds to fund renewable energy projects, energy and water efficiency upgrades across its facilities, research and development into greener materials, and projects focused on recycling and materials recovery. Goldman Sachs & Co., Bank of America Merrill Lynch, Deutsche Bank Securities, and J.P. Morgan are managing Apple's offering. Apple has committed to reporting about the allocations on an annual basis and has hired a third party verifier to conduct independent, annual updates about its progress.

In May 2016, Starbucks announced its first sustainability bond issuance. The company will use the net proceeds from the offering of $500 million to enhance its sustainability programs around coffee supply chain management. This includes coffee purchases from suppliers verified by a third-party as complying with their ethical sourcing verification program, the development and operation of farmer support centers in coffee growing regions, as well as short and long term loans. Starbucks will publish annual updates of the allocation of the proceeds throughout the term of the bond until the proceeds have been fully allocated.

Real estate companies in the U.S. have added to the recent surge of green bond offerings. In 2014, Regency Centers issued a 10-year, $250 million corporate green bond, at an interest rate of 3.75 percent. As of March 2015, Regency had allocated the entire green bond proceeds to 9 shopping centers that either received or were in the process of receiving a LEED certification.

For a retailer, the familiar structure of a bond offering combined with innovative green labeling make green bonds a great way to raise capital for energy projects at favorable rates while attracting positive press for your company. Green bond proceeds can be used to advance energy and sustainability goals in retail stores, warehouses, distribution centers, and corporate offices.

Companies interested in using green bonds should refer to GRESB's Green Bond Guidelines for the Real Estate Sector and the International Capital Market Association's (ICMA) Green Bond Principles.

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