

# Climate-Related Commercial Real Estate Lending Due Diligence Guide

This guide has been prepared for use in the context of secured commercial real estate financing. It is intended to help lenders to assess, in the early stages of discussions with a borrower, climate-related resilience and risk, as well as impact, and thus potential eligibility for a green/sustainable loan. It is not expected that the level of detail and sophistication of some of the questions will be suitable for every transaction. References to the “borrower” should be read broadly as including the borrower group or sponsor.

## I. Climate focus



**This guide is** focussed solely on climate related risks and opportunities:

- **Part A** – recognising that borrowers will be at different stages in their green/sustainability journey, this section provides some high level questions on the borrower’s approach to climate-related and sustainability issues. Lenders may prefer to omit this section.
- **Part B** – investigates the physical impact climate change may have on the secured property during the course of the loan.
- **Part C** – investigates the credentials of a particular asset/development to be financed.
- **Part D** – investigates the borrower’s general approach to climate related issues across its entire property portfolio and in its business.



**This guide is not** intended for (and is not suitable for) use as an investigation into a borrower’s wider environmental, or overall ESG, credentials.<sup>1</sup>

## II. Jurisdictions covered



**This guide is** drafted deliberately broadly so that it is capable in different jurisdictions.



**This guide is not** suitable as a checklist of all climate-related issues to consider in all jurisdictions. To assist with understanding the context and intention behind certain questions, examples of regulations or standards used in the UK have been included, but users will need to apply their own country/jurisdiction specific requirements where applicable.

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1. For suggestions of the type of topics ESG due diligence may cover, please refer to page 139 of the [Chancery Lane Project](#) which contains an example ESG due diligence questionnaire.

### III. How to use



#### This guide is

- intended to be used by originators as a climate-related due diligence prompt in preliminary discussions with borrowers
- intended to set out the questions lenders are likely to wish to ask potential borrowers to assess whether a transaction may be suitable for further agreements between borrower and lender, for example in line with relevant principles developed by the Loan Market Association.
- Not all questions will necessarily be relevant or appropriate for all transactions. By way of example, if the transaction is to finance an acquisition the borrower may not initially be able to obtain certain information from the seller to be able to respond to some of the questions.
- Colour coded. Grey/blue shading is for questions potentially relevant for any secured CRE financing.



#### This guide is not intended to be:

- a checklist or questionnaire to be sent indiscriminately to borrowers for them to complete.
- overly prescriptive – lenders should select which questions are relevant in a given situation.

### IV. Rating Scale

The following 5-point rating scale is suggested as a useful way to score responses to the questions that follow.

Score	Level of compliance with climate-friendly procedures
1	<b>Low</b> *for some questions, 1 means NO
2	<b>Low/Medium</b>
3	<b>Medium</b>
4	<b>Medium/High</b>
5	<b>High</b> *for some questions, 5 means YES

# Part A

## Preliminary questions relating to the borrower's approach to climate-risk/sustainability issues

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all borrowers</b>			
1.1	To what extent has the borrower considered the impact of climate change on its property[ies]?	1 2 3 4 5	
	For detailed assessment, please go to Part B, <a href="#">Section 1</a>		
1.2	To what extent has the borrower set minimum EPC targets? <sup>2</sup>	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 1</a>		
1.3	To what extent does the borrower consider investing in energy efficient equipment or systems within the property[ies]?	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 2</a>		
1.4	To what extent does the borrower assess the property[s] performance from a sustainability and environmental perspective to align with any of the green building certification systems?	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 3</a>		
1.5	To what extent does the borrower address occupiers' energy efficiency post-completion? <sup>3</sup>	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 4</a>		
1.6	To what extent does the borrower engage with the local community?	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 5</a>		
1.7	To what extent has the borrower considered the environmental impact of the property[ies]?	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 5</a>		
1.8	To what extent has the borrower considered any potential for improvement to reduce the environmental impact of the property[ies]?	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 6</a>		
1.9	To what extent does the borrower consider the source of plant and construction materials?	1 2 3 4 5	
	For detailed assessment, please go to Part C, <a href="#">Section 7</a>		
1.10	To what extent has the borrower implemented a climate change policy?	1 2 3 4 5	
	For detailed assessment, please go to Part D, <a href="#">Section 1</a>		
1.11	To what extent has the borrower considered the carbon footprint/GHG impact of the property[ies] against the 2050 net zero carbon targets?	1 2 3 4 5	
	For detailed assessment, please go to Part D, <a href="#">Section 2</a>		

2. Note in this context UK proposals for the future trajectory to EPC "B" by 2030.

3. Note in this context UK proposals for performance-based ratings for larger commercial buildings.

## Part B

### Climate risk attached to the asset

#### Section 1 Physical climate risk

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
1.1	To what extent has the borrower reviewed the real estate to which the financing relates in terms of potential physical risks arising from climate change during the term of the loan such as flood risk, rising sea level projections, increased inclement weather, storm surge impact on coastal defences, heat stress, water scarcity?	1 2 3 4 5	
1.2	Where relevant, does the borrower have well-progressed plans to adapt buildings or upgrade defences (e.g. seawalls, dikes, building hardening, increased elevation, and additional cooling systems) to protect against physical climate risk impact, including flooding, wind damage and heat damage?	1 2 3 4 5	
1.3	How comprehensive are the borrower's policies in addressing and mitigating climate risk concerns for the property or the most at-risk properties within the portfolio being lent against?	1 2 3 4 5	
1.4	Has the borrower considered the impact of climate on the supply chain required for the development or acquisition of property?	1 2 3 4 5	
1.5	To what extent has the borrower considered the financial challenges and opportunities that climate change poses to its assets (e.g. in relation to the Task Force on Climate-related Financial Disclosure's recommendations)?	1 2 3 4 5	
1.6	To what extent has the borrower encountered difficulties in obtaining buildings insurance against the usual insured risks? (for this question the rating scale should be 1 for a very high level of difficulties, through to 5 for no difficulties at all)	1 2 3 4 5	

# Part C

## Asset's capacity for green / sustainable lending

Note: Some lenders may wish to address the borrower's net zero carbon targets before moving onto these questions. The questions relating to net zero carbon targets are set out on page 18 below.

### Section 1 Energy Performance Certificates

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
1.1	Does the borrower set minimum EPC targets for existing or new build developments? If so:	1 2 3 4 5	
1.1.1	Please specify the targets. <sup>4</sup>  Please provide details	1 2 3 4 5	
<b>Relevant to existing buildings only</b>			
1.2	To what extent does the borrower monitor adherence to minimum energy efficiency standards (e.g Minimum Energy Efficiency Standards Regulations (MEES) in the UK)? If yes:	1 2 3 4 5	
1.2.1	How robust are the borrower's protocols to manage its real estate portfolio to ensure compliance with minimum standards on an ongoing basis?  Please provide details	1 2 3 4 5	
1.2.2	How proactively does the borrower address underperformance if minimum standards are not met?  Please provide details	1 2 3 4 5	
1.3	Does the borrower meet the qualification criteria under any energy savings scheme (e.g. UK Energy Savings Opportunity Scheme (ESOS)) <sup>ii</sup> ?	1 2 3 4 5	

4. Note in this context UK proposals for the future trajectory to EPC "B" by 2030.

## Section 2 Energy Performance

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
2.1	To what extent does the borrower plan to invest in any on-site renewable energy generation (generally, and at the real estate to which the proposed financing relates)?	1 2 3 4 5	
2.2	To what extent does the borrower plan to invest in energy efficient equipment/systems within properties (generally, and at the real estate to which the proposed financing relates)?	1 2 3 4 5	
<b>Relevant to existing buildings only</b>			
2.3	To what extent has the borrower invested in any on-site renewable energy generation (generally, and at the real estate to which the proposed financing relates)?	1 2 3 4 5	
2.4	To what extent has the borrower invested in energy efficient equipment/systems within properties (generally, and at the real estate to which the proposed financing relates)?	1 2 3 4 5	
2.5	To what extent has the borrower engaged with a third party to conduct energy efficiency audit of the property/ies? If so:	1 2 3 4 5	
2.5.1	Have any energy performance improvements been proposed within the asset management plan? If so, what?  <i>Please provide details</i>	1 2 3 4 5	
2.6	To what extent has the borrower implemented a framework to monitor and improve operational energy performance (e.g. ISO 50001) (generally, and at the real estate to which the proposed financing relates)? <sup>iii</sup>	1 2 3 4 5	
2.7	To what extent has the borrower factored in retrofit requirements into its current lease profile, especially units let over a longer term and multi-let buildings (generally, and at the real estate to which the proposed financing relates)?	1 2 3 4 5	
2.8	To what extent does the borrower complete cost/benefit analysis of carbon and energy efficiency upgrades to its real estate portfolio and monitor performance against upfront targets?	1 2 3 4 5	
2.9	When granting occupational leases, how insistent is the Borrower on including energy efficiency provisions substantively in the form set out in the Lease Code/Model Lease?	1 2 3 4 5	
<b>Other information - relevant to existing buildings only</b>			
Please complete Schedule 1 (Metrics) <u>sections 1</u> (Energy) and <u>5</u> (Climate change policies and improvements).			

## Section 3 Green Building Certifications

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
3.1	How actively does the borrower target and seek verification of carbon and energy performance by obtaining third party certifications (BREEAM, LEED, HQE etc)?	1 2 3 4 5	
3.2	How effectively do the borrower's policies have, or are they moving towards, a portfolio target for minimum third party certification grades? To the extent these targets are in place, what are they?	1 2 3 4 5	

## Section 4 Engaging with Occupiers

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to existing buildings only</b>			
4.1	How comprehensive are the Borrower's systems for monitoring underlying occupier efficiency?	1 2 3 4 5	
4.2	When providing shell units to occupiers, how successful are the borrower's minimum fit out standards in helping ensure occupiers create energy efficient fit outs of lettable areas?	1 2 3 4 5	
4.3	To what extent does the borrower offer occupiers solutions to help them address their own carbon and energy efficiency goals (for example, electricity supply from renewable providers, systems to monitor rented floorspace, such as separate digital metering, etc.)?	1 2 3 4 5	
4.4	To what extent has the borrower developed a green travel plan for the asset(s)?	1 2 3 4 5	
<b>Relevant to existing multi-let properties only</b>			
4.5	How commonplace are carbon and energy efficiency related clauses in the borrower's contracts with building vendors (for example, suppliers of building management services, catering firms, waste management firms, etc.)?	1 2 3 4 5	
4.6	For the borrower's multi-let properties, how prevalent are building management groups (i.e. groups set up by the borrower with owners/building managers/occupiers to agree common carbon and energy efficiency targets, manage energy and waste, operate HVAC more efficiently, etc.)? <sup>iv</sup>	1 2 3 4 5	

## Section 5

# Engaging with the Local Community and Environment

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
5.1	To what extent does the real estate to which the financing relates have specific features that support the local area (electric vehicle charging, bicycle parking facilities, contribution to public transport hubs, etc.)?	1   2   3   4   5	
5.1.1	To what extent does the site enhance biodiversity (e.g. green roof, beehives, wildlife area, bird-nesting boxes, etc.)?	1   2   3   4   5	
5.1.2	To what extent does the site have the potential to impact biodiversity (e.g. water emissions to surface water, air emissions, etc.)?	1   2   3   4   5	
5.2	How comprehensively has the borrower reviewed the potential impact of property failure on the local community and environment (e.g. impact on ecosystem if building or building systems fail, obsolescence of building for intended use, etc.)?	1   2   3   4   5	
5.3	How high is the site's potential to cause accidental contamination (e.g. presence of fuel tanks, chemicals, emissions etc.)? (for this question the rating scale should be 1 for a very high potential, through to 5 for a very low potential)	1   2   3   4   5	
<b>Other information – relevant to existing buildings only</b>			
Please complete Schedule 1 (Metrics) <u>sections 3</u> (Water use) and <u>4</u> (Waste production and disposal route).			



## Section 6

### Retrofit/Potential for Improvement

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
6.1	To what extent has the borrower completed (or committed to complete) any retrofit works to reduce the energy performance of the real estate to which the financing relates (or other real estate in its portfolio)? Examples of this can include:	1 2 3 4 5	
6.1.1	Lighting: Sub-metering to improve monitoring, install LED lights, Lighting activated by motion sensors (ensure set to appropriate timings)	1 2 3 4 5	
6.1.2	Heating: Replace boilers with condensing or electric boilers, check boiler load and insulate plant room (boiler shell, pumps, pipes), monitoring boiler operation outside normal occupier hours	1 2 3 4 5	
6.1.3	Air: Windows, roof, ventilation, cooling, heat recovery	1 2 3 4 5	
6.1.4	On-site energy generation: solar panels, wind turbine, bioenergy	1 2 3 4 5	
6.1.5	Water reduction processes: water efficient taps and showers, greywater recycling systems and rainwater harvesting goods	1 2 3 4 5	
6.1.6	Waste minimisation and greywater recycling	1 2 3 4 5	
6.2	Does the borrower take steps to ensure that retrofit standards align to the EU Taxonomy? <sup>vi</sup>	1 2 3 4 5	

## Section 7

### Sourcing of Plant and Materials

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all types of financing</b>			
7.1	To what extent does the borrower review the source of plant and construction materials?	1 2 3 4 5	
7.2	To what extent does the borrower consider whole-life carbon impacts of its construction methods and material selection?	1 2 3 4 5	

## Part D

# Borrower's approach to climate change

## Section 1 Governance and reporting

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all assets</b>			
1.1	How comprehensive are the borrower's energy, carbon or any other climate change policies?	1 2 3 4 5	
1.2	Does the Borrower provide a description of the targets used by the organisation to manage climate-related risks and opportunities (e.g. in line with the Task Force for Climate-Related Disclosures (TCFD) or other recognised recommendations)? <sup>vii</sup>	1 2 3 4 5	
1.3	How comprehensive are the borrower's resolution processes to address underperformance versus its carbon and energy performance targets?	1 2 3 4 5	
1.4	How extensive are the borrower's employee training programme concerning climate change and its policies and approach in relation to it?	1 2 3 4 5	
1.5	How likely is it that any of the activities carried out by the borrower lead to a material breach of its climate change policy?	1 2 3 4 5	
1.6	How effective is the borrower's management system for ensuring that all statutory compliance certifications are up to date (e.g. lift, F-Gas, electrical, fire risk, emergency lighting, gas safe, fire alarm etc.)?	1 2 3 4 5	
1.7	To what extent does the borrower currently prepare an annual report providing energy use, greenhouse gas emissions and energy efficiency disclosures (e.g. in relation to the UK government's Streamlined Energy and Carbon Reporting (SECR) policy) <sup>viii</sup> ?	1 2 3 4 5	
1.8	Is the borrower's review and reporting on the energy consumption and intensity of the assets sufficiently frequent?	1 2 3 4 5	
1.8.1	Does the borrower obtain third party verification or assurance of the carbon and energy performance of its assets? If so, at what frequency?	1 2 3 4 5	
1.8.2	Does the borrower disclose data to benchmarks (e.g. GRESB, or BBP Real Estate Environmental Benchmark in the UK) <sup>ix</sup> with regard to the carbon and energy performance of its assets? If so, at what frequency?	1 2 3 4 5	

### Other information

Please complete Schedule 1 (Metrics) [section 5](#) (Climate change policies and improvements).

## Section 2

# Net Zero Carbon Emissions by 2050

Questions to raise with borrowers		Score (1 low – 5 high)	Notes following discussions with borrower
<b>Relevant to all assets</b>			
2.1	To what extent does the borrower undertake carbon footprint assessments / GHG impact of the assets? If so:	1 2 3 4 5	
2.1.1	Has the borrower publicly committed to reduce scope 1 & scope 2 emissions? <sup>x</sup>	1 2 3 4 5	
2.1.2	Has the borrower considered scope 3 emissions (i.e. the emissions from occupiers, the supply chain or construction activities)?	1 2 3 4 5	
2.2	To what extent has the borrower considered real estate performance against net zero carbon targets by 2050? <sup>xi</sup>	1 2 3 4 5	
2.3	To what extent has the borrower mapped out a transitional pathway to meeting net zero by 2050, or sooner?	1 2 3 4 5	
2.4	How prevalent is on-site low carbon/ renewable technology present at the property (e.g. photovoltaics, solar thermal, biomass boilers, combined heat and power (CHP), etc.)?	1 2 3 4 5	
<b>Other information</b>			
Please complete Schedule 1 (Metrics) <u>section 2</u> (GHG emissions).			

## Schedule 1: Metrics<sup>2</sup>

Questions to raise with borrowers		Notes following discussions with borrower
<b>Relevant to existing buildings only</b>		
1	Energy	
1.1	Please provide the annual energy use in kWh for the past five years	
1.2	Please provide renewable / non-renewable energy source tariff	
2	GHG emissions	
2.1	What is the current GHG footprint for the building (including energy, water, waste, refrigerant gases, maintenance and construction)?	
3	Water use	
3.1	Please provide Litres per Annum for the past five years	
3.2	What are the main water uses – domestic, process, irrigation, etc.?	
3.3	Is the site water from mains or surface / grey water capture / surface water / abstraction boreholes?	
3.4	What wastewater is produced and where does it go?	
4	Waste production and disposal route	
4.1	Please provide the waste volumes for the past five years	
4.2	Please list the disposal routes	
4.3	Please provide details of the waste streams produced. How much is recycled / landfill / incineration?	
5	Climate change policies and improvements	
5.1	Please provide details of the borrower's climate change policy	
5.2	Please provide details of any proposed climate change enhancing works (including proposed works and date)	
5.3	Please provide details of any proposed climate change enhancing works undertaken in the last year/s	

2. Please note that Schedule 1 does not follow the 1 – 5 rating scale.

- i The Domestic Minimum Energy Efficiency Standard (MEEs) Regulations set a minimum energy efficiency level for domestic private rented properties in the UK. For more information, see [here](#). Please also consider the BEIS consultations (launched in March 2021 and closing in June 2021) on proposals for rating energy performance of commercial property and increasing the EPC target to a minimum “B” rating by 2030.
- ii You can find useful resources about ESOS here: <https://www.gov.uk/guidance/energy-savings-opportunity-scheme-esos#about-esos>
- iii See for example the Better Buildings Partnership’s [Design for Performance](#) initiative.
- iv The Better Buildings Partnership’ [Green Building Management Toolkit](#) could be a useful resource in this context.
- v The EU Taxonomy classes green renovation/retrofit as either Major Renovations that meet cost-optimal energy performance in accordance with the Energy Performance of Buildings Directive, or Relative improvement where 30% reduction of Primary Energy Demand post renovation is achieved. Useful FAQs about the EU Taxonomy are available here: <https://www.bloomberg.com/professional/blog/the-eu-taxonomy-for-sustainable-finance-faqs-for-financial-market-participants/>.
- vi In order to align with the Taxonomy Regulation, an activity must (i) meet the relevant screening criteria; (ii) meet the ‘do no significant harm’ criteria; and (iii) avoid any violation of the minimum social safeguards (which are defined by reference to national guidance, including the UN guiding principles on business and human rights) stipulated in the Taxonomy Regulation. For more information on the criteria contained in the Taxonomy Regulation, please refer to the [TEG report on taxonomy](#).
- vii The Task Force on Climate-Related Financial Disclosures recommends metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. Although reporting in line with the TCFD recommendations is currently voluntary in the UK, there are proposed regulatory requirements on future mandatory reporting in line with the TCFD recommendations for certain UK organisations. For more information, see the [Final Report on Recommendations of the Task Force on Climate-related Financial Disclosures](#).
- viii The Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the 2018 Regulations) implement the UK government’s policy on Streamlined Energy and Carbon Reporting (SECR). The 2018 Regulations require large unquoted companies that have consumed (in the UK), more than 40,000 kilowatt-hours (kWh) of energy in the reporting period to include energy and carbon information within their directors’ (trustees’) report, for any period beginning on or after 1 April 2019. For more information, see [here](#).
- ix For example, using the Better Buildings Partnership’s [Real Estate Environmental Benchmark](#).
- x The three scopes are explained in this table. Further information available at <https://ghgprotocol.org/>.

<b>The three scopes explained</b>			
	<b>Scope 1</b>	<b>Scope 2</b>	<b>Scope 3</b>
<b>Definition</b>	Greenhouse gas emissions that occur directly due to a company's activities or indirectly from its use of energy are known as <b>Scope 1</b> and <b>Scope 2</b> emissions, respectively		All other greenhouse gas emissions that occur due to its activities, but which it has no direct ownership or control over, are known as <b>Scope 3</b> emissions
<b>Direct control</b>	✓	✓	✗
<b>Direct ownership</b>	✓	✗	✗
<b>Examples</b>	<ul style="list-style-type: none"> <li>• Gas boilers on site</li> <li>• Fuel used in company vehicles</li> </ul>	<ul style="list-style-type: none"> <li>• Purchased electricity</li> <li>• Purchased heating</li> </ul>	<ul style="list-style-type: none"> <li>• Employee commuting</li> <li>• Embodied carbon of new buildings</li> <li>• Tenant emissions in leased spaces</li> </ul>
Source: UKGBC			

- xi Useful resources for achieving net zero operational carbon can be found here: <https://www.ukgbc.org/ukgbc-work/advancing-net-zero/>.