What are the Low Carbon Buildings Criteria?

The Climate Bonds Low Carbon Buildings Criteria define the eligible use of a bond issuance’s proceeds for building assets under the Climate Bonds Standard.

The Criteria has been designed with an ambition of a zero-carbon future in 2050 and offers a pathway to reach that outcome in a manner bespoke to each city’s present circumstance.

What underpins the Criteria?

Buildings account for 40% of emissions globally. The IEA Energy Technology Perspective highlights that the building sector is not on track in meeting the performance target required for a 2-degree world.

Early and rapid investment in the sector is critical to meet this performance target. Luckily, the technology already exists in the sector to rapidly decarbonise.

The guiding principle for the Climate Bonds Standard is that certified assets and projects must be in line with limiting warming to 2°C. The Criteria embed transformative steps not incremental improvements for rapid decarbonisation.

Why Certify a Low Carbon Building Bond with the Climate Bonds standard?

Certification allows issuers to demonstrate to the market that their bond meets industry best practice for climate integrity, management of proceeds and transparency.

Certification indicates to investors that proper environmental due diligence has been done on the assets they are investing in – a robust and credible way for this new asset type to enter the green bond market.

Other benefits of issuing a Certified Climate Bond include; investor diversification (bond and mortgage issuers should find they attract new investors by Certifying), greater investor engagement, investor stickiness (investors buying Certified Climate Bonds tend to buy and hold), strengthened reputation (Certifying shows commitment to delivering low carbon infrastructure) and a freeing up of balance sheets.

How will the Criteria assist in growing the green bond market?

The rapid growth in the green bond market over the past 3 years has been met with questions around the environmental credentials of these bonds and about what assets are suitable for inclusion in a green bond. The Low Carbon Building Criteria indicate to potential issuers and the market what types of assets and projects should and could be included in green bonds. They define what are low carbon building assets.

Will your project meet the Zero-Carbon Building Criteria? It’s as easy as 1 2

**STEP 1**
Comply with Disclosure Component

Information required: project location and size, lifespan, key stakeholders, description of activities (e.g. installation, operation, decommissioning, facility capacity and generation), details of where the energy generated is going and avoided GHG emissions.

**STEP 2**
Comply with Mitigation Component

Information required: the building asset or portfolio of assets must meet one of the following compliance pathways;

1. Region Specific Low Carbon Emissions Trajectory
2. Region Agnostic Emissions Intensity Upgrade

**Pathway 1**
Low Carbon Trajectory

- The region where my building is located has an established Low Carbon Trajectory
- The region has an established Low Carbon Trajectory Proxy

**Pathway 2**
Significant Upgrade

- My asset or portfolio of assets achieve a significant improvement in emissions performance
What types of assets are eligible?

The Low Carbon Buildings Criteria sets out what property assets are eligible for Certification under the Climate Bonds Standard. It covers three different types of property assets; residential assets, commercial assets, and urban open space assets (parks, street lighting etc).

For a project to satisfy the Low Carbon Building Criteria it must comply with three components: Mitigation, Adaptation and Disclosure

Mitigation

All the Criteria developed under the Climate Bonds Standard have a GHG mitigation component. This is fundamental to showing that projects are in line with a low carbon future. However, the global building sector is at different stages of development, with some regions composed of new construction and other involved in retrofitting. Performance tracking policies influencing the sector also vary greatly depending on the state of the market. Therefore, the mitigation component is structured to meet a range of diverse building sector conditions.

Due to this complexity, the eligibility criteria for inclusion under the Climate Bonds Standard can be shown in one of two ways: Absolute Performance or Relative Performance.

Absolute Performance can be shown through compliance with a Trajectory where the asset must either meet the performance target for that location over the term of the bond, or it must comply with a Proxy that has been approved for use by CBI.

Trajectories are established for specific building types in a city/region or country where data is available. They are used to derive emissions performance targets that bond issuers must achieve to gain Climate Bonds Certification. The start of the trajectory is the top 15% most emission efficient buildings in a city given as the carbon intensity metric gCO2/m2. Trajectories are linear and aim for zero emissions in 2050. This means emissions performance targets for bond issuers become more demanding over time. The Climate Bonds CO2 Target calculator automatically calculates the emissions performance targets for an issuer based on city, building type, bond issuance year and bond term. This region-specific pathway is also called the Low Carbon Trajectory.

Relative Performance Improvement can be shown when a retrofit improves the emissions intensity of assets against a pre-retrofit baseline, whereby the minimum improvement is determined by the tenor of the bond. This option is designed to ensure that even in regions where market-wide emissions performance data is unavailable, issuers have an option to Certify their assets if they have been actively tracking their own internal emissions performance upgrades.

This region-agnostic pathway is called Upgrades.

Proxies are established for specific building types (offices, hotels, shopping centers) on a city basis where data is available. Proxies are used to derive currently best available building code or rating scheme that bond issuers must achieve to gain Climate Bond Certification. Proxies are representative of the top 15% most emission efficient buildings in a particular market. Proxies are placeholders until more data becomes available. This means proxies expire or are reassessed on an ongoing basis.

Adaptation

Climate Bonds Standard Criteria often include a climate adaptation & resilience component alongside GHG mitigation. Work is ongoing to develop an adaptation & resilience component that takes into account future climate change risk for the buildings sector.

Disclosure

The disclosure component provides clarity to investors on the details of the projects in the Certified Climate Bond. Issuers must provide the required information (where applicable) but no judgement is made on answers. This component was designed to ask for information that is often publicly disclosed anyway but often not included in bond offering documents.