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MEDIA RELEASE

Green Bonds and Alternative Financing Key to South African Property Sector Growth at SAPOA Annual Convention 2024

Property industry leaders stressed the importance of green bonds and alternative financing in supporting South Africa's listed property sector at the South African Property Owners Association (SAPOA) Annual Convention 2024. They also highlighted the crucial role that local banks have played in assisting property funds through restructuring initiatives. The conference brought to light both potential and difficulties, especially in view of the rising insurance premiums associated with climate change.

Redefine Properties' Chief Financial Officer, Ntobeko Nyawo, stated that green bonds have developed into a crucial source of funding for real estate firms, allowing them to satisfy sustainability targets while keeping access to critical funding. We have raised a substantial amount of our debt—currently 35%—through green bonds during the past few years. This has made fresh capital pools available and contributed to long-term financial stability, according to Nyawo.

Additionally, he underlined the vital assistance provided by South African banks, who have been beneficial allies in both domestic and foreign activities. "South African banks have been quite helpful, not only here but also in areas like Poland where risk premiums can make discussions more difficult. Because of this international cooperation, our balance sheet has become stronger, enabling us to withstand more challenging times.

Similar observations were made by Laila Razack, CFO of Equities Property Fund, who noted that although the traditional debt capital market is still a vital source of funding, listed property funds have found that the increasing usage of green bonds has changed everything. According to Razack, "green bonds currently make up 15% to 20% of our debt, allowing us to take advantage of favourable pricing and contribute to a more sustainable future." She did, however, recognise the difficulties brought on by the high price of green project certification. Although certification for green financing is still costly, it's an

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expenditure that's required to get into this expanding sector. The long-term advantages are beginning to balance the disadvantages in terms of money and the environment.

These property funds have been able to rearrange their finances in response to changing market dynamics and rising interest rates thanks in large part to the role played by banks. Despite economic constraints, loan-to-value ratios (LTV) have stabilised below 50%, and cash flows are still sustainable. The banks have been quite helpful in helping us manage our debt levels and refinance in ways that are consistent with our long-term plan, Razack continued.

A major issue facing real estate corporations is not only funding but also the escalating cost of insurance due to the effects of global warming. Global insurance premiums are rising as a result of the increased likelihood of weather-related disasters like storms and floods brought about by climate change. This problem was brought to light by Richard Barkham, Global Chief Economist at CBRE, who noted that insurance prices related to climate impacts had increased in countries such as the United States. "In the United States, rates have increased dramatically as a result of increasingly frequent and severe weather occurrences. Property businesses need to pay attention to this trend as it is starting to spread to other areas, such as South Africa, according to Barkham.

While the immediate effects of insurance rate increases connected to climate change have been substantially mitigated in South Africa, the trend is still heading in the same way. Vice President of Real Estate at MSCI Eileen Andrew noted that when the effects of climate change become more noticeable in the nation, insurance costs will probably increase. "The full impact is still being felt here, but it's only a matter of time until South African property companies start feeling the squeeze," she added, referring to the way international insurers are modifying their models to account for climate risks.

Despite these challenges, the South African listed property sector has demonstrated resilience, with constructive partnerships between banks and property companies helping to mitigate some of the financial risks. Nyawo emphasised the importance of these relationships, particularly as companies navigate rising interest rates and the increased cost of doing business. "It's been essential to have strong partnerships with our banks as we focus on long-term sustainability, not just financially but operationally, as we integrate green initiatives and work towards greater resilience," he said.



In the future, the sector anticipates that green bonds and other alternative financing models will be crucial to its growth and sustainability plans. Companies will need to weigh the potential provided by green finance and positive cooperation with the banking sector against the growing costs of climate-related risks as the market develops.

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