Redefine lists R1bn sustainability-linked bond

Redefine Properties has listed a R1bn issuance on the JSE for its first sustainability-linked bond - the largest amount raised so far by a South African real estate investment trust (Reit) in the growing sustainability-linked bond space in the country.

Redefine CEO Andrew Konig

The funds will be used to refinance upcoming bond maturities which will allow Redefine to measurably increase the use of solar energy in the South African portion of its portfolio, facilitating a reduction in greenhouse gas emissions and significantly enhancing water efficiency solutions.

The issuance was launched through Redefine's JSE-approved R30bn domestic medium-term note programme, raising a nominal R1bn three-year unsecured floating rate note that will mature on 26 July 2024.

The need for sustainable energy and water solutions are vital to the future of the planet, with demand for green and sustainability bonds on the rise from investors. They are also key in efforts to raise funding for infrastructure development in emerging markets.

Embracing ESG principles

"Redefine as a business is embracing ESG principles in all aspects of what we do, and our new sustainability-linked bond is one of the steps we are taking to integrate ESG into our funding plan. We are extremely pleased with the result of the issuance and look forward to doing more as part of our transitioning efforts, together with all our stakeholders," says Redefine CEO Andrew Konig.

Redefine's CFO, Ntobeko Nyawo says asset owners and key institutional investors have been advocating for a greater emphasis on sustainability – and Redefine has heard their call.

"We are solidifying efforts to reduce our carbon footprint and help in the drive towards a more sustainable future. This also adds to the future resilience of our business," says Nyawo.

The key feature of this note is the linking of Redefine's cost of funding to pre-agreed sustainability performance targets.

PROPERTY

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2 Jul 2021

Reduction in interest rates

"If we achieve all our sustainability performance targets, which will be independently verified, then there will be a benefit in the form of a reduction in interest rates. However, should we not achieve all our targets, we will continue to pay a higher interest rate. So, there is a material incentive to do what we set out to do, with a reward through reduction in interest rates which positively impacts overall cost of funding," explains Nyawo.

A reduced interest rate of four basis points is applied to the bond price at each of the target dates – meaning an eight-basis point benefit should all the targets be met.

The target observation dates are 31 August 2022 and 31 August 2023. Redefine has committed to the renewable energy, greenhouse gas emission and water efficiency performance targets date. Renewable energy currently accounts for 5% of total energy consumption across Redefine's South African portfolio.

"The renewable energy target will be achieved through an increase in solar energy installed measured in megawatt peak (MWp) with respect to the South African portion of the property asset platform. The target is for a 3MWp increase at each of the target dates resulting in a cumulative 6MWp installation (25% increase on baseline)," says Redefine COO Leon Kok.

Reducing greenhouse gas emissions

On greenhouse gas emissions, the aim is to see a reduction in scope one and scope two emissions measured in tonnes carbon dioxide equivalent (tCO2e) with respect to the South African portion of the portfolio. By 31 August 2023, the intention is to see a cumulative reduction of 3,516 tCO2e (10% reduction on baseline), says Kok.

Water efficiency means a reduction in the water withdrawn from municipal and borehole sources measured in mega litres (ML) – with the 2023 target being a 5.1% reduction from a baseline of 2,759ML (cumulatively 140ML).

Nyawo says climate change has been identified by the World Economic Forum as one of the biggest risks for the global economy.

"Through our programme, Redefine is effectively rewarded for setting the pace of the transition to ESG. It is also attractive to investors over the period and sets the business on the path to achieving sustainable returns, while doing its part in contributing to global climate goals," concludes Nyawo.