Transforming real estate for a sustainable future

Green bonds and real estate: Financing the sector's low-carbon future

As key geographies, such as Europe and China, continue to strive toward climate neutrality, real estate continues to stand at the heart of global energy transition efforts. The sector is under pressure to modernize its asset base, reduce emissions, and align with sustainability targets—all while facing rising capital costs and lender scrutiny.

Green bonds are emerging as an important instrument in financing this transformation. This article explores how sustainable debt, particularly green bonds, is reshaping the way in which the real estate sector mobilizes capital and meets its climate obligations.

Climate targets and real estate's central role

The European Union has committed to achieving climate neutrality by 2050 with an interim target of at least a 55% reduction in greenhouse gas emissions by 2030[1]. China's target of net-zero emissions by 2060 is equally ambitious as it consumes more non-renewable energy sources than any other country[2]. Real estate is at the center of these challenges as buildings and construction account for a third of global energy consumption and CO2 emissions according to the United Nations Environment Program (UNEP)[3].

The environmental footprint of real estate is matched by an investment gap. UNEP estimates that annual energy-efficiency investment in buildings globally should rise from US$270 billion in 2023 to over US$520 billion by 2030 to stay on track with climate goals[4].

Navigating real estate financing in line with climate goals

Public funding alone is unlikely to meet the scale of investment required. Private capital should be mobilized to help close the gap.

Debt financing is particularly well suited to real estate's green transition as buildings can deliver predictable and stable cash flows, measurable energy performance indicators, and can act as strong, tangible collateral with long asset lives.

Banks are responding by embedding sustainability metrics into lending criteria, requiring certifications such as Building Research Establishment Environmental Assessment Method (BREEAM) or Leadership in Energy and Environmental Design (LEED), and tying loan pricing to sustainability performance via margin ratchets or key performance indicators. Examples include maintaining a specific Global Real Estate Sustainability Benchmark (GRESB) score for a portfolio of commercial real estate or achieving energy performance certificate rating improvements for residential mortgages.

Green bonds: A tool for reducing emissions in real estate

In addition to the efforts from traditional banks, several alternative sustainable finance instruments have arisen to help fill the significant capital requirements. Among these, green bonds have emerged as a powerful tool to channel capital into sustainable real estate projects, thereby facilitating the reduction in emissions of the real estate sector.

Investor demand for this asset class has been strong as green bonds have benefited from a steady inflow of sustainability-focused investors, attracted by the greater transparency that green bonds offer. This is clearly evidenced as global green bond issuances increased to €515 billion in 2024, a 7% increase from 2023[5].

Benefits and pricing

The "greenium"—or yield discount for green assets—is a key topic in sustainable finance. According to the European Public Real Estate Association, EPRA members and constituents of the FTSE EPRA Nareit Developed Europe index issued €48 billion in green bonds from 2013 to 2023, with a greenium of between 4.5 and 8.3 basis points[6].

While modest in percentage terms, these discounts can yield multi-million-euro savings on large, long-term deals. Greeniums tend to be higher for projects with strong environmental certifications and low transition risk.

Even as greeniums have narrowed in some markets, investor demand remains robust. The European Investment Bank's €3 billion green bond issued in April 2025 under the EU Green Bond Standard was 13.3 times oversubscribed[7]—a strong signal of appetite.

By using such financing structures, issuers can also broaden their investor base, send a positive signal to the market, and help build their reputation as sustainability-focused borrowers.

Regulatory momentum and market alignment

The effectiveness of green bonds can depend on adherence to recognized frameworks, which aim to safeguard transparency and environmental integrity. The most widely recognized include the International Capital Markets Association (ICMA) Green Bond Principles and the EU Green Bond Standard (EuGBS), the newest and most rigorous of the standards.

The ICMA Green Bond Principles were launched in 2014 as a voluntary framework. It is estimated that more than €600 billion has been issued across over 5,000 bonds classified under the green buildings category of these principles[8].

From a market access perspective, the Luxembourg Green Exchange (LGX) was launched in 2016 as the first dedicated platform for sustainable securities and in 2024 more than 40% of sustainable bonds worldwide were listed on its platform[9].

Sustainable financing opportunities

To conclude, as investors, developers, and regulators align around credible green financing structures, green bonds are set to play an even more pivotal role in shaping the built environment's energy transition. For real estate players, there is an opportunity to capitalize on investor appetite and regulatory alignment.

Contacts:

Elena Petrova
Partner
Deloitte Luxembourg
elpetrova@deloitte.lu

Jared Goedhals
Director
Deloitte Luxembourg
jgoedhals@deloitte.lu

Endnotes:

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