

# Lango Real Estate: Building Resilient Green Portfolios in African Real Estate

July 2024

## Key Takeaways:

- Lango Real Estate is committed to creating a greener future and driving substantial Environmental, Social and Governance (ESG) impact, across its African real estate portfolio.
- In December 2022, we set a goal to achieve EDGE (Excellence in Design for Greater Efficiencies) certification for 100% of our buildings, and as of now, our sustainability initiatives have resulted in a portfolio that is 87.5% green-rated by EDGE.
- Our Edge certifications showcase that on average our buildings achieve a 28% energy savings and 32% water savings for our occupiers and a 7.5% reduction in carbon emissions.
- We are developing a decarbonization strategy that includes setting clear targets, creating a financing plan, and developing a short and medium-term action plan. The company believes in the potential of a net-zero\* real estate portfolio to enhance overall value and financial performance.
- Based on Bloomberg's Carbon Credits price prediction for the next 25 years, a price of US\$238/tCO<sub>2</sub>e by the year 2050 is expected. Assuming we will be required to reduce carbon emissions by 90% by 2050, we estimate the annual cost to our business to pay for carbon credits could amount to 3% of real estate value or 5% of Net Asset Value.
- We anticipate that in the long-term, reductions in discount rates and exit cap rates applied in valuing real estate for green-rated buildings will yield substantial value creation, with an estimated uplift of approximately 4% in asset value.
- We believe there is currently \$2bn worth of green-rated building stock in our investment universe which could be transitioned into a net-zero portfolio over time to enhance long-term value creation. This presents an attractive long-term opportunity.

## About Lango Real Estate

As the sustainability lead for Lango Real Estate, I am proud to share our journey towards creating a greener future. Our holdings include prime office towers, retail assets, and land parcels in Ghana, Nigeria, Zambia, and Angola. Lango's strategic vision revolves around targeted investments in sector-specific hubs within capital cities, offering not only sustainable growth potential but also risk-adjusted returns. Our diverse commercial real estate portfolio, strategically positioned in key "gateway" cities across Africa, offers us a unique opportunity to drive substantial ESG impact throughout the continent.

## IFC Edge Green-Building Certification

Lango's collaboration with the IFC, a member of the World Bank Group, has accelerated the adoption of green building practices. Lango and IFC have established a framework for greater cooperation in pursuit of their shared aspirations to move the real estate industry on to a lower-carbon, more resource-efficient path. We have been awarded the EDGE Champion status, recognizing our commitment to certifying a significant portion of our building portfolio as green buildings. This partnership underscores our unwavering commitment to sustainable growth and ESG impact across Africa.

## Our Sustainability Goals

We have committed to achieving EDGE certification for 100% of our total portfolio of buildings within a targeted timeframe of 24 months. As of now, we have obtained certification for 87.5% of our assets. The IFC Edge certification process offers several key advantages:

- **Informed Decision-Making:** It empowers us to make informed choices regarding green options and to assess the incremental costs associated with upgrades.
- **Location-Specific Insights:** IFC Edge provides invaluable climate and lifestyle data for thousands of cities, enabling us to tailor sustainability efforts according to local nuances.
- **Streamlined Certification:** With most required documentation readily available, the certification process becomes efficient, saving both time and resources.
- **Global Standards Alignment:** IFC Edge certification aligns seamlessly with international green finance standards, reinforcing our commitment to responsible and environmentally conscious practices.

## Challenges, Work Inputs, and Outcomes

Our sustainability initiatives focus on three core areas: 1) Energy Mix: The focus is on scaling up renewable energy capacity and exploring alternative energy sources, moving closer to a future powered by clean and sustainable energy. 2) Utilities Management: By improving the efficiency of energy and water consumption, waste management, and other utilities across our assets, Lango minimizes resource wastage and reduces its environmental footprint. 3) Sustainable Capital Expenditure: Strategic investments are directed toward green building solutions.

The framework has directed our team to improving the efficiency of energy and water consumption, waste management, and directing strategic investments toward green building solutions. Since December 2022, these initiatives have resulted in a portfolio that is 87.5% green-rated by EDGE, achieving on average a 28% energy savings and 32% water savings for our occupiers. These resource efficiencies have translated into a 7.5% reduction in our carbon emissions resulting in Lango's current carbon emissions intensity of 0.11tCO<sub>2</sub>e/m<sup>2</sup>.

## Risk Mitigation and Future Value Creation

Based on Bloomberg Carbon Credits\* price prediction to 2050 of US\$238/tCO<sub>2</sub>e, and assuming the business will be required to reduce carbon emissions by 90% by 2050, we anticipate the annual cost to our business, if we paid through carbon credits, to meet net-zero targets would amount to approximately \$3.5m/annum, equating to 3% of our real estate value or 5% of our Net Asset Value. This would lead to material value destruction, and therefore as a business and as an industry, we are encouraged to do more to mitigate risk and future-proof our businesses.

Lango intends on harnessing solar power, exemplified by our solar project, a strategic move toward cleaner and more sustainable energy solutions. Carefully selecting retail assets as optimal candidates, we plan to equip them with PV panels, projecting a capacity of 6MW at a cost of \$5 million and an estimated contribution of 17% to our energy needs across the current portfolio. The anticipated impact of this initiative extends beyond reducing carbon emissions, including Scope 3 indirect emissions. With the implementation of our solar development pipeline, we forecast a substantial 1,612tCO<sub>2</sub>e reduction (c.8% of our current total carbon emissions) in our current estimated carbon emissions, particularly during power outages where diesel consumption is prevalent. Beyond the environmental benefits, our solar project offers economic advantages for our commercial tenants, through potentially lowering their diesel bills to tenants, and our shareholders by generating a US\$ investment return of 13%.

Our strategy beyond Edge certification is to develop a decarbonisation\* strategy that assesses multiple emission reduction pathways. The objective is to create a decarbonisation capital and financing plan (including green financing solutions) as well as to develop a short and medium-term action plan incorporating our financing needs. We will define or improve our portfolio-wide decarbonisation/climate ambition and create clear targets based on industry best practices and peer performance. We aim to set KPIs and sustainability financing frameworks for green financial products such as green loans or sustainability-linked loans.

In the markets where we operate, we anticipate a growing imbalance between the demand for decarbonised buildings from occupiers and the available supply. This strategic shift not only aligns with our sustainability goals but also mitigates perceived risk, making our real estate portfolio more attractive to potential investors.

Transitioning real estate to green-rated assets offers financial benefits that extend beyond immediate cost savings. We believe that a net-zero real estate portfolio will have a multifaceted impact on rental income,

operating costs, insurance stability, operating margins, loan expenses, discount rates, and yields - collectively enhancing the overall value and financial performance of the real estate portfolio.

Real estate portfolios that do not meet the sustainability characteristics required in their markets may suffer from decreasing occupier and investor demand. They may represent a higher investment risk, leading to a higher risk premium and discount rate that will likely lead to value erosion over time.

At Lango, we anticipate that targeted reductions in both valuation discount rates and exit cap rates for green-rated buildings will yield substantial value creation, with an estimated uplift of approximately 4% in asset value or 7% of Net Asset Value. This valuation gain from green-rated portfolios is evidenced in the South African market where a green premium, on average, has resulted in a -3.7% reduction in valuation discount rates. It underscores the diminished risk perception of the building, as well as growing market preference for environmentally responsible assets. Correspondingly, a -3.4% reduction in exit cap rates enhances the real estate's appeal by signaling a lower required rate of return for potential investors upon exit.

The cumulative effect of improved cash flows and reduced risk premiums not only improves financial performance but also strategically positions the company in a market where sustainability increasingly influences occupiers and investor decisions.

### Conclusion

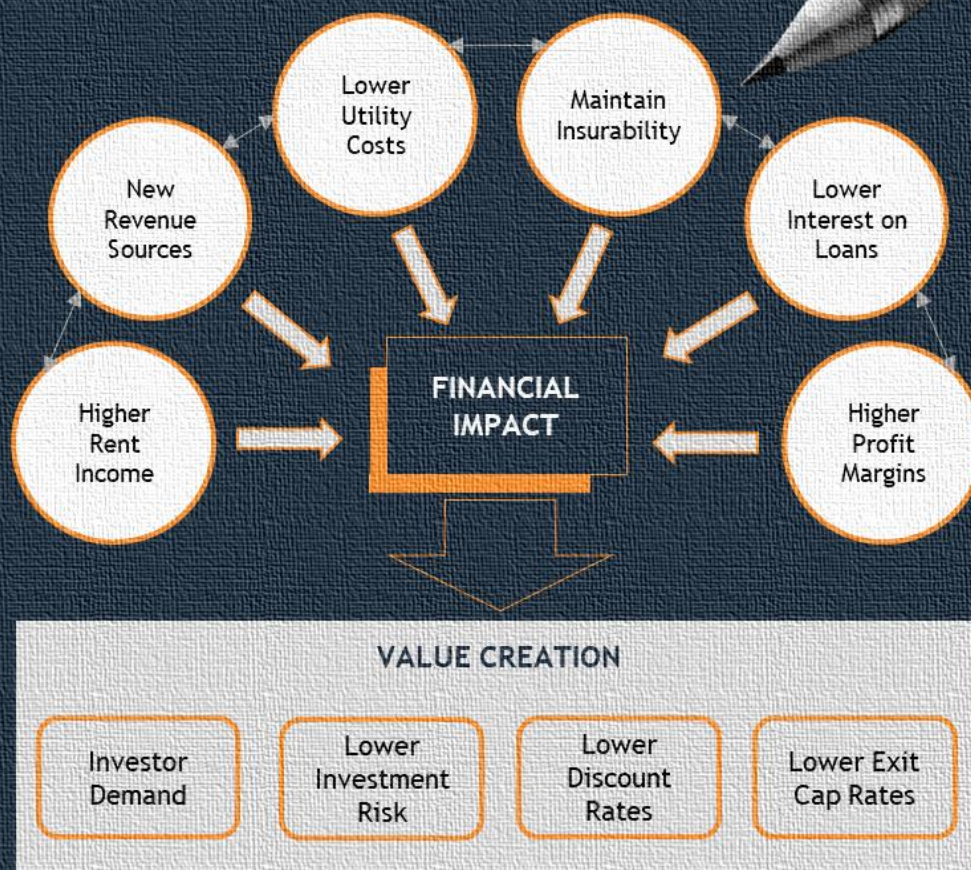
We believe there is currently \$2bn worth of green-rated real estate assets in our investment universe which could be transitioned into a net-zero portfolio over time to enhance long-term value creation. A portfolio that is decarbonised not only reduces the risk of loss in value in the future but also increases the long-term value of assets. At Lango, we are committed to driving positive change and optimizing our bottom line through sustainable practices, making substantial contributions to environmental stewardship and responsible business operations.

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### Value in Decarbonising Real Estate Portfolios



*\*Carbon Credits: These are permits that allow a country or organisation to produce a certain amount of carbon emissions and can be traded if the full allowance is not used.*

*\*Net-Zero Targets: These are goals set by countries or organisations to balance the amount of emitted greenhouse gases with the equivalent emissions that are either offset or sequestered.*

*\*Decarbonisation: This is the process of reducing carbon intensity (emissions of carbon dioxide per unit of electricity consumed or produced)*

#### **ABOUT LANGO REAL ESTATE:**

Lango is a private real estate company focused on generating compelling and sustainable investor returns through the acquisition of prime income generating commercial real estate assets in key gateway cities across the African continent. Originally jointly established between Ninety One and Growthpoint Properties, in partnership with the IFC, Lango commenced operations in March 2018. The business has since demonstrated significant growth, emerging as a leader in the asset class in Africa, with assets on its balance sheet in excess of \$600million\* and diversified across four countries. Lango ultimately aims to catalyse the capital market for real estate as an asset class in Africa and has embarked on a roadmap to list on the London Stock Exchange in 2025. \*As at June 2023.

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