

PROLOGIS: USING GREEN BONDS TO INVEST IN EFFICIENCY

SOLUTION OVERVIEW

Prologis was seeking a financing solution to provide upfront capital for various investments in high-performance properties and projects across its portfolio. The company chose to raise capital through the issuance of green bonds, a fixed-income debt instrument in which an issuer borrows a large sum of money from investors for use in sustainability-focused projects. Green bonds have helped the company attract and retain tenants, improve the quality of buildings with new features that reduce operational costs and environmental impacts, and attract environmentally conscious investors.

CHALLENGE

Sourcing low-cost capital to support efforts that enhance the operational efficiency and lower the environmental impacts of portfolio properties, while also attracting additional environmentally-focused investors

FINANCING SOLUTION

Green bonds

OUTCOME

Proceeds from the issued bonds have supported investments in green buildings and energy reduction projects in allocated portfolios

POLICIES

Prologis is a real estate investment trust (REIT) that invests in logistics facilities such as warehouses and distribution centers. With nearly 984 million square feet in 19 countries around the world, the company understands the impacts that its development and operation activities can have on a global scale. For more information on Prologis' goals, performance, and data, see the company's [2019 ESG Impact page](#).

FINANCING

A green bond is a fixed-income debt instrument in which an issuer (typically a corporation, government, or financial institution) borrows a large sum of money from investors for use in sustainability-focused projects. Green bonds work similarly to a traditional bond issuance, except the

funds are slated for use in energy efficiency, renewable energy, or other projects that meet certain sustainability requirements, often formalized in a green bond “framework” developed by the issuer. Green bonds typically involve one or more third-party firms to underwrite, certify, and monitor the bond issuance. For more information on green bonds, see the [Green Bonds Fact Sheet](#) on the [Better Buildings Financing Navigator](#).

PROCESS

The company identified green bonds as a low-cost financing mechanism to support its efforts to create sustainability solutions for its customers through efficiency projects and sustainably certified buildings. Prologis issued its first green bond – a €300 million bond – in March 2018 for its European Logistics Fund (PELF). It has since issued several more additional bonds, tracked on its [green bonds webpage](#).

While there are no universal requirements for a green bond, the [Green Bond Principles \(GBPs\)](#) and [Climate Bonds Standard \(CBS\)](#) are popular voluntary guidelines that advise on best practices for green bond stewardship. Prologis developed a [green bond framework](#) per the Green Bond Principles guidance to articulate the process and parameters for the use of bond proceeds, project evaluation and selection, management of proceeds, and reporting for all its green bond issuances:

1. **Use of Proceeds:** Prologis will allocate capital raised from bond issuances to the following categories:
 - a. **Green Buildings:** Investments in new properties (existing or new construction) to meet green building certifications and expenditures on existing assets in need of efficiency retrofits.
 - b. **Renewable Energy Projects:** The acquisition, development, construction, and/or installation of renewable energy systems such as solar and wind.
 - c. **Energy Efficiency:** Energy storage systems.
2. **Process for Project Evaluation and Selection:** A dedicated Prologis Green Bond Committee evaluates and selects projects according to the eligibility criteria set forth in the Use of Proceeds.
3. **Management of Proceeds:** The Green Bond Committee ensures that proceeds from green bond issuances are properly tracked and allocated so that the value of the designated portfolios matches or exceeds the net proceeds raised from outstanding green bonds.
4. **Reporting:** Per the framework, Prologis provides annual reporting on bonds until full allocation of the Green Bond net proceeds or until the applicable Green Bonds are no longer outstanding.

Prologis received a [second-party opinion](#) on its green bond framework from Sustainalytics, which found the framework credible and aligned with the four core components of the Green Bond Principles. Second-party opinions ensure that frameworks are in line with industry best practices and can help give investors confidence in an organization’s green bond issuance(s).

Case study example

Prologis issued a \$750 million green bond in August 2020. Proceeds from the bond have been used for investment in LEED Silver and Gold industrial facilities across major U.S. markets such as Chicago, Houston, Las Vegas, and San Francisco.

One example of an investment using green bond proceeds is the International Park of Commerce Building in Tracy, CA. The use of proceeds were tied to Prologis' "Green Buildings" approach (new or existing investments in or expenditures on properties which meet at least one of the following requirements: LEED-Silver).

The property features a number of energy-efficient features as evidenced in the graphic below:



MEASURING SUCCESS

Prologis issued several green bonds in 2020 with an aggregate value of over \$2.5 billion. For the three green bonds issued by Prologis Euro Finance LLC, Prologis Yen Finance LLC, and Prologis, L.P., the proceeds of these bonds have been used to invest in 48 properties totaling 17.3 million square feet across the U.S. and Canada.

The company provided annual environmental impact metrics to share progress with stakeholders. Below are several impact metrics for its 2020 bonds:

- **Total electricity savings:** 26,205 MWh/year (equivalent to powering 2,138 homes for a year)

- **Total CO2 savings:** 17,119 MTCO2e/year (equivalent to taking over 3,600 cars off the road)
- **Average indoor water savings:** 35%
- **Total installed solar capacity:** 10.9 MW

OUTCOMES

The performance improvements facilitated through green bond issuances are just one element of Prologis' company-wide ESG program. Prologis has set various goals that are aligned with the United Nations Sustainable Development Goals such as greenhouse gas emissions, solar power generation, LED lighting, sustainable building certifications, cool roofs, and social goals around workforce and community development. As evidenced on its [Goals, Performance & Data](#) webpage, the company has eclipsed or is in progress of reaching these goals.

In addition, Prologis has been recognized for its ongoing performance and transparency by several industry groups including Corporate Knights, GRESB, CDP, and the Solar Energy Industries Association.