

# ESG commercial mortgage trends for 2025

Blog

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As environmental, social, and governance (ESG) principles take a stronger foothold across industries, the commercial mortgage sector is evolving to keep pace. In 2025, ESG trends are expected to shape lending practices, encouraging borrowers and lenders alike to prioritise sustainability, transparency, and social impact. This blog takes a closer look at the developments likely to define ESG-focused commercial mortgages in the year ahead.

## Why is green financing gaining momentum?

The growing emphasis on sustainability is driving increased demand for green and sustainable financing options. Many lenders are offering preferential rates for properties that meet stringent environmental criteria, such as energy-efficient infrastructure, renewable energy integration, or carbon reduction initiatives. The popularity of green bonds and ESG-linked loans is also set to rise,

providing borrowers with opportunities to align their financial strategies with environmental goals.

### **What role will ESG regulations play in 2025?**

ESG regulations will play a critical role in shaping the lending sector by driving greater transparency, accountability, and alignment with sustainability goals. Existing frameworks, such as the EU Taxonomy and TCFD guidelines, already emphasise disclosure and the integration of ESG risks in lending decisions.

However, future regulations are expected to become stricter, requiring lenders to assess and disclose the ESG risks of their portfolios, including exposure to high-emission industries and climate-vulnerable assets. These regulations will likely expand to include mandatory reporting on social impacts, such as job creation, affordable housing, and community development. As governments and regulatory bodies introduce more robust ESG reporting standards, borrowers might face higher compliance demands, while lenders will focus on areas like energy efficiency and social factors during due diligence. By proactively integrating ESG considerations, lenders can navigate this evolving landscape and contribute to a more sustainable and equitable property sector.

### **How are ESG metrics shaping loan underwriting?**

ESG considerations are becoming a standard component of loan underwriting. In 2025, lenders are expected to evaluate not only the financial viability of properties but also their environmental and social impact. Energy usage, waste management, and carbon emissions will likely be key factors during the evaluation process, ensuring that financed projects align with broader sustainability objectives.

### **How is climate resilience influencing underwriting?**

With climate-related risks becoming more evident, lenders are prioritising climate resilience in their financing decisions. Borrowers may be required to assess properties for vulnerabilities to extreme weather, flooding, or fire risk, and propose measures to mitigate these risks.

Lenders will increasingly consider the location and climate resilience of each security, evaluating factors such as the potential impact of extreme weather events during the loan term. This approach aims to protect both the environment and financial investments, fostering long-term stability in the

sector and reflecting a growing commitment to mitigating environmental risks and promoting sustainability in lending practices.

### **Why is social impact becoming a priority?**

The social aspect of ESG is gaining momentum, with lenders placing greater emphasis on financing projects that support community development or promote diversity. This could include affordable housing schemes, mixed-use developments with diverse tenant mixes, or community-focused initiatives. By incentivising such projects through better financing terms, lenders are helping to address critical social challenges.

### **What does decarbonisation mean for property owners?**

Decarbonisation remains a central focus, driven by global commitments to reduce carbon emissions. In the commercial mortgage space, lenders may require borrowers to undertake building upgrades—such as retrofitting for energy efficiency or installing renewable energy systems—to comply with new regulations. These improvements not only support sustainability but may also result in long-term cost savings for property owners.

### **Are sustainability-linked mortgages the future?**

Sustainability-linked mortgages are emerging as a significant trend, offering borrowers incentives for meeting ESG targets like achieving recognised certifications (e.g., LEED or BREEAM) or reducing carbon footprints. Advanced data analytics are also playing an increasing role in assessing ESG performance, allowing lenders to evaluate properties more accurately and improve transparency across their portfolios.

As ESG principles continue to shape the commercial mortgage landscape, they offer opportunities for greater collaboration among lenders, borrowers, and investors. From green financing to social impact initiatives, these trends reflect a growing commitment to sustainability and responsible investment.

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Explore our tailored commercial mortgage solutions and discover how we can help you achieve your investment goals sustainably.

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