SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

USER GUIDE FOR FINANCIAL INSTITUTIONS WITH REAL ESTATE EXPOSURE

Version 1.0

February 2026

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ABOUT SBTi

The Science Based Targets initiative (SBTi) is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis.

We develop standards, tools and guidance which allow companies to set greenhouse gas (GHG) emissions reductions targets in line with what is needed to keep global heating below catastrophic levels and reach net-zero by 2050 at latest.

The SBTi is incorporated as a UK charity, with a subsidiary SBTi Services Limited, which hosts our target validation services. Partner organizations who facilitated SBTi's growth and development are CDP, the United Nations Global Compact, the We Mean Business Coalition, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF).

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VERSION HISTORY

Version	Change/update description	Release date	Effective dates
V1.0	• Release of User Guide V1.0	February 17, 2026	From February 17, 2026

CONTENTS

1. PURPOSE OF THIS DOCUMENT

This document is a guide for financial institutions with significant real estate exposure that are setting science-based targets under the SBTi Financial Institutions Net-Zero Standard. It explains how the Standard applies to emissions linked to real estate financing activities, as well as how the SBTi Buildings Criteria applies to buildings that a financial institution directly owns or has recently developed.

Information in this document is only applicable for target setting under standards aligned with the Corporate Net-Zero Standard version 1.3 framework and should not be interpreted as normative or as a substitute for the applicable SBTi standards.

2. INTRODUCTION

In July 2025, the SBTi launched its first Financial Institutions Net-Zero Standard, a science-based, robust, and credible framework that enables financial institutions to align financial flows with pathways to limit global warming and achieve net-zero emissions by no later than 2050. The Financial Institutions Net-Zero Standard complements the SBTi Corporate Net-Zero Standard and SBTi's sector-specific standards and guidance, including the SBTi Buildings Criteria launched in 2024.

For financial institutions with direct control over buildings, the Buildings Criteria provides target-setting requirements for in-use operational emissions of buildings portfolios and upfront embodied emissions from new building assets. In addition, the Financial Institutions Net-Zero Standard provides specialized guidelines for target setting of financed emissions associated with lending, investment, and underwriting activities, including those in the buildings sector.

This document provides informative guidance on both standards as is relevant for real estate activities specifically; users should familiarize themselves with the standards directly for all requirements, including cross-sector target setting options.

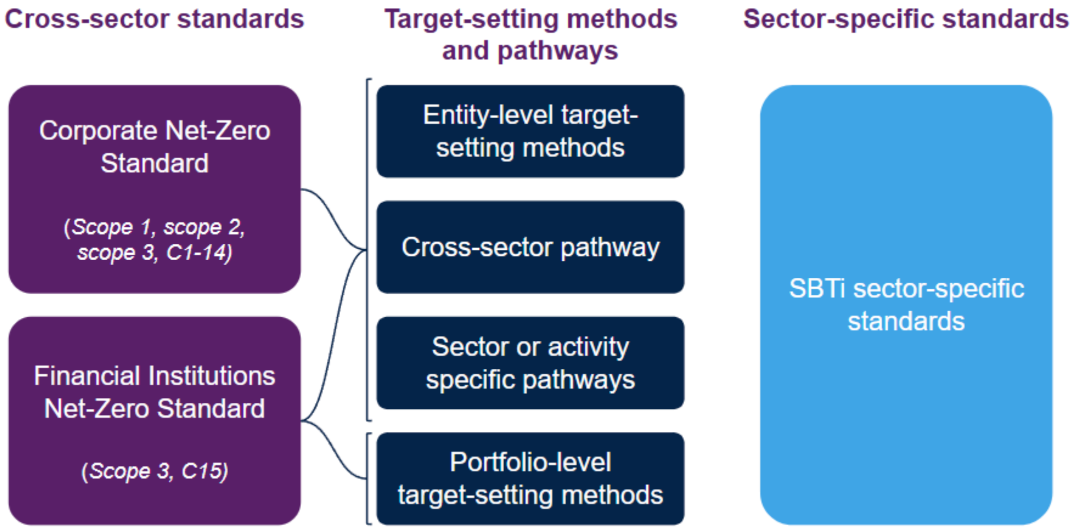
This user guide should be read in conjunction with the following SBTi resources:

- SBTi Financial Institutions Net-Zero Standard and Frequently Asked Questions
- SBTi Buildings Criteria and Explanatory Document
- SBTi Financial Institutions Net-Zero Target-Setting Tool
- SBTi Buildings Target-Setting Tool
- SBTi Corporate Net-Zero Standard v1.3
- Financial Institutions: How to Apply Relevant SBTi Corporate Net-Zero Standard V1.3 Criteria

2.1 The SBTi Standards framework

SBTi Standards are structured in a modular framework, comprising two cross-sector standards, the SBTi Corporate Net-Zero Standard, which provides cross-sector requirements and recommendations for scope 1, scope 2, and scope 3 emissions, categories 1–14, and the SBTi Financial Institutions Net-Zero Standard, which provides requirements and recommendations for financial activities (scope 3, category 15). The suite of SBTi Standards also includes multiple sector standards intended to complement the cross-sector standards.

Figure 1. Overview of the SBTi Standards system



The application of the sector-specific standards is determined by an entity's activities and sources of revenue. For more information on when SBTi standards beyond the Financial Institutions Net-Zero Standard may apply and the necessary target components, users should consult table 1 of the guide Financial Institutions: How to Apply Relevant SBTi Corporate Net-Zero Standard V1.3 Criteria.

3. SETTING TARGETS FOR EMISSIONS FROM OWNED, MANAGED, OR RECENTLY DEVELOPED BUILDINGS

Within the SBTi sector standards ecosystem, the SBTi Buildings Criteria provides target-setting requirements and guidance for the real estate sector. Financial institutions may be required to set targets under the SBTi Buildings Criteria if significant emissions from owned and/or managed buildings or newly developed buildings exist within their GHG inventory in scopes 1, 2, and 3, categories 1–14.

Please refer to SBTi Buildings Criteria Buildings-C1, -C2, and -C3 for target-setting eligibility criteria.

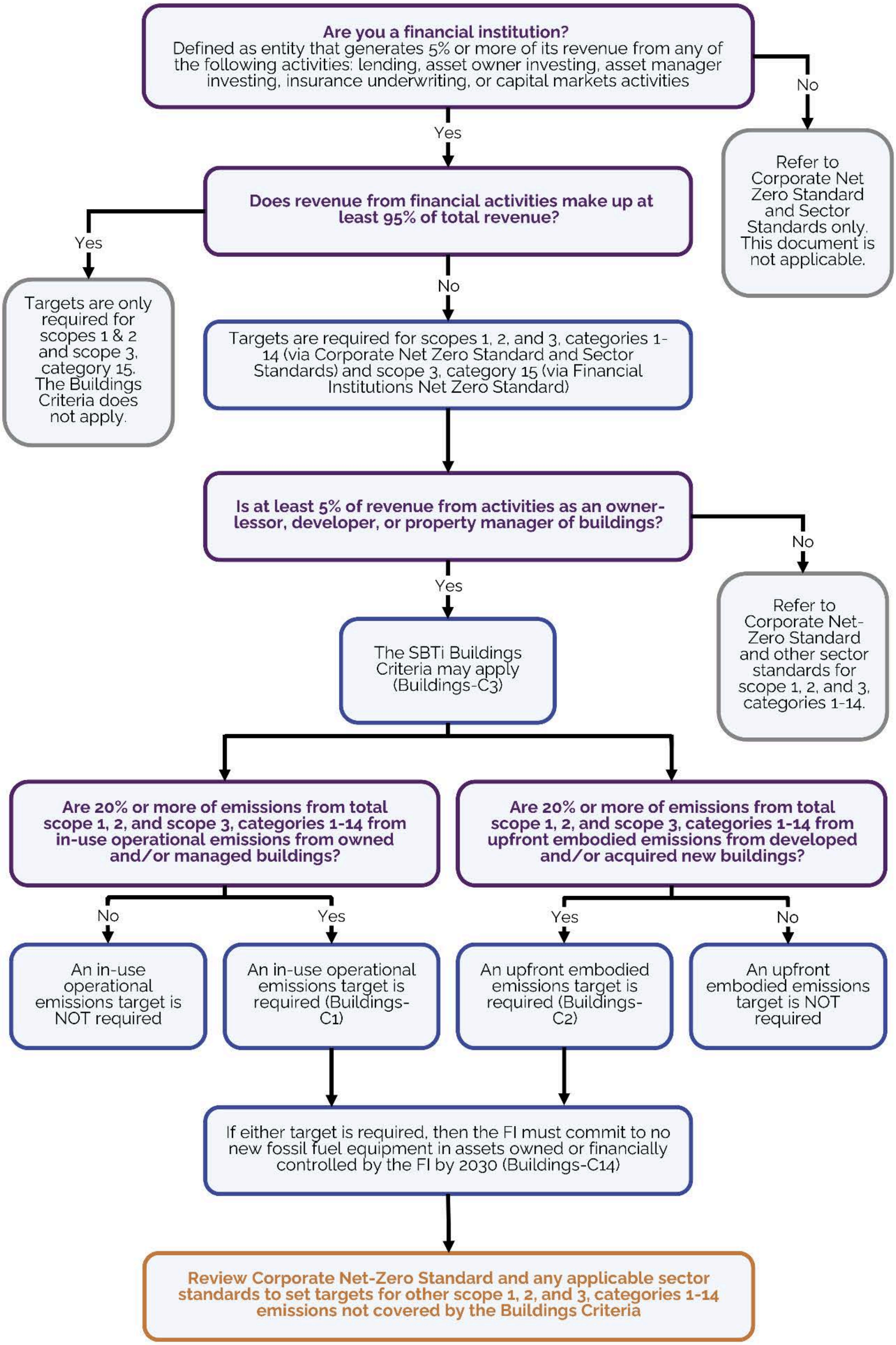
Financial institutions are required to set targets through the SBTi Buildings Criteria when **both of the following conditions** are met:

- **5% or more of revenue** is collectively from owner-lessor, developer, and property manager activities, and

- **20% or more of scopes 1,2, and 3, categories 1–14 emissions** are attributed to operational emissions of owned and/or managed buildings or to embodied emissions from newly developed and/or acquired buildings.

Revenue from financed buildings (reported in Scope 3, Category 15) are excluded from the numerator for the revenue threshold calculation. To understand when the Buildings Criteria may apply, please consult figure 2 below.

Figure 2. Overview of Buildings Criteria applicability for financial institutions



4. SETTING TARGETS FOR FINANCED REAL ESTATE PORTFOLIOS

Exposure to real estate within financed activities—such as lending, investment, and underwriting—is within scope for the Financial Institutions Net-Zero Standard. Financial institutions are directed to undertake an assessment of their financial activities and identify where activities fall within four segments (FINZ-C3):

Segment A	Segment B	Segment C	Segment D
Fossil fuels (coal, oil and gas)	Transport (air, maritime, and land); Industrial (steel, cement), energy (power generation), real estate (residential and commercial buildings), forest, land and agriculture (FLAG)	Other sectors (not listed in A or B)	Subset of activities in emissions-intensive sectors and other sectors

To identify which financial activities are classified under each segment, please review Tables 1.1-1.5 of the Financial Institutions Net-Zero Standard.

Real estate activities are typically classified under Segment B or Segment D, as outlined in Table 1 below.

Financial institutions are required to set targets through Financial Institutions Net-Zero Standard that meet the following target coverage requirements:

- Near-term targets must cover **67% of all in-scope activities.**
- Near-term targets are required for **100% of activities in Segments A, B, and C**.
- If near-term targets from across these segments do not cover 67% of all in-scope activities, then near-term targets will be required for **activities in Segment D to reach this minimum coverage.**
- All segments, including real estate exposure in both Segments B and D, must be included in long-term net-zero alignment targets.

Table 1. Real estate-relevant segmentation

Activity	Segment B Sub-Asset Classes	Segment D Sub-Asset Classes
Lending	● Real estate project finance for new buildings ● Long-term commercial real estate asset loans	● Consumer loans: residential mortgages, lifetime mortgages ● Real estate project finance for existing buildings ● Short-term commercial real estate asset loans
Asset Owner Investing	Direct investments and investments via funds invested in assets: ● Real estate project finance for new buildings ● Equity or debt investment in real estate assets	Direct investments and investments via funds invested in assets: ● Securitized fixed income (backed by real estate assets, including asset-backed securities, mortgage-backed securities, covered bonds) ● Real estate project finance for existing buildings Investments via fund of funds: ● Same sub-asset classes as for the direct investments and investments via funds (invested in assets) investment route
Asset Manager Investing	Direct investments and investments via funds invested in assets through discretionary mandates: ● Real estate project finance for new buildings ● Equity or debt investment in real estate assets	Investments via fund of funds OR Investments made directly, via funds or via fund of funds through advisory mandates: ● Same sub-asset classes as for the direct investments and investments via funds (invested in assets) through discretionary mandates investment route/mandate
Insurance Underwriting	Primary insurance and reinsurance (facultative and treaties), captive insurance—both brokered and nonbrokered: ● Real estate project insurance for new buildings	Primary insurance and reinsurance (facultative and treaties), captive insurance—both brokered and nonbrokered ● Real estate project insurance for existing buildings
Capital Market Activities	● Issuance of real estate project finance securities for new buildings	● Issuance of securitized fixed-income instruments (backed by real estate assets) ● Issuance of real estate project finance securities for existing buildings

4.1 Target-setting methods

Financial institutions must set at least one near-term target for each in-scope financial activity using any of the eligible climate-alignment or sector metrics. See Table 3 of the Financial Institutions Net-Zero Standard for all eligible metrics.

4.1.1 Climate alignment targets

Climate alignment targets require financial institutions to increase the share of climate-aligned financial activities across their portfolio. Climate alignment explains the degree to which counterparties, enabled by the financial institution, are:

1. in transition
2. climate solutions
3. already transitioned to an emissions performance level required in a net-zero economy (i.e., at a net zero state)

The "in transition" state for real estate assets in Segments B and D is defined as:

For **existing buildings**, when one of the following conditions are met:	For **new buildings**, when both conditions are met:
• Building has a high energy performance certificate (at least in the top two tiers of the regional framework), or credible comparable ratings approach in absence; or • Building is within the top 15% of national building stock expressed in primary energy demand (kWh/m²); or • Building's physical emissions intensity is at or below the relevant 1.5°C benchmark for the duration of financial exposure.	• Building has a high energy performance certificate (at least in the top two tiers of regional framework), or credible comparable ratings approach in absence; and • Building has no fossil fuel grid connection.

The minimum net-zero state for real estate assets in segments B and D occurs when the building operates at or below the physical emissions intensity (kg CO_2e/m²) of the relevant 1.5°C scenario (including all energy use and fugitive emissions).

The allowable methodologies for alignment targets on the real estate sector are listed in the Financial Institutions Net-Zero Standard Provisional Implementation List.

4.1.2 Sector-specific emissions targets

The sector-specific emissions target option allows financial institutions to set intensity-based targets for emissions-intensive sectors. For the real estate sector, the applicable sector-specific target-setting method is the Portfolio Intensity Convergence Method, which utilizes the CRREM-SBTi 1.5°C pathways.

This method measures the average gross in-use whole building operational emissions per unit of floor area (m²) of buildings attributed to financial activities. Using this approach, financial institutions are able to set targets for the in-use operational emissions of their real estate portfolio.

4.1.2.1 Setting sector-specific targets with the Portfolio Intensity Convergence method

Financial institutions should use the “Category 15 (FINZ)” tab of the SBTi Buildings Target-Setting Tool. Users are directed to input all relevant assets, grouped by building type and geography, to yield a required minimum ambition for that asset type; users may propose their own emissions targets so long as the tool’s calculated minimum ambition is met. To determine a final target across all asset types and geographies, the “Aggregator Category 15 (FINZ)” tab will calculate a final aggregated target and output the required information for the FINZ Standard Submission Form.

For further instructions on how to use the SBTi Buildings Target-Setting Tool, please refer to the “Intro” tab of the tool and the Buildings Criteria FAQs.

Further information on sector-specific target-setting methods can be found in Tables 4.1, 4.2, and 4.3 of the Financial Institutions Net-Zero Standard.

4.2 Key considerations for setting targets

Base year and target year for any near-term target–including those set through other SBTi standards–must conform with FINZ requirements (FINZ-C11):

- Base year no earlier than 2020
- A target year timeframe within 5 years of the calendar year when targets are submitted for validation
- Same target year for all near-term targets

Financial institutions should utilize a ‘whole building approach’ for the buildings-related emissions targets, including those set through the Portfolio Intensity Convergence method. The ‘whole building approach’ covers scope 1, 2, and 3 emissions stemming from in-use operational emissions (from any energy consumption, electricity, or other fuels used for heating) and fugitive emissions from buildings-specific systems (e.g., refrigerators, cooling systems, heat pumps). This accounting approach is adopted from Accounting and Reporting of GHG Emissions from Real Estate Operations published by GRESB, PCAF and CRREM.

For more information, refer to the SBTi Buildings Criteria and to the SBTi Buildings Explanatory Document, Sections 5.1 Whole building approach for in-use operational emissions and 7.2.3 Compiling a GHG inventory.

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