S&P Global Ratings

Powered by Shades of Green

Second Party Opinion

Svensk FastighetsFinansiering Green Bond Framework

Feb. 1, 2024

Primary contact

Rafael Heim
Paris
+33 634 39 72 53
Rafael.heim
@spglobal.com

Location: Sweden	**Sector:** Real estate

Alignment With Principles

Aligned = ✔ Conceptually aligned = O Not aligned = ✖

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

See Alignment Assessment for more detail.

Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

SFF's owner companies have taken relevant steps to reduce their greenhouse gas emissions and address climate-related concerns. This includes attaining Science-Based Targets initiative (SBTi) validation for their scope 1 and 2 greenhouse gas emission-reduction targets, aligning with the 1.5C pathway. All SFF's owner companies also conduct physical climate risk assessments and climate-related scenario analysis, covering all financed assets under the framework.

Weaknesses

No weaknesses to report.

Areas to watch

SFF's owner companies' approach to sustainability is not unified and varies across companies. Beyond the framework criteria, the environmental impact of projects will depend on the borrowers, for whom environmental and social policy ambitions may differ. Different companies will be at different stages in their sustainability journey.

SFF and the majority of its owner companies are in the early stages of assessing and calculating their scope 3 emissions, which we view as a highly material factor for the real estate sector. SFF does not have a separate target to reduce its scope 3 emissions--its biggest source of emissions--and we have limited information on when it will implement scope 3 calculations.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green Buildings	**Medium green**
New buildings (built after Dec. 31, 2020)	
Existing buildings (built before Dec. 31, 2020)	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Svensk FastighetsFinansiering AB (SFF) is a finance company jointly established by five Swedish real estate companies (Catena AB, Diös Fastigheter AB, Fabege AB, Platzer Fastigheter Holding AB, and Wihlborgs Fastigheter AB). The company serves as a financial vehicle to issue bonds secured by participating companies' cash-generating real estate. Owner companies mainly operate commercial real estate in Sweden, with some properties in Denmark.

Material Sustainability Factors

Climate transition risk

Increased energy use in buildings has been a major contributor to climate change, representing about one-third of global greenhouse gas emissions on a final-energy-use basis according to the International Energy Agency (IEA). This leaves the sector highly susceptible to rising public, political, legal, and regulatory pressure to accelerate climate goals. Building occupiers and operators may face higher energy bills as power prices rise, and higher capital expenditure for upgrades required to accommodate the energy transition and meet more stringent efficiency standards. This could affect households' purchasing power and the competitive strengths of commercial and industrial properties. Incremental climate-related investments can require significant capital outlays but will potentially reduce the risk of obsolescence due to changes in regulation or climate goals. In addition, low-carbon properties may achieve higher cost efficiencies or attract premium rents in the longer term, thereby enhancing their value. Embodied emissions from building materials are a major source of emissions when looking at the carbon footprint of a building over its life cycle.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these could include acute risks--such as wildfires, floods, and storms--which are becoming more frequent and severe, as well as chronic risks--such as long-term changes in temperature, precipitation patterns, and sea levels. Acute and chronic risks could damage properties or put tenants' health and safety at risk, as well as require investments to manage potential effects or, in severe cases, relocation of tenants. While the aggregate impact is moderate--since the type, number, and magnitude of these risks vary by region--highly exposed regions may be subject to material physical climate risks. Most participants have some insurance coverage, but it could become more difficult to secure insurance for the most exposed assets in the future, absent adaptation to climate change. For the Nordic building sector, the most severe physical impacts will likely come from increased flooding, snow loads, and urban overflow, as well as more frequent storms and extreme weather.

Customer health and safety

Health and safety is a material factor that can adversely affect tenant wellbeing, especially in commercial and residential properties where people spend most of their time. Although the probability of major risks, such as fire or the failure of a property's structural integrity, is low, the impacts can be significant, often resulting in serious injury or death, and tend to be more severe in older properties and in regions with less stringent safety codes. Long-term leases, as well as diversity of tenants and assets, can largely mitigate temporary disruptions in health and safety performance, in our view.

Issuer And Context Analysis

The framework's sole project category, green buildings, aims to address climate transition risk, which we consider to be one of the most material sustainability factors for SFF and its owner companies. Alongside social risks related to the health and safety of tenants, we also consider physical climate risks highly relevant given buildings' high exposure to the impacts of climate change.

While SFF works closely with owner companies, the environmental impact of each project will ultimately depend on each borrower's sustainability strategy and performance. Positively, SFF regularly discusses material sustainability issues with owner companies, including their ambition to effectively address and reduce their scope 3 emissions. However, SFF has little direct influence on borrowers' sustainability strategies, which may vary in terms of ambition and progress in addressing climate risks.

SFF's most material climate impact stems from the emissions associated with the buildings it finances. SFF is yet to report on scope 3 emissions covering its entire real estate portfolio. We believe this will constitute an important step in SFF's climate strategy given that scope 3 accounts for a significant share of the buildings' emissions. SFF's own operations have a limited impact on the environment given the nature and scale of its operations. In 2022, the company started reporting its scope 1 and 2 emissions in accordance with the GHG Protocol, accounting for only 0.423 tonnes of CO_2 (market-based) annually for its own operations. SFF has an environmental policy and a code of conduct, both based on the UN Global Compact's 10 principles on human rights, working conditions, environment, and corruption. We also view favorably that owner companies have a supplier engagement strategy. Catena, Fabege, and Wihlborg stand out because they regularly evaluate suppliers based on their environmental performance.

While SFF does not have any emissions reduction targets itself, all owner companies have SBTi-validated targets, with scope 1 and 2 aligned with the 1.5°C scenario. Only Wihlborgs and Diös have net-zero targets. Some of the owners' climate-related goals and strategies are as follows:

- Catena's ambition is to reduce its greenhouse gas emissions (scope 1 and 2) by 50% by 2030 compared to 2018 and to measure, reduce, and report its scope 3 emissions. Catena's decarbonization strategy includes carbon budgets for new buildings, refurbishments, and energy efficiency projects, among others.
- Diös aims to achieve net-zero emissions by 2045, including scopes 1, 2, and 3. As an interim target, the company commits to halving emissions by 2030 from a 2018 base year. Diös' sustainability strategy focuses on energy efficiency improvements such as investing in energy-efficient technology and own energy production.
- Fabege commits to reduce absolute scope 1 and 2 emissions by 50% by 2030 from a 2018 base year, and to measure and reduce its scope 3 emissions. To achieve this goal, Fabege emphasizes circular material flows in construction, opting for materials with lower carbon footprints, such as reused bricks. Other initiatives include energy efficiency measures and the use of locally produced renewable energy.
- Platzer commits to reduce scope 1 and 2 emissions by 50% by 2030 from a 2018 base year, and to measure and reduce its scope 3 emissions. As part of its sustainability strategy, Platzer focuses on product reusability in refurbishment projects, along with energy efficiency measures, reduced water usage, and waste management.
- Wihlborgs commits to reduce scope 1 and 2 emissions by 50% by 2030 from a 2018 base year. The company also commits to reach net zero by 2045, reducing scopes 1, 2, and 3 emissions 100% from a 2018 base year. Wihlborgs' decarbonization strategy encompasses the installation of solar PV systems, energy efficiency measures, reusability of materials, circularity, and waste management.

All owner companies perform physical climate risk assessments based on commonly used climate scenarios. Specifically, the owner companies have conducted scenario analyses based on the UN Intergovernmental Panel on Climate Change's RCP (representative concentration pathway) of either 2.6, 4.5, or 8.5 scenarios and are moving toward developing appropriate action plans.

Alignment Assessment

This section provides an analysis of the framework's alignment to the Green Bond Principles.

Alignment With Principles

Aligned = ✔ Conceptually aligned = ○ Not aligned = ✖

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✔ Use of proceeds

We consider SFF's overall use-of-proceeds commitments to be aligned with the principles. The issuer commits to allocate 100% of the net proceeds issued under the framework exclusively to finance or refinance eligible green projects. The framework includes only one eligible green project category--green buildings--under which SFF aims to contribute to climate change mitigation. The green eligible assets are designated as capital expenditure and are located in Sweden. In line with market practice, the issuer has not specified a look-back period for these. Finally, the issuer confirms that the risk of potential double counting of green assets--given the collateralized nature of the bonds--is mitigated by SFF's borrowers being restricted from using green properties pledged to SFF as a basis for the use of proceeds of any green bonds issued in their own name.

✔ Process for project evaluation and selection

The borrowers' respective sustainability departments are responsible for the initial screening and evaluation of eligible green assets, though this is complemented by an additional selection process at the SFF level. Specifically, the selection of potential green projects is decided by SFF's treasury department based on the provided evaluated and nominated eligible green assets. SFF's board of directors, on which the owner companies' CFOs are represented, decides the issuance of green bonds and is responsible for approving any future revisions to the Green Bond Framework. Regarding the management of perceived social and environmental risks, the issuer confirms that assets are adequately screened and monitored by the borrowers to identify such risks associated with the green eligible assets.

✔ Management of proceeds

SFF commits to earmarking an equal amount to the net proceeds from the issued green bonds, to track and monitor the allocation of all issued amounts, ensuring they go exclusively to eligible green projects. All green bonds issued by SFF will be managed on a portfolio basis and will be reviewed or updated by SFF annually or when needed. The issuer will ensure that there are sufficient eligible green assets in the portfolio. If projects no longer meet the eligibility criteria, the issuer will remove and replace them from the eligible green assets' portfolio. As SFF will only issue secured green collateral bonds, issuance can only occur when sufficient assets are available, therefore no temporary holdings are applicable under the framework.

✔ Reporting

SFF commits to reporting on the allocation of the net proceeds and the actual impact of the eligible green assets in its Green Bond Investor Report on its website, until full allocation, annually. It will also disclose the bond amounts issued, and the allocation, in its dedicated transaction report. The Green Bond Investor Report, among other aspects, will include the share of proceeds used for financing versus refinancing, and how well the underlying eligible green assets are aligning with the EU Taxonomy on a best-effort basis, among other indicators. Additionally, the issuer commits to disclose the methodology it uses to derive its impact indicators. Positively, its impact reporting will disclose material performance indicators such as energy consumption, the type and level of certifications, and calculated carbon emissions, among others. SFF will appoint an external independent auditor to review the allocation of the proceeds each year, in line with the requirements. Nevertheless, we note the company does not have a similar commitment for reporting on impact indicators, which we believe would further strengthen its reporting practices.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

SFF expects that its secured green collateral bonds will mostly refinance existing assets on its balance sheet, as has been the case in previous years. Nevertheless, the issuer expects the share of newly financed assets to increase. SFF also specifies that financed projects will primarily be for buildings built before Dec. 31, 2020. Given the nature of the issuer's business model, only buildings that generate cash flows from tenant rents are eligible to be financed. This means SFF will neither finance the construction nor renovation of properties.

Overall Shades of Green assessment

Based on the project category shade of green detailed below, and considering the environmental ambitions reflected in SFF's green bond framework, we assess the framework as Medium green.

Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Green buildings

Assessment	Description
Medium green	New buildings (built after Dec. 31, 2020) Buildings that either have or will receive: • Primary Energy Demand (PED) at least 10% lower than the threshold set for Nearly Zero-Energy Building (NZEB) according to national building regulations, or • EPC A or B, or • Meet the requirements for Nordic Swan Ecolabel, Miljöbyggnad Silver, LEED Gold, or BREEAM Very Good in combination with a PED at least 10% lower than the threshold set for NZEB requirements according to national building regulations or other minimum equivalent environmental certification standard in terms of energy performance • For buildings larger than 5,000m2: • The building undergoes testing for airtightness and thermal integrity, upon completion; and • The life cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle Existing buildings (built before Dec. 31, 2020) Buildings that either have or will receive: • EPC A or within top 15% of the national building stock expressed as operational PED and demonstrated by adequate evidence, and • Meet the requirements for Nordic Swan Ecolabel, Miljöbyggnad/Miljöbyggnad iDrift Silver, LEED Gold, or BREEAM/BREEAM In-Use Very Good or other minimum equivalent environmental certification standard in terms of energy performance

Analytical considerations

- Buildings' high energy performance is important for the transition to a low-carbon economy. For newer buildings, there is a need to be nearly-zero-energy ready, where emissions associated with building materials should also have been reduced in the project phase as part of the construction process. For existing properties, mitigating exposures to physical climate risks is also crucial to improving climate resilience.
- SFF expects that the vast majority of proceeds will finance buildings built before the end of 2020. These properties will have either an EPC label A or belong to the top 15% of the national building stock in terms of operational primary energy demand (PED), as specified in the EU Taxonomy Technical Screening Criteria for Climate Change Mitigation, and receive one of the green building certifications included in the framework. The issuer confirms that buildings with access to direct fossil-fuel heating are excluded from the eligible asset portfolio. Based on the selection criteria, and the fact that all owner companies aim to continuously improve the energy efficiency of financed properties, we assess these buildings as Medium green, given their emphasis on high energy performance, green building certifications and an assessment of physical climate risks.
- For buildings constructed after Dec. 31, 2020, we consider the criteria in SFF's green bond framework to be less demanding in terms of energy performance compared to what is needed for a low carbon and climate resilient future, although they go beyond minimum regulatory requirements. We therefore assess the criteria as aligned with a Light green shading. We note that the requirements for EPC labels in Sweden may change in the near future, which could reduce the environmental benefits associated with the buildings if label requirements are loosened. Our Light green assessment is based on the current definition of EPC labels A and B by Swedish authorities. Overall, we consider the criteria for buildings built after 2020 to be modest compared to requirements for a low-carbon and climate-resilient future, corresponding to a Light green shading.
- While SFF does not itself directly finance the construction of new buildings, helping its owner companies finance new properties could stimulate the construction sector to prioritize more new buildings. Given the significant climate impacts associated with new construction projects, particularly in terms of embodied carbon, we regard the use of low-emission materials in newer buildings as crucial. We view favorably that all owner companies that might receive financing for new buildings under the framework have taken steps to reduce the embodied emissions of their construction projects. Nevertheless, their approaches vary and SFF's selection criteria do not specifically address embodied emissions.
- Green building certification standards cover a broad set of issues that are important for sustainable development. However, they can differ considerably in their requirements. An in-use certification can be a solid way of ensuring an asset is managed with the aim of continually improving its energy performance. However, certifications seldom include specific energy efficiency criteria, and points-based systems do not guarantee a low-carbon building.
- For new, as well as older, buildings we consider exposure to physical climate risks as a relevant factor for their climate resilience. All five owner companies commit to undertaking a comprehensive physical climate risk assessment for eligible assets under the framework. For instance, Catena and Diös will disclose, in their sustainability reporting, assessments based on the RCP4.5 and RCP8.5 scenarios, and will draw up resulting action plans across their asset portfolios.

S&P Global Ratings' Shades of Green

	Dark green	Medium green	Light green	Yellow	Orange	Red
Assessments	**Dark green**	**Medium green**	**Light green**	**Yellow**	**Orange**	**Red**
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

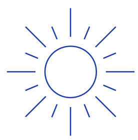
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceed		
Green buildings	 **7. Affordable and clean energy**	 **11. Sustainable cities and communities***

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- S&P Global Ratings ESG Materiality Map: Real Estate, July 20, 2022

Analytical Contacts

Primary contact

Rafael Heim
Paris
+33 634 39 72 53
Rafael.heim
@spglobal.com

Secondary contacts

Pierre-Brice Hellsing
Stockholm
+46 84 40 59 06
pierre-brice.hellsing
@spglobal.com

Maria Knudsen
Oslo
+ 47 94 14 35 62
maria.knudsen
@spglobal.com

Teresa Stromberg
Stockholm
+46 (76) 85 37 697
teresa.stromberg
@spglobal.com

Research contributor

Elene Parulava
Frankfurt