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Second Party Opinion

Hufvudstaden Green Financing Framework

Sept. 24, 2024

Location: Sweden

Sector: Real Estate

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Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

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

Hufvudstaden has a strong focus on climate neutral property management. More than 90% of Hufvudstaden's properties are buildings of historical value, many built before 1940. We view positively that the company has been working on energy efficiency. It reported an average energy intensity of 86 kilowatt hours (kWh) per square meter in 2023, well below the average for older buildings. Furthermore, Hufvudstaden has shown continuous reductions in energy use by achieving in 2023 its 2025 target of reducing energy use per square meter by 16%, using 2019 as a baseline.

Hufvudstaden performs physical risk assessments for all its buildings. The assessments were performed in accordance with the EU Taxonomy.

Weaknesses

No weakness to report.

Areas to watch


Use of an internal energy performance threshold rather than more widely recognized benchmarks like energy performance certificates (EPCs) or EU taxonomy requirements makes the targets less comparable.

New construction is associated with high emissions. Although Hufvudstaden has a cap on embodied emissions as part of the eligibility criteria, the knowledge needed to reduce such emissions is still evolving. A significant reduction will be needed before 2050.

Reporting on commercial paper (CP) can be difficult because of its short tenure. Hufvudstaden will closely monitor the allocation and the environmental impact every quarter and include CP in the annual investor report. The challenges of reporting on such short-term instruments are also mitigated by the issuer's commitment to ensure the green asset pool always equals or exceeds outstanding green finance instruments.

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 to Light green**


New buildings

Existing buildings


Renovation projects

Renewable energy  **Dark green**

Renewable energy production as well as related infrastructure investments.

Clean transportation  **Dark green**

Supportive infrastructure or other investments that support and emphasize the use of clean transportation solutions.

Energy Efficiency  **Dark green**

Energy retrofits that target a lower overall energy use and an improved environmental footprint.

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

Hufvudstaden offers office and retail premises in the most central areas of Stockholm and Gothenburg. Hufvudstaden was founded in 1915 and its series A shares have been listed on what is now Nasdaq Stockholm since 1938. As of December 2023, the group owns 29 properties valued at Swedish krona 46.7 billion. AB Nordiska Kompaniet, the owner of the NK brand, with department stores in Stockholm and Gothenburg, and NK Retail are included in the group. More than 90% of Hufvudstaden's properties contain buildings of historical value and are protected under legislation.

Material Sustainability Factors

Climate transition risk

Increased energy use in buildings is 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). 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. 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. Sweden, as a member of the EU, is implementing European rules on buildings' energy efficiency, while having more advanced regulations than most European countries on embodied emissions.

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. For the Nordic building sector, the most severe physical impacts will likely come from increased flooding, snow loads, and urban overflow, as well as a higher incidence of storms and extreme weather. 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 risk exposure. 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.

Customer health and safety

Properties can adversely affect tenant health and safety, especially office and residential properties, since people spend most of their time indoors. Although the probability of major risks, such as fire or failure of a property's structural integrity, is low, the impact could be significant, often resulting in serious injury or death, and tend to be more severe in older properties and regions with less stringent safety codes. The long-term nature of leases, as well as the diversity of tenants and assets, largely mitigates temporary disruptions in performance, in our view.

Issuer And Context Analysis

The eligible project categories address both climate transition and physical climate risks, which are the most important material sustainability factors for Hufvudstaden. Investments in green buildings and energy-efficient solutions are important steps toward mitigating climate transition risk. Additionally, physical climate risks are relevant because buildings are highly exposed to the effects of climate change.

Hufvudstaden has a strong focus on climate-neutral property management. The majority of Hufvudstaden's buildings are of historical value, built before 1940. Hufvudstaden's strategy focuses on preserving and developing its historic properties in line with contemporary requirements. It reported an average energy intensity of 86 kWh per square meter, compared with the average specific energy use for buildings built before 1940 of 134 kWh per square meter. In 2019, it set a target to reduce the energy use per square meter by 16% between 2019 and 2025, which it met in 2023. Hufvudstaden targets having carbon-neutral operation of its properties by 2025 (covering scopes 1 and 2 and business travel); it has reported a 26% decrease since 2019. The use of offsets, such as guarantees of origin for renewable energy, is included. An example of how it plans to achieve this goal is continued investment in energy efficiency and technologies that have reduced climate impact. Hufvudstaden is currently developing new energy goals.

Although it has improved its understanding of scope 3 in recent years, Hufvudstaden's targets have little coverage of scope 3 emissions, which constitute a material emission source for the company. In 2021, Hufvudstaden set a target validated by the Science Based Targets initiative, in line with the requirements for small or midsize enterprises (SME), of reducing its scope 1 and scope 2 greenhouse gas emissions by 46% from a 2019 base year, and of measuring and reducing its scope 3 emissions, all by 2030. Since setting targets in 2019, Hufvudstaden has gained a better understanding of its emissions. It has been measuring and reporting scope 3 emissions since 2021 with external verifications. In 2023, scope 3 emissions represented 81% of total emissions, with tenant adaptations and renovation projects representing 54% of total emissions. While some scope 3 emissions are covered under Hufvudstaden's target to halve emissions from development projects, it lacks both absolute targets and medium- and long-term targets. However, Hufvudstaden has taken initial steps in reducing emissions from its development projects. When assessing such projects, the company aims to implement tenant modifications without structural alterations and with maximum resource efficiency. As many of Hufvudstaden's targets are set for 2025, it expects to update and publish new sustainability targets in 2025, when it expects that scope 3 will be included.

Hufvudstaden targets certification of all properties by 2025. By the end of 2023, 78% of the company's properties were certified. The majority of existing buildings are certified according to BREEAM In-Use, while the remainder have Miljöbyggnad or Greenbuilding certifications. Hufvudstaden offers green leases, which by year-end 2023 covered 21% of rentable area of office space.

Hufvudstaden assesses physical climate risk, using relevant climate scenarios, for each of its properties. In 2023, it conducted a climate change risk and vulnerability assessment for its entire property portfolio, in accordance with the EU taxonomy. Development projects undergo climate risk and vulnerability assessments when certified. Hufvudstaden informs us it has identified that the location of the properties in central Stockholm and Gothenburg exposes them to varying degrees of risks from heavy rainfall and heat, however, it found that physical risks due to climate change do not have significant impact on its financial risks.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond and Loan principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

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

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

We assess all the framework's green project categories as having a green shade, and the issuer commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. Please refer to the Analysis Of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

✓ Process for project evaluation and selection

Hufvudstaden Sustainability Council (HSC) will evaluate identified green projects. The council includes the Head of Sustainability, the CFO, Head of Property Development, Head of Human Resources, and the Head of Gothenburg Management Area. The HSC will review and evaluate the overall environmental impact, which includes life cycle considerations, potential rebound effects, resilience considerations, evaluation of environmental and social risks, and adherence to at least one of the EU environmental objectives. A decision to allocate net proceeds will require a consensus decision by the HSC. Decisions made by the HSC will be documented. An updated list of green projects will be kept. If a Green Project ceases to meet the eligibility criteria, it will be removed from the list and the funds will be reallocated to other green projects. The list will also be used as a tool to determine if there is a current or expected capacity for additional Green Financing. Hufvudstaden has included relevant exclusion criteria such as excluding fossil-based energy generation.

✓ Management of proceeds

An amount equal to the net proceeds of any green debt instrument will be managed according to a portfolio approach and tracked and monitored through a green register. The green register will ensure that an amount equivalent to the net proceeds from the green debt instruments support eligible green projects only. If a green project no longer qualifies or if the underlying project is divested or lost, an amount equal to the funds allocated towards it will be re-credited to the green register. Funds may also be reallocated to other green projects during the term of any green bond, unless otherwise restricted in the loan documentation. While the green register has a positive balance, the net proceeds may be invested or used by the treasury in accordance with Hufvudstaden's sustainability policy, investment criteria, and adherence to exclusion criteria listed under the framework. Unallocated funds may for instance be invested in short-term interest-bearing securities, such as Swedish treasury bills (and related entities) or Swedish municipal notes (including related entities).

✓ Reporting

Hufvudstaden will publish an annual report that will include allocation and impact reporting. The reporting will be published yearly until full allocation of the net proceeds, and, in the event of any material changes in green projects, until the maturity date of the green debt issued. Impact reporting will take guidance from the most recent version of the ICMA's Harmonised Framework for Impact Reporting Handbook and provide details of the methodology used to calculate the green indicators. Hufvudstaden has included a list of examples of green indicators that may be used in impact reporting, which are viewed as relevant for the projects. CP can be issued within the framework--we understand that Hufvudstaden will closely monitor the allocation and the environmental impact every quarter and include CP in the annual investor report, released each year. The

challenges of reporting on such short-term instruments are also mitigated by the issuer's commitment to ensure the green asset pool always equals or exceeds outstanding green finance instruments.

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.

Over the three years following issuance of the financing, Hufvudstaden expects to allocate most of proceeds to the green building category, and the remaining proceeds will go to minor projects within renewable energy and clean transportation.

The issuer expects the majority of proceeds to be allocated to refinancing projects, while a minority of proceeds will be directed to finance new projects.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Hufvudstaden Green Financing 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 project categories

Green buildings

Assessment

 **Medium to Light green**

Description

New buildings

New buildings built after Dec. 31, 2020, must either have or will receive upon completion following criteria to be eligible:

- A Primary Energy Demand (PED) of at least 20% lower than the threshold set for nearly zero-energy building (NZEB) requirements.
- A design stage certification, a post-construction certification, or an in-use certification in any of the following building certification schemes at the defined threshold or better: Miljöbyggnad "Silver", BREEAM-SE "Very Good", LEED "Gold".
- Testing for airtightness and thermal integrity.
- Screening of material climate risks in accordance with the EU Taxonomy.
- Conduct a life-cycle analysis of the global warming potential (GWP) in accordance with the EU Taxonomy. The building will also be assessed in accordance with the national regulation on climate declarations for buildings with the following threshold for embodied carbon of 301 kg CO2e/square meter.

Renovation projects

Renovation of an existing building must have or will lead to the following criteria to be eligible:

- The renovation leads to an overall reduction in PED of at least 30% or meets the applicable requirements for major renovations.
- An environmental certification of Miljöbyggnad/Miljöbyggnad iDrift "Silver", BREEAM/BREEAM-USE "Very Good", LEED "Gold", or better.

Existing buildings

Existing buildings built before Dec. 31, 2020, must meet following criteria to be eligible:

- Have an EPC demonstrating class A or are within the top 15% of national or regional building stock, or
- For culturally significant buildings, the building must have specific energy use per square meter A_{temp} less than 90 kWh and 25% lower energy use than required by the national building code (BBR) at the time of construction (if applicable). (A_{temp} is a specific square meter reference used in Sweden, it is the surface of a building that requires heating.)
- In addition to energy criteria, the building must also have one of following environmental certifications: Miljöbyggnad/Miljöbyggnad iDrift "Silver", BREEAM-SE/BREEAM In-use "Very Good", LEED "Gold", or better.
- The building must also have done a screening of material climate risks in accordance with the EU Taxonomy.

Analytical considerations

- The IEA emphasizes that achieving net-zero emissions in buildings demands major strides toward energy efficiency. Existing buildings need high energy performance, while new buildings should also cut emissions from the production of building materials and from construction. Renovating to achieve energy savings is key. Furthermore, addressing physical risks is important to enhance climate resilience across all buildings.
- Hufvudstaden expects to allocate 10% of proceeds within the green building category to new buildings, and the majority of proceeds to existing buildings within the top 15% of the Swedish building stock. We view such projects as Medium green because for new buildings the framework criteria address energy efficiency, reductions in embodied emissions, the use of green building certifications, and physical risks. Furthermore, for existing buildings, the top 15% is a solid ambition in terms of energy efficiency, especially when considering the age of Hufvudstaden's building portfolio. 30% of proceeds is expected to go to buildings qualifying as culturally significant, with a specific energy use per square meter A_{temp} less than 90 kWh. The ambition level of the chosen threshold is less stringent than the top 15%. In combination with the green building certification, we view such buildings as Light green. As different energy criteria demonstrate different levels of ambition, we assess the overall project category as Medium to Light green.
- Green building certification standards, such as BREEAM or Miljöbyggnad, cover a broad set of issues important to sustainable development. However, their requirements are very different. An in-use certification can be a tool to enable improved energy performance for buildings but it seldom includes specific energy-efficiency criteria. As buildings may obtain an in-use certification without being energy efficient, we consider it positive that the framework also includes criteria on energy use. All eligible existing buildings must either meet the requirement taken from the EU Taxonomy (to have an EPC of A or be within the top 15%), or for culturally significant buildings, have a specific energy use per square meter A_{temp} less than 90 kWh.
- For culturally significant buildings, the specific energy use threshold includes all energy used by the landlord, regardless of the source. These buildings are constructed before 1940; the national specific energy use average for buildings of this age is 134 kWh per square meter, therefore the chosen value falls well below the average. When comparing with all office buildings in Sweden, we understand that the chosen threshold should be more ambitious than the top 30% of the Swedish buildings stock, however less stringent than the top 15%. In our view, requiring a building to be one of the 30% most energy efficient buildings in the region is insufficient to push the building sector to transition toward a low-carbon future. The use of an internal threshold makes it harder to compare how ambitious a threshold is, therefore using more widely recognized benchmarks, like EPCs or EU taxonomy requirements, would make this easier. Furthermore, given that the measured energy use will fluctuate depending on the building usage--for example, if a building is empty between tenants--the approach could enable a building to meet the set threshold without being energy efficient. Hufvudstaden notes that when its buildings are not in use, the energy consumption tends to be higher than when they are occupied by tenants. This is due to the base load requirements, such as maintaining essential systems and ensuring the building is ready for immediate occupancy. Hufvudstaden's vacancy rate remains consistently low, with a historical trend of maintaining such levels.
- For new construction and acquisitions projects, Hufvudstaden commits to perform a material climate risk assessment to identify actions needed to make assets more resilient. It will undertake assessments in accordance with the EU taxonomy, which specifies that relevant climate scenarios should be used.

Second Party Opinion: Hufvudstaden Green Financing Framework

- Given the significant climate impacts associated with new construction projects, particularly in terms of embodied emissions, it is crucial for newer buildings to be constructed with the aim of minimizing emissions from the materials. We view as positive the inclusion in the framework of thresholds for embodied emissions in new construction. At the same time, although the chosen threshold could reduce embodied emissions compared with average emissions for construction projects, it still falls short of what is needed if new construction is to be climate neutral.
- In the transition to a low-carbon society, it is essential to renovate and improve existing properties. Therefore, we view as favorable the framework's inclusion of criteria for renovations, including the 30% reduction in energy consumption, and environmental certifications, which we view as Medium green. The issuer expects to allocate less than 1% of proceeds to renovation projects. Under the framework, the full value of the building can only be financed if its renovation enables it to meet the criteria for financing an existing building; otherwise, only the cost of the renovation will be financed.

Renewable energy

Assessment

 **Dark green**

Description

Renewable energy production, such as on-site solar power installations and on-site geo-energy installations (ground and surface systems), as well as related infrastructure investments for example grid connections, electric substations, or networks.

Analytical considerations

- Renewable energy projects such as solar photovoltaic (PV) and concentrated solar power (CSP), wind, and hydroelectric are key elements in limiting global warming to well below 2°C, provided their negative impacts on the local environment, and physical risks are sufficiently mitigated.
- We assess as Dark green the framework's renewable energy project category, which includes investments in solar power, geothermal energy, and energy infrastructure for Hufvudstaden's properties. Eligible solar projects primarily involve installing rooftop solar panels on Hufvudstaden's properties, while geothermal investments focus on heating systems to reduce electricity consumption.

Clean transportation

Assessment

 **Dark green**

Description

Supportive infrastructure such as charging stations for electric vehicles, bicycle garages, pedestrian walkways, bicycle lanes or other investments that support and emphasize the use of clean transportation solutions.

Analytical considerations

- Hufvudstaden may finance projects such as charging stations, bicycle infrastructure, fully electric vehicles, and other environmentally sound low-carbon solutions. Fully electric vehicles (EVs) are essential for the transport industry's shift toward a low-carbon future in accordance with the Paris Agreement. EVs offer substantial reductions in life cycle emissions compared with internal combustion engine vehicles, particularly when their manufacturing and charging are supported by renewable electricity.
- The increase of EV charging stations enhances accessibility and encourages more people to consider switching to EVs. Life cycle savings from EVs depend on the energy mix of the grid that powers them. Sweden is well-positioned in this regard, as its electricity production is predominantly from renewable sources, resulting in a low grid emission factor.
- We assess as Dark green the issuer's investment in a 100% EV fleet, including both vehicles and charging infrastructure. Charging stations in workplaces promote an uptake in EVs by providing efficient and timely charging opportunities. Bicycle storage promotes an alternative form of transport that avoids personal car use entirely.

Energy Efficiency

Assessment

 Dark green

Description

Energy retrofits that target a lower overall energy use and an improved environmental footprint. This could include, the installation of geothermal heating/cooling, energy-efficient lighting, IT-technology (monitoring, efficiency management and remote operation), energy efficient windows or an upgraded ventilation system. Only directly associated expenditure (e.g. material, installation, and labor) is eligible for financing.







For a project to be eligible, Hufvudstaden will ensure the following:

- a) High estimated energy savings in the targeted area (minimum 20%)
- b) Minimal long-term negative climate impact and potential rebound effects
- c) Minimal negative climate impact from the technology used

Analytical considerations

- To ensure a sustainable, low-carbon future, enhancing the energy efficiency of existing buildings is crucial. The IEA emphasizes that the primary drivers of decarbonization in the building sector are energy efficiency and electrification. Efforts to improve energy efficiency should be backed by rigorous quantitative performance metrics and should aim to reduce additional environmental impacts.
- The activities outlined in the framework align with the necessary steps to decarbonize the real estate sector, including the implementation of renewable energy power sources, such as heat pumps, and energy-efficient technologies. Projects include direct expenditure on energy-efficiency measures only. The issuer aims to achieve an estimated 20% in energy savings. We view it as positive that buildings that may receive energy retrofits have been screened for physical climate risks, as Hufvudstaden screened its portfolio in 2023.
- Hufvudstaden notes that to minimize potential rebound effect, it is working in tandem with its energy target and climate target of reducing greenhouse gases. Furthermore, to minimize the climate impacts from the technology used, it will follow market development and strive to ensure that technology used will have as little impact on the environment as possible.

S&P Global Ratings' Shades of Green

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

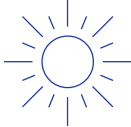



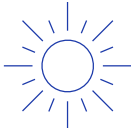





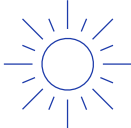



Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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 proceeds	SDGs			
Green buildings				
	7. Affordable and clean energy	11. Sustainable cities and communities	12. Responsible consumption and production	13. Climate action
Renewable energy				
	7. Affordable and clean energy	8. Decent work and economic growth	9. Industry, innovation and infrastructure	13. Climate action
Clean transportation				
	11. Sustainable cities and communities	13. Climate action		
Energy efficiency				
	7. Affordable and clean energy	8. Decent work and economic growth	9. Industry, innovation and infrastructure	13. Climate action

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 Maps: Banks](#), July 20, 2022

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Second Party Opinion: Hufvudstaden Green Financing Framework

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