S&P Global Ratings

Powered by Shades of Green

An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings' opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer's most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See Analytical Approach: Second Party Opinions.

Second Party Opinion

Catella AB's Green Finance Framework

Aug. 30, 2024

Location: Sweden	**Sector:** Real Estate

Primary contact

Rita Ferreira
Madrid
+34 914233216
Rita.Ferreira
@spglobal.com

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.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

Under its Responsible Investment Policy that applies to all subsidiaries and affiliates, Catella commits to delivering on ESG standards at fund and asset level. Initiatives include the assessment of key environmental risks of each transaction, the development of environmental key performance indicators, and ensuring environmental issues are ingrained in the procurement process.

Weaknesses

No weakness to report.

Areas to watch

New construction that can be financed under this framework is associated with high emissions. The framework's lack of inclusion of thresholds for embodied emissions in new construction is therefore seen as a limitation.

Catella did not provide quantitative energy efficiency thresholds for digital solutions among some other eligible activities. This constrains our visibility into energy efficiency improvements and alignment with a low-carbon climate resilient (LCCR) future.

Eligible Green Projects Assessment Summary

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

Green Buildings	**Light green**
Acquisition and ownership of buildings: Buildings built before 2021; Buildings built after Dec. 31, 2020	
Acquisition and ownership of buildings: Construction of New Buildings	
Acquisition and ownership of buildings: Renovation of Existing Buildings	

Renewable Energy	**Dark green**
Investments and expenditures related to the construction or operation of electricity generation facilities that produce electricity using solar photovoltaic technology or geothermal energy. The life cycle greenhouse gas (GHG) emissions from the generation of electricity from geothermal energy are lower than 100gCo2e/kWh.	

Energy Efficiency	**Light green**
The improvement of energy efficiency through installation, replacement, maintenance, and repair of energy efficient light sources (LED), heating, ventilation, and air-conditioning (HVAC) or water heating systems, including equipment related to district heating services.	
The buildings must demonstrate energy efficiency metrics (such as Energy Performance certificate [for EU buildings] or NZEB) at above market performance.	

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

Public limited company, headquartered in Stockholm, Sweden, Catella, specializes in property investment and fund management, with operations in 12 European countries, from more than 25 offices, and with about 512 employees. The company has three business areas: Investment Management (49% of 2023 revenue), Principal Investments (32%), and Corporate Finance (19%). The Claesson & Anderzén Group is Catella's largest shareholder, with 49.4%, followed by Alcur Fonder, with 7.3%. Catella offers professional advice, property funds, and management mandates, and it completes proprietary investment projects. The company mostly operates in Germany, France, and Sweden, where it generates 42%, 21%, and 13%, respectively, of its revenue. In 2023, Catella's sales revenue accounted for €204 million, with assets under management of €13.5 billion and principal investments in development projects of €151 million at year-end.

Material Sustainability Factors

Climate transition risk

Investors, including asset managers and asset owners like Catella, play a major role in global climate change, both in terms of the emissions associated with their financing and their influence over portfolio companies. In order to align the global markets with the Paris Agreement, the investment sector faces the need to fast-track climate actions, such as setting net zero 2050 targets that incorporate interim and sector-specific objectives. The sector also faces the prioritization of more robust engagement, with a focus on accelerating individual corporate transitions to low carbon technologies and activities, and getting companies to lobbying with the Paris targets in mind. Continuing to scale up finance for climate mitigation and adaptation will also be key. In Europe, there is a push to integrate climate considerations into the regulation of financial markets given that environmental laws are becoming increasingly ambitious. For example, the European Green Deal pushes countries to align with the objective of reducing emissions by at least 60% in the building sector by 2030 compared with 2015, and achieving a decarbonized, zero-emission building stock by 2050.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. acute risks, such as wildfires, floods, and storms, are becoming more frequent and severe, and chronic risks, such as sustained higher temperatures and sea levels rise. 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. Although the aggregate impact may be moderate--since the type, number, and magnitude of these risks varies by region--highly exposed regions could be vulnerable to material physical climate risks. For larger firms in Europe, the main climate-related physical risks are floods, water stress, heat stress, and wildfires. The significance of physical climate risks, both acute and chronic, depends on the geographies where companies operate. This is primarily due to variations in climate conditions across Europe. For example, the risk of heat waves has become a significant physical climate risk in southern and western Europe, as well as on the British Isles, while Sweden's exposure to such a risk is generally lower.

Customer health and safety

Health and safety is a material factor that can adversely affect tenants' wellbeing. Although the probability of major risks, such as fire or the failure of a property's structural integrity, appears low, the potential impacts would be severe, often involving serious injury or death, notably at 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. In the EU, there are comprehensive legislative and regulatory framework vis-à-vis health and safety for the construction sector. The free movement of engineering/construction services and products, along with the health and safety in construction, are important policy priorities.

Issuer And Context Analysis

The eligible project categories address the most material sustainability factors for Catella, climate transition and physical climate risks. The issuer will allocate most net proceeds to new green buildings, followed by renewable energy and energy efficiency projects. These eligible projects should partly contribute to climate change mitigation through the reduction of operational carbon dioxide emissions, thereby supporting the transition to a low-carbon economy.

Catella's most material climate impact stems from the emissions associated with the buildings it finances. The company has been calculating its greenhouse gas emissions footprint in accordance with the GHG protocol since 2021. However, Catella has yet to expand the scope 3 reporting, covering all material categories in accordance with Corporate Sustainability Reporting Directive (CSRD). We think this will constitute an important step in Catella's climate strategy given that scope 3 accounts for a considerable share of the buildings' emissions. In 2023, the group's total scope 1 and scope 2 (location-based) emissions accounted for 114.3 tCO2e and 110.6 tCO2e, respectively. The scope 3 emissions, including only business travel, waste and energy, and fuel-related activities, totaled 372.4 tCO2e, which represent 62.3% of reported footprint. We note that total GHG emissions in 2023 increased 21% compared with 2022, primarily due to enhanced data quality and reporting methodologies. As part of its ESG strategy, the group commits to assessing the potential for setting and committing to science-based targets, in line with the Science Based Targets Initiative (SBTi). However, the scope and the timeline of such a commitment is still undefined.

Under the group's Principal Adverse Impact (PAI) Policy, Catella commits to collecting ESG data on the exposures to fossil fuels through real estate assets, energy-inefficient real estate assets, and energy consumption intensity. According to the first PAI 2022 report, two subsidiaries, Catella Residential Investment Management (CRIM) and Catella Real Estate AG (CREAG), have not invested in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels. Nevertheless, CRIM's and CREAG's respective share of investments in energy-inefficient real estate assets accounted for 36% and 68%, with 82% and 92% data coverage.

Under its responsible investment policy, Catella commits to delivering on ESG standards at fund and asset level. Examples of initiatives include assessment of key environmental risks as part of each transaction, development of environmental key performance indicators, and ensuring environmental issues are ingrained in the procurement process, among others.

Catella follows the Task Force on Climate-related Financial Disclosures (TCFD) framework to identify and assess its physical climate and climate transition risks. The assessment identified opportunities to contribute to resource efficiency, cleaner energy sources, products and services, markets, and resilience. It also revealed that, in the short to medium term, the climate transition risks, such as increased or volatile prices, asset stranding, and unreliable electric grid capacity, are more material than physical risks for the company. We view favorably that, as part of its strategy to increase the share of property portfolio that is aligned with the EU taxonomy, CRIM and CREAG use climate scenario analysis for some of their funds. Both subsidiaries intend to integrate climate scenario analysis for all funds in the upcoming years.

Catella has implemented an occupational health and safety management system (OHSMS) to manage risks. This system includes a set of policies, procedures, and plans to systematically control/minimize injuries, illnesses, and other hazards. In addition, the issuer follows local regulation related to tenant's health and safety, which we find stringent both in Denmark and Germany.

Alignment Assessment

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

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

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

✓ Use of proceeds

We assign a shade of green to all the framework's green project categories. The issuer commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. Catella is committed to allocating an amount equivalent to the net proceeds from the green financing instruments to finance or refinance eligible green projects related to green buildings, renewable energy, and energy efficiency. The expected lookback period for expenditure is not specified in the framework. 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

The framework sets out project evaluation and selection processes, overseen by the internal Green Bond Committee (GBC), which comprises the company's chief executive officer, chief financial officer, chief accounting officer, and head of ESG. We view positively that all decisions will be made in consensus and that Catella will include internal specialists in the decision-making process when needed. The framework states that only those projects that comply with the green project criteria and are deemed by the GBC to be acceptable from an overall ESG risk perspective will be eligible. To manage perceived social and environmental risks, Catella will ensure proceeds are in line with its responsible investment policy, which outlines measures such as the assessment of key environmental risks as part of each transaction and as a regular process in asset management. We also view positively that the framework clearly states that any activities linked to fossil energy generation, research or development within weapons and defense, potentially environmentally negative resource extraction, gambling, or tobacco, will be not considered eligible for financing.

✓ Management of proceeds

Catella commits to ensuring that an amount equal to the net proceeds from issued green bond instruments will be earmarked for financing and refinancing of eligible projects. Net proceeds from instruments awaiting allocation will be held as cash or in short-term money-market funds to which, when feasible, the exclusions listed above (see Process for project evaluation and selection) will apply. We view favorably that Catella commits to replacing a sold asset or one that no longer meets the eligibility criteria outlined in the framework with an alternative eligible green asset, as soon as practically possible.

✓ Reporting

Catella commits to reporting annually on the allocation of the net proceeds of eligible green assets in its annual allocation and impact report, until full allocation. This allocation report will include information on the aggregate size of the identified green projects, the percentage of investment used for new construction vs existing projects, the nominal amount of green bonds outstanding, and the amount of net proceeds awaiting allocation (if any). Catella's impact reporting will disclose the aggregated environmental impact of the financed projects. We view positively that the issuer aims to align its reporting with ICMA's Harmonized Framework for Impact Reporting, on a best intention basis. The framework includes a list of indicative impact metrics for each category, which captures, for instance, the type of environmental certificate and certificate level, material consumption for new builds (kg per produced m2), or estimated annual renewable energy generation (MWh).

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.

Catella expects to allocate 90% of proceeds to the green buildings project category and to distribute the remaining 10% will across the other categories in the framework.

The issuer expects the majority of proceeds to be allocated to financing new green projects.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Catella's Green Bond Framework, we assess the framework as Light green.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Green project categories

Green buildings

Assessment	Description
Light green	**Acquisition and ownership of buildings** Buildings built before 2021: • The building has at least an Energy Performance Certificate (EPC) of class A, or the building is within the top 15% of the national or regional building stock in terms of Primary Energy Demand (PED). Buildings built after Dec. 31, 2020: • The building meets the criteria specified under "construction of new buildings" below. Construction of new buildings Building that either have or will receive: • PED is at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures. The energy performance is certified using an as built EPC; or • The building has a minimum New Construction environmental certification of BREEAM 'Excellent' or LEED 'Gold' or DGNB 'Gold' or equivalent New Construction certification schemes and levels; and the building must also have, or be intended to receive, an Energy Performance Certificate (EPC) at above market performance; and • A screening for material physical climate risks in accordance with the EU taxonomy will be conducted by Catella. If needed, Catella will take actions to make the building more climate resilient. **Renovation of existing buildings** • The building renovation complies with the applicable requirements for major renovations; and • The building renovation leads to a minimum reduction of PED of at least 30%. For the full building to qualify after renovation, it should be expected to meet either of the criteria under Acquisition and ownership of buildings listed above.

Analytical considerations

- For existing buildings, high energy performance is an important consideration for the transition to a low-carbon future, while for new construction projects there is also a need to address embodied emissions associated with building materials. Renovation can contribute to significant emissions savings. For all buildings, mitigating the exposure to physical climate risks is key.
- Catella expects most proceeds to finance buildings, specifically residential and office buildings, currently under construction. The construction of new buildings results in pronounced climate impacts, particularly in terms of embodied emissions. We therefore view it as key for newer buildings to be constructed with the aim of minimizing emissions from the materials. The lack of inclusion in the framework of thresholds or specific considerations relating to embodied emissions in new construction therefore limits our assessment to Light green.
- For new construction, the eligibility criteria establishes that the PED should be at least 10 % lower than the threshold set for the nearly NZEB requirements in national measures. Catella's financing will spread across different countries that may have different EPC standards. We therefore acknowledge the challenge of ensuring comparability across different countries and view positively that the framework specifies that in the main markets Catella operates, the EPC eligibility for new construction would in practice mean an EPC of A or B for Sweden, Spain, and Germany, a EPC for A for Denmark, France, the U.K., Finland, Portugal, Belgium, and Norway, and an EPC of A++ or above for the Netherlands.
- The eligibility criteria for new construction lays out that, alternatively, buildings would need to be certified according to a New Construction certification, including BREEAM 'Excellent' or LEED 'Gold', or DGNB 'Gold', combined with an EPC at above market performance. However, certifications differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, related transportation emissions, and considerations of climate resilience. We note that although some of the eligible certifications, including BREEAM 'Excellent', set requirements to reduce embodied emissions, it falls short of what is needed for new construction to be climate neutral. Moreover, the robustness of the certification will depend on the specific certification used and the points achieved in the certification process. Because the certifications are based on a point system, it does not guarantee the building will be low carbon. The certifications are also a point-in-time assessment, thereby falling short of evaluating the energy efficiency of a building across its useful life.
- We view positively that Catella will perform a climate risk screening for all new construction projects in accordance with the EU Taxonomy, which specifies that relevant climate scenarios should be used. Catella acknowledges that the significance of physical climate risks varies, with risks generally lower in Northern Europe than in other regions. The company shared that it has identified significant physical climate risks, such as heatwaves in Southern and Western Europe, or flooding, across all regions where it is present. The issuer has shared that past mitigation measures comprised, for instance, improving drainage systems and implementing climate-resilient designs in property developments.
- Regarding the acquisition and ownership of buildings built before 2021, the framework's eligibility criteria is as specified in the EU Taxonomy Technical Screening Criteria for Climate Change Mitigation, that buildings should have either an EPC of A, or be within the top 15% of the national or regional building stock in terms of PED. The PED reflects the amount of energy that must be generated to meet the total energy demand of a building, and depends on national energy factors for electricity and district heating, among other factors. The lack of additional weather-related risks considerations, or measures to ensure the continuous energy efficiency of operations, such as regular energy audits that result in improvement actions to the issuer's operations or the technical systems, limits our assessment to Light green.
- Although only accounting for a small proportion of the allocation, renovating and upgrading existing properties are important in the transition to a low-carbon society. Renovations that achieve at least 30% reduction of primary energy consumption demonstrate a solid commitment and constitute a Medium green aspect within the framework.
- The issuer has confirmed that new or existing buildings with direct fossil fuel heating or cooling sources (including natural gas), as well as renovations covering the improvements of fossil fuel heating or cooling systems, will not be financed under the framework. Catella has also confirmed that it does not envision financing buildings supporting the fossil fuel value chain.
- Financed buildings will be located both on greenfield and brownfield. Regarding greenfield, Catella ensures that an environmental impact assessment is conducted to evaluate potential environmental impacts and minimize ecological disruption. These assessments comprise surveying local flora and fauna, evaluating the potential disruption of the construction to habitats, and setting up buffer zones around sensitive ecological areas, to ensure protection from construction activities.

Renewable energy

Assessment	Description
Dark green	**Electricity generation using solar photovoltaic technology and/or geothermal energy** Investments and expenditures related to the construction or operation of electricity generation facilities that produce electricity using solar photovoltaic technology or geothermal energy. The life cycle GHG emissions from the generation of electricity from geothermal energy are lower than 100gCo2e/kWh.

Analytical considerations

- Renewable energy, provided the impacts on the local environment are sufficiently mitigated, is a key element in global efforts to limit global warming to well below 2 degrees Celsius. We consider the renewable energy project category, where investments will go toward financing the construction or operation of electricity generation facilities that produce electricity using solar photovoltaic technology or geothermal energy, to be Dark green.
- We view as a strength the thresholds for geothermal life cycle emissions lower than 100gCo2e/kWh, since it aligns with the criteria established by the EU Taxonomy.
- To mitigate risks linked to environmental adverse impacts linked to the projects it finances, Catella will conduct Environmental Impact Assessments, in line with local and international regulation and standards, including adherence to the EU's EIA Directive. Catella mitigates biodiversity risks linked to the impact of the projects it finances through stakeholder engagement, consultation with experts during project planning and executive. The issuer has shared that only solar panels to be placed on rooftops are eligible, which limits biodiversity risks associated with solar photovoltaic projects.
- We view positively that Catella prioritizes the use of panels made from materials that are easier to recycle or can be recovered and reused, and materials that do not contain hazardous substances. Moreover, the issuer shared that it incorporates end-of-life recycling plans into project specifications, with the aim of minimizing the environmental impact of solar panel equipment.

Energy efficiency

Assessment	Description
Light green	The improvement of energy efficiency through, installation, replacement, maintenance, and repair of energy efficient light sources (LED), heating, ventilation, and air-conditioning (HVAC) or water heating systems, including equipment related to district heating services. The buildings must demonstrate energy efficiency metrics (such as Energy Performance certificate [for EU buildings] or NZEB) at above market performance.

Analytical considerations

- Enhancing the energy efficiency of existing buildings is key to transition towards a low-carbon future. The International Energy Agency (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, such as installation, replacement, maintenance, and repair of LED light sources, HVAC, or water heating systems target a lower-energy use and improved environmental footprint. Nevertheless, the quantitative estimate of potential energy savings such activities can deliver is not specified in the criteria. We factor this into the Light green assessment.
- Proceeds will also finance the equipment related to district heating services. This primarily consists of adding buildings to district heating networks. In the EU, natural gas has the highest share in the district heating fuel mix accounting for 30.4% in 2018 (the latest available), followed by biomass, biofuels, and renewable waste with a share of 26.9% and coal and peat with a share of 26.7%. While in some EU member states, such as Sweden or Denmark, the district heating is predominantly renewables-based, the use of waste to energy allows for the release of carbon contained in waste materials and products.

- We view positively that the buildings must demonstrate energy-efficiency metrics such as the energy performance certificate for EU buildings or NZEB at above market performance. We note that due to the differences in stringency of energy performance certificate, as well as in primary energy factors, energy flows, and input data in NZEB definitions across different jurisdictions, the ambition level of such commitment is uncertain.
- The issuer is aware of the rebound effects associated with an increased energy use after an energy efficiency improvement and plans to mobilize the resources and tools necessary to address this challenge.

S&P Global Ratings' Shades of Green

Assessments	Description	Example projects
Dark green	Activities that correspond to the long-term vision of an LCCR future.	Solar power plants
Medium green	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Energy efficient buildings
Light green	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Hybrid road vehicles
Yellow	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.	Health care services
Orange	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.	Conventional steel production
Red	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.	New oil exploration

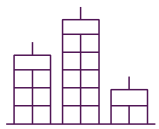
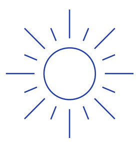
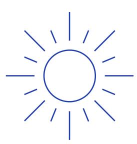
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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	 **11. Sustainable cities and communities***	 **13. Climate action**
Renewable Energy	 **7. Affordable and clean energy***	
Energy Efficiency	 **7. Affordable and clean energy***	

*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 SPOs, July 27, 2023
- Analytical Approach: Shades Of Green Assessments, July 27, 2023
- ESG Materiality Map: Real Estate, July 20, 2022

Analytical Contacts

Primary contact

Rita Ferreira
Madrid
+34 914233216
Rita.Ferreira
@spglobal.com

Secondary contacts

Pierre-Brice Hellsing
Sweden
+46 84 40 5906
Pierre-Brice.Hellsing
@spglobal.com

Elene Parulava
Frankfurt
+491755812617
Elene.Parulava
@spglobal.com