S&P Global Ratings

Powered by **Shades of Green**

Second Party Opinion

Norwegian Property Green Bond Framework

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Location: Norway **Sector:** Real estate

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Alignment With Principles

Aligned = ✓ Conceptually aligned = O 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.

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

Norwegian Property is enhancing its sustainability strategy by updating emission reduction targets and setting additional sustainability objectives. The new strategy will feature targets for both projects and operations. For operational targets, it will look to the methodology established by the Science Based Targets initiative (SBTi) principles. Additionally, external expertise has been sought to set relevant targets for projects.

Weaknesses

No weakness to report.

Areas to watch

We see incomplete scope 3 reporting, and no emission reduction targets for materials used in tenant adaptation and construction. In our view, the latter likely represents a material emission source. We understand however that, in the coming update of its sustainability strategy, Norwegian Property will include such emissions in its targets.

The framework lacks specific criteria for mitigating physical climate risks associated with financed assets. However, we view it as a mitigating factor that Norwegian Property has stated that it has assessed the most material risks, such as flooding, for approximately 95% of its existing portfolio.

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**
Existing buildings	
New buildings	
Renovations	

Clean energy	**Dark green**
Renewable energy productions such as on-site solar power	
Related infrastructure to renewable energy projects	

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

Norwegian Property is a real estate company whose business involves development, administration, daily operation, and maintenance of properties. On March 31, 2024, Norwegian Property owned 31 office, commercial, and residential properties in Norway. These are primarily located in Oslo and, measured by rental income, the properties comprise primarily offices, warehouses, and parking (85 %) as well as retail (15 %).

Material Sustainability Factors

Climate transition risk

Increased energy use in buildings has been a major contributor to climate change, representing around 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 mounting 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 as upgrades are 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, therefore enhancing their value.

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 and precipitation patterns and sea level rise. Acute and chronic risks could damage properties or place 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 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.

Customer health and safety

Properties can adversely affect tenants' 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, can largely mitigate temporary disruptions in performance, in our view.

Issuer And Context Analysis

The eligible project categories address climate transition risks, which is one of the most material sustainability factors for Norwegian Property. Investments in green buildings and clean energy are important steps toward mitigating climate transition risk. Additionally, physical climate risks are relevant because buildings are highly exposed to the impacts of climate change.

Although Norwegian Property lacks complete scope 3 reporting, it is working to better understand what likely constitutes a significant emission source: materials used in tenant adaptations and construction. Currently, tenants' energy use is the largest reported emissions source. Norwegian Property's long-term sustainability strategy focuses on clean energy sources, reducing the general consumption of energy, increasing the degree of waste sorting, using sustainable materials in projects, and reusing buildings and materials. As it nears the end of its 2019-2025 strategic period, Norwegian Property is developing a new sustainability strategy with updated emission reduction targets and other sustainability objectives.

The new strategy will include separate emission reduction targets for projects and operations, which will cover all material emission scopes, looking at the methodology set in the SBTi's principles, for setting the target for its operations. Norwegian Property plans to use intensity targets or adjust for property acquisitions and divestments. There is a risk that such targets do not account for increased activity, and that the company's total emissions may increase while the emission intensity decreases. For projects, Norwegian Property has worked with an external company to create a curve projecting allowable emissions for projects completed by 2050. For its strategic period 2019-2025, it has achieved most of the targets it had set, including a 10% reduction of energy consumption for its existing portfolio.

Norwegian Property has identified and assessed climate-related risks and opportunities according to the Task Force on Climate-Related Financial Disclosures (TCFD) framework, and has as part of BREEAM in-use certification processes, assessed water-related risks for its existing portfolio. It has identified that increased precipitation could lead to greater maintenance and adaptation costs toward 2030. Excessive water could produce flooding, and heavy rain may give rise to leaks in facades and roofs. Greater humidity means higher maintenance costs related to cladding and ventilation. Norwegian Property informs us that it has assessed the areas where most of its buildings are located for the most material risk, flooding, and has identified what is needed to mitigate risks for some buildings. It estimates that it has reviewed 95% of its existing portfolio.

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. The framework includes two eligible green project categories--green buildings and clean energy--under which Norwegian Property aims to contribute to climate change mitigation. The issuer will allocate the proceeds to finance or refinance eligible projects that have been evaluated and selected by Norwegian Property in accordance with its green bond framework. The refinancing of eligible projects will have a look-back period of no longer than five years.

✓ Process for project evaluation and selection

Eligible projects are selected by a committee consisting of representatives from the operations, finance, and environmental functions. The committee consists of the Head of Finance and the Director of Development or Director of Operations, depending on the nature of the project being financed. The committee will meet regularly, at least on an annual basis, and ensure that the green project pool is updated annually to reflect the actual portfolio by evaluating and replacing eligible projects that may no longer meet the criteria. To support this, Norwegian Property has outlined an exclusion list, ensuring no activities related to fossil energy generation, gambling, or tobacco, among others, can be financed under the framework. Norwegian Property has identified and presented climate-related risks and opportunities according to recommendations from the TCFD and will manage environmental and social risks in accordance with its internal policies and guidelines.

✓ Management of proceeds

Norwegian Property commits to tracking the allocation of net proceeds through a Green Bond register to ensure that green instruments exclusively finance eligible projects. The issuer will allocate the net proceeds from green finance instruments to eligible green assets within the first year of issuance. The framework also states that proceeds will be periodically adjusted to match their allocation to eligible projects during the time the instrument is outstanding. The unallocated proceeds will be managed according to Norwegian Property's liquidity management policy and will be invested in Norwegian Property's accounts with relationship banks.

✓ Reporting

Norwegian Property commits to reporting annually on the allocation of proceeds and the impact of the green financing instruments within its investor letter on its website, as long as green financing instruments are outstanding This report will include the share of proceeds used for financing versus refinancing, among other things. In our view, the impact indicators to be reported are particularly relevant. Examples include energy consumption and performance, and absolute carbon dioxide (CO_2) emissions. However, Norwegian Property can finance numerous smaller green projects in the same category, thus allowing for aggregated impact reporting. However, not all related data can be covered, and calculations will be based on best effort. We view positively that Norwegian Property will also appoint an external auditor to review the allocation of proceeds annually until full allocation, although there is no similar commitment regarding the verification of impact indicators.

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, Norwegian Property expects to allocate the vast majority of the proceeds to green buildings (existing buildings).

The issuer expects most proceeds to be allocated to refinance projects.

Overall Shades of Green assessment

Based on the project categories' Shades of Green detailed below, and in consideration of environmental ambitions reflected in Norwegian Property'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	
Light green	**New buildings (built after Dec. 31, 2020)** New construction of office, commercial, and/or residential properties with a certification (or with the ambition to receive such certification after construction is completed) from BREEAM-NOR, with a minimum certification level of "Excellent". **Existing buildings (built on or before Dec. 31, 2020)** Existing office, commercial, and/or residential properties with certification from BREEAM-NOR In-Use with a minimum certification level of "Very Good", with at least a light Green shade and energy performance certificate (EPC) level C. **Renovation** Renovation of office, commercial, and/or residential properties leading to reduced energy consumption per year of at least 30% or improving the energy class of a building by at least two notches (e.g. from D to B or from E to C).

Analytical considerations

- The IEA emphasizes that achieving net-zero emissions in buildings demands major energy efficiency strides. Existing buildings need high energy performance, while new buildings should additionally cut emissions from the production of building materials and from construction. Renovating for energy savings is key. Furthermore, addressing physical risks is important for enhancing climate resilience across all buildings.
- Norwegian Property plans to allocate most proceeds toward refinancing of existing buildings that hold a BREEAM In-Use certification of "Very Good", along with an EPC level of at least C and "light green." The reference to the "light green" in the project category description pertains to the Norwegian EPC label, which assesses the proportion of energy derived from renewable versus non-renewable sources like oil, gas, or electricity. The grade is a color scale from red to dark green, with a light or dark green grade indicating the use of bioenergy or other renewable energy sources. The EPC level C corresponds to energy performance of a new building that mainly satisfies the latest building regulations, as well as older buildings equipped with efficient heating systems. Buildings with an EPC level of C does not guarantee energy performance that is in line with, or better than, current regulations, or that such buildings perform better than the regulation prevailing when built. Green building certifications, like BREEAM, address a wide range of sustainability issues, although their specific requirements can vary significantly. While in-use certification can help indicate the energy performance of buildings, among other factors, it often lacks specific energy-performance criteria. Because buildings may obtain in-use certification without being energy efficient, it is positive that buildings also need to meet minimum energy performance criteria. While acknowledging the benefit from using in-

use certifications, we assign such buildings a Light green shade since they are not necessarily the most energy efficient in the national building stock.

- Buildings are particularly vulnerable to physical climate risks. Although building regulations consider these factors to some extent, for existing buildings, there is no assurance that these risks will be adequately addressed by regulations. In Norway, an increase in precipitation and flooding represents a significant risk. The issuer's framework lacks specific criteria for mitigating the physical climate risks associated with financed assets. However, Norwegian Property informs us that it has assessed the most material risks for approximately 95% of its existing portfolio.
- Given the substantial climate impact linked to new building projects, especially those related to embodied emissions, it is essential for these to be constructed with the goal of minimizing emissions from materials. However, the current framework lacks specific criteria to address emissions associated with materials used for buildings built in 2021 or later. The criterion for new buildings is to be certified with BREEAM-NOR “Excellent”, where the newest version of the certification sets stringent criteria on emission reductions, energy use, and physical risks, but the former version is viewed as less stringent. For future development projects, the newer version will be used. However, existing buildings can still have been certified under the older version. This limits our assessment to Light green for this subcategory. In the Nordic context, building material emissions typically account for half of a building's lifecycle emissions. Norwegian Property does not expect to finance any new construction projects in the short term.
- In the transition to a low-carbon society, it is essential to renovate and improve existing properties. With that in mind, we view favorably the framework's criteria for renovations, including the 30% reduction in energy consumption. Norwegian Property expects that the share of renovation projects will increase in the next few years.

Clean energy

Assessment

Dark green	Investments in onsite emission-free power installations and/or stand-alone solar or geothermal facilities for local power generation for production, as well as related infrastructure and equipment, such as connection, electric substations and foundations, and electric heat pumps or seawater pumps.

Analytical considerations

- Renewable energy, when local environmental impacts are adequately addressed, plays a crucial role in global initiatives to keep global warming well below 2 degrees Celsius.
- We assess the framework's renewable energy project category--which includes investments in solar power, geothermal energy, and energy infrastructure--for Norwegian Property’s properties, as Dark green.
- Eligible solar projects primarily involve installing solar panels on Norwegian Property’s rooftops. As part of current work to update its sustainability strategy, it is getting guidance on what factors it should consider in the procurement of solar panels, such as environmental risks and assessing the carbon footprint of potential solar panels.

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).

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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