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Second Party Opinion

IREIT Global Green Financing Framework

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Location: Singapore **Sector:** Real Estate Investment Trust

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.

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

The framework targets the main drivers of decarbonization in the real estate sector. Renewable energy, energy efficiency, and electrification are essential to a low-carbon climate resilient future by lowering associated emissions. Meanwhile, the provision of low-carbon transport infrastructure offers cleaner options to tenants.

Weaknesses

No weakness to report.

Areas to watch

IREIT may raise various types of debt, including convertible bonds and revolving credit facilities (RCFs) under this framework. Convertible bonds could lead to investors becoming shareholders of IREIT in the event of a conversion, though the company's business model is not focused exclusively on green properties. In addition, reporting on RCFs may be challenging due to the short tenure of these instruments.

Green building certifications' requirements for energy performance vary. Likewise, the framework's certifications and ratings show different levels of ambition. Considering other comparable green building standards as eligible, without specifying the certifications, criteria, or performance thresholds, also limits insight into these projects' potential impact.

Eligible Green Projects Assessment Summary

In the 36 months following issuance of the financing, IREIT expects to allocate 80% of proceeds to green buildings, and 5% each to energy efficiency, electrification, renewable energy, and low-carbon transport infrastructure.

IREIT expects 50% of proceeds to refinance projects, and the balance to finance new projects.

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in IREIT's green financing framework, we assess the framework Light green.

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

Green buildings	**Light green**
Development or construction of new buildings and/or acquisition or retrofitting of existing buildings	

Energy efficiency	**Medium green**
Investments and expenditure in projects that improve energy efficiency and reduce energy consumption in buildings and facilities	

Electrification	**Dark green**
Investments and expenditure in projects that remove the combustion of natural gas from buildings and facilitate buildings to be fossil-fuel free in their normal operation	

Renewable energy	**Dark green**
Investments and expenditure in renewable energy generation, transmission, and storage projects for the property portfolio and related infrastructure	

Low carbon transport infrastructure	**Dark green**
Investments and expenditure in clean transportation infrastructure	

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

IREIT is a Singapore-listed real estate investment trust with the investment strategy of principally investing, directly or indirectly, in a portfolio of income-producing real estate in Europe. This is used primarily for office, retail, and industrial (including logistics) purposes. In 2023, IREIT's portfolio valuation was €899 million, comprising five freehold office properties in Germany (60% of its portfolio), four freehold office properties in Spain (17%), and 44 retail properties in France (23%). The portfolio occupancy rate was 90.4%.

IREIT is managed by IREIT Global Group Pte. Ltd., which is jointly owned by Tikehau Capital and City Developments Ltd. (CDL). Tikehau Capital is an alternative asset management group listed in France, with assets under management of €47.1 billion as at Sept. 30, 2024. CDL is a real estate company listed in Singapore with total assets of Singapore dollar (S$) 24 billion as at June 30, 2024.

Material Sustainability Factors

Climate Transition Risk

Increased energy use in buildings has been a major contributor to climate change, representing around a 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 the growing 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 because upgrades are required to accommodate the energy transition and meet more stringent efficiency standards. This could affect household 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. The European Union has legally binding targets to reduce net greenhouse gas emissions by at least 55% by 2030, compared with 1990 levels, and to become climate-neutral by 2050.

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 place tenant 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 varies by region--highly exposed regions may be subject to material exposure of physical climate risk. 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. According to the European Climate Risk Assessment conducted by the European Environment Agency, Europe has experienced extreme heat, drought, wildfires, and flooding in recent years. Southern Europe is particularly at risk from wildfires and the effects of heat and water scarcity on agricultural production, outdoor work, and human health. Flooding, erosion, and saltwater intrusion threaten Europe's low-lying coastal regions, including many densely populated cities.

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. Such risks tend to be more severe in older properties and regions with less-stringent safety codes. The long-term nature of property leases, as well as the diversity of tenants and assets, can largely mitigate temporary disruptions in performance, in our view.

Issuer And Context Analysis

Eligible project categories address climate transition risks, which are one of the most material sustainability factors for IREIT. Investments in green buildings, energy efficiency, electrification, renewable energy, and low-carbon transport infrastructure are important steps toward reducing the real estate industry's carbon footprint. Additionally, physical climate risks are relevant because buildings are highly exposed to the impacts of climate change, as well as health and safety issues.

IREIT's most material climate impact stems from the emissions associated with its properties. The company has been disclosing its greenhouse gas emissions footprint in accordance with the GHG protocol since 2022. In 2023, its total emissions accounted for 16,963 tonnes of carbon dioxide equivalent (tCO2e), with 63% coming from scope 3 emissions (defined as indirect emissions related to energy consumption controlled by tenants). As part of its decarbonization strategy, IREIT aims to align its French assets over 1,000 square meters (m^2) (to date, all of IREIT's assets are above 1,000m^2 in size) with the Carbon Real Estate Monitor (CRREM)'s 1.5 degrees Celsius (°C) decarbonization trajectories, which represents a minority of its portfolio (23% as in 2023). The company has shared that it could extend the scope of its decarbonization targets to its German and Spanish assets in the future, but the timeline is unknown. Beyond IREIT, its joint sponsor, Tikehau Capital is committed to having 50% of its assets under management at net zero emissions or aligned with net zero by 2030.

IREIT has performed a physical risk assessment for all properties across France, Germany, and Spain, using the Resilience for Real Estate (R4RE) platform. The assessment covered risks such as cold, rainfall and floods, and heat, considering three International Panel on Climate Change (IPCC) scenarios--ambitious (shared socioeconomic pathway (SSP) 1-2.6), intermediate (SSP2-4.5), and business-as-usual (SSP5-8.5). The result showed that most of the company's properties are at low risk levels, with some medium-risk areas in Germany for cold and flood risks. IREIT will monitor its portfolio exposure over time and conduct physical risk assessment annually.

IREIT's responsible property investment policy guides the process of assessing ESG-related risks for new assets. The company does this by analyzing various ESG factors (e.g. green building standards, energy efficiency, energy ratings, water conservation, socioeconomic impacts) and monitoring key performance indicators. IREIT has also identified and assessed climate-related risks and opportunities according to the Task Force on Climate-Related Financial Disclosures (TCFD).

The property management handbook outlines IREIT's policies and commitments regarding health and safety issues. In addition, the company follows local regulations in each jurisdiction where it operates related to tenant's health and safety. In 2023, no incidents relating to tenant health and safety issues were reported. IREIT aim to maintain zero incident of serious injuries or fatalities.

Alignment Assessment

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

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

✓ Use of proceeds

All the framework's environmental project categories have a green shade, and IREIT commits to allocating the net proceeds from the issuance exclusively to eligible projects under 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. Various types of debt instruments could be issued, such as convertible bonds and RCFs. Convertible bonds under this framework could potentially lead to investors becoming shareholders of IREIT in the event of a conversion, though its business model is not focused exclusively on green properties.

IREIT will disclose the proportion of financing versus refinancing in its allocation reporting. The maximum look-back period is not specified, reducing insight into the projects' additionality.

✓ Process for project evaluation and selection

IREIT's investment and/or asset management team will select potential projects based on the framework's eligibility criteria. A sustainability steering committee will then review and approve the potential projects. The committee comprises IREIT Global Group's chief executive officer, management representatives, and ESG specialists from the joint sponsor. The evaluation and selection process covers the identification and management of associated social, environmental, and governance risks of potential projects. The framework's exclusion list comprises fossil fuel, fossil-fuel power generation, nuclear energy, conflict minerals, and forced or child labor, among others.

✓ Management of proceeds

IREIT will track the net proceeds in a green project register and allocate the net proceeds within 36 months after the issuance of a green instrument. The company commits to replacing projects, which cease to comply with the framework's eligibility criteria, as soon as practicable. Pending allocation, net proceeds will be held in cash or cash-equivalent instruments. The company will not temporally invest unallocated proceeds in projects or activities related to carbon-intensive assets, adding consistency to the company's spending.

✓ Reporting

IREIT commits to reporting annually on the allocation of the net proceeds and on the financed projects' impact until full allocation of the net proceeds, and in case of material developments. Reporting will be available on the company's website. Allocation reporting will include a brief description of the projects and allocated amount, proportion of financing versus refinancing, and amount of unallocated proceeds and their temporary treatment. The company will also report on the financed projects' impacts, referencing International Capital Markets Association's (ICMA) Harmonized Framework for Impact Reporting on the selection of impact indicators.

Reporting on short-term instruments may be challenging due to their tenor. The company commits to ensuring the green asset pool always equal or exceed 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.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, the expected allocation of proceeds, and consideration of environmental ambitions reflected in IREIT's green financing framework, we assess the framework 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	Development or construction of new buildings and/or acquisition or retrofitting of existing buildings (office, retail, industrial (including logistics), hospitality or mixed development) which are expected to meet the following green building certification levels or have in place a valid green building certificate, such as but not limited to: • Building Research Establishment Environmental Assessment Method (BREEAM) - Very Good and above • DGNB - Gold and above • HQE -Très performant (High-performance) and above • Leadership in Energy Environmental Design (LEED) - Gold and above Certificate validity: five-year maximum limit if the certification does not impose a limit, or has one that is longer than five years

Analytical considerations

- The IEA emphasizes that reaching net-zero emissions in buildings requires major strides in energy efficiency and fossil fuel abandonment. All properties must achieve high energy performance. New properties should also cut emissions from building materials and construction. Additionally, addressing physical climate risks is crucial for strengthening climate resilience across all buildings.
- We assign a Light green shade to this project category, reflecting our view that the framework criteria mainly rely on certifications. Notably, the selected certifications and ratings do not represent a consistent level of ambition. IREIT is targeting the top one or two ratings of DGNB, HQE, and LEED, while top three ratings are also acceptable for the company for BREEAM. Considering other comparable green building standards as eligible, without specifying the certifications, criteria, or energy efficiency improvement thresholds, also limits insight into these projects' potential effects. IREIT shared that other certification schemes could be the Singapore's Building and Construction Authority Green Mark, if the company expands its portfolio in Singapore in the future. Nonetheless, it is positive that IREIT sets a five-year certificate validity if the certifications do not impose a limit or have one that is longer than five years.
- All types of buildings that do not fall within the exclusion criteria will be eligible. IREIT will allocate most proceeds toward existing buildings (40%) and renovation projects (40%), and the remaining towards new buildings. Renovation is generally preferable to new buildings from a climate perspective. It is also positive that IREIT has a 30% quantitative improvement threshold in primary energy demand (PED) or greenhouse gas emissions reduction for buildings renovation.

- Although green building certifications cover a broad set of environmental issues, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, and climate resilience. Typically, their point-based systems do not guarantee low-carbon new construction nor highly energy efficient existing buildings. Their robustness depends on a variety of factors, such as levels achieved and type of certification. For the eligible certifications under this framework, IREIT has selected both international and local certification schemes. Certifications such as HQE aligns with the EU taxonomy and requires energy performance certificates (EPCs) in EU countries, as well as energy audits upstream and downstream of renovations to yield a proven PED reduction; DGNB's renovation criteria require a climate action roadmap leading to carbon neutrality, in order to be certified. The company could use certifications not explicitly listed in the framework, provided their requirements are comparable. For instance, Singapore's Green Mark specifies the minimum energy performance for each rating level.
- Currently, there is one existing property in Germany adopting natural gas heating, and it will be replaced with new district heating, as part of IREIT's renovation/electrification project pipeline. Other than that, IREIT has confirmed that buildings with direct fossil fuel heating or cooling, as well as buildings supporting the fossil fuel value chain, will not be financed under the framework. The main energy source will be grid electricity and district heating.
- IREIT does not engage in construction activities, and the framework does not include considerations on embodied emissions of materials used in construction. However, such materials can represent a high share of the total emissions of new buildings over their lifecycle, while the company expects to allocate 20% of spending in green buildings to new buildings.
- Both new and existing properties are exposed to physical climate risks. The company conducts annual physical risk assessment for all properties. It will also monitor its portfolio exposure over time. In addition, IREIT commits to performing climate-related physical risk assessment at acquisition for new investments.

Energy efficiency

Assessment	Description
Medium green	Investments and expenditures in projects that improve energy efficiency and reduce energy consumption in buildings and facilities, such as but not limited to: • Renovations or refurbishment of existing buildings • Installation/replacement of equipment in buildings such as LED lighting, smart metering, heating ventilation and air conditioning systems Such projects should contribute to a reduction in PED, or greenhouse gas emissions by 30% from the historical baseline.

Analytical considerations

- In a low-carbon future, it is vital to improve existing properties' energy performance. According to the IEA's pathway to net-zero, energy efficiency and electrification are the two main drivers of decarbonization in the buildings sector. Energy efficiency improvements should be supported by stringent quantitative performance measurements, while also striving to minimize other environmental effects.
- Eligible projects have clear environmental benefits as they improve the energy performance of buildings. However, there are limited considerations around rebound effects, which means an increase in energy use after an energy efficiency improvement. That said, IREIT has a standard operating procedure in place to monitor tenants' energy consumption. In addition, embodied emissions for renovations are also relevant considerations in this project category, but the framework does not address these. As a result, we asses this category Medium green.
- IREIT has set a minimum improvement threshold of 30% in PED or greenhouse gas emissions. However, the reduction in such emissions does not necessarily mean actual energy efficiency improvement or energy reduction. IREIT shared that the choice between PED or greenhouse emissions metrics is to allow flexibility between benchmarking multiple taxonomies. The company commits to focusing on lowering its greenhouse gas emissions through improving the energy performance of buildings, and not through simply lowering its scope 2 emissions (i.e. purchased energy), partly mitigating the risk. In addition,

improvements for fossil fuel power generation or fossil fuel-based assets and equipment are excluded. IREIT may engage external consultants to assess and verify the efficiency performance.

Electrification

Assessment	Description
Dark green	Investments and expenditures in projects that remove the combustion of natural gas from buildings and facilitate buildings to be fossil-fuel free in their normal operation, such as, but not limited to: • Replacing gas boilers for heating and/or hot water with electric heat pumps • Replacing gas stoves with electric or induction stoves

Analytical considerations

- Clean heating or cooking is essential to the decarbonization. According to the IEA, heat pumps can reduce greenhouse gas emissions by at least 20% compared with a gas boiler, even when running on emissions-intensive electricity. This reduction can be as large as 80% in countries with cleaner electricity. However, heat pumps currently meet only around 10% of the global heating need in buildings, below the deployment level required to get on track with the Net Zero Emissions by 2050 Scenario.
- The electrification of fossil fuel-based equipment is Dark green because these investments will reduce reliance on fossil fuels, and subsequent emissions. IREIT confirms that electrification projects will not serve fossil fuel-related activities.
- IREIT's investments in installing electric heat pumps contribute to the acceleration of heat pump deployment. However, unintended leaks of F-gas refrigerants--potent greenhouse gases--can decrease their positive climate impacts. In relation to the refrigerants used in electric heat pumps, the company will follow the Europe-wide phase out of hydrofluorocarbons (HFCs), such that all new equipment would be zero ozone depletion potential and low global warming potential (non-HFC refrigerants.
- For phased-out equipment, IREIT will work with the property or facility managers to ensure proper disposal, in accordance with local waste management regulations.

Renewable energy

Assessment	Description
Dark green	Investments and expenditures in renewable energy generation, transmission, and storage projects for the property portfolio and related infrastructure: • Solar photovoltaic • Wind

Analytical considerations

- Renewable energy projects 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.
- IREIT's investments in solar and wind support the Paris Agreement modelled pathways, and are a Dark green solution. The company confirms that dedicated connections to fossil fuel-related activities are not eligible.
- Eligible renewable energy generation projects will provide IREIT's tenants low-carbon energy sources. However, there are lifecycle carbon considerations during the development, construction, installation, and maintenance phases. These include emissions from materials sourcing, manufacturing, transportation, and equipment end-of-life decommissioning (e.g. solar panels and wind turbines). IREIT will consider durability, recyclability, and end-of-life issues during the procurement process.

- Energy storage dedicated to wind and solar energy plays a key role in net-zero energy systems by providing the necessary flexibility and adaptability to balance the intermittency of most renewable energy sources. The mining of metals, which batteries need a lot of, like lithium, cobalt or copper, can harm the environment by disrupting natural habitats, causing pollution, and being water and energy intensive.
- A biodiversity charter with action plans specific to each real estate asset is in place to manage potential impacts on biodiversity.

Low carbon transport infrastructure

Assessment	Description
Dark green	Investments and expenditures in clean transportation infrastructure, including but not limited to: • Installation of charging facilities for electric vehicles (EVs) • Cycling infrastructure including end-of-trip facilities

Analytical considerations

- Mitigating greenhouse gas emissions from transportation will be crucial to meeting global decarbonization goals, because the transport sector accounts for 23% of global energy-related greenhouse gas emissions, according to the IPCC. The decarbonization of all road transport requires a significant expansion of infrastructure. Value chain emissions and environmental impacts can be significant and should be carefully managed, for example by choosing low-carbon construction materials.
- Fossil fuel-powered vehicles also emit air pollutants, such as nitrogen oxides and sulfur oxides. EVs are necessary for the transport industry's transition to a low-carbon future in line with the Paris Agreement, while facilitating cycling also plays an important role in reducing the use of motorized transportation. As a result, we assess this category Dark green.
- The increase of EV charging facilities in IREIT's assets boosts accessibility and encourages its tenants to consider EVs. Lifecycle savings from EVs are dependent on the energy mix of the grid that powers them. IREIT's current assets are in Germany, Spain, and France, where the share of renewables in power generation are 39.4%, 42.7%, and 26.1% respectively, according to the IEA. Meanwhile, cycling infrastructure and other end-of-trip facilities promotes alternative forms of transport that avoid personal car use.

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

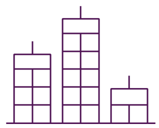
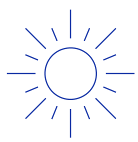
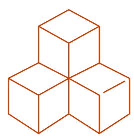
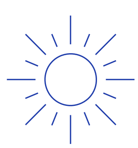
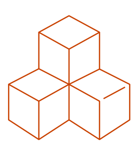
Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

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 with the 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**	
Energy efficiency	 ***7. Affordable and clean energy**	 ***9. Industry, innovation and infrastructure**	 **11. Sustainable cities and communities**
Electrification	 **11. Sustainable cities and communities**		
Renewable energy	 ***7. Affordable and clean energy**	 ***9. Industry, innovation and infrastructure**	

Low carbon transport infrastructure	***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 Maps, July 20, 2022

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