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Second Party Opinion

# AEDAS Homes' Green Financing Framework

Feb. 27, 2025

**Location:** Spain

**Sector:** Real estate

Primary contact

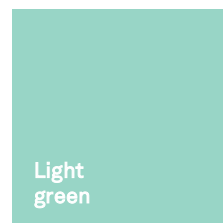
**Thomas Englerth**  
New York  
+212-438-0341  
thomas.englerth  
@spglobal.com

## Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ 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

**The company performs life cycle analysis on each of its developments.** This helps the company understand its operational and embodied emissions footprint. We view the accounting of embodied emissions as a positive step towards decarbonizing the building sector.

## Weaknesses

No weaknesses to report.

## Areas to watch

**New construction may lead to high emissions and significant resource use.** Although we acknowledge AEDAS Homes' goal to neutralize 50% of embodied GHG emissions by 2030, new construction is often associated with higher value chain emissions than the renovation of existing buildings.

**Some construction may happen on greenfield land.** This would typically have more biodiversity impacts than brownfield development.

## 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

 Light green

Expenditures related to active projects for the construction of residential developments that target an "A" Energy Performance Certificate (EPC), i.e., "AA" or "BA" only, as per the development's Project Launch Certificate.

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

AEDAS Homes is one of the largest residential real estate developers in Spain. The company delivered 2,839 units in FY2023 (2,456 BTS and 383 BTR), with an average sale price of €334,000 (BTS price: €358,000; BTR price: €185,000) and 99 under its co-investment platform. The company targets a run rate of deliveries of 3,000 units per year.

AEDAS Homes owns land with a total GAV of about €1.89 billion and GDV of €6 billion. Its landbank would allow the construction of approximately 14,200 units and is spread across the center of Spain, mainly Madrid (28%), East Spain and Balears (24%), Catalonia and Aragon (15%), Andalusia and the Canary Islands (19%), Costa del Sol (11%), and North Spain (4%).

The company is listed on the Spanish Stock Exchange and its main shareholders are funds managed by Castlelake (79.02% stake), and T. Rowe Price Associates Inc. (4.93%). The remaining stake is 14.72% free float and 1.33% held as treasury shares.

### Material Sustainability Factors

#### Climate transition risk

Increased energy use in buildings has been a major contributor to climate change, representing about one-third of global greenhouse gas emissions on a final-energy-use basis according to the 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 when upgrades are required to accommodate the energy transition and meet more stringent efficiency standards. Incremental climate-related investments can require significant capital outlays but 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. Embodied emissions from building materials are a major source of emissions when looking at the carbon footprint of a building over its life cycle.

#### Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these could include acute risks--such as wildfires, floods, and storms--which are becoming more frequent and severe, as well as chronic risks--such as long-term changes in temperature and precipitation patterns and sea level 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 exposed to material physical climate risks. Most market 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 Spanish Climate Adaptation Plan, the main physical climate impacts in Spain include an increase in extreme temperatures, a decrease in precipitation, and a rise in sea level. These changes will affect buildings by increasing the demand for cooling, exacerbating drought and water supply issues, and exposing coastal areas to higher risks of flooding and coastal erosion.

#### Biodiversity and resource use

The construction industry faces significant resource-use issues. Key challenges include energy consumption, extensive material usage, and water depletion. Resource-intensive materials and practices pose risks to finite resources. Additionally, water scarcity concerns arise from construction-related water usage. Addressing these problems through resource-efficient designs,

alternative materials and the responsible management of resources is essential to reduce the industry's impact on both local habitats and global footprints.

### **Customer health and safety**

Properties can adversely affect the health and safety of those residing there, especially residential properties, since people spend most of their time indoors. Although fire or failure of structural integrity are low-probability events, the impact could be significant and result in serious injury or death. The risk of such events tends to be more severe in older properties and regions with less stringent safety codes. In the EU, there are comprehensive legislative and regulatory frameworks related to 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 financing framework will exclusively finance the development of green buildings to address climate transition risk, which we consider to be one of AEDAS Homes' most material sustainability factors. In addition, physical climate risk is relevant in the context of the framework since the buildings sector is generally highly exposed to the impact of the changing climate.

AEDAS Homes has focused its climate transition strategy around obtaining top-tier building energy ratings on its developments as well as working with its supply chain to reduce embodied emissions in its processes. The company has conducted a full emissions lifecycle analysis on its buildings and discloses its embodied and operational carbon emissions dating back to 2021. The company has also quantified its scopes 1 and 2 emissions (though has not yet produced a full accounting of scope 3) and found that embodied emissions remain one of its most material sources of value chain emissions. As a result, AEDAS Homes has taken several actions with suppliers to try to lower emissions associated with its construction materials and processes, including contracting for recycled aluminum and low carbon concrete, which it will integrate into its industrialized construction methods. This supports the company's goal set for 2030 in their ESG Strategic Plan to neutralize 50% of the greenhouse gas emissions associated with embodied carbon in their developments, which we view positively.

AEDAS Homes identifies physical risks relating to climate change through its general risk identification and management structure. The company is aware of chronic physical risks such as changes in weather patterns and soil degradation and acute physical risks such as increases in the frequency and severity of extreme weather events. It has developed several ways to incorporate resiliency measures into its buildings processes, including water capture and reuse systems to combat the effects of drought. The company has a climate change risk map within its 2023-2024 Integrated Annual Report that includes these physical risks.

# Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond and Green 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 assign the framework's green project category Light green and AEDAS Homes commits to allocating the net proceeds of instruments issued under the framework exclusively to eligible projects. Under the framework, the company can issue a variety of green debt instruments including green bonds and green loans to finance or refinance 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

The framework outlines the process used to assess whether projects under study are eligible under the "Green Buildings" category. The company has established a Green Financing Committee that will hold semi-annual meetings and is responsible for the selection and monitoring of eligible projects. The Committee includes representatives from different business divisions and will be responsible the identification of environmental and social risks, in line with company policy.

### ✓ Management of proceeds

The issuer will manage and monitor the allocation (or reallocation) of the net proceeds of its green financing framework, using a dynamic portfolio approach, which allows the company's green financing register to remain representative of the group's performance on an annual basis. The balance of unallocated proceeds during allocation (or reallocation) will be earmarked and held in liquid marketable instruments, in line with the company's treasury management policies.

### ✓ Reporting

Annually, the company will disclose how it has allocated funds across the eligible green projects and their environmental impacts, subject to the availability of suitable information and data. The information will be made available through the publication of an external report on its website on an annual basis until the maturity of the relevant financing instrument. Impact indicators may include buildable area with an Energy Performance Certificate (EPC) rating A and the number of developments with an EPC of A, among other indicators. The company commits to providing externally verified limited assurance reporting for allocation of proceeds, but not impact metrics. AEDAS Homes has also noted that it intends to align its impact reporting with the ICMA "Handbook – Harmonized Framework for Impact Reporting (June 2024)". We view this added reporting commitment as a strong practice.

# 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, AEDAS Homes expects green buildings to receive 100% of allocated proceeds.

AEDAS Homes expects to allocate the majority of proceeds to financing new projects each year, and a minority of proceeds to refinancing projects.

## Overall Shades of Green assessment

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

## Green project categories

### Green buildings

#### Assessment

 Light green

#### Description

Expenditures related to active projects for the construction of residential developments that target an "A" Energy Performance Certificate A, i.e., "AA" or "BA" only, as per the development's Project Launch Certificate.

Active projects comprise projects in design, marketing, construction or finalized phases.

- (1) Definition of expenditures: Expenditures are composed of both hard costs, soft costs, and land costs incurred at each reporting year.
  - Hard costs are defined as the costs that are directly connected to construction of buildings.
  - Soft costs are defined as those costs that are not directly connected to construction and include technical fees, permitting costs, legal and tax costs, insurance premiums and other pre- and post-construction expenses.
  - Land costs: are defined as the price paid to acquire the land, plus the costs associated with urban planning and development for those plots of land that require some horizontal works to reach ready-to-build status.
- (2) The Project Launch Certificate, or Acta de Lanzamiento de Proyecto in Spanish, is an AEDAS Homes internal document in which the project's key characteristics (typologies, number of units, sustainability features, etc.) and economic feasibility are defined. The EPC target is also established in this document, which is signed by the company's Chief Operating Officer.

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](#) >

### Analytical considerations

- AEDAS Homes has provided evidence that its new construction would have a more positive emissions performance compared with a business-as-usual building constructed according to Spanish local technical requirements, which we capture in the assigned Light green shade. The company's eligibility requirements focus on achieving the highest possible rating in the emissions category of the Spanish EPC which is reserved for buildings with the lowest CO<sub>2</sub>e emissions per m<sup>2</sup> on the scale. While the Spanish building code does have a maximum threshold for primary energy demand from non-renewable sources, it does not have a threshold for emissions. That, combined with the fact that the PED threshold varies regionally in Spain, makes the emissions EPC a fair substitute for regulatory requirements when assessing the environmental impacts associated with new buildings in the country.
- Approximately 29% of newly constructed buildings have registered an EPC Emissions Rating of "A", and about 38% have a "B" rating. The remaining 33% fall within the "C" to "E" range. Similar to other European countries, new construction in Spain shows the most pronounced growth trend in "A" emissions ratings. We believe this growing trend could make the company's eligibility criteria less robust in the medium term given that, absent a change in EPC definitions, more new buildings are likely to achieve higher ratings compared with existing stock.
- The company also completes a full lifecycle analysis for emissions on all of its developments and uses industrialized construction methods, which have significant waste and emissions benefits. For example, the company has three developments underway using low-carbon concrete, which will generate about 45% fewer emissions than conventional concrete according to the company. Because embodied emissions are so significant in the overall emissions profile of buildings, we view these efforts positively, though we note that they are not explicitly included in the eligibility criteria of this framework and therefore constrain the shade.
- Some construction may happen on greenfield land, which can be more likely to have adverse effects on biodiversity than brownfield developments. The company's disclosures note that by its own Green Book standards, biodiversity impacts are considered in their site selection process, which could partially mitigate this risk.
- The issuer has explicitly excluded buildings using natural gas boilers from eligibility under the Framework.
- For all buildings, mitigating the exposure to physical climate risks is crucial to improving climate resilience. We believe AEDAS Homes has integrated physical risk management into its broader risk management policies and practices, and it incorporates evidence of resiliency measures in its building design. For example, the company has fitted more than a quarter of its new builds with water recovery and reuse systems, which alleviate water stress in case of drought. However, we believe it is not yet conducting a complete vulnerability assessment at a property level, which we believe is a stronger practice.

S&P Global Ratings' Shades of Green

Assessments					
 Dark green	 Medium green	 Light green	 Yellow	 Orange	 Red
<b>Description</b>					
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.
<b>Example projects</b>					
 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	
	<b>11. Sustainable cities and communities*</b>



\*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

## Analytical Contacts

### Primary contact

**Thomas Englerth**  
New York  
+212-438-0341  
thomas.englerth  
@spglobal.com

### Secondary contacts

**Jesus Palacios**  
Washington, D.C.  
+52-555081-2872  
jesus.palacios  
@spglobal.com

**Jennifer Craft**  
Denver  
+303-721-4106  
jennifer.craft  
@spglobal.com

## Second Party Opinion: AEDAS Homes' Green Financing Framework

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