

Climate Transition Assessment

Annehem Fastigheter AB

March 31, 2025

Location: Sweden

Sector: Real estate

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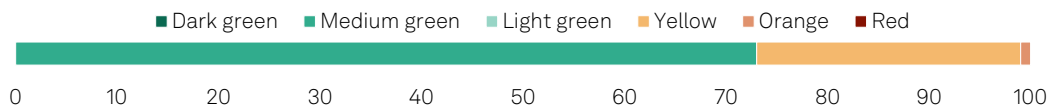
Climate Transition Summary

We expect Annehem to maintain an energy-efficient real estate portfolio through 2030. Its properties are mainly newer commercial, community service, and residential properties in Stockholm, Gothenburg, Skåne, and Helsinki. In 2024, 73% of Annehem's revenue came from buildings we assign a Medium green shade. It targets net zero scope 1 and 2 emissions and a 50% reduction in scope 3 emissions by 2030. Scope 3 accounted for 96% of total emissions in 2024. Its strategy to address these emissions is still in early stages.

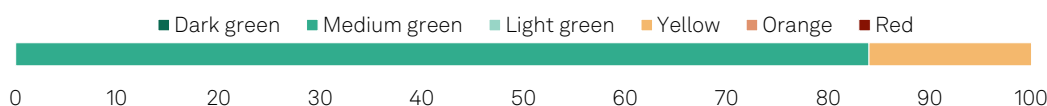
We assign a Future Shade of Medium green based on the portfolio's expected performance and revenue in 2030. We used the Future Shade time horizon that aligns with Annehem's medium term emission reduction targets. Annehem's strategy focuses on increasing property value by acquiring energy-efficient properties with a clear emphasis on environmentally certified properties and effective property management, which should increase the share of green revenue as the portfolio increases.

We believe Annehem has sufficient governance mechanisms to facilitate its transition strategy. However, it relies on suppliers and regulation to achieve decarbonization across its value chain. Annehem does not report on emissions related to the construction of buildings it acquires, nor does address them in its sustainability strategy, therefore it indirectly relies on the construction company. Sweden's regulatory environment may support Annehem's plan to reduce scope 1 and 2 emissions but could pose challenges in meeting scope 3 emission targets.

Current activity: Revenue 2024 (% of total)



Investments: Capital expenditure (capex) 2024 (% of total)



Future Shade by 2030



A Climate Transition Assessment shows the expected alignment of a company's activities with a low carbon climate resilient future once its planned transition changes are realized, considering implementation actions and risks.



Strengths

Since qualifying for the Nasdaq Green Equity Designation in 2022, Annehem has taken steps to improve its environmental governance. This includes strengthening supplier management by introducing codes of conducts, screening its portfolio for physical climate risks, improving scope 3 reporting, and introducing a scope 3 reduction target.

Weaknesses

No weakness to report.

Areas to watch

As Annehem expands its portfolio, its strategy is indirectly driving demand for new construction, which is associated with significant emissions.

We expect the ambition for Medium green in 2030 to be higher as the sector is working to decarbonize. Everyone in the real estate value chain must ramp up efforts to reduce embodied emissions from construction. The energy threshold for Medium green is based on relative performance with expected efficiency improvements across the sector.

A Climate Transition Assessment (CTA) provides a point-in-time opinion, reflecting the information provided to us at the time the CTA was created and published, and is not surveilled. We assume no obligation to update or supplement the CTA to reflect any facts or circumstances that may come to our attention in the future. A CTA is not a credit rating and does not consider credit quality or factor into our credit ratings. Most accounting systems do typically not provide a breakdown of revenue and investments by environmental impact, and the analysis may therefore not be directly comparable with annual reporting. See our [Analytical Approach: Climate Transition Assessment](#) and our [Analytical Approach: Shades of Green](#).







Company Description

Annehem Fastigheter AB owns and manages commercial, community service, and residential properties in the Nordic regions of Stockholm, Gothenburg, Skåne, and Helsinki. While the company's properties are largely modern, its portfolio also includes two business parks, Ljungbyhed Park and Valhall Park, established on old air force bases. The parks contain a wide variety of buildings, including educational and research premises, offices, storages, and other types of buildings. 82 percent of the property value is environmentally certified.

Annehem was listed on the Nasdaq Stockholm Exchange in December 2020 and received the Nasdaq Green Equity Designation in 2022. In 2024, income from property management amounted to Swedish krona (SEK) 91.7 million. The fair value of properties amounted to SEK4,696.8 million and investments in existing properties amounted to SEK71.2 million.

Current Activity

2024 activity by shade (% of total)

Shade	Revenue (%)	Opex (%)	Capex (%)
 Dark green	0	0	0
Activities: None			
 Medium green	73	50	83
Activities: Existing buildings within the top 15% of similar stock and newer buildings that are 10% better than NZEB in Sweden, that all have been screened for physical risks, and are not heated by fossil fuels.			
 Light green	0	0	0
Activities: None			
 Yellow	26	50	17
Activities: Existing buildings that do not meet the green criteria above, that are not heated with fossil fuels.			
 Orange	1	0	0
Activities: An existing building that does not demonstrate high energy efficiency, heated with fossil fuel heating.			
 Red	0	0	0
Activities: None.			

Opex--operational expenditure. Capex--Capital expenditure. Source: S&P Global Ratings.

Sweden's commitment to clean energy and building regulations addressing sustainability reduces the real estate markets exposure to climate-related risks compared with other jurisdictions. District heating is widespread in urban areas in Sweden, while direct fossil fuel heating is rare. In 2022, the majority of energy used for district heating in Sweden came from renewable and recovered sources, with a minimal share coming from fossil fuels, leading to a carbon intensity well below the EU average. Additionally, Sweden's electricity supply is largely powered by renewables, with hydro, nuclear, and wind contributing 66.9% of total generation as of 2022.

Annehem's revenue, operating costs, and capex, are generated from its existing building portfolio.

- **We consider revenue, opex, and capex linked to Annehem's energy efficient buildings to be Medium green.** Properties that qualify for a Medium green shade are existing properties within the top 15% of similar building stock, and for newer buildings, buildings that are performing 10% or higher above the energy requirements set in the building regulation. Further, the company assessed physical climate risks at property level using climate scenarios, including worst-case scenarios, which we consider best practice. In addition, buildings are not heated with fossil fuel.
- **For Annehem's existing buildings that do not have high energy-efficiency performance with no direct fossil fuel heating, we assign a Yellow shade.** Some of these buildings are located in the two business parks Annehem owns and are older with a high energy demand. Annehem has not conducted physical climate risk assessments for these properties, but it has assessed nearby buildings in the business park, which were assigned a low risk level. Based on this, Annehem estimates that the risk for these buildings is also low.
- **We assign an Orange shade to one building that does not demonstrate high energy efficiency.** It is an industrial logistical/office building heated with fossil fuel heating. The building has not been screened for physical climate risks.

As Annehem's business strategy focuses on expanding its portfolio by acquiring modern buildings, often being the first buyer of new properties, it is driving demand for new construction while not directly controlling the production. Given the significant climate impacts associated with new construction projects, particularly embodied carbon, we believe reducing embodied emissions in the construction of new buildings is crucial. While the management of the existing buildings in Annehem's portfolio have been assigned a Medium green shade, as Annehem currently does not have visibility of the embodied emissions associated with the buildings it acquires, we note investments in the construction of the buildings it acquires would likely be assigned a Light green shade.

Climate Transition Plan

Metrics And Targets

Transition targets

Transition metrics	Baseline metric (2021)	2024	2030	2040
Absolute greenhouse gas emissions – scopes 1 and 2	683 tCO ₂ e (2021)	187 tCO ₂ e (73% reduction)	Net zero	-
Absolute greenhouse gas emissions – scope 3	2335 tCO ₂ e (2022)	4445 tCO ₂ e (90% increase)	50% reduction	Net zero
Energy intensity (kWh/Atemp)	85	77 (9.4% reduction)	-	-

Includes the company's long-term net zero targets for illustrative purposes. Targets beyond the time frame of our analysis do not influence our Climate Transition Assessment outcome because the CTA analyzes more specific actions that the company has planned and the implications of those actions. Net zero—Annehem has defined Net zero as a 90% reduction in Scope 1, 2, and 3 emissions.

Source: Company reporting and S&P Global Sustainable1.

Annehem has set strong emission reduction targets, including both short- and long-term goals, with a newly implemented target on scope 3 emissions. The Carbon Risk Real Estate Monitor (CRREM) 1(1.5 C decarbonization pathway for office buildings in Sweden indicates that building emissions intensity (scopes 1 and 2, as well as scope 3 from embodied emissions in retrofits) declines 41% from 2019 to 2030. In this respect, Annehem's target of net zero scope 1 and 2 emissions and 50% in scope 3, align with the pathway.

Annehem has shown a strong track record of reducing scope 1 and 2 emissions. A big share of the reduction is the result of switching to a lower emitting district heating service in Finland, where Annehem reports on market-based emissions. Further, Annehem reduced scope 1 emissions by transitioning from diesel fuel to HVO and moving its car fleet to electric vehicles. Annehem has demonstrated progress in reducing the energy intensity of its portfolio, achieving a 9% reduction in 2024 compared with 2021. The company has not yet set an updated energy intensity target but plans to continue reducing energy intensity by 3% annually. A limitation, however, is that the energy intensity target currently only includes the landlord's energy use, though tenant energy is addressed in the new scope 3 target.

Annehem's emission reduction strategy includes optimizing energy efficiency across its assets, updating energy sources, engaging tenants through green leasing, retrofitting older buildings, and better tracking of climate impacts from tenant renovations. The company is also considering having its emission reduction targets validated by the Science Based Targets initiative (SBTi), with potential changes to the specific targets as part of this process.

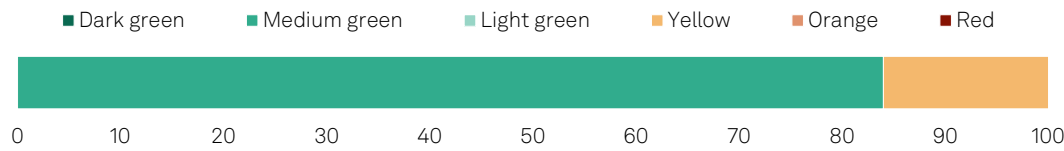
Annehem's target to reduce scope 3 emissions is positive but it is in the nascent phase of identifying measures to reduce such emissions. Currently, its scope 3 strategy includes improving data and visibility, while specific measures to reduce emissions from tenant adaptation has not been identified. In 2024, 96% (compared with 91% in 2023) of Annehem's reported emissions were scope 3, with tenant adaptations being the primary source. Tenant adaptations, which involve modifications to leased spaces to meet tenant needs, can result in significant greenhouse gas emissions due to construction, materials, and energy consumption, and it is therefore positive that Annehem includes them in its reduction targets. The company notes these projects occur sporadically, which can lead to fluctuations in scope 3 emissions year to year. A substantial increase in scope 3 emissions occurred in 2024 due to two major tenant adaptation projects.

Annehem does not currently report on emissions related to the construction of buildings it acquires. As Annehem's business strategy focuses on expanding its portfolio by acquiring modern buildings, often being the first buyer of new properties, it is driving demand for new

construction, which is associated with significant emissions. Annehem's sustainability strategy does not address emissions from the construction of acquired buildings. The SBTi's 1.5°C pathway for the building sector calls for a steep reduction in embodied emissions from construction, ranging from 59% to 63% by 2030 compared with 2019. Annehem is still considering how it should address these emissions, noting its limited influence on building design reduces its ability to directly address these emissions. Discussions with its main construction partner reveal a lack of demand, data, and understanding of how to reduce embodied emissions.

Actions And Investments

2024 Capex breakdown by shade (% of total)



Source: S&P Global Ratings.

Annehem's strategy focuses on increasing its property value by acquiring energy-efficient properties. The company aims to grow income from property management by 20% annually. As a result, Annehem expects its portfolio to expand in the coming years. Importantly, Annehem's approach does not follow the "non-green to green" model, which involves acquiring inefficient properties and upgrading them to meet sustainability standards. Instead, Annehem plans to target already green assets. Sustainability is integral to its due diligence process, particularly during the technical assessments, which evaluate energy efficiency, maintenance plans, and the overall condition of potential acquisitions. Additionally, Annehem screens for physical climate risks by reviewing existing risk assessments or conducting their own evaluations. Key acquisition criteria include an energy rating of B or better, recognized environmental certifications (such as Miljöbyggnad, BREEAM, Svanen, LEED), and a completed climate risk analysis. Currently, Annehem does not evaluate the embodied emissions from construction during the due diligence process, which we believe is a limitation of its sustainability policy.

We don't expect Annehem's current investment plans will significantly enhance the greenness of its existing portfolio, but will help maintain its current energy efficiency. To meet its emission reduction targets, Annehem states it will focus on multiple actions across all scopes of its emissions. Key measures include optimizing the energy efficiency of its assets, continuously reviewing and updating energy sources, and engaging tenants through green leasing and sustainability initiatives. The company also plans to retrofit and improve the older buildings in the business parks, while enhancing its ability to track the climate impact of tenant renovations. Energy audits play an important role in Annehem's sustainability efforts, with property managers adjusting operational parameters and performing maintenance to improve energy performance, which may be one factor contributing to reducing the energy intensity of its portfolio by 9% over the last three years.

Annehem is engaging with relevant stakeholders, such as its suppliers, to improve on sustainability matters. Annehem is engaging with district heating suppliers like Helen in Finland, to support decarbonization efforts. Annehem has begun the dialogue about embodied emissions with the construction companies of the buildings it acquires. Strengthening this dialogue will be important to enhance its efforts to reduce the emissions of those buildings.

Annehem invests in its property management portfolio every year, with investments historically fluctuating between approximately SEK70 million-SEK90 million. Investments can range from energy-efficiency improvements to tenant adaptations. Investments in energy efficiency are considered green, while investments in tenant adaptations and other decorative measures that do not lead to energy improvements are not considered green. As Annehem does

not provide a breakdown of capex allocated to energy efficiency and other green investments versus general maintenance, the 2024 breakdown represents the share of capex linked to buildings assigned Medium, Yellow, or Orange shades.

Annehem's strategy to reduce emissions and track the climate impact of tenant renovations is still in the early stages. Tenant renovations represent the largest share of its emissions and concrete measures to significantly cut them have yet to be identified.

Implementation Drivers

We believe Annehem has good governance mechanisms in place to execute its transition strategy. The sustainability work is led by the sustainability manager, who is part of the management team. Annehem has recently updated and reworked its Code of Conduct, sustainability policy and added a supplier Code of Conduct. Through stakeholder dialogues, as well as current and risk analyses, it identifies its key sustainability issues and challenges. The sustainability policy serves as a guiding framework for decisions and activities in its sustainability work. However, Annehem faces some limitations in its sustainability strategy, particularly around addressing emissions from the construction of buildings.

Annehem is listed on Nasdaq and has maintained the Green Equity Designation since 2022. To achieve this Annehem has consistently maintained a majority share of green revenue and investments. Maintaining the green designation supports Annehem's strategy to maintain and grow a portfolio of energy-efficient assets. Annehem does not have any bonds outstanding and had a net loan-to-value ratio of 40.8 in 2024, which may provide sufficient capacity to finance new acquisitions with equity.

The Swedish regulatory environment may support Annehem's transition plan, especially in reducing scope 1 and 2 emissions, but could pose challenges in meeting scope 3 emission targets. Sweden enforces stringent building codes compared with other countries. It adheres to the Energy Efficiency Directive, which advocates for greener buildings. However, legislation is not advancing at the pace required to meet climate targets, in our view, and, in some cases, may hinder efforts to reduce emissions in the building sector. For example, to reduce emissions from construction, the real estate sector needs to implement circular principles. However, currently Sweden's strict building codes set high technical functionality and documentation requirements for equipment and materials, which prevent reused and recycled components from being used.

Annehem's transition plan could be negatively affected by district heating suppliers' slow transition. Annehem depends on its district heating suppliers to meet its scope 2 reduction targets, as it is dependent on its suppliers to reach its net-zero scope 1 and 2 targets. To mitigate this risk, Annehem and other real estate companies are in dialogue with the suppliers to keep their decarbonization efforts on track.

Nasdaq Green Designation

Nasdaq Green Equity Designation







S&P Global Ratings confirms that Annehem meets the requirements for Nasdaq Green Equity Designation set out in the Nasdaq Green Equity Principles.

In 2024, 73% of Annehem's turnover came from assets with some Shade of Green, exceeding the 50% threshold for green activities for company turnover. The sum of opex and capex allocated a Shade of Green is 83%. This exceeds the 50 % threshold for investments, defined as the sum of capex and opex. In 2024, Annehem had no turnover derived from fossil fuel activities, meeting the threshold of less than 5% of the company's turnover being derived from fossil fuel activities.

In addition, we believe Annehem meets Nasdaq transparency requirements on EU Taxonomy alignment and environmental targets and key performance indicators (KPIs). Annehem has reported environmental targets and KPIs data publicly in its annual report. Annehem is not required to report on the EU Taxonomy, however shows transparency on the share of their property value that is aligned with the for EU Taxonomy in its annual report.



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 assessed 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: Climate Transition Assessments](#), July 18, 2024
- [FAQ: Applying Our Integrated Analytical Approach For Climate Transition Assessments](#), July 18, 2024

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