S&P Global Ratings

Powered by Shades of Green

Climate Transition Assessment

Swire Properties Ltd.

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Location: Hong Kong **Sector:** Real Estate

Climate Transition Summary

The Climate Transition Assessment (CTA) shade of Medium green on Swire Properties reflects that the company is a regional leader in green real estate development. Swire Properties derives most of its revenue from investment properties, including the development, operation, and leasing out of commercial real estate (CRE). Just under half of its current investment properties receive a Medium green shade due to their green building certifications and focus on reducing energy use intensity. We anticipate this figure to be over 50% by 2035 because the company will continue decarbonizing its portfolio by tackling embodied emissions in new real estate developments.

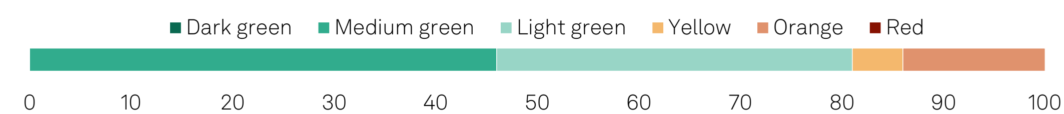
Swire Properties' 2030 targets include tangible objectives that address its primary climate impacts, and the company has a track record of meeting set targets. These targets are related to reducing operational greenhouse gas (GHG) emissions, reducing the intensity of value chain GHG emissions, and reducing electricity use intensity. Although Swire Properties has set a 2050 net-zero target, we focus on 2035. The transition from 2035 to 2050 is uncertain, primarily because the decarbonization of Swire Properties' value chain will heavily depend on technological advancements in carbon-neutral building materials that are not currently at scale to be consistent with a low carbon, climate resilient (LCCR) future.

Swire Properties is well positioned to achieve its targets. The company will likely continue to lead the Asia-Pacific real estate sector in the near-to-immediate term. Its climate transition plan is bolstered by an effective organizational structure and ambitious 10-year capital investment plan, which is mainly oriented to expanding its investment portfolio of energy efficient, green buildings.

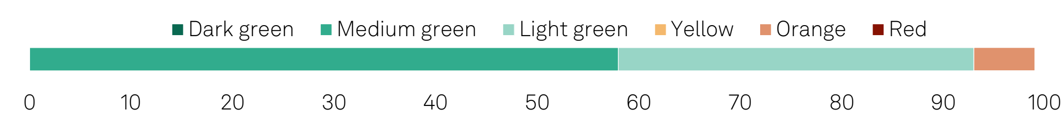
Future Shade
by 2035

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.

Current activity: Revenue (% of total)



Investments: Capital Investments (2023-2033) (% of total)



Strengths

Swire Properties requires new developments in mainland China and Hong Kong to use low-carbon building materials. It incorporates sustainability specifications for materials in its contracts for new developments, and conducts pre-qualification checks to ensure supplier compliance with this policy. Swire Properties is the first developer in Hong Kong to introduce this requirement.

Weaknesses

Swire Properties does not commit to avoid the use of fossil fuel direct heating in new developments. The use of fossil fuel direct heating introduces lock-in risk of long-lived assets that are not aligned with an LCCR future.

Areas to watch

Swire Properties has a broad definition of green building certifications. Some of them, such as WELL Building, SmartScore, and WiredScore certifications, do not focus on buildings' energy efficiency.

Swire Properties is expanding its presence in Southeast Asia through joint ventures (JVs), and some of the JV sponsored projects may not obtain green building certifications. We note, however, that these property trading

Swire Properties has comprehensive and extensive sustainability disclosures. These provide transparency and add credibility to its initiatives and targets.		projects comprise a small percentage of total net income. **Green building certifications' requirements for energy performance vary.** Considering other comparable green building standards as eligible, without specifying the certifications, criteria, or performance thresholds, also limits insight into these projects' potential impact.

Company Description

Hong Kong-based Swire Properties is the publicly traded real estate subsidiary of conglomerate Swire Pacific Group. Swire Properties focuses on commercial real estate in Hong Kong and mainland China and has a small residential property trading presence in Southeast Asia. Additionally, Swire Properties invests in and manages luxury hotels in Hong Kong, mainland China, and the U.S. via its wholly owned subsidiary, Swire Hotels. Swire Properties generated revenue of Hong Kong dollar (HK$) 14,670 million in 2023 (US$1.9 billion) and has nearly 30 million square feet of real estate assets. The company operates through three business segments: investment properties (92% of 2023 revenue), property trading (1% of 2023 revenue), and hotels (7% of 2023 revenues).

Current Activity

2023 activity by shade (% of total)

Shade	Revenue (%)	Capital investments (%)
Dark green	0	0

Activities: None.

Shade	Revenue (%)	Capital investments (%)
Medium green	46	58

Activities: Estimated revenues derived from highly energy efficient existing buildings, defined as those built prior to Dec. 31, 2020, with the following features:

- Possess the following green building certifications: BEAM Plus Existing Building – Platinum and LEED Operations & Management (O+M) Existing Building – Platinum.
- Assess and mitigate physical climate risk.
- Does not have fossil fuel direct heating (e.g. gas-fired furnaces, boilers).

Approximate revenues derived from highly energy efficient new buildings, defined as those built after to Dec. 31, 2020, with the following features:

- Possess the following green building certifications: BEAM Plus New Building – Platinum and LEED Building Design and Construction (BD+C) – Platinum.
- Assess and mitigate physical climate risk.
- Does not have fossil fuel direct heating (e.g. gas-fired furnaces, boilers).
- Considers and reduces embodied carbon emissions associated with the construction of the asset.

Shade	Revenue (%)	Capital investments (%)
Light green	35	36

Activities: Estimated revenues derived from existing and new buildings with the following features:

- Possess the following green building certifications: BEAM Plus New Building – Gold or Platinum, China Green Building Design Label – 2-star, LEED Building

Design and Construction (BD+C) – Gold, and LEED Operations & Management (O+M) Existing Building – Platinum.

- Assess and mitigate physical climate risk.
- Has fossil fuel direct heating (e.g. gas-fired furnaces, boilers).

Yellow	5	0
Activities: Estimated revenues derived from investment properties that lack the green building certifications considered Medium or Light green but do not have fossil fuel-based heating. These properties also possess considerations for physical climate risk. These properties are still subject to Swire Properties' environmental policies.		
Orange	14	6
Activities: Estimated revenues derived from non-managed hotels and part of the company's property trading segment. Projects under these categories are not required to have energy efficiency and other environmental considerations as Swire Properties does not exercise management control over them.		
Red	0	0
Activities: None.		

Source: S&P Global Ratings.

Swire Properties develops, operates, and leases out CRE, most of which we assess as Medium green and is mostly consistent with an LCCR future. Swire Properties' efforts to decarbonize its existing buildings (completed before Dec. 31, 2020) typically involve reducing energy use intensity. It achieves this by investing in demand-side energy reduction strategies across its investment portfolio. These include technological solutions such as upgrading HVAC systems and major appliances, advanced software to monitor and optimize energy use, and tenant partnerships on energy saving and office sustainability. Additionally, Swire Properties assesses the physical climate risks of these assets and identifies necessary mitigation measures. We assess existing properties with these attributes, green certifications, and electric heating systems as Medium green. This is because fossil fuel heating contributes to a significant portion of a building's carbon footprint in operation. In combination with green building certifications, these buildings are amongst the best performing in the jurisdiction.

Buildings certified under the green building schemes are significantly more energy efficient than regulatory energy code. According to the HK Green Building Council (HKGBC), on average, office buildings certified under BEAM Platinum V.1.1./V1.2 result in a 31% energy reduction versus buildings without the certification. Additionally, less than 10% of commercial buildings in Hong Kong have attained any BEAM certification level. As a result, we view Swire Properties as a regional leader in green building certifications. However, we note that BEAM and LEED are points-based systems, in which only one quarter of allocated points are designated for energy efficiency.

Investment properties that possess the aforementioned green building certifications with fossil fuel heating systems are assigned a shade of Light green. In 2020, Swire Properties rolled out a low-carbon building materials procurement requirement for new developments. However, like most real estate developers and operators, most of Swire Properties' current real estate portfolio does not have considerations for embodied emissions, which are significant for the sector. As a result, green building certifications for these assets revolve around improving their energy performance instead. Additionally, some of the company's properties in mainland China have gas-fired boilers and furnaces, which introduce lock-in risk of long-lived fossil-fuel assets.

We assign a shade of Yellow to some investment properties and their associated revenues because they do not have energy efficiency certifications. We do not consider the WELL Building Standard, SmartScore, or WiredScore to be energy efficiency certifications that are consistent with a shade of Green. However, these properties do not possess fossil-fuel heating systems, which are a major contributor to GHG emissions of buildings. This represents an improvement over the regional stock, and for this reason, we have assigned a shade of Yellow.

We assign a shade of Orange to most revenues from non-managed hotels and part of the company's property trading business segment. Swire Properties does not exercise management control over all its hotels or residential trading projects in Southeast Asia. Instead, the company is a minority equity investor in these projects through JVs. Currently, the company has two completed residential trading properties, one of which is LEED Gold certified and the other which lacks green building certifications. We have assigned a shade of Light green and Orange to these properties, respectively. We note that Swire Properties proactively engages its JV partners to follow its green building policies, and its residential trading projects under development are expected to have green building certifications.

Climate Transition Plan

Metrics And Targets

Transition targets

Transition metrics	Baseline metric (2019)	2023	2025	2030	2040	2050
Scope 1 & 2 (% reduction)	193,142 tCO2e (2019)		25	46		Net zero
Scope 3, cat. 13 – Downstream Leased Assets (% reduction per sq. meter)	179,515 tCO2e (2018)			28		Net zero
Scope 3, cat. 2 – Capital goods (% reduction per sq. meter)	174,214 tCO2e (2016-2018)			25		Net zero
Annual electricity use intensity – Hong Kong portfolio (% reduction)	139 kWh/m^3 (2019)		20	40		Net zero
Annual electricity use intensity – mainland China portfolio (% reduction)	101 kWh/m^3 (2019)		13	35		Net zero

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--Defined as a 95% reduction in entire Scope 1, 2, and 3 emissions compared with the base year 2019. Scope 3 includes all categories defined in the GHG Protocol. Residual emissions from purchased goods and services to be compensated for with carbon offsets.
Source: Company Reporting and S&P Global Sustainable1.

Swire Properties' 2025 and 2030 targets cover the most significant climate-related activities for its direct operations, and the company has had success in achieving its goals. Its scope 1 and 2 emissions and electricity intensity targets cover direct operations. Swire Properties exceeded its 2025 scope 1 and 2 emissions reduction target in 2023, reducing operational emissions by 25%. The company achieved these reductions through a combination of efforts of increasing energy efficiency and improving energy management, procuring more renewable energy via onsite generation and power purchase agreements (PPAs), and the gradual decarbonization of the Chinese electricity grid.

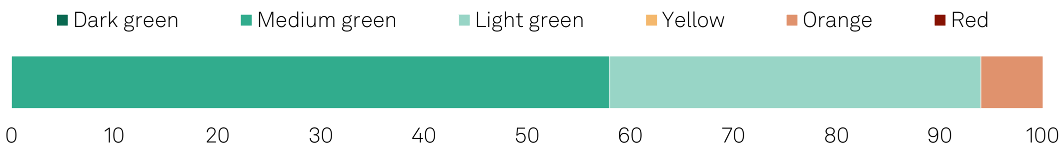
The 2030 transition targets also cover important value chain emissions. The scope 3, category 13 target focuses on reducing the intensity of emissions resulting from the operation of assets leased to commercial tenants, which represented nearly 52% of reported scope 3 emissions in 2023. In 2023, Swire Properties surpassed this goal, achieving a 40% reduction in carbon intensity due to the same drivers that led to a reduction in operational carbon emissions. Meanwhile, its scope 3, category 2 target addresses upfront embodied emissions intensity of new development projects, which is a significant area of climate transition risk for the real estate sector. Swire Properties' targets are guided by its Net Zero Roadmap, which outlines the key areas the company will invest in to deliver on its near-term transition-related targets. In our view, the company's interim targets are comprehensive and represent progress toward an LCCR future. Its near-term targets have also been validated by the Science Based Targets initiative (SBTi).

Swire Properties' GHG metrics are calculated and reported in accordance with the GHG Protocol. It follows the operational control approach, so its emissions reductions targets apply to all projects for which Swire Properties exercises management control, regardless of equity ownership. Since Swire Properties owns and/or operates most of the revenue-generating buildings in its investment properties business segment and half the hotels in its hotels segment, we consider the operational control approach appropriate. While the company's property trading business segment represents only a small portion of its revenue today, we note the company is growing this segment and does not exercise management control over most of these projects.

Swire Properties does not currently have a target for scope 3 emissions stemming from purchased goods and services. According to the company's public disclosures, purchased goods and services (scope 3, category 1) accounted for 27% of the company's total scope 3 emissions in 2023. These emissions represent a meaningful portion of upfront embodied carbon emissions. Additionally, both of the company's scope 3 targets are only intensity-based and not absolute. We consider the company's capital goods (scope 3, category 2) intensity-based target to be acceptable given that zero-carbon building materials do not exist yet for the real estate sector.

Actions And Investments

2023-2033 Capital investment plan breakdown by shade (% of total)



Source: S&P Global Ratings.

Swire Properties has a 10-year capital investment plan of HK$100 billion that expands its investment properties and property trading business segments with a focus on energy performance and decarbonization. We expect HK$30 billion to be allocated towards new investment properties in Hong Kong that have energy efficiency certifications, low-carbon building materials, considerations for physical climate risk, and do not have fossil-fuel-direct heating. We have assigned a shade of Medium green to this HK$30 billion. We expect the company will allocate HK$50 billion toward new investment properties in mainland China that have energy efficiency certifications, low-carbon building materials, and considerations for physical climate risk. Some properties built in mainland China may have fossil-fuel-direct heating. As a result, based on information on the underlying real estate projects, we assign a Shade of Medium green to HK$25 billion of the company's capital investment plan in mainland China and a shade of Light green for the remaining HK$25 billion. Lastly, we assign a mix of shades to the remaining HK$20 billion dedicated towards the property trading business. New residential trading projects were assigned a shade of Orange, Light green, and Medium green, depending on the building attributes. As a result of its 10-year capital investment plan, we expect Swire Properties to continue progress in its climate transition by 2035.

Because Swire Properties is in the business of developing green buildings, its planned transition actions and investments largely reflect an expansion of the company's business-as-usual activities, which are industry leading. Swire Properties has a track record of continuous improvement, having set a 2030 target to have 100% wholly-owned new and existing developments to achieve the highest environmental building assessment scheme rating. As a result, the company has been increasing the number of green building certified projects in its investment properties over time, increasing the ambitiousness of its science-based targets, and most significantly, introducing a low-carbon procurement policy in 2020. However, the company does not commit to avoiding new real estate developments containing fossil-fuel-direct heating. Financing new developments with gas-fired furnaces or boilers introduces lock-in risk of polluting assets and has the potential to dilute the company's future share of Medium green activities.

For all new development projects in Hong Kong and mainland China going forward, Swire Properties will require contractors to use low carbon building materials, a significant, industry-leading step toward reducing the embodied emissions intensity of its portfolio. Swire Properties will require building materials such as concrete, reinforcement bar, and structural steel to meet sustainability specifications such as maximum carbon intensities for concrete, minimum recycled content for steel, and/or green product certifications. These specifications have been adopted in the main contracts for new developments in Hong Kong and mainland China, and the company conducts pre-qualification checks to ensure supplier compliance with the policy. Additionally, the company has established performance-based targets on embodied carbon for concrete, rebar, and structural steel for future projects in Hong Kong and mainland China. In our view, reducing the embodied emissions of new real estate developments brings the company's business activities more in line with an LCCR future. We note Swire Properties is the first Hong Kong-based developer to have adopted sustainable procurement requirements, making the company a regional leader in lifecycle green building design.

In addition, Swire Properties has a decarbonization budget of HHK$3,804 million, separate from its capital investment plan, which it expects to spend on procuring renewable energy,

increasing climate resiliency, and improving energy efficiency of its portfolio over the next three years (2024-2026). The decarbonization funds have been generated by an internal carbon price rolled out in 2023. The company expects most funds to be spent on innovative solutions to help achieve its science-based targets. These investments are expected to be large scale real estate projects that accelerate the company's transition to a low-carbon economy. Currently, 13 of the company's existing buildings procure renewable energy, with eight properties having on-site renewable energy generation, though they do not supply 100% of electricity needs. The company is also pursuing renewable energy procurement via PPAs in Mainland China, with limited PPAs in Hong Kong. The remainder of the decarbonization budget will be spent on climate adaptation measures, energy efficiency upgrades, and other innovative solutions to help the company achieve its science-based targets. We note that Swire Properties does not purchase carbon offsets as part of its transition plans, which we view positively.

Implementation Drivers

We believe Swire Properties' management structure and processes related to climate risks and opportunities will help it execute its ambitious transition strategy. The company operates with an ESG steering committee that reports directly to the board of directors. The committee consists of the finance director, the chair of the audit committee, and other senior leaders, including from the company's human resources, portfolio management, and sustainable development departments. The committee meets at least quarterly and its formulates and reviews the company's climate strategy, approve climate-related targets and initiatives, review climate-related KPIs, and advise on any significant risks and opportunities related to climate issues. In addition, a working group supports the steering committee, advising on ESG risks related to the five pillars of the company's sustainable development strategy: places, people, partners, performance (environment), and performance (economic). Guiding the ESG steering committee and working group is the company's sustainable development policy, which was first published in 2008. Within the policy, the company includes a climate change policy that highlights Swire Properties' commitment to managing climate-related risks across its operations and value chain, and it includes actions on how the company intends to mitigate, adapt, and build resilience to support its transition to a net-zero economy. Lastly, we believe Swire Properties has comprehensive, publicly available climate and environmental reporting relevant to its decarbonization strategy, including climate-related financial disclosures with reference to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and IFRS S2 Climate Disclosures, disclosures of progress toward climate-related targets, and third-party assurances of its climate-related reporting.

Swire Properties' 10-year capital investment plan is primarily dedicated to expanding its portfolio of energy efficient, green buildings. The company is primarily funded by green financings that are issued according to its green bond framework launched in 2018. The company issued its first green bond in 2018 and its first sustainability-linked loan in 2019, the latter of which has an interest rate that is indexed against improvements in the company's year-over-year energy performance. In 2020, Swire Properties set a target for its sustainable and green financings to reach 50% of its total bond and loan facilities by 2025 and 80% by 2030. As of year-end 2023, the company's bond and loan facilities were approximately 60% from green financings, and the company was the first Hong Kong based issuer to issue renminbi (RMB) denominated green dim sum bonds in 2023. Swire Properties has used net proceeds to fund or refinance new or existing eligible green projects for its green building portfolio, including energy efficiency, renewable energy, sustainable water and wastewater management, and climate change adaptation projects. It includes details of each green project, the allocation of proceeds, and the estimated environment impact in an annual, publicly-available Green Finance report. We believe the issuance of green bonds and loans and sustainability-linked loans has been an effective mechanism for Swire Properties to raise the needed capital to fund the construction of its green buildings, and we believe the company has a strong track record to support its continued ability to access the sustainable debt markets for its green financing needs in the future. Furthermore, the company's extensive use of the sustainable debt markets is a positive indicator that it is actively seeking funds for the explicit purpose of decarbonization.

We believe there are no material factors that would prevent Swire Properties from reaching its decarbonization goals by 2035. However, the lack of and/or cost constraints of sustainable building materials could negatively affect the ability of all real estate developers to reach net zero by 2050. While Swire Properties is committed to expanding the sourcing of sustainable materials across all areas of its business segments, and it has demonstrated this commitment with its recent green buildings, the long-term, full decarbonization of Swire Properties' value chain would be dependent on further technological innovation in carbon-neutral building materials. Consequently, Swire Properties is involved in the PropTech Alliance, a collaboration amongst Hong Kong based real estate developers and technology startups. Swire Properties contributed to the PropTech Alliance-backed Technical Procurement Guideline on Low Embodied Carbon Construction, demonstrating the company's ongoing involvement in furthering low carbon building practices in the real estate industry.

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).

Related Research

- Analytical Approach: Climate Transition Assessments, July 18, 2024
- FAQ: Applying Our Integrated Analytical Approach For Climate Transition Assessments, July 18, 2024

Analytical Contacts

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