



# Heba Fastighets AB

## Green Finance Second Opinion

January 14, 2021

**Heba Fastighets AB (Heba) is a Swedish listed real estate company founded in 1952, headquartered in Stockholm and investing in Sweden.** Heba's real estate portfolio consists of own rental housing and public use properties located in the Stockholm area and had in December 2020 a value of SEK 10 billion. Heba acquires, constructs, develops, and manages the properties. All Heba's properties are available through public transport.

**Allocated proceeds will mainly be used to finance or refinance eligible assets in the green buildings, energy efficiency, clean transportation, and renewable energy categories.** It is estimated that approximately 80% of the proceeds will be used for the category Green buildings. New green building constructions must in order to be eligible achieve certain certification levels and achieve at least 20% lower energy use than required by the Swedish regulation while existing buildings would as minimum have an energy use equal to or below 99 kWh/sqm per year. The certification levels do not represent the highest levels.

**Heba has in place clear and relevant policies that include engagement with suppliers on sustainability and has as a long-term target to become climate neutral by 2045.** To help achieving this goal, Heba has as a medium-term target to reduce energy use by 20% from 2018 level by 2028 and is well on track to reach this target. Heba is focusing on reducing emissions by reducing energy consumption and improve efficiency as well as by increasing on-site renewable energy generating. The company's work to install geothermal energy in combination with solar panels, as well as working with their district heating supplier to use bio-coal in the production of energy giving zero or negative carbon emissions is impressive and demonstrates 2050-solutions.

**Heba has a good process to select eligible projects, including considerations on energy saving potential, climate resiliency and rebound effects.** However, the company does not report in line with the TCFD-recommendations, does not conduct life cycle assessment in a systematic manner and is not reporting construction emissions.

Based on the overall assessment of the project types in the framework of Heba, governance and transparency considerations, the green bond framework receives an overall **CICERO Medium Green** shading and a governance score of **Excellent**. In order to improve the framework Heba could strengthen the eligibility criteria in the Green and energy efficient buildings category with regards to the certification levels. Heba is furthermore encouraged to implement the TCFD recommendations, conduct life cycle assessments in a systematic manner and include reporting on construction emissions.

### SHADES OF GREEN

Based on our review, we rate the Heba's green finance framework **CICERO Medium Green**.

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Heba's framework to be **Excellent**.



### GREEN BOND and GREEN LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated January 2021. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

## Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

| CICERO Shades of Green  | Examples   |
|---|--|
|  <b>Dark green</b> is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.  |  Wind energy projects with a strong governance structure that integrates environmental concerns |
|  <b>Medium green</b> is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.   |  Bridging technologies such as plug-in hybrid buses   |
|  <b>Light green</b> is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them. |  Efficiency investments for fossil fuel technologies where clean alternatives are not available |
|  <b>Brown</b> is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.  |  New infrastructure for coal  |

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



## 2 Brief description of Heba's green finance framework and related policies

Heba Fastighets AB (Heba) is a Swedish listed real estate company founded in 1952, headquartered in Stockholm. Heba's real estate portfolio consists of own rental housing and public use properties located in the Stockholm area and has in December 2020 a value of SEK 10 billion. The company was listed on the Nasdaq Stockholm Nordic Mid Cap in 1994. Heba acquires, constructs, develops, and manages the properties. Heba is only investing in Sweden.

A third of Heba's portfolio consists of newly built properties, completed the last 15 years with a remaining two thirds consisting of older properties where the majority was built between the years 1940–1950. All Heba's properties are available through public transport.

### Environmental Strategies and Policies

Heba aims to include sustainability throughout their entire business value chain and have included the support towards the UN sustainability Development Goals in their Sustainability policy. The company has a long-term target to become neutral by 2045, and a medium-term target to reduce the energy consumption by 20% in 2028 based on 2018 level of 124 kWh/sqm. To achieve their targets, the issuer has established a refurbishment program where the main focus areas are to reduce the energy consumption and strengthen sustainable management of material use and waste. Furthermore, Heba has started to install renewable energy systems in the existing properties, like geothermal energy in combination with solar panels, as well as working with the supplier of district heating to use bio-coal to obtain zero or negative emissions. The issuer has informed that they are on track to achieve the energy reduction target and reduced the energy consumption by 7% in 2019 compared to the previous year. To ensure a positive climate footprint, Heba has compensated for their emissions since 2019. Projects supported are included in the UN systems voluntary carbon credit market.

New and existing properties need to qualify for Miljöbyggnad Silver rating or similar certification or rating and achieve at least 20% lower energy use than required by the applicable national building code. Existing buildings will also be eligible if they have a maximum annual energy use of 99 kWh/sqm. 5% of Heba's existing portfolio is certified. The company informs that they intend to increase the degree of certification, by ensuring that all new developments are certified, that newly renovated properties will be certified and finally to consider the possibilities of certifying existing properties.

The company is working on introducing a management system in accordance with the ISO 14001 or ISO 9001 within the spring of 2021 and is considering introducing the TCFD recommendations. Heba is conducting climate scenario analysis and has identified the main physical climate risks for their portfolio to be heavy rain and flooding and a warmer climate. They are conducting annual reviews of their properties to consider if new actions need to be taken to manage physical climate risks. All new builds are climate adapted and constructed in accordance with the Swedish Planning and Building Act (PBL) as well as all current building standards. Heba has not started to use life cycle assessments of their projects in a systematic manner.

Heba is reporting on scope 1 and scope 2 emissions but does not report on scope 3 emissions. Heba however intends to place a greater demand on their contractors to encourage reuse and recycling of as much of the waste materials as possible and to take environmental concerns in their transport activities. This is reflected in Heba's



Code of Conduct for suppliers. Heba informs that from 2021 suppliers must account for the climate impacts of the building materials involved and how transports are coordinated.

Total CO<sub>2</sub>- emissions in 2019 was 946,000 tons, down from 1,206,000 tons in 2018. Emissions were originating mainly from district heating and from the use of company cars.

Heba has systems in place to monitor the energy use and the temperature in their properties, as well as the water use in commercial properties. For new constructions, the issuer informs that they follow national regulations for water efficient appliances. The company targets to sort 90% of the waste they generate but has currently not identified the recycling/reuse-rate.

### Use of proceeds

The net proceeds from Heba's green finance will be exclusively used by Heba to fully or partly finance or refinance investments and expenditures that promote the transition to a low-carbon and sustainable economy, with a majority of proceeds being used to finance new investments. Heba is only operating in the Swedish market and net proceeds will therefore be exclusively used in Sweden.

Heba includes the following categories in the green finance framework: Clean transportation, energy efficiency, green buildings, renewable energy, climate change adaptation, and environmentally sustainable management of living natural resources and land use. The main share of proceeds will be used on green buildings (80%), energy efficiency and renewable energy.

Net proceeds will not be allocated or linked to fossil-based energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.

### Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Heba has established a Green Business Council (GBC) to determine projects and investments that qualify for green finance. The GBC will be led by the CEO and also includes Head of sustainability, CFO, Head of Real Estates, Head of Energy and the Business Developer. The GBC will evaluate the overall environmental impacts of the projects suggested, and consider i.a. energy savings, rebound effects and climate resiliency. Projects selected must be compliant with national laws and regulations, as well as Heba's internal policies and guidelines. A decision to allocate net proceeds will require a majority decision by the GBC and the head of sustainability has a veto. Decisions will be documented.

An updated list of all green assets will be kept by Heba's treasury department. The list will also be used to determine if there is a current or expected capacity for green finance.

### Management of proceeds

CICERO Green finds the management of proceeds of Heba to be in accordance with the Green Bond and Green Loan Principles.



Net proceeds of green finance will be credited to a dedicated account (the “Green Account”) or otherwise tracked by Heba (the “Green Portfolio”). Deductions will be made from the green portfolio by an equivalent amount corresponding to the financing, refinancing, investment or expenditure of eligible green assets or at repayment of any green financing. Proceeds will be allocated to individual disbursements on a project level.

If an eligible green asset no longer qualifies or if the underlying project or asset is divested or lost, an amount equal to the funds allocated towards it will be re-credited to the green portfolio. Funds may also be reallocated to other green assets, unless otherwise agreed in the loan documentation, but all assets will be identified and approved by the GBC.

While the Green Portfolio has a positive balance, the net proceeds may be invested or utilised by the treasury in accordance with Heba’s sustainability policy and investment criteria. Such unallocated funds may for instance be invested in short-term interest-bearing securities, such as Swedish treasury bills (and related entities) or Swedish municipal notes (including related entities). Ex-post verification of funds will be sought from Heba’s external auditor. Unallocated proceeds cannot be invested in entities directly or indirectly involved in fossil fuels.

## Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Heba will issue an annual report on its website that will detail the allocation of green funds. The first report is expected to take place in May 2022 and will be available in English and Swedish. Quarterly statements will be published disclosing the total amount of green financing outstanding and the total value of the green assets. Reporting will include information on all green assets that have been financed using green financing on a project/investment level, a summary of Heba’s activities relevant for green financing and examples of financed assets. The GBC will be responsible for the reporting.

## Allocation Disclosure

- Heba will provide allocation reporting and emphasis will be placed on providing examples to single projects based on size.
- The sum of outstanding green financing and the sum of the green portfolio balance, including any short-term investments or funds managed within Heba’s liquidity portfolio.
- The proportion of net proceeds allocated to new investments and expenditure.
- All data is to be as of the end of the previous year.

## Impact reporting (Performance Reporting & Metrics)

According to the issuer, relevant metrics will be used for impact reporting, including environmental certification, energy performance (kWh per square meter per year) and annual energy/GHG-savings. Performance metrics for clean transportation also include number of charging stations, and for renewable energy annual energy production and prevented emissions. For financed green assets that are not yet operational, Heba will strive to provide estimates of future performance levels. Each yearly report will include at least one example of projects representing the different project categories.

## Carbon Footprint Calculation Methodology

To calculate GHG emission reductions, Heba intends to use the Green House Gas Protocol for Scope 1 and Scope 2 emissions. To calculate CO<sub>2</sub>e emissions savings from green assets the location-based emissions will be used. To



assure consistency the emission factor(s) used in Heba's green finance reporting will equal the emission factor(s) used in the company's sustainability reporting. Heba informs that the grid emission factor(s) the company uses is considerably lower than what has been outlined in the "Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting" (January 2019), which currently states 380 grams CO<sub>2</sub>e per kWh. The issuer has informed that grid factors will be submitted by their suppliers annually.

Allocation and impact reporting will be reviewed and verified externally, and results will be published on Heba's website. Furthermore, Heba has established a dedicated webpage for green financing at its website where investors, lenders and other interested parties can find information regarding Heba's green financing, including the green financing framework, the second opinion, reporting, annual review, quarterly statements, and investor presentations.



### 3 Assessment of Heba’s green finance framework and policies

The framework and procedures for Heba’s green finance investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Heba should be aware of potential macro-level impacts of investment projects.

#### Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Heba’s green finance framework, we rate the framework **CICERO Medium Green**.

#### Eligible projects under the Heba’s green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds and loans aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

| Category   | Eligible project types  | Green Shading and some concerns  |
|--|---|--|
| <b>Clean transportation</b><br><br> | <ul style="list-style-type: none"> <li>Supportive infrastructure such as charging stations for all types of electric vehicles, bicycle garages, or other investments that support and emphasize the use of environmentally sound and low carbon solutions, as well as electric vehicles used in our operations, such as fully electric service vehicles.</li> </ul>   | <b>Dark Green</b><br>✓ Only directly associated expenditures are eligible for financing.   |
| <b>Energy efficiency</b><br><br>    | <ul style="list-style-type: none"> <li>Investments in the existing portfolio of buildings that target a lower overall energy use and an improved environmental footprint. This could include, for instance, the installation of geothermal heating/cooling, energy-efficient lighting, IT-technology (monitoring, efficiency management and remote operation), energy efficient windows, additional insulation or an upgraded ventilation system. Only</li> </ul> | <b>Dark Green</b><br>✓ Efficiency measures in existing buildings is a good way to lower the climate footprint of buildings, unless it involves fossil fuel elements which then can be locked in. The issuer informs us that systems related to fossil fuels will not be eligible.<br>✓ Be aware of potential rebound effects following energy efficiency improvements. |



directly associated expenditure (e.g. material, installation and labor) is eligible for financing.

Heba will ascertain the following:

- a) High estimated energy savings in the targeted area for physical installations (minimum 20%).
- b) Minimize long term negative climate impact and potential rebound effects.
- c) Minimal negative climate impact from the technology used.

- ✓ The company has a target to reduce the energy consumption with 20% by 2028, from the 2018 level.
- ✓ Investments in e.g. windows with low energy saving improvements may lead to lock-in effects.
- ✓ Only directly associated expenditures are eligible for financing.

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### Green buildings New properties



- Ongoing development or recently completed properties that have, or will, receive an environmental certification of at least Miljöbyggnad “Silver”, Svanen, Skanska Hållbar Hyresbostad or is assessed to reach up to an equivalent level by an external verifier. The properties should also achieve at least 20% lower energy use than required by the applicable national building code (NZEB or BBR).

#### Existing properties

- Environmentally certified existing properties with a high environmental performance that have or will receive:
  - (i) a design stage certification,
  - (ii) a post construction certification or
  - (iii) an in-use certification of at least Miljöbyggnad “Silver”, Svanen, Skanska Hållbar Hyresbostad or equivalent and have an energy use equal to or below 99 kWh/sqm per year aTemp.
- Energy efficient existing properties with a high environmental performance that have an energy use equal to or below 99 kWh/sqm per year aTemp.

#### Major renovations

- Properties that have undergone renovation and for which the energy performance have been improved by at least 30% during a time period not

### Medium Green

- ✓ All properties are available through public transportation.
- ✓ The building criteria are good, but do not represent the highest standard levels.
- ✓ Proceeds will be used for both new constructions and renovations, with ca 80% allocated to new construction.
- ✓ In addition to climate issues, Miljöbyggnad covers a broader set of issues, which is important to overall sustainable development.
- ✓ Miljöbyggnad Silver means that energy use must be 25% lower than that required by Swedish Building Regulations (if heated by electricity, it must be 5% lower than regulation).
- ✓ The average energy consumption for Heba’s portfolio was 106 kWh/sqm in 2019.
- ✓ Heba has 27 properties that have not been renovated since 2006. The specific energy use for these properties were 135 kWh/sqm in 2019. All properties, including properties with an energy use below 99 kwh/sqm will go through renovation programs to reduce the energy consumption.
- ✓ The issuer informs that buildings certified by Skanska Hållbar Hyresbostad also need to have an energy use 20% below Swedish regulation for new buildings.
- ✓ An energy efficiency requirement add comfort to investors who are concerned with the energy footprint of buildings. However, an existing building’s energy efficiency



|  |  |   |
|--|--|---|
|  | exceeding 3 years can be financed by green bonds.  | performance will depend on the year in which it was built.<br><ul style="list-style-type: none"> <li>✓ According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target.</li> <li>✓ Refurbishment of existing buildings are often better than new constructions from a climate point of view.</li> </ul>  |
| <b>Renewable energy</b>  | Renewable energy production, such as on-site solar power installations or stand-alone solar farms, geo-energy (ground and surface systems) as well as related infrastructure investments for example grid connections, electric substations or networks.   | <b>Dark Green</b> <ul style="list-style-type: none"> <li>✓ Only directly associated expenditures are eligible for financing.</li> <li>✓ The company is working to install geothermal energy in combination with solar panels in two properties per year, as well as working with their district heating supplier to use bio-coal in the production of energy giving zero or negative carbon emissions.</li> <li>✓ Some geothermal projects could be associated with large GHG emissions. The EU Taxonomy requires emissions from geothermal energy to be below 100 gCO<sub>2</sub>e/kWh.</li> </ul> |
| <b>Climate change adaptation</b>   | Investments undertaken to mitigate the negative consequences brought on by climate change and their impact on properties, including adaptation of buildings, infrastructure, parks and green areas to build resilience against expected risks such as increased rainfalls, flooding or sea level rise. | <b>Dark Green</b> <ul style="list-style-type: none"> <li>✓ It is considered positive with elements of climate adaptation. Construction of green areas in city development projects are very useful to absorb excess water from flooding of natural creeks/ponds or stormwater from heavy rainfalls.</li> <li>✓ Climate scenario- and risk analysis are carried out to identify the projects with the highest adaptation needs.</li> </ul>   |
| <b>Environmentally sustainable management of living natural resources and land use</b> | Investments in projects and assets that preserve, restore or manage living natural resources in a sustainable way. Includes the responsibility taken around properties with green areas, planting of trees and efforts to maintain biodiversity.   | <b>Dark Green</b> <ul style="list-style-type: none"> <li>✓ Heba informs that they are working to make the areas around their properties green and safe.</li> </ul>  |

Table 1. Eligible project categories



## Background

The construction and real estate sector have a major impact on our common environment. According to the National Board of Housing, Building and Planning's environmental indicators, it accounts for 32% of Sweden's energy use, 31% of waste and 19% of domestic greenhouse gas emissions. Calculations from Sveriges Byggindustrier indicate that the climate impact of new production of a house is as great as the operation of the house for 50 years.

As member of the EU, Sweden is subject to the EU's climate targets of reducing collective EU greenhouse gas emissions by 40% by 2030 compared to 1990 levels, increasing the share of renewable energy to 32% and improving energy efficiency by at least 32.5%<sup>1</sup>. The European Green Deal aims for carbon neutrality in 2050<sup>2</sup>. Sweden has developed a National Energy and Climate Plan (NECP) in which it outlines the targets and strategies in all sectors<sup>3</sup>. These strategies include measures such as increasing renewable energy capacity, increasing energy efficiency, facilitating the large-scale implementation of clean transportation alternatives, and increasing carbon sinks through reforestation and the LULUCF sector. Non-ETS emissions, of which public buildings and households are a part, must decrease by 63% by 2030.

The real estate sector accounts for a large share of primary energy consumption in most countries, and the IEA reports that the efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources.<sup>4</sup> The energy efficiency of buildings is dependent on multiple factors including increasing affluence and expectations of larger living areas, growth in population and unpredictability of weather, and greater appliance ownership and use. Additionally, approximately half of life-cycle emissions from buildings stem from materials/construction. The other half stems from energy use, which becomes less important over time with the increasing adoption of off-grid solutions such as geothermal and solar. All these factors should therefore be considered in the project selection process. In addition, voluntary environmental certifications such as Miljöbyggnad or equivalents measure or estimate the environmental footprint of buildings and raise awareness of environmental issues. These points-based certifications, however, fall short of guaranteeing a low-climate impact building, as they may not ensure compliance with all relevant factors e.g., energy efficiency, access to public transport, climate resilience, sustainable building materials. Many of these factors are covered under the World Green Building Council's recommendations for best practices for developing green buildings.<sup>5</sup> CICERO Shades of Green assesses all these factors when evaluating the climate impact of buildings.

The Exponential Roadmap<sup>6</sup> lays out a trajectory for reducing emissions by 50% by 2030 and requires that emissions reductions strategies within the buildings sector be rapidly scaled up. The roadmap advocates for standardised strategies that are globally scalable within areas such as new procurement practices for construction and renovation that require dramatically improved energy and carbon emission standards, developing new low-carbon business models for sharing space and smart buildings to achieve economies of scale, and allocating green bond funding for sustainable retrofitting and construction.

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<sup>1</sup> [https://ec.europa.eu/clima/policies/strategies/2030\\_en](https://ec.europa.eu/clima/policies/strategies/2030_en)

<sup>2</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

<sup>3</sup> [https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans\\_en](https://ec.europa.eu/energy/topics/energy-strategy/national-energy-climate-plans_en)

<sup>4</sup> <https://www.iea.org/reports/building-envelopes>

<sup>5</sup> <https://www.worldgbc.org/how-can-we-make-our-buildings-green>

<sup>6</sup> [https://exponentialroadmap.org/wp-content/uploads/2020/03/ExponentialRoadmap\\_1.5.1\\_216x279\\_08\\_AW\\_Download\\_Singles\\_Small.pdf](https://exponentialroadmap.org/wp-content/uploads/2020/03/ExponentialRoadmap_1.5.1_216x279_08_AW_Download_Singles_Small.pdf)



## EU Taxonomy

In March 2020, a technical expert group (TEG) proposed an EU taxonomy for sustainable finance that included a number of principles including a “do-no-harm clause” and safety thresholds for various types of activities<sup>7</sup>. In November 2020, EU published its draft delegated act to outline its proposed technical screening criteria for climate adaptation and mitigation objectives, respectively, which it was tasked to develop in order to take the Taxonomy into law in July<sup>8</sup>. The Do-No-Significant-Harm (DNSH) criteria include measures such as ensuring resistance and resilience to extreme weather events, preventing excessive water consumption from inefficient water appliances, ensuring recycling and reuse of construction and demolition waste and limiting pollution and chemical contamination of the local environment. CICERO Green will not here verify Heba’s framework against the full EU taxonomy, but notes that the updated taxonomy includes specific thresholds for the real estate sector, some of which can briefly be summarized as follows:

1. The design and construction of new buildings needs to ensure a net primary energy demand that is at least 20% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national regulation.
2. Ownership or acquisition of buildings built before 2021 should have an Energy Performance Certificate label A.
3. Renovations should deliver 30% primary energy savings.
4. Large non-residential buildings should have dedicated energy management system.

It is currently unclear what will be in the final taxonomy and how this will apply to Sweden, but it is reasonable to expect that new buildings with energy use 20% below present regulation would be aligned with the taxonomy.

The taxonomy highlights the importance of lifecycle emissions including a focus on building material such as wood. Energy saving renovations for existing properties that result in buildings lowering their primary energy demand with 30% are also likely to be classified as sustainable within the EU Taxonomy. It is further anticipated that activities related to energy efficiency, including installation of solar panels, heat pumps, extension of district heating and cooling, are to be classified as sustainable according to the EU Taxonomy. The eligibility criteria for new constructions and renovation (30% improvement) are potentially aligned with the EU taxonomy criteria while they are not for existing buildings.

## Governance Assessment

Four aspects are studied when assessing the Heba’s governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Heba has established a long-term target to become climate neutral by 2045, as well as a medium-term target to reduce the energy consumption with 20% by 2028 and has demonstrated clear progress towards these targets. The selection process is good and is including considerations of energy saving potential, climate resiliency and rebound effects. The head of sustainability holds a veto in the selection process. The management of proceeds is well aligned with the Green Bond and Green Loan Principles.

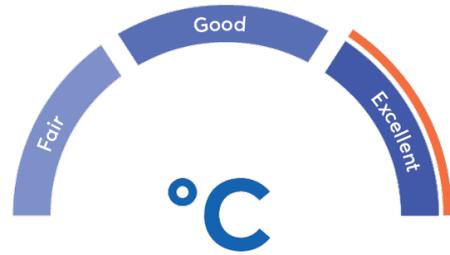
<sup>7</sup> Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

[https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy\\_en](https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en)

<sup>8</sup> [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC\\_WORKFLOW](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW)



Heba has a policy in place to work with their suppliers to reduce the climate impacts of building materials. Heba is targeting ISO certification in the spring of 2021 but has not yet started reporting in line with the TCFD-recommendations and does not conduct life cycle assessment in a systematic manner. The company has established good indicators for impact reporting with a transparent methodology to calculate GHG-emissions but has not yet started reporting scope 3 emissions. Reports will be externally reviewed and publicly disclosed. Heba is working with their contractors to address environmental concerns.



The overall assessment of Heba's governance structure and processes gives it a rating of **Excellent**.

### Strengths

Heba is including sustainability throughout the value chain and has a long-time target to be climate neutral within 2045 and a medium-term target to reduce the energy consumption with 20% by 2028, and is showing clear progress towards the target. The company's Green Bond Framework provides a clear framework for financing its green ambitions related to energy efficient and environmentally friendly buildings as well as clean energy and adaptation. For the category Green Buildings, the Green Bond Framework requires energy efficiency improvements of 20 % compared to standard regulatory requirements. This is positive, as energy use is one of the most direct drivers of climate change. This is also in line with the EU Taxonomy criteria that the design and construction of new buildings needs to ensure a net primary energy demand that is at least 20% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national regulation.

Heba is focusing on reducing emissions by reducing energy consumption and improving efficiency as well as by increasing on-site renewable energy generating capacity. The company's work to install geothermal energy in combination with solar panels, as well as working with their district heating supplier to use bio-coal in the production of energy giving zero or negative carbon emissions is impressive and demonstrates 2050-solutions.

Heba has established a requirement to achieve at least 30% improvement in energy performance during renovations, which is in line with the IEA guidance to reach the Paris Agreement, as well as the technical screening criteria for the EU-taxonomy.

Heba is conducting climate scenario analysis and annual reviews of their properties to consider if new actions need to be taken to manage physical climate risks. According to the issuer, when they build new and renovate, all materials used are according to national regulation. When renovation, hazardous materials, such as asbestos and PCBs, will be handled according to national regulation. Management routines include all legal requirements for follow-up of hazardous substances. During renovation, replacing inefficient water appliances is included in the renovation program. During new construction, efficient water appliances are selected in accordance with national building code. When constructing new properties, location is selected in line with the local area plans and national regulation to avoid building on land with high biodiversity value. CICERO Green find it likely that Heba is aligned with the DNSH criteria related to Climate change adaptation, Sustainable use and protection of water and marine resources, Pollution prevention and control and Protection and restoration of biodiversity and ecosystems.

### Weaknesses

CICERO Green finds no material weaknesses in Heba's Green Bond Framework.



### Pitfalls

While increasing the degree of certification in their building portfolio is a positive development for Heba, the certification levels selected do not represent the highest standard levels. The CICERO Dark Green shading is difficult to achieve in the building sector because buildings have a long lifetime. CICERO Dark Green shading in the building sector should therefore conform to strict measures and is reserved for the highest building standards such as LEED Platinum, Zero-Energy buildings, and passive houses. The issuer is encouraged to also consider construction phase emissions and to use life cycle assessments systematically to select the suppliers that ensure the lowest emissions over the lifetime of the projects.

Even if it is positive that Heba has a target to reduce the energy consumption with 20% by 2028 (2% annually), deeper energy reduction will be needed to reach the Paris Agreement. According to the company, they have achieved higher reduction the recent years, with 7% reduction in energy consumption from 2018 to 2019. CICERO Green welcomes deeper energy reduction targets.

Existing buildings are eligible for green finance if they have an annual energy consumption below 99 kWh/sqm. Some of the eligible buildings are quite old (from the 1940-50-60-ies) and some of them have already been renovated. Energy efficiency improvements for these buildings will vary depending on how ambitious the renovation programs are. However, Heba has demonstrated a focus on improving the energy efficiency in their properties.

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. From the project categories in table 1, an example is energy efficiency investments in buildings which in part may lead to more energy use or a failing to reach the estimated reductions. Heba's work with its property users can actively mitigate the risk of rebound effects related to energy efficiency.



# Appendix 1: Referenced Documents List

| Document Number | Document Name   | Description  |
|-----------------|---|--|
| 1               | Heba's Ramverk för grön finansiering, dated January 2021.       | Green Financing Framework (Swedish version).   |
| 2               | Heba's Green Financing Framework, dated January 2021.           | Green Financing Framework (English version).   |
| 3               | Heba's Sustainability policy, latest update 2020-12-17.         | Sustainability policy (Hållbarhetspolicy), giving input on Heba's principles on sustainability.  |
| 4               | Heba's Code of Conduct, latest update 2020-08-06.               | Heba's Code of Conduct (Uppförandekod) for employees.  |
| 5               | Heba's Code of Conduct for suppliers, latest update 2018-11-08. | Code of Conduct for suppliers (Uppförandekod för leverantörer), giving input on expectations related to sustainable business behavior for suppliers. |
| 6               | Heba's Annual report 2019, dated 2020-04-07.                    | Summarising activities and results for 2019 (Årsredovisning 2019).   |
| 7               | Heba's business plan for 2021, latest update 2020-12-10.        | Heba's business plan (Affärsplan) lays down strategies and activities for 2021.  |



## Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

