



# Fastighetsbolaget Emilshus AB Green Bond Second Opinion

September 14, 2021

**Fastighetsbolaget Emilshus AB (“Emilshus”) is a real estate company that acquires, develops, and manages commercial properties in Småland, Sweden.** As of June 2021, Emilshus’ property portfolio amounted to approximately 460,000 m<sup>2</sup> of lettable area distributed across 87 properties. Emilshus’ main focus is companies within light industry and professional trade/industrial services as well as external trade and retail. Some of these facilities have fossil fuel based heating and some of these activities are associated with fossil fuel related activities, e.g., two gas stations, car dealers and tenants with processes fueled by fossil fuels. Gas stations are excluded from green financing under the green bond framework of Emilshus. As part of their policy, Emilshus does currently not have any tenants within defence industry or tobacco industry.

**The net proceeds from Emilshus’ green bonds shall mainly be used to finance or re-finance eligible existing buildings in the category Green and energy efficient buildings. The other category in the framework is Energy efficiency.** The company states that the majority of the proceeds will go to refinancing existing properties. When renovating buildings, proceeds will cover the full value of the building. Also, green financing for existing buildings are eligible even though major renovations are 2-4 years into the future.

**Emilshus is at an early stage when it comes to formulating strategies and quantitative targets of relevance for the green bond framework.** The plan is to decide on quantitative targets next year, but then only for the year 2025. Currently, they do not report on or have quantitative targets for energy use or greenhouse gas emissions. Emilshus does not follow the TCFD recommendations on climate risk reporting and use of climate scenarios for stress testing. The selection process of eligible projects is good, as is the management of proceeds. Reporting is on a bond basis and covers a list of the projects to which green bond proceeds have been allocated, a brief description of the projects, amounts allocated and their expected impact on a best effort basis. Both allocation and impact reporting will be verified by a third party.

Based on the overall assessment of the eligibility criteria in this framework, governance and transparency considerations, and the prioritized use of proceeds, the framework receives a strong **CICERO Light Green** shading and a governance score of **Good**. In order to achieve a darker green shading, the green finance framework would need stronger eligibility criteria in the Green and energy efficient buildings category and better support from the company’s policies, targets and strategies, in particular with respect to climate risk and life cycle impacts of materials.

## SHADES OF GREEN

Based on our review, we rate the Emilshus’ green bond framework **CICERO Light Green**.

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Emilshus’ framework to be **Good**.



## GREEN BOND 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 September 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



**Dark green** 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.



**Medium green** 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.



**Light green** 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.

### Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available

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 Emilshus' green bond framework and related policies

Fastighetsbolaget Emilshus AB (“Emilshus”) is a real estate company, established in 2018, that acquires, develops, and manages commercial properties in Småland, Sweden. Emilshus is headquartered in Växjö, Sweden, and has currently 15 employees. As of June 2021, Emilshus' property portfolio amounted to approximately 460,000 m<sup>2</sup> of lettable area distributed across 87 properties. As of June 2021, Emilshus reports, on a full-year basis, future rental income of more than SEK 294 million.

Emilshus' main focus is companies within light industry and professional trade/industrial services as well as external trade and retail. Some of these activities are associated with fossil fuel related activities, e.g., two gas stations, car dealers and tenants with processes fueled by fossil fuels. Fossil fuel related activities with clear lock-in effects, like gas stations, are excluded from green financing. As part of their policy, Emilshus does currently not have any tenants within weapon industry or tobacco industry.

Emilshus' property portfolio largely consists of older buildings, some with fossil fuel-based heating systems within light industry and storage. In such properties, it is difficult to separate the energy consumption that stems from the properties and the energy consumption that stems from the businesses occupying the properties. To map this out, Emilshus continuously evaluates its properties and their energy consumption. If deemed necessary, the company establishes plans for energy retrofits. Emilshus says that they will not fund any improvements in existing fossil heating sources, and will instead switch to renewable heating. During the first half of 2021, the company carried out five energy assessments with the help of an expert consultant. To monitor the energy consumption in own properties, Emilshus implemented a support system in 2021 that collects the data in one place. To enable cooperation on energy issues, Emilshus encourages tenants to connect to the same system.

Further, Emilshus has an electricity portfolio at the energy company Bixia consisting of two wind turbines in Småland that produce electricity for the company. Through Bixia, Emilshus buys renewable and locally produced electricity that fully cover the electricity for properties where Emilshus buy electricity, and the company offers the same to tenants at the same price.

### Environmental Strategies and Policies

Emilshus says that environmental, social and economic sustainability aspects are integrated in Emilshus' daily operations and business strategy. Emilshus' sustainability work is based on, among others, the company's commitment to the UN Global Compact and the UN's Sustainable Development Goals (“SDGs”). Through the UN Global Compact, the company is committed to comply with, at a minimum, the ten fundamental principles<sup>1</sup> covering human rights, labour, environment, and anti-corruption. Currently, Emilshus does not report on energy use (overall or specific) or greenhouse gas emissions, but have detailed energy reports for selected properties. The company's plan is to be able to report these numbers by end of 2022, with some preliminary numbers available by the end of 2021.

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<sup>1</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>



Emilshus has developed plans and policies that outline the requirements set for the business, such as policies for purchasing, the environment, business ethics, and anti-corruption, with a main focus on sub-contractor's work environment.

The long-term vision of Emilshus includes the following:

- Emilshus will reduce own energy consumption and offer tenants sustainable and attractive properties.
- Emilshus will set high sustainability requirements for suppliers and other external partners. The company shall offer a safe workplace in and around its properties.

Other targets formulated are:

- Emilshus manages their properties with consideration for the environment and based on a life cycle thinking where possible and financially defensible.
- In 2022, Emilshus will decide how much energy use will decrease by 2025\*.
- In 2022, Emilshus will decide by how much they will reduce their carbon dioxide emissions by 2025\*.
- Emilshus will produce more electricity from solar cells and in 2022 will decide how many MWh they will produce per year in 2025.
- In 2022, the electricity that Emilshus buys will be renewable, origin-marked and locally produced\*.

According to Emilshus' environmental policy, in project developments such as renovation, new construction, extensions and conversions, environmental analyses shall be carried out as far as possible and planned measures shall be supplemented with such energy-saving measures that can be taken. Furthermore, Emilshus must always consider sustainability aspects in terms of working environment, waste management and material selection. Emilshus' goal is for the material used in the renovation to meet at least the C level in SundaHus' classification<sup>3</sup>. In connection with each investment decision, Emilshus must, in addition to the sustainability aspects, consider the issue of certification of the building.

According to the issuer, in the management and refining of the properties, Emilshus primarily tries to choose local suppliers who provide, for example, labour, raw materials and products. The suppliers Emilshus procures must undertake to meet current work environment requirements at the workplace and ensure that they comply with the real estate industry's code of conduct<sup>4</sup> for suppliers and that they handle construction waste correctly. Furthermore, Emilshus' sustainability policy states that

- New construction and extensions must, where possible, have at least 30% lower energy use than the requirements in BBR, achieve the requirements for Energy Declaration A or B or alternatively be environmentally certified.
- Handling of dismantled and removed building materials and furnishings in "large projects" (over SEK 2,000,000) shall, where possible, be documented (reuse, recycling and disposal).

In 2021, Emilshus will implement a support system, Mestro and Position Green, which will assist the company in energy monitoring and sustainability reporting. In late 2021, Emilshus will engage in stakeholder dialogues with employees, tenants, owners and representatives of investors in order to ensure that the company's focus is in line with the stakeholders' expectations. The stakeholder dialogues will be followed up on an annual basis. In 2022,

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\* Refers to properties that have been owned/managed in the last 12 months and where Emilshus has a subscription for heating and/or electricity.

<sup>3</sup> The classification goes from A to D, with A as the best.

<sup>4</sup> <https://www.fastighetsagarna.se/globalassets/broschyror-och-faktablad/riktlinjer/fastighetsbranschens-uppforandekod-for-leverantorer.pdf>



the company plans to set specific targets relating to reduction of energy consumption and carbon emissions. A significant share of Emilshus' leases consists of "Triple Net Leases", which means that the tenants are responsible for the maintenance and operation of the property. Accordingly, Emilshus is dependent on having well-functioning cooperation with its tenants to achieve sustainability targets. To help with this work, Emilshus offers "Green Leases" to tenants willing to commit to spending time and resources on sustainability issues. The Green Leases are primarily aimed at improving properties' energy efficiency.

In 2021, a survey will be carried out seeking to identify sustainability risks in Emilshus' operations. The survey will cover environmental, social and financial sustainability aspects and has a long-term focus, i.e., what will Emilshus look like in 2025-2030. Based on the results, a plan for management of the risks will be established. Currently, environmental due diligence in new acquisitions is focusing on chemical risks. Emilshus informs us that they plan to develop and implement more strategic procedures for identifying and mitigating risks associated with climate change and are considering implementing reporting on climate risks in alignment with the TCFD guidelines. Reporting according to TCFD will be possible at the earliest for the financial year 2022, since more extensive work needs to be done with regards to identification of Scope 3 emissions.

### Use of proceeds

An amount equivalent to the net proceeds from Emilshus' green bonds shall be used to finance or re-finance eligible assets providing distinct environmental benefits ("Green Eligible Assets") in the categories Green and energy efficient buildings and Energy efficiency. The company states that they will continuously exercise its professional judgement, discretion and sustainability expertise when identifying the Green Eligible Assets, and that the majority of the proceeds will go to refinancing existing properties.

The value of Green Eligible Assets under "Green and energy efficient buildings" is based on the market value of such assets reported in the balance sheet. Green Eligible Assets under "Energy efficiency" correspond to the relevant invested amount. More details are available in table 1.

Emilshus has started to explore what the EU Taxonomy would mean for the company's activities. At this stage Emilshus is missing some data and methodologies to perform a complete EU Taxonomy assessment. Hence, the company has focused on evaluating its activities substantial contribution to environmental objectives and compliance with technical screening criteria, where the information is available. The company's preliminary assessment suggest that its activities contribute to the environmental objective Climate Change Mitigation.

### 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.

The evaluation and selection process for Green Eligible Assets is a key process in ensuring that the amount equivalent to the net proceeds from Green Bonds is allocated to assets and expenditures which meet the criteria in the Framework.

The selection of Green Eligible Assets is managed by a dedicated group, the Green Bond Committee ("GBC"). Members of the GBC consist of the Finance Department and the Sustainability Team. Emilshus will assure that the sustainability expertise always relies within the GBC. All decisions are made in consensus, and this applies to



the selection process of Green Eligible Assets as well. A list of Green Eligible Assets is kept by the Sustainability Team who is also responsible for keeping it up to date.

Emilshus will follow the development of the green financing market and manage any future updates of the Framework to reflect current and future market practices (e.g., the upcoming EU Taxonomy) and potential updates to the GBP.

The list of Green Eligible Assets is monitored on a regular basis during the term of the Green Bonds to ensure that the proceeds are sufficiently allocated to Green Eligible Assets. This is also a responsibility of the GBC.

The proceeds of Emilshus' Green Bonds will not be used to finance either fossil fuel related assets and activities, nuclear energy generation, weapons and defence industries nor potentially environmentally negative resource extraction, gambling or tobacco.

### Management of proceeds

CICERO Green finds the management of proceeds of Emilshus to be in accordance with the Green Bond Principles of 2021.

Equivalent to the net proceeds from Emilshus' green bonds will be tracked by using a spreadsheet where all issued amounts of green bonds will be inserted. The spreadsheet will contain the list of Green Eligible Assets. Information available in the spreadsheet will in turn serve as basis for regular reporting.

All green bonds issued by Emilshus will be managed on a bond level. This means that a green bond will be linked directly to one (or more) pre-determined Green Eligible Assets. The Company will keep track and ensure there are satisfactory Green Eligible Assets for each green bond issued. Assets can, whenever needed, be removed or added to/from the Green Eligible Assets' portfolio.

Any unallocated proceeds will be temporary held by Emilshus and placed on the company's ordinary bank account and will not be used for investment purposes.

### 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.

To be fully transparent towards investors and other stakeholders, Emilshus commits to annual reporting on a portfolio basis until no green bonds are outstanding. The sustainability manager will, together with the rest of Emilshus management, be responsible for the reporting. The first report will be available one year after the first green bond issue. The allocation and impact reporting will be linked to individual bonds. The report will be published on the company's website on an annual basis and will cover the following areas:

Allocation of proceeds reporting will be on a bond level including a list of the projects to which green bond proceeds have been allocated, a brief description of the projects, amounts allocated.

Emilshus intends to report on quantitative impact indicators where reasonable and where relevant data is available for the below two main categories:



Green and energy efficient buildings:

- Information on the energy consumption (kWh/m<sup>2</sup>/year)
- Energy performance certificate class, if any
- Type of certification including level, if any (e.g., Miljöbyggnad iDrift Silver, etc.)
- Progress report on buildings subject for major renovations
- Estimated annual greenhouse gas emissions reduced or avoided (tCO<sub>2</sub>e)

Energy efficiency:

- Amount of energy saved per m<sup>2</sup>.
- Estimated annual greenhouse gas emissions reduced or avoided (tCO<sub>2</sub>e)

In all emission reporting, Emilshus will use individual grid factors depending on municipal conditions. The methodology and grid factors will be made public in the reporting. The allocation of proceeds and impact reporting will be subject to an annual review by an external part/verifier. The verification report provided by the external part will be published on Emilshus' website.





### 3 Assessment of Emilshus’ green bond framework and policies



The framework and procedures for Emilshus’ green bond 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 Emilshus 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 Emilshus’ green bond framework, we rate the framework **CICERO Light Green**.

#### Eligible projects under the Emilshus’ green bond 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 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>Green and energy efficient buildings</b>  	<p><b>New buildings constructed after January 1, 2021 that either have or with the objective to receive:</b></p> <ul style="list-style-type: none"> <li>• Miljöbyggnad Silver, Green Building or another certification of equivalent or better energy consumption; or</li> <li>• an energy performance certificate (“EPC”) of class A or B; or</li> <li>• an energy consumption at least 30% below the applicable national building regulation</li> </ul> <p><b>Existing buildings including acquired buildings:</b></p> <ul style="list-style-type: none"> <li>• Buildings that fulfil at least one of the three requirements for New buildings stated above; or</li> <li>• Miljöbyggnad iDrift Silver, Green Building or another certification combined with fulfilled criteria according to the bullet-point below; or</li> </ul>	<p><b>Light to Medium Green</b></p> <ul style="list-style-type: none"> <li>✓ The “light part” of the shading is due to the limited energy requirement for older buildings.</li> <li>✓ Miljöbyggnad Silver require an energy use 20% below current regulation. Green Building has as sole requirement that the building uses 25% less energy than before or compared to the new construction requirements in BBR. Miljöbyggnad iDrift has no direct energy requirement.</li> <li>✓ In Sweden, EPC A is at least 50% better than current regulations, while EPC B is between 50% and 75% of current regulation for new buildings. Older buildings can have labels that are up to 10 years old, and therefore weaker energy wise. Emilshus informs us that</li> </ul>



- Buildings with energy consumption below the targets:

Building year	Energy consumption/m <sup>2</sup>
Before 1971	130 kWh
1971-1999	120 kWh
2000-2006	100 kWh
After 2006	20% below the applicable national building regulations

**Category 3 – Major renovations:**

- Existing buildings subject for major renovations leading to 30% lower energy consumption within the coming two to four years. The progress on ongoing renovations is reported annually and includes the current status as well as details of the plan going forward. The reduction in energy consumption is applicable per building and will be verified by an expert consultant upon completion of the renovation.

they will only use EPCs that are from 2018 or later.

- ✓ The energy criteria (covering ‘property energy’, i.e., the energy used for operating the properties exclusive of tenants’ energy use) for existing buildings are based on Emilshus’ best practice today.
- ✓ From a climate point of view, major renovations are often preferable to new constructions. Reduced energy consumption of 30% from major renovation is likely aligned with the proposed EU taxonomy.
- ✓ We note that green financing for existing buildings are eligible even though major renovations are 2-4 years into the future. Emilshus further informs us that the full value of renovated buildings will be covered by green finance.
- ✓ Emilshus says that no fossil fuel heating systems will be renovated. Instead they will be replaced.
- ✓ The issuer should consider construction phase emissions and emissions related to transportation to and from the properties.

**Energy efficiency**



**Energy retrofits:**

- Initiatives aimed at reducing the properties energy consumption, such as installation of onsite solar panels, geothermal energy installations, converting to LED lighting, energy efficient ventilation units, extension of district heating and cooling systems, improvements and implementation of control systems, as well as infrastructure for electric vehicles.

**Medium to Dark Green**

- ✓ We note that this criteria does not contain quantified improvement requirements.
- ✓ Charging stations can also be used by hybrid vehicles, thus including a fossil element.
- ✓ District heating, where is relies on waste to energy system, can contain small fractions of plastics.
- ✓ Emilshus informs us that no facilities with fossil fuel heating/cooling be included.
- ✓ Any efficiency measures runs the risk of rebound effects whereby the activity level will increase.

Table 1. Eligible project categories



## Background

The real estate sector is the single largest energy consuming sector in the EU, responsible for about 40% of total energy consumption and 36% of total carbon emissions. Investing in green and energy efficient buildings thus play a key role in the energy transition.

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>5</sup>. The European Green Deal aims for carbon neutrality in 2050.<sup>6</sup>

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. 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>7</sup> 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 of these factors should therefore be considered in the project selection process.

Voluntary environmental certifications such as Miljöbyggnad and Green Building 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., access to public transport and climate resilience. Many of these factors are covered under the World Green Building Council's recommendations for best practices for developing green buildings.<sup>8</sup> CICERO Shades of Green assesses all of these factors when evaluating the climate impact of buildings.

The Exponential Roadmap<sup>9</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 finance funding for sustainable retrofitting and construction.

Choice of building materials is becoming more important for climate footprint than heating/cooling and power. A large number of life cycle analyses (LCA) show that wood-frame building results in lower primary energy and GHG emission compared to non-wood alternatives including concrete and steel. Less energy, in particular fossil fuels, is needed to manufacture wood-based building materials compared with alternative non-wood materials. Wooden materials also store carbon during their lifetime, temporary sequestering carbon from the atmosphere. Hence, wood-based buildings are appropriate for long-term strategies for reducing fossil fuel use and GHG emissions when combined with sustainable forestry<sup>10</sup>. Quantitative estimates are imprecise, but some studies indicate energy savings of the order of one third in the construction phase of wood buildings compared to buildings using mainly other materials.

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<sup>5</sup> [https://ec.europa.eu/clima/policies/strategies/2030\\_en](https://ec.europa.eu/clima/policies/strategies/2030_en)

<sup>6</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>7</sup> <https://www.iea.org/reports/building-envelopes>

<sup>8</sup> <https://www.worldgbc.org/how-can-we-make-our-buildings-green>

<sup>9</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)

<sup>10</sup> R&D Fund for public real estate, The Swedish Association of Local Authorities and Regions (2016): Climate impacts of wood vs. non-wood buildings.



### EU Taxonomy

In March 2020, a technical expert group (TEG) proposed an EU taxonomy for sustainable finance that included a number of principles including “do-no-significant-harm (DNSH)-criteria” and safety thresholds for various types of activities<sup>11</sup>. In April 2021, EU published its delegated act to outline proposed criteria for climate mitigation and adaptation, which it was tasked to develop after the EU Taxonomy Regulation entered into law in July 2020<sup>12</sup>. The mitigation criteria in the EU taxonomy includes specific thresholds for real estate sector activities relevant for the company<sup>13</sup>. Relevant activities for the green debt framework are Construction of new buildings, renovation and ownership and acquisition of buildings.

Do-No-Significant-Harm 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, as well as restriction on the type of land used for construction (no arable or forested land).

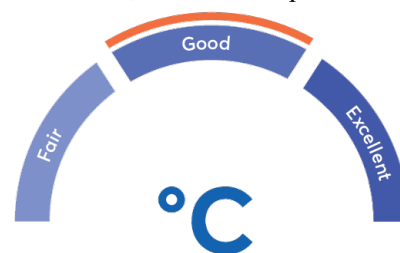
In order to qualify as a sustainable activity under the EU regulation 2020/852 certain minimum social safeguards must be complied with. The safeguards entail alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the International Labour Organisation’s (‘ILO’) declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights.

### Governance Assessment

Four aspects are studied when assessing the Emilshus’ 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.

Emilshus is at an early stage when it comes to formulating strategies and quantitative targets of relevance for the green bond framework. The plan is to decide on quantitative targets next year, but then only for the year 2025. According to the issuer, being a relatively newly established company, Emilshus deems it most relevant to have targets for 2025 in place before evaluating what is possible by 2030. Currently, they do not report on or have quantitative targets for energy use or greenhouse gas emissions. When developing or acquiring new properties, both land and buildings are scrutinized for potential environmental risks. However, Emilshus does not follow the TCFD recommendations on climate risk reporting and use of climate scenarios for stress testing. The selection process of eligible projects is good, as is the management of proceeds. Reporting is on a bond basis and will include a list of the projects to which green bond proceeds have been allocated, a brief description of the projects, amounts allocated and their expected impacts on of a best effort basis. Both the allocation and the impact report will be verified on an annual basis by an external party.

The overall assessment of Emilshus’ governance structure and processes gives it a rating of **Good**.



<sup>11</sup> Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020. [TEG final report on the EU taxonomy \(europa.eu\)](https://ec.europa.eu/easf/document/technical-expert-group-report-2020)

<sup>12</sup> [Sustainable finance taxonomy - Regulation \(EU\) 2020/852 | European Commission \(europa.eu\)](https://ec.europa.eu/easf/document/sustainable-finance-taxonomy-regulation-eu-2020-852)

<sup>13</sup> [taxonomy-regulation-delegated-act-2021-2800-annex-1\\_en.pdf \(europa.eu\)](https://ec.europa.eu/easf/document/sustainable-finance-taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf)



### Strengths

The main use of proceeds will be for existing buildings in the Green and energy efficient buildings category. We note that refurbishment of existing, older buildings is often a more climate friendly alternative than construction of new buildings. The clear and comprehensive exclusion of fossil fuel assets and activities is a strength of the green bond framework. The active attitude towards sub-contractors and suppliers by Emilshus is a good support for the green bond framework. We note that Emilshus sustainability policy states very ambitious conditional goals for new buildings (at least 30% lower energy use than the requirements in current regulations - BBR).

### Weaknesses

Lack of quantitative target for greenhouse gas emissions at the company level in both short-term and long-term (at least scope 1 and 2), is a weakness. This will, however, be remedied in the near future (next year). Lack of time series reporting of emissions makes it difficult to assess progress towards its long-term green development. There is also a lack of scenario analysis whether or not formally in alignment with the TCFD recommendations.

We find no further material weaknesses in Emilshus' green bond framework.

### Pitfalls

The CICERO Dark Green shading is difficult to achieve in the real estate sector because buildings have a long lifetime. CICERO Dark Green shading in this sector should therefore conform to strict measures and is reserved for the highest building standards and passive or net positive houses. The green buildings eligible under Emilshus' framework are falling short of the long-term vision of zero-energy buildings or passive houses. On the other hand, renovating old buildings is often a better alternative than constructing new buildings from a climate change perspective, although the energy performance of existing buildings should ideally be better than suggested by the eligibility criteria.

Investors should note that use of proceeds will cover the full value of renovated buildings, and not only the cost of renovation. Green financing is eligible for existing buildings scheduled for renovation 2-4 years into the future.

We note that some of the properties of Emilshus will have tenants dependent on fossil fuel use. However, Emilshus tells us that they will exclude from green financing tenants that will lock-in fossil fuel technologies, e.g., gas stations.

The siting of industrial activities will usually have an impact on transport patterns and the greenhouse gas emissions associated with transport to and from the sites. The criteria or selection process for eligibility in the green bond framework of Emilshus do not take this into account.

For the Green building criteria of Energy Performance Certificate A or B, we note that for older buildings these labels can be up to 10 years old and hence considerably weaker than current labels for new buildings.

Some of the properties of Emilshus are using fossil fuels for heating. This creates a risk for lock-in of a non-green technology through e.g., energy efficiency measures. However, Emilshus says that they will not modernize fossil fuel heating systems, but will seek to replace them. We note furthermore that district heating/cooling is the predominant heating/cooling method in Sweden and probably represents a major part of Emilshus' and tenant's energy use. Most of the district heating companies in Sweden seek to minimize the use of oil or other fossil fuels. However, when waste-to-energy is utilized, it is sometimes difficult to know the fossil fraction of the waste stream, e.g., the amount of plastics. Again, many Swedish district heating companies have strong policies to minimize



these types of fractions, but without specific information of suppliers of district heating, it is difficult to guarantee totally against the use of some fossil fractions.

Even though drawing the line which impacts are relevant for a project is not straightforward, CICERO Shades of Green intends that issuers should at least be aware of potential negative macro-impacts and aim to minimize them. Rebound effects represent a category of macro impacts. For example, improved energy efficiency of a dwelling and lower energy costs may induce tenants to use more energy, partly offsetting the initial anticipated energy and carbon dioxide savings. While one could argue that these issues should rather be tackled through carbon pricing, it is important that issuers are aware of these potential rebound effects and seek to minimize them. We note that Emilshus tries to do so through close cooperation with their tenants, e.g., through Green contracts.



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Emilshus - Green Bond Framework - September 2021	Emilshus' Green bond framework, dated September 2021
2	emilshus_år_2020	Emilshus' 2020 Annual Report (in Swedish)
3	fastighetsbranschens-uppforandekod-for-leverantorer	The Swedish real estate sector's supplier code of conduct
4	Emilshus Hållbarhetsstrategi 2021	Emilshus' sustainability strategy 2021
5	Emilshus Inköspolicy 2021	Emilshus' procurement policy 2021
6	Emilshus_miljöpolicy	Emilshus' environmental policy
7	Energirapport Positronen utkast	Draft energy report for Positronen
8	Energirapport Saluten 1 utkast	Draft energy report Saluten 1
9	Energirapport Stenfalken 1 utkast	Draft energy report Stenfalken 1
10	Energirapport Broby utkast	Draft energy report Broby
11	Energirapport Norra Delfin 4 utkast	Draft energy report Delfin 4



## 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, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

