



# Offentliga Hus Green Finance Second Opinion

September 3, 2019

**Offentliga Hus was founded in 2011 as one of the pioneers within Community Service Properties (“CSP”).** Today, Offentliga Hus manages, develops and leases CSP to public tenants all around Sweden. The property portfolio consists of many different CSP, including schools, health care facilities, libraries, police stations and road stations. Tenants consist of 90% publicly financed operations with long average lease term of 5 years.

**The green finance framework of Offentliga Hus is aligned with the Green Bond Principles (2018).** The framework is applicable for issuance of green finance instruments including green bonds, green commercial papers and other types of debt instruments where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green projects/assets. The eligible categories – Green buildings and Energy efficiency – are well defined and provide important steps toward a low carbon future. The criteria for eligible projects under the Green building category are good, but do not yet deliver the solutions needed in a low carbon 2050 perspective (passive house technology and similar). Eligibility in the Green building category will require fulfilling Miljöbyggnad Silver or equivalent. Retrofit will require minimum 25% energy savings. Transport solutions (access to public transport) associated with buildings are considered in selecting green buildings. Proceeds will not be used to finance fossil fuel energy generation, nuclear energy generation, the weapons and defense industries, potentially environmentally negative resource extraction, gambling or tobacco. investments in fossil fuels or nuclear power.

**Offentliga Hus is committed to evolving its sustainability work by e.g. energy efficiency improvements and finding clever ways of being more resource intelligent. The have a sound selection process and a basic plan for impact reporting.** We note, however, that there seems to be a lack of risk assessment vis a vis future climate risks and no climate scenario analysis or risk assessments in alignment with the methodology recommended by TCFD.

Based on the overall assessment of the project types in the framework of Offentliga Hus, governance and transparency considerations, the green finance framework receives an overall **Medium Green** shading. In order to achieve a dark green shading, the green finance framework would need a clearer requirement that best environmental technologies are used in eligible building projects.

## SHADES OF GREEN

Based on our review, we rate the green bond framework of Offentliga Hus **Medium 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 the framework of Offentliga Hus to be **Good**.



## GREEN BOND PRINCIPLES

Based on this review, this framework is found in alignment with the Green Bond Principles.





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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the green finance framework of Offentliga Hus dated August 2019. This second opinion remains relevant to all issuances of green financial instruments (including green bonds, green commercial papers and other types of debt instruments where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green projects/assets with clear environmental benefits) issued by Offentliga Hus 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.

## 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 of the finance instruments. 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 climate and environmental ambitions laid out in the framework of Offentliga Hus. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green finance framework. CICERO Green considers four factors in its review of the 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.



## 2 Brief description of Offentliga Hus' green finance framework and related policies

Offentliga Hus was founded in 2011 as one of the pioneers within Community Service Properties ("CSP"). Today, Offentliga Hus manages, develops and leases CSP to public tenants all around Sweden. The property portfolio consists of many different CSP, including schools, health care facilities, libraries, police stations and road stations. Total property value as of 30 June 2019 amounts to SEK 4.8bn. Tenants consist of 90% publicly financed operations with long average lease term of 6.5 years.

### Environmental Strategies and Policies

Offentliga Hus do not have any quantified environmental or sustainability targets. However, they are committed to evolving its sustainability work, make energy efficiency improvements and will continuously find clever ways of being more resource intelligent. The establishment of the green finance framework (the "framework"), focusing on green and energy efficient buildings, will enable the Offentliga Hus' continued positive environmental impact.

### Use of proceeds

The framework is applicable for issuance of green finance instruments including green bonds, green commercial papers and other types of debt instruments where the proceeds will be exclusively applied to finance or re-finance capital expenditures, in part or in full, of new and/or existing eligible green projects/assets with clear environmental benefits.

The net proceeds will fund eligible projects and assets that meet one of the following purposes: 1) reduce greenhouse gas emissions, 2) adapt operations to climate change or 3) promote other environmental issues apart from climate change. According to the issuer, analysis shall be conducted to ensure that the projects do not contravene other prioritized areas.

The framework specifies two eligible project categories: Green buildings and Energy efficiency. The proceeds of Offentliga Hus' green finance instruments issuances will not be used to finance fossil fuel energy generation, nuclear energy generation, the weapons and defense industries, potentially environmentally negative resource extraction, gambling or tobacco.

### Selection

The selection process is a key governance factor in the Green Bond Principles ("GBP"). CICERO Green considers how climate and environmental considerations are taken into account when evaluating whether projects can qualify for green financing.

The green finance framework of Offentliga Hus outlines a detailed and transparent selection procedure that is in line with the Green Bonds Principles (2018). Initial focus will be on energy efficiency, verified through third party labelling, such as Leed, BREEAM or Miljöbyggnad, or requirements to new constructions that they have energy consumption 25% below the national building standards or either has or will receive an energy performance certificate ("EPC") of level A or B. Renovations will reduce energy consumption by at least 25%.



The selection of eligible green assets is managed by a dedicated group, the Green Bond Committee (“GBC”). Members of the GBC consist of Offentliga Hus CEO, CFO, Transaction Manager, Head of Asset Management as well as one representative of the Board of Directors. Any representative with relevant environmental expertise has the right to veto against any decision connected to the selection process of eligible green assets. Should there be any changes to this group, Offentliga Hus will make a note of it in its reporting to investors. However, the changes may only be considered minor and there will always be at least someone with documented education in green building practice from a highly esteemed institution such as SGBC or KTH in the Green Bond Committee.

A list of eligible green assets is kept by the Transaction Manager who is also responsible for keeping it up to date. It is the responsibility of the Green Finance Committee to ensure that the proceeds are sufficiently allocated to eligible green assets.

### **Management of proceeds**

CICERO Green finds the management of proceeds to be in accordance with the Green Bond Principles. Net proceeds from Offentliga Hus’ green financial instruments will be tracked by using a spreadsheet where all issued amounts of green financial instruments will be inserted. The spreadsheet will also contain the list of eligible green assets. Information available in the spreadsheet will in turn serve as basis for regular reporting described below.

All green finance instruments issued by Offentliga Hus will be managed on a portfolio level. The company will keep track and ensure there are sufficient eligible green assets in the portfolio. Assets can, whenever needed, be removed or added to/from the eligible green assets portfolio. Any unallocated proceeds temporary held by Offentliga Hus will be placed on the company’s ordinary bank account.

### **Reporting**

To be fully transparent towards the green investors and other stakeholders, Offentliga Hus commits to regular reporting allocation of proceeds for green bonds on the company’s website on an annual basis. Allocation of proceeds for green commercial papers will be published on the company’s website on a semi-annual basis. The report will cover the following areas: Total amount of green finance instruments issued; share of proceeds used for financing/re-financing as well as share of proceeds used for the eligible categories; and share of unallocated proceeds (if any). Allocation of proceeds will be subject for an annual review by an external part/verifier. A verification report provided by the external part will be published on the company’s website.

Offentliga Hus will publish a complete list of eligible green assets within the company together with indicators for green buildings type of certification and degree of certification, and energy performance per square meter. For energy efficiency measures the amount of energy saved per square meter will be reported. Impact reporting will be published on the company’s website on an annual basis.



### 3 Assessment of Offentliga Hus' green finance framework and policies

The framework and procedures for Offentliga Hus' green finance framework 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 Offentliga Hus 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 the green finance framework of Offentliga Hus, we rate the framework **CICERO Medium Green**.

#### Eligible projects under the green finance framework of Offentliga Hus

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 finance 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".

The green finance framework as developed by Offentliga Hus contains two well defined eligible project types: Green buildings and Energy efficiency.

Category	Eligible project types	Green Shading and some concerns
Green buildings	<b>New construction and major renovations:</b> <ul style="list-style-type: none"><li>• All new construction that either has or will receive minimum certification of Miljöbyggnad Silver, Green Building or Passive House after the completed construction</li><li>• All new construction that after the completed construction a) either has or will receive minimum certification BREEAM Very Good or LEED Gold and b) has an energy performance at least 25 % below the current building regulations (Swedish BBR code)</li></ul>	<b>Medium Green</b> <ul style="list-style-type: none"><li>✓ A dark green shading would require passive or plus house technologies.</li><li>✓ Miljöbyggnad Silver requires energy use at least 25% lower than the requirements in national regulations (Boverkets byggregler, BBR)</li><li>✓ Construction projects can have potential negative local environmental impacts. However, the issuer informs us that they currently don't hire</li></ul>



- New construction with energy consumption 25% below the national building requirements and/or major renovations reducing energy consumption by at least 25%
  - All new construction that either has or will receive an energy performance certificate (“EPC”) of level A or B
- contractors to construct buildings Should there be a future change in this approach, the subcontractors would be considered from a sustainability point of view.

**Existing buildings incl. acquired buildings:**

- Existing buildings certified during the construction period according to the sub-category above
- Existing buildings certified as Green Building and Miljöbyggnad Silver
- Existing buildings that are a) certified as minimum BREEAM In-Use Very Good or LEED Gold, and b) where renovations have been or will be made reducing energy consumption by at least 25%.

**Energy efficiency**



**Energy retrofits such as**

- Heat pumps
- Converting to LED lighting
- Improvements in ventilation systems
- Extension of district heating and cooling systems.

**Medium to Dark Green**

- ✓ Be aware of potential rebound effects.
- ✓ District heating in Sweden is becoming more and more based on renewable sources. However, in some regions substantial amount of fossil fuel is used connected to the network (e.g. waste to energy and direct fossil fuel use).

Table 1. Eligible project categories

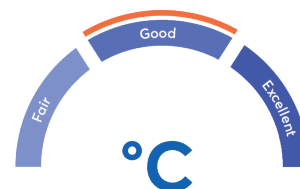
**Governance Assessment**

Four aspects are studied when assessing the governance procedures Offentliga Hus: 1) the policies and goals of relevance to the green finance 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.



The overall assessment of the governance structure of Offentliga Hus gives it a rating of Good.

Offentliga Hus has not in place quantitative environmental goals or targets and they lack quantitative mitigation plans. They do have a sound selection process with veto power for the environmental expertise in the Green Bond Committee. The reporting, which is on a portfolio level, is focused on energy use only and hence do not cover emissions of CO<sub>2</sub> or other greenhouse gases. We note that Offentliga Hus does not carry out climate scenario analysis or risk assessments in alignment with the methodology recommended by TCFD<sup>1</sup>.



### Strengths

The framework of Offentliga hus is well aligned with the Green Bond Principles (2018). The eligible categories are well defined and provide important steps toward a low carbon future. The criteria for eligible projects under the Green buildings category are good, but do not yet delivering the solutions needed in a low carbon 2050 perspective (passiv house technology and similar). Transport solutions (access to public transport) are considered in selecting green buildings.

### Weaknesses

We find no substantial weaknesses in the green bond framework of Offentliga Hus but note a lack of overall targets for Offentliga Hus and a lack of impact reporting beyond energy use. Also, there seems to be a lack of risk assessment vis a vis future climate risk. However, as Offentliga Hus currently don't hire contractors to construct buildings, this is not directly relevant to the business now. We also note that the proceeds and their use will be tracked by means of a spreadsheet and not a separate account.

### Pitfalls

In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. According to IEA<sup>2</sup>, 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. The issuer is taking a step in this direction with energy efficiency criteria for both new buildings and in renovation of existing buildings. Without information on the average energy use per m<sup>2</sup> today, it is difficult to assess whether the required energy reduction of 25% for refurbishments will be adequate in a low carbon world.

We note that district heating is the predominant heating method in Sweden. Also, most of the district heating companies 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.

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<sup>1</sup> <https://www.fsb-tcfid.org/publications/final-recommendations-report/>

<sup>2</sup> <http://www.iea.org/tcep>





Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. This is particularly the case when it comes to transport solutions associated with the buildings. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

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. Offentliga Hus should be aware of such effects and possibly avoid green bond funding of projects where the risk of rebound effects is particularly high.



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Green Finance Framework	Green finance framework for Offentliga Hus, dated August 2019



## 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).

