S&P Global Ratings

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Climate Transition Assessment

Fabege

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Location: Sweden **Sector:** Real estate

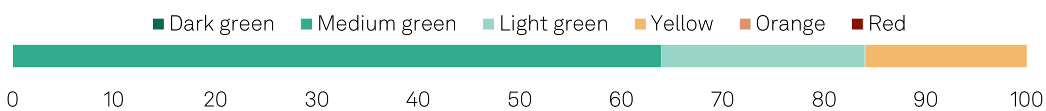
Climate Transition Summary

We expect Fabege to maintain an energy-efficient real estate portfolio through 2030. Its properties are mainly commercial premises in the Stockholm region and currently 87% of Fabege's revenue comes from buildings that we assign a green shade. Fabege has set a target of achieving climate-neutral property management and a 50% reduction in scope 3 emissions by 2030 but lacks long-term targets beyond 2030.

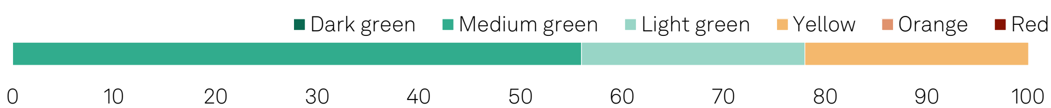
We assign a Future Shade of Medium green based on the portfolio's expected performance and revenue in 2030. We used the Future Shade time horizon that aligns with Fabege's 2030 transition targets. Based on Fabege's transition plan and current status, we anticipate its share of green revenue to stay stable. Fabege continuously invests in energy-efficiency measures, including installing onsite renewable energy. In our view, the investment plans will help maintain the portfolio's current energy efficiency but not notably enhance it.

We believe Fabege has sufficient governance mechanisms to facilitate its transition strategy, but see some reliance on suppliers and regulation to achieve decarbonization across its value chain. In 2023, 80% of Fabege's reported emissions came from construction. Its target to reduce emissions per square meter (m^2) built shows ambition in the short term. The SBTi's pathway suggests that in 2030-2050 significant further reductions are needed, with embodied emissions approaching zero. It is thus a limitation that Fabege's target does not go beyond 2030. Sweden's regulatory environment may support Fabege's plan to reduce scopes 1 and 2 emissions, but could pose challenges in meeting scope 3 emission targets.

Current activity: Revenue [2023] (% of total)



Investments: Capital expenditure (capex) 2023 (% of total)



Future Shade by 2030

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

Strengths

Fabege has demonstrated a continuous decrease in energy use and strengthened its energy reduction targets. Having an energy intensity target for the total portfolio will facilitate emissions reduction and help it achieve its target of having a climate neutral property management by 2030.

Weaknesses

No weakness to report.

Areas to watch

New construction is associated with high emissions and can entail biodiversity risks. Sweden mandates assessments of such risks. But all deforestation harms the climate, and current practices might not consider biodiversity and climate risks sufficiently. Also, Fabege aims to reduce emissions from construction projects, but falls short of what is needed for climate neutral newbuilds.

Energy performance required for green buildings will be higher in 2030. The energy threshold for Light green and Medium green is based on relative performance, and we expect efficiency improvements across the real estate sector.

Company Description

Fabege AB (publ) is a Swedish real estate company focusing on letting and managing commercial premises (representing 84% of rental value) as well as on urban development. The business is concentrated in a small number of submarkets in the Stockholm region, the inner city, Hammarby Sjöstad, Arenastaden, Haga Norra, Solna Business Park, and Flemingsberg. Within these areas, Fabege owns 100 properties. At the end of 2023, its property was valued at approximately Swedish krona (SEK) 78.1 billion (about $7.2 billion) and total lettable area was 1,246,519 square meters.

Current Activity

2023 activity by shade (% of total)

We assign a green shade to 84% of Fabege's revenue, 77% of its operating expenditure (opex), and about 78% of its capital expenditure (capex) in 2023.

Shade	Revenue (%)	Opex (%)	Capex (%)
Dark green	0	0	0
Activities: None			
Medium green	64	53	56
Activities: Existing buildings within the top 15 of similar stock that have been screened for physical risks, and the construction of new buildings that will perform beyond the building code in terms of energy use, considerations of embodied emissions, and physical risks.			
Light green	20	24	22
Activities: Existing buildings with a green building certification and qualifying for the top 30% of similar stock, and the construction of new buildings that will perform beyond the building code in terms of energy use and physical risks.			
Yellow	16	23	22
Activities: Existing buildings that do not meet the green criteria above, general activities, and the construction of parking lots.			
Orange	0	0	0
Activities: None			
Red	0	0	0
Activities: None			

Source: S&P Global Ratings.

Fabege has assessed physical climate risks using what we consider to be best practice, which is assessing risks at property level using climate scenarios, including worst-case scenarios, for its full portfolio. None of Fabege's buildings use direct fossil fuel heating. These considerations contribute to the shade we assigned to the portfolio.

Fabege's revenue and operating costs, and about 50% of capex, are generated from its existing building portfolio.

- **We consider revenue and opex linked to Fabege's highly energy efficient buildings to be Medium green.** Properties that qualify for a Medium green shade are existing properties within the top 15% of similar building stock. We view the top 15% as a solid ambition in terms of energy efficiency. We also regard as positive that Fabege has reduced the energy use of its real estate portfolio in the past, demonstrating that it has the governance in place to manage and reduce operational energy use.
- **Buildings with green building certifications that qualify for the top 30% of similar stock are Light green**. Green building certifications, such as BREEAM In-use, cover a broad set of issues important to sustainable development. However, their requirements are very different. An in-use certification can be a tool to enable improved energy performance for buildings, but it seldom includes specific energy-efficiency criteria. Given these caveats, existing buildings need to have both a green building certification and minimum performance in terms of energy use, set as qualifying for the top 30% of similar building stock.
- **For Fabege's existing buildings that do not have high energy-efficiency performance with no direct fossil fuel heating, and general activities not tied to a specific building, we assign a shade of Yellow.**

We assign a Medium green shade to Fabege's capex for new construction for projects that address energy, embodied emissions, and physical risks. This pertains to Fabege's capex in 2023, 50% of which was used to construct three office buildings and two parking lots. Given the significant climate impacts associated with new construction projects, particularly in terms of embodied emissions, it is crucial for newer buildings to be constructed with the aim of minimizing emissions from the materials. Furthermore, new buildings need to be highly energy efficient in the transition to a low carbon future. Two of the construction projects will be highly energy efficient, achieve BREEAM-SE "Excellent", and have a focus on reducing the embodied emissions of projects. Such projects are allocated a Medium green shade. Fabege also has one construction project that will be more energy efficient than the current building code and will achieve a BREEAM-SE "Very good" certification. This project is assigned a Light green shade because we view its projected energy performance to be lower than that needed for a low-carbon, climate resilient future, although it goes beyond minimum regulatory requirements. Reducing embodied emissions has not been a focus for this project. According to Fabege, this project was a building with special tenants with operations and needs that go far beyond the ordinary. For the construction of parking lots, we assign a Yellow shade. Both parking lots will have chargers for electric vehicles available.

Climate Transition Plan

Metrics And Targets

Transition targets

Transition metrics	Baseline metric	2023	2025	2030
Absolute greenhouse gas emissions – scopes 1 and 2	1,925 tCO2e (2018)	1,711 tCO2e (11% reduction)	--	Climate neutral property management (reducing scope 1 and 2 emissions by at least 90%)
Absolute greenhouse gas emissions – scope 3	--	13,258 tCO2e	--	Measure and reduce
Greenhouse gas emission intensity – scope 3, emissions from development of projects only	440 kg CO2e per square meter (2019)	--	20% reduction per square meter built	50% reduction per square meter built
Energy performance, total energy, kWh per square meter	108 kWh per square meter (2018)	71 kWh per square meter (34% reduction)	70 kWh per square meter	--
Installed solar power	--	1.7 kWh per square meter	--	2.5 kWh per square meter annually, and 5.0 kWh per square meter for new buildings

Information from Fabege's 2023 annual report.

Fabege has set targets for reducing all relevant emissions by 2030 targets, including a 50% reduction of scope 3 emissions per square meter built, while achieving climate neutral property management, but it lacks long-term targets beyond 2030. Fabege reports on all three scopes and shows transparency on emissions in its annual report. In 2023, scope 3 emissions represented 89% of total emissions. The CRREM 1.5 degree Celsius (1.5 C) decarbonization pathway for office buildings in Sweden indicates that building emissions intensity (scopes 1 and 2, as well as scope 3 from embodied emissions in retrofits) declines 41% from 2019 to 2030. In this respect, Fabege's climate-neutral property management target may align with a 1.5 C pathway.

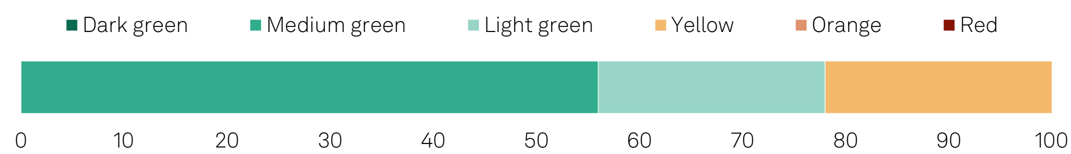
The target to reduce emissions per square meter built addresses Fabege's biggest emissions source, though there are some limitations. In 2023, 80% of Fabege's reported emissions came from construction activities. Current sustainability reporting does not disclose Fabege's progress on the target. Since Fabege completed only one construction project in 2023, there is not enough data to draw any reliable conclusions regarding reduced emissions per square meter built. We see it as a strength that the target covers more building components than required by the Climate Declaration Act, the Swedish regulation making it mandatory to calculate emissions from construction projects. Fabege explains its baseline is higher than the BREEAM-SE reference for office buildings because it includes a wider scope of emissions. Fabege highlights that it plans to 1) minimize the need for remodeling, keep buildings' existing structure/planning/furnishings, 2) use recycled materials, 3) use primarily material made from renewable or recycled raw materials, if new material needs to be used, and 4) when designing, will ensure that construction and materials chosen enable future reuse or material recycling. The Science Based Targets initiative (SBTi) has developed a 1.5 C pathway for the global building sector's embodied emissions. The pathway portrays the need for a steep reduction of embodied emissions in construction projects, ranging from 59% to 63%, by 2030 compared to 2019. Although Fabege's baseline value and scope differ from the pathway, making a direct comparison difficult, the target's ambition appears to be aligned with the SBTi pathway. The SBTi pathway suggests that, from 2030 to 2050, significant further reductions are needed, where embodied emissions should diverge toward zero. It is therefore a limitation that Fabege's target does not go beyond 2030. It is positive that Fabege has a target to also reduce absolute scope 3 emissions, including from sources such as tenants' electricity, and waste.

We view it as a strength that Fabege has historically demonstrated a continuous decrease in energy use, and has thereafter strengthened the ambition of its energy reduction targets. Having an energy intensity target for the total portfolio facilitates the target of achieving climate neutral property management by 2030. This is because reducing energy use will help reduce emissions from the generation of electricity and heat. In 2019, the company reduced its energy use by half compared to 2005. Building on this, it initially set a goal of reducing its average energy use to 77 kilowatt hours (kWh) per square meter. But after surpassing the target in 2022, Fabege raised its ambition to 70 kWh per square meter by 2025. Now, with reported average energy use of 71 kWh per square meter from 2023, Fabege aims to achieve this target by the end of this year. We regard it as a limitation that the energy intensity target includes only the landlord's energy use. The CRREM 1.5 C decarbonization pathway for office buildings in Sweden indicates that building energy use per square meters declines by 37.6% from 2019 to 2026, and that the average energy intensity should be 167 kWh per square meter, including tenant electricity. In emission reporting, Fabege does not have total energy data for its tenants and has therefore included a flat rate of energy use, which indicates that tenant energy represents on average 39% of total building energy use. When tenant electricity use is also considered, Fabege's portfolio continues to outperform the projected pathway, with current performance aligning more closely with the 2030 targets outlined in the pathway. When considering the projected reduction in terms of percentage, Fabege reported energy use of 81 kWh per square meter in 2019; therefore, its target of achieving 70 kWh per square meter by 2025 represents a 13.6% reduction compared to 2019. It should also be noted that Fabege has already demonstrated its continued focus on reducing energy use, having achieved a 50% reduction between 2005 and 2019.

To support its scope 1 and 2 targets, Fabege aims to invest in solar panels every year, corresponding to at least 320 MWh (megawatt hours) in new and existing properties. By 2030, Fabege aims for solar panels to produce 2.5 kWh of electricity per square meter annually. For newbuilds, the goal is double that: 5.0 kWh per square meter, and solar panels are always included in the planning stage for new properties. The result for 2023 was 1.7 kWh per square meter.

Actions And Investments

2023 Capex breakdown by shade (% of total)



Source: S&P Global Ratings.

We anticipate that Fabege's current investment plans will not significantly enhance the greenness of its existing portfolio but help maintain its current energy efficiency. Fabege has a long-term capex plan for all properties. Overall, it invests approximately SEK600 million per year in the property management portfolio. Investments can range from ventilation and energy-efficiency improvements, to tenant customizations. Although investments in energy efficiency are considered green, investments in tenant customization and other decorative measures that do not lead to energy improvements are not green alone, in our view.

Although there are no immediate plans for new construction projects, opportunities are expected to emerge, indicating that Fabege will likely invest in some projects before 2030. For new construction and redevelopment, Fabege has general requirements in internal policies, supplemented by environmental programs and specific terms for each project. For example, Fabege intends that all new construction projects will be certified according to BREEAM-SE with the goal of achieving an "Excellent" ranking. We therefore expect that any construction projects Fabege invests in until 2030 will achieve a green shade.

Fabege might invest in the acquisition of properties before 2030. Fabege's portfolio is expected to remain generally consistent. However, Fabege notes that property transactions are a cornerstone of its business and that it analyses its property portfolio to take advantage of opportunities to increase value growth, both through acquisitions and sales. In 2023, it sold two properties and made no acquisition. In its due diligence process, sustainability is a key consideration. According to Fabege, if it acquires a property with lower energy efficiency than its existing portfolio, it is with the intention of turning it into a green property through energy efficiency measures.

Implementation Drivers

We believe Fabege has good governance mechanisms in place to execute on its transition strategy. The board of directors bears overall responsibility for the company's sustainability strategy and reviewing its progress on sustainability. One board member has specific responsibility for sustainability issues. The CEO and the executive management team have the overall responsibility for implementing the sustainability strategy. The company operates a profit-sharing program that extends to all its employees. This program allocates profit in the form of company shares, based on criteria that includes various predetermined targets. Examples of such targets are linked to the energy performance of the portfolio, that the average energy consumption should be lower than 71 kWh per square meter and associated with scores of ESG benchmarking company GRESB.

All of Fabege's outstanding bonds and commercial paper are linked to its green bond framework, which supports the green requirements it has for each building that is eligible for financing. This provides an incentive for management to continue to build, acquire, or renovate buildings meeting these criteria.

The Swedish regulatory environment may support Fabege's transition plan, especially in reducing scope 1 and 2 emissions, but could pose challenges in meeting scope 3 emission

targets. Sweden enforces stringent building codes compared with other countries and as part of the EU. It adheres to the Energy Efficiency Directive, which advocates for greener buildings. However, legislation is not advancing at the pace required to meet climate targets, in our view, and, in some cases, may hinder efforts to reduce emissions in the building sector. For example, to reduce emissions from construction, the real estate sector needs to implement circular principles. However, currently Sweden's strict building codes set high technical functionality and documentation requirements for equipment and materials, which prevent reused and recycled components from being used.

Fabege's transition plan could be negatively affected by district heating suppliers' slow transition. Fabege is dependent on its district heating suppliers to meet its scope 2 reduction targets. It has informed us that district heating suppliers are not currently at the expected rate of decarbonization. To mitigate this risk, Fabege and other real estate companies are staying in dialogue with the suppliers to try and keep their decarbonization efforts on track.

Nasdaq Green Designation

Nasdaq Green Equity Designation

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

In 2023, 87% of Fabege's turnover came from assets with some Shade of Green, exceeding the 50% threshold for green activities for company turnover. The sum of opex and capex allocated a Shade of Green is 78%. This exceeds the 50% threshold for investments, defined as the sum of capex and opex. In 2023, Fabege had no turnover derived from fossil fuel activities, meeting the threshold of less than 5% of the company's turnover being derived from fossil fuel activities.

In addition, Fabege meets Nasdaq's transparency requirements on EU Taxonomy alignment and environmental targets, as well as key performance indicators (KPIs). The company reported its EU Taxonomy data, environmental targets, and KPI data publicly in its 2023 annual report.

Investors should note that the statements above are the results of S&P Global Ratings' assessment. The awarding of the Nasdaq Green Designation to Fabege is subject to Nasdaq's approval.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Related Research

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

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