S&P Global Ratings

Powered by **Shades of Green**

Second Party Opinion

Catena Green Finance Framework

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Location: Sweden	**Sector:** Real estate

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

See Alignment Assessment for more detail.

Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

Catena takes relevant steps to reduce its greenhouse gas footprint. It aims to achieve net-zero emissions by 2030 from the 2018 level. The company commits to obtaining validation from the Science-Based Targets initiative (SBTi) for its revised emission-reduction targets. Eligible projects support the issuer's climate goals by leading to energy savings, promoting the use of low-carbon construction materials and self-generated renewable energy sources, among others.

Furthermore, Catena commits to performing a physical risk analysis. This draws on the requirements of the EU taxonomy for all financed buildings. Catena aims to implement adaptation measures when relevant.

Addressing the most material emission source, embodied emissions, is part of the framework's criteria. We consider this best practice, since minimizing embodied emissions stemming from construction and renovation is key to decarbonizing the real estate sector.

Weaknesses

Existing buildings in Denmark that may be financed under this framework could have access to natural gas heating. Natural gas is a common heating source for logistics properties in Denmark, but this contributes to high emissions. However, Catena expects the majority of proceeds under the framework to be allocated to assets in Sweden, where no fossil fuel heating is envisaged for new or existing buildings. In addition, Catena has a target of achieving 100% fossil-free energy by 2028 and intends to connect existing properties in Demnark heated by natural gas to heating systems with a lower climate impact. Nonetheless, the scope and timeline of such commitments are yet to be defined.

Areas to watch

New construction that can be financed under this framework is traditionally associated with high emissions. At the same time, Catena has included a cap on embodied emissions as a part of the eligibility criteria, which we view as positive.

Catena may issue various types of debt, including convertible bonds, commercial paper (CP), and revolving credit facilities (RCFs) under this framework. Convertible bonds could lead to investors becoming shareholders in the event of a conversion. In addition, reporting on the CP and RCFs may be challenging due to the short tenure of these instruments. We view as a mitigating factor that, every quarter, Catena's finance department will ensure there is a sufficient volume of eligible green assets in the portfolio and the issuer commits to externally verifying, annually, the allocation of proceeds until full allocation.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Green buildings	**Medium green**
New buildings (built after Dec. 31, 2020)	
Existing buildings (built before Dec. 31, 2020)	
Major renovations	

Energy efficiency	**Dark to Medium green**
Direct costs such as installation of onsite solar panels, converting to LED lighting, heat pumps, improvements in ventilation systems, improvements and implementation of control systems, extension of district heating and cooling systems that provides a lower environmental footprint compared to natural gas, and installation of infrastructure (electric charging points) for electric cars.	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Catena AB is a listed property company that develops, owns, and manages logistics facilities in Scandinavian metropolitan areas. As of year-end 2023, Catena's building portfolio comprised 132 logistics buildings located along transport routes and population centers, mainly in southern and central Sweden. Catena's green finance framework will cover logistics facilities in Sweden and Denmark. Catena was founded in 1967 and is headquartered in Helsingborg, Sweden.

Material Sustainability Factors

Climate transition risk

Increased energy use in buildings has been a major contributor to climate change, representing about one-third of global greenhouse gas emissions on a final-energy-use basis according to the IEA. This leaves the sector highly susceptible to mounting public, political, legal, and regulatory pressure to accelerate climate goals. Building occupiers and operators may face higher energy bills as power prices rise, and higher capital expenditure when upgrades are required to accommodate the energy transition and meet more stringent efficiency standards. Incremental climate-related investments can require significant capital outlays but potentially reduce the risk of obsolescence due to changes in regulation or climate goals. In addition, low-carbon properties may achieve higher cost efficiencies or attract premium rents in the longer term, therefore enhancing their value. Embodied emissions from building materials are a major source of emissions when looking at the carbon footprint of a building over its life cycle.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these could include acute risks--such as wildfires, floods, and storms--which are becoming more frequent and severe, as well as chronic risks--such as long-term changes in temperature and precipitation patterns and sea level rise. Acute and chronic risks could damage properties or put tenants' health and safety at risk, as well as require investments to manage potential effects or, in severe cases, relocation of tenants. Although the aggregate impact may be moderate--since the type, number, and magnitude of these risks varies by region--highly exposed regions could be exposed to material physical climate risks. Most market participants have some insurance coverage, but it could become more difficult to secure insurance for the most exposed assets in the future, absent adaptation. In Sweden, precipitation patterns are expected to become more extreme, increasing the risk of flooding, while droughts could also become more common in some parts of the country. In Denmark, heatwaves are expected to increase in frequency and duration, along with the rise in precipitation and sea levels.

Customer health and safety

Health and safety is a material factor that can adversely affect tenants' wellbeing. Although the probability of major risks, such as fire or the failure of a property's structural integrity, appears low, the impacts if such risks materialize can be significant. They often result in serious injury or death, and tend to be more severe in older properties and in regions with less stringent safety codes. Long-term leases, as well as diversity of tenants and assets, can mitigate to a large extent temporary disruptions in health and safety performance, in our view.

Issuer And Context Analysis

The eligible project categories address both climate transition and physical climate risks, which are the most material sustainability factors for Catena. Investments in energy efficiency and green buildings are important steps toward mitigating climate transition risk. Physical climate risks, which Catena considers for assets financed under this framework, are relevant because buildings are highly exposed to the impacts of climate change.

Catena aims at achieving net-zero greenhouse gas emissions in its entire value chain by 2030. We view as positive that the company has been measuring and reporting on greenhouse gas (GHG) emissions, including all scopes, in accordance with the GHG Protocol. Catena's greatest environmental impact occurs in scope 3, which accounts for 94% of its emissions footprint. Emissions from Catena's most material scope 3 categories (capital goods and leased assets) more than doubled in 2022 compared to 2021 data. However, we note that the primary reason for the increase was changes in the factor for calculating location-based emissions. We regard as positive that, in 2020, Catena set a target to reduce its scopes 1 and 2 GHG emissions by 50% by 2030 from a 2018 base year, which has been validated by the SBTi. Currently, the issuer is in the process of adjusting the target to include scope 3 emissions and will seek validation from the SBTi for the revised net-zero target. To achieve its climate goals, the issuer is actively working on carbon budgets in all new properties and major renovations, along with selecting construction materials with a lower carbon footprint, monitoring tenants' energy coansumption, and engaging in renewable energy projects, among other things. Catena is well on track to achieving its target of 100% fossil-free energy in all properties by 2028. Currently, 91% of the energy is fossil-free, achieved predominatnly through green electricity purchase agreements.

Catena assesses physical climate risk and vulnerability of each asset and commits to performing such assessments on buildings to be financed under the framework. We regard as positive that the issuer performs physical climate risk analysis according to the EU Taxonomy, using climate-related scenarios such as the Intergovernmental Panel on Climate Change's RCP (representative concentration pathway) 4.5 and 8.5 (the worst-case scenario). Based on these assessments, the most relevant physical climate risks for Catena include heatwaves, floods, storms, sea level rise, and forest fires. Physical risk screening is a requirement for all green building projects and a time-bound action plan is being prepared for the entire portfolio.

Catena has set a target for its property portfolio to be net positive in terms of biodiversity by 2030. This target implies that the negative impact on biodiversity caused by the issuer's projects is outweighed by the actions taken to avoid and reduce such impacts. We consider positive that the issuer's commitments to biodiversity follow the principles of the impact mitigation hierarchy: preserving, minimizing damage, restoring, and, ultimately, compensating. The issuer applies a green area ratio (GAR), a tool to measure the impact and ensure that valuable green areas are preserved during construction. We view favorably that before all construction projects, an external ecologist provides a status assessment and suggestions on efforts to promote biodiversity. In terms of compensation measures, some of the initiatives include planting trees and shrubs, converting grassy areas into meadows, and installing insect hotels and birdhouses, to name a few.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond and Loan Principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✓ Green Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

We assess all the framework's green project categories as green, and the issuer commits to allocating the net proceeds issued under the framework exclusively to eligible green projects. The framework includes two eligible green project categories--green buildings and energy efficiency--under which Catena aims to contribute to climate change mitigation. Eligible green assets are designated as both capital and/or operational expenditure, with operational expenditure requiring a maximum three-year look-back period from the time of issuance. We also note that convertible bonds, CP, and RCFs are among the framework's eligible instruments. Convertible bonds under this green framework could potentially lead to investors becoming shareholders of Catena, while the company's business model isn't focused exclusively on the green economy.

✓ Process for project evaluation and selection

Catena has a dedicated green finance committee, comprising its CEO, Chief Treasury Officer, Deputy CEO, Chief Financial Officer, and the Chief Sustainability Officer. This committee meets at least annually and is responsible for selecting and evaluating potential projects under the framework's eligibility criteria, as well as keeping the list of eligible green assets up to date. All decisions, including the selection of assets is made in consensus by the committee. To manage perceived social and environmental risks, the issuer is committed to ensuring eligible green assets adhere to relevant laws and regulations, as well as Catena's sustainability policy and program, code of conduct, and supplier code of conduct, while also monitoring internal processes to identify potential environmental or social risks associated with financed projects.

✓ Management of proceeds

Catena commits to tracking the allocation of net proceeds through a green register to ensure that green instruments exclusively finance eligible projects. It will manage all green finance instruments at the portfolio level, therefore such instruments will not be linked directly to any predetermined eligible green asset(s). Considering the eligibility of CP and RCFs under the framework, we view as positive that the finance department will monitor eligible green assets on a quarterly basis to ensure there is sufficient volume of green assets in the portfolio. On a best-effort basis, the issuer will allocate the net proceeds from green finance instruments to eligible green assets within 12 months from the issuance. If a project no longer meets the eligibility criteria, the issuer will remove it from the green portfolio. Unallocated proceeds will be held, temporarily, on Catena's ordinary bank account.

✓ Reporting

Catena commits to reporting annually on the allocation of the net proceeds and the actual impact of eligible green assets in its Investor Report on its website, until full allocation. This report will include the share of proceeds used for financing versus refinancing and information on EU Taxonomy alignment, among other things. In our view, the impact indicators to be reported are particularly relevant. Examples include environmental certifications, energy class and performance, and absolute CO2 emissions. Catena will also appoint an external auditor to review the allocation of proceeds annually until full allocation, although there is no similar commitment regarding the verification of impact indicators. The challenges of reporting on short-term instruments like CP or RCFs are in our view mitigated by the issuer's commitment to ensuring the green asset pool always equals or exceeds outstanding green finance instruments.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Over the three years following issuance of the financing, Catena expects to allocate the majority of proceeds to the green buildings project category. A small portion of the proceeds will be allocated to energy efficiency projects. The issuer expects the majority of proceeds to be allocated to refinancing projects and a small portion to finance new projects.

Medium green

Activities that represent significant steps towards a low-carbon climate resilient future but will require further improvements to be long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Catena's Green Finance, we assess the framework as Medium green.

Green project categories

Green buildings

Assessment	Description
Medium green	New buildings (built after Dec. 31, 2020) Buildings that either have or will receive: • Primary energy demand (PED) at least 10% lower than the threshold set for nearly zero-energy buildings (NZEB) according to national building regulations; or • Energy performance certificate (EPC) class A or B; or • Minimum environmental certification of Miljöbyggnad Silver or BREEAM-SE Very Good in combination with a PED at least 10% lower than the threshold set for NZEB according to national building regulation or other minimum equivalent environmental certification standard in terms of energy performance; and • A life-cycle analysis of the global warming potential (GWP) and a maximum amount of embodied carbon of 280 kilograms (kg) of carbon dioxide equivalent per square meter (CO2e/m2) of gross floor area (GFA) for new buildings and for cold storage 300 kg CO2e/m2 GFA; as well as • Screening for material physical climate risks conducted by Catena. If needed, Catena will take actions to make the building more climate resilient. Existing buildings (built before Dec. 31, 2020) Buildings that either have or will receive: • EPC A or be within the top 15% of the national building stock expressed as operational PED and demonstrated by adequate evidence; • Minimum environmental certification of Miljöbyggnad/Miljöbyggnad iDrift Silver or BREEAM-SE/BREEAM In-Use Very Good or other minimum equivalent certification standard in terms of energy performance; and • Screening of the building for material physical climate risk. If needed Catena will take actions to make the building more climate resilient. Major renovations

- Primary energy savings of at least 30% within a maximum of three years and validated through an EPC upon completion of the renovation;
- A life-cycle analysis of the GWP will be performed and allow a maximum amount of embodied carbon of 280 kg CO2e/m2 GFA; and
- Catena will perform screening of the building for material physical climate risk. If needed Catena will take actions to make the building more climate resilient.

Analytical considerations

- For existing buildings, high energy performance is an important consideration for the transition to a low-carbon future, while for new construction projects there is an additional need to address embodied emissions associated with building materials. Renovation of existing properties can contribute to significant emissions savings. For all buildings, mitigating the exposure to physical climate risks is key to making the financed assets more climate resilient.
- We assign the project category a Medium green shade, given that the majority of proceeds will be allocated toward the acquisition and ownership of existing buildings in Sweden, where the framework's criteria includes considerations of energy use, green building certifications, and physical climate risks. A minor share of financing will go toward existing buildings in Denmark, which can be heated with natural gas. These are viewed as Light green. However, because such buildings will only receive a minor share of financing, the overall shade is still Medium green. We further view the issuer’s ambition to achieve 100% fossil-free energy by 2028 as positive, and that it plans to connect such buildings to lower-carbon heating systems. For new buildings, criteria includes quantitative thresholds for embodied emissions, green building certifications, and mandatory climate risk assessments, which we also view as Medium green.
- The majority of proceeds will finance the acquisition and ownership of existing buildings in Sweden, with some Danish buildings also receiving financing. We note that, currently, the number of Catena's assets in Denmark is lower (8%) than in Sweden (92%). Whether an existing building is within the top 15% PED threshold will depend, among other factors, on the energy source, which is weighed differently in the PED calculation. The weighting favors district heating over electricity, meaning that, all else being equal, it will be easier for a building connected to district heating to meet the top 15% threshold than a building with electric heating. The issuer has confirmed that buildings with access to direct fossil-fuel heating in Sweden are excluded from the eligible asset portfolio.
- Existing buildings in Denmark heated with natural gas are eligible for financing. Although natural gas is a common heating source for logistics properties in Denmark, buildings heated by natural gas present climate transition risks because they contribute to high emissions, and constitute a Light green element in the framework. Catena is currently reviewing its Danish assets and is looking for alternative heating sources with a lower climate footprint. However, the timeline or scope of such commitment is yet to be defined. The initative is supported by Catena's target to have 100% fossil-free energy by 2028. In addition, the Danish government reached an agreement to support 100% biomethane in heating by 2030, which may partially support the issuer’s objectives in the long term. Since Catena expects Danish properties to receive a minimal share of the proceeds and intends to connect existing properties to other heating systems with lower climate impact, we still assess the project category as Medium green shade.
- We view new construction projects in Sweden as Medium green, given the framework’s eligibility criteria’s ambition in terms of energy performance, and the inclusion of quantitative thresholds for embodied carbon, which accounts for a significant part of a building's lifecycle emissions. The issuer informs us that it has set the thresholds in accordance with the Swedish National Board of Housing, Building, and Planning's benchmarks and internal calculations. However, we note that, since Catena works with logistics buildings, it is challenging to find comparable benchmarks, which limits our ability to assess the ambition of such values. We view the thresholds in the eligibility criteria as a strength because they lead to reduced embodied carbon. However, they still fall short of what is needed for new buildings to be climate neutral. We regard as positive that, to minimize embodied carbon, the issuer commits to selecting construction materials with a lower climate impact, aiming for more resource-efficient construction processes and circular products, among others. This subcategory applies only to properties in Sweden.
- While the green building certification standards included in the framework cover a broad set of issues that are important for sustainable development, they differ considerably in their requirements. We note that, for new buildings, the issuer will mostly rely on the BREEAM-SE certification, which includes multiple calculations, tests, and analysis to ensure the use of more sustainable options (such as engineering systems and materials). For existing properties, an in-use certification is a means of ensuring the management of assets enables continued improvement of energy performance. However, in-use certifications seldom include specific energy-efficiency criteria..

- In the transition to a low-carbon economy, it is essential to renovate and improve existing properties. We view favorably the framework's criteria for renovations, including the primary energy savings of 30%, along with the threshold of 280 kg CO2e/m2 GFA for embodied emissions and climate risk assessment.
- We consider exposure to physical climate risks to be a relevant factor in the real estate sector. The issuer commits to conducting an assessment of material physical climate risk for each building under the financing framework. Our Medium green shade factors in that all properties are screened according to the EU Taxonomy's criteria for climate change adaptation, which specify that relevant climate scenarios should be used.
- The construction of new buildings will also lead to non-climate environmental risks. The issuer has informed us that the buildings will be built both on greenfield and brownfield land. Biodiversity and land use risks associated with greenfield land are partly mitigated by preliminary environmental analysis conducted by an ecologist. As a result, an ecology report is prepared, which provides suggestions on efforts to enhance biodiversity. In addition, we note as positive that the issuer applies the GYF, which measures and thereby limits damage to the environment during construction.

Energy efficiency	
Assessment	**Description**
Dark to Medium green	Direct costs such as installation of onsite solar panels, converting to LED lighting, heat pumps, improvements in ventilation systems, improvements and implementation of control systems, extension of district heating and cooling systems that provide a lower environmental footprint compared to natural gas, and installation of infrastructure (electric charging points) for electric vehicles

Analytical considerations

- Improving the energy performance of buildings is essential for the transition to the low-carbon future. According to the IEA's pathway to net zero, energy efficiency and electrification are the two main drivers of decarbonization in the buildings sector. While we view activities such as installation of on-site solar panels, LED lighting, heat pumps, and estimated threshold of energy savings as Dark green, district heating and cooling systems introduce a Medium green element into our overall assessment of the category.
- Activities, including the installation of on-site solar panels, heat pumps powered by renewables, and the other technological improvements mentioned in the framework's criteria are well aligned with a low-carbon future. We note as positive that before starting projects, the investment shall include estimated energy saving, which is expected to be about 30%, aligning with the EU Taxonomy's PED threshold for renovation of existing buildings.
- Proceeds will also finance the extension of district heating and cooling systems. This primarily consists of adding buildings to district heating networks. In Sweden, district heating is predominantly renewables based; however, when waste to energy is used, it currently allows for the release of carbon contained in waste materials and products. In Denmark, around 66% of the energy used for district heating comes from renewable energy and waste heat, and the remainder mostly from natural gas.
- The issuer has confirmed that it will not invest in improving the performance of equipment using natural gas or other fossil fuels under this category.
- Catena plans to minimize rebound effects, which means an increase in energy use after an energy efficiency improvement, through monitoring tenants' energy consumption, following up on irregularities, and working closely with tenants to optimize their operations and energy use.
- Renewable energy sources, such as on-site solar power panels, are vital in the low-carbon future. However, the related infrastructure can affect local biodiversity if not managed properly. The issuer expects that addressing such risks will be an integral part of its screening and plans to make more investments in this regard in the future.

S&P Global Ratings' Shades of Green

	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).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Green buildings	7. Affordable and clean energy; 11. Sustainable cities and communities*
Energy efficiency	7. Affordable and clean energy*; 8. Decent work and economic growth*; 9. Industry, innovation and infrastructure*

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use Of Proceeds, July 27, 2023
- Analytical Approach: Shades Of Green Assessments, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds SPOs, July 27, 2023
- ESG Materiality Map: Real Estate, July 20, 2022

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