S&P Global
Ratings

Powered by Shades of Green

Climate Transition Assessment

Heba Fastighets AB (publ)

April 30, 2025

Location: Sweden **Sector:** Real estate

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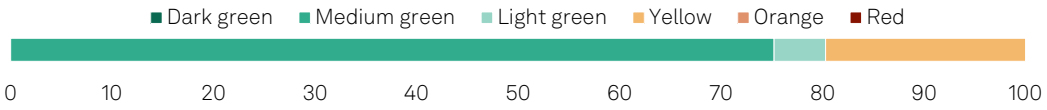
Climate Transition Summary

We expect Heba to improve its energy efficient real estate portfolio, which consists primarily of residential premises in the Stockholm region, through 2030. Because of investment in renovations, the divestment of inefficient assets, and effective property management, 80% of revenue comes from buildings we consider green. Heba has developed an energy plan to improve the energy efficiency of inefficient buildings and aims for all properties to meet an EPC of C by 2030. In 2024, Heba's biggest investments were a Dark green renovation and two Light green new construction projects. New construction represents high near-term emissions because of high embodied emissions, but because of their energy efficiency and resilience, we assign projects a Light green shade.

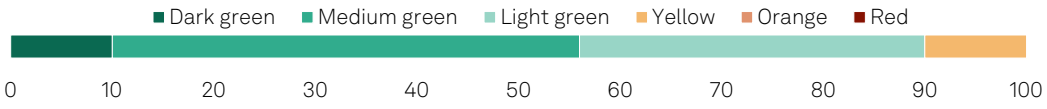
We think Heba is well positioned to achieve its climate targets, with sufficient governance mechanisms to facilitate its transition. We think this will improve the portfolio's energy performance and lifecycle emissions. The issuer's biggest emission source is embodied from development projects, where Heba aims to half the emission intensity by 2030. Since the target will apply for all new construction activities, we expect Heba's future new construction projects will be in line with Medium green. Its ability to achieve commitments, however, is constrained by availability of reused, recycled, and low carbon materials.

Using a Future Shade time horizon that aligns with the Heba's transition targets, we assigned a Future Shade of Medium green. The company's transition status and ambition position it above the average in its domestic market and as very strong from an international perspective.

Current activity: Revenue 2024 (% of total)



Investments: Capital expenditure (capex) 2024 (% 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

Heba shows a commitment to decreasing energy use and strengthening its energy reduction targets. Since 2018, it has reduced scope 1 and 2 emissions 53% by cutting energy use in its portfolio.

Heba is following best practice for offsets by securing financing to a permanent carbon removal project within its own supply chain. In 2023, it signed a letter of intent with its district heating provider, Stockholm Exergi, to acquire 1,000 tons of negative emissions annually for 10 years.

Weaknesses

No weakness to report.

Areas to watch

New construction generates high emissions and can entail biodiversity risks. Heba's intensity target marks a significant step toward reducing material emissions compared to business-as-usual practices. Although Sweden mandates assessments of biodiversity risks, all deforestation harms the climate, and current national practices might not consider biodiversity and climate risks sufficiently.

Company Description

Heba Fastighets AB (publ) is a Swedish real estate company that develops, owns, and manages residential and care facilities in the Stockholm region, Uppsala, and the Mälardalen Valley. Within these areas, it owns 58 properties. In 2024, its rental premises accounted for 72% of its total lettable areas, while the care facilities were 22%. At end-2024 its properties have a market value of Swedish krona (SEK) 13.6 billion ($136 million) and a lettable area of 263,400 square meters (sq. m.).

Current Activity

2024 activity by shade (% of total)

Shade	Revenue (%)	Opex (%)	Capex (%)
Dark green	**0**	**0**	**10**
Activities: Renovating project, with 45% improvement in energy efficiency, heated by heat pumps, embodied emissions intensity below 130 kilograms (kg) of carbon dioxide (CO_2) per sq. m., and screened for physical climate risks.			
Medium green	**75**	**70**	**46**
Activities: Existing buildings within the top 15% of similar stock and newer buildings (built after 2020) that are 10% better than nearly-zero energy buildings (NZEBs) in Sweden, have been screened for physical risks, and are not heated by fossil fuels.			
Light green	**5**	**6**	**33**
Activities: Existing buildings with a green building certification, qualifying for the top 30% of similar stock, screened for physical risks, and not heated by fossil fuels; and new construction projects with a green building certification, energy performance levels at least 30% better than building code, and not heated with fossil fuels.			
Yellow	**20**	**24**	**11**
Activities: Existing buildings that do not meet the green criteria above, screened for physical risks, and are not heated by fossil fuels.			
Orange	**0**	**0**	**0**
Activities: None.			
Red	**0**	**0**	**0**
Activities: None.			

Opex--operational expenditure. Capex--Capital expenditure. Source: S&P Global Ratings.

We view positively that Heba's properties are heated with low-carbon heating. Of 67 buildings in the portfolio, 59 use district heating, with the remaining using geothermal heating. No buildings in the portfolio use direct fossil fuels. Sweden's commitment to clean energy and building regulations addressing sustainability reduces the real estate market's exposure to climate-related risks compared with other jurisdictions. In 2022, the majority of energy used for district

heating in the country came from renewable and recovered sources, with a minimal share from fossil fuels, leading to a carbon intensity well below the EU average. Starting from 2025, Heba will purchase green district heating from its provider, which will further decarbonize its heating sources. Additionally, Sweden's electricity supply comes largely from renewables, with hydro, nuclear, and wind contributing 66.9% of total generation as of 2022.

Heba has assessed its portfolio for physical climate risks and integrates adaptation in its property management, construction, and renovation activities, which is a key shade driver for real estate. The assessments were done by asset, and the company used Swedish government datasets and conservative climate scenarios developed by the Intergovernmental Panel on Climate Change to identify the buildings with the greatest degree of exposure. Management mitigates short-term risks in its general property management and works with stakeholders to address long-term risks.

All of Heba's revenue, all opex, and some capex relate to its existing properties.

- We consider revenue, opex, and capex linked to highly efficient buildings Medium green. Properties that qualify for this shading are existing properties within the top 15% of the stock of similar buildings, and properties built after 2020 that are 10% or more above the energy requirement set in regulations. Buildings have district or geothermal heating.
- We view revenue, opex, and capex related to properties with green building certifications that qualify for the top 30% of the national building stock as Light green. These buildings are certified with Miljöbyggnad Silver, which cover a range of sustainability issues including energy performance. However, requirements differ based on the version used. Miljöbyggnad Silver sets minimum requirements on energy and other sustainability factors.
- For Heba's properties that do not have high energy performance or green building certifications, we assign a shade of Yellow.

Heba also has additional capex from its development projects. We consider Heba's capex for new construction to be Light green to reflect the resulting improvements in energy performance, physical climate risk and the consideration, to an extent, of embodied emissions.

- About 24% of Heba's 2024 capex was earmarked for constructing two residential properties, one of which is underway and other awaiting permitting approval. Heba is aiming for these buildings to have energy performance levels of 33%-44% below regulatory requirements, which we view as a reasonable goal.
- One building will be certified under Miljöbyggnad Silver and the other with The Nordic Swan Label. While these certifications address material sustainability considerations, such as energy use, they do not set minimum requirements on embodied emissions. New construction projects constitute significant climate impacts, in particular from the embodied emissions in the materials used. Heba notes these projects will emit a maximum of 375 kg of CO2/sq. m. By comparison, newer versions of the Miljöbyggnad Silver certification set a maximum threshold on 290 kg of CO2/sq. m. for residential buildings. In our view, these projects represent high emissions in the near term, but because of its energy efficiency and resilience projects, we assign them a Light green shade. Heba has implemented a scope 3 emissions intensity reduction target that will apply for all new construction activities, so we expect its projects will be in line with Medium green.
- The construction project is on greenfield land, which could present biodiversity and climate risks. Heba somewhat mitigates this risk by complying with building regulations, which, for example, require Environmental Impact Assessments for large projects and the implementation of compensation, conservation and monitoring efforts. However, all deforestation has a negative climate impact and current practices might not sufficiently mitigate these risks, even in stringent regulatory environments. The company has historically selected brownfield sites for its new construction projects, as is the case for the building with a pending permit.

In 2024, Heba completed a renovation project, which accounted for 10% of its capex and to which we assign a Dark green shade to reflect significant energy reductions, clean heating sources, and low embodied emissions. In the transition to a low-carbon society, renovating and improving existing properties is key. Renovations offer an opportunity to reduce energy use without the high embodied emissions of new construction. The renovation project resulted in a 45% improvement in energy intensity and an embodied emission intensity of 130 kg CO2/sq. m. As such, we assess this renovation project as Dark green. We also shade smaller investments in energy efficiency Dark green. In 2024, 1% of capex came from two renovation projects that have yet to start and represent minor costs. Because Heba confirms that the projects will at minimum obtain a 30% improvement in energy use, we consider them Medium green.

Climate Transition Plan

Metrics And Targets

Transition targets

Transition metrics	Baseline metric (2018)	2022	2024	2030	2045
Absolute scope 1 and 2 emissions (ton CO2)	1,206 (2018)	886 (27% reduction)	572 (53% reduction)	Climate neutral	-
Absolute scope 1, 2, and 3 emissions (ton CO2)	-	13 176	1361	-	Net zero
Scope 3 emissions CO2/sq. m. GFA	375 (2023)	-	-	188 (50% reduction)	-
Energy intensity (kWh/sq. m.)	114	86	75	40	-
% reduction in energy use, including landlord energy	Reductions from 2018 baseline	25%	34%	65%	-

Includes the company's long-term net zero targets for illustrative purposes. Targets beyond the time frame of our analysis do not influence our Climate Transition Assessment (CTA) outcome because the CTA analyzes more specific actions that the company has planned and the implications of those actions. Scope 3 includes all categories defined in the GHG Protocol. Residual emissions from purchased goods and services to be compensated for with carbon offsets. Source: Company reporting and S&P Global Sustainable1. kWh--Kilowatt-hour. sq.m.--Square meter. CO2--Carbon dioxide.

Heba has established a strong set of short- and medium-term emission reduction targets for its property management and, to an extent, value chain activities. In our opinion, Heba has included its most material emission sources in its targets and demonstrates solid ambition in targeted reductions. However, it does not include tenant emissions in its targets.

The issuer has reduced scope 1 and 2 emissions by 9% annually and 53% in total in 2024 from 2018 levels by reducing energy use and transitioning its car fleet to electric. Heba's remaining scope 1 and 2 emissions relate to purchased energy (district heating and cooling) and electricity. To meet its climate neutrality target by 2030, the company plans to reduce scope 1 and 2 emissions by 85% and invest in negative emissions to offset the remaining 15%.

We consider Heba's historical focus on energy efficiency through renovation and individual measures, along with its targets to further improve, as a strength. The issuer has established interim and long-term energy reduction targets to support its goal of climate neutrality by 2030. It has already exceeded its 2028 objective and is working to achieve this 2030 target, which will constitute a 47% reduction from 2024 energy use levels. Additionally, the company aims to achieve at least EPC C in all its properties by 2030. Of its 67 buildings, 25 have an EPC at D or below, with 13 at E or F.

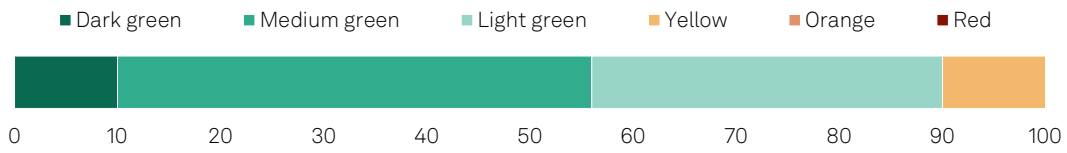
Heba aims to address tenant emissions through specific actions and green leases. Although it does not provide electricity to its tenants, it started in 2022 to shift to sustainable leases that include requirements that the electricity sourced be origin labelled and renewable. In 2024, these leases accounted for 47% of the total (from 2023's 38%). Tenant emissions are not included in short-term emission reduction targets, but are in the net zero 2045 target.

We consider a strength that Heba aims to reduce the emissions from its most emission intensive activity, its construction projects, by 50% per built square meter by 2030. The company's reporting show significant fluctuations in total emissions across scopes 1-3 each year, because it reports on embodied emissions from construction only upon project completion; therefore, total emissions are heavily influenced by projects in its pipeline. In 2024, one completed renovation project accounted for 30% of Heba's total emissions. Comparably, in 2022 multiple renovations and three new construction projects were completed, resulting in a high increase in total emissions, where the projects represented 87% of the total.

While intensity data more accurately reflect Heba's progress in reducing emissions from construction projects, the absence of an absolute scope 3 target might not discourage new construction projects, which could still entail high emissions. Having an absolute scope 3 emission reduction target by 2045 limits this risk somewhat. Furthermore, we view the target of 188 kg CO2 equivalent/sq. m. GFA by 2030 as representing significant steps to reduce emissions compared with business-as-usual. Although not fully comparable due to the difference in base years, this target aligns with the Science Based Targets initiative's 1.5°C pathway for the global building sector, which calls for 59%-63% reductions in embodied emissions by 2030 versus 2019. Heba plans to implement its scope 3 emissions intensity target for each property staring in 2025. Its scope 3 target does not cover renovation activities; however, the company has confirmed it applies the same approach to these projects, aiming to reduce the climate impact by 50% from 2023 reference values.

Actions And Investments

2024 capex breakdown by shade (% of total)



Source: S&P Global Ratings.

Heba is well positioned to achieve its climate targets, which will improve the portfolio's energy performance and lifecycle emissions. Its ability to achieve its commitments, however, is constrained by issues with the availability of reused, recycled, and low carbon materials.

We anticipate that the yearly investments in Heba's property management portfolio will help it meet its climate neutrality target, and maintain its energy efficiency. Overall, it invests approximately SEK200 million (opex and capex) per year in the property management portfolio. Starting in 2025, Heba will purchase green district heating from its provider, which it estimates will reduce energy related emissions 90%. The company is also working to install geothermal heating in its buildings (having done this with eight of the 67 as of 2024). Moreover, Heba has invested in energy efficiency measures, including waste heat recovery from ventilation systems, and digitalized property management (smart meters). The company seeks to reduce tenant emissions from waste by providing facilities and information on sorting, reuse, and recycling. It is working to convert all its parking spaces to charging stations for electric vehicles. In 2024, these spaces accounted for 26% of its total parking facilities, targeting 100% by 2030 In 2025, Heba aims to implement its internal building certification system, inspired by Miljobyggnad idrift, a management and operation certification. This will likely improve data quality and could improve the sustainability of its existing portfolio.

Heba integrates adaptation measures to near-term risks in its property management process. The company expects its opex related to climate adaptation measures to be about SEK 10 million, representing 5%-10% of the total. For long-term risks, such as those related to rising sea levels, the issuer will continue to work with other stakeholders to identify solutions.

Part of Heba's strategy has been to renovate its existing portfolio and divest of low-yield properties with high renovation and investment needs. The company has historically renovated a high share of its portfolio, resulting in reducing the energy needs 19% from 2021 levels. It has two new renovation projects planned, but none beyond these. To meet its target for all buildings having a minimum of an EPC C, Heba expects no major renovations and has developed an energy plan, with investments until 2030 (SEK150 million approved by the board) targeting energy efficiency. Heba has also historically divested of low-yielding properties, which has likely resulted in lower emissions for the company itself but might not address the buildings' climate impacts. Heba has shared that it seeks to sell its properties to owners with similar sustainability commitments, which could result in improvements in their performance. The company says it could divest other properties the next five years, but has no current plans for this.

Heba's business strategy targets an average annual income growth of 5% or more from property management, which could entice it to take on new construction projects. In 2024, most capex was allocated to construction projects, shaded Light green. We expect Heba's future construction projects to be Medium green as the company has strict criteria for its new buildings, where we expect these projects to entail lower embodied emissions. Heba requires buildings' energy performance to exceed that of NZEBs by at least 20%. From 2025, all new projects must reduce embodied emissions in line with the 50% reduction target by 2030, necessitating careful consideration in design, construction methods, and materials. Heba will prioritize low-carbon materials, such as low-carbon concrete, recycled steel, and alternative insulation. The company has developed an internal building certification system for management based on the latest

version of the Miljöbyggnad and Svanen green building certifications. The system categorizes buildings to indicate their improvement compared to the minimum regulatory level. It covers energy use and emissions, as well as environmental indicators such as biodiversity.

Heba will invest in negative emissions to offset the remaining 10%-15% scope 1 and 2 emissions to achieve its climate neutrality target. In 2023, it signed a letter of intent with its district heating provider Stockholm Exergi to purchase 1,000 tons of negative emissions annually for 10 years. These emissions will be generated by Stockholm Exergi's biocarbon capture and storage CCS facility, which will be operational in 2028. We view it as a strength that Heba is finding offsets within its own supply chain and signing a 10-year agreement to help make the project happen.

Implementation Drivers

We think Heba has sufficient governance mechanisms to facilitate its transition plans. It does depend somewhat on its value chain to achieve all targets.

Heba's governance mechanisms support its sustainability and climate plans. Its efforts are based on its Sustainability Policy, which affirms its commitment to integrate environmental considerations in its business decisions, reduce its value chain emissions, invest in negative emissions, use fossil-fuel-free vehicles, and support lower-impact tenant activities. This is supported by its code of conduct. It also requires that suppliers adhere to the Suppliers' Code of Conduct developed by the Swedish Property Federation, which includes reducing emissions and improving energy and resource use. The use of lower-carbon materials and energy, and the reduction of climate impacts have been identified as key priorities as part of its materiality assessment, most recently updated in 2023, which was conducted through stakeholder engagement. Management monitors activities in the assessment and reports progress to the board of directors annually. Climate and sustainability matters have oversight at all levels of Heba's structure. The overall sustainability program is managed by the CEO and the head of sustainability, along with their respective teams. The management and board of directors' follow-up on targets and actions at least quarterly.

Heba plans to finance its decarbonization plans with sustainable finance proceeds. The company first issued green finance in 2021, and in 2024 it updated its use of proceeds and sustainability-linked frameworks. The former covers new construction, efficiency improvements, renovation activities, and acquisition of existing buildings; the latter is linked to the company's scope 1 and 2 and scope 3 emissions reduction targets.

Sweden's regulatory environment could support Heba's plans to reduce its direct emissions but could pose issues in reducing the company's scope 3 emissions. Sweden has a stronger track record of enforcing stringent building regulations than other countries. For example, as of 2021, it requires that all new buildings have a climate declaration that cover emissions from at least raw material extraction to the operational use of the building. In addition, it complies with EU regulations including the Energy Efficiency Directive, which aims to support the transition to greener buildings. Still, legislation is not advancing at the pace needed to meet net zero targets and could hinder the reduction of emissions in the buildings sector, which could influence Heba's opportunities to reduce scope 3 emissions. For instance, the adoption of circularity principles in using construction materials is needed to reduce real estate emissions. However, Sweden's building codes set high technical functionality and documentation requirements for equipment and materials, which could prevent reused and recycled components from being used and for these markets to develop at scale.

Heba's transition plans could also be hindered by its district heating and electricity providers' failure to meet climate targets and transition to renewable and low carbon feedstocks. Scope 1 and 2 constitute a smaller proportion of its total carbon footprint. Nevertheless, its climate neutrality target relies on its suppliers meeting their own decarbonization targets and, in the case of Stockholm Exergi, the operationalization of its biocarbon capture and storage facility in 2028.

Nasdaq Green Designation

Nasdaq Green Equity Designation

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

In 2024, 80% of the company'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 81%. This exceeds the 50% threshold for investment, defined as the sum of capex and opex. In 2024, Heba had no turnover from fossil fuel activities, meeting the threshold of less than 5% from these.

In addition, Heba meets Nasdaq transparency requirements on environmental targets and key performance indicators (KPIs). The company is not required to report on the EU taxonomy. It has reported environmental targets and KPIs data publicly in its annual report.

Investors should note that the statements above are the results of S&P Global Ratings' assessment.

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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