S&P Global
Ratings

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Second Party Opinion

Globalworth Green Financing Framework

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Location: Poland and Romania **Sector:** Real estate

Primary contact

Maxime Chul
Paris
+33 6 10 45 00 98
Maxime.Chul
@spglobal.com

Alignment With Principles

Aligned = ✓ Conceptually aligned = O 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.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Strengths

The green buildings and energy-efficiency project categories support the transition to a low-carbon society. They are relevant to Globalworth's decarbonization strategy and should help it achieve its 2030 climate target, which was validated by the Science-Based Targets Initiative (SBTi).

Weaknesses

The use of natural gas heating systems in new buildings may curtail potential emissions reductions from constructing energy-efficient buildings. Although natural gas heating systems predominate in Romania, the long useful life of these properties locks in the greenhouse gas emissions from such systems. Globalworth has confirmed that such projects would only be in Romania, notably Bucharest, where new buildings cannot be connected to the district heating system. We understand that new construction projects will represent a minor share of the total allocation of proceeds.

Eligible green projects include buildings with in-use certifications. Such certifications may contribute to lower energy consumption, but they do not necessarily specify minimum energy-saving thresholds. This limits our insight into the projects' overall environmental benefit.

Areas to watch

The framework's criteria do not address embodied emissions. Although we regard as positive that Globalworth aims to assess the lifecycle emissions from building materials in the coming years, the company does not currently consider such emissions.

Eligible Green Projects Assessment Summary

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

Green buildings	**Light green**
Acquisition, construction, or refurbishment of buildings that meet recognized standards for best practices in energy and resource efficiency and have low greenhouse gas emissions.	
Acquisition and construction of buildings that meet the technical screening criteria for a substantial contribution to the EU taxonomy.	

Energy efficiency	**Medium green**
Renovations or refurbishments of existing buildings not contemplated under the "green building" category.	
Individual measures reducing energy use and/or carbon emissions for the operational phase of the buildings.	

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

Globalworth is a commercial real estate investment company that acquires, develops, and manages real estate assets focusing on Poland and Romania. The company has been listed on the alternative investment market of the London Stock Exchange since 2013. As of Dec. 31, 2023, it had a standing portfolio of 71 properties with a value of €2.7 billion (about €3.0 billion, including development projects and land banks). Currently, about half the properties by value are in Poland, with the other half in Romania. Office properties account for about 78% of Globalworth's portfolio by value; and mixed-use and other assets for about 22%.

Material Sustainability Factors

Climate transition risk

Increased energy use in buildings has been a major contributor to climate change, representing around one-third of global greenhouse gas emissions on a final-energy-use basis according to the International Energy Agency (IEA). This leaves the sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate the achievement of climate goals. Building occupiers and operators may face higher energy bills as power prices rise, and higher capital expenditure (capex) as upgrades are necessary to facilitate the energy transition and meet more stringent energy-efficiency standards. This could affect household purchasing power and the competitive strengths of commercial and industrial properties. Incremental climate-related investments can require significant capital outlays but could 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, thereby enhancing their value. Embodied emissions from building materials are another major source of emissions when looking at a building's carbon footprint over its lifecycle.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While these vary by location, they could include acute events--such as wildfires, floods, and storms--which are becoming more frequent and severe, as well as chronic events--such as long-term changes in temperature and precipitation patterns and sea level rises. Acute and chronic events could damage properties or place tenants' health and safety at risk, as well as require investments to manage the potential effects or, in severe cases, the relocation of tenants. While the aggregate impact is moderate--since the type, number, and magnitude of these events vary by region--highly exposed regions may be subject to material physical climate risk. Most participants have insurance coverage, but it could become more difficult to secure insurance for the most exposed assets in the future, absent adaptation. For the Romanian and Polish building sectors, the most severe physical effects will likely relate to increased flooding, as well as increased storms and extreme weather.

Customer health and safety

Properties can adversely affect tenant health and safety, especially office and residential properties, since people spend most of their time indoors. Although fire or failure of structural integrity are low-probability events, the impact could be significant and result in serious injury or death. The risk of such events tends to be more severe in older properties and regions with less stringent safety codes. In our view, the long-term nature of leases, as well as tenant and asset diversity, can largely mitigate temporary disruptions in performance.

Issuer And Context Analysis

The financing framework will exclusively finance green buildings and related energy-efficiency projects to address climate transition risk, which we consider to be one of the most material sustainability factors for Globalworth. In addition, physical climate risk is relevant in the context of the framework since the buildings sector is generally highly exposed to the impact of the changing climate.

Globalworth has set scope 1 and 2 greenhouse gas emission-reduction targets, but it is yet to set specific targets to reduce its material scope 3 emissions. The SBTi has validated the company's target to reduce scope 1 and scope 2 greenhouse gas emissions by 46% by 2030 from a 2019 base year. However, although the company has committed to measuring and reducing its scope 3 emissions as part of its SBTi-validated target, it has not yet set quantitative targets to reduce them. As such, Globalworth's targets do not cover notable sources of emissions, including embodied emissions relating to property development, which a third party carries out. Furthermore, the company does not yet have any specific measures aimed at reducing embodied emissions, although it plans to address this in the coming years. Another material source of emissions relates to tenants' energy use, and Globalworth's scope 2 targets partially cover these. Globalworth reports tenants' energy-related emissions under either scope 2 or scope 3 emissions, depending on whether it has signed the energy contract for an entire building (scope 2) or whether the tenants manage the buildings directly (scope 3). As such, in cases where tenants manage the buildings directly, Globalworth's targets do not cover their emissions.

Globalworth will meet its scope 1 and scope 2 targets through a series of measures including increasing energy efficiency and the use of renewable energy. Globalworth has increased its capex on energy-efficiency measures in recent years, having conducted energy audits, and we view this positively. Furthermore, 100% of electricity use in Polish and Romanian properties now comes from renewable sources, compared to 40% in 2019. However, although Globalworth plans to increase its use of on-site renewable energy, the increase will primarily come from guarantees of origin and renewable energy certificates. We generally view on-site renewable energy more favorably, as it supports additional renewable energy production and therefore has greater potential to reduce global emissions. Indeed, while Globalworth managed to reduce scope 2 (market-based) emissions by 77% between 2020 and 2022, its scope 2 emissions expressed in location terms show a more modest 10% reduction. Furthermore, buildings in Romania and Poland remain highly dependent on fossil fuels for heating, meaning they produce more emissions than buildings in other regions that rely less on fossil fuel heating. On the other hand, Globalworth is making good progress toward its goal of getting 100% of its real estate portfolio green accredited. As of the end of 2023, 92.5% of the portfolio by property value had some form of green building certification, mostly "BREEAM in-use Excellent."

Globalworth has conducted a high-level physical climate risk analysis of its operations to qualitatively identify the material risks to these operations. Globalworth has considered multiple scenarios relating to the representative concentration pathways 2.6, 4.5, and 8.5 across multiple timeframes up to 2050. As part of the analysis, the company identified that its direct operations could be exposed to increased severity and frequency of extreme weather events such as cyclones and floods. It is positive that the company has considered multiple scenarios and timeframes relevant to the long life of its buildings, but the analysis lacks quantification. As such, the overall level of exposure to physical risks and the extent to which it may increase remain unknown.

Alignment Assessment

This section provides an analysis of the framework's alignment to the 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

Globalworth commits to allocate the net proceeds issued under the framework exclusively to eligible green projects. Please refer to the "Analysis of Eligible Projects" section for more information on our analysis of the environmental benefits of the expected use of proceeds. We note that hybrid bonds are on the list of eligible instruments in the framework. Hybrid bonds that are convertible to equity are not eligible under the framework.

✓ Process for project evaluation and selection

Globalworth's Green Finance Committee (GFC) will be responsible for evaluating and selecting eligible projects under the framework. The GFC is headed by Globalworth's deputy Chief Investment Officer, and it will screen the portfolio of projects against the eligibility criteria set in the framework, the company's internal policies, and local regulations. Once this screening is complete, the GFC will provide recommendations on which projects to include in the list of the eligible use of proceeds to the board of directors. At least on an annual basis, the GFC will review the allocation of proceeds and the portfolio of eligible projects to detect the need for any updates, such as in the case of project completion, or if a project becomes ineligible. Globalworth also commits to reallocate proceeds to eligible projects in the case of cancellations or divestitures. Globalworth examines environmental and social risks before each real estate investment. Globalworth will also monitor health, safety, and environmental risks during development and refurbishment projects, including during the construction phase.

✓ Management of proceeds

Globalworth commits to allocate the proceeds it raises from its green financing instruments to eligible green projects within 24 months after issuance. Globalworth also commits that it will add to the list of eligible projects--the eligible green project portfolio--as needed, in order to ensure that it allocates the proceeds from green financing instruments to such projects. While proceeds remain unallocated to the eligible green project portfolio, Globalworth will temporarily hold proceeds in its treasury liquidity portfolio, in cash or other short-term liquid instruments.

✓ Reporting

Globalworth commits to publish, on an annual basis and until full allocation, an allocation report and an impact report, and make them available on its website. The allocation report will provide information on the allocation of the net proceeds from Globalworth's green financing instruments, as well as the remaining balance of unallocated proceeds, the locations of the projects, the share of financing and refinancing, and the building status. We take positive note of Globalworth's commitment to receive external verification on this allocation report, although this commitment does not apply to the impact report. Globalworth will, where feasible, use the recommended metrics under the Harmonized Framework for Impact Reporting. We view these metrics as relevant as to demonstrate the contribution to climate change mitigation. These metrics include, for instance, the annual reduction in greenhouse gas emissions and the annual energy savings resulting from the projects.

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, Globalworth expects to allocate most of the proceeds to refinancing acquisitions.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in Globalworth's green financing framework, we assess the framework as light green.

Light green

Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term low-carbon climate resilient solutions.

Our Shades of Green Analytical Approach >

Green project categories

Green buildings

Assessment	Description
Light green	Acquisition, construction, or refurbishment of buildings which meet recognized standards for best practices in energy and resource efficiency and low greenhouse gas emissions. Such as: • BREEAM (Excellent and above) • LEED (Gold and above) • EDGE OR For the construction of new buildings: • The Primary Energy Demand (PED) is at least 10% lower than the PED resulting from local nearly zero-energy building requirements. The energy performance must be certified using an as-built Energy Performance Certificate (EPC). • For buildings larger than 5,000 square meters (sqm), upon completion, the building resulting from the construction undergoes testing for airtightness and thermal integrity, and any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients. As an alternative, where robust and traceable quality control processes are in place during the construction process, this is acceptable as an alternative to thermal integrity testing. • For buildings larger than 5,000 sqm, the lifecycle global warming potential of the building resulting from the construction has been calculated for each stage in the lifecycle and is disclosed to investors and clients on demand. For the acquisition and ownership of buildings: • For buildings built before Dec. 31, 2020, the building has at least an EPC class A or alternatively is within the top 15% of the national or regional building stock expressed as operational PED. • For buildings built after Dec. 31, 2020, the building meets the criteria specified in Activity 7.1 of EU Taxonomy that are relevant at the time of the acquisition (including the PED criterion and additional criteria specified for buildings larger than 5,000 sqm).

For large nonresidential buildings (with an effective rated output for heating systems, systems for combined space heating and ventilation, air-conditioning systems or systems for combined air-conditioning and ventilation of over 290 kilowatts): they must be efficiently operated through energy performance monitoring and assessment.

Analytical considerations

- To achieve a low-carbon and climate-resilient future, it is vital to improve the energy performance of new buildings and reduce the emissions associated with the building materials used. When acquiring existing buildings, strong energy performance is important to enable the transition to a low-carbon economy. For all buildings, we view mitigating exposure to physical climate risks as crucial to improving climate resilience. Regardless of location, Globalworth will either finance buildings that meet the technical screening criteria outlined in the EU Taxonomy for the "Acquisition and ownership of buildings," or the "Construction of new buildings" or will require a recognized green building certification, namely BREEAM Excellent, LEED Gold, or EDGE at minimum.
- We understand from Globalworth that it expects to use most proceeds for refinancing existing buildings. The eligibility criteria for such buildings will ensure that buildings that promote sustainable practices are financed. However, in our view, these criteria do not necessarily ensure that these buildings represent the highest environmental ambitions. We reflect this, in addition to the absence of criteria on embodied emissions, physical climate risk assessments, and the eligibility of buildings with fossil-fuel heating, in the light green shade assigned to this project category.
- Although BREEAM, EDGE, and LEED certifications cover a broad set of environmental issues, they differ considerably in their requirements for energy efficiency, embodied emissions of construction materials, related transportation emissions, and considerations of climate resilience. The robustness of the certification will depend on the certification used and the points achieved in the certification process. An in-use certification can be a solid way of ensuring that the management of assets enables a continued improvement in energy performance. However, such certifications seldom include specific energy-efficiency criteria, and the points-based system does not guarantee that the building is low-carbon, or that the building is energy efficient compared to the regional building stock.
- Existing buildings heated with natural gas may be eligible under the framework. While this practice is not uncommon in Poland and Romania, we view it as a weakness due to the climate impact of these heating systems and the associated risks of locking in emissions from fossil fuel-based systems. Globalworth has confirmed that the heating sources for eligible buildings could include natural gas or district heat. While we generally consider district heating solutions positively thanks to their potential for decarbonization, the district heating feedstock in Poland is still carbon intensive. According to the IEA's 2022 energy policy review of Poland, district heating is mainly fueled by coal (76% in 2019), followed by natural gas (10%) and bioenergy (7%).
- Globalworth has confirmed that for new construction projects, only those located in Romania could be eligible for financing despite being heated by natural gas. Globalworth has informed us that new buildings cannot be connected to the local district heating system, notably those in Bucharest.
- Regarding new projects, Globalworth does not have clear requirements in terms of the embodied emissions of the materials used in construction. We view this as a limiting factor because such materials can represent a high share of the total emissions of new buildings over their lifecycle. Globalworth does not exclude from its framework constructions on greenfield land, which are more likely to have adverse effects on biodiversity than brownfield developments. Globalworth has confirmed that local regulators would require an assessment of the potential environmental impact from greenfield developments before authorizing new construction projects.
- For all buildings, mitigating the exposure to physical climate risks is crucial to improving climate resilience. We understand that Globalworth relies on various climate scenarios to assess the severity and likelihood of physical climate risks on a qualitative basis. Notably, Globalworth has identified extreme precipitation and floods as the main risks in Poland and Romania. While Globalworth is aware that these types of events will require comprehensive adaptation strategies, we believe that it is not yet conducting a complete vulnerability assessment at a property level, nor has it developed a strategy to mitigate risks, which we would view as a stronger practice.

Energy efficiency	
Assessment	**Description**
Medium green	Building renovations: Renovations or refurbishment of existing buildings not contemplated under the "green building" category, subject to either: • Major renovations: The renovation is compliant with the requirements set in the applicable building regulations for "major renovation" transposing the Energy Performance of Buildings Directive (EPBD), meeting cost-optimal minimum energy performance requirements in accordance with the EPBD; or • Renovations for relative improvement: Individual or set of renovations delivering within a maximum of three years a reduction of PED of at least 30% in comparison to the energy performance of the building before the renovation(s). Individual measures: Individual measures reducing energy use and/or carbon emissions for the operational phase of the building. A list of eligible individual measures can be found under Appendix 1 of this Framework.

Analytical considerations

- In the transition to a low-carbon society, it is vital to renovate and improve existing properties. According to the IEA's pathway to net-zero, energy efficiency and electrification are the two main drivers of decarbonization in the buildings sector. Energy-efficiency improvements should be supported by stringent quantitative performance measurements, while also striving to minimize other environmental impacts. We understand from Globalworth that only renovation costs will be eligible in this project category.
- Eligible projects may include large building renovations, as well as smaller-scale individual measures. Both types of project have clear environmental benefits as they improve the energy performance of buildings. As such, this category is assigned a medium green shade. Embodied emissions for large renovations and physical climate risks are also relevant considerations in this project category, but the framework does not address these.
- Eligible projects include the replacement of windows, doors, or lighting with more energy-efficient alternatives. We see clear environmental benefits for these projects as they reduce energy use. Although there are no defined energy performance improvement thresholds for each individual measure, the fact that Globalworth lists these measures in the annex of the framework is positive.
- The framework defines building renovations in two ways. First, major renovations as the EPBD defines them are large-scale projects in which either 25% of the surface of the building envelope is renovated, or the cost of that renovation is more than 25% of the value of the building. Alternatively, there must be at least a 30% reduction in PED compared to the energy performance of the building before renovation. We expect these two types of major renovation project to lead to material improvements in the buildings' energy performance, thereby helping to reduce their climate impact.

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).

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**
Energy Efficiency	**7. Affordable and clean energy***

*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
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023
- Purchased Energy Emissions in Second Party Opinions and ESG Evaluations, March 23, 2023
- S&P Global Ratings ESG Materiality Maps, July 20, 2022

Analytical Contacts

Primary contact

Maxime Chul
Paris
+33 6 10 45 00 98
Maxime.Chul
@spglobal.com

Secondary contacts

Catherine Baddeley
London
+44 20-7176-0459
catherine.baddeley
@spglobal.com

Irina Velieva
Stockholm
+46 70 957 07 31
irina.velieva
@spglobal.com

Teresa Stromberg
Stockholm
+46 8-440-5922
teresa.stromberg
@spglobal.com