



# **NREP Decarbonization Policy**

**2022**

## Contents

1. Purpose and Principles.....	3
1.1 Rationale.....	3
1.2 Risk mitigation .....	4
2. Decarbonization Ambition .....	4
2.1 Baseline .....	5
2.2 Monitoring, disclosure and validation.....	5
2.3 Boundary Conditions .....	5
a) Definitions: .....	5
b) Business areas: .....	5
c) Business activities:.....	6
3. Implementation .....	7
3.1 Delivery Model .....	7
3.2 Abatement Levers .....	8
a) Financial incentives: .....	8
b) Operation abatement levers .....	8
c) Construction abatement levers.....	9
4. Approach to decision making.....	9
5. Integration of decarbonization strategy .....	10
5.1 Sustainability due diligence framework (SDD) .....	10
5.2 Mitigation criteria.....	10
6 Risk Monitoring.....	11
7 Periodic Review.....	11

# NREP Decarbonization Policy

## 1. PURPOSE AND PRINCIPLES

NREP's Decarbonization Policy articulates the firm's strategy to decarbonize our real estate funds by 2028 encompassing both operational and embodied greenhouse gas (GHG) emissions. NREP communicates its policy internally to employees to create awareness of our strategic focus area and embedded approach to reach our decarbonization goal.

The arrangements referred to in this policy are particularly designed to ensure that each relevant person in the organization is aware of the scope of our ambition to decarbonize our private equity real estate portfolio. The policy can also be used externally to communicate our strategic impact and embedded approach to reach our decarbonization goal.

This policy is applicable to NREP's Private Equity Real Estate business and excludes other business activities. Other business activities where NREP has operational control will be subject to separate targets. In addition to this policy, NREP maintains additional policies related to sustainable business practices and specific areas of corporate governance.

### 1.1 RATIONALE

Our fiduciary duty is to create value for our investors and seek opportunities in what defines the future. We firmly believe that our approach of deeply embedding sustainability into our core decision making will make better real estate and help to de-risk assets.

The construction and operation of buildings account for approximately 37%<sup>1</sup> of global greenhouse gas (GHG) emissions and are an essential part of the transformation to a net zero economy. We, at NREP believe that the real estate industry has a responsibility and unique opportunity to lead and accelerate the decarbonization of the built environment. Decarbonizing the built environment is a huge opportunity and a towering challenge, and we strongly believe that acting now will be rewarded.

We believe decarbonizing real estate assets will create value both directly and indirectly. We expect direct value creation from cost savings due to more efficient use of resources, such as energy and building materials. We see strong indications of value creation across our value chain from wider access to investment opportunities, lower vacancy, increased leasing velocity, higher rent, higher exit valuation, better access to financing and more attractive financing terms.

We believe decarbonization is good business and that it will increasingly become a license to operate in the urban environment. New regulatory demands from the EU, governments, cities and municipalities proves the demand for decarbonization and transparency. We welcome regulatory frameworks and requirements that drive impact, and intend to stay ahead of the regulatory requirements and will continue to work actively with NGO's and academia to align our approach and efforts with climate science. Understanding the regulatory changes is key to maintain our license to operate and mitigate climate related risks.

---

<sup>1</sup> Source: UN Environment Program: 2021 Global Status Report for Buildings and Construction, 19 October 2021

### 1.2 RISK MITIGATION

Climate change due to GHG emissions is causing increased risk exposure for real estate asset owners.

Decarbonizing real estate is essential to understand and mitigate increased risk exposure. The risks associated with climate change include transition risk and physical climate risks.

Transition risks are business-related risks that follow societal and economic shifts toward a low-carbon economies. These risks can include policy and regulatory risks, technological risks, market risks, reputational risks, and legal risks. Transition risks result in stranded assets which lose significant value and liquidity. NREPs decarbonization efforts are paramount in understanding, quantifying and mitigating transition risks.

Physical climate risk arises from climatic events, such as flooding, storms, and extreme temperatures. Physical climate risks are either acute or chronic. Acute risks include droughts, floods, extreme precipitation, and wildfires. Chronic risks include rising temperatures, rising sea level, and an accelerating loss of biodiversity. Physical climate risk results in financial losses to exposed properties due to property damage/repair, loss of revenue due to vacancy, increased insurance premiums, increased operating expenses, and consequently reduced asset value. NREP is working systematically across our private equity real estate portfolio to understand, quantify and mitigate physical climate risks.

## 2. DECARBONIZATION AMBITION

NREP has the ambition to decarbonize its private equity real estate business to reach net zero by 2028. The ambition covers GHG emissions from the main activities in terms of emissions volume within NREP's Private Equity Real Estate business<sup>2</sup>. The identified main activities are related to NREP's real estate assets under management:

- **Operation, Operational Emissions:** Covers operational GHG emissions from total energy consumption in standing real estate assets including tenant energy consumption.
- **Construction, Upfront Embodied Emissions:** Covers embodied emissions from new construction projects, acquisitions of new built projects, and major renovation projects.

Our ambition to achieve net zero by 2028 follows the Science Based Target Initiative (SBTi) Net zero Standard for corporate net zero:

- Reducing scope 1, 2, and 3 emissions to zero or to a residual level that is consistent with reaching net zero emissions at the global or sector level in eligible 1.5°C-aligned pathways.
- Neutralizing any residual emissions at the net zero target year and any GHG emissions released into the atmosphere thereafter.

The net zero ambition is subject to the Boundary Conditions listed in section 2.3.

We have set targets to reduce GHG emissions prioritizing emission reductions within our product and value chain. The reduction targets follow the SBTi definition: Abatement within Value Chain.

Reduction targets:

- NREP has set a target to reduce Operational Emissions by 50% in 2023 compared to 2020 baseline to reach 3 kg CO<sub>2</sub>e/m<sup>2</sup>/year.

---

<sup>2</sup> Based on preliminary assessment, to be confirmed by baselining exercise in 2023

- NREP has set a target to reduce Upfront Embodied Emissions by 30% in 2023 compared to 2020 baseline to reach 4 kg CO<sub>2</sub>e /m<sup>2</sup>/year.

The reduction targets are subject to the Boundary Conditions listed in section 2.3.

We work to reduce the expected GHG emissions from all phases of the useful life of a building. We acknowledge the potential trade-offs between embodied, operational, and end-of-life emissions. NREP is working with specific targets for reduction of whole life cycle carbon emissions. The targets apply to both new construction projects and acquisitions of new built projects.

### 2.1 BASELINE

NREP has conducted a preliminary baseline assessment encompassing both operational and embodied emissions<sup>3</sup>. The preliminary baseline year is 2020 and the preliminary baseline is intensity based. The preliminary baseline maximum is:

- **Operation, Operational Emissions:** 6.5 kg CO<sub>2</sub>e/m<sup>2</sup>/year.
- **Construction, Upfront Embodied Emissions:** 300 kg CO<sub>2</sub>e/m<sup>2</sup> or 6 kg CO<sub>2</sub>e /m<sup>2</sup>/year.
- **Whole Life Emissions:** 15 kg CO<sub>2</sub>e/m<sup>2</sup>/year.

The baseline assumes a 50-year expected property life. A new baseline covering the full GHG inventory will be established in 2023. The new baseline inventory will include all NREP's scope 1, 2 and 3 emissions as defined in the GHG protocol with operational control as the organizational boundary.

### 2.2 MONITORING, DISCLOSURE AND VALIDATION

NREP targets 100% documentation of GHG emissions for 2023 subject to the Boundary Conditions listed in section 2.3. NREP is monitoring GHG emissions from operations by tracking actual energy consumption for all standing assets<sup>4</sup>. NREP is monitoring GHG emissions from construction by tracking and conducting life cycle assessments (LCA) on all new construction projects.

In 2023 NREP will establish a full baseline GHG inventory and NREP will track GHG emissions including all NREP's scope 1, 2 and 3 emissions as defined in the GHG protocol with operational control as organizational boundary. NREP will disclose its GHG footprint following the principles of the GHG Protocol for the reporting year 2023. During 2023 NREP expects to define Science Based Targets for NREP and submit SBTs and the decarbonization roadmap for validation with SBTi.

### 2.3 BOUNDARY CONDITIONS

NREP's GHG reduction targets and Net Zero ambition is subject to the Boundary Conditions outlined in this section.

#### a) DEFINITIONS:

- The ambition encompasses Green House Gas emissions as defined in the GHG Protocol.
- The ambition covers business activities where NREP has operational control as defined in the GHG Protocol.

#### b) BUSINESS AREAS:

---

<sup>3</sup> subject to the boundary conditions as defined in section **Error! Reference source not found.**

<sup>4</sup> subject to the boundary conditions listed in section **Error! Reference source not found.**

- The ambition covers NREP's Private Equity Real Estate business and excludes other business activities. Other business activities where NREP has operational control will be subject to separate targets.
- NREP has identified the business areas within NREP's Private Equity Real Estate business where NREP has operational control:
  - Real estate assets where the following funds have a majority ownership share or operational control
    - NIP fund
    - NSF funds
- Other real estate assets managed by NREP are excluded since NREP does not have operational control following the definition of the GHG protocol.

### c) BUSINESS ACTIVITIES:

- The ambition covers GHG emissions from the main activities in terms of emissions volume within NREP's Private Equity Real Estate business as set out in the previous section. Other activities are excluded. The identified main activities are related to NREP's real estate assets under management. The identified main activities are property operation and construction:
  - **Operation, Operational Emissions:** Covers operational GHG emissions from total energy consumption in standing real estate assets including tenant energy consumption:
    - GHG protocol Scope 3, Category 13, Down Stream Leased Assets
    - Measured based on actual and estimated energy consumption in reporting year
  - **Construction, Upfront Embodied Emissions:** Covers embodied emissions from new construction projects, acquisitions of new built projects, and major renovation projects:
    - GHG protocol Scope 3, Category 2, Capital Goods
    - Measured based on LCA. Including LCA phases A1-A5 (See figure 1)
    - Includes building materials, transportation, manufacturing, and construction processes
    - Including construction projects completed in the reporting year
    - Excluding projects where NREP does not control the design and construction process

NREP's measures whole life GHG emissions subject to the following Boundary Conditions:

- Measured based on LCA. Including LCA phases A1-A5, B4, B6, C3-C4 and D (See Figure 1)
- Includes product stage, construction process stage, use stage, end-of-life stage and potential benefits and loads

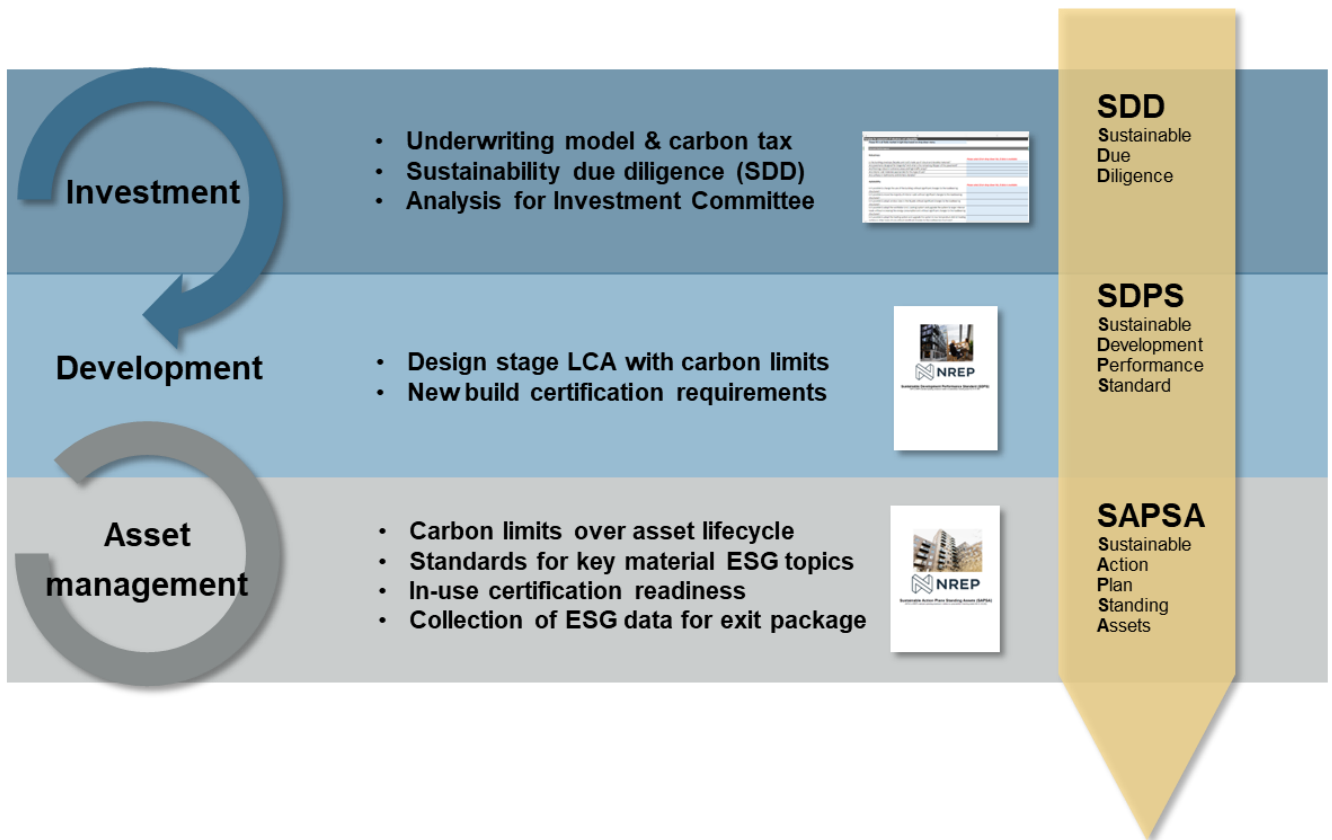
Figure 1: LCA Stages:

Product Stage			Construction Process Stage		Use Stage							End of Life Stage				Potential Benefits and Loads
A1	A2	A3	A4	A5	B1	B2	B3	B4	B5	B6	B7	C1	C2	C3	C4	D
Raw Material Supply	Transport	Manufacturing	Transport	Construction/Installation Process	Use	Maintenance	Repair	Replacement	Refurbishment	Operational Energy Use	Operational Water Use	Deconstruction/Demolition	Transport	Waste Processing	Disposal	Recovery Reuse Recycling - Potential

### 3. IMPLEMENTATION

Our path to decarbonizing our real estate portfolio is systematically integrated in our sustainability delivery model. Our delivery model allows us to systematize and scale impactful solutions to reduce carbon emissions. It ensures holistic sustainability integration from initial investment to asset management comprised of strategic frameworks: Sustainability Due Diligence (“SDD”), Sustainable Development Performance Standards (“SDPS”), and Sustainable Action Plans for Standing Assets (“SAPSA”).

#### 3.1 DELIVERY MODEL



The main objective of these standards is to translate our sustainability purpose and vision into clear guidance and methodologies, which support decision making in the acquisition stage and throughout the asset ownership period.

SDPS is designed on the premise of empowering development managers to embed impactful sustainable qualities fully aligned with our sector leading ambitions, into the design stage and construction process of projects in our development pipeline. In May 2022, NREP launched SAPSA which is designed to empower asset managers to embed sustainable qualities to all standing assets.

### 3.2 ABATEMENT LEVERS

We work with key abatement levers that we have identified as the most effective and impactful initiatives to reduce, avoid and capture GHG emissions. Our abatement levers are categorized following our main emission sources; operation and construction activities. Furthermore, we are working with financial incentives cutting across operation and construction activities.

#### a) FINANCIAL INCENTIVES:

All NREP assets under management of which NREP has operational control are subject to a carbon tax. The carbon tax is currently a shadow price for investment decisions, which accounts for all residual GHG emissions<sup>5</sup>. The carbon tax price level is set to 90 EUR / ton CO<sub>2</sub>e and revised periodically to reflect actual abatement cost.

#### b) OPERATION ABATEMENT LEVERS

The decarbonization of our operation builds on two main topics; energy efficiency and renewable energy supply. Making buildings more energy efficient is the most impactful way to decarbonize real estate operations, prioritizing emission reductions within our product and value chain.

We are working with the following levers to decarbonize operations in new construction projects and as a retrofit in standing assets.

Energy efficiency:

- High efficiency building envelope
- High efficiency installations
- Integrated energy systems
  - On site production of renewable energy using solar PV and geothermal energy
  - Energy storage
  - Heat recovery systems
  - Electrified heating and cooling systems, e.g. heat pump technology
  - Intelligent energy management systems

Renewable energy supply:

- Procurement of electricity generated from renewable sources off site following the definition of RE100
- Procurement of zero or low GHG emitting district heating and cooling

---

<sup>5</sup> subject to the boundary conditions as listed in section **Error! Reference source not found.**



### c) CONSTRUCTION ABATEMENT LEVERS

NREP uses LCAs as design tool at the very initial design stages to improve the way we build. Doing LCA scenario analysis already at the initial stages of strategic and concept design is crucial for sustainable construction, as approximately 70% of the footprint is made during the first 10% of the development process, and retroactively changing designs after that given time can be challenging from an economic and process-related perspective.

LCA is used as a tool to achieve GHG reductions throughout the building design process:

- Conducted on all new construction projects
- Conducted on all major renovation projects<sup>6</sup>
- Demand environmental product declarations on building materials

Building Design levers:

- Maximize space utilization: challenge function, reduce emissions per user
- Optimize building design and avoid over-engineering
- Use biogenic building materials
- Use low carbon building materials
- Design for disassembly and reuse of building materials

Construction site levers:

- Electrified construction sites
- Reduce waste

## 4. APPROACH TO DECISION MAKING

Our governance structure is also outlined in the NREP TCFD<sup>7</sup> disclosure roadmap, which you can find here: <https://nrep.com/policies/>. Management and oversight of environmental related risks are integrated into NREP's general organizational management structure and processes for managing risks to ensure the long term economic value of our assets.

- **The board of directors** is ultimately responsible for oversight and direction of the Sustainability Targets of NREP AB and the NREP's funds.
- **The risk and compliance committee** is responsible for corporate-wide monitoring of the Sustainability Targets.
- **The sustainability team** is responsible for providing the strategy, tools, systems and expertise required to enable the organization and ensure quality. The Head of Sustainability also participates as an observer on the Investment Committee.
- **The investment committee (IC)** will review key findings from the sustainability due diligence ("SDD") as well as core elements of a mitigation and impact plan for each asset as well as the cost of that plan. The overall purpose of the IC is to discuss the acquisition or divestment, and to decide on all acquisitions and

---

<sup>6</sup> Major renovations are defined as projects which undergo significant changes in the building envelope or systemic changes in the technical systems

<sup>7</sup> The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) <https://www.fsb-tcfid.org>

divestments, as well as take part in larger asset management decisions. They thoroughly challenge and validate every transaction proposal.

# 5. INTEGRATION OF DECARBONIZATION STRATEGY

Sustainability is incorporated into every investment process in NREP by requiring reporting on them in both pipeline and investment committee approvals. Screening on decarbonization potential begins in the initial pipeline stage with high level estimation of carbon emissions and progresses to a detailed review part of the required material in the Investment Memorandum presented to the Investment Committee. The process will be elaborated on below.

## 5.1 SUSTAINABILITY DUE DILIGENCE FRAMEWORK (SDD)

NREP make use of the SDD framework. A sustainability analysis which includes a detailed assessment of risk and value creation opportunities which is a mandatory part of all investment decisions. Identified risks are in subsequent steps investigated in more detail to understand if they can be managed/mitigated by creating both a pre- and post-mitigation assessment. In our SDD, each of the criteria has a concrete target to be met. E.g., minimum energy efficiency level EPC level B within 18 months of closing, compliance with the Carbon Risk Real Estate Monitor (CRREM)<sup>8</sup> pathway, screening of existing animal species and plants, and the adaptability of the building without significant changes to the loadbearing structures. The investment committee will review key findings from the SDD as well as core elements of the mitigation and impact plan.

The SDD model will be continuously updated as we progress with our 2028 decarbonization strategy.

## 5.2 MITIGATION CRITERIA

NREP will review an action plan for each of these criteria and review the cost of the action plan. Assets will be evaluated on these criteria both before and after mitigation.

---

<sup>8</sup> [Decarbonization Pathways - CRREM Global](#)

Physical climate risk	Risk exposure	Exposure to and mitigation of physical climate risks (fire, flooding, etc.)
Decarbonization and transition risk	Embodied carbon emissions	Carbon emissions associated with building constructions (e.g., extracting transporting, manufacturing and installing building materials)
	Operational carbon emissions	Carbon emissions due to operations of the building (electricity, heating, etc.)
	Adaptability	Potential for economically-viable alternative use of the asset in the long-term
Energy efficiency	EPC	EPC level of the asset
	Energy intensity	Asset energy intensity, as measured by CRREM 1.5 degree pathway
Ecosystem & biodiversity	Ecosystem improvements	Compliance with NREP biodiversity action plan incl. plan & budget
	Protected or sensitive areas	Compliance with national and EU legislation to protect sensitive habitats
Health & community	Hazardous materials & contaminated land	Compliance with NREP's material pollution policy
	Indoor climate	Compliance with NREP's indoor climate template, based on national requirements as well as requirements for key certifications (eg. BREEAM, DGNB)
Data & analytics	Data metering	Installation of or plan to install data metering or otherwise systematic data capture of critical data points, incl. NREP access to data (e.g. PoA)
Governance & ESG framework compliance	NREP code of conduct	Key partners/suppliers signed to comply ( <i>if inheriting service agreements</i> )
	SAPSA readiness	All documentation is in place to ensure SAPSA can be applied
	SAPSA/SPDS compliance	Compliance with and requisite data captured for SAPSA or compliant with NREP's sustainable build standards (SPDS)
	New build certification	Certification levels DGNB gold, BREEAM Very Good, or LEED Gold

Following an investment approval, the ongoing evaluation centers around our operational sustainability framework, which includes the three standards we have developed to ensure systemically and scaled sustainability impact in our asset management and project development: SAPSA, NREP's SDPS and NREP's ESG risk management manual.

## 6 RISK MONITORING

NREP's Risk and Compliance Committee will review the identification and mitigation of environmental, social and governance risks on a quarterly basis to ensure adequate risk management to achieve NREP's Sustainability Targets.

NREP's in-house sustainability team is responsible for coordinating and monitoring environmental and social issues both on vehicle and organization levels.

## 7 PERIODIC REVIEW

Author	Review	Amended	Date	Version
Johan Hallgren Madsen	Marco Lippi	N/A	30-12-2022	1.0