

SUSTAINABILITY NOW

ESG IN THE SWEDISH PROPERTY MARKET

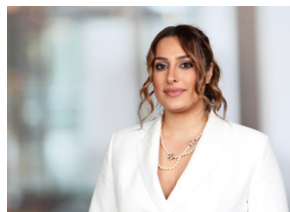
AUTUMN 2024

ESG in the property market

The real estate sector accounts for approximately 40 percent of annual global greenhouse gas (GHG) emissions. Consequently, an increased focus is being placed on the role of the sector to reduce emissions. In response, the European Union has introduced various regulatory frameworks and legislation, such as the Corporate Sustainability Reporting Directive (CSRD).

These initiatives align with Environmental, Social, and Governance (ESG) sustainability, covering themes from carbon footprint to community value. At the property level, this includes environmental impacts, tenant health, and sustainable management. Savills observes that sustainability increasingly influences real estate decisions, with research indicating that sustainable features increase property value, lower vacancy rates, and improve tenant well-being. However, making a building “Paris Proof” can be costly.

At Savills, we support our clients’ ESG objectives and collaborate to keep them at the forefront of the sector. We monitor regulations and follow guidelines like RICS, incorporating best practices into our valuation process. As sustainability becomes more significant, we provide insights into long-term property perspectives. While not all sustainability factors are easily measurable, elements like energy efficiency may benefit users as well as the owners, complicating market value attribution. This report aims to explore ESG within the Swedish property market.



“With 40% of global GHG emissions coming from real estate, sustainability in the sector is not just an option — it is essential for a low-carbon future.”

Maryrose David
Head of Research, Savills Sweden

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ESG from a European perspective

Sustainability is becoming increasingly important, with the potential to positively affect value, profit and risk. Measuring sustainability is not only done internally, but new legislation has also been implemented in the EU. Assets need to have long-term value to avoid stranding, which is increasingly measured through an asset's energy consumption and resilience to climate change factors.

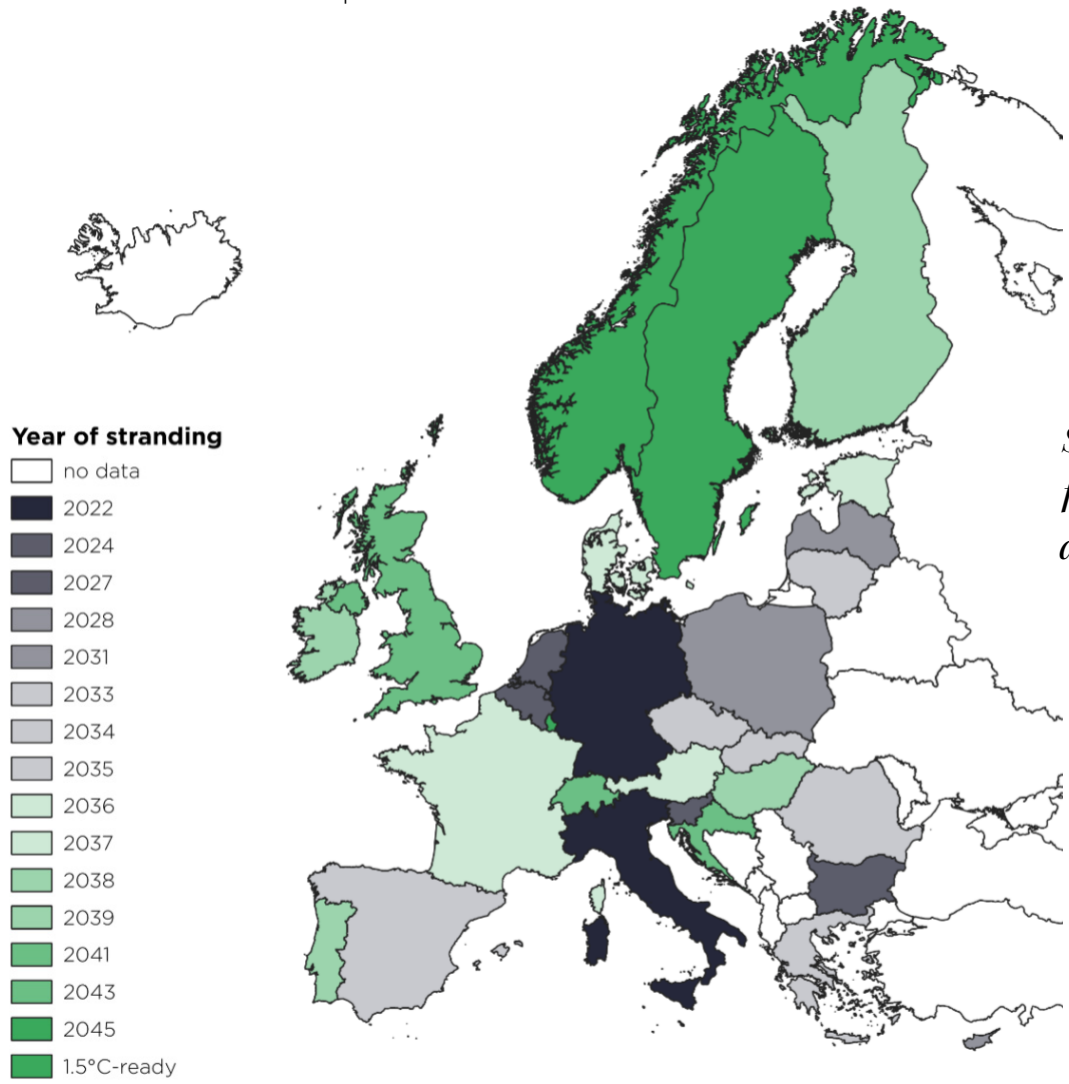
Investors across Europe have created their own frameworks to determine the ESG credentials of an investment opportunity and are testing individual real estate assets using these criteria. The first test is usually tied to the carbon footprint, as investors and businesses must report these under CSRD. The test itself is usually tied to the Carbon Scopes and includes energetic performance of individual assets. In the Netherlands, this type of reporting results in a difference in potential rental income for real estate. A study comparing offices in one of the five largest cities revealed that those with an Energy Label A and/or a BREEAM "Very Good" labels or above, yielded nearly 10% higher rental income compared offices with lower energy labels and/or lower BREEAM labels.

A second test to determine sustainability, and therefore suitability, of a real estate investment, include resiliency to climate change, which is usually tested through effects of heat stress, flooding and natural disasters such as extreme weather and earthquakes. In the South of Europe, for instance, heat stress is becoming increasingly pressing in the operation and maintenance of buildings. From minor issues such as a quicker turnover for coats

of paint and the need for frequent renovations, to more significant concerns such as installing air conditioning to maintain indoor comfort, repairing deteriorating facades, and safeguarding residential units from forest fires, our Southern neighbours are well-aware of the challenges posed by extreme heat. The middle of Europe, on the other hand, is more prone to flooding, as we have seen in Germany and the Netherlands for years now. Flood damage can be severe in real estate, and with added risks such as circuit breaks leading to fire hazards, this is a big point of interest. Overall, there is a strong correlation between resilience and economic fundamentals, leading real estate investors to focus on cities with a broad economic base.

Thirdly, the integration of social value seems to gain territory as an important factor in the decision to invest in real estate or not. Especially in the UK, there are different systems in place to calculate social value. These include the Social Value TOM System, National Social Value Standard, and the Impact Evaluation Standard. However, since there is no legislative standard, the integration of any sort of system or cost is optional.

Environmental impact per country in the EU
Current and future footprint



“The Nordics, mainly Sweden, have become a futureproof investment destination due to their energy mix aligning with the sustainability goals of the Paris Agreement.”

Iris Kampers
ESG-advisor,
Savills Amsterdam

CRREM Insights and how Europe’s electricity mix affects investment risks

Across Europe, many investors have made it common practice to include a Carbon Risk Real Estate Monitor (CRREM) analysis in their Due Diligence. This analysis shows when an individual asset, or a portfolio of assets, is no longer aligned to the Paris Agreement based on energy consumption data calculated into carbon emissions. As the Paris Agreement is the most important piece of legislation globally with regards to sustainability, it makes sense that this is a strong indicator for investor appetite. We have seen institutional investors write off any assets that are set to “strand”, i.e becomes functionally obsolete or economically unviable, in the next five to ten years, as the cost of refurbishment is high and the stability in value is deemed unfavourable.

Savills conducted a study where a standard property had country-specific energy mixes implemented and measured the time until the property became stranded. Countries with loads of hydro power, like Sweden, outperform countries dependent on fossil fuels for electricity generation. From that point of view, the Nordics in general are deemed more futureproof with regards to alignment to the Paris Agreement. Sweden’s resilience to stranding has been somewhat unexpected for the larger institutional European investors, who are usually more familiar with German or UK electricity generation, through coal or natural gas. This is because, even though Sweden has energy generation that is considered “grey” according to CRREM, the mix is based on hydro and nuclear power to a larger extent than other European counterparts.

The Swedish investment market

After a decade-low transaction volume in 2023, the market has experienced higher activity so far in 2024. As of H1 2024, the investment volume amounted to SEK 64 billion, which is an increase of 18% compared to the same period in 2023, but a decrease of 38% compared to the five-year average.

The property market is undergoing a transformation characterised by polarisation, driven by factors such as location preferences, building classifications and evolving tenant demands. Premium premises in strong locations thrive, while lower quality premises in secondary locations face challenges.

During H1 2024, the market has experienced a decreased divergence in price expectations between buyers and seller and the transaction volume increased by 18% compared to H1 2023. Cross-border investment has been historically low during 2024 as Swedish investors have been able to price risk and uncertainty more competitively compared to many international investors.

In line with previous years, the Stockholm market has remained competitive during 2024, as 43% of the volume is derived from the region. The industrial and logistics sector has been the most liquid sector so far, followed by the residential sector, claiming approximately 22% and 21% of the market respectively. Office investments have accounted for 20% of the volume.

As of H1 2024, the real estate market in Sweden is characterised by distinct trends among various

buyers. Institutions, pension funds, municipalities, and unlisted property companies are predominantly on the buying side. Notably, institutions and pension funds are mainly acquiring office spaces, which account for 67% of their total acquisition volume during the period. Municipalities have emerged as net buyers, focusing their acquisitions on both public sector properties and residential buildings. Additionally, some listed companies have been active purchasers, such as Catena and Svenska Handelsfastigheter, with the latter accountable for approximately 55% of the acquisition volume within the retail sector.

The outlook has only brightened in recent months, not the least since Q2 2024. Declining interest rates combined with a belief in several future policy rate cuts, favour low-yield segments, and the investment appetite for these properties is expected to return.

15%

Share of foreign investors,
H1 2024 (5YA 27%)

+18%

Transaction volume,
H1 2024(H1 2023)



Transaction volume Sweden



*As of H1 2024

Source: Savills Research

The investment market drives demand for sustainability

Interest in sustainability has significantly increased within the property market, gaining attention from investors and tenants. BREEAM remains the most adopted certification system for properties recently acquired in Sweden. In H1 2024, among properties with an EPC, those with low energy consumption (EPC A-C) represented 46% of the total transaction volume, clearly demonstrating a strong emphasis on energy efficiency.

In 2021, the construction and property sector in Sweden contributed more than 22% of the country's total emissions, with nearly 60% originating from domestic production. Despite this, the sector managed to reduce its emissions by 6% between 2008 and 2021, reflecting the sector's effort to decouple production from climate impact.

The growing demand for sustainable buildings has pushed property owners and developers to prioritise properties with both environmental certifications and low-energy consumption (EPC A-C). Environmental certifications ensure that construction practices are sustainable, which is key for attracting environmentally conscious investors and tenants. At the same time, better EPC provide economic benefits and demonstrate social responsibility.

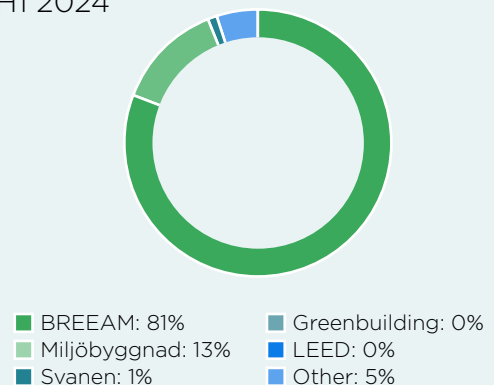
Environmental certification trends in the investment market

Of the 960 properties divested during 2023, only 8.5% were certified. In H1 2024, a total of 485 properties were divested, of which 9.1% were certified with standards such as BREEAM, Greenbuilding, Miljöbyggnad, LEED or Svanen. However,

in H1 2024 alone, around 25% of the total stock measured in sq m, equivalent to 790,000 sq m, was certified. This corresponds to approximately 37% of the total transaction volume, an increase compared to 2023, when 22% of the volume was certified.

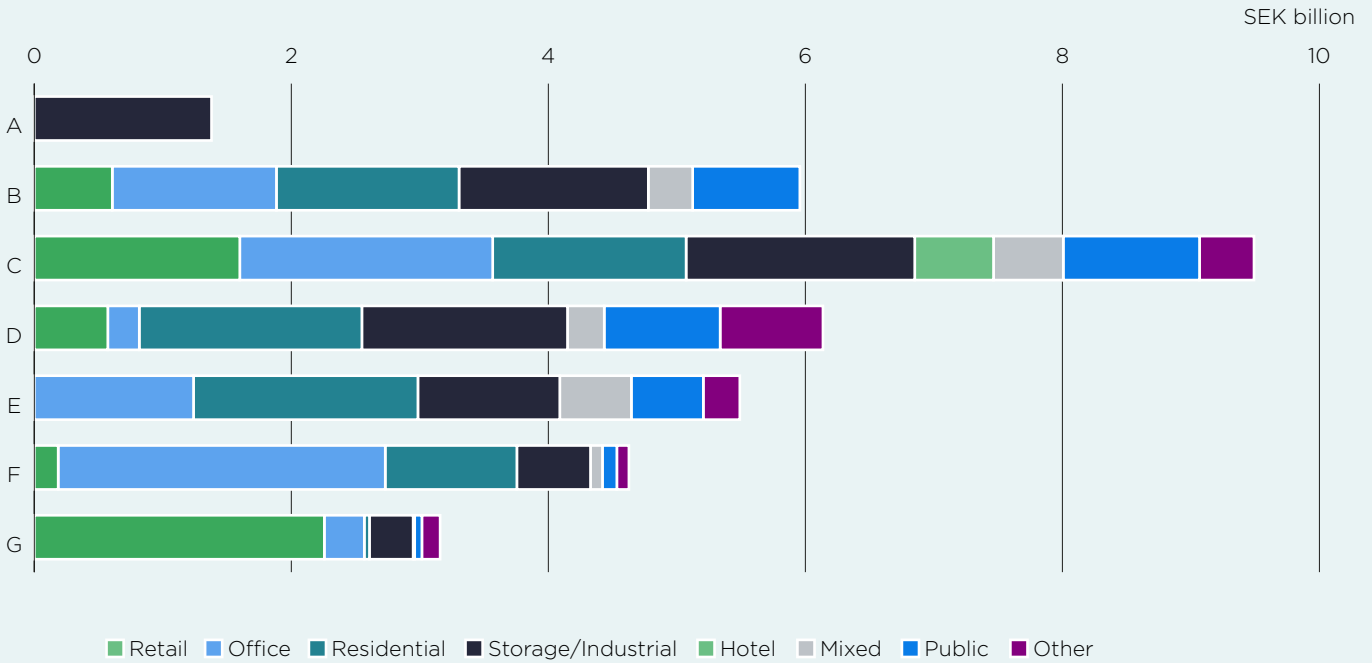
BREEAM is the leading certification type, accounting for 81% of the certified volume. Miljöbyggnad follows with 13%, while Other certifications account for 5%, and Svanen for 1%.

Certified transaction volume breakdown by certification type H1 2024



*The certifications included are BREEAM, Miljöbyggnad, Svanen, and "Other" (used when the specific certification is unknown).

Energy performance certification of properties distributed by total transaction volume and sectors H1 2024



Energy-efficient properties gain momentum, amid shortages

Low-energy properties share of the total investment market volume has increased from an average of 37% during 2018-2023 to 46% in H1 2024. Despite the growing demand for energy-efficient properties, the market faces a shortage, with approximately 67% of all commercial properties in Sweden still having a high-energy consumption (E-G).

Notably, while low-energy properties make up a larger share of the investment volume, properties with an EPC rating of E were the most divested in H1 2024, representing 26% of the total number of properties sold.

Office buildings with high-energy consumption (E-G) accounted for the largest share of the investment volume in H1 2024. This is largely driven by location, with 95% of the office transaction volume concentrated in Stockholm, particularly in the city centre, which is known for its older building stock.

Looking to the future

Despite the increased focus towards ESG credentials, a significant gap still exists in the investment market. Currently, approximately 63% of the transaction volume is uncertified, and over 30% lacks an EPC. This highlights the ongoing challenge the property market is facing to meet the 2030 targets of 55% carbon reduction.

New buildings generally require certifications and strive for a low-energy consumption, whereas older buildings, which still account for the largest share of the market, often lack these certifications and ratings. The rising demand for sustainable buildings is increasingly challenging older properties to meet stakeholder expectations.

Key Takeaways

- In 2023, 57% of the total transaction volume had a classification that was A to C, in H1 2024 there was a slight decline to 46%.
- BREEAM is the most common certification on the investment market in 2024.

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ESG from a Swedish perspective

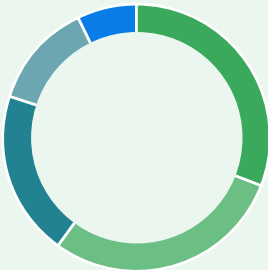
To improve transparency on property owners' ESG actions, Savills conducted a survey, with responses from property owners present in the Swedish market. Energy performance certification and energy consumption were identified as top priorities for environmental sustainability, while local area safety emerged as a key factor for social sustainability. Most companies manage ESG in-house, focusing on energy efficiency and net-zero emissions through green leases and sustainable redevelopment. Green acquisitions provide better financing terms, and they come at a premium price. Investments do not always require certification, but internal standards for green projects remain high.

In 2024, Savills Research and the valuation team in Sweden conducted a survey to understand how commercial property owners view and manage demand and opportunities related to sustainability. As this topic is relatively unexplored, with new EU-directives, including CSRD and ESRS, being implemented in 2024, the aim is to gain insight into how property owners view ESG today and how they implement their strategies. The following chapter presents an overview of the answers focusing on three main topics: measuring of ESG, acquisitions and management.

In total 45 property owners participated in the survey, with ownership evenly divided in all commercial segments, 82% of the respondents were headquartered in Sweden, followed by respondents headquartered in the Nordics and internationally. Over 70% of the respondents had a turnover above SEK 500 million and over half of the total respondents had a turnover above SEK 2,000 million in 2023.

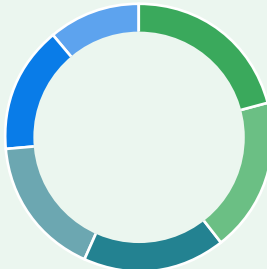


Which category of property owner do you belong to?
(share of responses)



- Unlisted companies: 31%
- Listed property companies (large cap): 29%
- Commercial funds: 20%
- Institutions and pension funds: 13%
- Listed property companies (mid & small cap): 7%

Which property segment does your stock consist of? (multiple choice)



- Office: 64%
- Retail: 56%
- Industrial/Logistics: 53%
- Residential: 51%
- Public property: 47%
- Hotel: 33%

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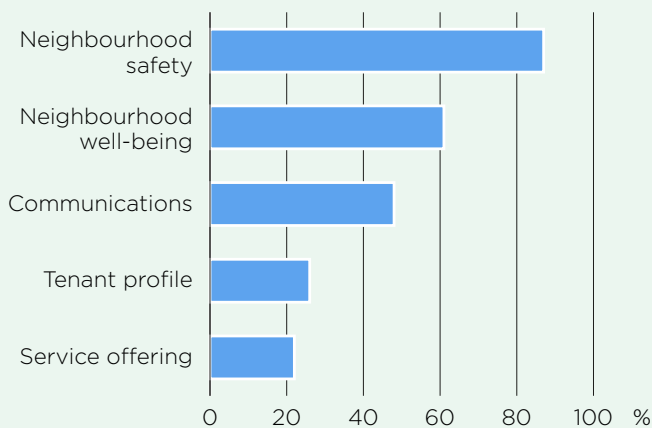
How are companies measuring ESG today?

When asked how the Swedish property owners measure environmental sustainability, the responses were primarily by measuring energy consumption and EPC. CO₂ emissions and environmental certification were also favoured. The result is expected, since these figures are easily comparable while being part of the current regulatory framework. Their effectiveness in measuring sustainability is further supported by their accessibility – for example, EPC labels are provided by Boverket. In contrast, measuring waste management or water consumption require more resources. Nonetheless, these aspects are more prioritised than our European counterparts, meaning that Sweden probably will have an easier time adapting to new reporting regulation.

Social sustainability is primarily measured in terms of the local environment, specifically regarding safety and comfort in the location. This is also seen as the most important part of social sustainability. It is notable how the tenants are centred in the strategy for Swedish property owners, with safety and comfort being prioritised. Commercial funds, however, place significant emphasis on accessibility to public transportation, as it is also a top priority in Europe.

To ensure the criteria for sustainable governance, approximately 60% of the respondents use supplier audits and continuous monitoring. Almost 30% of the respondents do screening of tenants, which is rarely used around Europe in this extent.

How do you measure social sustainability? (multiple choice)



How do you measure environmental sustainability? (multiple choice)

1. Energy consumption (92%)
2. EPC (87%)
3. CO₂ emissions (85%)
4. Environmental certifications such as BREEAM, LEED, Miljöbyggnad and Svanen (82%)
5. Water consumption (62%)
6. Waste disposal (46%)
7. Share of green leases per property (41%)
8. Footprint (13%)
9. Air quality (8%)
10. Other (<1%)

Sustainability management in property ownership

The way the property owners manage their properties is important for supporting sustainability. A little over 70% of the respondents have in-house property management, although about 60% of the commercial funds have external management.

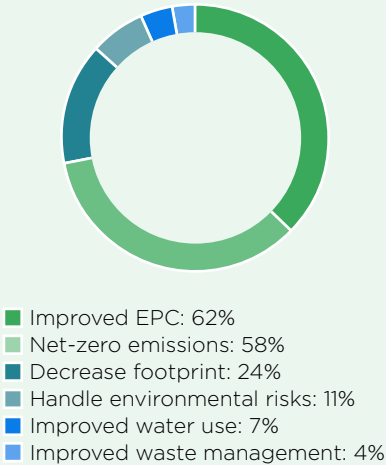
The ESG strategy is in 80% of cases set by the company leaders, since they are responsible for fulfilling the requirements of the EU taxonomy. The goal of the strategies is primarily to enhance EPC ratings and reaching “net-zero” emissions, with net-zero emissions being particularly important for institutions and pension funds. Internal ESG-scoring is only used by 30% of property owners and is especially used by listed small- and midcap companies. It is also more prioritised by commercial funds and institutions.

Another component of the ESG strategy involves the use of green rental agreements, with 62% of respondents reporting that they

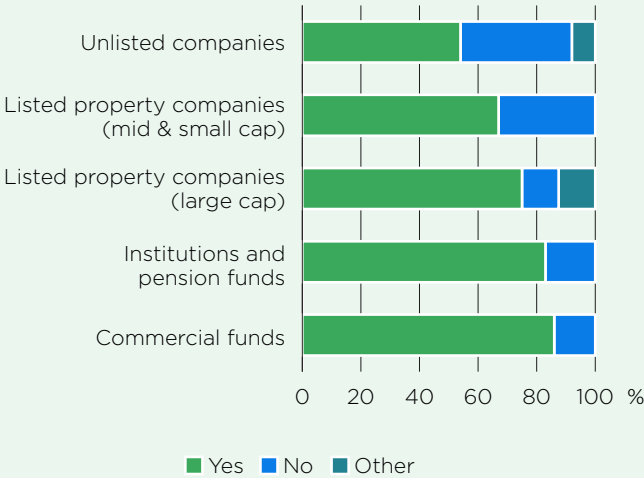
have implemented them. The most common features of these agreements include EPC requirements and access to tenants’ energy consumption data. This adoption rate is relatively high compared to other European countries, which may reflect a broader interpretation of what qualifies as a green contract. For example, in the Netherlands, green rental agreements are in some cases linked to economic incentives for reducing energy consumption – an approach that is not common in Sweden.

Redevelopment strategies can also be implemented to drive sustainability, with 84% of the respondents aiming to make minimal changes during renovations and 74% focusing on reusing materials. However, the strategy of minimising changes faces challenges, as property owners note that tenants show limited interest in reducing tenant improvements to support environmental sustainability.

What are the main goals in your ESG strategy? (multiple choice)



Do you sign green rental contracts? (share of responses)



3

The role of ESG in property financing and insurance terms

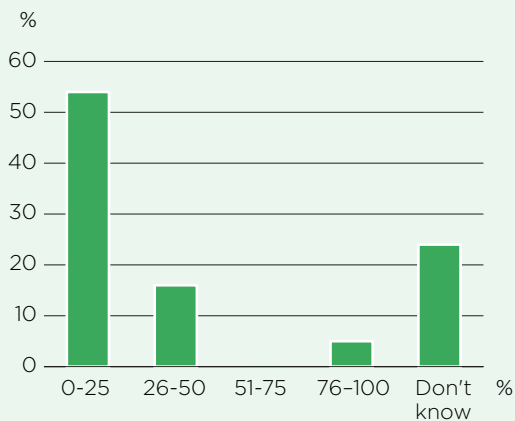
Green financing provides a valuable incentive for improving environmental performance, yet few property owners use it extensively to fund their investments. Just over 50% of respondents reported that the share of their financing attributed to green financing amounted to only 0-25%.

Furthermore, respondents were asked whether they receive more favourable financing terms for certified properties, to which 63% responded positively. However, it has been observed that banks may have additional criteria for granting green

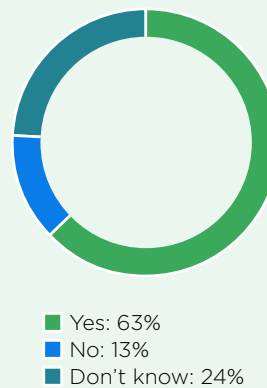
financing, meaning that a certification alone may not always fulfil their requirements. This underlines the relatively high standards that must be met for green financing, even when a property carries certification.

Respondents were also asked whether insurance companies offer favourable terms for certified properties, with the general conclusion being that they do not. This is likely because insurance companies tend to focus more on direct risks to the structure, such as natural disasters and fire risks.

How large is your share of green financing? (share of responses)



Do lending institutions offer favourable terms for certified properties? (share of responses)



Green portfolios and internal ESG criteria in investment decisions

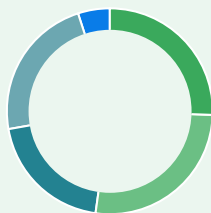
The Swedish property owners were asked whether they would invest in a portfolio that is not fully certified and lacks the potential to meet such standards. Despite this, 70% remained open to investing. Investors may be less stringent about green requirements when evaluating a portfolio as a whole, even if individual properties might not meet those standards. Additionally, brown properties make up a significant portion of the market, making them difficult to overlook economically. However, internal ESG checklists play a stronger role among commercial funds and institutional investors, with 85% using them in investment decisions – far more than other investor categories.

For individual properties, certification outweighs internal checklists. Properties with future certification potential were rated highest for investment, followed by already certified properties, with 75% investing in this category. This likely reflects

the limited supply of green properties rather than investor preference. It also highlights Swedish property owners' confidence in brown-to-green conversions, viewing the risk of asset stranding as relatively low. Conversely, in Europe the requirement of a potential acquisition to fulfil internal requirements today would be much more important and is only the fourth rated category by the Swedish respondents.

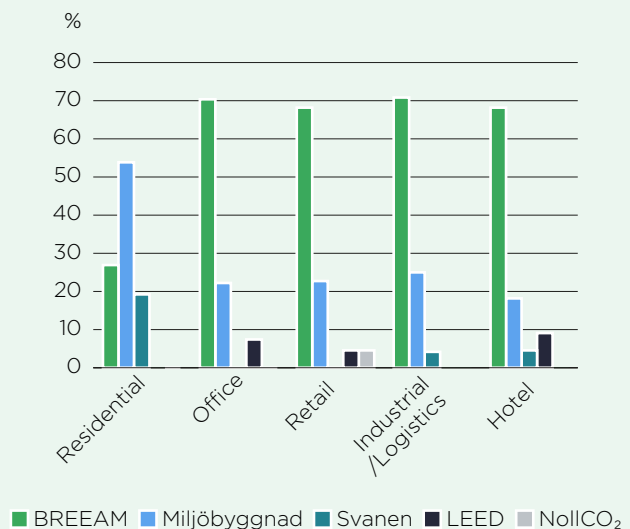
The respondents generally lack strict requirements for which environmental certification their properties must hold, but have clear preferences by property segment. 'Miljöbyggnad' is preferred for residential properties, while BREEAM is favoured in the other segments, both for existing properties and new construction.

Which types of properties do you purchase today? (multiple choice)



- Environmentally certified: 58%
- Not environmentally certified with the potential to be certified in the future: 60%
- Not environmentally certified but fulfils internal requirements: 44%
- Properties with future potential to fulfil internal requirements: 51%
- Not environmentally certified or able to fulfil internal requirements: 11%

Which sustainability certification do you find most important in the current portfolio? (share of responses)



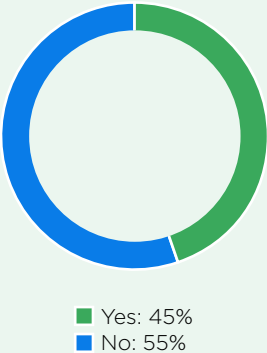
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Demand for investment in socially disadvantaged areas

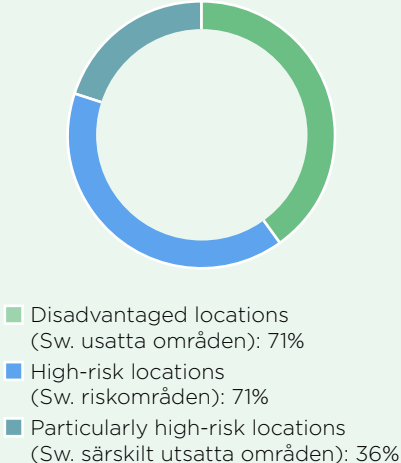
The survey inquired the attitude on socially disadvantaged or high-risk locations, which as previously mentioned, is an important topic for the property owners. The responses were mixed whether they would want to acquire properties in such locations. Commercial funds were more positive to the idea than the other inves-

tors with 57% answering yes. Among those who answered yes, there was a greater willingness to invest in socially disadvantaged locations compared to high-risk ones. Respondents with residential properties in their portfolio were the least willing to invest in these locations.

Would you consider acquiring properties in locations listed by the police authority as disadvantaged, high-risk, and/or particularly high-risk?
(share of responses)



If yes, which kind of area would you consider? (multiple choice)



6

The green premium in property investments

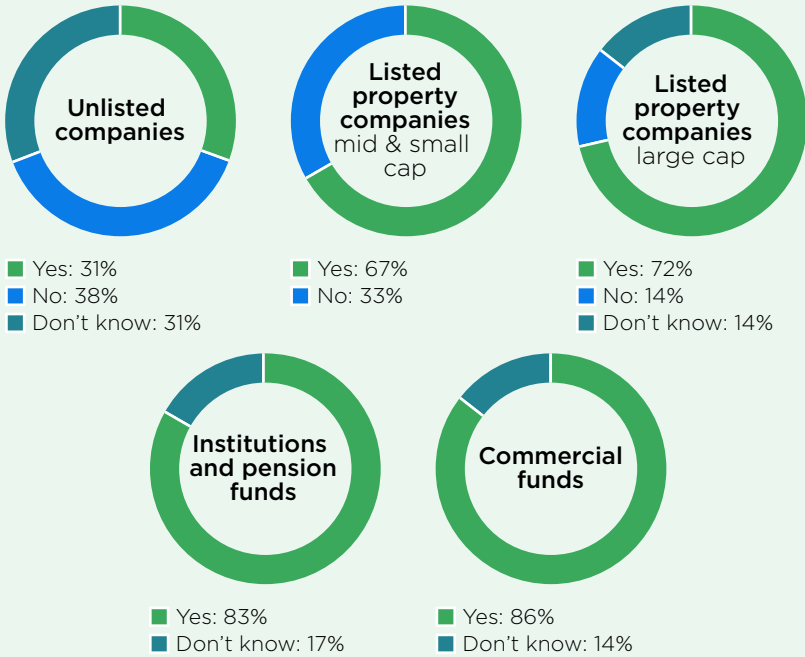
Throughout the survey it has been made clear that property owners increasingly value certified properties, especially among commercial funds and institutions. As demand for sustainability and the willingness to pay for these credentials has increased, the term “green premium” has emerged.

A little over 60% of respondents agree that such premium exists, especially among commercial funds and institutions, where 85% agreed. Unlisted companies were not as conclusive in their perception of a green premium, which might be based on them not actively pursuing certified properties to the same extent. This paints a picture of

the market sentiment, however, isolating a green premium from correlating effects, such as the increased value of modern properties, is difficult. Still, there are some convincing indicators, such as data showing a 140-basis point difference in yield levels between BREEAM or LEED-certified office properties compared to all office properties transacted in Europe at the end of 2023.

In conclusion, ongoing regulatory developments and emerging economic incentives are transforming the property market, with ESG continuing to expand as a significant topic affecting pricing.

Do you experience a “green premium” in acquisition prices? (share of responses)



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