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ASSESSMENT
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Contacts

Tom Collet
Sustainable Finance Analyst
tom.collet@moodys.com

Krister Koskelo
Associate Analyst
krister.koskelo@moodys.com

Adriana Cruz Felix
VP-Sustainable Finance
adriana.cruzfelix@moodys.com

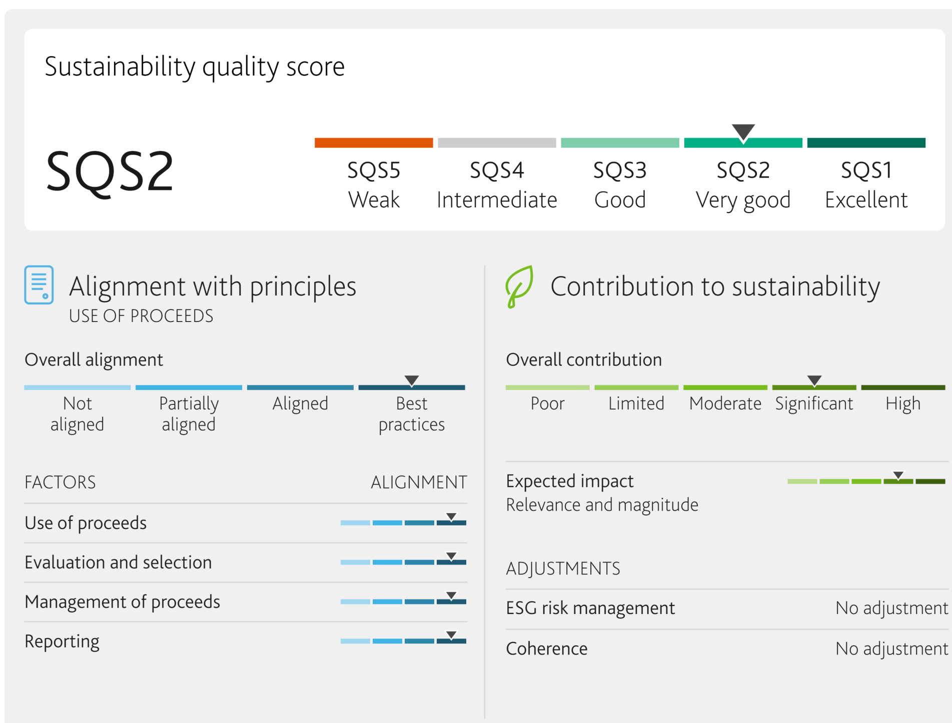
Rahul Ghosh
MD-Sustainable Finance
rahul.ghosh@moodys.com

Covivio Hotels

Second Party Opinion – Green Financing Framework Assigned SQS2 Sustainability Quality Score

Summary

We have assigned an SQS2 Sustainability Quality Score (very good) to Covivio Hotels' green financing framework dated 12 June 2023. Covivio Hotels has established its use-of-proceeds framework to finance projects across three eligible green categories: green buildings, energy efficiency and renewable energy. Covivio Hotels has described the main characteristics of the green bonds and loans within a formalized framework that is aligned with the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (including the June 2022 Appendix 1) and the Asia-Pacific Loan Market Association, Loan Market Association, and Loan Syndication and Trading Association's (APLMA/LMA/LSTA) Green Loan Principles 2023. Also, the company has incorporated MIS-identified best practices for all four components. The framework also demonstrates a significant contribution to sustainability.



Scope

We have provided a second party opinion (SPO) on the sustainability credentials of Covivio Hotels' green financing framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the APLMA/LMA/LSTA's Green Loan Principles 2023. Under its framework, Covivio Hotels plans to take out use-of-proceeds green loans, and issue use-of-proceeds green bonds, to finance projects across three green categories, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of Covivio Hotels' framework dated 12 June 2023, and our opinion reflects our point-in-time assessment of the details contained in this version of the framework, and other public and non-public information provided by the issuer.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

Covivio Hotels, a 43.9%-owned subsidiary of Covivio, is a listed property investment company and significant operator in the hotel real estate market in Europe. Its activity involves the acquisition, management, renovation and in some limited cases, the development of new hotel properties. It owns a portfolio of 316 hotels across Europe worth €6.7 billion, focused on large European cities, and let out to or operated by major hotel operators (e.g., Accor, B&B, IHG and NH Hotels) with long-term leases. The company's sustainability strategy includes decarbonization targets aligned with 1.5°C, approved and validated by the Science-based Targets Initiative (SBTi); commitments around biodiversity and construction site safety; and supporting sustainable operation by its tenants, for instance, through green clauses included in leases.

Strengths

» Use of a sophisticated tool, the Carbon Risk Real Estate Monitor (CRREM) emission pathways, to set building-specific greenhouse gas (GHG) reduction trajectories as eligibility criteria

» Use of full EU taxonomy alignment, to include substantial contribution criteria, do no significant harm, and minimum social safeguards, as eligibility criteria

» Adherence to MIS-identified best practices across all the four pillars of the GBP and GLP

Challenges

» Lack of specificity around thresholds or technical criteria for the energy efficiency category beyond those set out in the EU taxonomy

Alignment with principles

Covivio Hotels' green financing bond framework is aligned with the four core components of the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the APLMA/LMA/LSTA's Green Loan Principles 2023, and incorporates MIS-identified best practices for all the four components:

- ☑ Green Bond Principles (GBP)
- ○ Social Bond Principles (SBP)
- ☑ Green Loan Principles (GLP)
- ○ Social Loan Principles (SLP)
- ○ Sustainability-Linked Bond Principles (SLBP)
- ○ Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned | Partially aligned | Aligned | **Best practices** ▼

Clarity of the eligible categories – BEST PRACTICES

Covivio Hotels has communicated the nature of the eligible expenditures and has set clear eligibility criteria for its three eligible green categories, namely green buildings, energy efficiency and renewable energy. The issuer has confirmed in internal documentation the exact location of the eligible existing hotel buildings to be refinanced under the green buildings category, which are located in over 120 towns and cities across 10 European countries.

Clarity of the environmental and social objectives – BEST PRACTICES

The company has clearly outlined relevant and coherent environmental objectives for all the eligible categories. For all the three categories, the principal objective is climate change mitigation. All the eligible categories are relevant to the environmental objective they aim to contribute to. The objective is coherent with the EU taxonomy objectives, and the issuer has linked each eligible category to one or several EU taxonomy eligible activities. Where it has linked categories to specific EU taxonomy activities, it has committed to conform to all elements of the taxonomy (substantial contribution criteria, do no significant harm (DNSH), and minimum social safeguards).

Clarity of the expected benefits – BEST PRACTICES

Covivio Hotels has identified clear and relevant expected environmental benefits for all eligible categories. The benefits are measurable and will be quantified for all the categories in the reporting. The issuer has transparently communicated in its framework the lack of a maximum look-back period for eligible green assets and a maximum look-back period of two years for eligible green capital spending. The issuer has committed in its framework to disclose the share of refinancing to investors prior to each issuance.

Best practices identified

» Eligibility criteria are clearly defined for all project categories

» Objectives set are defined, relevant and coherent for all project categories

» Relevant benefits are identified for all project categories

» Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting

» Commitment to transparently disclose the share of proceeds used for refinancing where feasible

» Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned	Best practices
			▼

Transparency and quality of process for defining eligible projects – BEST PRACTICES

Covivio Hotels has established a clear process for evaluating, selecting, approving allocations for, and monitoring eligible projects, formalized in its public framework. The roles and responsibilities for project evaluation and selection are clearly defined, and include relevant expertise. Specifically, the Green Financing Committee comprises Covivio's chief sustainability officer, Covivio's chief financial officer and the chief executive of Covivio Hotels. The committee is responsible for selecting, evaluating and monitoring the eligible green portfolio; validating the list of eligible assets and capital spending prepared by the environmental, social and governance (ESG) department (at least annually); removing an asset or expenditure from the portfolio in case it no longer meets the eligibility criteria or faces a severe controversy without corrective measures; and validating the allocation and impact reports.

Environmental and social risk mitigation process – BEST PRACTICES

The environmental and social risk mitigation process is disclosed in the issuer's framework, and in greater detail in the parent company Covivio's publicly accessible extra-financial statement. The group-level ESG risk management process for Covivio also applies to the Covivio Hotels subsidiary, and thus to all the eligible assets and projects contemplated under the framework. Covivio Hotels implements ESG screening at each stage of the life cycle of its assets. In particular, all eligible green assets and capital spending under the current framework will be assessed against the currently applicable ESG screening practices irrespective of their acquisition date by Covivio Hotels.

Best practices identified

» The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise

» There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed

» The process for project evaluation and selection is traceable

» Material environmental and social risks for most project categories are identified

» Presence of corrective measures to address environmental and social risks across projects

» ESG controversies are monitored

Management of proceeds

Not aligned | Partially aligned | Aligned | Best practices

Allocation and tracking of proceeds – BEST PRACTICES
Covivio Hotels has defined a clear process for the management and allocation of instruments' proceeds in the framework. The issuer intends to maintain an eligible green portfolio that matches or exceeds the balance of net proceeds from its outstanding green bonds or loans, with the balance of tracked proceeds to be adjusted annually. The company will monitor and track the net proceeds through its internal accounting system, and it also commits to reach full allocation within 24 months.

Management of unallocated proceeds – BEST PRACTICES
Temporarily unallocated proceeds will be invested in cash, cash equivalents or other liquid instruments, per the company's treasury policy. Covivio Hotels commits to not invest the temporarily unallocated net proceeds in GHG-intensive or controversial activities. Furthermore, in the event that a project is postponed, canceled or otherwise becomes ineligible, the issuer commits to reallocating the proceeds to another eligible green project on a best-effort basis within 24 months.

Best practices identified

- Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- Short allocation period, for example typically less than 24 months
- Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned	Partially aligned	Aligned	Best practices ▼

Transparency of reporting – BEST PRACTICES

Covivio Hotels will report annually, until the maturity of the bonds, on the allocation of proceeds, the environmental and social benefits, and significant developments related to its eligible projects. This reporting will be made publicly available on its website. Reporting will occur at the portfolio level, and on an asset-by-asset level on a best-effort basis. The selected reporting indicators, which will be at the category level, are clear, relevant and exhaustive for both the allocation and impact reporting. The methodologies and assumptions used to report on environmental impacts are disclosed in its annual non-financial disclosure document.

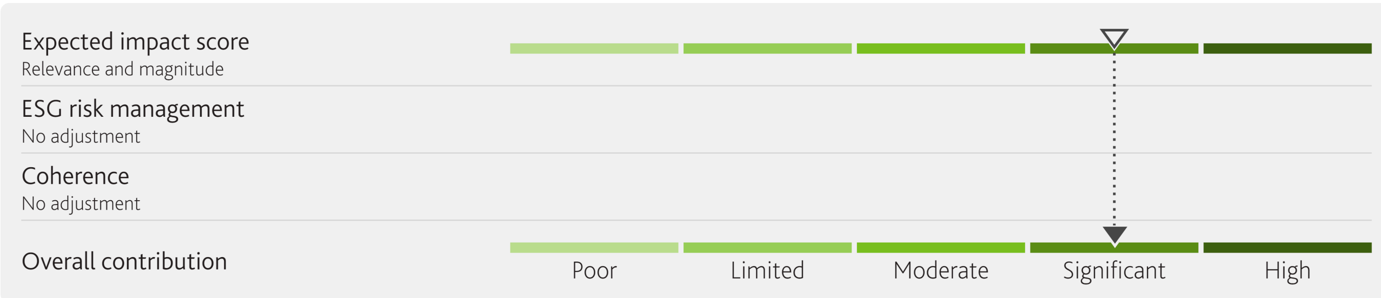
The company will also seek independent and external verification of both its proceeds allocation and impact on an annual basis, which is to be performed by Covivio Hotels' auditors.

Best practices identified

- Reporting until full bond maturity or loan payback
- Reporting covers material developments and issues related to the projects or assets
- Reporting on allocation of proceeds and benefits done at least at eligible category level
- Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

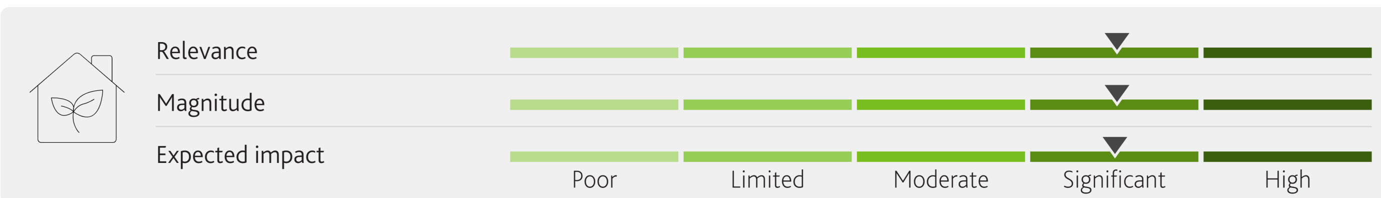
The framework demonstrates a significant overall contribution to sustainability.



Expected impact

The framework demonstrates a significant overall contribution to sustainability. To assess the consolidated score on contribution to sustainability, we have weighted the categories according to estimates provided by Covivio Hotels. In particular, the issuer estimates that nearly all (98%) of the proceeds will be allocated to projects in the green buildings category.

Green buildings

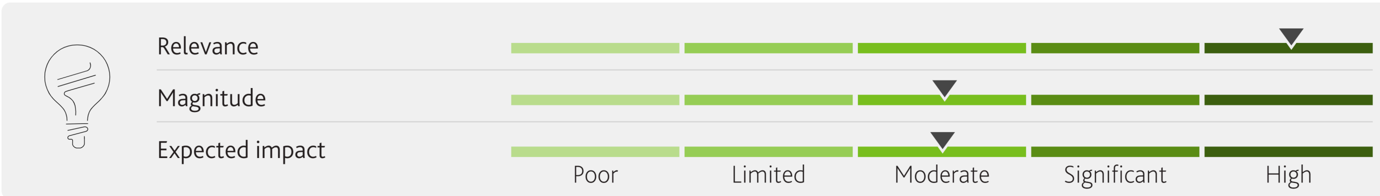


This category encompasses the acquisition and ownership of existing hotel buildings; construction of new hotels; and hotels undergoing large renovations. In practice, the issuer has communicated that the vast majority of allocation will be toward (re)financing the ownership of an existing portfolio of hotels. Many of the hotels (more than 40%) are in France, around a quarter (24%) are in Germany, and the rest are mainly in the UK, Spain, Italy, Belgium and the Netherlands, with a few in Ireland, Hungary and Poland.

In the EU, buildings account for more than 40% of EU energy consumption, making them the single most important energy-consuming sector, and are responsible for 35% of energy-related GHG emissions[1]. Hotels make up only a small portion of the overall building stock. As part of the tourism sector, which is estimated to account for about 8% of global GHG emissions[2], hotels account for a non-negligible part of the total GHG emissions. However, they are probably not the main driver of emissions for the sector[3]. The fact that allocation under this category is so heavily focused on the acquisition and ownership of existing assets, rather than major renovation or construction, as well as the small role of hotels in the overall carbon footprint of buildings, results in our assessment of a significant relevance score for the category.

With regard to the magnitude of this category, BREEAM “Excellent”, HQE “Excellent”, LEED “Gold” and DGNB “Gold” are not the most stringent levels under these certification schemes, but the issuer has communicated that few buildings within this category will rely only on these certifications. The EU taxonomy substantial contribution criteria under the economic activity 7.7 for acquisition and ownership of buildings are considered a stringent threshold in terms of the energy consumption of buildings. Similarly, the CRREM pathways provide stringent quantitative energy consumption and GHG emission thresholds that become tighter over time, based on the building type and the country using the location-based approach. However, both the EU taxonomy and CRREM focus only on the operational phase impact of buildings. The lack of specific eligibility criteria ensuring that high environmental standards are implemented throughout the life cycle of buildings, including the construction stage and not just the operational stage, results in our assessment of a significant magnitude for the category.

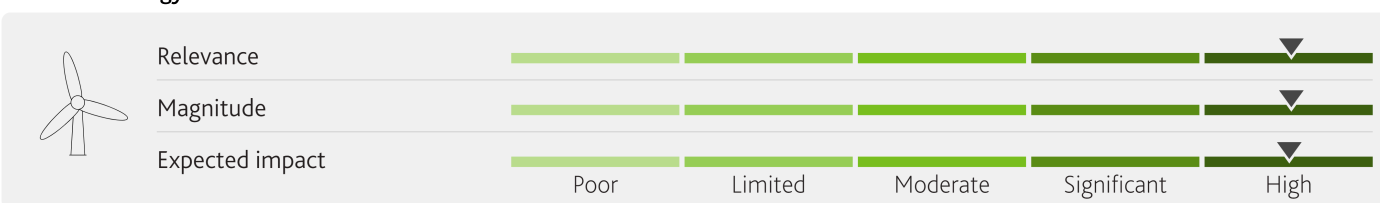
Energy efficiency



Under this category, the company plans to finance projects related to the installation of smart meters and energy management systems, improved insulation, improved windows, doors, lighting, heating, ventilation and water-efficient fittings. Improving the energy efficiency of buildings is highly relevant for the real estate sector, which has a high carbon emissions footprint, and this explains our assessment of a high relevance score for the category.

With regard to magnitude, despite conforming to the EU taxonomy criteria on activities 7.3 and 7.5 (including substantial contribution, DNSH, and minimum social safeguards), the two economic activities in question are among the least well specified of the taxonomy. Notably, activity 7.3 on the installation of energy-efficient equipment only requires equipment to be in the highest two classes of energy efficiency, without any further thresholds. The issuer has not, on its own account, provided any additional technical criteria, quantitative thresholds or detail that would provide greater specificity about projects financed under this category and allow us to determine whether significant energy efficiency improvements will be achieved, and whether the best available technologies will consistently be used. All these factors combined result in our assessment of a moderate magnitude for the category.

Renewable energy



This category comprises renewable energy projects that use on-site solar PV panels to generate electricity, and on-site heat pumps to generate heat for hotel buildings. The grid emission intensity in Europe varies significantly, from more than 700 gCO_2/kWh in Poland to around 60 gCO_2/kWh in France[4]. In addition, in the EU, heating and cooling account for half of total gross final energy consumption; 60% of total energy used for heating goes toward space and water heating in buildings, and of this portion of end use, the majority (57%) was derived from fossil fuels as of 2020[5]. Although decarbonizing electricity production is not the most important climate change mitigation challenge for the real estate sector, the installation of low-carbon heating technologies in buildings, such as heat pumps, is considered highly relevant because they address the heating demand, which represents the main source of energy use in buildings in Europe.

With regard to magnitude, both solar PV and heat pumps will follow the applicable EU taxonomy criteria (on substantial contribution, DNSH, and minimum social safeguards). Both the project types are likely to have a substantial positive long-term environmental impact with low negative externalities, and to use the best available technologies. In particular, heat pumps are the least-polluting and lowest-emission technology for providing space heating in Europe, with no associated operational emissions, and low emissions when considered on a life-cycle basis.

ESG risk management

Covivio, the parent company of Covivio Hotels, has detailed its ESG risk management system in its annual report on sustainable performance. This same system applies in full for the hotel subsidiary. The approach covers the most relevant ESG risks linked with the company's activities from climate change mitigation to health and safety, and biodiversity. Covivio conducted a mapping in 2020 to identify potential environmental impacts linked to protected areas. In addition, it has set itself the target of having 100% of its core assets certified according to recognized building certifications by year-end 2025 (e.g., HQE Exploitation, BREEAM, LEED, all of which require robust ESG risk management). Thus, no notch-down has been applied for ESG risk management.

Coherence

Covivio, the parent company, initially set a 2°C aligned GHG emissions reduction trajectory in 2018, which was changed to be more ambitious in 2021 to align with 1.5°C and to achieve net-zero emission contributions on scopes 1 and 2 by 2030. The 1.5°C target has been approved by the SBTi and also includes a commitment to reduce absolute scope 3 GHG emissions from purchased goods and services and downstream leased assets by 37.5% by 2030, from a 2015 base year. In line with this commitment, Covivio Hotels has set the following target: reduction in CO_2e emissions related to the operation of its assets by 70% from 2010 to 2030. By virtue of solely financing assets in line with this climate objective, no coherence notch-down has been applied.

Appendix 1 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The three eligible categories included in Covivio Hotels' framework are likely to contribute to two of the United Nations' (UN) Sustainable Development Goals (SDGs), namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	Renewable Energy	7.2: Increase substantially the share of renewable energy in the global energy mix
	Energy Efficiency Green Buildings	7.3: Double the global rate of improvement in energy efficiency
GOAL 11: Sustainable Cities and Communities	Green Buildings	11.6: Reduce the adverse per capita environmental impact of cities, with special attention to air quality and waste management

The mapping of the UN's SDGs in this SPO considers the eligible project categories (or key performance indicators) and associated sustainability objectives/benefits documented in the issuer/borrow/lender's financing framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG Mapping Guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of eligible categories in Covivio Hotels' framework

Eligible Category	Description	Objectives	Impact Reporting Metrics
Green Buildings	**(1) Acquisition and Ownership of existing hotel buildings** that comply with any of the following criteria: • EU Taxonomy 7.7, including technical screening criteria (TSC) for climate change mitigation, "Do No Significant Harm" (DNSH) criteria and minimum social safeguards (MSS) • Green Building Certifications: - BREEAM "Excellent" or above - HQE "Excellent" or above - LEED "Gold" or above - DGNB "Gold" or above •GHG intensity threshold at any time of the financing maturity, in kgCO2e/m2/year, as defined by the Carbon Risk Real Estate Monitor (CRREM) hotel pathways for each considered location **(2) Construction of new hotels** that complies with any of the following criteria: • EU taxonomy criteria 7.7, including TSC, DNSH and MSS •Green Building Certifications: - BREEAM "Excellent" or above - HQE "Excellent" or above - LEED "Gold" or above - DGNB "Gold" or above **(3) Large renovations** of hotels complying with any of the following criteria: • EU Taxonomy 7.2 TSC, DNSH, and MSS •Green Building Certifications: - BREEAM "Excellent" or above - HQE "Excellent" or above - LEED "Gold" or above - DGNB "Gold" or above • GHG intensity threshold expected on delivery, in line with CRREM pathways	Climate change mitigation	-Coverage of reporting scope in m2 of Gross Internal Area (GIA) and in number of hotel properties -Type and level of Green Buildings certification achieved and/or targeted -Average performance Eligible Green Portfolio in terms of : * Carbon intensity (in kgCO2e/ m²/year) * Energy intensity (in kWh/ m²/year) * Water intensity (in m3/m²/year) - Energy efficiency improvement achieved by refurbishment of existing assets - Annual GHG emissions reduced in tonnes of CO2 equiv. vs relevant baseline
Energy Efficiency	Investments in installation and operation of on-site energy efficiency equipment (such as insulation, energy efficient windows) and on-site devices for measuring and controlling energy performance of buildings, which comply with: • the associated EU taxonomy criteria under 7.3 and 7.5, including the TSC, DNSH, and MSS	Climate change mitigation	- Annual Energy savings (MWh) - Estimated annual GHG emissions avoided (tCO2e)
Renewable Energy	Investments in installation and operation of on-site solar photovoltaic systems and heat pump equipment, which comply with: • the associated criteria of the EU Taxonomy under 7.6, including the TSC, DNSH, and MSS	Climate change mitigation	- Renewable energy capacity installed (MW) - Annual Energy savings (MW) - Estimated annual GHG emissions avoided (tCO2e)

Moody's related publications

Second Party Opinion analytical framework:

» Framework to Provide Second Party Opinions on Sustainable Debt, October 2022

Topic page:

» ESG Credit and Sustainable Finance

Endnotes

1 European Environment Agency, October 2022.

2 The carbon footprint of global tourism, Nature Climate Change, May 2018.

3 World Tourism Organisation (UNWTO). Tourism & Climate Change, Confronting the Common Challenges, July 2008.

4 Electricity Maps.

5 European Environment Agency, "Decarbonising heating and cooling, February 2023."

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