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Second Party Opinion

Fibra Shop's Sustainability-Linked Framework

Oct. 5, 2022

Fibra Shop (FSHOP) is a Mexico City-based real estate investment trust (REIT) that acquires, operates, builds, and refurbishes shopping centers across 12 states of the country. The company was founded in 2013. As of September 2022, FSHOP owned 18 properties, totaling 759,202 square meters (m2) of gross leasable area (GLA).

In our view, FSHOP's Sustainability-Linked Financing Framework, published on October 2022, is aligned with:

- ✔ Sustainability-Linked Bond Principles, ICMA, 2020
- ✔ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2022

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Issuer's Sustainability Objectives

FSHOP has been overhauling its sustainability strategy since 2020 in attempts to identify the issuer's most material topics to its stakeholders. Likewise, FSHOP assessed physical climate risks considering 2030, 2050, and 2100 time horizons for all of its properties and mapped environmental risk exposure for its entire portfolio. Energy consumption, GHG emissions, and climate change are important issues identified to FSHOP's operations. As a result, the company set forward specific targets and action plans to reduce GHG emissions and manage and mitigate environmental impacts from its operations. Considering that the real estate sector's most material environmental exposure is energy consumption, FSHOP has committed to expanding the use of renewable energy through installation of solar panels across its properties, where feasible, enhancing its resilience to climate transition risk.

FSHOP has developed its Sustainability-Linked Financing Framework to further align its strategy with its sustainability commitments, which include reduction of energy intensity and use of renewable energy in operations.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	2021 performance
Percentage of renewable energy out of total energy consumed (electricity)	Increase the share of renewable energy of total energy consumed (electricity) to at least 25% by 2023, 45% by 2024, and 50% by 2030	0% renewable energy (2019)	19% of renewable energy

Second Party Opinion Summary

Selection of key performance indicators (KPIs)

Alignment ✓ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

KPI 1 The share of renewable energy of total energy consumed (electricity)

Not aligned	Aligned	**Strong**	Advanced

Calibration of sustainability performance targets (SPTs)

Alignment ✓ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

SPT 1 Increase the share of renewable energy of total energy consumed (electricity) to at least 25% by 2023, 45% by 2024, and 50% by 2030

Not aligned	**Aligned**	Strong	Advanced

Instrument characteristics

Alignment ✓ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

The debt instruments the company will issue under this framework will be subject to a premium payment, in the form of a coupon step-up, if FSHOP doesn't achieve its SPT by the target observation dates. The company will detail the amount, timing, and mechanism for this payment in the offering documentation of each sustainability-linked instrument it issues under the framework.

Reporting

Alignment ✓ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

Score

Not aligned	Aligned	**Strong**	Advanced

FSHOP commits to publish a section in its annual sustainability report, as well as quarterly reports containing information on the performance of the selected KPI and the company's progress towards achieving the SPT, which will be available on its website. The report will also include an explanation of the main factors influencing performance, the sustainability impacts, and any re-assessments or restatements of the KPI/SPT, where possible.

Post-issuance review

Alignment ✓ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

FSHOP commits to having an independent and qualified external verifier with limited levels of assurance attestation to its performance of the KPI on an annual basis. The company will publicize the results of the verification on its website.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer's sustainability disclosures; and how material it is to the issuer's industry and strategy.

✔ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

KPI 1 Percentage of renewable energy out of total energy consumed (electricity)

Not aligned	Aligned	**Strong**	Advanced

We view FSHOP's selected KPI as strong because its scope, objective, and calculation methodology are clearly articulated in the framework. The KPI's objective--the share of renewable energy of total energy consumed (electricity)--supports the company's sustainability objectives and addresses one of the most relevant sustainability issues the real estate sector faces. In our view, one of the property operators' largest environmental exposure is GHG emitted during the generation and transmission of electricity used by buildings over their lifetime (see "Key Sustainability Factors: Real Estate," published July 20, 2021).

The framework clearly articulates the KPI's objective, calculation methodology, and scope. FSHOP will calculate the KPI as the share of renewable energy of total energy consumed across all owned properties. The numerator will be calculated using renewable energy consumed (KWh), generated from photovoltaic (PV) panels installed on the properties. The denominator will be calculated with the monthly electricity receipts from Comisión Federal de Electricidad (CFE) containing total amount of electricity consumed (KWh) and energy consumed from PV panels. FSHOP considers energy consumed from CFE as nonrenewable.

In our view, the selected KPI is one of the most relevant sustainability issues the sector faces. The real estate sector consumes one-third of the world's total energy, according to International Energy Agency (IEA, 2019). Also, we note low availability of renewable energy in Mexico (10.5% of energy comes from renewable sources as of 2021) and current difficulties to reach power purchase agreements for companies, given the slow progress in renewable energy investments amid heavy regulatory changes and uncertainties in the country's energy sector recently.

The selected KPI matches one of the most relevant elements of FSHOP's sustainability strategy described above. FSHOP has set a target to generate at least 45% of its energy from renewable sources by 2024. We view the KPI as relevant to FSHOP's sustainability pillar of Scope 2 emissions reduction, which represented the bulk of its Scope 1 and 2 emissions in the baseline year (99% in 2019). We note, however, that the company has yet to measure its Scope 3 emissions. The KPI follows international standards, allowing for external benchmarking: it is listed as an indicator under the United Nations Sustainable Development Goals (SDG) 7.2.1 and Real Estate Sustainability Accounting Standards (SASB) IF-RE-130a.2.

Advanced global peers have a disclosure track-record of externally verified KPI values for at least the previous three years. Although FSHOP's sustainability strategy is relatively nascent, the company commits to verify the selected KPI of the past three years by an independent third party and disclose metrics in future reports.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

SPT 1 Increase the share of renewable energy of total energy consumed (electricity) to at least by 25% by 2023, 45% by 2024, and 50% by 2030

Not aligned	**Aligned**	Strong	Advanced

We believe the ambition, clarity, and characteristics of the SPT are aligned with the Principles. The company's SPT is benchmarked against its performance of the past three years.

The framework outlines the baseline year (2019), the annual expected observation dates (Dec. 31, shown in the table below), and the trigger events. The company commits to having the SPT baseline externally verified by an independent and qualified third party. In the event of structural changes (including acquisition, divestitures, and mergers) or regulatory changes, the company commits to reformulate the SPT or recalculate the KPIs and disclose necessary adjustments.

The framework provides performance figures since 2019 when the company didn't source any renewables on its properties. However, FSHOP started its mitigation plan in the following year and achieved an annual average increase of 9.4% in the use of renewable energy in 2019-2021 following the installation of PV systems across four of its most energy-intensive properties. Nevertheless, the historical figures consider the economic fallout of COVID-19 on the company's operations, which overstates the KPIs of 2020 and 2021, given the low energy consumption during that period. The framework provides estimated adjusted KPIs for this period, removing COVID-19 effects, which results in an adjusted annual average increase of 6.0%, instead of 9.4%, in 2019-2021. Therefore, the level of ambitiousness is higher than actual numbers show.

In our view, the issuer's SPT shows improved sustainability performance on an annual basis and is more ambitious than the company's business as usual. The SPT commits to an average annual growth rate (AAGR) of 6.3% in renewable energy consumed until 2030. In order to achieve that, FSHOP's strategy outlined in the framework is to invest and install PV systems across all the remaining 14 properties, which also require a calibration and stabilization period to achieve a maximum potential.

By 2023, FSHOP commits that installed and fully operational PV systems will produce enough energy to provide 25% of total energy consumed. FSHOP's PV installation strategy prioritizes energy-intensive properties first. By 2024, FSHOP commits to advance the installation of PV systems, and to be operating and generating enough energy to cover 45% of its total energy consumption. Finally, by 2030, when 100% of the properties are expected to have fully operating systems, the company expects to achieve its full renewable energy generation capacity, which will be able to cover at least 50% of total energy needs. These projections currently don't consider the development or purchase of new properties. However, FSHOP identifies acquisitions and regulatory changes as factors that could affect the SPTs and possibly lead to a restatement of SPTs.

Benchmark against peers isn't available and limits a stronger assessment. However, the systematic investment that FSHOP is conducting across its properties allows it to achieve close to maximum levels of renewable energy generated from PV systems, which we view as a strong practice compared with that of the domestic sector. FSHOP's ability to further increase its target ambition in the long term is currently constrained by Mexico's carbon-intensive electricity grid and the slow progress in renewable energy development.

Baseline	**Use renewable energy out of total energy consumed (electricity) at least by 25% by 2023, 45% by 2024 and 50% by 2030, from 2019 baseline**		
2019	**2023**	**2024**	**2030**
0% of renewable energy	25% of renewable energy	45% of renewable energy	50% of renewable energy
	Equivalent to a 25% increase	Equivalent to a 45% increase	Equivalent to a 50% increase

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

✔ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

FSHOP discloses in its framework that the bonds and/or loans issued under the framework will be subject to a premium, in the form of a coupon step-up, if it fails to achieve the SPT by the stated observation dates. The company will disclose the amount, timing, and mechanism for a coupon step-up in the offering documentation of each sustainability-linked instrument.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✔ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles.

Disclosure score

Not aligned	Aligned	**Strong**	Advanced

We consider FSHOP's overall reporting practices to be strong.

The company commits to report quarterly on its periodic report releases as well as on its annual sustainability report, information on the selected KPIs and SPTs, as well as any additional information required for investors to monitor the company's progress toward the target(s) and a certification verifying performance of the KPI in relation with the SPTs. This information will be available publicly on FSHOP's website.

FSHOP also commits to disclosing drivers which could affect KPI performance (such as M&As), possible illustration of positive sustainability impacts of the performance improvement, and any reassessment and/or restatement of the KPIs and SPTs. In our view, the disclosure of this information is a strong feature.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.

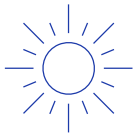
✔ FSHOP's Sustainability-Linked Financing Framework is aligned with this component of the included applicable Principles

FSHOP commits to having an independent auditor at a limited assurance level verify the performance against the designated SPTs on an annual basis following the target observation date. The company commits to publish the information on its website and it will also be available in the company's yearly sustainability report.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

FSHOP's Sustainability-Linked Financing Framework intends to contribute to the following SDGs:

KPI	SDGs			
Percentage of renewable energy out of total energy consumed (electricity)				
	7. Affordable and clean energy§	**11. Sustainable cities and communities§**	**12. Responsible consumption and production§**	**13. Climate action§**

§The KPI is likely to contribute to the SDGs.

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