

Green Evaluation

Landsea Green Properties Co. Ltd.'s Proposed US\$200 Million Green Bond

Transaction Overview

On Jan. 15, 2020, Landsea Green Properties Co. Ltd. proposed the issuance of US\$200 million in green bonds. The company will use the proceeds to finance debt related to the construction of new environmentally certified green residential buildings and the refurbishment of existing buildings to be environmentally certified in China in accordance with its Green Bond Framework. A maximum of 10% of the proceeds may be used for research and development (R&D) related to energy-efficient designs and technologies for green buildings, while the remaining 90% will be directly applied to these projects. Our evaluation only applies to the proceeds used directly for green projects and therefore excludes the financing of R&D activities.

Landsea issued two green bonds previously, in 2018 and 2019.

Entity: Landsea Green Properties Co. Ltd.
Subsector: Property & Real Estate
Location (HQ): Hong Kong
Financing value: US\$200 million
Amount evaluated: 90%
Evaluation date: Jan. 15, 2020
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

66

Transaction's Governance

- Management of proceeds
- Impact assessment structure

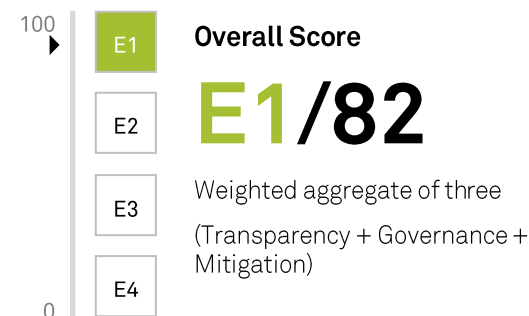
76

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Green Building	New build - Residential Refurbishment - Residential	Carbon	89

Adaptation

NA



Project Description

Landsea is a property developer principally engaged in the green residential property development business in China. The company applies its green building technology, which includes the use of radiant heating and cooling systems, displacement ventilation and air purification systems, and other energy-saving features, in building construction.

The company intends to use the bond proceeds to finance new green buildings in China and refinance existing projects. Landsea has applied the proceeds from previous green bonds to projects in Nanjing and Chengdu, where 40% of its land bank is located, as well as Shanghai, Suzhou, and Suqian.

The company's Green Bond Framework defines its criteria for "eligible projects" that will be financed using the proceeds of green bonds. Landsea's treasury and green R&D department jointly select eligible projects. As per the framework, these eligible projects should fulfill either Criteria 1 and 2, or Criterion 3 as below:

1. Residential buildings environmentally certified in accordance with any one of the following selected certification systems:
 - a. Minimum certification "2 Star" for Green Building Design Label or Green Building Operation Label in China's 3-star rating system; or
 - b. Any other Green Building label of an equivalent standard.
2. Additional energy-saving/performance data collected, which is anticipated by the management team before project completion and evidenced through third-party energy reports as soon as practicable following the completion of the relevant project. Such data shall provide at least:
 - a. New construction of buildings: At least 15%-30% energy performance improvement; or
 - b. Renovation of existing buildings: At least 40%-60% energy performance improvement, depending on location, and other justifiable building benefits.
3. R&D covering energy-efficiency design and technologies for housing and construction.

A maximum 10% of the proceeds will be used for R&D purposes, while the rest will be used on green building projects.

Scoring Summary

We scored the project E1/82, the highest rank on our scale of E1 (highest) to E4 (lowest) for Green Evaluations. The score is determined by taking a weighted average of the project's Transparency (66), Governance (76), and Mitigation (89) scores. The very strong Mitigation score reflects the meaningful environmental

benefits from Landsea's green building projects in China, which help offset the relatively high carbon intensity of the local grid. Both Transparency and Governance are solid thanks to its above-average annual reporting and management of its issuance proceeds.

Rationale

- Our Green Evaluation on green building projects considers two primary environmental key performance indicators (eKPI): avoiding carbon emissions due to higher energy efficiency and, to a lesser extent, reducing water usage.
- The bond proceeds will be allocated to finance green property projects or refinance existing debts related to these projects.
- The above-average Transparency score (66) stems from Landsea's annual report on proceeds allocation for green projects and some of their environmental benefits, such as energy savings. However, there is no disclosure on environmental impact calculation methodologies.
- The solid Governance score (76) primarily reflects the comprehensive Green Bond Framework that governs the allocation and management of proceeds, though the allocation is not audited by third parties.
- The excellent Mitigation score (89) reflects the role of these projects in offsetting China's carbon intensive grid and the contribution that green buildings make to systemic decarbonization.

Key Strengths And Weaknesses

Landsea's green bond framework includes a detailed project selection criteria that are linked to environmental objectives, a commitment to maintain transparency by reporting on the use of proceeds and environmental impact data, which all support our view of the transaction's good Governance and Transparency.

Due to the high carbon intensity of the Chinese grid mix, energy-efficient green buildings can contribute to a high level of avoided carbon emissions compared with non-green buildings in China. This supports our view of the transaction's excellent Mitigation.

Offsetting the above strengths is a lack of independent verification on the allocation of proceeds, which we factor into our Governance score. Additionally, reporting is on an aggregated basis rather than at the project level and the methodology for calculating environmental impact data is not disclosed.

While the projects are certified against the industry standard, it is not required that they comply with the highest categories.

Sector-Level Scores

Sector	Location	Technology	Use of proceeds (US\$ mil.)	Use of proceeds treatment	Net benefit ranking
Green Building	China	New build - Residential	144	Estimated	86
Green Building	China	Refurbishment - Residential	36	Estimated	100
			180		

Carbon

Green Evaluation Process

66

Transparency

76

Governance

89

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/82

Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	→ Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (US\$ mil.)
	<p>High ● ● ● ● ● Low China</p>				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new build		86			
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment		100			
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Unspecified					
			Systemic decarbonization		
			Significant decarbonization in sectors already aligned with a green economy	89	144
			Alleviating emissions of existing carbon-intense industries	87	36
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency		

Increasing Decarbonization Impact ↑

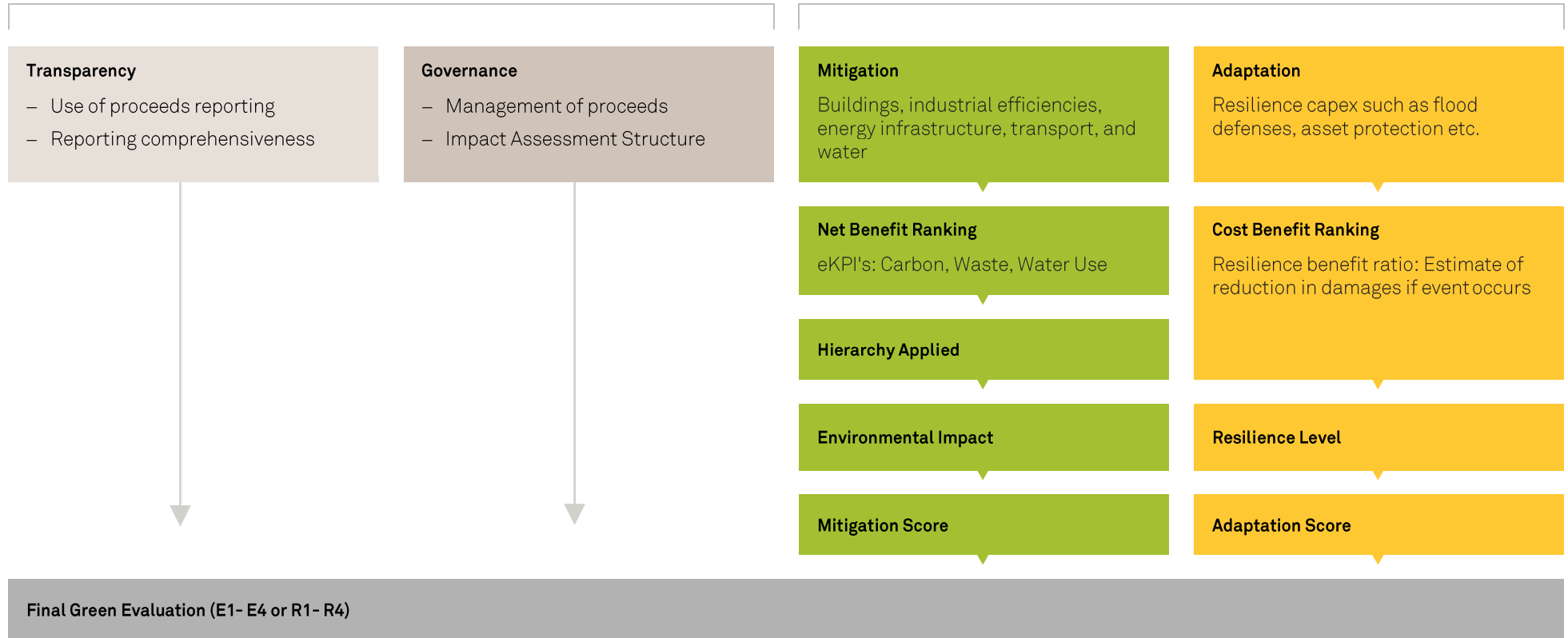
Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers

Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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