



Proposal for a REGULATION
on the establishment of a framework to facilitate sustainable investment
EU TAXONOMY PROPOSAL

KEY HIGHLIGHTS

- EPRA recognises the necessity to establish criteria in order to determine whether an economic activity is environmentally sustainable and to establish the degree of which it is environmentally sustainable. We therefore greatly welcome the EU Taxonomy proposal.
- We fully agree with the Commission's objective to integrate ESG considerations into the investment and advisory process in a consistent manner across sectors.
- We fully support the Commission in creating a framework which should not prescribe but rather enable finance to flow to those products or businesses where an economic activity is environmentally sustainable.
- We would like to draw attention to the fact that in the Regulation proposal not enough attention is paid to those entities who actually carry out an economic activity that contributes to the much needed environmental objectives. Therefore, we propose the following:
 - To clearly define the listed undertakings that are carrying out an environmentally sustainable economic activity;
 - To include to the scope listed corporate shares (i.e. listed equity) in addition to the financial products and corporate bonds which are already being considered (see ANNEX II).

PUBLIC INTEREST IN SUSTAINABLE REAL ESTATE INVESTMENT THROUGH STOCK MARKET

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 265 members (companies, investors and their suppliers), EPRA represents over EUR 450 billion of real estate assets¹ and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

EPRA has a clear and in-depth understanding of how crucial the role of investment in real estate is in ensuring a low-carbon, resource-efficient and increasingly circular European economy, considering that buildings account for around 40% of energy consumption in Europe. Currently, the EU is not on track to deliver the €11.2 trillion required to meet its 2030 energy policy targets. In fact, the latest estimates put the annual investment gap of approximately €177 billion between 2021 and 2030, totalling €1.77 trillion out of which 74%, representing the biggest gap by far, relates to investment in energy efficiency in buildings, as is well highlighted by the European Commission.

Given the shortcomings described above, it is essential to make investments in energy efficient buildings in Europe the top priority. Such investments may flow through the financial products or corporate bonds, but also and more transparently through stock listed companies that invest in energy efficiency of the real estate they own (i.e. listed equity). For these reasons, EPRA greatly welcomes the EU initiative on sustainable finance. Moreover, we wish to see investments in green, environmental and also social real estate being recognised as a sustainable investment in the proposed Regulation on the framework to facilitate sustainable investment (i.e. 'EU Taxonomy proposal').

In this position paper, EPRA explains the benefits of investing in listed real estate and the reasons why this should be taken into consideration in the EU Taxonomy proposal currently discussed. Furthermore, we will also suggest a few amendments to the existing legislative proposal which reflects our views based on the expertise and experience of our members in sustainable investments.

¹ European companies only

WHAT ARE THE BENEFITS OF SUSTAINABLE LISTED REAL ESTATE SECTOR FOR ACTIVE INVESTORS?

Listed property companies provide accessible and transparent investment opportunities with healthy corporate governance and accountability. They also provide much needed liquidity to an otherwise illiquid market, and drive up standards and efficiencies in the broader property market, which in turn improve the broader property sector's contribution to the economy. The sector has delivered solid long-term and diversified returns which are now even more valuable given the ongoing low interest rate environment. The sector provides particular benefits to active investors who undertake more careful and thorough ESG consideration and engage closely to the businesses they invest in. As highlighted in the HLEG Final Report, active investors behave differently and should not be pressured into maintaining the same investment positions as their passive counter-parts. Rather, they should be able to consider equity as a sustainable investment.

FORWARD LOOKING BUSINESS STRATEGY

Listed property offers a forward-looking business strategy to investors and provides them with a better picture of the business plans of the companies they invest in and to what extent those companies focus on environmental, social and corporate governance performance of both themselves and their real estate assets. Moreover, financial investment and the manner in which it progresses business plays a key role in further advancing climate change mitigation and adaptation. We are therefore convinced that it is not only a matter of investing in assets which are already green or sustainable, but that it is equally important to invest in those assets which are in a transition to become green, in order to fully guarantee a viable roadmap to a sustainable global economy.

Investing in shares of listed property companies bears strong similarities to issuing green and social bonds of pioneering property companies like Unibail-Rodamco-Westfield, Cofinimmo and Covivio, who have provided strong guidance for new players in this market that is still developing. The capital raised from green and social bonds is used to finance existing assets which meet strong and selective criteria in social, environmental and sustainable areas both during the construction and operating phases of eligible assets.

We also understand that such a transition is a process, rather than a one-time money injection. While it might require more active investment, the long-term benefits that active investment brings to investors, such as pension funds and insurance companies, far outweighs any short-term obstacles. Specifically, active investment enables investors to engage more closely with the companies they directly invest in, it helps raise important issues at board levels, it challenges the performance flows and shortages, and it ensures a solid and continuous dialogue between the companies and the investors.

TRANSPARENCY AND ACCOUNTABILITY

As part of the regulated stock markets, listed property companies provide high levels of disclosure and information. Such transparency fosters good decision-making, healthy corporate governance, investor confidence and trust as it enhances the accountability of the managers, the directors and employees of the listed property companies, to its investors (shareholders).

ESG REPORTING AT PORTFOLIO LEVEL

In addition, listed property companies are mandated by the European non-financial information (NFR) rules to annually publish their ESG reports. As a consequence, new set of ESG information is now publicly available². This information is in most cases verified by an external auditor to ensure their correctness and is processed at the portfolio level in order for the investor to have a complete picture of both the direction and past performance of the business they invest in.



EPRA is proposing listed equity to be included in the scope of the proposed EU sustainable investment framework in addition to corporate bonds and financial products.

WHAT ARE THE BENEFITS OF SUSTAINABLE LISTED REAL ESTATE SECTOR FOR SOCIETY?

STABLE AND BALANCED REAL ESTATE MARKETS

The listed property sector reduces 'information-based contagion' (a key contributor towards systemic risk) by reducing the likelihood of opaque market bubbles and subsequent market shocks. Investing in real estate through capital markets can therefore help to create stable, balanced and efficient domestic real estate markets. The more efficient property markets, the better the quality, price and supply of the property which houses families, students and businesses across the European Union.

COMMUNITY ENGAGEMENT, SOCIAL RESPONSIBILITY AND TENANT FOCUS

Listed property companies are important actors of society, mindful of the long-term interests of communities in which they operate. They are willing to take a role in improving living standards while undertaking business and delivering the shareholders' returns. Urban development, sustainability leadership and social needs awareness demonstrate how critical the built environment is in achieving social objectives and how listed property companies play an important role in achieving these goals.

NOTE: More information about the sector is available in [the Building Stronger Europe: Stock Exchange Listed Property Companies](#) (July, 2018).

² See also [EPRA Sustainability Best Practices Recommendations \(sBPR\) Guidelines 2017](#) and the [2018 EPRA sBPR Awards](#)

ANNEX I
HOW INVESTORS INVEST IN SUSTAINABLE LISTED PROPERTY COMPANIES?

LONG-TERM INVESTORS

CORPORATE SHARES

CORPORATE BONDS

FINANCIAL PRODUCTS

ALL POSSIBLY SUSTAINABLE INVESTMENT IF REQUIREMENTS ARE MET

BUSINESS STRATEGY

ACTIVE INVESTMENT

BUSINESS STRATEGY IS LOOKING FORWARD:

- What do you do next with your strategic planning and what are the potential financial impacts?
- How do you convert your existing portfolio?
- How do you plan to impact the society?
- What are your steps to follow and meet the set objectives?

PUBLIC DISCLOSURE
TRANSPARENCY & ACCOUNTABILITY



BUSINESS STRATEGY

ACTIVE & PASSIVE INVESTMENT

GREEN AND SOCIAL BONDS AS PART OF THE BUSINESS STRATEGY ARE ALSO LOOKING FORWARD:

- What will you do next with the money raised by the green bonds?
- How will you convert your existing assets? Or is the project intended to build new assets?
- How do you plan to impact the society (i.e. social bonds)?

THIRD PARTY VERIFICATION
GUARANTEE OF TARGETS ACHIEVEMENT

Green and social bonds which are issued by listed property companies are aligned with [the International Capital Markets Association \(ICMA\) Green Bond principles](#):

- Use of proceeds
- A structured project selection process
- Management of proceeds
- Reporting based on pre-set metrics
- Third party verification

INVESTMENT STRATEGY

PASSIVE INVESTMENT

SAMPLE FINANCIAL PRODUCT /VEHICLE



PUBLIC ESG DISCLOSURE NOT AVAILABLE
MUCH LESS TRANSPARENCY

THIS INCLUDES REAL ESTATE FUNDS (AIFs and UCITs)

REAL ESTATE FUND



Listed property companies are mandated by the European non-financial information (NFR) rules to publish annually their NFR reports. As a consequence, new set of ESG information is now publicly available. Those information are in most cases verified by an external auditor to ensure their correctness. They are also processed information **at a portfolio level** so the investor has a full picture of the direction and past performance of the business they invested in.

NOTE: Active investors have often a seat at the board of directors and thus a stronger power to challenge the management of the companies when the anticipated results, including the ESG results, is not met.

ESG information often not publicly available and provided to investors **at the asset level**.

NOTE: An average size of the property portfolio of listed companies is €4.4 billion, which is 4.5 bigger than that of the average investor and 9 times bigger than that of the average unlisted property fund.



ANNEX II
EPRA SUGGESTIONS

Article	Proposal for EU Sustainable Investment Framework	EPRA's suggestion for amendment
Article 1(2)(a)	<p>Chapter I Subject matter, scope and definitions <i>Article 1 Subject matter and scope</i> ...</p> <p>2. This Regulation applies to the following: (a) measures adopted by Member States or by the Union setting out any requirements on market actors in respect of financial products or corporate bonds that are marketed as environmentally sustainable.</p>	<p>Chapter I Subject matter, scope and definitions <i>Article 1 Subject matter and scope</i> ...</p> <p>2. This Regulation applies to the following: (a) measures adopted by Member States or by the Union setting out any requirements on market actors in respect of financial products, or corporate bonds or shares of listed undertakings that are marketed as environmentally sustainable.</p>
Article 2(1)(o) ^{New}	-	<p><i>Article 2 Definitions</i> 1. For the purposes of this Regulation, the following definitions shall apply: ...</p> <p>(o) 'listed undertakings that are carrying out an environmentally sustainable economic activity' means companies governed by the law of a Member State and whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point (14) of Article 4(1) of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (xx); and which are conducting an economic activity which would according to this Regulation qualifies as an environmentally sustainable investment;</p> <p>(xx) OJ L 145, 30.4.2004, p.1.</p>

About EPRA

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 265 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 450 billion of real estate assets* and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com.

*European companies only

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