

EPRA's feedback on the usability of the taxonomy

1. Do you believe the taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?

Please refer to:

- [example sheet: Energy production \(geothermal\)](#)
 - [full list of 1st round climate mitigation activities, screening criteria and questions](#)
- Yes
- No
- Don't know / no opinion / not relevant

Please explain your answer to question 1:

With reference to design and in-use performance, listed property companies have noticed a massive gap between the expected and the actual performance of a building once in use. That said, the ex-ante approach proposed by the TEG may lead to capital being allocated to buildings which do not meet the energy or carbon performance they were supposed to during the design phase. For this reason, we would suggest the TEG to adopt an ex-post approach in order to ensure that performance thresholds are actually met.

As an additional comment, we believe that it is important that the Taxonomy identifies clearly, on one side, the activities that actually improve the overall performance of the asset and/or portfolio, and on the other side, the activities that merely finance the ownership of an existing asset over time. In other words, the Taxonomy should favour the actual construction/refurbishment of assets/portfolios as opposed to the sale. A company that consistently invests in order to improve its existing stock will have a higher positive contribution over time than an investor who is just buying an existing efficient buildings. Further, we recommend the EU Taxonomy to be based on a positive-list approach, be agile, evolutive, market-driven and innovation-led.

2. Do you expect any practical challenges within your organisation to classify an economic activity according to the taxonomy?

- Yes
- No
- Don't know / no opinion / not relevant

Please explain your answer to question 2:

2000 character(s) maximum

1. As mentioned in question 1) EPRA's main concern is related to the ex-ante approach proposed by the TEG that may lead to capital allocation to buildings which do not meet the energy or carbon performance as expected in the design phase. Identifying gaps between designed and actual performance ex-post would not help from a taxonomy perspective as the capital would have already been invested. For this reason, we would recommend the TEG to reconsider this approach.
2. Capital allocation through the use of EPC would surely lead to delivering inconsistent incentives, as EPCs are not very reliable in capturing the real performance of a building, as demonstrated by many studies. (See for example the BBP report: <http://www.betterbuildingspartnership.co.uk/sites/default/files/media/attachment/BBP%20JLL%20-%20Tale%20of%20Two%20Buildings%202012.pdf>)
3. Considering the resources cost of a new construction, it would need to be justified by an economic need in the market,

under the concept that the “most sustainable building is the building that was not built”. For instance, new buildings should not be financed in a market with high vacancy rates (or vacancy rate beyond the equilibrium), or in a market with negative population growth, as this could lead to providing incentives that do not effectively mitigate climate change.

3. For financial market participants: will the proposed structure and format of the Taxonomy enable you to comply with potential future disclosure obligations?

- Yes
- No
- Don't know / no opinion / not relevant

What changes would you propose?

2000 character(s) maximum

Considering that the Non-Financial Reporting Directive promotes corporate level disclosure, which in the case of listed real estate companies coincides with portfolio disclosure, we do not think that single asset disclosure can help companies comply with the directive.

4. Is the proposed taxonomy approach sufficiently clear and usable for investment purposes?

- Yes
- No
- Don't know / no opinion / not relevant

What changes would you propose?

2000 character(s) maximum

Please see our responses to Q1, Q2 and Q3.

5. Would the use of the taxonomy require any additional resources (for example in human resources or information technology)?

- Yes
- No
- Don't know / no opinion / not relevant

Please specify what additional resources and if possible, give an indication of the expected costs (e.g. as a % of turnover or operating costs):

2000 character(s) maximum

Listed property companies apply the European non-financial information (NFR) rules on a voluntary basis in their annually published ESG reports. As a consequence, ESG information are already publicly available¹. These information are in most cases verified by an external auditor to ensure their correctness and are 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 members (representing more than 80% of the FTSE EPRA Nareit Developed Europe Index by market cap) are using the EPRA Sustainability Best Practices Recommendations (sBPR). They are an industry specific reporting framework that provides a consistent way to report sustainability performance with more clarity and comparability. Covering 28 ESG performance measures, the tool using the latest GRI standard is based on public disclosure. EPRA will also launch its [Sustainability Best Practices Recommendations Database](#) in Spring 2019. The sBPR Database will cover the entire spectrum of ESG impact categories.

¹ See also [EPRA Sustainability Best Practices Recommendations \(sBPR\) Guidelines 2017](#) and the [2018 EPRA sBPR Awards](#)

That said, property companies and investors use today various reporting standards. The transition to the new EU taxonomy will therefore require from our members time and resources. As reported in the 2018 Synthesis Report (p.23) of the G20 Sustainable Finance Study Group, the competing sustainability classifications and taxonomies and the absence of a commonly agreed taxonomy in sustainable finance may also lead to possible misunderstandings, opacity and costs. We would encourage then the Technical Expert Group, together with the European Commission, to coordinate efforts at a global level and to promote the future EU taxonomy as a global standard for better comparison, clarity and competitiveness, as financial markets are international.

The Taxonomy should avoid duplicating the efforts that reporting companies are already making in order to disclose publicly their non-financial information. The taxonomy disclosure should be aligned with the corporate NF disclosure.

6. Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement:

2000 character(s) maximum

Please see below our suggestions for two amendments in order to include direct investments in public equities in the scope of the draft Regulation.

Article	Proposal for EU Sustainable Investment Framework	EPRA's suggestion for amendment
<p>Article 1(2)(a)</p>	<p>Chapter I Subject matter, scope and definitions <i>Article 1 Subject matter and scope</i> ... 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> ... 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>
<p>Article 2(1)(o)^{New}</p>	<p>-</p>	<p><i>Article 2 Definitions</i> 1. For the purposes of this Regulation, the following definitions shall apply: ... (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; (xx) OJ L 145, 30.4.2004, p. 1.</p>

Annex 1. EPRA proposal for direct and indirect Investments in economic activities considered as sustainable

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.

