

EU TAXONOMY: The case of listed real estate

As part of the 'EU Sustainable Finance Strategy', policy makers have been working on the EU Taxonomy to enable investors to reorient capital towards more sustainable technologies and businesses.



Buildings are responsible for around **40%** of energy consumption in Europe

To achieve the **55% CLIMATE TARGET** by 2030

around **€275 billion**¹ of additional investment in building renovation of the entire EU real estate stock is needed every year

REAL ESTATE activities



EU Taxonomy is a common classification system of economic activities that substantially contribute to environmental objectives.

Therefore, tools to redirect investors to finance energy efficiency retrofits will be crucial. **Listed property companies and REITs are a significant group of real estate investors.** They not only develop new buildings within their own portfolio for rental property returns but, **most importantly, acquire assets in need of energy retrofit and maintain them for the long-term**². By developing or acquiring assets, these companies have a real impact on the city landscape and the extent to which the built environment will be sustainable.

TOTALING → **€2.75 trillion** over 10 years

¹ Estimated as at 2020. Source: A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives. European Commission Communication, October 2020. ² L 68.1 & L 68.2 Real estate activities under the NACE Classification Rev. 2 cover all operational activities of long-term property owners, such as development of new buildings, renovation of existing buildings, acquisition and ownership of the buildings.

1. How is the EU Taxonomy reorienting the sector towards a more sustainable built environment?

Listed property companies and REITs, as any other businesses, can use the EU Taxonomy to assess how green their portfolio is. This allows investors to evaluate a company's existing sustainability performance (equity/turnover) and also attract new investors who will finance its transition towards future and greater sustainability (business plan/Capex plan). The green transition's goal is to make the entire portfolio recognised as more sustainable (equity/turnover).

How does the EU Taxonomy actually do that?

Currently, the renovation of existing buildings is not equally incentivised to attract sustainable capital as it is the case for both the development of new buildings and the acquisition of buildings rated EPC A or within top 15%.

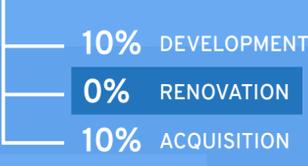
Model case of a hypothetical 'green' property company and its application of the EU Taxonomy to development, renovation and acquisition of buildings, to make their portfolio more sustainable.

Capex plan

To expand the EU Taxonomy activities



ACTUAL Ownership



2. Renovations have a much greater climate mitigation potential than new constructions

- 1** In Europe, **85%** of the building stock was built before 2001 and will still be in use in 2050³
- 2** Only **1%** of buildings undergo energy efficient renovation every year,⁴ so effective action is crucial to making Europe climate-neutral by 2050
- 3** Only **3.88%** of residential buildings in Europe are class EPC A⁵

85% of the remaining buildings are at risk of being left untouched



The EU policy makers' commitment to promote a shift towards more sustainable investments must materialise in an actual transformation of the real estate sector we see today, including listed real estate.

The aim is to

DECARBONISE

the built environment in Europe

Energy efficiency is an important tool to enable the built environment in Europe to decarbonise. However, we must look at buildings' whole life cycle and the embodied carbon footprint, and incorporate this approach into the EU Taxonomy's DNA. If not, we will not align the built environment with the European climate objectives.

³ As indicated in the EU Renovation Wave Strategy, published in October 2020. ⁴ Renovation Wave: doubling the renovation rate to cut emissions, boost recovery and reduce energy poverty. Press Release, October 2020. ⁵ Status of the EU Taxonomy aligned residential buildings in Europe. Energy Performance Certificates in Europe - Assessing their status and potential. EPF, 2020.

3. Importance of the whole life carbon approach to align with 1.5°C Paris objective

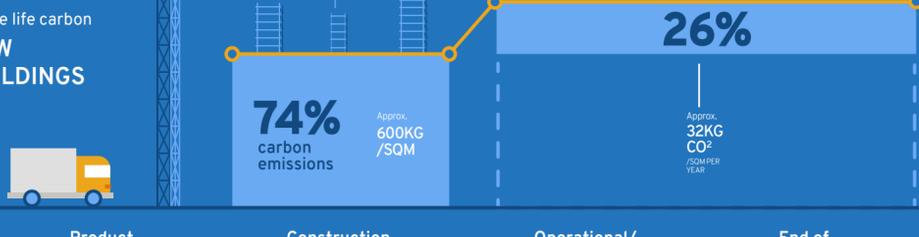
Build nothing

Explore alternatives



Source: Bringing Embodied Carbon Upfront, World Green Building Council, September 2019

Whole life carbon NEW BUILDINGS



Product stage

Raw material supply, Transport, Manufacturing

Construction process

Transport, Construction, Installation

Operational/ Usage phase

Use, Maintenance, Repair, Refurbishment, Replacement

End of life

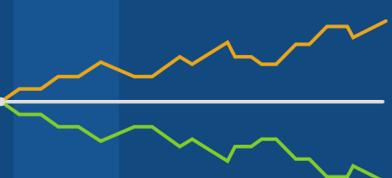
Demolition, Transport, Waste, Processing, Disposal

Whole life carbon EXISTING BUILDINGS



Building Assessment Information: According to Architecture 2030, embodied carbon is expected to represent 74% of total emissions from new buildings between 2020 and 2030 and 49% of the total emissions between 2020 and 2050, considering an average building life cycle of 30 years. Data source: UN Environment Global Status Report 2017; EIA International Energy Outlook 2017; Architecture 2030. Data include operational emissions scope 1&2 based on 2019 FY data - Source: EPRA sBPR database

Unlike operational emissions, which can be reduced over time with energy efficiency renovations and the use of renewable energy, embodied carbon emissions are locked in place as soon as a building is built.



SCENARIO 2

As from January 2022, each new building (including of rating EPC A) will create a new CO₂ footprint added on the environment

SCENARIO 1

As from January 2022, CO₂ emissions from existing buildings will decrease after renovation

4. Industry recommendations for the EU Taxonomy

A **Economic activity**
Acquisition and ownership of buildings

Description of the economic activity
Buying real estate and exercising.

NACE code
L68

Application to REITs
YES

1 For buildings built before 31 December 2020, the building has at least EPC rating A. Alternatively, the building is within the top 15% of the national or regional building stock expressed as operation Primary Energy Demand (PED) and it is adequately evidenced.

2 For buildings built after 31 December 2020, the building meets the criteria set out for the activity 'construction of new buildings' in section 7.1 of this Annex that are relevant at the time of the acquisition.

3 For buildings renovated after 31 December 2020, the building meets the criteria set out for the activity 'renovation of existing buildings' in section 7.2 of this Annex or alternatively the building has demonstrably lower carbon impact in comparison with the carbon impact of equivalent newly built buildings eligible under the section 7.1 of this Annex based on the whole life carbon assessment performed at the date of renovation.

ADD
Under the Acquisition and ownership of buildings section

4 Where the building is a large non-residential building, it is efficiently operated through energy performance monitoring and assessment.

B **Introduce a list of proxies to EPCs,**
at the minimum in countries where EPC rating is not available and at the minimum for assets with no access to EPCs (e.g. industrial, logistics), to enable the use of EU Taxonomy by real estate investors.

C **Add a reference to the EU Taxonomy**
(adding L68.2 for real estate) to the economic activity 7.1. Construction of new buildings under the climate change mitigation environmental objective of the EU Climate Taxonomy. The full text of the EU Climate Taxonomy is available [here](#).

About EPRA

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, promotion of best practices and the cohesion and strengthening of the industry.