# European property investment industry's role in promoting sustainable finance

The role of investment in real estate is crucial in ensuring a low-carbon, resource-efficient and increasingly circular European economy, considering that buildings are responsible for around 40% of energy consumption in Europe. It is therefore essential to make energy efficient buildings in Europe a priority, including their financing through financial markets.

For this reason, EPRA[1], INREV[2] and RICS[3] are actively engaged in promoting sustainable finance: these leading real estate organisations contributed to the consultation on the EC Renewed strategy on sustainable finance in June 2020 and call on EU policy makers to consider the following recommendations to shift private capital toward greener alternatives:

**GOING TOWARDS NET ZERO CARBON BUILDINGS**

In the real estate industry, moving buildings toward net zero carbon can reduce energy demand and as a result operating costs, measure and mitigate carbon emissions, and expand the pool of tenants. Furthermore, sustainable investing may support managing risks associated with climate change. There is a growing business case for sustainable investing in the long term, leading to an increase in the supply of capital in favour of the low-carbon transition.

**PROMOTING TRANSPARENCY AND STANDARDISATION**

We recognise the importance of data availability and the need for standardisation of metrics for measuring and reporting environmental impacts and risk. This will help improve the comparability of environmental reporting and increase the efficiency of information-sharing:

- The need for greater transparency must be weighed against the potential overflow of unnecessary information. The key is to provide the right set of information (i.e. material data) with a sectorial focus that further increases data comparability (see EPRA sBPR & INREV Guidelines and the International Property Measurement Standards (IPMS)).
- In real estate, existing certification schemes and energy ratings based on third-party verification should be harmonised across EU member states and used as building blocks for scaling up green investment flows.
- To reduce investment risk, the energy performance certificate (EPC) ratings should reflect actual energy performance, and not potential performance based on design features.
- Also, the whole life cycle approach needs to be reinforced and using Level(s) as a common EU framework of core sustainability indicators should be the way forward.
- Greater harmonisation of certifications and ratings can facilitate the pricing of environmental risk and opportunities and provide a framework for independent verification of environmental performance and impacts.

**PROVIDING EFFECTIVE INCENTIVES IN THE EU REGULATIONS**

By creating a supportive regulatory environment, governments can leverage private capital to shift industries toward greener alternatives:

- The creation of a common language for investors and financial institutions, i.e. the EU taxonomy criteria, represent a framework that will drive more finance towards sustainable economic activities. In this context, we encourage policymakers to consider the importance of real estate in the promotion of sustainable activities and to pay attention to its specificities.
- The current capital adequacy and transparency requirements under Basel III and the associated EU Capital Requirements Directive V (2019/878) should be revised with the objective of facilitating preferential financing conditions for sustainable projects by banks.
- The focus of the ongoing review of the Solvency II framework on further encouragement of long-term and sustainable investments is much welcomed. More can be done to facilitate insurers' investments in sustainable real estate.
- To scale green investment, we need to embed sustainability data and metrics into main financing, investment, and valuation practices, and associated professional standards. Information needs to be made available in a standardised form at the point of valuing assets.

**UNDERSTANDING AND INTEGRATING ESG IN INVESTMENT DECISIONS**

Educating all market participants on ESG and its role and impact in investment decisions will be beneficial to all:

- Building Renovation Passports in the real estate sector, and similar policy innovations in other sectors, can support this goal.
- Also, it is worth noting the considerable gaps in skills, qualifications, knowledge and education among core stakeholders with regard to translating technical information into financial decision-making.

**MAKING SUSTAINABLE FINANCE GLOBAL**

Addressing sustainable finance globally should be the direction of travel, and we welcome the EU's initiative of launching the International Platform on sustainable finance as a first step to strengthen the global approach needed for a global objective.

1- EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 270 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 600 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, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com

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2- INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe. INREV currently has 461 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

3- RICS: As a globally recognised professional body, everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact. With over 134,000 individually qualified trainees and professionals, and offices in every significant financial market, we are ideally placed to influence policy and embed our standards within local marketplaces in order to protect consumers and businesses. In doing so, we can innovate and progress the development of spaces and places, so they are fit for future generations, in addition to the challenges faced in the present.