European Public Real Estate Association (EPRA)

Part V – Open question

16 December 2024

The European Public Real Estate Association (EPRA) is the voice of Europe's listed real estate companies, their investors, and suppliers. With more than 290 members[1] covering the entire spectrum of the listed real estate industry, EPRA represents over 880 billion EUR of real estate assets[2] and 95% 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 by providing better information to investors and stakeholders, actively engaging in public and political debates, promoting best practices, and fostering cohesion and strength within the industry. In this role, we welcome the opportunity to respond to your consultation.

Below, we have provided a more detailed answer to the open response question. Through our answer, based on our members feedback, we developed a comprehensive response highlighting the main issue our membership is facing because of the ESG regulations fragmentation, and some solutions to improve the current system while not creating a new layer of regulation.

FOCUS I: The impact of ESG reporting requirements fragmentation on the industry and the costs attached to such fragmentation

To limit global warming, signatories of the Paris Agreement, agreed to target a maximum average temperature increase of 1,5°C compared to pre-industrial levels. To achieve this target, many countries adopted regulations to reorient capital flows towards a more sustainable economy[3] and, ensuring that the finance sector plays its role.

In the EU, the European Action Plan on Sustainable Finance[4], announced in 2018, has been one of the main priorities of the European Commission agenda for the past six years. Since 2018, the European Union has adopted the Sustainable Finance Disclosure Regulation (SFDR), the Taxonomy Regulation, the Corporate Sustainability Reporting Directive (CSRD) and many other related regulations, while the competent authorities delivered several technical standards and guidance documents related to the pieces of legislation, as well as some reports on greenwashing.

Europe is not isolated from this "over regulatory introduction". Furthermore, the experience of the financial crisis has reshaped the economic and political environment. Most importantly,

[1] Please find here a full list of our membership: https://www.epra.com/about-us/who-we-are/our-members

[2] Updated in October 2024

[3] See World Bank Blog, *Taxonomy astronomy: the global search to define sustainable finance*, June 2024 https://blogs.worldbank.org/en/psd/global-search-define-sustainable-finance-taxonomy

[4] For further information: https://finance.ec.europa.eu/publications/renewed-sustainable-finance-strategy-and-implementation-action-plan-financing-sustainable-growth_en

awareness of – and attitudes towards – the world's environmental, social and governance (ESG) challenges have been transformed. Several countries and zones in the world started to create and implement regulations based on their own assessment.

While there is increasing pressure for harmonisation, this process has been put on hold. This may be attributed to various factors but may have several important consequences:

Lack of investor confidence in regulation: Within the EU, the fragmented policies between the European level and national governments, have already led to confusion and uncertainty about ESG policy implementation. In the 2023 EIB Investment Survey, 61% of companies identified regulation as a barrier to long-term investment in the EU[5]

Inconsistent Reporting Standards – With the many regulatory policies and bodies, changes are constantly in flux with reporting and disclosing. The limited taxonomy disclosures and lack of consistency of data area constant struggle for global market participants.

Undermine the competitiveness of the regulation – Excessive regulatory and administrative burdens can undermine the competitiveness of EU companies compared to other global regions[6]. Survey-based indicators, including the World Bank's *Doing Business* database, indicate that the EU business environment is less favourable than that of the US[7]. Such challenges reduce sectoral productivity by driving up operational costs for businesses and creating barriers to entry for new firms, which discourages competition.

Undermine the effectiveness of a regulation – Regulatory discrepancies lead to complex requirements delaying the impact assessment of a project[8].

Increase the cost of compliance obligation and to the finalise consumer – The CSRD compliance cost for companies in the EU, ranges from EUR 150,000 for non-listed

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[5] A greater number of EU companies voice concerns about sectoral regulation and compliance with new rules, standards, and certifications as key obstacles to international trade. US companies, on the other hand, are more likely to flag business and labour market regulations among their top perceived barriers. See: https://www.eib.org/en/publications/online/all/eib-investment-survey-2023

[6] See *The Future of Europe Competitiveness – In-Depth Analysis (Part B)*, 2024, Mario Draghi (same link as previously mentioned)

[7] With a score of 84%, the US placed sixth worldwide in the 2020 ranking, well ahead of the EU (which scored 76.5%, ranking thirty-ninth worldwide). This is thanks to the US' better performance in three sub-components of regulation – the processing of construction permits, the registration of property, and paying taxes.
See:
https://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2020/EU.pdf

[8] See *Future of the Europe Competitiveness – Part B In-depth analysis*, 2024, Mario Draghi (same link as previously mentioned)

undertakings to EUR 1 million for listed ones[9] which will result in higher prices for the end-consumers[10].

Focus II: The need for a harmonized solutions and what EPRA proposes

The OECD as a forum – Cooperation will play a crucial role to address the global challenges posed by climate related risks. Ideally this should be moderated by global forum such as the OECD and potentially broadened even further to a wide range of public authorities and stakeholders due to the cross-sectoral nature of the issue. If not, we risk ending up with a scattered landscape of rules and definitions across major jurisdictions for an additional range of highly critical topics which are, by their nature global. Sustainable finance as an example, global principles would fill a key gap, enabling regulation focused on disclosure, climate risk measurement and taxonomy to become clear, actionable and truly purposeful (example: there is no common definition of the carbon footprint, or net-zero).

Establishment of a flexible and general framework – The OECD should ensure that its requirements are flexible and general enough. Companies are already subject to many regulatory obligations and disclosure requirements while adding another layer of KPIs/ obligations won't serve it purpose.

Based on EPRA's experience and its members feedback, OECD initiative should take into account the double materiality companies are subject to. As almost every region in the world adopted an ESG framework with disclosure requirements, the OECD role should be to consolidate the existing a framework (ISSB, CSRD) which considers the changing environment companies are facing.

Global interoperability between the ISSB and CSRD –. A key component of reaching ESG goals will be measuring companies' sustainability practices. ESG initiatives relevant to sustainable value creation are increasingly material to business performance. Investors, regulators and other stakeholders all want to know how companies perform in these areas.

However, for an accurate measurement of long-term sustainable value creation, there needs to be a single framework integrating all ESG reporting metrics. Companies face challenges in measuring and reporting on their long-term value creation in a consistent manner at international level – the various ESG metrics and frameworks hinder companies from demonstrating value creation in a comparable and meaningful way. As an example, coherence between the EPBD, the EU Taxonomy and the SFDR, some alignment must be made to foster investment in the renovation of buildings. Integrating real annual energy performance

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[9] See: EFRAG, Cost-Benefit Analysis of the First Set of Draft ESRS, November 2022. Consistently, the Danish government estimates average one-off costs of EUR 365,000 and recurring costs of EUR 310,000 a year for a company in Denmark to comply with the CSRD and Article 8 of the Taxonomy Regulation. This is based on a survey of 2,200 companies falling under the CSRD and is, therefore, a floor not including additional costs for SMEs having to report to parent companies across the supply chain https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F05%2520EFRAGs%2520Cover%2520Letter%2520on%2520the%2520Cost-benefit%2520analysis.pdf&AspxAutoDetectCookieSupport=1

[10] See Davies, A., Regulation and Productivity, 2014. Ferris, A., Garbaccio, R., Marten, A., and Wolverton, A., The Impacts of Environmental Regulation on the U.S. Economy, 2017. Yang, G., Ding, Z., and Wang, H., 'Can environmental regulation improve firm total factor productivity? The mediating effects of credit resource allocation', Environment, Development and Sustainability, Volume 25, 2023, p. 6799–6827.

measurements into the EU Taxonomy framework which would clearly help investors to better understand the true climate impact of the assets in their portfolio[11]

***Standards* –** Most of the EPRA members do not meet the 500 employees' CSRD threshold to apply, yet they would disclose their non-financial information on a voluntary basis to demonstrate how they are managing ESG factors and remain competitive on the market. Equally, a correlation between the size of listed property companies and the quality of sustainability disclosure has been decreasing over the past years. It is our strong view that a successful framework standard should have an industry focus which could be done indirectly by referring to the existing standards which are recognised by the investment community, such as the EPRA's sBPR)[12].

Data reliability – From our experience, majority of the companies have their data verified as they are then seen more reliable by an investment community. Reliability of the non-financial information is as important as the existence of such disclosure. A limited assurance should be uniformly required by all companies which are subject to those regulations.

To protect investors and the end-consumer, we ask the OECD to move toward global definition harmonisation to enhance mechanisms for continuous and systemic cross-border cooperation, with appropriate for national and industry idiosyncrasies, so that all enterprises can thrive without burdened unnecessarily with the cost of incremental compliance.

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[11] See EPRA's participation to the Call for evidence on article 17 EPBD *Energy efficient buildings – Portfolio framework to increase lending for renovations (delegated act)*, November 2024 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14396-Energy-efficient-buildings-portfolio-framework-to-increase-lending-for-renovations-delegated-act-/F3497739_en

[12] See EPRA Sustainability Best Practices Recommendations Guidelines, Fourth Edition, April 2024 https://www.epra.com/application/files/4617/1567/8076/EPRA_sBPR_Guidelines_Fourth_Edition.pdf