Sustainable finance – EU classification system for green investments

17 December 2020

INREV* welcomes the opportunity to contribute to the European Commission's consultation on a draft delegated act under the Taxonomy Regulation.

INREV values the work done by the High-Level Expert Group, the Technical Expert Group and the European Commission on Taxonomy; however, INREV believes that it is important to have harmonisation among different regulations at a certain level.

We welcome the fact that there are common principles of the Taxonomy Regulation and the Disclosure Regulation 2019/2088 (SFDR), such as "do not significantly harm" (DNSH) principle. However, we indicate major differences between the principles introduced in the SFDR and the ones provided in the Taxonomy. For example, in the SFDR the scope of DNSH principle goes beyond environmental objectives and it is factor based, while the EU Taxonomy focuses on environmental objectives and it is activity based. Another example is that they define sustainability criteria without providing reference to each other. More clarity is therefore needed on the degree of alignment between the principles introduced by these two regulations. It is critical to avoid any challenges that might result from inconsistencies between regulatory requirements.

We would like to highlight a couple of key points that should be considered when developing technical screening criteria for real estate industry, as follows:

1) The proposed technical screening criteria for real estate activities are prominently supportive of construction and/or acquisition of new buildings. While they cover renovation of existing buildings, acquisition of existing buildings with the aim of renovating them should also be included in the Annex (Section 7).
2) In relation to energy performance criteria stated in the Annex (Section 7), we promote both 'asset rating' as well as 'operational rating' where both potential and actual performance could be reflected.
3) The technical screening criteria suggest that EPCs are the only alternative for energy performance certification. They should also allow the use of other alternative energy schemes, such as voluntary rating schemes which are widely accepted by market participants and are internationally recognised. We would like to highlight that there is lack of harmonisation and comparability of existing certification schemes and energy ratings across EU member states. Without reaching some degree of harmonisation among certifications and ratings, it is difficult to measure and compare the contribution to climate change mitigation or adaptation.
4) As a general note, we suggest considering the Carbon Risk Real Estate Monitor (CRREM) decarbonisation pathways and risk assessment tool to develop technical screening criteria for the real estate industry. (CRREM: EU funded research and innovation programme for real estate industry - https://www.crrem.eu/)
5) INREV supports the objective of the DNSH principle and finds the conditions stated in the Annex (Section 7) mostly relevant for the real estate industry. However, the scope of the technical screening criteria does not provide clarity on how this will be reported and the levels of acceptability of the criteria. For example, "Excessive water consumption due to inefficient water appliances" is stated as one of the main potentials for significant harm to the other environmental objectives. But the framework still needs further clarity on what metric should be used to define how much water consumption is considered to be excessive.

*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 463 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 European Association for Investors in Non-Listed Real Estate Vehicles 3 funds, as well as joint ventures, club deals and separate accounts for institutional investors.

About Commercial Real Estate Investment:

Commercial property contributed EUR 452 billion to the European economy in 2019, representing about 3.1% of the total economy and comparable to the combined size of the European automotive industry and telecommunications sector. The sector directly employs 4.2 million people – more jobs than in the banking sector and more than in automotive and telecommunications sectors combined.

Property, both residential and commercial, is critical to achieving the EU's environmental targets. They offer huge energy-saving potential achievable through investment of around EUR 60 billion per year – a major source of economic activity. Investment in new commercial property buildings and the refurbishment and development of existing buildings on average totals nearly EUR 291 billion each year – with infrastructure and housing, this represents 63% of all capital investment in the EU.

Commercial property, other than residential, encompasses high street shops, managed shopping and leisure facilities, offices, warehousing, logistics and light industrial premises, as well as hotels, healthcare and some other non-residential buildings. New forms of commercial property are continuously emerging. It plays a vital role in enabling Europe's business, industry and society to function. Its market value in 2019 was approximately EUR 7.5 trillion.