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## SFDR 2 proposal: progress towards greater clarity and proportionality

The European Association for Investors in Non-Listed Real Estate Vehicles<sup>1</sup> (INREV) welcomes the European Commission's proposal to revise the Sustainable Finance Disclosure Regulation (SFDR) as a constructive step in the evolution of the EU sustainable finance disclosure framework. The proposal rightly recognises both the value of SFDR in enhancing transparency for investors and the significant implementation challenges that have emerged in practice, including legal uncertainty, data availability constraints, overlaps with other parts of the sustainable finance framework, and disproportionate operational costs for financial market participants.

Overall, the direction of SFDR 2, towards greater legal clarity, simplification, and alignment with the EU Taxonomy and the Corporate Sustainability Reporting Directive, represents tangible progress. However, the real estate industry's specific characteristics must continue to be reflected as the framework evolves.

### Reflecting real estate investment characteristics

For the real estate investment industry, the SFDR 2 proposal represents a constructive step towards a more workable framework. It addresses several structural shortcomings of the original regulation through the removal of ill-fitting concepts, the introduction of a dedicated transition category, and a sharper focus on proportionality and simplification. These developments are particularly relevant for real estate, where asset characteristics, investment horizons, and data constraints differ fundamentally from other asset classes, as presented in the INREV paper [Falling through the cracks: SFDR's impact on real estate investment](#), which highlights that the framework was largely designed with liquid, publicly traded securities in mind rather than long-term, asset-based investments characterised by illiquidity, active asset management and evolving sustainability performance over the investment lifecycle.

### Key improvements enhancing workability

The introduction of a dedicated transition category marks a significant improvement. It recognises the central role of brown-to-green and value-add strategies in decarbonising the built environment and

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<sup>1</sup> 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 over 500 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds that provide critical income security for more than 172 million people, as well as investment banks, investment managers, fund-of-funds managers and advisors representing all facets of investing in non-listed real estate vehicles in Europe. Our investment 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.

allows for greater alignment with real estate investment cycles, capital expenditure planning, and portfolio-level decarbonisation pathways.

Similarly, the formal introduction of an impact 'add-on' provides long-awaited recognition for strategies delivering measurable environmental or social outcomes alongside financial returns.

In addition, the removal of concepts such as the sustainable investment definition, good governance requirements, entity-level Principal Adverse Impact (PAI) disclosures, and additional website requirements offers a welcome reduction in administrative burden while preserving meaningful asset-level ESG data collection. This removal therefore enhances the operational feasibility of the framework without undermining existing market practices or other regulatory requirements.

## Areas requiring further clarification and calibration

Despite positive developments, several aspects of the proposal require further clarification to ensure SFDR 2 is both proportionate and practicable for the real estate industry. In particular, further work will be needed at Level 2 to ensure that the revised framework reflects the asset-based nature of real estate investment, avoids divergent interpretation, and supports consistent application across Member States.

### Product categorisation concepts and Level 2 calibration

The proposal's new product categories rely on core concepts that are not yet sufficiently operational for private markets. Notions such as 'good sustainability performance/track record', 'outperformance' or 'sustainability factors' vs. 'risks' will need careful calibration in Level 2 to ensure consistent application and to avoid divergent interpretations across managers and national competent authorities. Without clearer guardrails, these concepts risk being applied unevenly, undermining comparability and legal certainty.

### Indicators, KPIs and anchoring in market practice

At the same time, any Level 2 indicators and KPI requirements should remain market-based rather than overly prescriptive, reflecting the asset-based and heterogeneous nature of real estate strategies and the practical difficulty of applying issuer-style metrics to property portfolios.

Such calibration should be anchored in current industry practice as set out in, for instance, the [Aligning Real Estate Sustainability Indicators \(ARES\) White Paper](#), which provides practical, portfolio deployable approaches to real estate sustainability indicators and supports comparability through consistent definitions and calculation boundaries. The ARES approach builds on the [INREV ESG Standard Data Delivery Sheet](#) (ESG SDDS), which is already widely used by real estate fund managers and investors to structure ESG data exchange in a consistent and decision-useful manner. This calibration would help ensure that KPI expectations remain implementable across mixed-use and multi-jurisdictional portfolios, while still delivering decision-useful information for investors.

### Scope of eligible investments and flexibility within product categories

We also note that the list of example investments for each of the three product categories includes 'other investments', provided that 'proper justification' is given. To recognise the wide variety of asset types, strategies and sustainability objectives pursued in the market, it is important to preserve flexibility in the types of investments that may fall within these examples and, therefore, each product category.

For real estate strategies in particular, a variety of methodologies could apply, including building certifications, GRESB ratings and other efficiencies. While this flexibility is acknowledged in recital (14) to the SFDR 2 proposal, it would be helpful if this is also reflected in Level 2 guidance on investment approaches and eligible investments for each product category.

## **Scope of marketing restrictions for non-categorised products**

Under Article 13 of the SFDR 2 proposal as it currently stands, financial market participants may only include sustainability-related claims in the names and in the marketing communications of financial products which fall within the ESG Basics, Transition or Sustainable category. Similarly, Article 8(1) of the SFDR 2 proposal prohibits financial market participants from claiming that their financial products integrate sustainability factors in their investment strategy beyond the consideration of sustainability risks, unless such products qualify under the criteria for the ESG Basics, Transition or Sustainable product categories. Given the stringent criteria required to fall within each of these categories, this will result in many products in the market being constrained in how they communicate their sustainability characteristics.

This problem is particularly acute for financial products which currently disclose in accordance with Article 8 SFDR but will not qualify for a product category under SFDR 2. These products currently disclose their sustainability characteristics extensively in pre-contractual disclosures, website disclosures and periodic disclosures but under SFDR 2 will not be able to do so. In real terms, many of these products will be continuing with the same ESG strategy as they were doing before SFDR 2, but will not be able to disclose this accurately. Fund managers should be able to accurately disclose their products' sustainability characteristics, regardless of whether these products qualify for a product category, and the current position risks 'green-bleaching' and downplaying sustainability characteristics for uncategorised products, which is not beneficial for investors.

A few improvements that we would suggest:

- 1. Reducing the 70% threshold under Article 8(1)(a) to 50%*

Whilst there is currently no minimum threshold for the proportion of investments which must promote environmental and/or social characteristics in an Article 8 product, in the real estate market, there is established market practice which has converged around 50% as a minimum threshold. Lowering the threshold for the ESG Basics category to 50% would capture a wider range of existing Article 8 products within this product category, thus allowing such products to continue to disclose their sustainability characteristics in a fulsome manner. We consider that this would facilitate an orderly transition from SFDR to SFDR 2, reduce the risk of 'green-bleaching' and help retain products within the regulatory perimeter, thereby preserving transparency for regulators and investors.

- 2. Limiting the marketing restrictions to products which are marketed to retail investors*

It is important that real estate managers are able to accurately disclose the sustainability characteristics of their products – the marketing rules as currently proposed in Articles 13(2) and (3), and the prohibition in Article 8(1) do not allow them to do this. In the case of funds marketed to professional investors, we consider the investors to be sufficiently sophisticated to understand that an uncategorised product can take certain actions in relation to sustainability without meeting the criteria required to fall within the ESG Basics, Transition or Sustainable product category, and fund managers should be able to disclose accordingly. This approach would be more closely aligned with the approach taken by the FCA under the UK Sustainability Disclosure Requirements (UK SDR).

In addition, real estate products offered solely to professional investors are typically subject to rigorous due diligence processes and limited partners may also impose their own sustainability requirements. In this context, managers should be able to respond fully to investor enquiries regarding the sustainability characteristics of both non-categorised products under Article 6a and categorised Article 8 funds. Where communications to professional investors are required to be “fair, clear and not misleading”, as under existing EU law, further marketing restrictions are unnecessary.

At a minimum, clearer delineation is needed between factual sustainability disclosures (i.e. ‘information on whether and how those financial products consider sustainability factors’ under Article 6a(1)) and promotional sustainability claims (i.e. ‘sustainability-related claims’ under Article 13(2)), as objective reporting on asset characteristics, such as EPC performance or building certifications, should not automatically trigger marketing restrictions. Without a clear distinction, the proposed rules risk unduly constraining legitimate communications and creating legal uncertainty.

The proposed marketing restrictions could constrain how funds communicate sustainability characteristics, particularly where integrated ESG processes are already in place but the fund does not qualify for categorisation. Coupled with potential divergences in Member States’ supervisory interpretation, these rules could lead to inconsistent application and increase compliance risk for managers with cross-border fund offerings.

In addition, real estate assets are inherently illiquid and operationally complex. Unlike liquid financial instruments, real estate investments cannot be acquired, remediated or disposed of instantaneously. Asset disposals typically take several months to execute, and sustainability remediation measures, such as deep renovation or energy performance upgrades, require planning, permitting and construction timelines that extend over prolonged periods. As a result, portfolio-level thresholds may temporarily fall below the required percentage during asset remediation or disposal processes. Regulatory frameworks should therefore recognise the operational realities of real estate investment and allow for appropriate ramp-up or transition periods to restore compliance following asset disposals or improvement works.

## **Asset-level metrics and proxies for real estate**

Regarding Energy Performance Certificate (EPC), we support a further harmonisation of EPC methodologies across EU Member States, with a shift toward operational performance-based criteria in line with the revised Energy Performance of Buildings Directive (EPBD). Clear guidance is also needed for acceptable metrics when EPCs aren't applicable, both within and outside the EU.

The ‘inefficient asset’ standard must align with various international rating systems, such as ENERGY STAR and NABERS. ‘Inefficient assets’ should also be redefined to include transitional states based on EPC targets, CRREM misalignment risk before 2035, or equivalent international standards outside the EU.

## **Interoperability and use of non-EU frameworks**

Interoperability between SFDR 2 and other regulatory and voluntary disclosure regimes is also essential for globally invested real estate portfolios, to avoid duplicative reporting, inconsistent definitions and unnecessary operational complexity. Recognising well-established non-EU taxonomies and local sustainability frameworks as valid reference points, where appropriately justified, would enable managers to rely on consistent datasets across jurisdictions, enhance investor comparability and reduce administrative burden, without making EU Taxonomy compliance the sole pathway for demonstrating sustainability or transition alignment. Further clarification will therefore be needed,

including at Level 2, on how different frameworks and taxonomies may be used in a complementary manner to support consistent, decision-useful disclosures while avoiding undue reliance on a single methodology.

Without suitable calibration in Delegated Acts, these aspects risk reintroducing disproportionate compliance complexity and legal uncertainty, or inadvertently constraining legitimate real estate investment strategies, including those supporting credible transition activity.

## Implementation timing and transition arrangements

The timing of implementation is particularly important. SFDR 1 will continue to apply until the revised framework enters into force, yet the Commission proposal provides only limited transitional relief. The shift to SFDR 2, combined with the risk of divergent supervisory interpretations across Member States, creates legal uncertainty and operational complexity for fund launches, prospectus updates, and investor communications.

To help manage these risks, Level 2 measures must be finalised before SFDR 2 applies, and sufficiently long transition periods must be provided. These should reflect the scale of operational change required, including the review of disclosures, documentation, and KPIs across existing portfolios, and support consistent implementation across national markets.

Clear, proportionate Level 2 guidance, aligned with market practice, will therefore be essential to maintain legal certainty, avoid excessive cost and resource demands, and support continued investment in the sector's decarbonisation.

## Conclusion and next steps

INREV considers that SFDR 2 has the potential to deliver a more coherent, proportionate, and operationally feasible sustainability disclosure framework. Realising this potential will depend on whether the revised framework accommodates the specific characteristics of real estate investment and is supported by clear, well-calibrated Level 2 measures.

Close cooperation with the real estate sector, and calibration reflecting established market practices, will be critical to ensuring that SFDR 2 is workable, enables credible transition pathways, and does not discourage the mobilisation of long-term capital towards Europe's sustainability objectives.

INREV stands ready to continue engaging constructively with the Commission and other stakeholders throughout the impact assessment and further legislative process to support the development of an effective and balanced SFDR 2.