Buildings

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Starting point

"…managing climate change depends on making finance flows consistent with the long-term decarbonisation objectives and climate-resilient development."

Source: Mid-Term Review of the Capital Markets Union

Challenge…

… how do to drive more investment to sustainable assets (e.g. buildings) to get to net zero by 2050?

PARIS2015
UN CLIMATE CHANGE CONFERENCE
COP21·CMP11

What is the EU Taxonomy?

A list of **economic activities** with **performance criteria** for their contribution to **six environmental objectives**.

Environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

Why have a Taxonomy?

- A common language for investors, issuers, policymakers, regulators;
- Translate the Paris Agreement and SDGs;
- Put environmental data in economic context;
- Save time and money for investors and issuers;
- Support different investment styles and strategies;
- Avoid reputational risks;
- Deepen the conversation;
- Reward companies.

The Taxonomy proposal

Substantially contribute to at least one of the six environmental objectives as defined in the proposed Regulation

+

Do no significant harm to any of the other five environmental objecties as defined in the proposed Regulation

+

Comply with **minimum safeguards**

The Taxonomy …

IS	IS NOT
A list of economic activities and relevant criteria	A rating of good or bad companies
Flexible to adapt to different investment styles and strategies	A mandatory list to invest in
Based on latest scientific and industry experience	Making a judgement on the financial performance of an investment – only the environmental performance
Dynamic, responding to changes in technology, science, new activities and data	Inflexible or static

Who will use the Taxonomy?

The proposed regulation has two mandatory users;

1. **Financial market participants**

2. **EU Member States**

Under the Non-Binding Guidelines for Non-Financial Reporting, **Companies** are also encouraged to disclose in line with the Taxonomy.

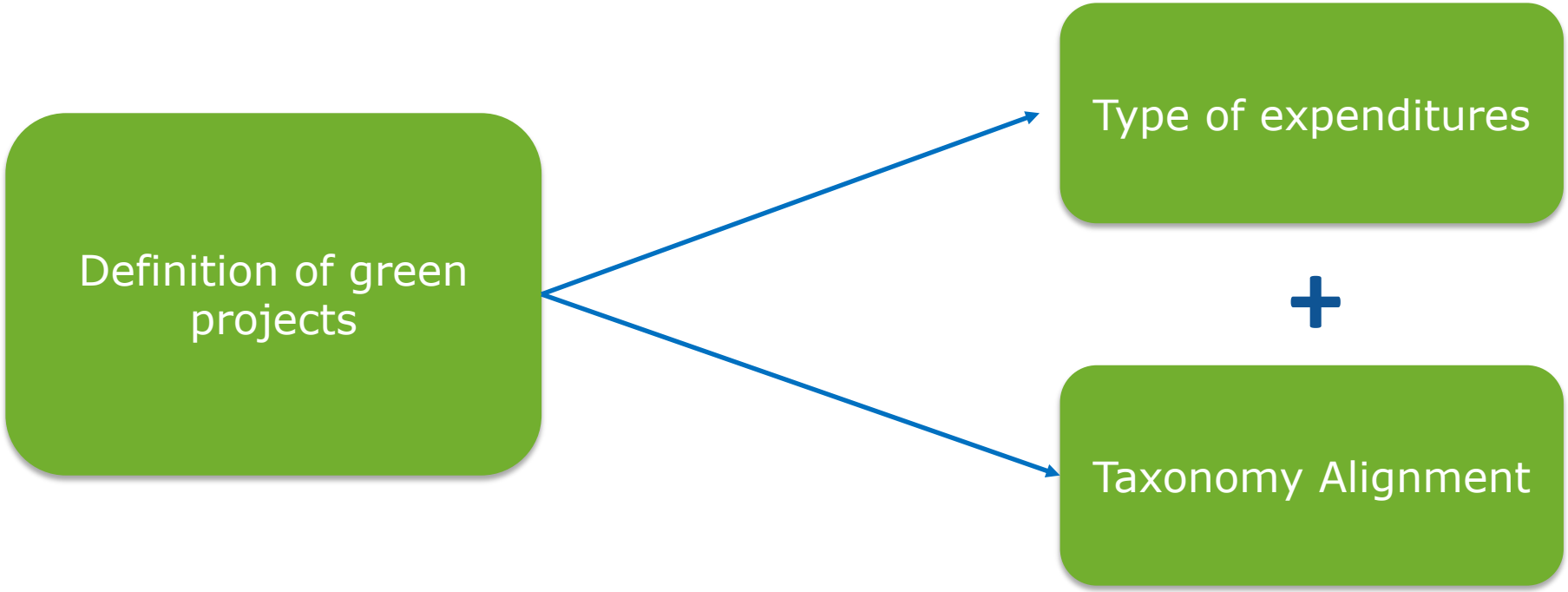
The Taxonomy can be used on a voluntary basis by **credit institutions** and other **issuers**, such as local authorities (and their advisors, such as valuers and appraisers).

How can the Taxonomy be used by investors?

- Expressing investment preferences;
- Selecting holdings;
- Designing green financial products;
- Measuring the environmental performance of a security or product;
- Engaging with investees.

Proposed EU Green Bond Standard

Means that "green projects" must be Taxonomy-aligned.



Disclosure obligations for financial market participants

For each relevant product, investors would disclose:

- If and how the Taxonomy has been used to determine the sustainability of an investment; and
- The proportion of investments funding Taxonomy-eligible activities.

Examples of substantive mitigation contribution

Type of activity	Technical screening criteria	Examples
1) Activities that are already low carbon. Already compatible with a 2050 net zero carbon economy	Likely to be stable and long-term	• Zero emissions transport • Near to zero carbon electricity generation • Afforestation
2) Activities that contribute to a transition to a zero net emissions economy in 2050 but are not currently operating at that level.	Likely to be subject to regular revision, tending towards zero emissions.	• **Building renovation** • Electricity generation <100g CO2/kWh • Cars <50g CO2/km
3) Activities that enable those above.	Likely to be stable and long-term (if enabling activities that are already low carbon) or subject to regular revision tending to zero (if enabling activities that contribute to transition but are not yet operating at this level).	• Manufacture of wind turbines • **Installing efficient boilers in buildings**

Defining substantial contribution to climate change adaptation

- **Principle 1:** The economic activity reduces all material physical climate risks to the extent possible and on a best effort basis.

- **Principle 2:** The economic activity does not adversely affect adaptation efforts by others.

- **Principle 3:** The economic activity has adaptation-related outcomes that can be defined and measured using adequate indicators.

Avoiding significant harm

Why assess significant harm?

- To ensure that the technical screening criteria and the Taxonomy itself do not include economic activities undermining any of the environmental objectives.
- In cases where the TEG could not identify practices or criteria to mitigate potential harm, the activity was not included in the Taxonomy.

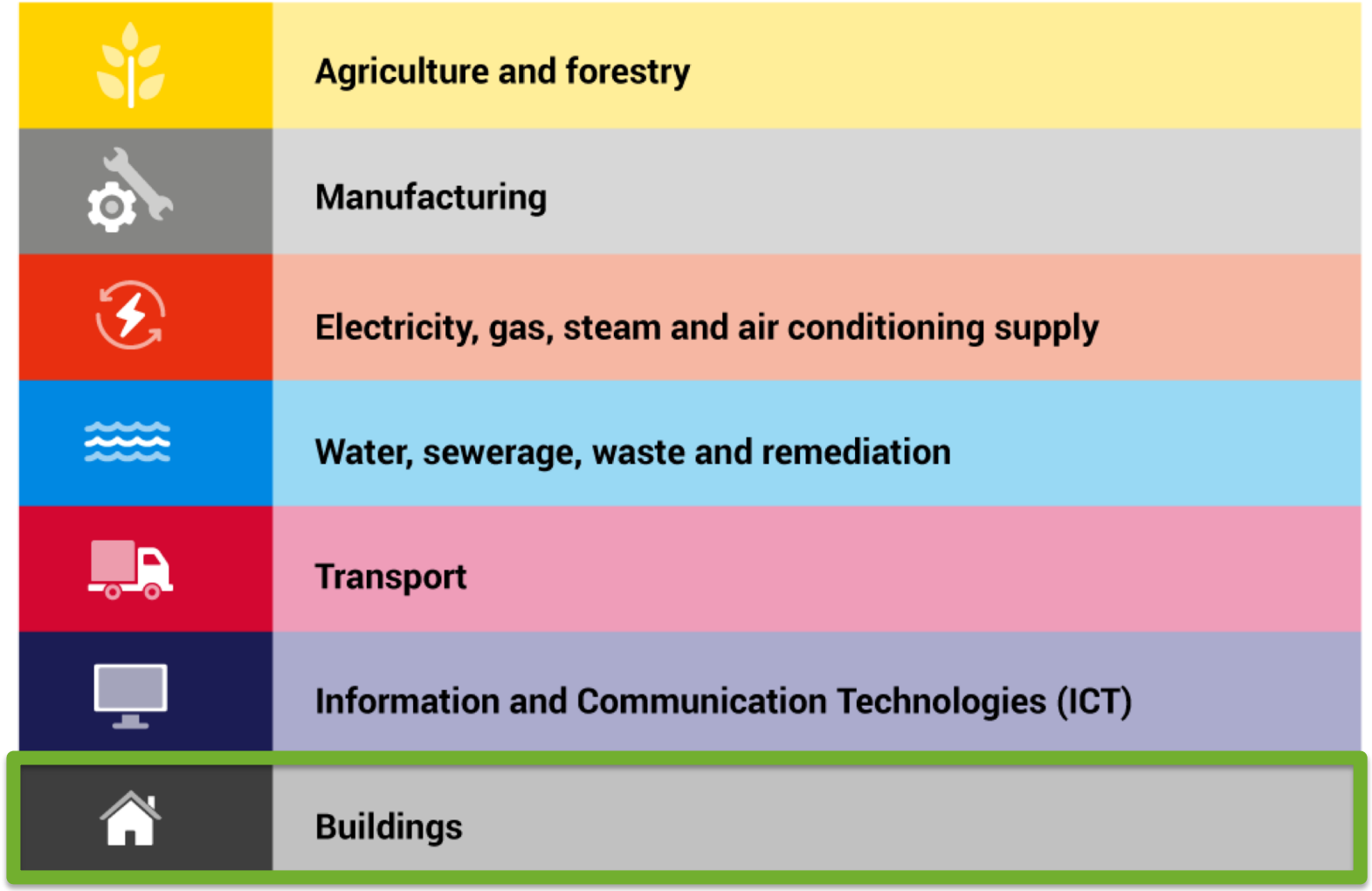
What are the criteria?

- The vast majority of the screening criteria build from existing EU regulations.
- The remaining DNSH criteria supplement regulatory requirements, taking the form of quantitative or qualitative thresholds.

Selecting sectors

(1) High-emitting macro sectors

(2) Enabling sectors



UPSTREAM EMISSIONS

Manufacturing, ICT

Water, Waste, Sewerage

Transport

Construction / Retrofitting

OPERATIONAL EMISSIONS

Energy, Transport, Water, Waste, Sewerage

Use

DOWNSTREAM EMISSIONS

Waste

Transport

End of Life

EU TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE

Why …

… do we need to drive more investment to sustainable buildings to get to net zero by 2050?

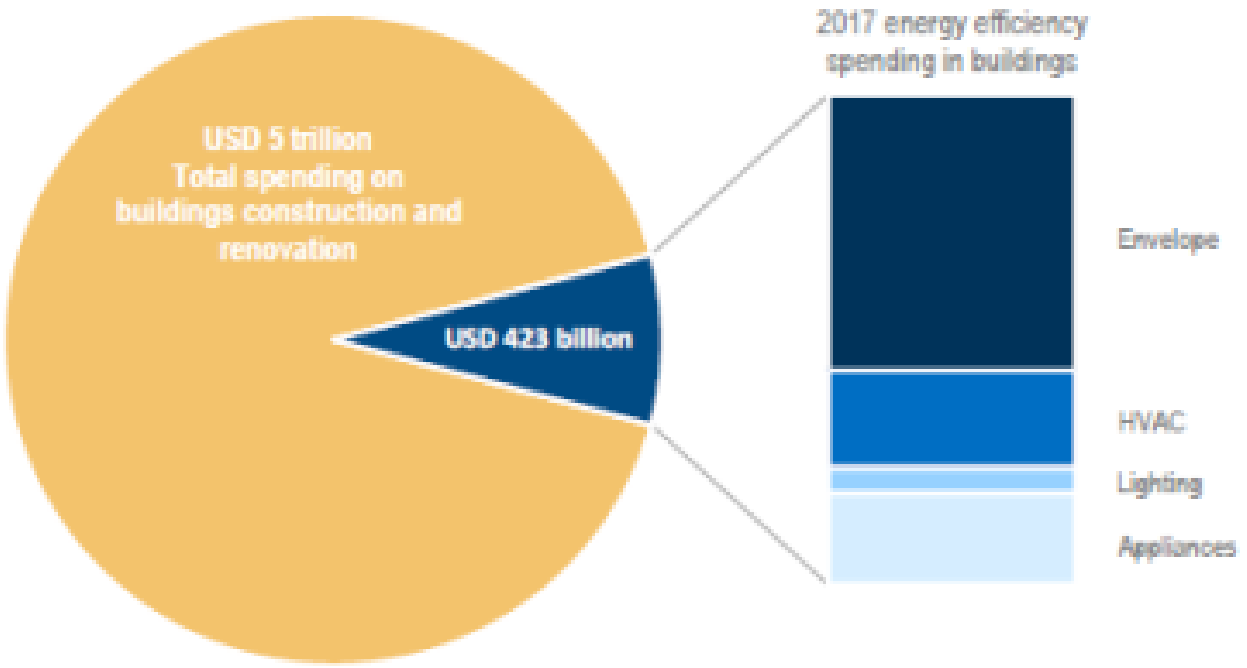
Because ...

Buildings are responsible for **40%** of energy consumption and **36%** of carbon emissions

Three-quarters of the European building stock is considered inefficient with renovation rates at only, around **1%** per year.

Annual rates of high performance new construction are generally estimated at around **1-2%.**

And because ….



Note: HVAC = heating, ventilation and air conditioning.

… energy efficiency remains a small portion of the overall spending on buildings!

Core question for our sector

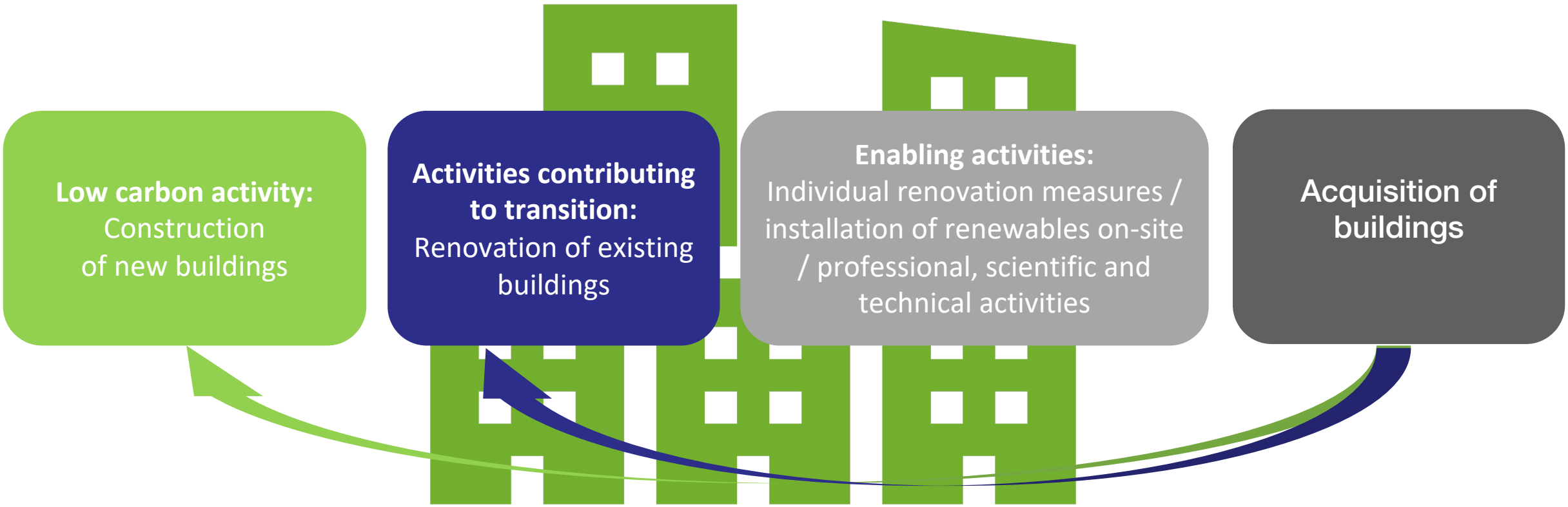
What makes a real estate investment sustainable?

Which buildings are Taxonomy eligible?

"…energy and resource efficient and low-GHG emission buildings as eligible under the mitigation criteria, considering as a minimum benchmark the top performing 15% of the stock as representative of the best level of energy and resource efficiency that can be achieved in each local context."

Net zero-carbon bis 2050

Which types of investments are Taxonomy eligible?



Which types of buildings are NOT Taxonomy eligible?

The construction of new buildings, renovation and acquisition for the purpose of occupation by fossil fuel extraction, transporting transport of fossil fuels or manufacturing of fossil fuels activities (either for actual extraction, transporting, manufacturing and/or administrative purpose).

Some challenges along the way

Lack of consistent data across countries for benchmarking building stock performance

Establishing transitional thresholds that will work across MS

Current inability of significant parts of the market to operate with GHG emission metrics

Ensuring a level playing field across countries with different climates and market readiness

Need to find a compromise between ambition and the desire to build upon already existing “green” financing instruments

Which metrics?

Operational primary energy demand

Operational GHG emissions

Embodied GHG emissions

Construction of new buildings

Eligible when meeting national requirements for NZEB and when a level of energy performance equivalent to the EPC rating of B (or above) is achieved.

The appropriateness of such thresholds will be subject to review after publication of a DG ENER study in the autumn of 2019 and further work on the development of absolute thresholds.

Renovation of existing buildings

Eligible when meeting one of the following criteria:

- Compliance with energy performance standards set in the applicable building regulations for major renovations transposing the Energy Performance of Buildings Directive (EPBD)'; or,
- Achievement of energy savings of at least 30% in comparison to the baseline performance of the building before the renovation.

  The baseline performance and predicted improvement shall be based on a specialised building survey and be validated by an accredited energy auditor.

Individual renovation measures / installation of renewables on site / professional, scientific and technical activities

Individual measures: thresholds rely on requirements set in the national regulation and building codes transposing the EPBD by each Member State.

Installation of renewables on-site & professional, scientific and technical activities: no thresholds

Acquisition

Eligible is the acquisition of:

- Buildings issued with EPC rating B (or above)
- Any other building, provided that it is subsequently improved (within 3 years of purchase, either through one single improvement achieving the thresholds or through a series of improvements), achieving one of the following:

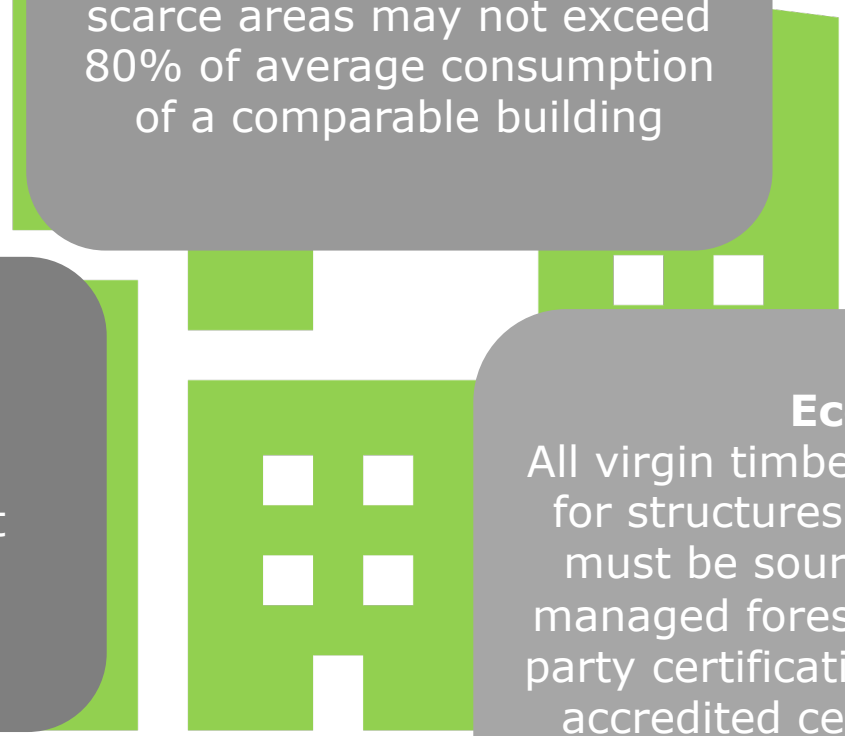
- savings in energy performance of least 30% against the baseline; performance and predicted improvement shall be based on a specialised building survey and be validated by an accredited energy auditor;
- EPC rating B (or above);
- Energy performance standards set for major renovation in applicable building regulations transposing the EPBD

Climate mitigation plus …

Adaptation:
Risk analysis, extreme weather, heat stress Resilience

Water:
Water consumption in water scarce areas may not exceed 80% of average consumption of a comparable building

Circular Economy:
80% reuse or recycling of non-harzardous construction waste
No use of asbestos Kein Einbau von Asbest or SVHC
Unterstüzung von Anpassbarkeit und Rückbaufreundlichkeit



Pollution:
All materials, including waste and reused materials, must be fit-for-purpose and ensure no significant adverse human health or environmental impacts.

Ecosystems:
All virgin timber used in new buildings for structures, cladding and finishes must be sourced from sustainably-managed forests as certified by third-party certification audits performed by accredited certification bodies, e.g. FSC/PECF standards or equivalent

Conclusion …

The EU Taxonomy is a first in:

- Creating a common language ariound what constitutes a sustainable building in investment terms
- Actually stimulates demand for results of environmental performance assessment, thus strengthening the role and value of life cycle analysis and sustainability assessments

It enables the finance community to positively influence and support sustainable planning, design and construction

Feedback still possible until 13 September 2019:
https://ec.europa.eu/eusurvey/runner/teg-report-taxonomy?surveylanguage=en

Contact:
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Coming up …

SBE19 Special Forum on Level(s)

When: 11.30-13.00
Where: Aula