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**High-Level Expert Group on Sustainable Finance**  
European Commission – DG Financial Stability, Financial Services and Capital Markets Union

BY E-MAIL

Brussels, 14 November 2017

**SUBJECT: SUSTAINABLE FINANCE AND INVESTMENTS IN REAL ESTATE**

Dear members of the High-Level Expert Group,

EPRA and INREV commend greatly the HLG efforts to help develop a financial system that is focused on the longer term as well as material ESG factors. We also understand how crucial the role of investment in real estate is 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.

Currently, the EU is not on track to deliver the €11.2 trillion required to meet its 2030 energy policy targets. The latest estimates put the annual investment gap at around €177 billion between 2021 and 2030, totalling €1.77 trillion out of which the biggest gap relates to investment in energy efficiency in buildings (74%), as is well highlighted in the HLG Interim Report. It is therefore essential to make energy efficient buildings in Europe the top priority, including its financing through financial markets with which we would like to offer you our assistance. As a start, we refer to the below measures which would in our view help unlock energy efficiency investment in real estate.

**WHO WE ARE?**

EPRA and INREV together represent the listed and non-listed spectrum of the European property investment industry. Our members hold over €1,23 trillion of real estate assets. Both listed property investment companies and non-listed funds adopt increasingly more sustainability practices to improve performance of their underlying property. Enhanced performance has been greatly appreciated and sought after by institutional investors, who are looking for green investment opportunities to contribute to joint efforts in meeting the COP21 targets.

**SUSTAINABILITY DISCLOSURE**

**EPRA sBPR Guidelines**

EPRA actively promotes sustainability reporting within its membership mainly by issuing Sustainability Best Practice Recommendations (i.e. EPRA sBPR) and awarding the best performers in ESG disclosure (i.e. EPRA sBPR Awards). The EPRA Sustainability Best Practices Recommendations establish common metrics on environmental, social and governance issues among listed properties companies and respond to the growing expectation for reporting on non-financial performance as set out in Directive 2014/95/EU of the European Parliament and of the Council on disclosure of non-financial and diversity information.

**INREV Guidelines**

In the non-listed real estate investment sector, sustainability reporting has also become a natural part of a company's annual reports and sustainability initiatives have advanced to play an important role in the operational performance of real estate investment vehicles. The INREV Sustainability Reporting Guidelines form a disclosure framework to investors that delivers meaningful data to increase visibility and insight into a fund or other vehicle's present and future sustainability efforts. They aim to provide a coherent framework for sustainability reporting in line with annual financial reporting and present a clear picture of the vehicle's strategy regarding environmental key performance indicators.

**2017 GRESB Annual Report**

The key GRESB findings, which are available [here](#), are that ESG Leaders are transparent about their ESG efforts. Early adopters of sustainability disclosure not only make continuous performance improvements, but also structurally

outperform those that have started later. The listed sector, given its increased overall transparency is a leader in this regard.

## GREEN AND SOCIAL BONDS

As a financing instrument, green bonds should be promoted as one of the main tools for renovation of existing and newly built assets in listed real estate. In this aspect, EPRA members do not limit their scope to environmental issues but also include social matters. For more information, we would refer to [Cofinimmo's Green & Social Bond](#); [Unibail-Rodamco's Green Bond<sup>ii</sup>](#) and [Green Bond issued by Foncière des Régions](#).

## BENEFITS OF THE LISTED PROPERTY SECTOR

Listed property investment companies provide accessible and transparent investment opportunities with healthy corporate governance and accountability. They also provide much needed liquidity to an otherwise illiquid market; and drive up standards and efficiencies in the broader property market which in turn improve the broader property sector's contribution to the economy. The sector has delivered solid long-term, diversified returns which are now even more valuable given the ongoing low interest rate environment. Nevertheless, the sector represents only 5.31% of the European commercial real estate, which suggests that there might be significant and unnecessary regulatory constraints.

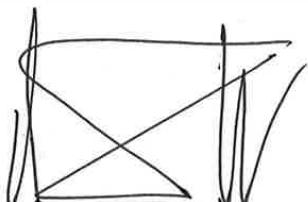
## POLICY RECOMMENDATIONS TO HELP INCREASE LOW-CARBON AND GREEN INVESTMENTS IN REAL ESTATE

We greatly appreciate the work of the Energy Efficiency Financial Institutions Group ("EFFIG") to help ensure that risk assessment and related capital requirements for long-term energy efficiency investments correctly reflect their risks. However, we are not convinced that the EFFIG efforts on alone are all that are needed to maximize the policy objective behind this change. We are strongly convinced that the HLG should, as a minimum, incorporate a few of the EFFIG recommendations [to access click [here](#)] into its final report as far as the financial markets are concerned and thus elaborate more deeply on its findings. In addition, we would like you to consider the following suggestions.

- Ensure that EU Solvency II rules do not prejudice but incentivise long-term investments, in particular green<sup>iii</sup> long-term property investments, by for example requiring a minimum percentage<sup>iv</sup> of buildings in the insurer's real estate asset allocation to be certified by voluntary rating schemes, such as LEED or BREEAM.
- Endorsement of the sectoral market led ESG reporting guidelines (e.g. EPRA sBPR/INREV Guidelines) to strengthen the credibility of the future benchmarks, so that the investors have a tool to assess their 'green' investments.
- Investigate and then remove cross-border obstacles to real estate investments [e.g. especially on withholding tax hurdles for Real Estate Investment Trusts (REITs)].

We hope that you will find our comments above useful and remain at your disposal should you need further information or clarification.

Sincerely yours,



Dominique Moerenhout, CEO of EPRA



Jeff Rupp, Acting CEO of INREV

<sup>i</sup> Our finding is that disclosure of environmental information correlates with the improved performance of portfolio.

<sup>ii</sup> Information on the use of proceeds of Unibail-Rodamco Green Bond are at pages 121 to 129 of the 2016 financial report.

<sup>iii</sup> Looking at the asset level certification.

<sup>iv</sup> To be determined following a consultation with all relevant stakeholders.

## About EPRA

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 240 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 430 billion of real estate assets\* and 86% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.

\*European companies only

## About INREV

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We are Europe's leading platform for sharing knowledge on the non-listed real estate industry. Our goal is to improve transparency, professionalism and best practices across the sector, making the asset class more accessible and attractive to investors.