



*The Presidency compromise text
for a REGULATION
on the establishment of a framework to facilitate sustainable investment*
EU TAXONOMY REGULATION

KEY HIGHLIGHTS AND RECOMMENDATIONS

- The listed property sector welcomes the EU initiative on sustainable finance and strongly endorses the progress made on the EU Taxonomy Regulation.
- We particularly welcome the Council's Presidency compromise text and its recognition that raising equity capital should be incentivised for the undertakings' sustainable economic activities and to finance the transition to a sustainable business. Even more so we would welcome a concrete set of steps in that direction.
- Although, the Council looked at the businesses which actually carry out an economic activity contributing to the much needed environmental objectives, the real plans to explore how their sustainability efforts could be financed have been postponed. We realise that it might be due to the feasibility factor of their full in scope inclusion to the Regulation.
- If investors are to be disincentivised to invest directly into public shares of e.g. truly sustainable property investment companies, but encouraged to do so indirectly via a packaged financial product, then it creates a discriminatory treatment of the same underlying and sustainable investment. It is tremendously important to ensure a level playing field for sustainable investments in the EU internal market.
- We strongly recommend exploring the inclusion of listed equity to the scope of the Regulation and in interim we propose:
 - to focus on the inclusion of listed real estate equity and other core sectors; or alternatively
 - to introduce an ad hoc accreditation of the competent authorities available to listed companies which use the taxonomy voluntarily.

BACKGROUND

For 20 years, the European Public Real Estate Association (EPRA) has been the voice of Europe's listed real estate companies that derive income from the ownership, trading and development of income producing real estate assets. Listed real estate allows anyone, from retail investors to large institutional investors, to invest in the underlying assets of public quoted companies, the same way as investing in other industries through purchasing shares. With more than 275 members (companies, investors and their suppliers), EPRA represents over 450 billion EUR of real estate assets (European companies only) and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

With an increased focus of institutional investors' on the sustainability aspects of business strategy, our members have been progressively adding sustainability into their decision making processes. They strive to incorporate the best possible standards in terms of construction, efficiency, sustainability and promotion of well-being as part of their normal business, while at the same time trying to engage with the broader community through their developments and corporate initiatives.

EPRA has been very eager for the EU initiative on sustainable finance. We are very pleased that investments in energy efficient and sustainable buildings in Europe have recently become part of the discussion. In our published position paper on the Commission's proposal, we explained specific benefits of sustainable investing in listed real estate for active investors and the reasons why this should be taken into consideration in the EU Taxonomy proposed Regulation. The full position paper is accessible [here](#) (hyperlink).

In this paper, we welcome the Council's Presidency compromise text and particularly its recognition that raising equity capital should be incentivised for the undertakings' sustainable economic activities and to finance transition to a sustainable business. We would, however, welcome even more a concrete set of steps towards that direction. We therefore continue to stress that sustainable investments may flow not only through the financial products or corporate bonds, **but also and more transparently through stock listed companies that invest in sustainability of the real estate they own (i.e. listed equity)**. Consequently, if we talk about a framework to facilitate sustainable investment in Europe, then we need to talk about sustainable investments in all 1) financial products, 2) corporate bonds and 3) corporate shares of the listed companies. EPRA has been continuously calling to include to the scope of the Regulation listed corporate shares (i.e. listed equity) in addition to the financial products and corporate bonds.

Below, we elaborate on this topic further and reiterate why we should enable sustainable capital to flow directly in listed real estate through the proposed framework. We mention the sector's overall benefits to society and conclude with a few practical recommendations which would enable us to move forward in this debate.

WHY ENABLE SUSTAINABLE CAPITAL FLOWS DIRECTLY INTO LISTED REAL ESTATE?

Listed property 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 and diversified returns which are now even more valuable given the ongoing low interest rate environment. The sector provides particular benefits to active investors who undertake more careful and thorough ESG consideration and engage closely to the businesses they invest in.

FORWARD LOOKING BUSINESS STRATEGY

Listed property offers a forward-looking business strategy to investors and provides them with a better picture of the business plans of the companies they invest in and to what extent those companies focus on environmental, social and corporate governance performance of both themselves and their real estate assets. Moreover, financial investment and the manner in which it progresses business plays a key role in further advancing climate change mitigation and adaptation. We are therefore convinced that it is not only a matter of investing in assets which are already green or sustainable, but that it is equally important to invest in those assets which are in a transition to become green, in order to fully guarantee a viable roadmap to a sustainable global economy.

TRANSPARENCY AND ACCOUNTABILITY

As part of the regulated stock markets, listed property companies provide high levels of disclosure and information. Such transparency fosters good decision-making, healthy corporate governance, investor confidence and trust as it enhances the accountability of the managers, the directors and employees of the listed property companies, to its investors (shareholders).

ESG REPORTING AT PORTFOLIO LEVEL

In addition, listed property companies are mandated by the European non-financial information (NFR) rules to annually publish their ESG reports. As a consequence, new set of ESG information is now publicly available¹. This information is in most cases verified by an external auditor to ensure their correctness and is processed at the portfolio level in order for the investor to have a complete picture of both the direction and past performance of the business they invest in.

RAISING SUSTAINABLE CAPITAL AND MARKET STABILITY

The combination of accessibility and transparency allows listed property companies to attract capital from the widest range of investors, typically through equity or debt capital. This is a crucial attribute during difficult periods in the economic cycle. Even during the recent economic difficulties, listed property companies continued to raise significant amounts of capital, enabling them to provide an uninterrupted service to Europe's businesses.

If sustainable finance is limited to direct debt financing, it would impact the flexibility and diversity in funding which is currently provided to listed real estate companies through their access to the public markets. We believe that offering both options would enable listed property sector to continue making a positive contribution to the ongoing stability of real estate markets and the continuous provision of its ESG tailored services to the economy.

Sustainability requires innovative and more risky solutions. Limiting the scope to debt and packaged financial products would therefore limit the impact of sustainable finance. In addition, it would create a different treatment of equity and debt in the framework of sustainable investment which would only add to the already existing equity/debt bias.

LET'S CONSIDER WIDER BENEFITS OF SUSTAINABLE LISTED REAL ESTATE SECTOR

STABLE AND BALANCED REAL ESTATE MARKETS

The listed property sector reduces 'information-based contagion' (a key contributor towards systemic risk) by reducing the likelihood of opaque market bubbles and subsequent market shocks. Investing in real estate through capital markets can therefore help to create stable, balanced and efficient domestic real estate markets. The more efficient property markets, the better the quality, price and supply of the property which houses families, students and businesses across the European Union.

COMMUNITY ENGAGEMENT, SOCIAL RESPONSIBILITY AND TENANT FOCUS

Listed property companies are important actors for society, mindful of the long-term interests of communities in which they operate. They play a crucial role in improving living standards while undertaking business and delivering the shareholders' returns. Urban development, sustainability leadership and social needs awareness demonstrate how critical the built environment is in achieving social objectives and how listed property companies play an important role in achieving these goals.

NOTE: More information about the sector is available in [the Building Stronger Europe: Stock Exchange Listed Property Companies](#) (July, 2018).

¹ See also [EPRA Sustainability Best Practices Recommendations \(sBPR\) Guidelines 2017](#) and the [2019 EPRA sBPR Awards](#)

HOW TO ENABLE SUSTAINABLE CAPITAL TO FLOW DIRECTLY IN LISTED REAL ESTATE?

COUNCIL'S COMPROMISE TEXT

We welcome the Council's recognition that raising equity capital should be incentivised for the undertakings' sustainable economic activities and to finance transition to sustainable business.

We welcome the Council's Presidency compromise text which explains better the current standing of listed undertakings within the EU taxonomy framework. In its Recital 21, it brings forth the much needed and previously missing clarity:

'The Union legal framework should encourage sustainable economic activities to be carried out by a large variety of economic operators, for example SMEs and listed issuers. Also, these should be incentivized to raise debt and equity capital for their sustainable economic activities and the transition to sustainable business. The scope of the Regulation does not include directly companies and other entities. This means that many listed or unlisted companies although they can voluntary-use the taxonomy, are not targeted with enforcement measures by competent authorities. Hence they may have difficulties in accessing sustainable finance. It should be analysed, whether the scope of the Regulation and other relevant EU legislation could have impacts on the capital flows to more sustainable economic activities, and the diversity of funding sources by different types of economic operators.'

In addition, we are pleased with the proposed Article 17(3)(a)-(b) in which the Commission is asked to look into the limitations in the scope of the Regulation and its impact on the capital flows into private enterprises, such as listed real estate companies. It indicates that there is a recognised need to work towards extension of the Regulation's scope so that direct investments in the listed shares of sustainable European undertakings are equally incentivised.

We would like to commend the Council for the mentioned improvements. However, we could already be more ambitious in terms of the inclusion of listed real estate equity into the Regulation's scope. While realising that it may not be fully feasible at the stage, we would like to suggest the following transitional measures which are in our opinion already achievable.

RECOMMENDATIONS OF THE LISTED REAL ESTATE SECTOR

1. LIMITING THE INCLUSION OF LISTED EQUITY TO THE CORE SECTORS, SUCH AS REAL ESTATE

If the inclusion of all listed equity is not feasible at the moment, we would like the EU policy and law makers to explore whether it could be done for certain targeted sectors which can be the most impactful in tackling climate mitigation and climate adaptation. Real estate, as described in the background of this paper, should be considered as one of the core sectors, next to infrastructure and transport.

2. INTRODUCING A VOLUNTARY AD HOC ACCREDITATION OF THE COMPETENT AUTHORITIES

The Recital 35 of the proposed Regulation says that although many listed companies can voluntarily use the taxonomy, they will not be subject to the enforcement measures and therefore might face difficulties in accessing sustainable finance. While we argue that we should be going towards the full inclusion of listed companies in the EU framework to facilitate sustainable investment, we could see a voluntary ad hoc accreditation as a feasible and transitional measure.

There is also a question of having a level playing field on the EU internal market. If investors are to be disincentivised to invest directly into public shares of truly sustainable property investment companies, but encouraged to do so indirectly via a packaged financial product, then this might create a discriminatory treatment of the same underlying and sustainable business (to visualise see ANNEX I).

We therefore recommend to explore how the voluntary application of the EU taxonomy could be recognisable by investors and/or competent authorities as a sustainable investment so that raising equity capital can indeed be incentivised for the undertakings' sustainable economic activities and to finance transition to sustainable business. A voluntary accreditation or a regularly maintained list of qualified undertakings by relevant public authorities could help incentivise direct sustainable investments in listed companies.

About EPRA

EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com.

**European companies only*

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LONG-TERM INVESTORS

CORPORATE SHARES

CORPORATE BONDS

FINANCIAL PRODUCTS

ALL POSSIBLY SUSTAINABLE INVESTMENT IF REQUIREMENTS ARE MET

BUSINESS STRATEGY

ACTIVE INVESTMENT

BUSINESS STRATEGY IS LOOKING FORWARD:

- What do you do next with your strategic planning and what are the potential financial impacts?
- How do you convert your existing portfolio?
- How do you plan to impact the society?
- What are your steps to follow and meet the set objectives?

PUBLIC DISCLOSURE
TRANSPARENCY & ACCOUNTABILITY



Listed property companies are mandated by the European non-financial information (NFR) rules to publish annually their NFR reports. As a consequence, new set of ESG information is now publicly available. Those information are in most cases verified by an external auditor to ensure their correctness. They are also processed information **at a portfolio level** so the investor has a full picture of the direction and past performance of the business they invested in.

NOTE: Active investors have often a seat at the board of directors and thus a stronger power to challenge the management of the companies when the anticipated results, including the ESG results, is not met.

BUSINESS STRATEGY

ACTIVE & PASSIVE INVESTMENT

GREEN AND SOCIAL BONDS AS PART OF THE BUSINESS STRATEGY ARE ALSO LOOKING FORWARD:

- What will you do next with the money raised by the green bonds?
- How will you convert your existing assets? Or is the project intended to build new assets?
- How do you plan to impact the society (i.e. social bonds)?

THIRD PARTY VERIFICATION
GUARANTEE OF TARGETS ACHIEVEMENT

Green and social bonds which are issued by listed property companies are aligned with [the International Capital Markets Association \(ICMA\) Green Bond principles](#):

- Use of proceeds
- A structured project selection process
- Management of proceeds
- Reporting based on pre-set metrics
- Third party verification

INVESTMENT STRATEGY

PASSIVE INVESTMENT

SAMPLE FINANCIAL PRODUCT /VEHICLE



PUBLIC ESG DISCLOSURE NOT AVAILABLE
MUCH LESS TRANSPARENCY

THIS INCLUDES REAL ESTATE FUNDS (AIFs and UCITs)

REAL ESTATE FUND



ESG information often not publicly available and provided to investors **at the asset level**.

NOTE: An average size of the property portfolio of listed companies is €4.4 billion, which is 4.5 bigger than that of the average investor and 9 times bigger than that of the average unlisted property fund.

