



EU TAXONOMY TECHNICAL REPORT

KEY HIGHLIGHTS AND RECOMMENDATIONS

The listed property sector welcomes the EU initiative on sustainable finance and strongly endorses the progress made on both the EU Taxonomy Regulation and Taxonomy Technical Report. From our extensive experience on sustainable real estate investments, we recommend to further consider the following:

- We should prioritise decarbonisation of the existing stock rather than to promote and finance new constructions.
- We should move away from making decisions simply by relying on the estimated performance data and transitionally complement them with the ex-post verification of the real energy performance of buildings.
- Therefore, we need to address the lack of actual data by e.g. requiring continuous monitoring and subsequent communication of the actual performance of buildings during their operation. Once more data is available on the markets, we should establish a more reliable methodology of assessing the buildings' performance.
- We encourage to include a portfolio disclosure in addition to the proposed single asset level disclosure which would enable listed property companies to voluntarily use the EU Taxonomy while reporting in compliance with the EU Non-Financial Information Directive and trading under the possible upcoming benchmark as foreseen by the Climate Benchmark Regulations.


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, sustainable use of resources, 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 and the taxonomy technical report (see table).

Table on the real estate related economic activities contained in the Taxonomy

 BUILDINGS	Can climate change mitigation criteria change in future?
Construction of new buildings	Yes
Renovation of existing buildings	Yes
Individual renovation measures, installation of renewable on-site and professional, scientific and technical activities	Yes
Acquisition of buildings	Yes

While an enormous progress has been made over a short period of time, we would like to continue raising our further recommendations on real estate activities which would finance better the transition toward a sustainable real estate business.

FOCUS ON THE RENOVATIONS OF EXISTING BUILDING STOCK

The construction sector continues to grow in Europe. On the other hand, the renovation rate remains very slow (averaging around 1% per year) which as seen by the TEG can be due to a number of technical and financial obstacles. However, to accomplish the climate change targets in the European Union, this is one of the key markets (i.e. the market for major renovation) which needs to be prioritised over the promotion of new constructions. There are many studies and publications stressing that 'the greenest building is the one that already exists', as explained by Robert Adam [here](#). Considering the resources costs of a new construction and the environmental impacts of the new building

throughout its entire life cycle, we suggest to not stimulate financing new buildings in a market with high vacancy rates (or vacancy rate beyond the equilibrium), or in a market with negative population growth, as it could lead to providing incentives which in fact negatively impact or mitigate climate change.

Additionally, renovations of existing buildings could have a higher score to facilitate transition toward a more sustainable real estate business.

Response from the TEG is that there is an ongoing discussion on how best to include transitional activities in a way that would fit into the existing technical taxonomy report and thus avoiding a possible creation of a second parallel taxonomy specific for transitional activities.

USE OF ACTUAL DATA VERSUS ESTIMATED DATA

With reference to design and in-use performance, listed property companies have noticed a significant gap between the expected and actual performance of a building once in use. We stress that the currently proposed ex-ante approach may lead to capital being allocated to buildings which do not meet the energy or carbon performance they claimed during the design phase. Capital allocation through the use of Energy Performance Certificates (EPCs) is not the ideal tool, as EPCs are not reliable in capturing the real performance of a building, as demonstrated by many studies and acknowledged by the TEG members themselves. In addition, relying only on the ex-ante approach fails to incentivise the collection and then disclosure of the actual data of the assets' performance.

For those reasons, we propose in a long term to move from the ex-ante approach which relies exclusively on data modelling to an ex-post approach which reflects on the actual performance of the underlying assets.

ADDRESSING THE LACK OF ACTUAL DATA AVAILABILITY

We accept the ex-ante approach as a transitional solution which should be strengthened by requiring mandatory monitoring and communication of the actual buildings' performance during their operation so that we can benchmark them against the modelled performance. Afterwards, we should move towards more accurate assessment of the sustainability performance of our buildings.

Thereby the Technical Taxonomy would have a tool to feasibly incentivise the ex-post approach alongside the ex-ante approach (as is the case for Green Bonds). In our view, the investment community would benefit from such a change enormously as it would increase buildings' data availability in public domain.

PORTFOLIO LEVEL DISCLOSURE IN ADDITION TO THE SINGLE ASSET LEVEL DISCLOSURE

At the moment, the Technical Taxonomy foresees the single asset disclosure only.

Considering that the Non-Financial Reporting (NFR) Directive strengthens corporate level disclosure which for listed property companies means portfolio disclosure, we believe that the Taxonomy's asset level disclosure disables companies to comply with the NFR Directive. Considering that the listed companies are equally encouraged to use the Technical Taxonomy on a voluntary basis, and at the same time they do report in compliance (often also voluntarily) with the Non-Financial Reporting Directive, we believe that portfolio level disclosure should be enabled for the EU listed companies, particularly for the listed property companies. This way it would equally incentivise the use of the upcoming climate benchmarks which are also based on ESG information disclosed at the portfolio level.

In practical terms, the use of the EU Taxonomy should be maximised. The asset level disclosure works perfectly for smaller real estate funds which usually own a small number of assets. However, listed property companies have much larger portfolios of buildings (especially in the residential sector) and operate as any other operational business while reporting annually their financial and non-financial performance at a portfolio level. The same scenario would apply for economic activities such as production of heating and cooling from bioenergy or manufacturing of plastics in primary form. Expecting an asset level disclosure in such operation business would also be non-practical. Investors investing in listed real estate companies are rarely looking at individual assets as they have access to processed consolidated data at a portfolio level which is verified by an external auditor and well reflecting the sustainability efforts of the listed company in question. The same rationale applies to those investors who would invest in listed property companies following a climate benchmark as foreseen by the recent changes to the EU Benchmark Regulation.

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*