Technical Expert Group on Sustainable Finance: Taxonomy feedback and workshop invitation

Answer Sheet

13 Buildings
13.1 Construction of new buildings (residential and non-residential)

13.1.1 Feedback

1. **Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? If not, what alternatives do you propose and why?**

   No.

   - For investors and asset managers the proposed principle is acceptable with two minor remarks:
     - The principle states that [The top performing buildings…. Should be eligible for the taxonomy]. It does not become clear, what is the rationale behind choosing this specific set of buildings and how a *"top performing building"* is determined?
     - At this point in time, from the point of view of an asset manager, it is not possible to argue for or against the ISO 52000 standard, for a lack of necessary technical expertise.
   - In general, the proposed second metric "in-use energy performance" or energy intensity, measured in kWh/m²a, is a useful proxy for the time being, but there should be a medium- to long-term approach to establish a standard for measuring CO_2 emissions. Principally, the focus should be on the emitters of greenhouse gases.
   - Credit institutions are confronted with the problem that, at the time of the construction of a new building, no in-use data is available.

2. **Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? If not, what alternatives do you propose and why?**

   No.

   - Investors and asset managers can agree with the proposed metrics. The most important aspect is that there should be a credible comparability across the metrics. Calculation of square meters need to be clearly defined.
   - Credit institutions do not agree with the proposed metrics:

- The experience of other certification bodies, like DGNB, LEED, BREEAM, of applying environmental sustainability indicators should also be taken into consideration of the TEG, as well as the European Commission's work in the Level(s) framework.
- The Taxonomy has to be strict on the one hand, but it's criteria have to be achievable and attractive for building owners and financiers on the other side. That's why a prudent approach is necessary that is strict on the one hand but allows for business on the other hand. A solution could be to use a dynamic approach with stricter requirements over time.
- At the same time a "grandfathering" of buildings accepted as green is extremely important. Otherwise, green buildings in the sense of the Taxonomy definition could drop out again, depending on the tenant's or owner's behavior.
- It is assumed that potential Green Bond criteria of the EU Commission will be based on the taxonomy criteria for green assets. If the taxonomy criteria are too strict and/or not feasible in practice, the green bond market would suffer a major setback and considerable uncertainty would arise among investors. This would put the goal of filling the financing gap for achieving the climate targets at considerable risk.

3. Where thresholds have been considered, please indicate whether you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy. Please explain your answer. If relevant, you may propose alternative thresholds that could be considered.

No.

- We welcome the aim to set country-specific requirements for carbon and energy performance of buildings, provided that the adopted demand profile is comparable.
- As definitions of NZEB buildings are not existing for all European countries, yet, the question remains, how to proceed in the meantime.
- The definition of eligible standards is also targeted by the EeMAP-consortium and their nation hubs, which are currently in formation. This work should also be taken into consideration.
- Furthermore, legal requirements are not given to reach NZEB e.g. tax regulations (German GewSt, Trade Tax Act) regarding sale of on site produced renewable energy or legal requirements regarding private data (GDPR, DSGVO)

- The main focus should be on CO_2 reduction, as compared to the reduction in energy usage.

4. **Do you agree with the 'do no significant harm' criteria identified for these activities? If not, what alternative approach or requirements do you propose (e.g. referring to existing market initiatives and best practices) and why?**

   No.

   - "(2) Adaptation" needs better explanation. Building shell is within responsibilities and control of developer, while interior put in place and operated by tenants. We recommend to exclude or define "interior" in this section. Electrical infrastructure for electric vehicles not always given by city council.
   - For credit institutions, an assessment of the "Do no significant harm" criteria would not only constitute an additional burden but also result in high liability risks for credit institutions. They do not have access to the information needed and building owners or constructors will hesitate to deliver the information, especially given vague definitions (e.g. the increase of life-span or the maximization of building material reuse). Moreover, many of the criteria are difficult to manage and influence for builders, owners and financiers (e.g. thermal resilience of the exterior environment of the building or the implementation of staff travel plans). An alternative could be to accept certificates like DGNB, LEED, BREEAM as they address many of the aspects mentioned.

5. **Is there any key area where significant harm needs to be avoided and which is not mentioned already? Please explain why and what requirements could be used to avoid such harm.**

   Yes.

   The following two controversial aspects are material but have not been mentioned.

   - *Nuclear energy*: In many European countries, nuclear sources are common practice for retrieving energy. Although the use of nuclear power produces different kinds of hazardous wastes, CO_2 emissions are not one of them. At this point in time, the reduction in CO_2 emission is one of the metrics, for measuring energy performance. Thus, a resulting question would be, whether a nuclear energy source is considered to be sustainable or not.
   - *Plastic:* How do you estimate/measure plastic waste?

6. **Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? Please explain.**

Yes.

- Asset managers and investors: While the proposed criteria is welcomed with regards to mitigation of emissions it will directly increase development costs and financial incapability of adoption will lead to stranded assets if consequences of non-compliance are significant [which they should be if the taxonomy shall be effective at all]. Tenants would effectively have to take over higher construction costs with increased rents.
- Credit institutions: The proposed criteria could have the green bond market suffer a significant setback as the requirements for green buildings are too strict (too demanding limit values and no “in-use” monitoring possible). In addition, the focus on "in-use" performance can increase uncertainty, as buildings can be classified as green and then drop out again, depending on the behavior of the tenants and owners.

7. **Can the proposed criteria be used for activities outside the EU? If not, please propose alternative wording that could be considered.**

Don’t know / no opinion / not relevant.

13 Buildings

13.2 Renovation of existing buildings (residential and non-residential)

13.2.1 Feedback

1. **Do you agree with the proposed principle for determining a substantial contribution to climate mitigation for this activity? If not, what alternatives do you propose and why?**

No.

Asset managers and investors:

- The proposed principle does not specify if landlords are to be obliged for carrying out renovations in case of building(s) not yet achieving highest performance standards. Forced renovation may [financially] not be possible for building owners and occupants. Renovation with regards to the proposed principle needs long term planning [physical and cash flow]; timeframes need to be clearly defined within taxonomy and landlords shall be allowed at least 10 years from passing of taxonomy to completion of renovation. The term "renovation" needs to be defined [i.e. most capital expenditures do not directly relate to energy savings and as such a renovation may not lower carbon or energy performance at all].
- At this point in time, from the point of view of an asset manager, it is not possible to argue for or against the ISO 52000 standard; for a lack of necessary technical expertise.
- Regarding [in-use monitoring of the actual performance], *the* willingness to cooperate of the tenant needs to be taken into account. Tenants source their electrical energy directly from various energy providers. Therefore, from a legal perspective, a landlord depends on the tenants` willingness to voluntarily provide the precise numbers on energy consumption.

Credit institutions:

- At the time of the renovation of an existing building no in-use-data is available

2. **Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? If not, what alternatives do you propose and why?**

No.

Asset managers and investors:

- Investors and asset managers can generally agree with the proposed metrics. The most important aspect is that there is a credible comparability across the metrics.
- Critical factor is the tenants` willingness to cooperate in sharing data.
- Square meters need to be clearly defined for all countries

Credit institutions do not agree with the proposed metrics:

- Neither the owner nor the financing bank has “in-use-data” of the renovated building at the time of the finance commitment for the renovation.
- Likewise the NZEB-standard is predominately not achievable for existing buildings. In case of threshold “50%-improvement”, no appropriate data/standard would be available.
- The Taxonomy has to be strict on the one hand, but it’s criteria have to be achievable and attractive for building owners and financiers on the other side. That’s why a prudent approach is necessary that is strict on the one hand but allows for business on the other hand. A solution could be to use a dynamic approach with stricter requirements over time.
- At the same time a “grandfathering” of buildings accepted as green is extremely important. Otherwise, green buildings in the sense of the Taxonomy definition could drop out again, depending on the tenant’s or owner’s behaviour.
- It is assumed that potential Green Bond criteria of the EU Commission will be based on the taxonomy criteria for green assets. If the taxonomy criteria are too strict and/or not feasible in practice, the green bond market would suffer a major setback and considerable uncertainty would arise among investors. This would put the goal of filling the financing gap for achieving the climate targets at considerable risk.

3. Where thresholds have been considered, please indicate whether you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy. Please explain your answer. If relevant, you may propose alternative thresholds that could be considered.

No.

- There is an ambiguity in the formulation [an absolute threshold for buildings…], which makes it difficult to predict, how the absolute threshold is going to be determined. *The definition of the absolute threshold* might significantly vary, depending on whether the threshold is defined e.g. by the age of the building, the CO_2 emissions of the building, the overall energy consumption or, if it is a combination of the three examples.

- As long as there is no further definition of the threshold, a final statement can´t be given. Especially for existing buildings a reasonable definition is key, it may decide about the profitability.
- For the [percentage reduction in carbon emissions…], a threshold of 50% has been suggested. This threshold is derived from the U.S and Australian market, which are not comparable to the overall EU market and its domestic markets within, due to varying building standard regulations.
- A path towards establishing a threshold in the long term, has to involve two steps:
    1. Extensive monitoring of the energy performance using comparable and justifiable metrics over a long term period.
    2. Establishment of a benchmark/threshold, resulting from a thorough analysis of past energy performance.
- Relative performance is mainly driven by tenants and are out of landlords' influence [i.e. technical equipment and habits]. Various asset classes need different approaches i.e. shopping centres vs. residential.
- Increasing absolute performance from a high to the highest standard may emit more CO_2 than long term savings generated – especially if buildings are operated with renewable energy. Relative performance needs to be specified in terms of timing [i.e. will a reduction of 50% be sufficient in the long term?]. Portfolios should be benchmarked and renovation targets should refer to the top [i.e. quartile] of the benchmark. Lifecycle costs of building materials need to be considered if at all technical feasible. Listed buildings should be considered separately.

- Credit institutions support the idea to differentiate between absolute and relative performance and to set country-specific requirements for CO_2-emission or energy performance of buildings. However, the relative performance threshold seems to be too ambitious. EeMAP only asks for a 30% improvement. On the other hand, the percentage for the improvement should be linked with a certain minimum standard.

4. **Do you agree with the 'do no significant harm' criteria identified for these activities? If not, what alternative approach or requirements do you propose (e.g. referring to existing market initiatives and best practices) and why?**

No.

- The influence of landlords in many areas is limited and some aspects are not within the sphere of responsibilities e.g.: […re-use materials and minimize waste during construction and demolition] – The disposal of materials in compliance with existing laws and regulations', following a demolition, has to be carried out by the demolition firm.

- For credit institutions, an assessment of the “Do no significant harm” criteria would not only constitute an additional burden but also result in high liability risks. They do not have access to the information needed and building owners will hesitate to deliver the information, especially given vague definitions (e.g. the increase of life-span or the maximization of building material reuse). Moreover, many of the criteria are difficult to manage and influence for builders, owners and financiers (e.g. thermal resilience of the exterior environment of the building or the implementation of staff travel plans).

5. **Is there any key area where significant harm needs to be avoided and which is not mentioned already? Please explain why and what requirements could be used to avoid such harm.**

Yes.

- It is crucial to point out, that certain types of tenant´s user behaviors cannot be attributed to the landlord. For example, landlords` in several large German cities are legally obliged to be connected to the district heating network. Hence, the resulting CO_2 emissions from district heating should be deducted from the overall GHG emissions of the landlord.

6. **Would the proposed criteria give rise to adverse consequences, e.g. risk of stranded assets or the risk of delivering inconsistent incentives? Please explain.**

Yes.

- A wrong threshold could result in massive renovation, which in turn could lead to disproportional costs and stranded assets.
- The proposed criteria could have the green bond market suffer a significant setback as the requirements for green buildings are too strict (too demanding limit values and no “in-use” monitoring possible). In addition, the focus on "in-use" performance can increase uncertainty, as buildings can be classified as green and then drop out again, depending on the behaviour of the tenants.

7. **Can the proposed criteria be used for activities outside the EU? If not, please propose alternative wording that could be considered.**

Don’t know / no opinion / not relevant.