



OPINION

03.04.2026

German Property Federation (ZIA)

Feedback on the European Commission's proposal for the revision of the Sustainable Finance Disclosure Regulation (SFDR)

A. General remarks

ZIA's members include, among others, nearly 40 Alternative Investment Fund Managers (AIFMs) who manage real estate and infrastructure funds with assets under management in the hundreds of billions. The SFDR's approach of mobilising private capital for sustainable investments through disclosure requirements for financial products has been supported by ZIA from the outset. However, the current SFDR has led to inconsistencies, misaligned incentives and greenwashing risks, particularly in the design of product disclosure. Furthermore, it entails excessive bureaucracy and reporting burdens.

We therefore welcome the European Commission's proposal to revise the SFDR and regard it as a suitable basis for resolving existing issues. We support the restructuring of the SFDR into a genuine product category system with quantitative minimum requirements. The future division into three sustainability categories will lead to greater differentiation among sustainability-related investment strategies. Particularly noteworthy is the introduction of a transition category. For the real estate sector, which is responsible for more than a third of CO₂ emissions in the EU, the transition category offers the opportunity to mobilise the capital required for the costly decarbonisation of the CO₂-intensive existing portfolios of real estate funds. This key aspect was not reflected in the previous dual system of Articles 8 and 9. For this new category, it must be ensured that the criteria are designed with sufficient flexibility to appropriately reflect long-term transformation pathways and avoid unintended exclusion effects.

The removal of Principal Adverse Impacts (PAI) at entity level leads to a noticeable simplification of reporting and is expressly welcomed. Insofar as PAI are to be retained – at least for the 'transition' and 'sustainable' categories at product level – a flexible approach is required, which will, above all, significantly reduce the currently considerable challenges regarding data identification and collection, as well as the reporting based on this.

B. Specific remarks

Against the backdrop of an overall successful proposal, we would like to highlight various points below where we still see a need for improvement and amendment. These refinements and adjustments will in many cases only become relevant in the Delegated Acts at Level 2 but should be addressed here already.

1. Product categories

a. Taking real estate specific characteristics into account

The sustainability criteria and factors proposed for the product categories under Articles 7, 8 and 9 are, by comparison, rather narrowly tailored to investments in companies and

liquid assets. Products – which are often highly standardised, particularly in the securities sector – differ fundamentally from illiquid private market investments with a long-term focus such as real estate and other real assets (e.g. infrastructure). Insofar as the criteria for the ‘ESG Basics’ category, for example, are based on an ESG rating, the use of an ESG benchmark or a sustainability track record, these will regularly not be applicable to real assets.

Real estate investments will therefore often only be able to be covered via the ‘other investments’ option. As this catch-all option is very broadly defined, there is a risk of practical application issues and legal uncertainty.

Against this background, the pending Delegated Acts relating to the relevant sustainability criteria and factors for categories 7, 8 and 9 should include specific provisions that consider the characteristics and concerns of investments in real estate and other real assets in a differentiated manner. At the same time, sufficient attention must be paid to the considerable heterogeneity of real estate and real asset investment strategies – compared to securities investments – when designing further criteria, as these require a high degree of flexibility.

We will be happy to submit proposals for the specific design in due course and are available as a point of contact.

b. Social investments for real estate in the ‘Sustainable’ category

The social criteria set out in Article 9(d) and (f), which consider ‘EU budgetary guarantees’ and ‘EU entrepreneurship funds (EUSEF)’, have a comparatively narrow scope of application, which is unlikely to be of much use for real estate and infrastructure investments. However, the social purpose can play a key role, particularly in the case of real estate (e.g. investments in affordable housing). Given the requirements under Article 9, it remains unclear for the time being when and to what extent such concepts would be covered.

In practice, the SFDR has so far been disproportionately applied to the “E” category. At the same time, there is—particularly in the real estate sector—a significant need and potential to effectively account for investments in the “S” category. We would like to take this opportunity to highlight the “Institute for Corporate Governance in the German Real Estate Industry (ICG),” which, through scientifically grounded studies, has made the social impact of investments in real estate across various asset classes measurable and transparent.¹

Criteria for social investments in real estate funds should be considered in the pending delegated acts. We recommend drawing on the ICG’s concepts and criteria for this purpose.

¹ <https://icg-institut.de/en/publications/>

c. Calculating a 70% threshold in product categories for real estate funds

We consider the proposed 70% threshold to be appropriate in principle. However, from the perspective of open-ended and closed-end real estate and real asset funds in Germany, whether the proposed threshold is appropriate largely depends on the basis of calculation. Insofar as the draft refers to "investments" for the calculation of the 70%, it remains unclear which investments are included. If all investments of an AIF, i.e. the gross fund volume, were used as the basis for calculation, the 70% threshold would in fact be virtually unachievable for real estate funds and would therefore be too high.

Open-ended real estate funds are required by national legislation (German Capital Investment Code, KAGB) to maintain high liquidity ratios due to redemption rights. In practice, these are usually between 10 and 20%. Liquidity investments and hedging instruments serve the stability and flexibility of the fund but are not part of the actual investment portfolio of a real estate AIF. They serve other purposes and will generally not contribute to the ESG objectives of an AIF.

We therefore recommend that the 70% threshold should be based on the net fund volume and that only those investments should be considered that correspond to the actual investment purpose, i.e. real estate in the case of real estate funds. Liquidity investments and hedging instruments, on the other hand, should be excluded.

d. Non-compliance with the 70% threshold during the initial investment phase and the liquidation period of the product

Furthermore, the 70% threshold should not apply to newly issued funds during the initial investment phase or during the divestment phase following the fund's liquidation.

For newly issued real estate funds, real estate investments are often made successively over a longer period of several years. If 70% of the ESG criteria had to be considered from the start of investments by a real estate AIF, the AIFM would be disproportionately restricted in its investment activities and in structuring the portfolio. For other product regulations, for example regarding diversification or leverage thresholds, it is accordingly common for these not yet to apply during the initial investment phase or during liquidation. Open-ended real estate funds in Germany, for example, are not required to comply with diversification rules during an initial period of four years (Section 244 KAGB).

Such a start-up period, as well as a liquidation period, should also be considered regarding the 70% threshold. In addition, temporary instances where the threshold is not met — such as those caused by emergency sales or revaluations — should be treated with the necessary flexibility when assessing compliance with the threshold.

e. Application of the PAB/CTB exclusions to real estate investments

The exclusion criteria of the Benchmark Regulation are designed for investments in companies. Since real estate and other real asset funds do not invest in companies, the exclusion criteria of Article 12 (1) and (2) of the Benchmark Regulation do not generally apply to real estate funds.

In particular, the exclusions should not be applied to the tenants of the properties as an alternative. The tenant's overall ESG profile says little, and only very indirectly, about the ESG characteristics of the actual investment – the property. Above all, however, it is often not even possible to identify their potentially ESG-harmful activities for data protection reasons. Focusing on the tenants would cause problems, especially when purchasing and managing properties with many, frequently changing tenants (e.g. shopping centres).

For real estate and other real asset funds, it must be borne in mind that the exclusion criteria do not work or are not meaningful.

2. Principal Adverse Impacts (PAI)

a. Designing PAI flexibly at product level

It is worth noting positively that a PAI statement at entity level will no longer be required in future.

Insofar as the PAI – at least for the 'transition' and 'sustainable' categories – is to be retained at product level, a flexible approach is required, which will, above all, reduce the currently significant challenges regarding data identification and procurement, as well as the reporting based on this. Against this background, the proposed use of self-selected PAI indicators as an alternative to the legally prescribed PAI indicators is supported.

Furthermore, it should be noted that some PAI indicators currently are not applicable, or only to a limited extent, in the real asset sector – for example, in infrastructure or energy generation facilities such as solar parks. There is a need for adaptation here so that the indicators do justice to the specific circumstances of these asset classes.

b. Implementing the immediate removal of PAI at entity level

As the removal of PAI reporting at entity level is already foreseeable, the obligation to publish PAI statements should be lifted immediately. The associated effort required for aggregated reporting at entity level is considerable and is not commensurate with its benefits.

The removed requirements should therefore take effect immediately upon the entry into force of SFDR 2.0 – irrespective of the otherwise envisaged 18-month implementation period. Ideally, this should apply from the 2026 reporting year, but no later than 2027.

3. Product-reporting on website

The reduction of the ESG appendix in the pre-contractual information to three pages is to be expressly welcomed. Against the backdrop of this reduction, the additional website disclosures pursuant to Article 10 SFDR would be redundant if they were of a similar scope. Furthermore, the ESG annex from the pre-contractual information must already be published near the disclosures pursuant to Article 10 SFDR. Ideally, therefore, it should be possible in future to refer to the prospectus for the ESG disclosures on the website.

4. Opt-out for professional investors

For products aimed exclusively at professional investors such as insurance companies or pension funds, an opt-out option should be provided. Professional investors often invest in bespoke products that take account of their individual ESG preferences, some of which are also driven by regulatory requirements. Consequently, they rely on specific and often much more detailed ESG information, which is not covered by the standardised information based on legal requirements. Furthermore, they possess the necessary expertise and judgement to form their own view of the sustainability of the investment, for example through comprehensive, independent due diligence.

For products intended exclusively for professional investors, an opt-out option should be provided to ensure maximum flexibility and reduce administrative burdens.

5. Transition periods and synchronisation with Level 2 and other regulatory frameworks

The transition to a revised SFDR entails significant effort for existing sustainable products and their managers. The changes will lead to fundamental systemic adjustments in operational procedures, particularly regarding potential adjustments to the sustainability strategies pursued to date. Furthermore, a comprehensive reorientation of sustainability reporting and the associated IT infrastructure is required.

Hence, the following aspects must be taken into account:

- For the transition to the application of the new SFDR, it is essential to ensure that the relevant detailed provisions of the Delegated Act at Level 2 are also revised and implemented at an early stage in parallel. In line with the 18-month transition period provided for in the draft for the Level 1 Regulation, an appropriate lead time for implementation is also required at Level 2.
- Where the SFDR provides for deletions and simplifications that do not entail any additional burden, obligated entities should have the option of applying these even

before the expiry of the 18-month implementation period. One example is the removal of the obligation to prepare a PAI statement at entity level (see above), which could be implemented immediately.

- The previously announced adjustments to the querying of sustainability preferences in MiFID and IDD should likewise be initiated in a timely manner, in line with the SFDR revision. It should be ensured that these are not implemented at a later stage. The synchronisation of implementation dates must be ensured in the interests of legal and operational certainty, minimising additional bureaucratic burdens and maximising effectiveness.
- The revised SFDR incorporates key elements of the ESMA Guidelines on the inclusion of ESG factors in fund names and should be regarded as the definitive regulatory framework. To avoid duplication, it should be made clear at an early stage that the Guidelines will be repealed when the new SFDR comes into force.

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ZIA EU OFFICE



The German Property Federation (ZIA) is the leading umbrella association for the property sector. With its registered office in Berlin and a European office in Brussels, it speaks through its about 400 members, including 30 associations, on behalf of approximately 37,000 industry companies right across the value chain. ZIA provides comprehensive, unified representation for the interests of the real estate sector in all its diversity at both national and European level, including as a member of the Federation of German Industries (BDI) and the German Economic Institute (IW). The President of the association is Iris Schöberl.

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