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European Green Deal
What's in there for real estate companies?



The European Union is set to be climate-neutral by 2050. Therefore, far-reaching measures are taken to decarbonize the European economy. The real estate sector is in focus, as buildings are responsible for 36% of CO₂ emissions in Europe. The Green Deal is strategically relevant for real estate companies – it will impact business models, market demand and financing conditions.

Through the Paris Climate Agreement in 2015, the United Nations committed to limit global warming in the 21st century to less than 2°C, if possible less than 1.5°C, and to succeed with that goal to reduce global CO₂ emissions by 80–95% by 2050, which would result in a far-reaching decarbonization of the global economy.

The achievement of these climate targets (but also other sustainability targets) is being intensively pursued at EU level through the European Green Deal and the EU Financing Sustainable Growth Action Plan: By 2050, Europe should be climate neutral. To achieve this, greenhouse gas emission targets for 2030 are to be reduced by 55% compared to 1990. According to research by the EU Commission, buildings are responsible for about 40% of the EU's energy consumption and 36% of CO₂ emissions from energy. Further measures concern sectors such as mobility, food production and chemicals. To finance this, private capital flows of 180–290 billion Euros per year shall be redirected to sustainable investments or uses. Overall, the EU is pursuing six environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

To meet these objectives, the EU Commission has introduced several far-reaching measures, of which the following seem particularly relevant for real estate companies:

1. EU renovation wave

According to the EU Commission, more than 220 million building units (85% of the EU's building stock) were built before 2001. The EU Commission expects 85–95% of the buildings that exist today will still be standing in 2050. Given the EU's decarbonization goal and that most of these buildings are not energy-efficient, the Commission is convinced that it is necessary to double renovation rates in the next ten years to provide for higher energy and resource efficiency. By 2030, 35 million buildings should be renovated, which would also create 160,000 additional green jobs.

2. EU sustainable finance taxonomy

Real estate companies that have to prepare non-financial reports in accordance with the non-financial reporting directive will have to disclose the proportion of their turnover, Capex and Opex derived from construction, renovation, acquisition or ownership of buildings, that substantially contribute to climate change mitigation. It is therefore necessary to meet demanding criteria concerning primary energy demand, air-tightness and thermal integrity as well as life cycle global warming potential. Moreover, the activities may

not significantly harm neither the other five EU environmental objectives nor minimum safeguards for workforce safety and human rights. In addition to energy efficiency targets, real estate companies will be required to meet ambitious goals regarding water consumption, circular economy (at least 70% of non-hazardous construction and demolition waste shall be prepared for re-use, recycling and other material recovery) as well as pollution goals. These disclosures on turnover, Capex and Opex will be of significant relevance for investors in real estate companies to structure their investment decisions and as a basis for their own taxonomy reporting obligations as of the SFDR. The taxonomy criteria furthermore form the basis of the EU green bond standard.

3. EU non-financial reporting directive

The directive is currently being revised. The new rules are expected to be applicable from FY 2023 onwards. The Commission is set to enlarge the scope of companies that have to prepare non-financial statements in accordance with the Directive, from large listed companies with more than 500 employees to all large companies – these companies would then also have to fulfill the taxonomy disclosure requirements.

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