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# Changes triggered by Fit for 55 – why is it so important to reduce emissions from buildings?

Buildings are responsible for nearly 40 percent of global CO<sub>2</sub> emissions. It is estimated that the total floor area of buildings in use will increase by 75 percent in the period 2020–2050. As in other sectors, there is a need to raise the reduction targets from well below 2°C to 1.5°C.

In Poland and all throughout Central Europe, the energy performance of buildings poses obstacles. A significant portion of buildings in Poland (75 percent) is not energy efficient, as is the case in the entire region. Furthermore, over 85 percent of buildings in our country were erected before 2001 which creates additional challenges in terms of their modernization and adaptation to new ecological standards.

The transformation of public and historic buildings will be particularly difficult. There is also the risk of stranded assets, which can lead to a decrease in property values. At the same time, the demand for green buildings is visibly growing.

In the near future, many changes are expected regarding new standards for the real estate sector. In addition to the Fit for 55 package, new SBTi Buildings guidelines will be introduced in the second quarter of 2024 and they will require

setting ambitious emission reduction targets for both the use stage and the embodied emissions. The key Taxonomy-based requirements also impose strict standards on new buildings and renovation processes. Specifically, taxonomy-compliant buildings need to be more energy-efficient and use circular materials. In the case of renovations, primary energy demand should be reduced by at least 30 percent.

Implementing the new Fit for 55 requirements will impact building managers both directly and indirectly. Given their significant share in the overall CO<sub>2</sub> emissions, reduction of emissions from buildings will be a key objective. Hence, the Fit for 55 package introduces a number of regulations aimed at increasing energy efficiency of buildings and reducing emissions.

In line with the new regime, fossil fuels will need to be eliminated within the next five

years, which may in turn increase building owners' capital needs, especially between 2027 and 2030. Landlords will also be affected by the rising costs – in consequence, detailed analyses of the impact on landlords' budgets and investments in building assets may be necessary.

## **What changes are in store for the real estate sector following the introduction of the Fit for 55 regulations?**

The new laws applicable to both new and existing buildings are as follows: A new Emissions Trading System (ETS2) covering buildings, road transport and small industry (revision of the ETS Directive) – already adapted and coming into force as from 2027; Energy Performance of Buildings Directive (EPBD); Energy Efficiency Directive (EED); Renewable Energy Directive (RED); and Energy Taxation Directive (ETD).

### New Emissions Trading System

According to the latest amendments to the ETS Directive, a new Emissions Trading System (ETS2) will apply to buildings, road transport and small industry. The new system, expected to enter into force in 2027, will address the CO2 emissions from fuel combustion in sectors not covered by the existing EU ETS.

The key element of EST2 is the introduction of fossil fuel price increases without the need for building owners to purchase ETS allowances. The system will also take into account the Market Stability Reserve (MSR) designed to mitigate the risk of price surges. If prices are doubled, the plan is to release an additional 50 million allowances, and if they rise threefold – 150 million allowances. Moreover, if the price of allowances exceeds EUR 45 (adjusted for inflation), additional 20 million of allowances may be released. There is no fixed price cap which opens up the possibility to exceed EUR 45, especially if there is sufficient demand. The proposed system assumes an increase of the costs of using fossil fuels in the construction sector, especially in the context of, for example, gas heating. ETS2 is expected to become operational in 2027, unless the average gas price in January–June 2026 exceeds €106/MWh, in which case the system launch will be postponed to 2028. In practice, such a scenario would entail

a significant increase in costs, similar to the one observed in 2022, even though gas prices in Europe have now stabilized below €30/MWh.

### Energy Performance of Buildings Directive

The proposed wording of the Energy Performance of Buildings Directive (EPBD), which is currently under trilogue negotiations, aims to spark an ecological revolution in the building sector. The new directive proposes a number of new standards that will help with the energy assessment of buildings and will enable their owners to control compliance with the new regulations. One of new measures is the zero-emission buildings standard (ZEB) that precisely defines the maximum levels of primary energy consumption depending on the climate zone. Its introduction is aimed at minimizing carbon dioxide emissions and increasing the use of renewable sources. EPBD also includes the Minimum Energy Performance Standards (MEPS) which provide for a new system of classifying buildings at EU level, to be implemented by 2025. Zero-emission buildings will be assigned the highest class (A) which will serve as a label in national energy certificates. The Directive also introduces Energy Performance Certificates (EPCs) – it will be possible to sell or lease only those buildings that hold such certificates at

the moment of sale/leasing. In addition, inclusion of the information about the building's energy performance class in all sale and lease advertisements will be mandatory. EPBD also regulates a gradual phase-out of fossil fuels used in heating and cooling systems (to be completed by 2035, with a possible extension of the deadline until 2040 in exceptional cases); introduction of solar energy in buildings (promoted through the mandatory installation of solar panels on the roofs of new public and commercial buildings, as well as existing buildings during major renovations); and automation of building control systems (lower thresholds for the installation of automation systems in non-residential buildings beginning from 2030, and mandatory installation in new residential buildings as from 2025). The directive provides for the expansion of charging infrastructure for electric cars and bicycles in buildings, covering new buildings and buildings subject to deep renovations.

### Renewable Energy Directive

The new Renewable Energy Directive (RED) sets the target of at least 49 percent renewable energy share in buildings by 2030, with a gradual increase of the proportion of renewable energy used for heating and cooling. In addition, it provides for a legally binding 0.8 percent annual increase of the renewable energy share at national level until 2026, followed

by 1.1 percent increase from 2026 to 2030. Furthermore, each Member State will have its own additional growth rates set.

### Energy Efficiency Directive

The proposed Energy Efficiency Directive (EED), scheduled to come into effect in 2024, introduces an obligation to retrofit at least 3 percent of the total floor area of public buildings per year. These renovations must comply with the nearly zero-energy or zero-emission standards. The 3 percent ratio is calculated based on the total usable area of buildings that meet two criteria: their total usable area exceeds 250 m<sup>2</sup> and they do not fulfil the zero-energy standards as at 1 January 2024.

### Energy Taxation Directive

The Energy Taxation Directive (ETD) is currently being negotiated. It concerns adjustment of fuel taxation depending on the level of emissions, as well as the change in EU tax rates on fuel by 2033.

The new directives set ambitious energy efficiency and emission reduction targets for building owners and public institutions. These regulations are often detailed and complex which makes their interpretation rather difficult. Even though many of them are still being negotiated at the legislative level, it may prove helpful to get to know the proposed requirements early and

adapt the sustainable development goals to the proposed changes in advance. It is only a matter of time before those regulations are implemented into our domestic law, as the European Union has clearly defined the goals for 2030 and will try to make a clear difference in the emission performance of buildings by that date.

Adhering to these requirements can be challenging, but at the same time, it may give us all an opportunity to create a more sustainable environment and by implication – a more efficient construction sector. The journey towards sustainable development has already started, and keeping up with the latest requirements imposed by EU regulations will help us satisfy them and properly prepare for the upcoming changes.

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