

BVI response to Commission Consultation on EU Taxonomy draft Delegated Act (DA) on climate change mitigation and adaptation

BVI¹ welcomes the endeavours to create an EU-wide harmonised Taxonomy for sustainable investments. The Taxonomy is a very important and powerful tool for facilitating investments in sustainable economic activities. However, to reach this purpose and to come close to “shifting the trillions” needed for achieving the environmental goals of the EU, the level of ambition of the Taxonomy must be carefully balanced against practicability and viability for market participants. In this regard, we see the need for the following adjustments and clarifications of the technical criteria in Annex I relating to real estate activities (section 7):

7.2 Renovation of existing buildings

A renovation activity shall be eligible when it meets one of the following criteria:

- The building renovation complies with the applicable requirements for major renovations.
- Alternatively, it leads to a reduction of primary energy demand (PED) of at least 30 %.

BVI supports the energetic optimisation of the real estate portfolio in Germany and in this respect also pursues the political targets in essence. At the same time, however, the consideration of economic principles is indispensable in order to jointly formulate realistic targets.

It is highly unlikely that certain existing buildings will not be able to achieve a reduction of primary energy demand (PED) of at least 30%. This is in the majority of cases neither technically feasible nor economically sensible.

Rather, the aim must be to counter high energy consumption of these buildings with a sensible economic approach. In other words: Better incentives must be created to increase energy efficiency in existing buildings.

In the case of existing buildings, a stronger focus on cost-effective partial renovations and other small-scale measures is desirable. Although these measures result in – relatively speaking – lower energy savings compared to full renovations, they can make a considerable contribution to climate protection in the short and long term due to the high absolute savings.

It should be therefore considered how a 30 % improvement in energy efficiency can be better rewarded in order to create stronger incentives. Buildings renovated in line with the Taxonomy criteria under 7.2 should qualify as Taxonomy-compliant during the entire period of an investment. At least, the qualification as Taxonomy-compliant should apply temporarily, e.g. for a period of 3 years. This would

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset Managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets than 3,68 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.



significantly expand the relevance of the Taxonomy and encourage the real estate sector in general to invest in projects and measures reducing the GHG emissions.

Moreover, it needs to be clarified whether the renovation activity shall be relevant in terms of the value of the respective building (in relation to the renovation expenses) or relate to the expenditures for renovation/installation. In any case, the only practicable solution for application at the portfolio level would be to use the real estate investment as a reference value and to assess the extent of its compliance with the Taxonomy.

7.7 Acquisition and ownership of buildings

Properties constructed before the end of 2021 shall qualify as sustainable if the building has at least Energy Performance Certificate (EPC) class A. For buildings built after 31 December 2020, the building shall meet the criteria set out for the activity 'construction of new buildings' in Section 7.1 of the Annex that are relevant at the time of the acquisition.

In both cases, so-called „large non residential buildings“ must also be operated efficiently through energy monitoring and assessment. It remains unclear when a building falls into this category. We therefore suggest that this term should be defined in the Annex.

The alternative classification based on a comparison of the primary energy demand with the local "peer group", as proposed by the TEG, has been deleted. Generally we welcome this deletion because the target of 15% in terms of the local buildings stock has been too ambitious. However, we consider the reference to at least EPC class A as a benchmark for the evaluation and energy-related refurbishment of properties to be fundamentally imprecise and therefore a similarly non-suitable criterion.

Nonetheless, the now envisaged metric should at least account for different types of property use in terms of energy demand, since there are different approaches to determining EPC rating in the EU.

The European Directive for energy efficiency in buildings that introduces the EPC sets out a number of requirements with regard to its issue, content, quality assurance and publication. However, the implementation in the European Member States is solved quite differently.

In Germany, for example, there is a distinction between the consumption-related and the demand-related EPC. This distinction, for which there are certainly reasons, makes it more difficult to understand the energy certificates in the market. In some countries there is only one version of the EPC based on the measured consumption values.

Another special feature that we do not have in Germany is the recording of EPCs in a central database. Numerous member states record the issued EPCs certificates for statistical purposes and for the most part also for public access. Therefore, the **EC should make further recommendations and allow the exchange of "best practice" examples towards functional ECP databases** (i.e. methods for data collection and analysis). There are also significant differences in the price for issuing the EPCs. In most countries the price is regulated by the market, but in some Member States the price is regulated by law or parts thereof, such as registration costs.



At present, the quality, credibility and usefulness of EPCs vary widely between Member States and there is still a need for more legislation and guidelines for the implementation of EPCs at national level. It is imperative to take into account the different asset classes and user profiles as well as the age, location etc. of the properties.

It would therefore be desirable for the future to have a uniform basis and requirement guidelines for issuing the EPCs. If a standardisation of EPCs is implemented with care and with due regard to national specificities, a decisive instrument can be created to increase energy efficiency in the building sector, to provide an incentive for creating an energetically high-quality market for commercial properties with lower energy costs and finally to bring about the energy turnaround a long way forward.

However, we would like to emphasise that from the point of view of real estate investors and operators, the EPC can provide initial indications of the energy status of a building. It is ultimately not precise enough to evaluate and compare properties in-depth. Furthermore, the data collected is usually not sufficient to plan the energy optimisation of an existing property. There is a great need to identify deficiencies of EPC systems in order to achieve credibility and significance in the market and to assess the future impact of EPCs on the market. We therefore suggest that an evaluation of the effectiveness of this criterion should be provided for in the near future.