



EPRA FEEDBACK TO THE PLATFORM ON SUSTAINABLE FINANCE ON THE DRAFT REPORT ON PRELIMINARY RECOMMENDATIONS FOR TECHNICAL SCREENING CRITERIA FOR THE EU TAXONOMY

European Public Real Estate Association (i.e. EPRA), representing the listed real estate sector in Europe, thanks the Platform on Sustainable Finance (the Platform) for the opportunity to provide feedback on the draft Report on Preliminary Recommendations for Technical Screening Criteria for the EU Environmental Taxonomy.

EPRA's feedback refers to the real estate activities in the Section 5. Buildings and is focused on the listed real estate sector due to the Association's sector specific knowledge and experience.

CONSTRUCTION OF NEW BUILDINGS AND MAJOR RENOVATIONS OF BUILDINGS FOR THE TRANSITION TO A CIRCULAR ECONOMY

2.2 Comments on draft TSC

2.2.1 Description/boundary of the economic activity

Q) Does your comment about the description/boundary of the activity concern:

- The granularity of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The boundary of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The clarity with which the activity has been defined? **Yes** / No [*Condition: if Yes, please specify*]

If yes, please provide a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your selection: *[open comment box] [max. 2000 characters]*

Regarding the development or redevelopment (major renovations) projects, the NACE classification differentiates between the intention of the asset owner [the asset is being owned A. for the purpose of being sold upon completion of the project (NACE F41 – sole real estate development), or B. for the purpose of being owned and managed overtime as part of the real estate long-term investment (NACE L68 – real estate activity)].

As for the development and redevelopment projects, both F41 and L68 cover similar physical activities with similar environmental impact, although with different objective of the asset owners (i.e. investors). Making difference between F41 and L68 in the Taxonomy does not reflect any difference in the physical real-life activities when it comes to construction activities and should not be treated differently. To the contrary, it is the L68 asset owners who have a long-term vision over the property they own and should be recognised for their efforts to either deliver the top performing buildings or for their retrofitting efforts. See Annexes of the attached submission.

We propose to add code L68 next to F41 for the two economic activities (construction of new buildings and major renovations) for the transition to a circular economy and biodiversity objectives.

At the same time, NACE does not differentiate between new and renovated building. While this difference is not relevant for econometric data, the environmental impact of both activities (whether conducted under NACE F41 or NACE L68) is substantial, in terms of climate impact, use of raw material, impact on biodiversity etc. All the scientific evidence available demonstrates that a new building has a substantially higher negative impact on the environment than a refurbishment (see Marique et al, 2018 – Ness, 2020 - Pittau et al., 2019 - Pombo et al. 2019 - Pomponi et al 2016 and 2020, Röck et al., 2020).

The two activities (renovation and new built) should therefore be considered separately.

2.2.2 Substantial contribution technical screening criteria (TSC)

Q) Do you consider the **ambition level** set by the proposed substantial contribution criteria to be appropriate? Y/N

If no, please provide an alternative suggestion with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion:

[open comment box][max. 2000 characters]

The EU taxonomy is built on the idea that a new building represents the benchmark for substantial contribution to any of the environmental objectives. On the other hand, scientific evidence demonstrates that a new building cannot be compared to any refurbishment if we speak about substantial contributions to any of the environmental objective. (See e.g. Pomponi al., 2016).

While we recognize that if we construct new buildings, such buildings should have a top energy efficiency operational performance, yet, such activity will nevertheless release more CO2 emissions to the environment than any major renovation which will do the opposite, i.e. lead to a decrease of its CO2 emissions.

Please, review the EPRA EU Taxonomy infographic in which we explain how the Taxonomy drives the investors to focus on new constructions, neglecting to do the same for renovations: <https://www.epra.com/public-affairs/eu-taxonomy>.

The present Platform's draft assumes that a new construction has a positive contribution simply because an LCA exist although the result of the LCA itself is irrelevant. We stress that similar requirement already exists for large buildings under the climate mitigation objective and hence it seems almost redundant to place it here again in such a form. Unless we use LCA to redirect the investment decisions towards less harmful economic activities, i.e. renovations, its existence has no meaning. This can be done for the climate change mitigation objective as an amendment to the current version, or by enabling such application for the transition to a circular economy environmental objective.

In addition, almost all of the requirements seem to be tailored made for new constructions which will have a consequence on the market once the EU Taxonomy is fully effective. The investment community will be encouraged to invest purely and solely to investments in new buildings and that the renovations of the European obsolete existing stock will continue to stagnate.

Q) Are there any **key factors which have been omitted** from the draft proposed substantial contribution criteria or that **need better defining** that should be addressed? **Y/N**

If yes, please identify the missing aspects or the improved definitions together with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion(s).

[open comment box][max. 2000 characters]

We point out that the the basic for the circular economy is not to produce more today, but it is to reuse, repair, refurbish and recycle what we currently have. If we translate such principle to the real estate sector (not the construction sector as the two are different and the second is not an investment decision maker in the process), the outcome would be that we should focus on retrofitting and repurposing the existing buildings instead of endlessly building new ones. This principle does not seem to be applied in the Platform's draft Taxonomy which seems to be overly focused on what circularity means in the construction sector instead of what it means in the real estate sector.

We refer to the Annex I and Annex II to stress again the differences between the two sectors and also stress that the objective of the EU Taxonomy is to create a system (classification) to help re-direct capital to where it matters the most from the environmental perspective. The Taxonomy therefore needs to better reflect the activities of the real estate sector as this is the sector where investment decisions are being made, and on the other hand, it should better reflect the science around the buildings which places renovations to a superior level over the new construction.

Ambitious criteria should include an LCA analysis which compare the proposed project with alternative strategies (e.g. the construction of a new building should be compared with the refurbishment of an existing one) and show that this is at least equivalent from an LCA perspective to the best alternative available. This assumes that the LCA is produced at an earlier stage then what is planned by LEVEL(S) which only kicks in when the project is already defined (see Marique et al, 2018 – Pittau et al., 2019).

Please, review the EPRA solution that could work for the transition to a circular economy as well as for the climate change mitigation objectives: <https://www.epra.com/public-affairs/eu-taxonomy>.

Q) Do you consider that the **rationale and scientific evidence** on which the proposed criteria are based **is sufficient and robust**? Y/N

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s).

[open comment box] [max. 2000 characters]

As mentioned above, the scientific evidence shows that the priority should be

- (i) to refurbish and retrofit assets, and only then
- (ii) to deconstruct and rebuild as the later one is always the least preferable route. (Marique et al, 2018 – Ness, 2020 - Pittau et al., 2019 - Pombo et al. 2019 - Pomponi et al 2016 and 2020, Röck et al., 2020 - Cabrera Serrenho et al., 2019 - Hart et al. – 2021, Petit-Boix et al. 2017)

For the taxonomy to follow the scientific evidence it would need to recognise the true value of renovations and as a minimum treat them as a standalone activity considering that it is not a transitional activity but rather have both a greater climate change mitigation potential and a greater value in terms of circularity. To help investment flows to the right direction, the role of long-term real estate investors should be counted in and respective NACE codes (L68=economic activities) placed against the construction of new buildings and major renovations.

In addition, revenue generated from green assets should be equally recognised. E.g. it relates to the following income:

- Generated from the sale of green buildings (developers)
- Generated from the service done while constructing new buildings (construction companies)
- Generated from investing in the buildings for a long-term, i.e. rental income (investment property companies and funds)

We are very concerned of the equity vs. debt bias which is being introduced for the major renovations of the buildings, particularly in the listed real estate sector.

Please read again the EPRA Taxonomy infographics to get a fuller picture: <https://www.epra.com/public-affairs/eu-taxonomy>.

Q) Do the criteria for the activity **represent the state-of-the-art in technological and/or practice terms**? Y/N

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s). *[open comment box][max. 2000 characters]*

The proposed Taxonomy does not require that the latest advancement in the discipline are incorporated. Most importantly, dynamic LCA approaches consider the temporality of the benefit/damage to better assess the impact. (Negishi et al., 2018 – Sauer et al. 2020). This is the latest and most comprehensive LCA approach that was adopted by the latest EU state level regulation on the topic (i.e. the French government in its recent RE2020 regulation).

Furthermore, we should be working towards establishing a maximum threshold of the embodied and operational carbon emissions per buildings (see RE2020 in France or in Denmark at <https://passivehouseplus.co.uk/news/general/denmark-sets-out-phased-embodied-carbon-targets-for-buildings>). All based on the dynamic LCA approach which something which should be looked at more deeply by the Platform.

Q) Where economic activities are linked (e.g. through the supply chain) or have similar characteristics, are the associated **substantial contribution criteria for a particular environmental objective suitably aligned and consistent**? Y/N

If no, please identify the specific instances (economic activities, substantial contribution criteria) where you consider there to be misalignments or inconsistencies together with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion(s):

[open comment box][max. 2000 characters]

When it comes to roads, bridges and other civil construction, the draft Taxonomy includes “maintenance” as a separate TSC. See for example: “In general, maintenance and repair are key activities in a circular economy as they extend the life of products/assets and optimize their use with the aim of resource value retention and waste reduction. Where road maintenance or repairs measures are neglected, major refurbishment works or even the demolition and the reconstruction become necessary. The longer maintenance/repair is neglected the larger the scale of the works needed in order to restore the assets condition. The larger the scale of the works, the higher the amount of new materials used and waste generated” (page 702).

“A substantial contribution can therefore be made when the use of raw materials is reduced, a high rate of the demolition waste is recovered and the durability of the renewed road elements is enhanced. “ (page 703) “Proper maintenance leads to postponing or even avoiding the replacement of such assets and thereby contributes to the reduction in raw material consumption. The notion of durability is linked to the maintenance of these structures. A structure which is not regularly maintained will not offer a proper service for a long time” (page 708)

For real estate, the above makes the same sense as for the roads, and hence should be included as a separate TSC, next to new construction and renovation. Otherwise, we could draw a conclusion that circularity was considered and observed only as far as the construction sector is concerned, and that the real estate sector’s considerations were left aside.

CONSTRUCTION OF NEW BUILDINGS AND MAJOR RENOVATIONS OF BUILDINGS FOR PROTECTION AND RESTORATION OF BIODIVERSITY AND ECOSYSTEMS

2.2 Comments on draft TSC

2.2.1 Description/boundary of the economic activity

Q) Does your comment about the description/boundary of the activity concern:

- The granularity of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The boundary of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The clarity with which the activity has been defined? **Yes** / No [*Condition: if Yes, please specify*]

If yes, please provide a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your selection: *[open comment box] [max. 2000 characters]*

Regarding the development or redevelopment (major renovations) projects, the NACE classification differentiates between the intention of the asset owner [the asset is being owned A. for the purpose of being sold upon completion of the project (NACE F41 – sole real estate development), or B. for the purpose of being owned and managed overtime as part of the real estate long-term investment (NACE L68 – real estate activity)].

As for the development and redevelopment projects, both F41 and L68 cover similar physical activities with similar environmental impact, although with different objective of the asset owners (i.e. investors). Making difference between F41 and L68 in the Taxonomy does not reflect any difference in the physical real-life activities when it comes to construction activities and should not be treated differently. To the contrary, it is the L68 asset owners who have a long-term vision over the property they own and should be recognised for their efforts to either deliver the top performing buildings or for their retrofitting efforts. See Annexes of the attached submission.

We propose to add code L68 next to F41 for the two economic activities (construction of new buildings and major renovations) for the transition to a circular economy and biodiversity objectives.

At the same time, NACE does not differentiate between new and renovated building. While this difference is not relevant for econometric data, the environmental impact of both activities (whether conducted under NACE F41 or NACE L68) is substantial, in terms of climate impact, use of raw material, impact on biodiversity etc. All the scientific evidence available demonstrates that a new building has a substantially higher negative impact on the environment than a refurbishment (see Marique et al, 2018 – Ness, 2020 - Pittau et al., 2019 - Pombo et al. 2019 - Pomponi et al 2016 and 2020, Röck et al., 2020).

The two activities (renovation and new built) should therefore be considered separately.

Q) Do you consider the **ambition level** set by the proposed substantial contribution criteria to be appropriate? Y/N

If no, please provide an alternative suggestion with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion:

[open comment box][max. 2000 characters]

No specific feedback.

Q) Do you consider that the **rationale and scientific evidence** on which the proposed criteria are based **is sufficient and robust**? Y/N

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s).

[open comment box] [max. 2000 characters]

No specific feedback.

Q) Do the criteria for the activity **represent the state-of-the-art in technological and/or practice terms**? Y/N

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s). *[open comment box][max. 2000 characters]*

No specific feedback.

2.4 Horizontal considerations with respect to the proposed TSCs

2.4.1 Substantial contribution technical screening criteria (TSC)

Q) Where economic activities are linked (e.g. through the supply chain) or have similar characteristics, are the associated **substantial contribution criteria for a particular environmental objective suitably aligned and consistent**? Y/N

If no, please identify the specific instances (economic activities, substantial contribution criteria) where you consider there to be misalignments or inconsistencies together with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion(s):

No specific feedback.

ACQUISITION AND OWNERSHIP OF BUILDINGS FOR PROTECTION AND RESTORATION OF BIODIVERSITY AND ECOSYSTEMS

2.2 Comments on draft TSC

2.2.1 Description/boundary of the economic activity

Q) Does your comment about the description/boundary of the activity concern:

- The granularity of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The boundary of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The clarity with which the activity has been defined? **Yes** / No [*Condition: if Yes, please specify*]

If yes, please provide a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your selection: *[open comment box] [max. 2000 characters]*

Regarding the acquisition and ownership of buildings, we stress that most of the relevant economic activities by long-term investors in real estate (i.e. asset owners) are conducted under the NACE code L68. It includes for example the following:

- acquisition of the new building developed by development companies with the objective to own the asset for a long-term income generation;
- acquisition of existing buildings and their consequent renovations with the objective to own the asset for a long-term income generation;
- development of the new building with the objective to own the asset for a long-term income generation;
- renovation of the existing building already owned in the portfolio and with the objective to continue to own the asset for a long-term income generation;
- maintenance and operation of the building to prolong its lifespan.

In our earlier comments, we proposed to add code L68 next to F41 for the construction of new buildings and major renovations to create a level playing field between the property development companies and property investment companies and funds. We also proposed to differentiate between the construction of new building and major renovations for both the biodiversity and also for the transition to a circular economy as the two have different environmental impact.

Here we propose to link the same conditions made for acquisition and ownership of both new buildings and major renovations meeting the TSC set in for the biodiversity and also for the transition to a circular economy. The later is at the moment completely missing, for no clear reason.

Besides that, we propose to create a new, tailored made, activity for maintenance and operation of the building, particularly relevant for the transition to a circular economy, as it does prolong the life of the current, already built, buildings and minimises the need to demolish and rebuild the new buildings on the same land.

Q) Do you consider the **ambition level** set by the proposed substantial contribution criteria to be appropriate? Y/N

If no, please provide an alternative suggestion with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion:

[open comment box][max. 2000 characters]

No specific feedback.

Q) Do you consider that the **rationale and scientific evidence** on which the proposed criteria are based **is sufficient and robust**? Y/N

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s).

[open comment box] [max. 2000 characters]

No specific feedback.

Q) Do the criteria for the activity **represent the state-of-the-art in technological and/or practice terms**? Y/N

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s). *[open comment box][max. 2000 characters]*

No specific feedback.

2.4 Horizontal considerations with respect to the proposed TSCs

2.4.1 Substantial contribution technical screening criteria (TSC)

Q) Where economic activities are linked (e.g. through the supply chain) or have similar characteristics, are the associated **substantial contribution criteria for a particular environmental objective suitably aligned and consistent**? Y/N

If no, please identify the specific instances (economic activities, substantial contribution

No specific feedback.

DEMOLITIONS OR WRECKING OF BUILDINGS AND OTHER STRUCTURES

2.2 Comments on draft TSC

2.2.1 Description/boundary of the economic activity

Q) Does your comment about the description/boundary of the activity concern:

- The granularity of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The boundary of the activity? **Yes** / No [*Condition: if Yes, please specify*]
- The clarity with which the activity has been defined? **Yes** / No [*Condition: if Yes, please specify*]

If yes, please provide a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your selection: *[open comment box] [max. 2000 characters]*

The activity shall not be included in the Taxonomy. Demolishing an existing building shall not be considered as having a major contribution to the circular economy no matter how the building is destroyed and how much of the material is reused.

The best way to keep any building in the circular economy is to extend its life. Never to destroy it.

We therefore suggest to add 'maintenance of the building' instead to prolong the life of the built assets and create a tailored made criteria for such an economic activity (as mentioned above).

Q) Do you consider the **ambition level** set by the proposed substantial contribution criteria to be appropriate? **Y/N**

If no, please provide an alternative suggestion with a brief scientific/technical explanation and rationale as well as supporting evidence (including links to published journals and articles) for your suggestion:

[open comment box][max. 2000 characters]

We point out that for example in Germany, any single demolition would meet the criteria set in this proposal.

Q) Do you consider that the **rationale and scientific evidence** on which the proposed criteria are based **is sufficient and robust**? **Y/N**

If no, please identify your concern(s) together with a brief explanation and rationale as well as supporting evidence (including links to published journals and articles) for your concern(s).

[open comment box] [max. 2000 characters]

No specific feedback.

Section 3: General feedback on the draft report

Q) Do you have any comments on the written report that you would like to make? Y/N

If yes, please provide brief comments in the comment box below:

[open comment box][max. 5000 characters]

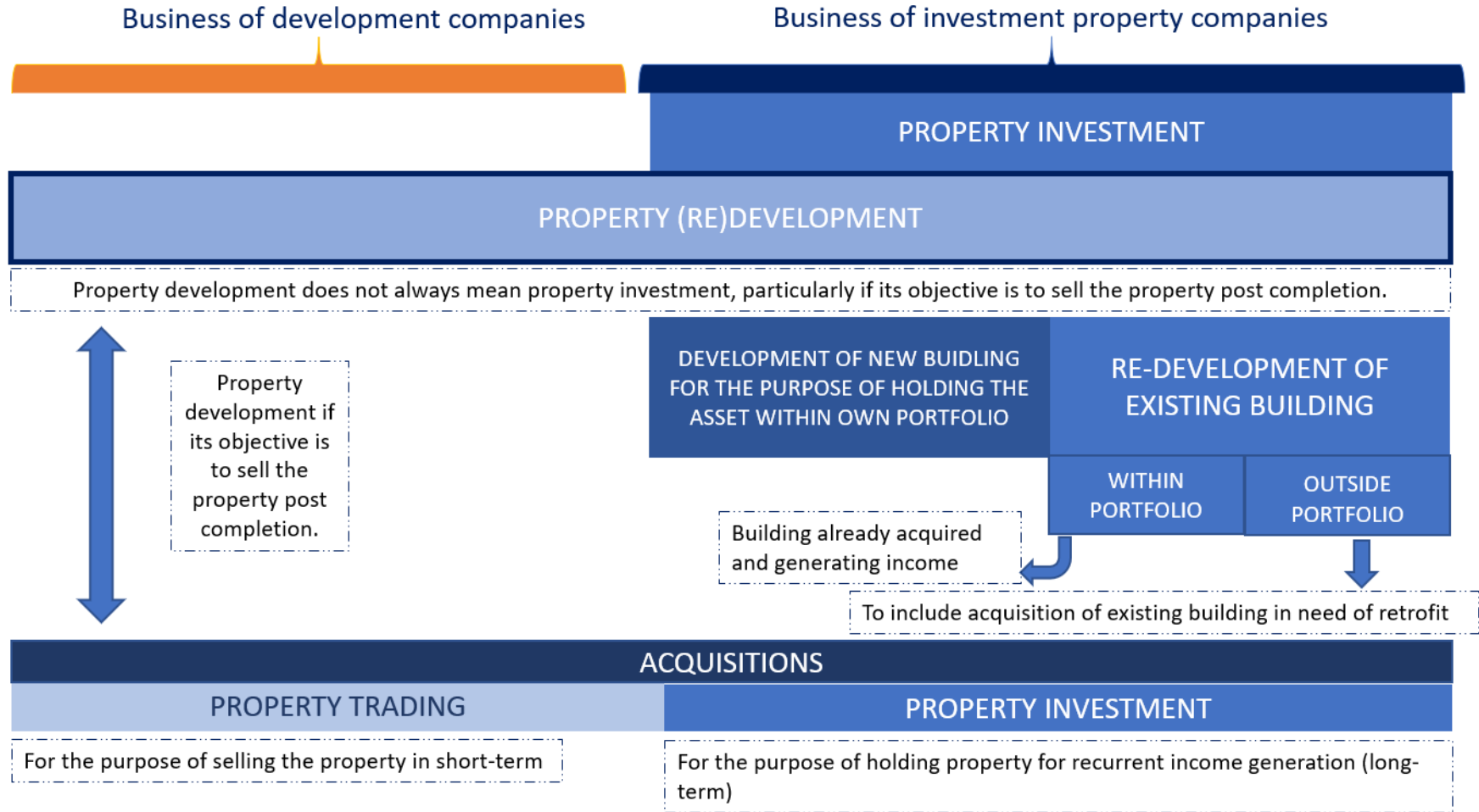
On behalf of the listed real estate sector, we remain concerned of the level of ambition and a continuous encouragement of the new built buildings at the expense of the renovations. We understand that efforts invested in new 'green' buildings are important to be recognised, but the current lack of any consideration of the life cycle approach is placing renovations at the bottom, while they should be considered the top.

We raise a concern of how this would be either applied by the market, meaning that investment might end up not flowing to renovations, or how will the EU Taxonomy be considered by the market, as a possibly missed opportunity to classify environmentally friendly economic activities.

We are also concerned that the development of the technical screening criteria seem to have been developed to help the construction industry to speed-up its Covid-19 post-pandemic recovery by boosting the importance of building the new buildings. While we do not believe that this is the case, the lack of recognition of the LCA and refusal to recognise the urgency and also the environmental benefits of renovations over the construction of new buildings could in fact lead to a strengthened perception that this was the case.

We suggest to review the above comments, and in case of questions contact EPRA at either publicaffairs@epra.com or sustainability@epra.com.

ANNEX I: Comparison table of relevant asset owners, investors and other stakeholders in the real estate and construction sectors



Source: EPRA, 2021

ANNEX II: Comparison table of relevant asset owners, investors and other stakeholders in the real estate and construction sectors

	Investment property companies/funds	Developers/Home builders	Property traders	Property management companies	Construction companies
Description	Companies acquiring, developing, owning and operating investment property	Companies acquiring land or buildings to develop/redevelop with the purpose of sale	Companies or individuals acquiring buildings or equity in real estate to sell in short time frame	Contracted to manage the property on a fee or contract basis	Hired by asset owners to construct the buildings
Key distinction	Objective is long-term recurrent income generation	Purpose is to generate income from selling newly built or repurposed property (short-term income generation)	Objective is to sell property soon after acquisition	Never physically own the property	Only engage in the construction phase, i.e. make no investment decisions in the chain of real estate industry and never physically own the property
Underlying economic activity	<ul style="list-style-type: none"> Generating recurrent rental income (renting and operating of own property) Developing property for own Portfolio Acquiring property for long term income generation Redevelopment projects: <ol style="list-style-type: none"> acquire existing buildings to retrofit and rent out renovate the buildings already within portfolio Selling property after long-term use 	<ul style="list-style-type: none"> Purchase of new land and developing property and buildings over it. Renovation or improving the old acquired property to sell. Putting one property from its present use to another to sell. Development of building projects for residential and non-residential buildings by bringing together financial, technical and physical means to realise the building projects for later sale 	<ul style="list-style-type: none"> Acquire and sell property in short time frame for a short-term income generation 	<ul style="list-style-type: none"> Charged with coordinating and supervising the property maintenance and day to day running 	<ul style="list-style-type: none"> Construct a variety of buildings and infrastructure Construction of complete residential or non-residential buildings, on a fee or contract basis Remodelling or renovating existing residential Structures on a fee or contract basis Service providers to the property owners
NACE code	L68.1.-2.	L68.1. and F41.1	L68.1	L68.3.2	F41.2

Source: EPRA, PwC 2021