



EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

To: Frans Timmermans, Executive Vice-President for European Green Deal
Mairead McGuinness, Commissioner for Financial services, Financial stability and Capital Markets Union
Kadri Simson, Commissioner for Energy

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CC: Diederik Samsom, Head of Cabinet of Frans Timmermans
Patricia Reilly, Head of Cabinet of Mairead McGuinness
Katie Power, Policy Coordinator at Cabinet of Mairead McGuinness
Stefano Grassi, Head of Cabinet of Kadri Simson

BY E-MAIL

Brussels, 1st June 2023

SUBJECT: SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)'S ALIGNMENT WITH THE EUROPEAN GREEN DEAL AND THE RENOVATION WAVE STRATEGY

Dear Executive Vice-President Frans Timmermans, Dear Commissioners Mairead McGuinness and Kadri Simson,
On behalf of the European listed real estate sector, we would like to highlight certain elements of the Sustainable Finance Disclosure Regulation (SFDR), which in our perspective may be impeding the European listed real estate investment sector's efforts towards the climate driven objectives of the European Green Deal. Our particular focus lies on the financing transformation of the European built environment as encouraged by the EU Renovation Wave strategy.

The European Public Real Estate Association (EPRA) represents a broad spectrum of the European listed real estate industry, ranging from the major listed property investment companies¹,- including REITs, which are companies that own, develop and trade investment property, **to investors whether pension funds, asset management firms or insurance companies – who themselves invest in real estate by purchasing their shares.** When reviewing the SFDR application to listed real estate, we liaise with our member investment community which strongly endorses the ambitious objectives of the EU Sustainable Finance initiative.

Our members are collectively committed to making substantial and meaningful efforts to re-direct investments towards economic activities which have a true positive impact on the planet and society. We therefore wish to bring to your attention specific areas within the SFDR which, if altered, could significantly improve its alignment with the European Green Deal's objectives. These adjustments would foster a more sustainable economy and society, and aid financing the sustainable transformation of the existing built environment in Europe.

1) SFDR needs to be strengthened as an ESG transparency regime

We appreciate the European Commission's recent confirmation that the SFDR was designed as an ESG transparency regime without prescribing minimum requirements that would define key parameters of a 'sustainable investment'

¹ The vast majority of constituent companies included in the FTSE EPRA Nareit Europe Real Estate Index.
More about listed real estate: [here](#).

such as contribution, do no significant harm or good governance. The Commission further specifies that the financial market participants carry out their own assessment for each investment and disclose their underlying assumptions. In other words, the authority and responsibility for determining and measuring the key parameters of a 'sustainable investment' lies within the investment community.

However, the SFDR's introduction of distinct transparency regimes, most specifically Article 8 and Article 9 of SFDR, has prompted the market to apply relevant differences in disclosure categories also as a foundation to market their products. Such outcome should not be surprising as ultimately one of the main reasons for transparency regimes is to better communicate with end investors. When the objective is to sell according to the ESG preferences of end investors, then existing categorisation of transparency requirements (Article 8 or Article 9) supports the marketing of products as those with ambition to either pursue sustainable investments (Article 9) or to have certain ESG characteristics (Article 8). Therefore, as long as the financial market participants (FMPs) continue to be required to choose their 'level' of disclosure requirements based on the level of ambition of their products, there will be a strong incentive on the market to mis-apply the SFDR regime as a foundation for labels, i.e. the purpose for which it was not designed.

There is, in our view, only one way to address the above and **we would like to strongly recommend to simplify the SFDR regime by removing the classification Articles 8 and 9 and to create a true and uniform ESG transparency regime posing the same disclosure requirements on all financial market participants.**

2) Addressing greenwashing

Greenwashing is a critical issue within the sustainable investments discussion, and appropriate policy initiatives to address the problem are welcomed. To that end, we also wish to highlight that a lot of mis-application, mis-information, mis-use – whether intentional or non-intentional, happens within a complex regulatory environment. The SFDR is one of the most complex regulation, certainly, within the capital markets.

Therefore, it is our strong opinion, that **a simplification of the SFDR framework, especially if done to create a uniform ESG transparency regime for the financial markets participants, can significantly bring forth a greater clarity, address the existing confusion and limit the possibilities for the ongoing greenwashing attempts.**

Based on such a uniform framework, the Commission may investigate the right approach on setting up minimum thresholds and labels for various types of sustainability related products.

3) Impact investing within listed real estate (and beyond)

The EU Sustainable Finance initiative plays a crucial role in aiding financial markets and the listed real estate industry in building a more sustainable built environment. The latest confirmation from the European Commission regarding the Article 9(3) of SFDR and its carbon emissions reduction objective is welcomed by listed real estate and well in line with the European Green Deal and the Renovation Wave strategy.

Nevertheless, there is a persisting uncertainty in the market as to how energy renovations are being seen as not sustainable activities, whereas the actual reduction in carbon emissions in real estate is achieved mostly by transforming the existing building stock, improving its energy performance and decreasing its carbon emissions. We stress that reducing carbon emissions of investment property within EPRA members portfolio (and beyond) would significantly contribute to achieving the long-term global warming objectives of the Paris Agreement. A number of tools are in existence to enable the sector plan its transition pathways, calculate performance and report on progress. One of the most prominent tools, which was funded by the EU, is called [the CRREM project](#).

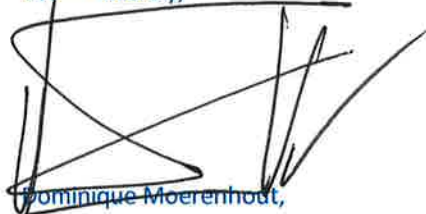
We advise the Commission to strongly differentiate between the transition plans of oil & gas industry, and energy renovation plans of existing buildings in Europe. Often the two are seen in an analogical context and therefore energy renovations are currently seen only as a transitional activity in the EU Taxonomy Climate delegated act. However, we welcome that under the proposed EU Taxonomy Environmental delegated act, building renovations are seen as a stand-alone economic activity for the objective of transitioning to a circular economy.

We propose that the Commission clarify in the EU Taxonomy Climate Delegated Act that for the real estate sector, portfolios of investment property with clear objectives to transform the existing building stock, improve energy performance and reduce its carbon emissions are sustainable investments.

Furthermore, we strongly recommend when reviewing the existing SFDR framework to facilitate transition finance by incorporating more relevant indicators to support the disclosure of such sustainable transitions. Such an effort would align SFDR with the recently adopted Corporate Sustainability Reporting Framework.

We would welcome a constructive dialogue with you on this subject and remain available to discuss this further at your convenience.

Yours sincerely,



Dominique Moerenhout,

Chief Executive Officer at EPRA

WORKING WITH AND FOR OUR MEMBERS

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 288 members, covering the whole spectrum of the listed real estate industry (companies, investors and their stakeholders), EPRA represents over EUR 790 billion of real estate assets* and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

EPRA's mission is to promote, develop and represent the European public real estate sector. We achieve this through the provision of better information to investors and stakeholders, active involvement in the public and political debate, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com.

**European companies only*