



EU Taxonomy Guidelines

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Content

- Introduction
- EU Taxonomy: Update of the General guidelines
- Impact on Real Estate
- Practical example



- **Introduction**
- **EU Taxonomy: Update of the General guidelines**
- **Impact on Real Estate**
- **Practical example**



EU Taxonomy

CONTEXT



2018

EC Action Plan for Financing Sustainable Growth

Comprehensive strategy to connect finance with sustainability

Establishing a clear and detailed EU Taxonomy, a classification system for sustainable activities.

Creating an EU Green Bond Standard and labels for green financial products

Incorporating sustainability in financial advice

Developing sustainability benchmarks

Integrating sustainability in ratings and market research.

Clarifying asset managers' and institutional investors' duties regarding sustainability

Introducing a 'green supporting factor' in the EU prudential rules for banks and insurers

Strengthening sustainability disclosure and fostering sustainable corporate governance

Legislative framework timeline

EU TAXONOMY REGULATION

2021

The EC published EU Climate Taxonomy (for climate change mitigation and adaption) eligibility and non-eligibility

2023

The EC disclosed the eligibility and alignment for the Climate Taxonomy objectives and remaining 4 environmental objectives when TSC are published

EPRA&KPMG:

- Guidelines Update
- Supporting webinar
- FAQ document update (ongoing)

2022

The EC published full KPIs on EU Climate Taxonomy alignment under the art. 8 Taxonomy Regulation Delegated Act

EPRA&KPMG:

- Guidelines published to help the Listed CRE sector understand and apply the EU Taxonomy
- FAQ document
- Supporting webinar

2024

- Taxonomy eligible data
- Taxonomy alignment data

Legislative framework content

EU TAXONOMY REGULATION



Climate Taxonomy

Amendment

New TSCs for 12 new economic activities in 6 industries

- ▶ Climate change mitigation *Renovations
- ▶ Climate change adaptation



Environmental Taxonomy

Addition

35 economic act across 8 industries that substantially contribute to the Taxo4:

- ▶ Protection of water
- ▶ Pollution
- ▶ Circular economy
- ▶ Biodiversity



Disclosure requirements



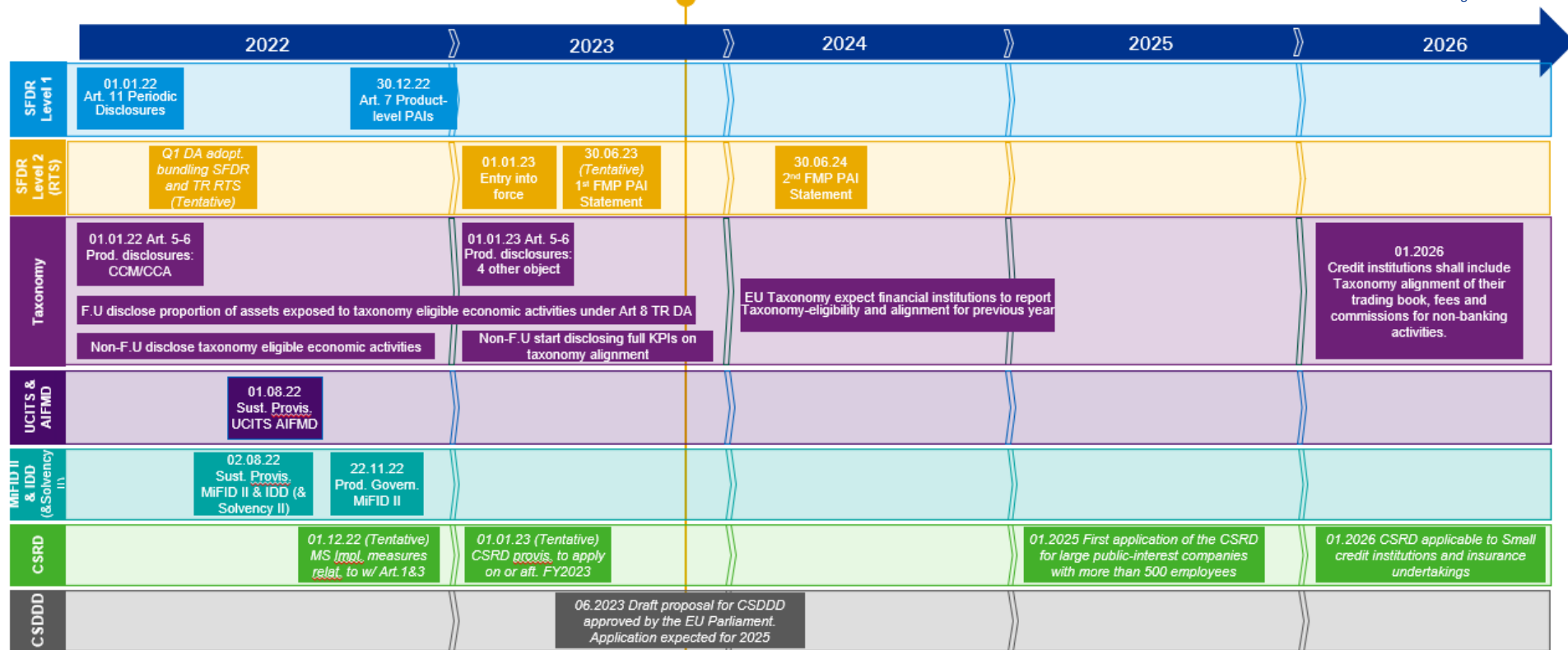
Minimum Safeguards

- Introduction
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Sustainable finance timeline

- DAs specifying disclosures under TR Art.8 for F.U and non F.U
- MS: Member States
- DA: Delegated Act(s)
- TR: Taxonomy Regulation
- F.U: Financial Undertakings



EU Taxonomy: Environmentally sustainable

The European Commission published on the **22 June 2020** the **EU Taxonomy Regulation** which entered into force on **12 July 2020**.



What is the environmental EU Taxonomy?

The **EU Regulation 2020/852** commonly known as the **EU Taxonomy** is a central piece of EU regulatory ambitions. It is the backbone of the **EU Green Deal**. It aims at providing a common language on which economic activities – and to what degree – can be deemed environmentally sustainable.



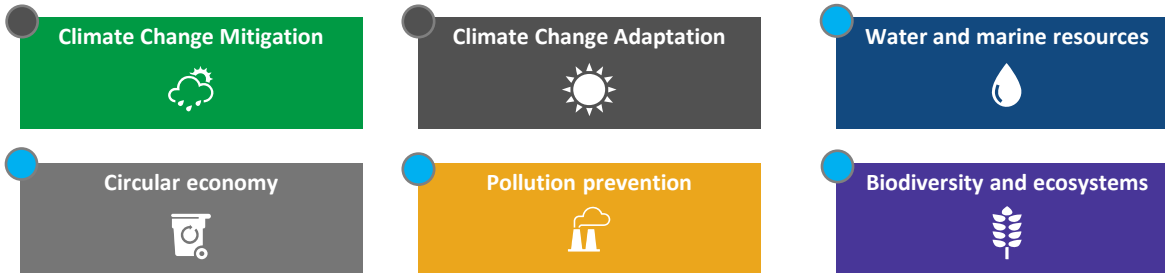
What is the purpose of the environmental EU Taxonomy?

EU Taxonomy aims to address the following two problems:

1. **Divergent classifications** regarding economically-sustainable investments which creates confusion among market actors
2. **Risk of “Green-washing”**

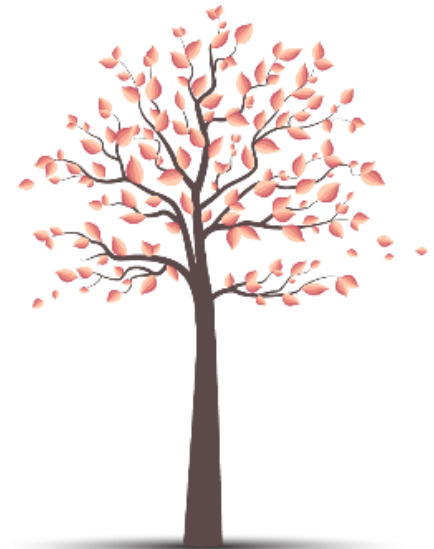


What are the Environmental Objectives covered by the EU Taxonomy?



● Defined TSC (Technical Screening Criteria), applicable since 01/01/2022

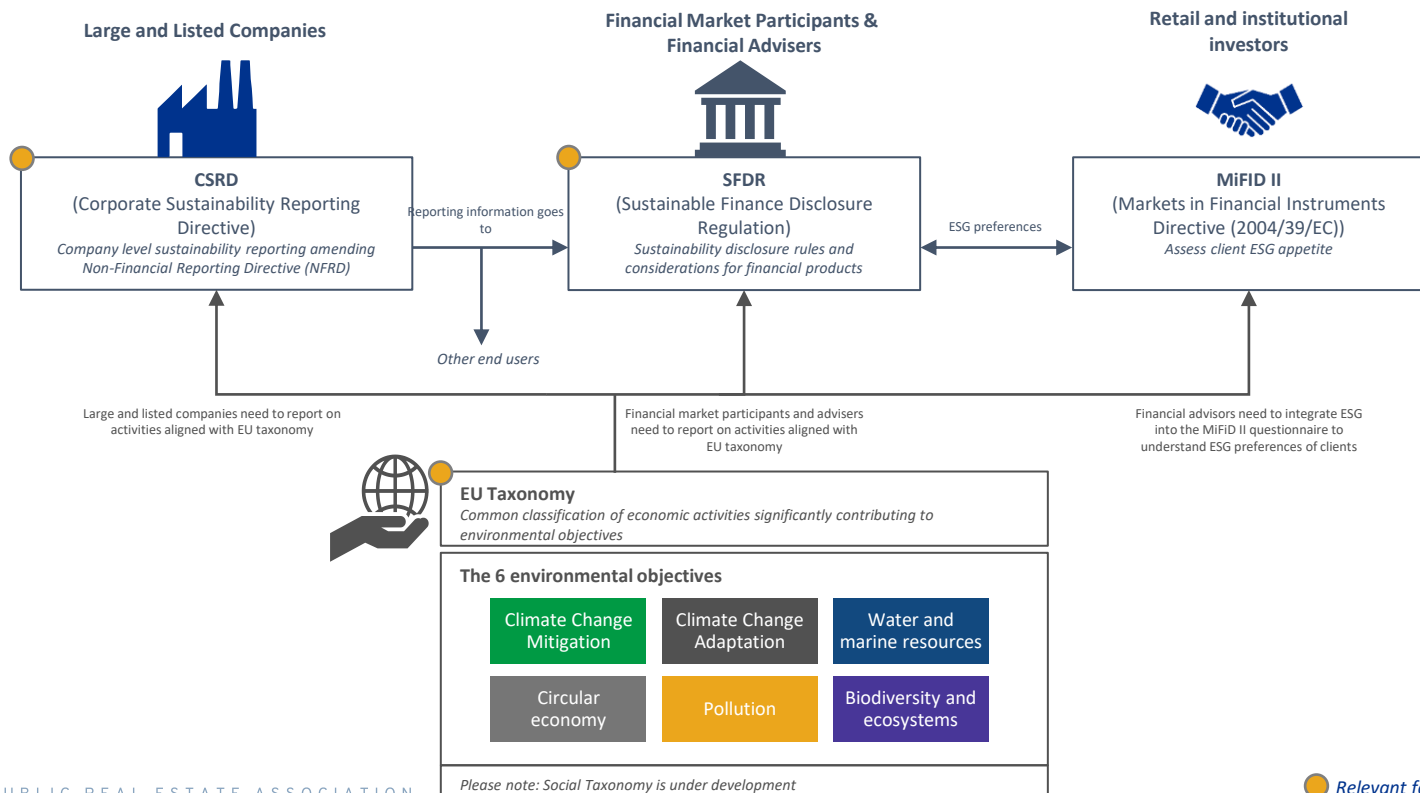
● Defined TSC (Technical Screening Criteria), published by the EC on the 13/06/23



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EU Taxonomy: A common classification of economic activities

Key interactions between EU Taxonomy other ESG regulations



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EU Taxonomy: challenges and opportunities

Linked reporting requirements



EU Taxonomy reporting for the real estate market players



Opportunities

Financial institutions



Real Estate sector players calculating EU Taxonomy KPIs are providing a foundation to leverage on for financial market players – they provide essential data reported under EU Taxonomy which allows alignment of their level KPIs, e.g. GAR – Green Asset Ratio for banks and specific KPIs on turnover, CapEx and OpEx for asset managers.

SFDR requirements



SFDR requirements include reporting EU Taxonomy alignment at the product level for Article 8 (if the product is pursuing a sustainable investment objective) and Article 9 funds.

Also, EU Taxonomy is considered as one of the more solid frameworks to be used to demonstrate the commitment to sustainable investment objective of a financial product.

CSRD requirements



The scope of companies with the obligation of reporting under EU Taxonomy will grow with the phased-in introduction of Corporate Sustainability Reporting Directive.

CSRD also brings an additional mandatory requirement to provide limited assurance procedures for reported indicators, including the disclosures in line with Article 8 of the EU Taxonomy.

Tax reduction



Financial market participants could benefit from launching sustainable products aligned with the EU Taxonomy.

Example: Luxembourg

From 1 January 2021, a reduced subscription tax rate benefit was introduced to the individual compartments of UCITS (Part I) and UCI (Part II) – on their part of total net assets investing in taxonomy-aligned sustainable assets.

Supporting transition in the RE sector



EU Taxonomy sets certain thresholds to define sustainable activities, thus pushing market players to consider sustainability matters together with financial indicators to create bigger value of their assets.

Preparing for more stringent financing conditions in the future

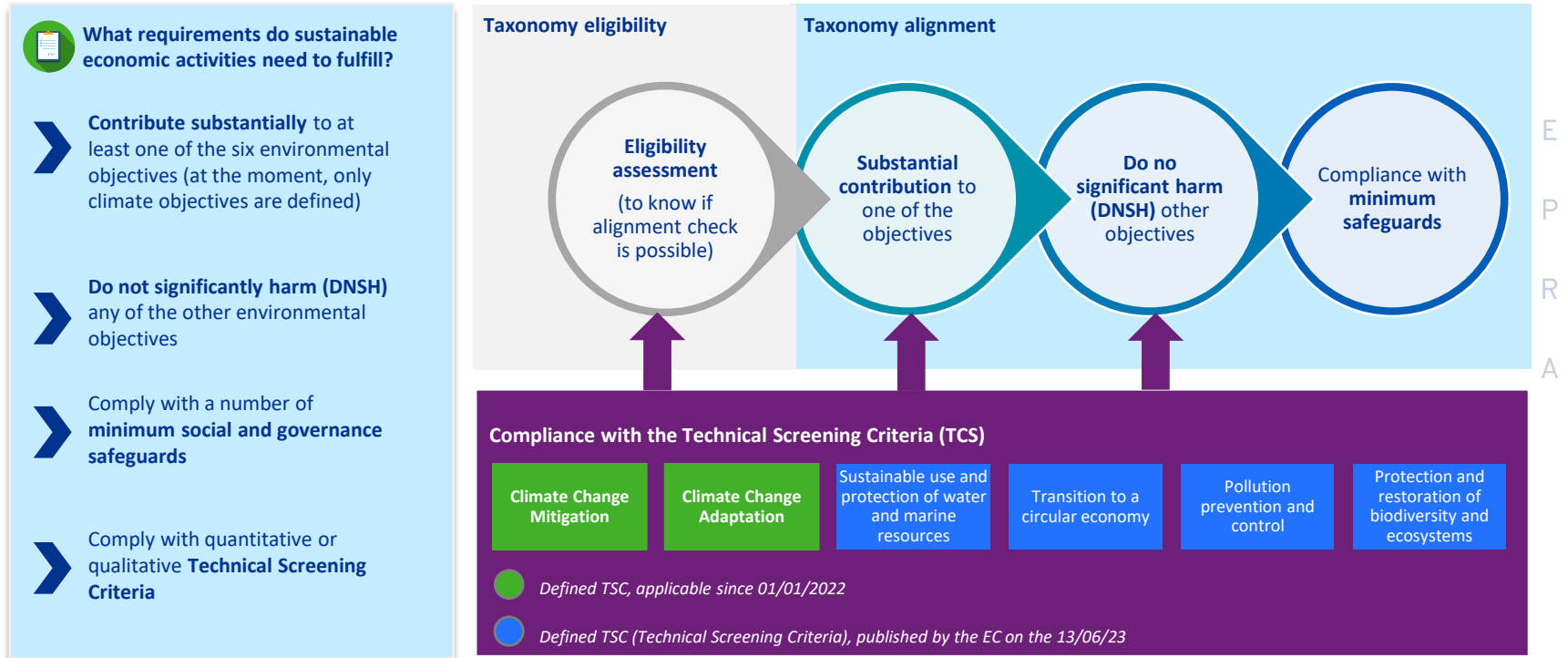


Recent trends, e.g. introduction of the European Green Bond Standard (EU GBS), demonstrate, that in the future financial support could be available for projects supporting activities that are aligned with EU Taxonomy.



How to estimate the percentage of alignment with the EU Taxonomy

EU Taxonomy alignment follows the steps specified in Article 3 of the EU Taxonomy (Substantial contribution, DNSH, minimum safeguards following TCS).



How to read the updated Guidelines?

In the updated Guidelines document, we added new pages to reflect the new regulatory elements introduced by the Environmental Delegated Act.

1.4 What are the EU Taxonomy activities for Real Estate?

✓ New Page 2023

1.4.2 Environmental Delegated Regulation – Circular Economy

Our understanding is that, of the 4 remaining objectives defined by EU Taxonomy, only the objective of the 'Transition to a Circular Economy' includes the activities related to Construction and Real Estate.

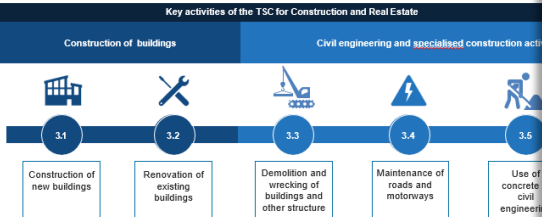
Each activity shall have a specific TSC for the environmental objectives.

The Construction and Real Estate activities 3.2 are the same as the CCA and activities 7.1 and 7.2.

For this reason, the report will focus on this environmental objective above the others.

Activities 3.3 – 3.5 are not present in the Environmental Delegated Regulation.

The Construction and Real Estate activities are grouped together and included in Section 3 of the TSC and comprises of five activities detailed in Figure 8.



1.2 What are the EU Taxonomy objectives?

✓ Changed since 2022

The EC has defined six environmental objectives, as described in the figure below:



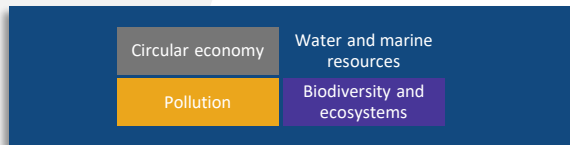
We have also updated the content from the previous Guidelines to provide an up to date document, highlighting in red what has been changed across the document



Taxonomy Guidelines – 2023 Updates

On 13 June 2023, the European Commission (EC) published the final Environmental Delegated Act

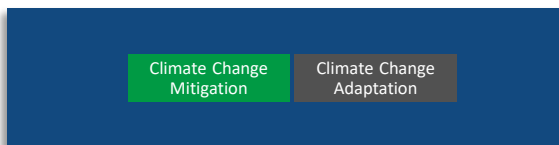
What are the latest regulatory developments and the updates in the Guidelines ?



- The publication of the **Environmental Delegated Act** introduced the technical screening criteria for the **four other environmental** objectives of the Taxonomy Regulation ('Environmental Delegated Act'), namely:
 - ✓ Sustainable use and protection of water and marine resources;
 - ✓ Transition to a circular economy;
 - ✓ Pollution prevention and control;
 - ✓ Protection and restoration of biodiversity and ecosystems.

In the guidelines :

A summary of the EU Taxonomy alignment steps for the Environmental objectives for Circular economy.



- The **amendments** to the Climate Delegated Act, covering the climate-related environmental objectives of **climate change mitigation** and **climate change adaptation**, introduced modifications and new activities.
- These new amendments include additional TSCs for **12 new economic activities**, covering 6 industries, as well as new elements to consider regarding the DNSH criteria for the activity "Renovation of the buildings"

In the guidelines :

A summary of the EU Taxonomy alignment steps for the two Climate objectives, including updated recommendations for DNSH and minimum safeguards.

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Taxonomy Guidelines – 3 objectives not impacting Real Estate

On 13 June 2023, the European Commission (EC) published the final Environmental Delegated Act

Sustainable use and protection of water and marine resources

Examples of areas in which TSCs have been introduced for this activity:

- **Restoration and remediation of water and marine resources** (e.g. the decontamination and/or remediation of soils and groundwater in polluted areas, and of surface water and its shores following accidental pollution)
- **Water supply** (e.g. the construction and operation of a new water supply system or an extension of an existing water supply system to provide water supply for new areas)

Sustainable use and protection of water and marine resources

Examples of areas in which TSCs have been introduced for this activity:

- **Restoration and Remediation** (e.g. cleaning up oil spills and other pollution in terrestrial ecosystems, soil, buildings)
- **Depollution and dismantling of end-of-life products** (e.g. the dismantling of end-of-life products and movable assets and their components of any type (e.g., ships, computers, components from wind turbines) for material recovery)

Protection and Restoration of Biodiversity and Ecosystems

Examples of areas in which TSCs have been introduced for this activity:

- **Farming:** (e.g. agriculture should maintain or improve biodiversity via grazing in habitats where it is beneficial for biodiversity)
- **Restoration of biodiversity and ecosystems** (Assisting in the recovery of land, freshwater, or marine ecosystem to a good condition, resulting in improved physical and chemical conditions)

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From the current regulation, there are no eligible activities from the construction and real estate sector perspectives, and therefore these objectives will not be reviewed in detail.

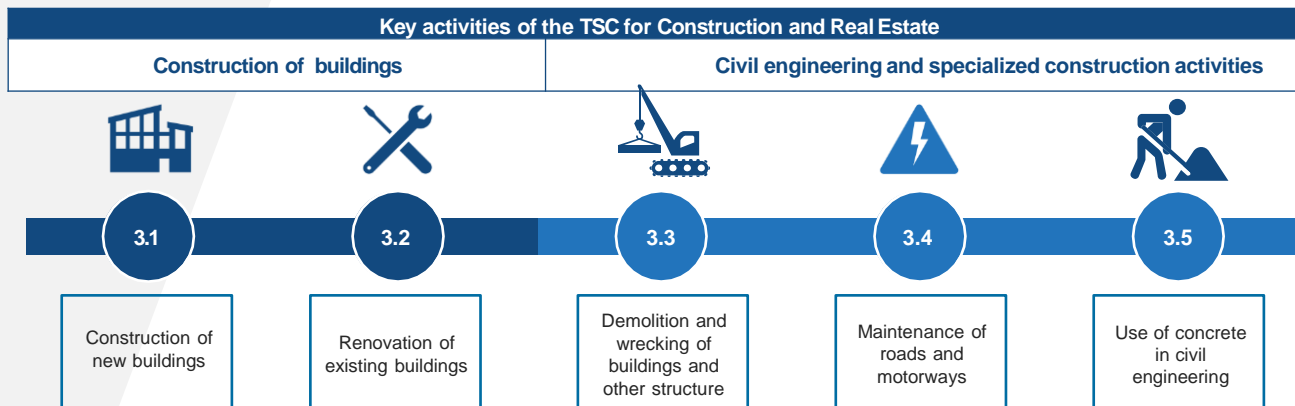


Taxonomy Guidelines – CE objective impacting Real Estate

The objective of the 'Transition to a Circular Economy' is the only objective of the 4 remaining ones that includes activities related to Construction and Real Estate.

What are the objectives of 'Transition to a Circular Economy'?

- At the building level, it advocates for improved occupancy, utilization, and innovative models like space sharing.
- It also strives to promote a transition away from carbon-intensive materials like concrete and steel to eco-friendly alternatives such as timber, low-carbon concrete, and emphasizes efficient material use, promoting recovery, reuse, and repurposing to reduce reliance on primary and virgin materials.

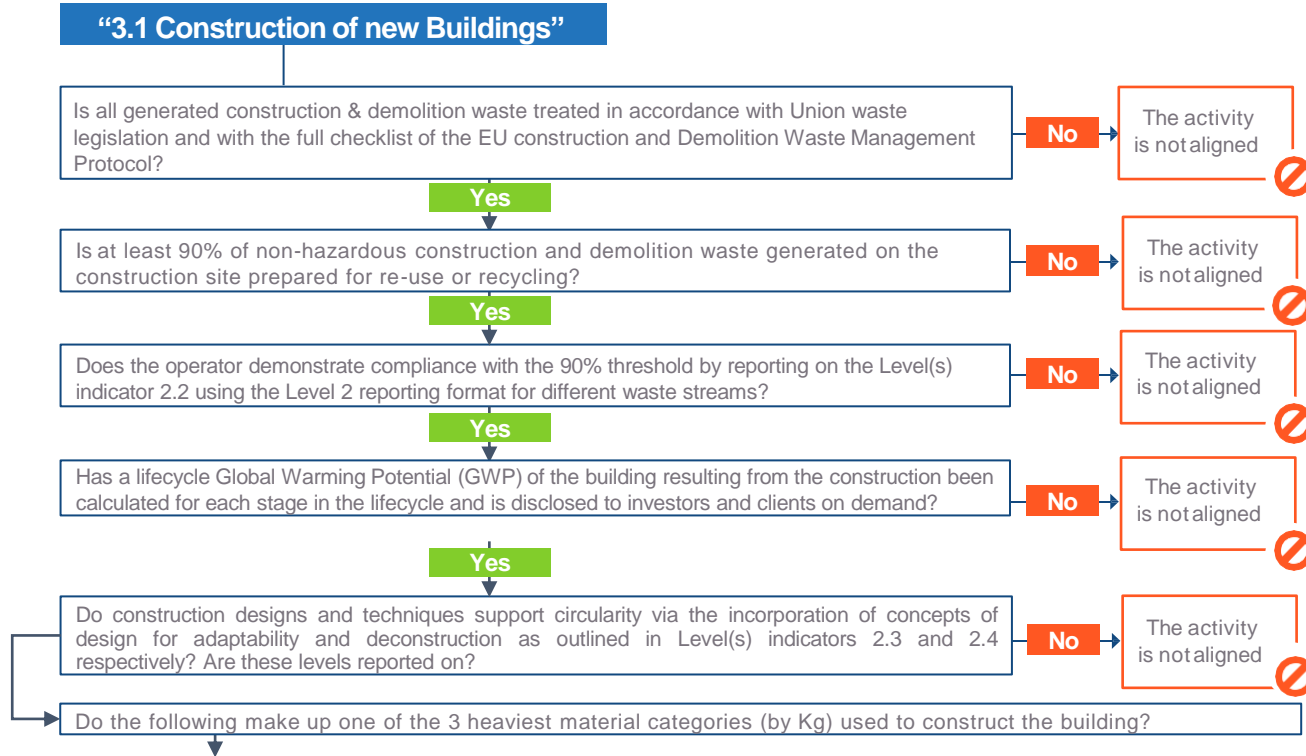


- ✓ Each activity shall have a **specific TSC** for **each of the environmental objectives**.
- ✓ The Construction and Real Estate activities 3.1 and 3.2 referred to **the same activities** as the 7.1 and 7.2 used for the CCA and CCM objectives.
- ✓ Activities 3.3 – 3.5 are not present in the Climate Delegated Regulation, and have been introduced in the **Environmental Delegated Regulation**.

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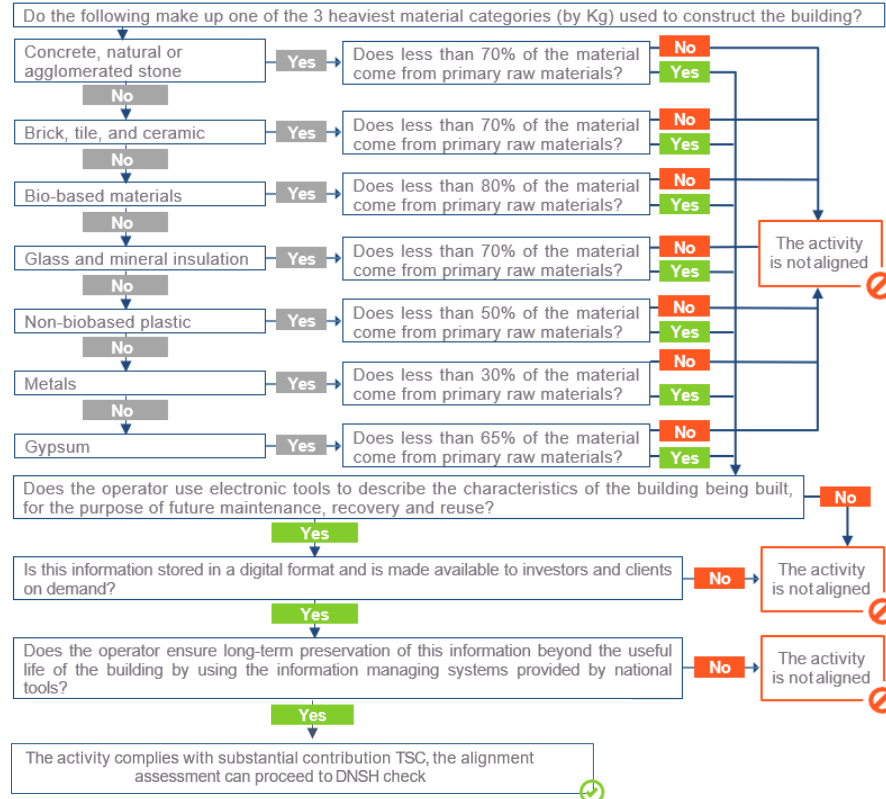
Taxonomy Guidelines – TSC for Transition to a circular economy activities (1/2)



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Taxonomy Guidelines – TSC for Transition to a circular economy activities (2/2)



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Taxonomy Guidelines – DNSH TSC CE

2.2 To assess the alignment of the "3.1 Construction of new buildings" activity with the TSC, DNSH checks are necessary for the remaining five objectives. In this regard, the following checks must be adhered to:

EU Taxonomy Objective	DNSH checks
Climate change mitigation	<ul style="list-style-type: none"> • The building is not dedicated to extraction, storage, transport or manufacture of fossil fuels • The Primary Energy Demand (PED) resulting from the construction does not exceed the threshold set for the nearly zero-energy building (NZEB) requirements • The energy performance is certified using an EPC scheme.
Climate change adaptation	<ul style="list-style-type: none"> • The activity complies with the criteria set out in Appendix A of the CE annex
Sustainable use and protection of water and marine resources	<ul style="list-style-type: none"> • Where installed, except for installations in residential building units, the specified water use for the certain water appliances including taps, showers, toilets, and urinals, are attested by product datasheets, a building certification or an existing product label in the Union
Pollution prevention and control	<ul style="list-style-type: none"> • Building components and materials used in construction are compliant with the criteria set out in Appendix C of the Circular Economy annex and with the mg of formaldehyde per m³ emitted, as well as the mg of other categories 1A and 1B carcinogenic volatile organic compounds emitted per m³ • Should construction be located on a brownfield site, a compliant investigation for potential contaminants has been made • Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance work
Protection and restoration of biodiversity and ecosystems	<ul style="list-style-type: none"> • The activity complies with the criteria set out in Appendix D to the Circular Economy Annex • The new construction is not built on a forest; arable or crop land with a minimum of moderate soil fertility and below ground biodiversity; nor greenfield land of high biodiversity value or which houses endangered species

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Taxonomy Guidelines – Minimum Safeguards CE

2.3

Finally, in order to align an economic activity with the EU Taxonomy, the activity should be carried out in **compliance with minimum safeguards**, as indicated by Article 18 of the EU Taxonomy.

The minimum safeguards refer to the requirements, principles and guidelines that are set within:

- The OECD Guidelines for multinational enterprises.
- The UN Guiding principles, including the principles and rights defined in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

The first guideline includes **non-binding principles and standards** for business with a responsible conduct, considering a global context consistent with applicable laws and internationally recognized standards.

The second guideline contains a framework for companies to report on with respect to **human rights**.



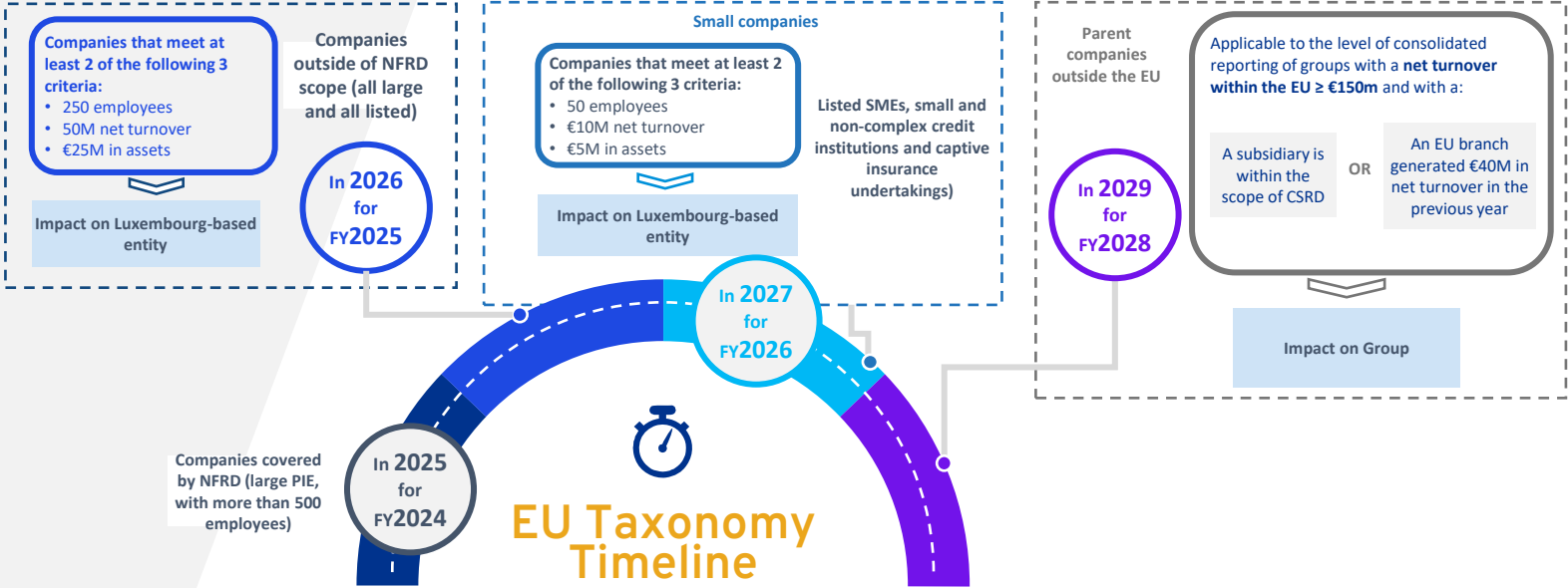
It is likely that **further diligence** would be required for the minimum safeguards' checks covering the topics of **corruption, taxation and fair competition**.

OECD guidelines sections	Examples of recommendations
 General policies	<ul style="list-style-type: none"> • Enterprises should respect internationally recognised human rights. • Enterprises should support and uphold good governance principles and apply good corporate governance practices.
 Disclosure	<ul style="list-style-type: none"> • Disclosure policies should include material information on the financial and operating results of the enterprise. • Enterprises should apply high quality standards for accounting, and financial as well as non-financial disclosure.
 Human rights	<ul style="list-style-type: none"> • Enterprises should Respect human rights, which means they should avoid infringing on the human rights of others and should address adverse human rights impacts. • Enterprises should have a policy commitment to human rights.
 Employment and Industrial Relations	<ul style="list-style-type: none"> • Enterprises should respect the right of workers employed by the multinational enterprise to establish or join trade unions and representative organisations of their own choosing. • Enterprises should avoid all forms of forced or compulsory labour.
 Environment	<ul style="list-style-type: none"> • Enterprises should establish and maintain a system of environmental management appropriate to the enterprise. • Enterprises should take into account concerns about cost, business confidentiality, and the protection of intellectual property rights.
 Combating Bribery	<ul style="list-style-type: none"> • Enterprises should not offer, promise or give undue pecuniary or other advantage to public officials or employees of partners. • Enterprises to develop and adopt adequate internal controls, ethics and compliance measures for preventing and detecting bribery.
 Consumer Interests	<ul style="list-style-type: none"> • Enterprises should ensure that goods and services meet all agreed or legally required standards for consumer health and safety. • Enterprises should provide consumers with access to fair, easy to use, timely and effective non-judicial dispute resolution.
 Science and Technology	<ul style="list-style-type: none"> • Enterprises should ensure that their activities are compatible with the S&T policies/plans of the countries in which they operate. • Enterprises should adopt practices to allow the transfer and rapid diffusion of technologies and know-how.
 Competition	<ul style="list-style-type: none"> • Enterprises should carry out their activities in a manner consistent with all applicable competition laws and regulations. • Enterprises should refrain from entering into or carrying out anti-competitive agreements among competitors.
 Taxation	<ul style="list-style-type: none"> • Enterprises should contribute to the public finances of host countries by making timely payment of their tax liabilities. • Enterprises should treat tax governance compliance as important elements of their oversight and risk management systems.

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Reporting timeline of the EU Taxonomy, in line with CSRD regulation



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Taxonomy Guidelines – Market practices

Sweden



- Fastighetsägarna is a Swedish trades association which makes a **benchmark of the Top 15%** of buildings in terms of energy efficiency.
- Their approach takes into account the **purpose of the building**, while measuring the **kWh/m²/year** in accordance to the **building lifecycle**.

Germany



- Association of German PfandbriefBanks (vdp) together with the consulting firm Drees & Sommer have created **benchmarks for assessing Taxonomy alignment**.
- The German association on sustainable building (“DGNB”) created in 2009 a certificate for sustainability. The certification is **used today most frequently** in the German real estate market and also **accredited world-wide**.

France



- The OID (Observatoire de l'immobilier Durable) has established a **reference database** in France through the **Energy Performance Barometer**, and is therefore able to provide the EU Taxonomy **thresholds** for France.
- The National Observatory for Energy Renovation (ONRE) classified all buildings that belong to EPC A, EPC B and part of EPC C as constituting the **Top 15% buildings**.
- In terms of consumptions, the updated thresholds are as follows:
 - Offices 161 kWh/m².year, Residential houses 135 kWh/m².year, General shopping centres 105 kWh/m².year, High-rise office buildings 185 kWh/m².year.





Thank you!



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