ASPIM ASSOCIATION FRANÇAISE DES SOCIÉTÉS DE PLACEMENT IMMOBILIER

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FINAL

ASPIM position on EU Taxonomy

1. Who is ASPIM?

The Association française des Sociétés de Placement Immobilier (ASPIM) – the French association for Real Estate investment companies – promotes, represents, and defends the interests of its members, managers of alternative investment Real Estate funds (SCPI, OPCI and other AIFs).

Created in 1975, this not-for-profit Association represents companies that manage portfolios of Real Estate assets for an asset value of €280.5 bn (2021) for the French market. Its 107 members, Portfolio Management Companies, and other unlisted Real Estate Investment Funds are authorized entities accredited by the Autorité des Marchés Financiers (AMF).

2. General feedback on the EU Taxonomy regulation

ASPIM strongly supports the sustainable finance agenda and shares the EU's political goal to channel investment towards the climate transition to fulfil its commitments under the Paris Agreement. We are resolutely committed to promote the integration of ESG standards into the management of non-listed Real Estate Investment Funds and to ensure they are involved in completing ambitious goals on social responsibility. To this end, ASPIM helped set up in 2016 a Social Charter for its members and lead an industry-wide initiative for the setting-up of a public Socially responsible investment (SRI) label dedicated to the non-listed Real Estate Investment Funds which has been approved and published by the French Ministry of finance and economy on the 23rd of July 2020.

Real Estate accounts for over one third of emissions of greenhouse effect gases and is the first sector in terms of energy consumption. We are conscious of the fact that Real Estate is a key sector for climate change mitigation and the decarbonisation of the economy. ASPIM recognises that in that respect, Real Estate portfolio management companies, which hold and directly manage property assets, have potential for direct action. Thus, ASPIM is fully supportive of an ambitious and well-calibrated European Taxonomy to harmonise criteria for identifying sustainable economic activities and to encourage the sector to more sustainable and transparent practices.

However, we are convinced that for the taxonomy to meet its objectives, it will have to:

- Better consider the role Real Estate Asset Managers have to play in improving the existing real estate stock

- Harmonise energy thresholds to ensure a consistent application of the Taxonomy at a European level
- Ensure top 15% and top 30% energy consumption thresholds can be calculated either in primary or in final energy
- Better consider the impacts related to the construction stage, which is also an important lever to reduce carbon emissions of new constructions over their lifecycle.
- Harmonise the thresholds between the Taxonomy delegated acts and SFDR PAIs to strengthen consistency between the different texts
- Clarify the calculation methodology of the Taxonomy KPIs for non-listed Real Estate Investment Funds
- Value substantial contribution of the “Acquisition and ownership of buildings” activity using levers of action for the construction/renovation phase and for the operating phase.

3. ASPIM’s recommendations on the EU Taxonomy

3.1. Better consider the role Real Estate Asset Managers have to play in improving the existing real estate stock

The real estate sector in Europe accounts for some 40% of total energy consumption and about 36% of greenhouse gases (GHG) emissions which means that it has a major impact on the environment.

The current renewal rate of the building stock is about 1% per year, which means that the largest part of the building stock for 2050 already exists. Action must therefore be taken first and foremost on this existing stock to achieve the European climate objectives.

Moreover, the real estate fund manager, by the nature of its activity, manages both the fund and the underlying, i.e. the building and its stakeholders. The manager is therefore a key stakeholder to contribute to the improvement of the real estate existing stock and has a strong leverage based on:

- Awareness and training of occupants;
- Optimisation of building operations;
- Maintenance and renewal of technical equipment;
- Renovation and restructuring.

Thus, real estate asset managers have a key role to play in improving the existing building stock, which is in fact the main issue to reach the European objective of climate neutrality by 2050.

However, ASPIM considers the current technical screening criteria set for the "7.7 Acquisition and ownership of buildings" activity[1] in the Delegated Act do not allow real estate portfolio

[1] Current technical screening criteria set for the "7.7 Acquisition and ownership of buildings" activity is split into 2 different cases:
- Case A: For buildings built before 31 December 2020, the building has at least Energy Performance Certificate (EPC) class A, or is within the top 15% of the national or regional building stock;
- Case B: For buildings built after 31 December 2020, the building meets the criteria set out for the activity ‘construction of new buildings’ in Section 7.1 that are relevant at the time of the acquisition (i.e. NZEB -10% and additional requirements for buildings

managers to value renovation work and do not provide incentive for orienting cashflow to existing stock improvement. Those criteria will only direct capital flow towards new buildings and not towards energy renovation of existing buildings, which should be the priority if one aims to address the main environmental concerns in the building sector.

Therefore, ASPIM believes that the "7.7 Acquisition and ownership of buildings" activity should include a specific technical criterion regarding the improvement of existing assets which could be similar to the one set up for the "Renovation of existing buildings" activity.

In addition, and beyond the renovation of existing assets**, ASPIM also considers that the achievement of the 30% reduction target in energy consumption described in the technical criteria for the "renovation of existing buildings" activity should not be made possible only by renovation works for the "acquisition and ownership of buildings" activity but should be expanded by integrating other levers for improvement such as optimisation of building operations, maintenance and renewal of technical equipment, engagement with tenants, etc.**

ASPIM also considers that focusing only on energy savings during the use phase tends to miss the real issue of energy and emissions' performance. Other key levers to reach energy efficiency rely on materials used during the construction phase. Therefore, ASPIM considers that setting thresholds only for primary energy demand forget other initiatives to reduce energy consumption along the life cycle such as actions in favour of circular economy. **Thus, these initiatives related to materials used should therefore appear in the technical screening criteria and not only on the Do Not Significant Harm (DNSH) criteria.**

Finally, in line with these recommendations and in order to better disclose the role Real Estate asset managers play in improving the Real Estate existing stock, we propose to disclose separately already taxonomy-aligned buildings and buildings currently being improved in financial products' precontractual and periodic documentation. The green asset ratio (GAR) could thus be displayed as follows:

1. Share of real estate assets/investment that are Taxonomy-aligned;
2. Share of real estate assets/investment that are currently being improved: commitment to reduce primary energy demand (PED) or GHG emissions of at least 30 %, and availability of a detailed investment plan enabling to reach this target;
3. Other assets.

<u>Recommendation</u>

ASPIM considers that it is a priority to promote efforts to improve the existing real estate stock. **We therefore propose to add a third case to the two existing cases for the technical screening criteria of the "7.7 Acquisition and ownership of buildings" activity. This case C would be specific to renovated buildings and would refer to the technical screening criteria for the "renovation of existing buildings" activity**. It should also include other "building renovation" activities such as optimisation of building operations, maintenance and renewal of technical equipment, engagement with tenants, etc. and initiatives related to materials used in building renovation.

This technical screening criterion could be written as follows:

Case C – Buildings to be renovated (e.g. old buildings, etc.)

larger than 5000 m, such as the testing for air-tightness and thermal integrity and the conduct of a life-cycle Global Warming Potential).

The building meets the following criteria:

- The building renovation complies with the applicable requirements for major renovations implementing Directive 2010/31/EU;
- Alternatively, it leads to a reduction of primary energy demand or of GHG emissions of at least 30 % compared to the initial performance of the building. The 30% reduction target in primary energy consumption or GHG emissions can be achieved through different levers such as: renovation works, optimisation of building operations, maintenance and renewal of technical equipment, engagement with tenants, etc;
- In addition to this reduction target, the materials used during the renovation phase must promote a circular economy approach with initiatives such as reuse, recycling or use of biomaterials.
- Following the validation of the effective 30% reduction in primary energy demand or GHG emissions, the building can be considered as Taxonomy-aligned for a 5-years period.

3.2. Harmonise energy thresholds to ensure a consistent application of the Taxonomy at a European level

The objective of the European Taxonomy is to provide a common language to all economic stakeholders at European level. However, if the directive on the energy performance of buildings (EPBD) is common to all European countries, its transposition into local law is specific to each country. Thus, the Nearly Zero-Emission Building (NZEB) thresholds (corresponding to RT 2012-10% or RE 2020 in France), as well as the calculation methods and rating scales used for the energy performance certificate are specific to each country and vary greatly from one country to another (e.g. an Energy Performance Diagnostic (EPC) rating of A in a particular EU country is not equivalent to an EPC rating of A in another EU country).

Consequently, the most ambitious countries with respect to their local transposition of the EPBD directive will be penalised compared to others, which could encourage investors wishing to increase their green share to concentrate their investments in countries where regulations are less binding.

Recommendation

If the taxonomy is based on thresholds and calculation methods of the NZEB and EPBD directive, **ASPIM believes it is essential to harmonise these thresholds, methods and rating scales at a European level beforehand to ensure reliability and comparability of information communicated to investors**.

3.3. Ensure top 15% and top 30% energy consumption thresholds can be calculated either in primary or in final energy

ASPIM would like to draw the authorities' attention to the fact that the Taxonomy relies on primary energy consumption to calculate the top 15% and top 30% energy consumption thresholds. ASPIM believes it would be better to leave it up to the players to calculate these thresholds either in primary energy or in final energy.

Relying on primary energy contradicts the taxonomy's objective of financing the transition towards more sustainable buildings, since it favors gas over electricity which is largely decarbonized in France.

Moreover, the conversion factor from final to primary energy in France is 2.3 for electricity and 1 for gas while the carbon intensity of gas in France is 3 to 4 times higher than the carbon intensity of electricity.

Thus, the use of final energy thresholds, instead of the existing primary energy thresholds, would help favor the least carbon intensive buildings that do not use fossil fuels.

Case study

In the following table we compare 2 buldings with the same final energy consumption but one heated with gas and the other with electricity.

Building	Electricity consumption kWh final energy	Electricity consumption kWh primary energy France	Gas consumption kWh final energy	Gas consumption kWh primary energy France	Total consumption kWh final energy	Total consumption kWh primary energy	Total CO2 emissions
A	600	1 380	200	200	800	1 580	112
B	800	1 840	0	0	800	1 840	101

If we assume that the top 15% is at 1700kWhep, then Building A is in the top 15% while Building B is not, even though they have the same final energy consumption and Building A emits more carbon than Building B.

In this example, If we want Building B to be in the top 15%, then we will have to switch to gas heating which will enable us to consume less primary energy but will make us emit more CO2 emissions at the same time.

In addition, we can also highlight the fact that the conversion factor from final to primary energy is only political. It went from 2.58 to 2.3 in France when the RE2020 was published and it should further evolve to reflect the evolution of the energy mix. This creates legal uncertainty for the market. Finally, in Germany this conversion factor is 1.8, even though German electricity is much more carbonated than French electricity.

Recommendation

ASPIM believes real estate players should be able to calculate the Taxonomy's top 15% and top 30% energy consumption thresholds either in primary energy or in final energy.

3.4. Better consider efforts related to the construction phase of new buildings

ASPIM would like to highlight the fact that in recent years, efforts to improve energy efficiency have been concentrated on the use phase of the building so that over the life cycle, the share of energy consumption of the use phase for a new construction has generally become lower

than the share of the construction phase's energy consumption. In its current state, the taxonomy only focuses on the energy consumption of the use phase, which is already efficient for new constructions, and neglects the energy consumption of the construction phase where greater efforts can be made to reach climate mitigation objectives.

This paradigm shift therefore involves integrating the construction phase of the building to consider energy consumption related to the production and use of construction materials.

Recommendation

ASPIM believes the taxonomy should better integrate efforts related to the construction phase to improve energy efficiency of new buildings over their life cycle.

3.5. Harmonise the thresholds between the Taxonomy delegated acts and SFDR PAIs to strengthen consistency between the different texts

Based on the current texts, ASPIM has noted the following:

- The threshold set to characterise an asset as energy inefficient in Annex 1 of the SFDR RTS regulation **(EPD ⩾ C)** is higher than the regulations in force in several European countries and seems too restrictive knowing the reality of the current market.
- The threshold set for the inefficient assets' indicator **(EPD A or B only)** in the SFDR RTS is not consistent with the the DNSH mitigation threshold set for the activity **"7.7 acquisition and ownership of buildings"** as part of the Taxonomy adaptation objective **(EPD A, B or C or Top 30%)**.

Moreover, ASPIM believes that favoring investments in real estate assets with an A or B EPD only limits the implementation of measures to improve the existing real estate stock **(the sector's main challenge with regard to the energy and climate transition)**.

Finally, Real Estate portfolio management companies face several difficulties in reporting on this indicator:

- The level of availability and quality of EPDs in some countries and some asset classes **does not enable quality reporting on the energy inefficiency indicator**.
- The threshold set for **the definition of an inefficient asset (EPD ⩾ C) is too restrictive** in relation to the regulations in force in various countries and to the reality of the market, and therefore **risks discrediting the approaches implemented by managers**.

In addition, to remedy these difficulties, strengthen consistency between the various texts and improve the relevance of this PAI indicator, ASPIM suggests to harmonise the definition of the PAI inefficient assets indicator with the DNSH mitigation threshold of the activity "7.7 acquisition and ownership of buildings" set for the adaptation objective in the Taxonomy (EPD ⩾ D or energy performance less than or equal to the top 30% of the national real estate stock).

Thus, The definition of the PAI energy inefficiency indicator presented in Annex 1 of the SFDR RTS could be revised as follows: **by assets with (i) an EPD ⩾ D, or (ii) an energy performance lower than that of the top 30% of the country concerned**.

Therefore, an asset with an EPD C would no longer be considered as an inefficient asset (as it is currently the case in the SFDR RTS). Only assets with an EPD D or higher would be considered inefficient.

Furthermore, this proposal would allow Real Estate portfolio management companies to report either on the basis of EPDs if they are available, or on the basis of actual energy consumption by considering the share of assets whose performance is lower than that of the top 30% of the country concerned, as was done in the context of the DNSH mitigation of activity 7.7 for the adaptation objective of the Taxonomy (distinction between residential and tertiary buildings at least).

Finally, while waiting for the States to progressively establish the basis for defining the top 30% of each country (e.g. Operat for the tertiary sector in France), Real Estate portfolio management companies could rely on existing sectoral benchmarks (e.g. OID, Deepki, etc.) or future benchmarks, that they consider sufficiently robust, to determine this threshold.

Recommendation:

For greater consistency between regulatory texts, ASPIM recommends that **the definition of the PAI energy inefficiency indicator presented in Annex 1 of the RTS SFDR regulation be changed to harmonise it with the mitigation DNSH of activity 7.7 for the adaptation objective of the European Taxonomy**.

Thus, the definition of the PAI energy inefficiency indicator could be adjusted by specifying that **it corresponds to the share of assets with (i) an EPD ⩾ D, or (ii) an energy performance lower than that of the top 30% of the country concerned.**

3.6. Clarify the calculation methodology of the Taxonomy KPIs for unlisted Real Estate Investment Funds

ASPIM notes that, to date, few details have been provided within the different regulations and delegated acts regarding the Taxonomy KPIs' definition and calculation methodology for Real Estate Asset Managers and real estate investment products.

In the Annex IV "Template for the KPI of asset managers" of the draft delegated act regarding Article 8 of the Taxonomy Regulation, no distinction between the Real Estate and other financial asset classes has been made. The draft only states that asset managers have to disclose "turnover-based and CapEx-based KPIs" and that these KPIs include "all the investments that are directed at funding or are associated with Taxonomy-aligned economic activities".

In the Article 17 of the RTS SFDR it is indicated that "taxonomy-aligned investments of the financial product shall be the sum of the market values of the following investments of the financial product", and that "for investments in Real Estate assets which qualify as environmentally sustainable economic activities, the market value of those investments."

Recommendation

ASPIM believes the Taxonomy KPIs' definitions and calculation methodologies should be further clarified to **emphasize the specificities of real estate investments and financial products** and **ensure consistency and comparability in disclosures across the real estate industry and across the different asset classes.**

4. ASPIM's recommendations on the 4 remaining environmental objectives

4.1. Circular economy – 7.7 Acquisition and ownership of buildings

General comment

Activity 7.7 "Acquisition and ownership" is not considered as eligible to the circular economy (CE) objective in the draft delegated act. However, considering the pivotal role that real estate managers can play in ensuring building's transition to a circular economy by engaging and collaborating with developers and suppliers along the construction, renovation and operations phases (choice of recycled or bio-sourced materials, deconstruction or reconversion of buildings), ASPIM would suggest making activity 7.7 eligible to the circular economy (CE) objective.

Comment on the activity substantial contribution criteria

The circular economy (CE) objective does not consider the activity 7.7 "Acquisition and ownership". Yet, although the exploitation phase does not generate waste as sizeable as that of a site phase, the production of waste of an occupied building remains daily for numerous years. Many aspects are to be considered in waste management of a real estate asset once it is in operation; first, regardless of the asset class, all daily waste produced by the tenants themselves and the services they resort to (catering, cleaning, gardening). Then, the major changes in space layout or service and maintenance work which space out the renovations if done regularly. Stakeholders' engagement is therefore key in achieving progress in circular economy.

Given the arguments hereinabove, and as solutions do exist, ASPIM proposes the following position:

To consider challenges that are specific to construction /renovation and operational phases ASPIM suggests making a distinction between the two of them for the activity 7.7. For new properties, the annex would reference to activity 7.1 "Construction of new buildings". For a heavy refurbishment, the annex would reference to activity 7.2 "Renovation of existing buildings".

ASPIM proposes strengthening aspects related to ownership by requiring compliance on the following:

- Use of electronic tools (detail of building materials, regular update of building features)
- To be consistent with the activity 7.2 "Renovation of existing building", set threshold of 70% of non-hazardous waste sorted, recycled, or reused for tenant operating waste management and building operating waste management.
- Involve stakeholders in the global circular economy approach by including contractual clauses relative to waste sorting to leases and PM agreements. Leases clauses would require from tenants to impose waste sorting to service providers; PM contracts would require from Property Managers to report to the landlord on amount of waste produced and how they would be treated (sorting, recycling, reuse) as well as on amount of material used for service and maintenance work, coming from reuse or recycling.

Comment on the activity do not significant harm criteria

ASPIM and its members propose the following DNSH criteria for the activity 7.7 “Acquisition and ownership” in circular economy (CE) objective:

- **Climate change mitigation:** The building is not dedicated to extraction, storage, transport or manufacture of fossil fuels.
- **Climate change adaptation:** The activity complies with the criteria set out in Appendix A to this Annex.
- **Sustainable use and protection of water and marine resources:** For installations renewal, except for installations in residential building units, the specified water use for the following water appliances are attested by product datasheets, a building certification, or an existing product label in the Union, in accordance with the technical specifications laid down in Appendix E to Annex I to Delegated Regulation (EU) 2021/2139:
    - wash hand basin taps and kitchen taps have a maximum water flow of 6 litres/min;
    - showers have a maximum water flow of 8 litres/min;
    - WCs, including suites, bowls and flushing cisterns, have a full flush volume of a maximum of 6 litres and a maximum average flush volume of 3,5 litres;
    - urinals use a maximum of 2 litres/bowl/hour. Flushing urinals have a maximum full flush volume of 1 litre;
    - To avoid impact from the construction site, the activity complies with the criteria set out in Appendix B to this Annex.

  For this criterion (Sustainable use and protection of water and marine resources), ASPIM draws attention on the thresholds that are not achievable for office class (gardening, restaurant).
- **Pollution prevention and control**: Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works.

4.2. Sustainable use of water – 7.7 Acquisition and ownership of buildings

General comment

Activity 7.7 “Acquisition and ownership” is not considered as eligible to the water (WTR) objective in the draft delegated act. However, considering the pivotal role that real estate managers can play by promoting the sustainable use of water through the long-term protection of available water resources (measure of water reuse, maintenance of saving-water equipment), ASPIM would suggest making activity 7.7 eligible to the water (WTR) objective.

Comment on the activity substantial contribution criteria

The water (WTR) objective does not consider the activity 7.7 “Acquisition and ownership”. However, water faces many challenges such as scarcity and quality and given that tensions

over water resources are likely to increase with the effects of climate change. Therefore, ASPIM and its members recommend integrating 7.7 activity into the water (WTR) annex.

To consider challenges that are specific to construction/renovation and operational phases, ASPIM suggests making a clear distinction between the two of them for the activity 7.7.

For new assets and refurbishment the annex would reference to activity 7.1 “Construction of new buildings” and should take inspiration from the DNSH (3) Sustainable use and protection of water and marine resources (building certification, label, flows thresholds mentioned).

For the operational phase of an existing asset, ASPIM proposes the following criteria:

- Water-savings management contracts on at least 80% of draw-off points such as counting plans or water-saving management contracts are essential to react quickly and efficiently to reduce water consumption.
- Counting plans of water consumptions to manage efficiency and detect leaks.
- Installation of water-saving devices on water inlets.
- Rainwaters harvesting and reuse of wastewaters to preserve underground waters and save energy.
- Use of zero-phytosanitary products in common maintenance (cleaning) to avoid water pollution and protect groundwater table.

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