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ASPIM ASSOCIATION FRANÇAISE DES SOCIÉTÉS DE PLACEMENT IMMOBILIER

24/06/2020

**Feedback on the TEG's final report on the EU taxonomy published in March 2020 in view of the European Commission's planned adoption of delegated acts on climate change mitigation and adaptation**

## 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 fund (SCPI, OPCI and other AIFs).

Created in 1975, this not-for-profit Association is representing companies which manage portfolios of real estate assets for an asset value of €180 bn for the French market in 2019. Its 84 members, Portfolio Management Companies and other unlisted real estate AIFs, are authorised entities by the Autorité des Marchés Financiers (AMF).

## 2. We welcome the EU taxonomy and support the sustainable finance agenda

We welcome the ambition of the European Commission on a taxonomy for Europe. ASPIM strongly supports the sustainable finance agenda and shares the EU's political goal to channel investments towards the climate transition in order to fulfil its commitments under the Paris Agreement. We are resolutely committed to promote the integration of ESG standards into the management of real estate AIFs and to ensure they are involved in completing ambitious goals on social responsibility. To this end, ASPIM helped set up in 2016 a Charter for its member and is now leading an industry-initiative for the setting-up of a public Socially responsible investment (SRI) label approved by the French Ministry of finance and economy dedicated to the AIFs in real estate.

Real estate accounts for over one third of EU greenhouse gas emissions 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 European economy. ASPIM recognises that in this respect, real estate portfolio management companies, which hold and directly manage property assets, have potential for direct action. ASPIM is fully supportive of an ambitious and well-calibrated European taxonomy that would encourage the sector to more sustainable practices.

## 3. Our feedback and recommendations for a well-calibrated taxonomy in the area “Building acquisition and ownership”

Our feedback only focuses on the activity of our members **“Building acquisition and ownership”**.

From our understanding, criteria for “Building acquisition and ownership” activities have been differentiated in two cases:

- Case A – Acquisition of buildings built before 31 December 2020: threshold set at 15% of the local existing stock in terms of operational Primary Energy Demand;
- Case B – Acquisition of buildings built after 31 December 2020: threshold of “Construction of new buildings” corresponding to 20% under NZEB requirements.

As highlighted in the report, this “Best-in-class” approach aims at encouraging buyers to acquire new and efficient buildings over older and less-efficient ones and at supporting climate change mitigation by increasing the demand for such buildings and by enabling buyers to consume less energy during the use phase.

However, for a result-driven implementation of the EU taxonomy that encourages its use by real estate AIFs who have a tremendous potential in reducing carbon emissions in the buildings sector**,** we would like to raise the following questions and recommendations to the European Commission.

### 3.1 A “Best-in-Progress” approach is essential to address the climate change mitigation challenges

The draft report published in June 2019 included a “Best-in-progress” approach by allowing the acquisition of any other building, provided that it is subsequently improved within 3 years of purchase, either through one single improvement achieving the thresholds or through a series of improvements.

This “improvement” criterion has been removed from the TEG’s final report and no additional threshold has been added to encourage the renovation of the existing building stock. However, ASPIM and its member strongly believe a specific threshold related to renovation activities (as the one which was included in the draft report) should be added if we want to achieve the climate targets set by the EU Commission through its Green deal.

The current rate of renewal of the building stock is about 1% per year, which means that the largest part of the building stock for 2050 already exists and that the challenge for the real estate sector is therefore to improve the existing stock. As a result, focusing investments only on new constructions and on the most efficient assets does not appear as an adequate response to the medium- and long-term climate mitigation challenges. 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 therefore has a strong leverage to contribute to the improvement of the existing portfolio, and a real responsibility in terms of asset management to meet the challenges of climate mitigation.

For all reasons mentioned above, we consider the “Best-in-Class” approach to be too restrictive to fully address the market’s challenges in terms of climate change mitigation and **ASPIM and its members recommend that the EU taxonomy allows to invest in less performing assets while committing to improve their energy performance**.

Recommendations

We believe in thresholds that allow for renovation activity to be scoped in and to that end we would like to make the following recommendations:

- Criteria for “Building acquisition and ownership” activities to be differentiated into three cases, with the existing Case A and Case B, and an additional Case C – Acquisition of any other building, provided that it is subsequently improved within 3 years of purchase based on the thresholds of the “Building renovation” activity;
- For coherence purposes, we also recommend the “Do no significant harm assessment” to include criteria of the “Building renovation” activity.

## 3.2 Renovation should be encouraged among real estate portfolio managers

In case the TEG would identify obstacles to take into consideration the preceding recommendations, we would like to emphasize the possibility to enlarge the scope of “Building renovation” activities.

From our understanding, renovation is intended for developers and contractors only. Along the same lines as indicated above, **ASPIM and its members recommend that real estate portfolio managers can also value renovation work within the taxonomy**.

We believe that a restriction on eligibility for renovation activities scales down the scope of energy efficiency measures that can be undertaken to physical improvements only (building and equipment). Emissions reduction can also be achieved through other types of initiatives such as engagement with tenants (e.g. green lease, tenant green guide, joint tenant-landlord sustainability committees, etc.).

Recommendations

- In case recommendations from section 3.1 could not been implemented, enlarge the scope of “Building renovation” activities in order to allow portfolio managers to value renovation work;
- Scope in emissions reduction investments that are not building/equipment improvements, like tenants’ engagement.

## 3.3 Transparency on the “Top 15% of the local market” is necessary

We support the TEG’s top 15% approach in the “Acquisition and ownership” thresholds, that is very ambitious and leaves the benchmark to the discretion of fund managers.

We identify two features that require special attention:

1. The geographical perimeter of the benchmark that, depending on the spread (city, region, country, etc.) can either benefit or handicap the asset compared to its peers;
2. The classes of assets included in the benchmark that, in the same way, can influence the performance of the asset compared to its peers.

Recommendations

ASPIM and its members believe that **the EU taxonomy should include a transparency requirement on the benchmark’s methodology**. In particular, we recommend that the geographical scope and classes of assets included in the benchmark should be disclosed.

### 3.4 Building acquisition and ownership activities can contribute to the Adaptation objective

In the section “Technical screening criteria: substantial contribution to climate change adaptation”, the subcategory “Acquisition and ownership” has been removed from Construction and real estate activities.

However, we would like to emphasize that real estate asset managers have strong leverage to contribute to the Adaptation objective. Please find below few examples to illustrate adaptive actions that can be undertaken by asset managers.

| Examples of physical risks | Examples of climate change adaptation measures |
|---|---|
| **Heat wave** | – Protect from solar radiation (e.g. investing in solar protection, vegetation and landscaping, cladding)<br>– Minimise heat infiltration<br>– Reduce internal heat sources<br>– Ensure hygrothermal comfort<br>– Adapt building’s management (e.g. organising work and living spaces according to their sun exposure, ensure water accessibility)<br>– Etc. |
| **Flood** | – Ensure tenants security (e.g. building or identifying unfloodable refuge areas, easing evacuation)<br>– Reduce risks of physical damages (e.g. secure sensitive equipment, limit and manager water ingress)<br>– Secure networks and equipment (e.g. place them in the unfloodable area)<br>– Etc. |

Also, based on the following quote: “The TEG recognises that climate change will affect all sectors of an economy and all sectors must adapt to its impacts globally. As a result, the adaptation taxonomy is a set of guiding principles and qualitative screening criteria, which can be applied in any economic activity in any location.” our understanding is that all activities could be eligible to the adaptation criteria as “Adapted activities” as long as process-based criteria are respected, even if they are not listed as eligible in the final TEG report.

<u>Recommendations</u>

As a result, **ASPIM and its members would like to ensure that “Acquisition and ownership activities” are eligible for Adaptation** even if they have been removed from the “Construction and real estate activities” eligible to the adaptation objective.