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The EU Taxonomy and real estate financing – A new reality?

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V IBERIAN REIT & LISTED Conference

Madrid
15 February 2023





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EU Taxonomy

1. What is the EU Taxonomy?
2. The impact on listed real estate
3. The impact on asset managers, insurers & investment banks
4. Flaws and opportunities in the EU Taxonomy
5. The role of EPRA

What is the EU Taxonomy?

C O N T E X T



2015

Paris agreement
Target to limit global warming to 1.5°C



2016

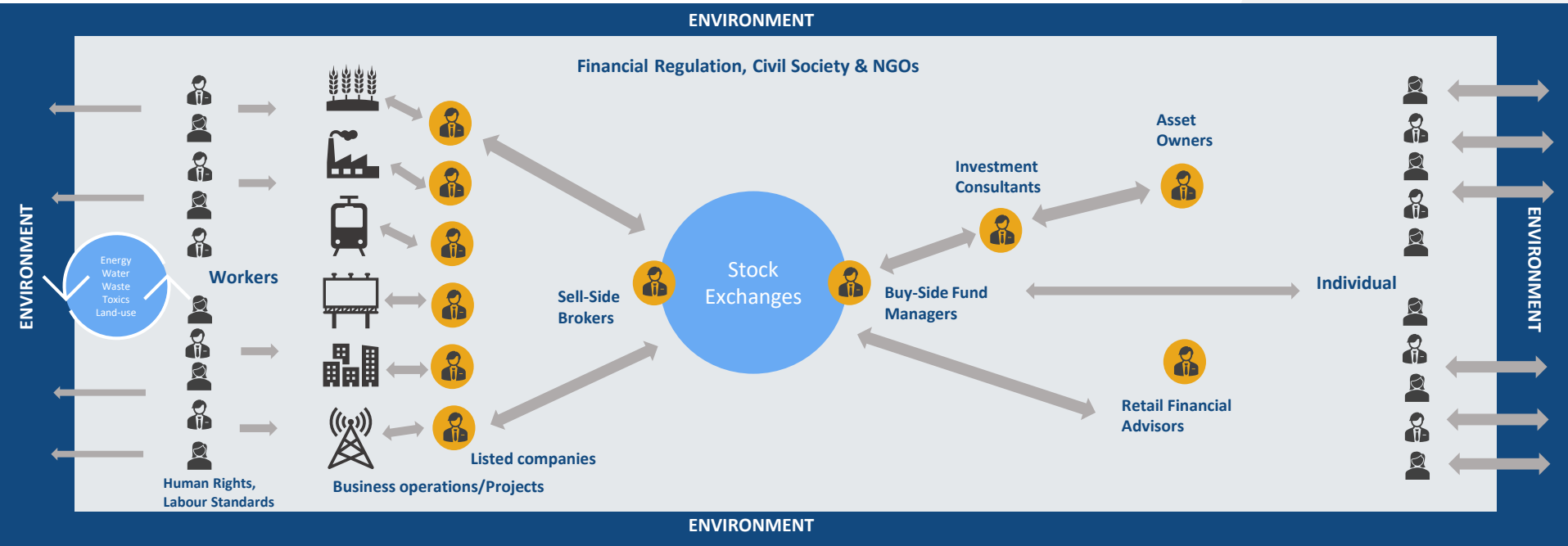
High-Level Expert Group on Sustainable Finance
Established by EC to steer the flow of public and private capital towards sustainable investments



2018

EC Action Plan for Financing Sustainable Growth
The action plan set out a comprehensive strategy to connect finance with sustainability

Structure of the capital market



Source: Aviva (2014): A Roadmap for Sustainable Capital Markets

What is the EU Taxonomy?

C O N T E X T



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

What is the EU Taxonomy?

1

One of the tools to connect finance with sustainability

2

A classification system for sustainable activities

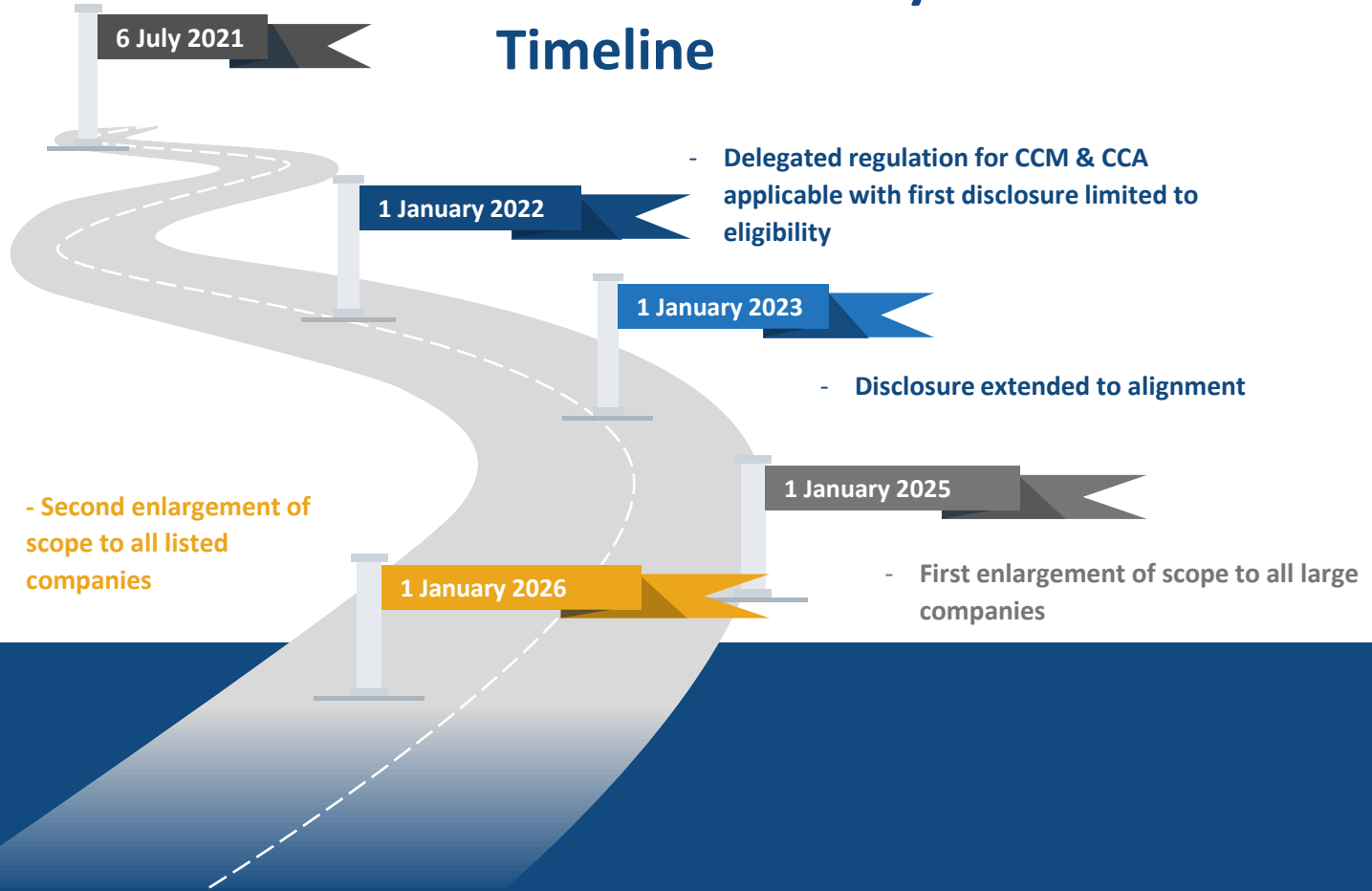
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A reporting framework



What is the EU Taxonomy? Timeline

- EU Taxonomy
Regulation adopted



What is the EU Taxonomy?

Legislative framework

EU TAXONOMY REGULATION

Taxonomy
Addendum
on Gas
&
Nuclear
Energy



Climate Taxonomy

- ▶ Climate change mitigation
- ▶ Climate change adaptation



Environmental Taxonomy

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



Disclosure requirements



Minimum Safeguards



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The impact on listed real estate



1

Enable investors & companies to determine what is sustainable

2

Help re-orient capital flows to contribute to sustainable growth

3

Limit the risks of greenwashing and market fragmentation

The impact on listed real estate

1

What are the eligible real estate activities under the EU Taxonomy?



New developments for sale

The Primary Energy Demand (PED) of the new building is at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements.

The energy performance is certified using an as built EPC.



Renovations

The building renovation complies with the applicable requirements for major renovations.

Alternatively, it leads to a reduction of Primary Energy Demand (PED) of at least 30%.



Acquisition & ownership

For buildings built before 2020, the building has at least EPC A or is within the top 15% of the national or regional building stock expressed as operational PED.

For buildings built after 2020, it has to meet the criteria set for new buildings (PED NZEB+>10%)

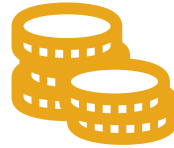
The impact on listed real estate

2

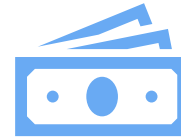
How do listed property companies report on their Taxonomy aligned activities?



Turnover



Capital expenditure
CapEx



Operational expenditure
OpEx



accompanying disclosure



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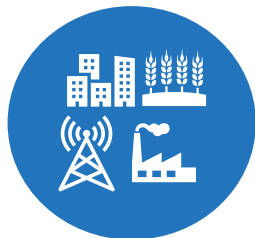
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The impact on asset managers, insurers and investment banks



How do investors (asset managers, insurers, investment banks) apply the Taxonomy?

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No legal obligation to invest in Taxonomy aligned assets



Requirement to disclose alignment at entity & product levels



Risk of stranded assets (emerging min. energy performance requirements)



ESG preferences of clients (millennials' sense for climate and society)



Example of a framework for qualifying Sustainable Investments

Main objective	Overarching framework	Type	Example of binding KPIs	Timeline	Sell Discipline
Environmental Objective	EU Taxonomy	Leader	<ul style="list-style-type: none"> Companies with >20% of Taxonomy-aligned revenue Companies in top 25thile on Taxonomy alignment by sector 		
		Transition	<ul style="list-style-type: none"> Companies with Taxonomy-aligned CapEx at least 10% higher than Taxonomy-aligned revenue 		
	Self-defined E Objective Not covered by the Taxonomy	Leader	<ul style="list-style-type: none"> Established leaders on FMP's specified E-related KPIs Companies in top 20%ile of carbon efficiency vs. peers or benchmark Companies with SBTs 1.5 degree and or Net Zero targets Companies with >xx% revenue aligned to E-related SDGs Companies in top two categories of E-related scores 		
		Transition	<ul style="list-style-type: none"> Companies making significant E-improvements on specified KPIs % decarbonisation reduction targets over specified time horizon Grow % green revenue exposure to SDGs/other framework over time 	- 3, 4, 5 ...years	- Divest if fails to achieve stated goals in 2 consecutive years
		Engagement	<ul style="list-style-type: none"> Active engagement with heavy polluters, elect board members, and help design and prioritise ESG strategies and targets 	- 3, 4, 5 ...years	- Divest if fails to achieve stated goals in 3-4 consecutive years
		Leader	<ul style="list-style-type: none"> Diversity & Inclusion leaders - e.g. >40% women managers Companies paying living wages for all employees Leaders on supply chain transparency and human rights 		
Social Objective	Self-defined S Objective	Transition	<ul style="list-style-type: none"> Companies with controversies in the past, but has been significantly improving on the S-issues – e.g. labour issues Companies with board diversity target – e.g. >30% women 	- 3, 4, 5 ...years	- Divest if fails to achieve stated goals in 2 consecutive years
		Engagement	<ul style="list-style-type: none"> Engage companies to improve Social Objectives, e.g. ensure living wages, conduct supply chain audits, ensure proper human rights practices, etc. 	- 3, 4, 5 ...years	- Divest if fails to achieve stated goals in 2 consecutive years

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The flaws of the EU Taxonomy

1

Incomplete

2

Lacking clarity

3

Failing to encourage flows in transition to net zero (i.e. renovations)



The biggest opportunities of the EU Taxonomy

1

Boosted discussions in support of decarbonising real estate

2

Early adopters of the EU Taxonomy advantaged to attract green capital

3

So that we can build the resilient and sustainable real estate





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EU Taxonomy Tools

Development of tools to navigate through emerging regulations



The CSRD Scope Assessment Tool



E



EPRA Taxonomy Guidelines



Taxonomy webinar



EU Sustainable Finance 2.0

Policy engagement



SFDR



EU TAXONOMY



CSRD



Other

- ▶ EU Green Bonds
- ▶ Benchmarks, ESG labels

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EU ELECTIONS IN MAY 2024



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