

ESG Update

August 2022



Overview

- Work stream updates
 - Due diligence questionnaire(s) for borrowers
 - ESG signposting framework
 - Debt funds and SFDR
 - Second opinion providers
 - ESG and valuation
- Other updates
 - CRREM/PCAF webinar (and potential follow-up)
 - [EEFIG](#) Energy Efficiency First Working Group
 - Other initiatives and collaborations

Work stream updates



DDQ(s) for borrowers

- Our existing 2021 [climate-related due diligence tool](#) is a good resource, but not intended as a questionnaire for lenders to send to borrowers
- The ambition is to create a DDQ that can form the basis for a CREFCE Charter that lenders can follow for sustainable lending good practice, reducing 'first mover disadvantage' for the best and raising the bar for the rest
- Key questions
 - Coverage (E, or E, S & G?) and level of ambition (reduce 'first mover disadvantage')
 - How to structure (given diversity of real estate lending universe) and how to link to emerging data, assessment and disclosure standards
 - Assume ongoing engagement with borrowers and build in accreditation / second party opinion provision
 - Focus on appropriate inputs (rather than on what lenders do with them)

ESG signposting framework

- A draft structure of the document, scope and issues to be covered has been shared amongst the working group for comment
- The aim is to be selective (best in class resources) and targeted (relevant for real estate lenders), but also comprehensive
- Work is ongoing with a view to publication in the autumn

Debt funds and SFDR

- EVORA Global have created a draft introductory guide that explains background and key considerations for thinking about SFDR classification for debt funds
- Other working group members have provided feedback ahead of publication in the autumn

Second party opinion providers

- Aviva Investors have put together a short note with guidance on selecting and working with ESG second party opinion providers (SPOPs) – this is a key component of effective and credible green / sustainability-linked lending frameworks
- The note covers:
 - Scope – defining the purpose of the SPOP, with suitable KPIs that are relevant, material and ambitious; the relevant benchmark or reference framework (e.g. LMA principles), and clarity as to whether the assessment focuses on the collateral, the sponsor more broadly or both
 - Ongoing monitoring – there need to be clear and explicit requirements in the loan agreement that the SPOP considers appropriate (relevant, material and ambitious); consider the balance between objective criteria (e.g. achieving / maintaining a particular BREEAM or EPC rating) or more qualitative / evaluative)
 - Working practices – clear allocation of responsibilities among the parties involved, with the lender involved in appointing the SPOP to ensure suitability, credibility, etc. (but recognising that the lender should not dominate the proceedings thereafter)

ESG and valuation

- Background: desire among lenders (initially in Ireland) for greater consistency in how ESG matters are covered by valuers
- Action: draft list of key ESG issues developed by lenders, to be considered when instructing and reviewing valuations (see Appendix)
- RICS has since published a new guidance note on this subject (in Ireland, SCSi published guidance in June 2021)
- Firms are currently updating internal guidelines to valuers for ESG
- Caveats
 - Collective dialogue between valuers and lenders to promote common understanding should be welcome
 - Recognise limitations of data availability and objectivity; degree to which ESG factors impact valuation
- Ongoing engagement between lenders and valuers, monitoring of valuation reports, engagement with relevant industry and professional bodies

Other updates



CRREM/PCAF webinar (etc.)

- Aim was to introduce our network to two important initiatives in our space
- Our February 2022 webinar is available on demand [here](#)
- We are keen to build on these relationships, especially [CRREM](#), which is becoming the carbon risk modelling tool of choice among sophisticated real estate investors
- We also plan to revive our relationship with [GRESB](#), which is integrating with CRREM and trying again to grow its relevance in the CRE debt market (initially in the US)

EEFIG EE1st WG

- [EEFIG](#) (formed by [UNEP FI](#) and the European Commission) formed a new working group at the beginning of 2022 to focus on operationalising the Energy Efficiency First principle in the lending and investment decisions of financial institutions
- At the first meeting in January CREFCE presented some initial thoughts from the perspective of real estate lenders (see highlights in the **Appendix** below)
- For the group's interim report to the European Commission at the end of the summer, CREFCE contributed a selection of recommendations for lenders and for policymakers (reproduced in the **Appendix** below)

Other initiatives / collaborations

- [Green Property Alliance](#) (formed by the [Property Industry Alliance](#) to include [BBP](#), [UKGBC](#), but also [LMA](#) as well as CREFC Europe from the lending side) – a work in progress
- Recent participation in an [IIGCC](#) webinar (alongside officials from the European Commission and UK BEIS, as well as industry) – webinar recording and full slide deck available [here](#); CREFC Europe slide also reproduced below
- We joined a [group submission to the UK FCA](#) (cc TCFD and IFRS) on real estate ESG metrics – we are trying to coordinate further work to focus on real estate *finance* ESG metrics
- AIMA/ACC – ongoing dialogue
- CREFC (in the US) – ongoing dialogue
- INREV – ongoing dialogue

28 April IIGCC webinar: Real estate finance and climate/ESG

- CREFC Europe – trade body for real estate lenders and finance market, with very active ESG participation since late 2019
- **Debt matters in real estate, and for sustainability (but real estate sustainability leaders tend not to use much debt, so often forget)**
 - it provides a low-cost capital base for real estate investors/borrowers
 - a small number of lenders can reach a big number of less sustainability-savvy real estate owners with decarbonisation advice as well as finance
- **Banks'** climate-related disclosures and regulatory incentives are not designed with real estate lending in mind, and are not necessarily aligned with government policy for net zero buildings (there are signs of movement in the right direction, but financial regulation is lagging); focus remains primarily on:
 - climate-related risk to the institution (rather than the broader policy agenda around climate adaptation and decarbonization to reduce overall climate risk)
 - operating carbon (and financing new buildings with green credentials) rather than whole life, including embodied, carbon (which could drive financing the improvement of existing buildings – the real challenge)
- Policymakers and industry groups often forget **the role of non-banks** in real estate lending, even though they account for ~30% of the market in the UK (less in the EU, admittedly); and **policy silos** often separate policy relating to buildings from financial regulatory policy
- Above all, lenders need **an agreed sustainability assessment framework / standard** reflecting:
 - recognition that most buildings need to be (financed to be) improved – it's not a question of defining 'green' and supporting the buildings that 'pass'
 - an integrated approach to E (not just net zero carbon), S and G (not just climate)
 - clarity around the policy trajectory (so ESG considerations align with, rather than running counter to, financial assessment of risk and returns) – in the absence of a clear policy trajectory, the question will remain whether businesses and investors are “doing the right thing” at the expense of returns

Appendices



ESG and valuation - ESG issues list (1)

The areas to be considered for impact on valuation / occupation may include:

Description of property:

- Age of construction / material capex; current condition; capex planned

E: Impact on Environment and Use of Resources

- Energy consumption
 - Energy consumption in design, construction and usage of building [supplied by building owner]
 - EPC or BER ratings [include expiry dates, review of EPC recommendations in certs, compliance with regulations and upcoming legislation / regulatory / policy changes]
 - Certification: NZEB / BREEAM / LEED / other regulatory or industry standards
- Energy efficiency – systems / impact
- Energy generation – investment in renewables to offset consumption / ability to feed the grid
- Water Efficiency – consumption levels, and systems/ storage/ technology to reduce consumption, improve efficiency
- Materials Waste Management / recycling capabilities
- Climate risk, event driven (e.g. flood, storm, fire) risks and barrier defences; historical cost of repair
- Biodiversity impact / strategies

ESG and valuation - ESG issues list (2)

S: Social impact of the built environment / owner / occupier

- Transport
- Health & wellbeing on-site: certification e.g. WELL certification
- Digital and communications: certification e.g. WiredScore
- Social impact, local community engagement, placemaking
- For developments, impact of section 106 (UK) or Part V (Ireland)

G: Measurement and Building intelligence, ESG planning [does not replace KYC activities of lenders]

- Green leases
- Ability to measure / monitor – intelligent buildings and tenant involvement / co-operation
- Tenant engagement and planning
 - Level of co-operation/integrated planning between landlord and tenant to measure and monitor, reduce usage of resources, capex planning and implementation
 - None, Ad hoc, planned, contracted
- Key business activities of owners, tenants and their ESG credentials
- Leases – impact of E, S and G above on income and valuation incl. lease expiries, break clauses, ability to renew/extend

EEFIG EE1st Working Group meeting

Real estate lending perspective

January – August 2022



Peter Cosmetatos
CEO, CREFC Europe

Initial thoughts (Jan 2022) /1

- Energy/carbon now a major focus (and one of the easier elements of a **complex web of ESG considerations** in the real estate context)
- Climate risk increasingly integrated into credit underwriting, under pressure from:
 - Transitional risk, as policymakers regulate buildings
 - Financial regulators demanding climate-related disclosures (but are they creating the right incentives?)
 - In some (but not all) parts of the market, capital providers, borrowers and occupiers/end-users
 - In certain cases, physical climate risk
- Lenders' expertise is gradually catching up with their interest

Initial thoughts (Jan 2022) /2

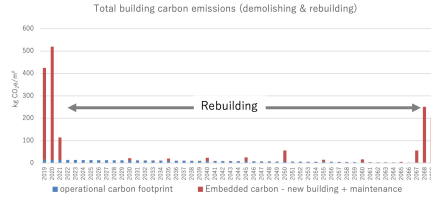
- Real estate is very **heterogeneous** (use, age of buildings); buildings have a **long life-cycle** with a lot of **embodied carbon**; and **separate ownership and occupation** can complicate the allocation of energy efficiency costs and benefits
- The big challenge is (financing) **retrofit of existing buildings**, but it's easier to lend against a building with a 'green' label:
 - ignoring the **embodied carbon** cost of the demolition behind the construction
 - Side-stepping the lack of **data and measurement standards** for assessing building performance and improvements holistically
 - responding to (current) **regulatory incentives** focused on climate risk and financed emissions, rather than **whole life carbon**

'Green', or just greener, buildings?



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement no. 785058

BEST IMPACT: REFURBISH & REUSE

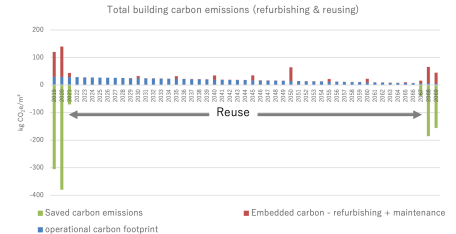


Rebuilding: approx. 1.000 kg CO₂e/m² (NGF)
operation (office): approx. 25-50 kg CO₂e/m² (NGF)

**Emissions from rebuilding equal
Emissions of 25-50 years in operation!**

Refurbish & Reuse:

60 – 80 % of embedded emissions reusable
→ equals emissions of 25-35 years!

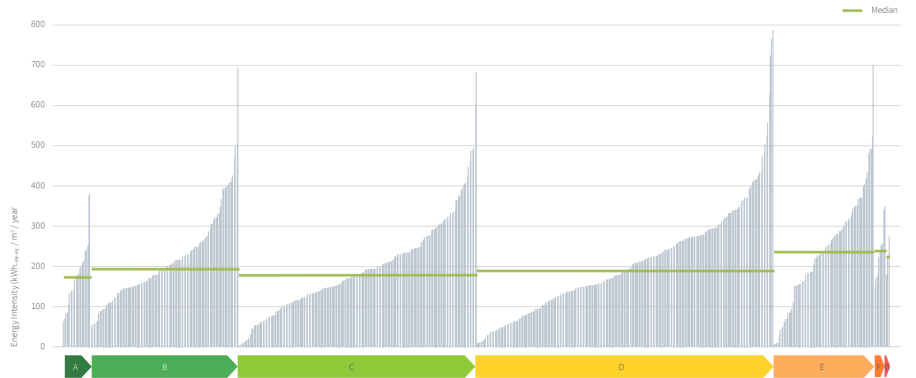


Initial thoughts (Jan 2022) /3

- Some real estate owners, investors and managers with sustainability expertise are driving best practice and innovation – lenders are learning from them
- But there is a **'long brown tail'** of real estate owners who don't know (and may not care) much about sustainability – **lenders can be a source of advice, as well as finance, for them** (e.g. Dutch bank apps, as outlined [here](#))
- Financing the green transition we need is **a huge opportunity for lenders** if investment goals and **regulatory incentives** align
 - Banks are the dominant source of credit in Europe, but are they well-suited to providing cap ex facilities to finance the retrofit of existing buildings? Don't forget other sources of credit

Pros and cons of policy levers

Chart 9: Office Energy Intensity (Electricity Equivalent) by EPC Rating 2019/20

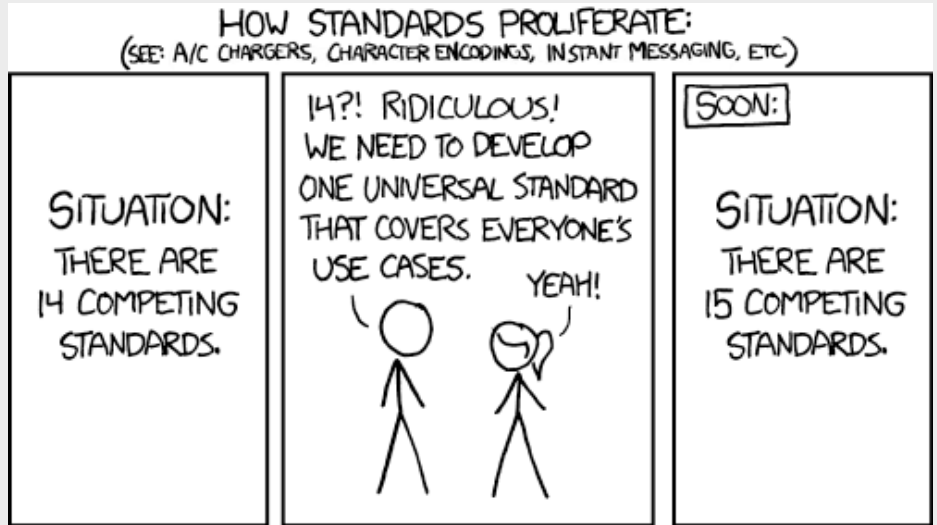


2019-20 UK Energy Performance Certificates (source: <https://www.betterbuildingspartnership.co.uk/>).

EE1st challenges and opportunities

- **Diversity of sources of credit:** Real estate is financed by a diverse range of lenders with different regulatory and investment drivers – it's mainly **loans not bonds**, and **it's not only banks**
- **Don't try to define 'green' real estate investments:** Many old and/or energy intensive buildings should be made **as efficient (and climate resilient) as economically possible**, not demolished
- **Policy is key, but beware unintended consequences:** Climate should be a 'normal' element of credit analysis, but financial regulatory incentives may not align (especially for banks)
- **Sustainability 'alphabet soup':** There needs to be **a single, generally-accepted standard** for defining and measuring energy efficiency across construction and renovation as well as the operation of buildings (and alongside other ESG factors)

How (not) to develop standards



Source: <https://xkcd.com/927/>

Context and background

Our towns and cities are made up of buildings that we use for residential or commercial purposes. These buildings account for a significant component of carbon emissions¹, and thus offer obvious scope for emissions reductions. However, buildings are long-term, capital intensive assets, whose construction, management and performance are affected by, and affect, many different stakeholders. The different stages in a building's life-cycle (construction, operation, refurbishment, demolition) have quite different energy and carbon implications, raising complex questions about how to balance embodied and operating carbon.

An added complication in decision-making about buildings is the fact that the numerous and diverse group of people who own and manage them are often different from those (even more diverse and numerous) occupy and use them, with the relationship between owners and occupiers typically regulated under long-term lease contracts. The common focus of EPCs on building specification (rather than in-use performance) fails to incentivise owners and occupiers to work together to achieve better outcomes. Instead, owners and occupiers have little reason to share data, misaligned interests (with the costs and benefits unevenly distributed between them) and a contractual and legal framework that does not facilitate finding solutions.

It is common for the construction and acquisition of a building to be funded partly by secured debt, which is generally lower risk than equity capital, and comes at a lower (and capped) cost. Like commercial leases, commercial mortgage loan agreements normally regulate the lender/borrower relationship for several years. An important aspect of the real estate debt market is that a small number of lenders can reach a very large number of property-owning borrowers.

Over recent years, there has been a big increase in awareness and interest among real estate lenders regarding decarbonisation (including energy efficiency) as a key aspect of the wider ESG agenda. The lender's influence is of course limited when it comes to how buildings are developed, operated and improved: the owner of the building is in control of all that, while how the building is actually used depends on the occupiers. However, lenders account for a substantial proportion of the overall capital invested in real estate; given that climate-related obsolescence risk can affect them too, they should regard themselves (and be regarded) as key stakeholders in the decarbonisation transition. Importantly, lenders can provide a unique combination of advice and finance to the many building owners who are not experts on sustainability, acting as the catalyst for decarbonising our built environment.²

In this paper, the "Recommendations for Lenders" section sets out practical advice from sustainability leaders in the real estate lending space for strategies and transactions with a view to decarbonising buildings. The "Policy Recommendations" section suggests ways policymakers can help the market deliver energy efficiency and decarbonisation in the built environment.³ It's worth emphasising the role of regulation and clarity about its future trajectory. Real estate is a long-term sector, but for most investors, lenders and assets, and in most respects, it is not so long-term that the direct physical risks of future climate change are decisive; regulation and other transitional risks matter much more.

¹ As noted in the opening paragraph of section 4.4 (Buildings) of the [Annex to the Commission Recommendation on Energy Efficiency First](#) (of 28 September 2021, C(2021)7014 final).

² *The use of tools like [CFP Green Buildings](#) by banks in the Netherlands and, more recently, in other countries, is a good example of what is possible.*

³ Our focus is on the financing of buildings that are constructed, owned and operated commercially. While that includes residential property, we do not cover retail mortgages relating to home sales to the public.

Recommendations for Lenders

1. General policy/approach

To build a sustainable lending business focused on low carbon construction/retrofit:

- Establish a suitable standard, with appropriate benchmarks/baselines in the relevant market, measure to that standard, with appropriate third party validation.
- Focus on data collection and the systems and processes that can facilitate that in a simple and standardised way, and the assessment, analysis and reporting of data and outcomes.
- Consider real estate lending against overall ESG strategy, including net zero pathways, so as to unlock better understanding of climate risk and the ability to offer better terms for the right loans.
- Work collaboratively, through industry associations as well as with clients, professional advisers and other transaction parties and market participants, to build market recognition of and support for useful standards and practices (perhaps with an initial focus on borrowers, valuers, architects, contractors, brokers, intermediaries and advisers who are already sustainability-oriented).
- Where they are available, take advantage of special programmes offered by organisations such as the EIB or EBRD to support sustainable finance.
- Aim for a comprehensive approach to ESG that incorporates not only energy efficiency aspects of sustainability but also water and waste, circular economy, and wider considerations such as biodiversity, health and wellbeing.
- Publicise successes by promoting case studies, and where possible share data, evidence and standards in a way that allows review and adoption by others.⁴

2. Underwriting / Early Stage Decision Making

Early consideration of the ESG risks of an asset/transaction should be a key pillar in risk evaluation and screening (alongside market risk, counterparty risk, etc.). ESG risk spans legal, regulatory and future collateral value considerations. While energy efficiency is only one aspect of ESG risk, it is an important aspect of green transition and relatively easily measured and monitored.

To filter out insufficiently sustainable transactions while also signalling interest in sustainability and energy efficiency and assessing likely attitude of borrower and relevant data availability:

- Consider rejecting an opportunity if the asset does not meet current energy efficiency requirements (where applicable), unless the borrower is seeking finance to address that problem.⁵
- Consider rejecting an opportunity if the asset merely meets current legal requirements but the borrower has no credible strategy or intention for, nor interest in, improving it during the life of the loan.⁶

⁴ Competition law compliance concerns may inhibit collaboration/ sharing despite clear benefits.

⁵ Such requirements have been a powerful influence on the market in the Netherlands and the UK.

⁶ Legal requirements (current and expected) will likely evolve during the life of the loan, so a building that is merely compliant today may be impossible to refinance in a few years' time without significant cap ex.

- Consider rejecting an opportunity if the borrower is unable to provide an up-to-date EPC (where one is required) and/or at least some actual energy use data (a reasonable minimum would be data relating to energy procured and controlled by the borrower).
- Consider challenging the whole life / embodied carbon behind a new, 'green'-certified building (should a pre-existing building have been refurbished rather than demolished?).⁷
- Ideally, do not refuse to lend against a 'brown' building if the borrower does have a credible strategy, intention or desire to improve it (brown-to-green strategies are key to decarbonisation).
- Establish at an early stage the borrower's own sustainability targets/aspirations and measurement framework (e.g. EPC upgrade, RIBA Climate Challenge targets, BREEAM, *Passivhaus*).

3. Commercial Terms Agreed / Financial Incentives

- Ask valuers to reflect energy performance and other ESG factors when providing their advice. This is a difficult area, however, whether in terms of market value or mortgage lending value, or for emerging concepts such as "prudently conservative" value⁸. The valuation profession will need more time and data to advise on the value implications of the energy efficiency of buildings.
- Consider the whole life carbon impact of proposed measures and ask about supply chains for equipment and materials.⁹
- Explore borrower appetite for agreeing margin ratchet (discount or increase) and other financial levers (e.g., performance-linked exit fees) to incentivise verifiable improvements to the building during the life of the loan. Is there an overlap between the level of incentive that makes economic sense for the lender and the level of incentive required to make investing in improvements attractive to the borrower? Improvements should be verified and validated through approved third party accreditation before being rewarded.
- In calculating transaction cash flows and setting financial covenants, give credit where possible for savings expected to result from energy efficiency and similar initiatives.
- Seek borrower agreement for emissions/energy related data, certifications and information to be reported, monitored and verified/audited throughout the life of the loan.¹⁰
- Alongside actual energy data, using internationally recognised certifications and credentials can be a helpful mechanism for assessing progress during the life of a loan.
- If using special programmes offered by international financial institutions to support sustainable financing, aim to maximise the benefit passed on to borrowers.

⁷ It should be for building regulations to prioritise refurbishment over demolition and new build, but until they do, such lender challenge could play a role.

⁸ The "prudently conservative" valuation concept in Basel III finalisation (see [here](#), para 20.75) appears likely to be incorporated into the EU's CRR framework.

⁹ This question highlights the need for an integrated approach to ESG: it is not sustainable to focus solely on energy efficiency at the expense of broader environmental, social or governance considerations.

¹⁰ Ideally, such ESG-related reporting should form an element of industry standard commercial terms (rather than needing to be negotiated deal by deal) and it should cover embodied as well as operational carbon.

4. Credit/Investment Committee Approvals

- Sustainability / energy efficiency elements should be 'add-ons' to existing practices and processes, not a deviation from them (all the usual credit/investment considerations remain relevant).
- Sustainability / energy efficiency elements and their potential impacts on risk and returns should be clearly presented under a specific ESG risk section in the template materials for and structure of credit and investment committee proceedings.
- Consider bringing specialist sustainability expertise onto the membership of credit/investment committees so that consideration of ESG matters is appropriately informed and rigorous.
- Assess creditworthiness on a comparative basis (having regard to preferential terms for financing energy efficiency goals and terms of a regular loan)
- Consider valuation information comparing buildings with and without energy efficiency enhancements in the market (including, to the extent possible, on a forward-looking basis over the life of the loan)
- Assess the cash flow impact for the borrower of energy efficiency enhancements (lower energy consumption costs, any associated investment/financing costs)
- Assess the impact of credit risk mitigation on mortgage loans scoring systems.

5. Due Diligence

Climate risk should be seen as a central element of due diligence, and third-party specialist advisers should be appointed to assess risks and opportunities for improvement.

- Consider using carbon auditors to establish baseline performance and advise on potential pathways to improved performance.
- A comprehensive list of data points, documentation and evidence should be agreed between the parties, and approved by any relevant specialist third party advisers / accreditation providers as appropriate and adequate for the proposed asset/works.
- Ask about EPC and other ratings and certifications (including operational energy certificates and third-party sustainability ratings), and whether the asset is included within the scope of a certified energy or environmental management system (**EMS**).
- Ask about extent of use of green leases.
- Ask about data availability regarding energy use by tenants/occupiers, and about the granularity of energy use data generally (e.g. sub-meters for major plant, half-hourly metering, etc.).
- Ask about any on-site renewables or low carbon technology.
- Ask about emissions, energy, climate and ESG policies, commitments and strategy, including use of [CRREM](#) pathways, participation in [GRESB](#), etc.
- Explore, confirm and validate all sustainability related factors that affect building performance, borrower strategy, deliverability of objectives, availability of relevant data, etc.

6. Transaction Documentation

- Ensure the documentation contains everything required to reflect agreements reached (data reporting, representations and covenants relating to borrower actions, outcomes to be achieved, etc., including certifications, calculations and timeframes for meeting, and confirming satisfaction of, agreed sustainability / energy efficiency objectives).
- Use loan documentation to seek maximum transparency in the provision of energy performance data via reporting obligations, encouraging the borrower to capture and monitor such data, including from occupiers to the degree possible.
- Consider seeking borrower commitment to a ‘charter’ of agreed behaviours and practices to drive improving sustainability (via energy efficiency, but also ESG and business culture more broadly).

7. Monitoring / Asset Management

- Use all the rights embedded in the documentation to monitor performance, achievements, strategy execution, etc. – ongoing monitoring and scoring of sustainability-related progress should be undertaken (as would be normal for a regular construction project).
- Comprehensive and regular information about actual energy use should be a monitored goal, if not immediately achievable, with available data collected and reviewed. Where actual data is limited, consider carbon re-auditing to help identify opportunities for energy efficiency improvements.
- Consider embodied carbon and circular economy readiness, as well as operating carbon impact, in the context of development, refurbishment and retrofit interventions.
- Seek and use opportunities to collect feedback from the borrower and other transaction parties (including occupiers, if possible) to identify potential learnings for the future.
- Consider preparing and tracking performance against KPIs for the mortgage portfolio and (home) renovation loans by reference to EPC ratings.¹¹
- Consider using a smart tool like [CFP Green Buildings](#) to identify, recommend and finance potential retrofit interventions that should reduce energy use and improve the building’s sustainability on a cost effective basis (this can be used in addition to whatever is agreed in loan documentation).
- Monitor the evolving regulatory environment and market sentiment, as these are dynamic risk factors that may affect asset value and stranding risk during the life of a loan and for refinancing.

8. Refinancing / Exit

- To the extent the nature of the transaction allows, collect information regarding premiums that purchasers / tenants are willing to pay for assets with stronger sustainability / energy efficiency characteristics, as this can form an important part of the evidence base for future transactions.¹²

¹¹ This suggestion links to the EBA’s advice to the Commission on KPIs and disclosure methodology for credit institutions and investment firms under the NFRD, which we understand included the recommendation that such exposures can be assessed according to the Taxonomy Regulation based on the energy performance of the underlying asset. We do not comment on the merits of that recommendation.

¹² That evidence base may be further enhanced by data showing negative impact on sale prices or rent levels where assets are perceived to fall short of desirable sustainability / energy efficiency standards.

- Historically, it has been common for real estate investors to under-invest in the maintenance and upkeep of their assets (which by their nature depreciate over time). Transitional climate risk materially increases the risks associated with such under-investment. Lenders should be prepared for the possibility that a building that seemed fine when a loan was made requires significant cap ex to meet now current market expectations or regulatory requirements – the lender may need to partner with the borrower in a way that does not come naturally, to protect its own position.

Policy Recommendations

- Improve data availability regarding energy use by requiring building occupiers to share data with building owners/managers in accessible formats – that way, building owners and their lenders can make decisions (as well as making their own disclosures) based on actual data rather than on proxy, modelled or estimated data. Whether in conjunction with such a measure or not, it would also be helpful if building owners/managers were required to capture and record energy performance data (for common parts, for which they are responsible, plus for areas for which occupiers are responsible to the extent available), so that it might be shared with lenders.
- Improve data availability and market incentives by promoting public performance-based ratings of buildings (the Australian [NABERS](#) scheme, now being rolled out [in the UK](#), is a good example), as well as emerging industry standards for assessing climate risk (e.g. [CRREM](#)).
- EPC data should be routinely publicly accessible in a useful format, allowing aggregation, analysis and tracking of changes over time. Capturing the cost and impact of specific retrofit interventions and equipment in a publicly accessible database could be especially valuable in driving broader awareness and adoption of measures to promote energy efficiency.
- Ensure that legislation, regulation and disclosure frameworks affecting banks, fund managers and others, positively incentivise brown-to-green transition (including through energy efficiency improvements). This is a relatively risky form of investment/lending, so if firms do not feel encouraged to engage in it by their regulators, many may opt to deploy their capital elsewhere.
- Competition law should not stand as a barrier to cooperation among competitors to drive the adoption of market standards for sustainable investment and finance.¹³
- A higher price for carbon and/or reduced scope for use of carbon offsets would help focus attention on reducing demand and improving efficiency, thus bringing actual emissions down.
- Raise the bar through regulation, making the simplest sustainability and energy efficiency improvements standard, and taking account of circular economy considerations and whole life carbon (rather than focusing solely on operating carbon).
- Ultimately, policymakers may need to be prepared to explore how public schemes/funds might most appropriately and efficiently be used to support the improvement of buildings that cannot cost-effectively be retrofitted to a zero or low carbon status. However, this should be a last resort – the primary focus should be on promoting market acceptance and adoption of data, measurement and performance standards, supported by regulatory clarity.

¹³ See for example [this recent story](#) in the Financial Times; we note the encouraging reactions reported [here](#).



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