

Open letter on the Energy Performance of Buildings Directive

As the CEO of the Institutional Investors Group on Climate Change (IIGCC), I am writing to emphasise our strong support for an ambitious position from the European Parliament on the reform of the EU Energy Performance of Buildings Directive (EPBD). This letter builds upon our letters sent earlier this year to [Member States](#) and the [Commission](#) on the wider Fit for 55 package.

Investors will be critical for meeting the objectives of the recast EPBD¹ and want to see ambitious EU policies drive significant improvements. The recast EPBD must send strong signals to accelerate private sector investment in buildings' energy efficiency, finance deep retrofits, and support the acceleration of transition finance flows in line with the EU's sustainable finance agenda.

Rapidly improving the energy performance of the EU's building stock is vital to achieve the EU's climate goals and energy security objectives. In addition to cutting emissions, retrofitting will reduce reliance on energy imports and the cost of energy price guarantees. It is also a positive stimulator of growth.²

To provide certainty for investors, in recasting the EPBD the European Parliament should take a robust approach to minimum energy performance standards (MEPS). MEPS are a vital component of the EPBD that must be maintained for both residential and commercial buildings. They should focus specifically on the worst performing buildings across Europe where the most significant improvements can be made, rather than just considering the average energy performance of national building stock as proposed by the Council. MEPS motivate building owners to plan renovations in advance with the knowledge that a building must meet a certain standard before a building can be sold or rented with a new lease. Ambitious MEPS will also help lower investment risk in the renovation supply chain, supporting this important sector.

Regulations are most effective when they align with the climate metrics used by investors, ensuring that investors can allocate capital efficiently. Investors increasingly use the EU funded and science-based Carbon Risk Real Estate Monitor ([CRREM](#)) tool, which is the recommended methodology in IIGCC's [Net Zero Investment Framework](#) for assessing the net zero alignment of real estate portfolios. Alignment could be further strengthened by harmonising Energy Performance Certificates (EPCs) across Member States, and the development of Building Passports. A more uniform system would assist understanding, comparison and inward investment across the EU. Looking forward, integrating **MEPS, harmonised EPCs and the CRREM emissions reduction curves into the EU Taxonomy's technical screening criteria for**

¹ 35% of all European commercial property (over €2.7 trillion) is held as an investment. Energy efficient buildings mean lower financing and operational costs, higher rental yields, and reduced stranded asset risk.

Source: <https://www.inrev.org/system/files/2021-04/INREV-EPRA-Real-Estate-Real-Economy-2020-Report.pdf>

² For every €1 million invested in buildings energy renovation, an average of 18 local, long-term jobs are created.

Source: <https://www.renovate-europe.eu/2020/06/10/building-renovation-a-kick-starter-for-the-eu-economy/>

construction and real estate activities for climate mitigation would help to uphold the Taxonomy's scientific credibility and reorient capital in line with net zero.

Improving residential buildings is challenging but achievable. An EU-backed European Renovation Loan (ERL) could play key role: distributed by mortgage lenders, ERLs could cost-effectively unlock home-equity for deep renovation.³ More energy efficient homes are lower risk for banks, which should be reflected in bank capital cost and mortgage regulations.⁴ These measures should be combined with mortgage portfolio standards (MPS) to align lenders with energy security and climate goals.⁵

Specifically, **Article 15 of the EPBD should require Member States to mandate MPS to manage transition risk in real estate mortgage lending and within mortgage portfolios.** Greener portfolios that adhere to MPS should be able to align with the EU Taxonomy and other EU financial regulation. This would accelerate banks' active engagement in buildings renovation and align with investor expectations for banks.⁶ It would also make associated mortgage-backed securities and covered bonds more attractive to investors, supporting net zero aligned capital flows.

Accurate data and information flows would also support climate-friendly capital allocation decisions. Tenant energy data collection and quality are key challenges for the real estate sector. Granular, actual data is preferred over modelled or benchmark/proxy data. Investors would welcome EU guidance to Member States that as part of the smart meter roll-out, tenants should be encouraged or even required to share energy use data with their building owners, while appropriately addressing data privacy issues.

IIGCC is deeply committed to supporting the EU in its climate ambitions, in order to ensure that the physical and transition risks posed by climate change are mitigated, and that the economic and financial opportunities offered by new technologies and business models are fully exploited. The EPBD must send the strongest possible signals to support these objectives.

Yours sincerely on behalf of IIGCC,

Stephanie Pfeifer

IIGCC CEO

Contact: spfeifer@iigcc.org

Disclaimer: This letter was developed in collaboration with a number of IIGCC members but does not necessarily represent the views of the entire membership, either individually or collectively.

About the Institutional Investors Group on Climate Change (IIGCC)

IIGCC is the leading European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 375 members

³ www.climatestrategy.es/press/EURenovationLoanSummApr2022

⁴ https://eefig.ec.europa.eu/news/new-report-final-report-risk-assessment-2022-05-09_en

⁵ www.energymonitor.ai/tech/built-environment/how-mortgage-portfolio-standards-could-heat-up-building-renovation

⁶ <https://www.iigcc.org/resource/investor-expectations-for-the-banking-sector/>



The Institutional Investors
Group on Climate Change

across 24 countries, representing over €60 trillion in assets under management. We play a leading role in a number of net zero alliances and corporate engagement initiatives, including the Paris Aligned Investment Initiative, Net Zero Asset Managers Initiative, and Climate Action 100+.

**Institutional Investors Group
on Climate Change Ltd.**
Co Registration Number: 7921860

Postal Address:
IIGCC Ltd
Pennine Place, 2a Charing Cross Road
London WC2H 0HF, United Kingdom

Registered Address:
IIGCC Ltd
Pennine Place, 2a Charing Cross Road
London WC2H 0HF, United Kingdom

E info@iigcc.org
W iigcc.org