

Results of the vdp survey on data availability/measurability of the TEG screening criteria for ecologically sustainable activities in the building sector

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Table Of Contents

1. Background.....	1
2. Objective.....	2
3. Survey results – Executive summary	2
4. Survey results in detail	3
Construction of new buildings (from 01/01/2021)	3
Building renovations.....	3
Acquisition and ownership (of existing properties)	4
Do no significant harm (DNSH) criteria	5

1. Background

The Technical Expert Group on Sustainable Finance (TEG) appointed by the EU Commission published its proposals on technical screening criteria in March 2020. The criteria specify which economic activities are considered ecologically sustainable in the sense of the EU Taxonomy Regulation.

The screening criteria for ecologically sustainable activities in the building sector are of particular interest to Pfandbrief banks active in real estate financing. The TEG has defined four ecologically sustainable economic activities here for

1. construction of new buildings,
2. building renovations,
3. individual measures and professional services (excluded due to lack of relevance for vdp member institutions in relation to the survey) and
4. acquisition and ownership (of existing properties)

In addition, sustainable economic activities should not have significant negative impacts (“do no significant harm” (DNSH)) on the other ecological targets defined. The DNSH criteria are also specified in the TEG recommendations.

In order to get a better overview of current data availability, data collection and therefore achievability of the TEG criteria, the Association’s office has conducted a survey of the TEG requirements among real estate valuers from eight member institutions represented in the “vdp working group to record sustainable/energy-related building characteristics” (AG ErneG). Seven of the eight institution representatives took part in the survey. The main findings of the survey are summarised below.

2. Objective

The aim is to

- obtain an overview of the current status of data collection by the vdp member institutions represented in the AG ErneG,
- identify problems with data availability, data collection and data evaluation,
- assess the achievability of the TEG criteria based on this and
- formulate corresponding solutions/improvement proposals.

The results of the survey will also be made accessible to interested third parties and used for discussions with relevant stakeholders.

3. Survey results – Executive summary

A number of the technical screening criteria proposed by the TEG for ecologically sustainable activities in the building sector cannot be readily illustrated in the view of the survey participants and are therefore not currently recorded in the assessment/financing process.

The main problem is and remains the lack of data availability at a national and European level. Thus, information on the energy performance of the national/international residential and non-residential building stock, and therefore valid threshold values for the assignment of Acquisition and ownership (of existing properties) to the top 15% of the national building stock in relation to the primary energy demand, are not centrally recorded or retrievable.

National/international, central recording and provision of (harmonised) energy performance certificates (EPC) in a public register, as is desired according to the survey participants, is currently still not expected.

The primary energy demand should be at least 20% below the national NZEB standard in construction of new buildings. This seems to be achievable, at least for the residential property sector, if KfW subsidies are used. KfW funds play hardly any role in the commercial real estate sector and this raises the question as to what incentive building owners have to voluntarily exceed the legal minimum standards.

The surveyed institutions generally do not have the required evidence for “dedicated energy management systems” for larger existing properties. The main question here is what “suitable” means and how institutions can obtain the relevant information about these systems that are often installed by the tenant.

Some of the so-called do no significant harm (DNSH) criteria, e.g. no development in protected areas, elimination of ground contamination, seem to be achievable by complying with existing legal regulations. Other DNSH criteria, such as the provision of evidence that excessive water consumption due to inefficient water appliances/fittings is avoided and that installed fittings belong to the top 2 classes of the EU Water Label, cannot be fulfilled due to lack of corresponding national policies/legislation; nor can evidence be provided on the use of largely sustainable/recycled wood in new buildings. The quotas for the recycling of demolition waste go beyond existing legal requirements and would therefore also be difficult to achieve or prove.

4. Survey results in detail

<p><u>Construction of new buildings (from 01/01/2021): Net primary energy demand at least 20% below national NZEB standard</u></p>	<p>Recording</p> <ul style="list-style-type: none"> - All surveyed institutions already record corresponding data (final energy demand, if available primary energy demand, date of issue, type of use) from EPCs (if they are available) or they plan to record this. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - In the case of developments, there are still no EPCs available at the beginning of construction; instead, energy demand is calculated later during construction. If the property has been completed, an EPC generally must be prepared. What data is relevant if the characteristic values differ between the energy demand calculations and the EPC? - Heterogeneous NZEB definitions (Europe-wide) and EPCs (national/Europe-wide) - Inconsistent control parameters (e.g. primary energy demand vs. final energy consumption) - No central, public register for EPCs in Germany - Data is not provided by the customer <p>Can the criterion be fulfilled in residential real estate (RRE) and commercial real estate (CRE)?</p> <ul style="list-style-type: none"> - RRE: Probably largely fulfilled when funding is used (KfW). Otherwise, incentives to exceed the NZEB standards are lacking. - CRE: Largely not fulfilled, since there is hardly any KfW funding in the CRE sector: Incentive problem: Why should developers voluntarily aim for 20% below the NZEB standards? <p>Improvement proposals</p> <ul style="list-style-type: none"> - Europe-wide harmonisation of NZEB definitions and energy certificates and mandatory digital recording of the latter in a publicly accessible register. - Standardisation of the control parameters - Provide incentives to exceed NZEB variables
<p><u>Building renovations: “Major renovation” in the sense of the Energy Performance of Building Directive (EPBD) or reduction of net primary energy demand of at least 30% in comparison to the baseline energy performance of the building before renovation</u></p>	<p>Recording</p> <ul style="list-style-type: none"> - None of the surveyed institutions records the corresponding data at present, but recording is planned at most of the institutions. <p>Notes / problems identified in relation to recording:</p> <ul style="list-style-type: none"> - Heterogeneous EPCs (national / Europe-wide) - Inconsistent control parameters (e.g. primary energy demand vs. final energy consumption) - No central, public register for EPCs in Germany - There are no initial values (EPC before refurbishment) available.

	<p>Can the criterion be fulfilled in residential real estate (RRE) and commercial real estate (CRE)?</p> <ul style="list-style-type: none"> - RRE/CRE: Savings target should largely be possible to fulfil, in particular in the case of older properties; achievement and implementability is consistently more positively assessed than in the case of new buildings criteria. <p>Improvement proposals</p> <ul style="list-style-type: none"> - Europe-wide harmonisation of energy certificates and mandatory digital recording of these in a publicly accessible register.
<p><u>Acquisition and ownership (of existing properties)</u> – Buildings built before 2021 (otherwise = new buildings): Top 15% of the national property stock in relation to the primary energy demand during the entire period of use of the property.</p>	<p>Recording</p> <ul style="list-style-type: none"> - The majority of the surveyed institutions record the primary energy demand in new business; allocation to the top 15% is to some extent attempted with the help of external service providers. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - Insufficient data basis (national building stock is not adequately recorded) -> valid threshold values not available. - 15% is a fluctuating criterion which changes continuously -> impractical. - Differentiation between different commercial property types would be necessary when recording data, not only residential and non-residential, as specified in the TEG explanations. <p>Improvement proposals</p> <ul style="list-style-type: none"> - Criterion not very practical due to lack of data, instability and unclear regulations. Orientation towards fixed variables (e.g. consistent energy efficiency classes, threshold values) would be preferred. A central registry, which specifies the reference values in a generally binding manner, is required to validly derive and specify generally binding threshold values.
<p>Additional requirement for large (> 1000 m² area) non-residential buildings irrespective of the year constructed: Efficient building operations must be ensured through <u>dedicated energy management</u>.</p>	<p>Recording</p> <ul style="list-style-type: none"> - The majority of the surveyed institutions do not record the criterion. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - What does “suitable” mean? - Who provides the data and documents suitability? - Tenants rather than owners tend to be responsible, making it difficult for financing banks to obtain information. <p>Improvement proposals</p> <ul style="list-style-type: none"> - Specification of the requirements for such a system

<u>Do no significant harm (DNSH) criteria</u>	
<p>Potential harm: Excessive water consumption due to inefficient water appliances/fittings</p> <p>Construction of new buildings: Appliances must be in the top 2 classes of the EU Water Label</p> <p>Building renovation: All NEWLY installed appliances must conform to top 2 classes of the EU Water Label</p>	<p>Recording</p> <ul style="list-style-type: none"> - None of the surveyed institutions records the criterion. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - In Germany there is no legal labelling requirement for sanitary installations based on the EU Water Label, therefore no corresponding data is available. - A TDD to be presented by the customer would be required for each assessment, containing corresponding evidence (unrealistic). - Verification of individual appliances/fittings not practical. - Not a bank/financing topic, solve using manufacturer specifications. <p>Can the criterion be fulfilled in residential real estate (RRE) and commercial real estate (CRE)?</p> <ul style="list-style-type: none"> - Due to a lack of corresponding data being recorded, no valid statement can be made about the likelihood of meeting the requirements in the CRE/RRE sector. <p>Improvement proposals</p> <ul style="list-style-type: none"> - Legal requirements must be addressed by manufacturers/the trade. - A corresponding requirement could be standardised by law as a construction standard. - If necessary, on-the-spot checking of compliance with the criterion could be carried out via the project monitor (for CRE).
<p>Potential harm: Landfill and/or incineration of construction and demolition waste that could be otherwise recycled/reused.</p> <p>Construction of new buildings: At least 80% (by weight) of the accumulated construction and demolition waste must be recycled or prepared for reuse</p> <p>Building renovation: See construction of new buildings</p>	<p>Recording</p> <ul style="list-style-type: none"> - One of the surveyed institutions has included the criterion in the record sheet for new business (although there are also significant doubts that it is regularly completed). All other surveyed institutions do not record it and do not plan to do so either. <p>Can the criterion be fulfilled in residential real estate (RRE) and commercial real estate (CRE)?</p> <ul style="list-style-type: none"> - Due to a lack of corresponding data being recorded, no valid statement can be made about the likelihood of meeting the requirements in the CRE/RRE sector. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - According to the EU Construction and Demolition Waste Management Protocol, the aim is to recycle at least 70%: Market participants are unlikely to meet requirements beyond this. Verification and documentation (who? how? what?) for buildings very difficult - If applicable, a complete building catalogue should be available for each building with all construction materials used. Who documents modifications to the building, who creates the building

	<p>catalogue, who stores the data? The owner/the building authority?</p> <p>Improvement proposals</p> <ul style="list-style-type: none"> - A corresponding declaration, which the borrower has obtained from their subcontractors, should be sufficient. - If necessary, on-the-spot checking of compliance with the criterion could be carried out via the project monitor (for CRE).
<p>Potential harm: Presence of asbestos and/or substances of very high concern in the building materials. or, in the case of Building renovation: Unprotected handling of building components, construction and demolition waste that is likely to contain substances of concern (e.g. asbestos)</p> <p>Construction of new buildings, Acquisition and ownership (of existing properties): If the new buildings/the property is/are located on a potentially contaminated site (brownfield site), the site must be subject to an investigation for potential contaminants.</p> <p>Construction of new buildings, Building renovation: It is ensured that building components and materials do not contain asbestos or substances of very high concern (as identified on the basis of the "Authorisation List" of the REACH Regulation).</p> <p>Construction of new buildings, Building renovation: Mobile machinery/equipment used on the construction site must comply with the requirements of the Machinery Directive.</p> <p>Building renovation: Before the renovation work begins, a building survey must be carried out in accordance with national legislation by</p>	<p>Recording</p> <ul style="list-style-type: none"> - The contamination risk is recorded as part of the expert's opinion. The other points may possibly be covered by complying with the applicable legislation (construction law) and are not recorded separately by the surveyed institutions. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - Lack of a clear definition of which hazardous substances are meant by "Authorisation List" of the REACH Regulation¹ - What is meant by "historically encumbered" properties (with encapsulated soil contaminants)? Are they generally not taxonomy compliant? - A number of the surveyed institutions indicate that the recording of any contamination/risks is only carried out in the text part and the criterion cannot therefore be evaluated in the system at present.

¹ Reference is made to the hazardous substances according to EU Regulation (EC) No. 1907/2006 in the TEG recommendations.

<p>a competent specialist to identify any contaminants.</p> <p>Building renovation: Removal of hazardous construction materials must be carried out by trained personnel and comply with national legislation.</p>	
<p>Potential harm: Inappropriate building location, e.g. in protected natural area, area with high biodiversity</p> <p>Construction of new buildings/Acquisition and ownership (of existing properties): may not be built on protected natural areas, such as e.g. Natura 2000, UNESCO World Heritage.</p>	<p>Recording</p> <ul style="list-style-type: none"> - None of the surveyed institutions records the criterion explicitly (but it is not necessary when construction law is respected). <p>Can the criterion be fulfilled in residential real estate (RRE) and commercial real estate (CRE)?</p> <ul style="list-style-type: none"> - Should always be possible by complying with national construction law (granting of a building permit).
<p>Potential harm: Indirect damage to forest ecosystems due to the use of timber products originating from forests that are not sustainably managed (only in the case of large buildings).</p> <p>Construction of new buildings: At least 80% of all timber products used must have been either recycled/reused or sourced from sustainably managed forests.</p> <p>Building renovation: If the renovation project covers more than 1000 m² of floor area: at least 80% of all timber products used in the renovation must have been either recycled/reused or sourced from sustainably managed forests.</p>	<p>Recording</p> <ul style="list-style-type: none"> - None of the surveyed institutions records the criterion; a suitable basis for the data is not known. <p>Can the criterion be fulfilled in residential real estate (RRE) and commercial real estate (CRE)?</p> <ul style="list-style-type: none"> - Due to a lack of corresponding data being recorded, no valid statement can be made about the likelihood of meeting the requirements in the CRE/RRE sector. <p>Notes / problems identified in relation to recording</p> <ul style="list-style-type: none"> - In Germany, there are no requirements for the use of sustainable timber, so the proof of meeting the TEG specification (80%) must be clarified or demonstrated individually, which is unrealistic. <p>Improvement proposals</p> <ul style="list-style-type: none"> - Legal requirements must be addressed by manufacturers/the trade.