Sino-German Urbanisation Partnership

Financing instruments for green buildings

CITIES AND INFRASTRUCTURE TRANSITION

Background

Limiting global warming to a maximum of 2 °C is essential if we are to preserve an environment worth living in and maintain prosperity and a functioning economic system. The investments needed to ensure that buildings are climate-neutral and energy-efficient far exceed public funding resources. Redirecting current financial flows is the only way to bring about a technological and infrastructural transformation that is geared towards the goal of achieving climate neutrality.

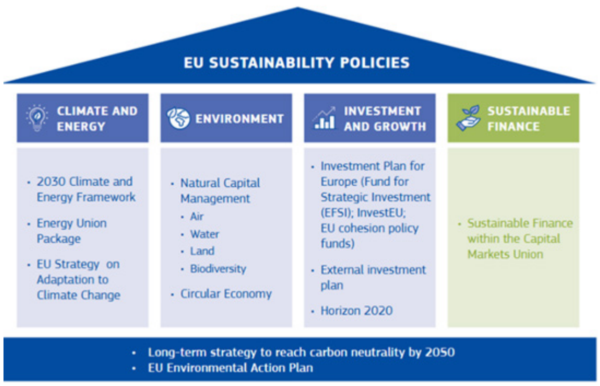
Policy Framework

In Europa und vor allem auch in Deutschland gibt es ein In Europe, and especially in Germany, there is significant political interest in actively advancing the development of a sustainable financial system. The creation of a policy framework to this effect should alter decision-making criteria and investment decisions based thereon. For this reason, the European Union (EU) is taking a pioneering role in green finance with its 2018 EU Action Plan: Financing Sustainable Growth, together with the Non-Financial Reporting Directive (NFRD) and the EU Energy Performance of Buildings Directive (EPBD).

EU Action Plan: Financing Sustainable Growth

The financial sector has a major influence on the development of a climate-neutral building stock by granting loans, issuing insurance policies, using buildings as collateral, developing property funds and making direct investments in the real estate sector.

The measures that are planned in the EU Action Plan: Financing Sustainable Growth – some of which have already been implemented – will alter and influence these financial products.



Source: European Commission

The Action Plan, which is to be replaced by the Sustainable Finance Strategy, focuses on three main substantive targets:

1. To reorient capital flows towards more sustainable investment
2. To manage financial risks stemming from climate change, environmental degradation, and social issues
3. To foster transparency and long-termism in financial and economic activity

Taxonomy

Three new pieces of legislation are to stimulate and steer private sector investments in sustainable business activities and projects:

- A uniform classification system for sustainable business activities – taxonomy
- Sustainability-focused disclosure requirements for financial market actors
- Climate benchmarks and benchmarks for environment, social and governance (ESG) criteria

By creating the EU taxonomy on sustainable finance (hereinafter, 'the taxonomy'), the European Commission wants to set generally binding definitions for a large number of business activities. The taxonomy is designed to make it quicker to determine when an investment in the EU can be classified as 'green' (climate-friendly or environmental). In terms of building requirements, energy indicators that are based mainly on the requirements of the Energy Performance of Buildings Directive (EPBD) will initially be documented and evaluated as a substitute for thresholds and readings. In the next steps, the plan is to widen the approach to include CO2 emissions during the operating phase and the building's life cycle

Energy Performance of Buildings Directive

The latest EPBD update provided further important impetus for redirecting financial flows. The long-term renovation strategies set out in Article 2a, paragraph 3 requires that EU member states develop financial mechanisms that mobilise investments in renovating buildings to make them more energy-efficient.

Financing instrument: Green bonds

Green bonds are the best-known and currently the most widespread financing instrument used to foster climate-friendly investments. The European Investment Bank (EIB) issued the first green bond in 2007.

Since then, the market for green bonds has experienced dramatic growth around the globe. In Germany alone, new bond issues increased by 144 per cent in 2019, to USD 18.7 billion. 2018 data shows that building-related green bonds took second place on the list in Germany, accounting for 37 per cent of the total use of proceeds .

Summary and outlook

Transitioning to a climate-neutral building stock by 2050 is extremely important from an energy and climate policy perspective, but also for economic reasons. Energy efficiency and a good climate footprint will become increasingly important factors in future in terms of influencing decisions about investments and financing. The effectiveness of the new policy framework is unlikely to become completely clear for a few years. In the property sector, time will tell how the current rules support the development of a market for energy-efficient and climate-friendly companies, and in particular, how the next steps relating to CO2 emissions and grey energy are shaped.

The goal should be for the new rules to serve as a catalyst for reaching building targets, for investment and financing practices to change and for existing financial products and initiatives to reap the rewards.

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