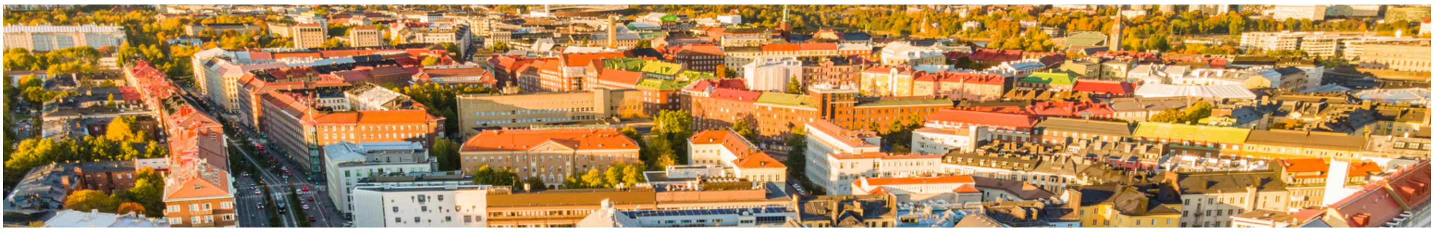
May 2024 | Highlights from the conference 'Engaging Retail Lenders in Home Renovations'



Key figures to remember

- Buildings are the single largest energy consumer in Europe. 40% of the energy consumed in the EU and 36% of energy-related greenhouse gas emissions come from buildings in Europe.
- Three quarters of buildings standing in Europe are considered energy-inefficient.
- As of 2022, 9.3% of Europeans suffered from energy poverty, not being able to heat their homes appropriately.
- Globally, fossil fuel subsidies outweigh investments in energy efficiency by a factor of 10, with investments in energy efficiency reaching around half a trillion euros globally in 2023.
- Investment of around 2 trillion euros is required for the renovation of European buildings by 2030, aligning with the investment needs outlined in the EU Renovation Wave Strategy and the European Green Deal.
- European residential buildings have a total worth of around 20 trillion euros, with approximately 7 trillion euros in mortgages, leaving 13 trillion euros in equity.
- Around 71% of people in Europe live in homes they own.
- 25 million (or 12%) of the 198 million homes in Europe are publicly owned.
- Institutional investors own around 3 trillion euros' worth of real estate in Europe, mainly in the commercial sector.
- Public support for energy efficiency and building renovation has increased, with funding in the current multiannual financial framework (2021-2027) multiplied by at least 3.5 compared to 2014-2020, according to Commission's estimates.

On 23 April, Renovate Europe and Climate Strategy & Partners convened financial and buildings stakeholders and policy makers in Brussels during this event to discuss the potential of private financing for accelerating building renovations following the launch of the new **European Energy Efficiency Financing Coalition**.

The Coalition's launch demonstrates the growing importance of energy efficiency at both EU and national levels. Under the Coalition, upcoming national hubs will facilitate discussions on energy efficiency initiatives.

It is clear that public funding alone will not be able to meet investment needs and while we need to prioritise the use of the available public resources towards the vulnerable, increasing private funding is fundamental.

Over the past decade, there has been a significant shift in the investment landscape towards climate-focused initiatives. **Banks and asset managers are committing to net-zero emissions**, with trillions of euros in assets under management aligning with these goals.

More and more financial institutions are using tools of initiatives such as the Partnership for Carbon Accounting Financials to measure their emissions, manage risks, address data gaps associated with their financial activities, and set climate targets and strategies to decarbonise their mortgage and commercial real estate portfolios.

There is also ever-growing recognition of the capacity of artificial intelligence and machine learning to identify poorly energy performing buildings needing renovation.

The Net Zero Banking Alliance (NZBA) is a group of banks (representing >40% of global banking assets) committed to align their lending and investment portfolios with 2050 net zero pathways. It recognises that banks can be integral in the decarbonisation of the built environment via improving the transparency of their real estate targets.

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Mortgage portfolios hold a significant share on EU bank balance sheets according to the European Banking Authority. Therefore, for banks, it is essential to manage and act upon climate-related risks found in their mortgage portfolios, for example for mortgages linked to low energy performance properties.

Found in the revised Energy Performance of Buildings Directive, **mortgage portfolio standards** is a tool to incentivise mortgage lenders to increase the energy performance of their building portfolios and ensure a level playing field. According to the latest Climate Strategy & Partners' report, **over a third of the top-30 European banks** (by assets) in Europe already have in place a form of voluntary mortgage portfolio standard, or equivalent.

Long-term guarantees backed by the EU could address homes with poor economics that want to renovate but lack savings or access to affordable financing products. This was echoed by Petr Hladík, Czech Republic's Minister of the Environment, through a video message. An EU Renovation Loan, for example, could be launched and supported by a European Green Guarantee to provide affordable financing for homeowners, ensuring their properties are safe, energy-efficient, and cost-effective in the long run.

Meeting the ambitions of the Energy Efficiency and the Energy Performance of Buildings Directives could be achieved by promoting the voluntary uptake of mortgage portfolio standards by financial institutions and through their offering of EU Renovation Loans supported by an EU guarantee.

We thank the event's moderators and speakers, who shared their invaluable insights and expertise, as well as our co-organiser **Climate Strategy & Partners** and media partner **FORESIGHT** for their support.

- Listen to the **podcast** recorded by FORESIGHT Climate & Energy on highlights of the event
- Read the **article** referencing the event published by the Sustainable Views service of the Financial Times

Experience of banks working to improve the sustainability of their mortgage portfolio

ING launched the Terra approach to measure and steer the most-intensive parts of its mortgage portfolio towards net zero by 2050. This approach relies on PCAF and the Carbon Risk Real Estate Monitor (CRREM) tool, covering over 90% of the CO_2 emissions of the bank's retail mortgage book. ING offers clients a 'sustainability discount' on mortgage rates if the renovation measures result in the property having an energy label 'A' or higher.

BNP Paribas, along with four other European banks (ING, Standard Chartered, BBVA, and Société Générale), signed the Katowice commitment in 2018 to align financing portfolios with Paris Agreement goals and develop open-source methodologies for climate alignment measurement. In 2023, the bank took part in a study to develop a machine learning model to predict the Energy Performance Certificates of French buildings as part of its efforts to overcome data gaps and to better measure the climate performance of its mortgage portfolio.

Deutsche Bank also uses tools like PCAF to predict Energy Performance Certificates (EPCs) when encountering data gaps. In addition, the bank is in favour of the introduction of financial instruments such as the EU Renovation Loan to assist clients to access finance to renovate their homes.

Mortgage portfolio standards in the revised Energy Performance of Buildings Directive

Published on 8 May 2024, the revised **Energy Performance of Buildings Directive (EPBD)** marks the completion of the Fit for 55 package, and calls for the voluntary uptake of financial institutions of the innovative Mortgage Portfolio Standards, defined as:

"Mechanisms incentivising mortgage lenders to establish a path to increase the median energy performance of the portfolio of buildings covered by their mortgages towards 2030 and 2050, and to encourage potential clients to improve the energy performance of their property in line with the Union's decarbonisation ambition and relevant energy targets in the area of energy consumption in buildings, relying on the criteria for determining environmentally sustainable economic activities set out in Article 3 of Regulation (EU) 2020/852."

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