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**To the European Commission**

**Comments on the Proposal for a Directive of the European Parliament and of the Council on the Energy Performance of Buildings (recast)**

**Highlights**

- Swedish banks generally support efforts to achieve energy efficiency and reduction of emissions from buildings and stand ready to further contribute to the financing of this transition.
- The proposal means that around 80% of buildings in Sweden will need renovations before 2050, by definition, 15% already before 2030, and then renovation needs continue in the same pace 2030-2050.
- Ensuring that all homeowners can live up to the new requirements will be challenging and will strike at already vulnerable groups in society.
- Renovations of some buildings are not cost-effective, thus posing risk that such buildings would lose their value and become stranded assets. This might result in negative spill-overs to the real estate collateral value and financial institutions.
- Simple, cost-efficient certification process, harmonization of EPCs across the EU and data transparency are crucial to achieve the EPBD policy goals.

**Introduction**

The Swedish Bankers' Association represents banks and financial institutions established in Sweden. Our aim is to contribute to a sound and efficient regulatory framework that facilitates for banks to help create economic wealth for customers and society.

The banking industry's role in climate change is to support its customers in the transition to sustainable solutions and to integrate climate-related risks and opportunities into the banks' operations and lending.

Swedish banks generally support efforts to achieve energy efficiency and reduction of emissions from buildings and thus also support the goal of the EPBD revision. We stand ready to further contribute to the financing of this transition. The current proposal is, however, far-reaching, retroactive and raises societal issues that governments and decision makers must solve, not least regarding how to ensure that all buildings – and homeowners – should live up to the new requirements.



### **Far-reaching consequences for individuals and society**

Despite Sweden's outstanding position in Europe with regards to the transformation from fossil fuels to renewables and low greenhouse gas emissions per household for heating, high level estimates indicate that only around 20% of the current housing stock in Sweden would qualify as zero emission buildings, according to the proposal's definition. This means that, by definition, around 80% of buildings will need renovations before 2050, 15% will require renovations already before 2030, and then renovation needs continue in the same pace 2030-2050.

Ensuring all homeowners can live up to the new requirements will be challenging and will strike at already vulnerable groups in society.

- Not all homeowners are in a financial position to be granted a loan for energy renovations. Even if there is a state guarantee, the borrower must pass a credit worthiness assessment.
- Even in cases where it is financially possible, not all individuals are in a position to practically manage a home renovation.
- Though there are still a few years until G and F-rated buildings must be renovated, the economic consequences will be immediately visible in the value of property, as home-owning and mortgage lending are long-term commitments. Some buildings may become unsellable.
- Statistics show that a disproportionate share of buildings with a lower EPC rating is located in the countryside. The value increase of a property would not in all cases outweigh the renovation cost.

### **The risk that certain buildings will lose value can have negative consequences for borrowers and lenders**

The proposals in the directive may have the effect that some of the buildings where renovations are not cost-effective risk becoming stranded assets as they lose their value. Companies or households that own or are exposed to such buildings can be hit hard when the value of the buildings falls sharply. If these companies or households are mortgaged, it will also have negative consequences for their lenders, such as banks or other investors. This may cause banks credit losses and it cannot be ruled out that the proposal in its current form may affect financial stability by deteriorating the banks' collateral that consist of real estate.

### **Life cycle emissions versus energy declaration**

The proposal lacks an analysis of the climate impact of new construction versus keeping old buildings, especially in cases where the only economic viable solution is to tear down and build anew. The European building stock is in many ways unique since many existing buildings are hundreds of years old. From an emissions life-cycle perspective, it would not make sense to demolish and reconstruct such property to comply with energy efficiency standards, where retrofitting is far more

desirable even from a strict carbon emissions perspective. With that in mind, a strictly scale based system should allow for exceptions and again focus on phasing out the most carbon intensive property heating. Furthermore, policymakers should also consider the capacity constraints in the construction industry for the necessary renovation work.

### **The proposed EPC classification has implications for the EU's green taxonomy and financial institutions**

The financial sector has an important role to play in allocating capital flows to low-carbon operations. The EU's green taxonomy is a tool designed to help investors identify and compare environmentally sustainable investments through a common classification system. For the EPC classification to be an appropriate standard to base the technical screening criteria under the taxonomy on, it is important that the EPC classification is uniformly defined in the EU. Moreover, relative thresholds (i.e. 15% worst) are skewing and not making "greenifying" financing effective if it does not adequately harmonize the scales in the EU. Effectively, the transition will be particularly costly in the Member States with already strict and ambitious building codes. A revised EPC classification should therefore be harmonised at EU-level, not relative to the current local building stock in each country, but based on fixed criteria related to climate zone, energy consumption and carbon emission.

### **Increased transparency in EPC-data is positive**

Measures in the proposal that facilitate the accessibility of building data and the exchange of information, such as the requirement that data is made available to third parties, e.g., banks, are crucial and will enable them to measure and disclose sustainability information.

### **A need for a simplified and cost-efficient certification process**

A simplified, self-assessment-based energy declaration should be developed to remedy the issue of low incentives to obtain EPC and small EPC coverage. The proposal significantly extends the obligation of having an EPC to buildings undergoing a major renovation, all public buildings, buildings offered for sale or rent or for which a rental contract is renewed. However, it should be noted that only a small part of buildings in Sweden has an EPC-classification today, approximately 20-30% of single-family houses. Classifying all buildings until 2025 will be challenging for homeowners and authorities. The costs of performing an energy declaration for single-family homeowners should be addressed, as it can be significant. In addition, properties expected to be rated below B have little incentive to perform an energy declaration.