Ms Kadri Simson
European Commissioner for Energy
European Commission

Brussels, 20 January 2021

Dear Commissioner,

Taking EU building renovation to tipping point by 2030

> "Decarbonization of the buildings sector is likely to be slow but steady. Its potential is limited in the short term, but full decarbonization can be achieved by 2050.
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> - The technologies required to decarbonize the buildings sector, such as better home insulation and heat pumps, are already widely available. However, long renovation turnaround times and the need for skilled labor would limit the pace of change. By 2030, buildings may only be able to reduce emissions by 30 percent.
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> - After 2030, decarbonizing the buildings sector would steadily continue while requiring more costly measures such as hydrogen and biomethane heating. Towards the end of the 2040s, the sector could achieve 95 percent decarbonization."
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> *Net-Zero Europe – Decarbonization pathways and socioeconomic implications – McKinsey, November 2020, p. 53, column 2*

The McKinsey findings are not meant to put a brake on EU 2030 GHG emissions reduction ambition; they serve simply to highlight the challenges presented by buildings for a target nine years away*. We approach the 2030 challenge in the same spirit.

* *Far less than nine years, once any new directives come into force and are correctly transposed into national legislation*

We accept that only regulation can break the normal building renovation cycle and kick-start at least a doubling of the rate of renovation. The latest batch of national Long-term Renovation Strategies (LTRSs) contain some good examples of renovation of the worst performing residential buildings (EPC 'F' and 'G', 25% of the housing stock).

Until a critical mass of disappointing LTRSs came in, we believed that, in the context of accelerated climate action, the proper share-out of responsibility between the EU and its member states was to have EU GHG emissions targets coupled with national measures for reaching those targets. This was due to the complexity of the options for different measures and the need to allow policy flexibility for different countries with different political and social priorities. It also seemed wise to protect the Union from the political danger of imposing too-detailed requirements.

Unfortunately, we now see that most member state LTRSs have not followed through, so the Commission is under legal obligation, as per the Energy Governance Regulation, to step up with EU legislation. What could this be?

Renovation of the worst performing segment of the building stock

We believe that there could be an EU framework for energy efficiency renovation of the worst performing segment of the building stock by 2030, but without the directive specifying the degree of deepness of the renovation. This approach corresponds to that taken in the EED for renovation of buildings owned and occupied by central government – there is no specification of degree of deepness.

Prioritising the worst performing building stock is socially very attractive, as housing is 75% of the building stock and the worst performing dwellings tend to be occupied by people experiencing energy poverty. But that means that particular advance attention will need to be paid to financing for both owners and the many landlords who are themselves financially fragile and rely on their rental housing to complement their pensions. This is not suitable for regulation at EU level, but the European Commission and the EIB can act by means of EU funding conditionalities. *SEE ANNEX I*

Prioritising the doubling of the renovation rate over 'deep renovation'

We do not believe that it is feasible to impose a single European degree of 'deepness' in renovation, in particular due to climatic variations.

There are many statements in Commission Communications about the need for 'deep' renovation so as to avoid carbon 'lock-in', the idea being that 'light' renovation locks in carbon for decades until the next renovation. We find this reasoning simplistic, static and Malthusian. New technical solutions are appearing at great speed and the prices of old ones are dropping quickly. A ground-sourced heat pump will not cost € 20,000 for long. Once technology improves and prices fall, it will be financially and politically possible to legislate 'topping-off' renovations even for buildings that underwent partial renovations relatively recently.

In the meantime, the absolute priority should be to reduce carbon emissions substantially by 2030 so as to head off climate impacts that will be caused by our behaviour from now to 2030 no matter how much emissions are reduced after 2030. In the building sector, that means renovation at scale, even if it is not all 'deep' or 'near-zero'. Furthermore, renovation at scale will have the side-effect of increasing the rate of 'deep' renovation anyway.

Cut-off dates for sale or rental of buildings

We accept that the only way to get this done at scale is by imposing cut-off dates at which buildings that have not been renovated can no longer be sold or rented out, as is already planned in some of the LTRSs. But again, such an extraordinary shock to property markets requires that member states retain control over the exact type of building stock covered and the degree of renovation required.[1]

Phasing out of fossil fuels

We believe that EU regulation should lay down an obligation and a timeline for the phasing out of fossil fuels in heating systems whilst leaving the details to the member states so that they can mesh this with the necessary concomitant network building and urban planning.

Preserving the exemplarity of government buildings and broadening the scope

It is of paramount importance to retain and upgrade the EU obligation of exemplarity of the public building stock. Governments pay for renovation with taxpayers' money, which means that all citizens contribute to the effort equitably, and public authorities' requirements for their own buildings 'make the market' to some extent. They must continue to set the example.

Indeed, ***Article 5 EED*** needs to be substantially upgraded:

- The obligation to renovate 3% of the government building stock per annum should be doubled to 6%; and

- It should be extended from "buildings owned and occupied by central government" to "public buildings".

[1] The Finnish Real Estate Federation will not accept the imposing of cut-off dates at which buildings that have not been renovated can no longer be sold or rented out. These cut-off dates would seriously infringe the ownership rights of property owners. A market based on the demand and supply of energy-efficient and climate-friendly properties is the most effective way to guide cost-effective renovation investments in the property stock, not statutory bans.

“Rented” means that a substantial part of the obligation will fall to private landlords, but they can negotiate compensation in the rental contracts with public authorities, something which is often much more difficult in private rental contracts.

In the same vein, we believe that the ***Article 6 EED*** obligation on central governments to purchase only products, services and buildings with high energy-efficiency performance should be extended to all public authorities.

Renewables

We believe that EU regulation should set:

- minimum renewable energy shares for heating and cooling in national building stocks; and
- specific renewable energy requirements at district or neighbourhood levels.

Simplifying permitting procedures for renewables in buildings is an interesting path, but we believe that the Commission should not waste energy in fields over which it has limited competence.

We would not support EU law requiring a minimum percentage of renewable energy in the energy use of new buildings or buildings subject to major renovation, at least at the current stage of development of the technology due to limited space for deployment of photovoltaics in urban areas or their neutralisation by shadows. There are solutions such as the UK Zero-carbon Buildings scheme by which what cannot be done cost-effectively on-site can be compensated by off-site initiatives, but such constraints and compensations militate against inclusion in one-size-fits-all EU law.

Historic houses

We believe that the Commission should retain the exemption in Article 4(2)(a) EPBD.

Historic houses cannot be at the forefront of ambitious energy efficiency renovation obligations while remaining under strict constraints rightly forced on them by official heritage authorities because of their architectural or cultural uniqueness. Even when energy renovation is possible and authorised, costs remain prohibitively high due to their combination with heritage requirements. And this for a segment of the owner population that is very often amongst the most financially fragile due to very high costs of maintaining such estates to the benefit of all citizens and owners’ difficulty in balancing them with their volatile revenue models.

This is the considered view, not just of European Historic Houses, but of all signatories to this letter.

We believe that if the Commission focuses strongly on the policy options above, with a special early effort to explore them with the member states and key MEPs and stakeholders, there is a fighting chance that the Union will get the legislative framework it needs to meet the key building component of the 2030 target.

We would be grateful for the opportunity to discuss these matters with you.

Yours sincerely,

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Chairman
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Alain Duffoux
Chairman of the Managing Committee
European Property Federation

ANNEX I

EU conditionality for member state spending of EU funds on renovation of the buildings

EU funding could be made conditional on member states implementing some of the following measures:

- Set-up of renovation subsidies (low-income owners/landlords can receive more renovation subsidies than high-income owners):
    - Subsidised housing allowances and/or rent increases
    - Energy voucher for fragile households
    - White certificates (as currently in Denmark, France, Ireland & Italy)
    - Tax credit for energy efficiency equipment and renovation
    - Reduced VAT for energy efficiency building work
    - Exemption of real estate tax if renovation is implemented on the worst performing residential buildings

- Subsidy scheme for renovations which include Life Cycle Assessment (LCA) of buildings

- Zero-interest rate loan for financially fragile owners

- A bonus added to renovation subsidies if buildings reach a high performance level (i.e. < 60 kWep/m^2)

- Specific support provided to owners/landlords through an information office available in each region, providing assistance on the renovation work and subsidies, since owners/landlords are often not informed about the support and subsidies they can benefit from, or which seem complicated to claim for them. *These regional offices have been very successful in states such as France where regional assistance offices take the owner through all the technical, financial and administrative hurdles. EU funding for this would be very well invested.*

Funding requires control, especially in a field where, in some member states, energy renovation fraud is already rife.

For EU-funded projects, controls of post-renovation energy performance should be undertaken and follow-up implemented, to avoid fraud from some renovation companies. If performance is not reached, fines/penalties should apply. This would make owners/landlords more confident in undertaking renovations.

ANNEX II

Descriptions of the signatory associations

European Historic Houses aisbl (EHH) 204022211093-63
EHH is an umbrella association that brings together 24 national associations of privately-owned historic houses. Overall, it represents approximately 50.000 historic houses in Europe. EHH aims at raising awareness on and advocating for private cultural heritage at the EU level. At the same time, the association promotes international dialogue and the exchange of information, experiences and best practices between its members. In this way, EHH intends to defend the conservation, enhancement and intergenerational transmission of private historic houses.
http://www.europeanhistorichouses.eu/

European Landowners' Organization (ELO) 36063991244-88
Created in 1972, ELO promotes a prosperous and attractive European Countryside. ELO is a unique federation of national associations from the EU27 and beyond which represents the interests of landowners, land managers, rural entrepreneurs and family businesses. It targets its actions on land use and housing, via seven major areas of European importance: environment, renewable energy, agriculture and rural development, status of private property and companies, forest, enlargement and trade.
https://www.europeanlandowners.org/

European Property Federation (EPF) 36120303854-92
Founded in 1997, EPF represents all aspects of property ownership, investment and brokerage: residential landlords, housing companies, commercial property investment and development companies, shopping centres, the property interests of the institutional investors, estate agents and real estate training institutes. Its members provide, manage and broker buildings for the residential or service and industry tenants that occupy them.
https://www.epf-fepi.com/

The European Group of Valuers' Associations (TEGOVA) 070444714545-60
TEGOVA unites 72 national valuers' associations from 38 countries representing 70 000 qualified valuers. Its European Valuation Standards (EVS) have been given precedence over all other standards by the European Central Bank in successive editions of its Asset Quality Review manual for the updating of banks' real estate collateral values. Its European Valuation Standards 2020 contain a Standard **"EVS 6 Valuation and Energy Efficiency"** which instructs valuers to integrate energy efficiency renovation into their determination of Market Value.
https://www.tegova.org/