

The European Green Deal is delivering – The transformation of real estate and valuation has begun

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IPAV European Valuation Conference
Dublin, 9 November 2022

For two years, I've been saying that this time it's for real.

That this time, EU climate law will transform real estate.

And that valuation had better follow.

And it *is* for real, at least in the legislative proposals tabled by the European Commission last year.

But you know how it usually is: the Commission proposes, but the Council of Ministers and the European Parliament amend at will

What you usually get from Council – the 27 national governments – is a cold shower. You could expect the Council of Ministers to water these proposed laws down beyond recognition, as they have done so often in the past.

But this time, I said there was a difference: the scientific, political and ‘street’ consensus that decisive climate action must be taken now.

In my reasoning, I combined that with the fact that there's no more wiggle room, especially for real estate

The 'European Green Deal' or 'Fit for 55' (55% reduction of emissions by 2030) is about much more than buildings.

It covers everything: industry, the digital economy, transport and farming.

The fact that the 2030 55% GHG reduction target can only be reached by covering all those sectors makes it impossible to ‘shift’ the burden from buildings to the other sectors

- First, because of the share of buildings in the overall equation (36% of EU GHG emissions and 40% of energy consumption)
- And second, because the other sectors are being hit just as hard, causing rapid and hyper-expensive reorganisation of whole industries as you saw with the previous speakers. ***It won't be politically or practically possible to increase their burdens to alleviate buildings.*** You see how the German car industry was kicking and screaming about the 2035 combustion engine cut-off. **No way** were they going to make it 2030 so that buildings can have some slack.

That was my reasoning. That's why I believed that 'Fit for 55' would happen, even for such a politically charged sector as real estate.

In other words, I thought that the existential climate threat would be enough to finally legislate building carbon neutrality.

I still believe it.

But we'll never know.

Because when the first Russian tank rolled into Ukraine, everything changed.

Now everybody's on board.

Climate + Russians = Eliminating fossil fuels at top speed

And now the European Green Deal ‘Fit for ‘55’ results from Council and Parliament are in. *Not just legislative proposals; the real thing*

For combustion engine cars: game over on 27 October.

For real estate there are **three** game-changing **pieces of legislation**:

1. Extension of the Emissions Trading System (**EU ETS**) to buildings
2. Renovation obligations for public bodies’ buildings
3. Renovation obligations for all buildings

Extension of the Emissions Trading System (*EU ETS*) to buildings

It's going ahead, as it must, so that there's no regression when the war is over, but of course for the moment it's a joke.

The whole idea of ETS is to make fossil fuel energy more expensive.

Russian tanks blew that out of the water.

Because of course the impact of the war on energy prices is ETS to the power of ten.

2. Renovation obligations for public bodies' buildings

Existing Energy Efficiency Directive

- Renovation of 3% of buildings owned and occupied (not rented) by **central** government
- No specified level of renovation
- If even that is too tough, possible fuzzy 'alternative approaches'

Parliament/Council Agreement

- Renovation of 3% of buildings owned and occupied by **central, regional and local** government (some obligations for rental too)
- Renovation to **Nearly Zero Energy Building** level
- Very limited and tough alternative approach

3. Renovation obligations for all buildings, public and private

For starters, an 'extra' introduced in May; a direct result of the war:

Mandatory rooftop solar installation by end 2026 (new public and non-residential), **end 2027** (existing public and non-residential) **or end 2029** (new residential).

The only real estate exempted is:

- Existing residential
- Public and commercial buildings smaller than 250 or 400 m² or with low solar potential (limited access to light, etc.)

This comes with further EU regulation limiting the length of **permitting** for rooftop solar installations, including large ones, to a **maximum of three months**. *An amazing incursion into a 'sovereign' national policy area.*

The most crucial advance: Minimum Energy Performance Standards (MEPS)

Existing Energy Performance of Buildings Directive

The renovation obligation only kicks in when the owner freely decides to do a major renovation.

1. Commission & 2. Parliament

Commission: An absolute obligation to renovate the 15% worst-performing public and private building stock by 2027, 2030 or 2033 according to the type of building or ownership.

Parliament: Same as Commission with even tighter deadlines

MEPS *Five Star*: Council of Ministers

Non-residential: the **15%** worst performing buildings to be renovated to a superior EPC (Energy Performance Certificate) class by 2030; the **25%** worst performing by 2034

Residential apartments: **All** buildings (**not just 15%**) must reach, on average:

- ✓ EPC 'D' class by 2033
- ✓ 'B' class by 2040

Single family houses:

- No renovation obligation for those who stay in their homes or inherit them
- For homes that are sold, rented, donated or converted after 1 January 2028, the buyer, landlord, beneficiary of the donation or converter has to renovate to EPC class D within five years of the sale, rental, donation or conversion

And if that weren't amazing enough:

Council threw in an ***obligation on each member state to end co-ownership requirements for unanimity decisions on building renovations.***

Another infringement of member state 'sovereignty'.

So this is where I'm supposed to explain what the European Valuation Standards Board is doing to adapt valuation practice to all this.

EVS 6: “Valuers must check for these legal renovation deadlines ... and when they appear, must estimate the cost of a renovation deep enough to meet the required new level of energy efficiency ... and consider the extent to which these costs affect the Market Value at the date of valuation.”

Easier said than done!

How do you do that and, very importantly, how do you do it cost-effectively within the framework of what you're being paid for the valuation?

We need guidance, training, conferences, CPD!

And although we shouldn't waste time, we haven't begun yet, because we're just waiting for certainty on the exact nature of those Minimum Energy Performance Standards.

Certainty? How's that?

I made it sound like a done deal. Isn't it a done deal?

Not quite.

There's trouble in the Council of Ministers.

Normally, when the subject isn't money or human rights, the Council of Ministers is a congenial place

27 good buddies united in fending off the pie in the sky ideas of a Commission and Parliament that don't have to take the heat when EU policies hit the streets.

But here it's different: the 27 governments have taken big political risks.

And that changes the mood music, the group dynamics of Council meetings.

Now it's more like a Dodge City poker game with 27 players with cowboy hats and Colts. And they're all eyeballing each other to see who's the cheat ...

The risk of cheating stems from the most numerically important provision of the MEPSs, the rule for residential apartments:

Residential apartments: **All** buildings (not just the 15% worst-performing ones) must reach, on average:

- ✓ EPC 'D' class by 2033
- ✓ 'B' class by 2040

What could possibly be wrong with that? Clear as spring water!

Except that EPCs are not harmonised in the EU. *There are 27 different ones.*

But the Commission saw the danger, and in its proposed revision of the Energy Performance of Buildings Directive (which covers both the MEPSs and EPCs), they:

- Harmonised the EPC 'A' class to mean zero emission buildings
- And ensured an even distribution between classes 'B' to 'F'

While Council itself laid down that the MEPSs for residential “shall be based on a national linear trajectory for the progressive renovation of the building stock”

The problem is that certain forces in Council managed to get those deleted

- No more even bandwidth distribution of energy performance indicators
- No more national *linear* trajectory for the progressive renovation of the residential building stock

That's lethal, because by combining

- an uneven EPC class bandwidth distribution
- with a non-linear renovation trajectory,

a government can delay pain and political risk that other governments are facing up to.

Result: Belgium, France, Germany, Ireland, Luxembourg and the Netherlands drew their Colts and started shooting.

Long story short, they want to replace EPCs by something more objective and reliable. Their opening shot (called a non-paper, Council is a polite place) states:

“However, this* should be proven by equal and verifiable parameters (increase energy performance, reduction of direct greenhouse gas emissions) and not the EPC classes anymore, because these classes have different meanings in each country today and will lead to an uneven renovation effort in each MS.”

* *the average national residential energy performance in 2033 and 2040*

The six rebel states are counting on the European Parliament

That's because the final law is the result of negotiations between the Council of Ministers and the European Parliament, and The Six think that with Parliament's support, they can force the other governments to compromise.

That's really rare, a sure sign of how important this is.

Result: the single most important player in the whole game is now Parliament's Rapporteur for the Energy Performance of Buildings Directive: Ciarán Cuffe MEP.

Replacing EPCs by “equal and verifiable parameters” is not ideal for the valuation profession

EPCs have the advantage of easy recognition by market players.

And they are a lot more practical for valuers trying to incorporate energy efficiency into their determination of the property’s market value.

Without EPCs, those “verifiable parameters (increase energy performance, reduction of direct greenhouse gas emissions)” may be a lot more difficult for valuers to get a handle on or even find.

Conclusion

This last matter will be resolved, possibly by reinstating an even EPC class bandwidth distribution and a linear renovation trajectory.

One way or another, the EU-mandated climate-neutral transformation of real estate is under way.

We just need clarity on the details before we start on valuation guidance.