

Stuttgart, 19 Aug 2020

Sustainable finance: How EU taxonomy relates to DGNB building certification

Background

Very few factors will have such a strong influence in changing our future social habits and economic activities as climate change. Even if we believe the optimistic forecasts, it's predicted that there will be a sharp rise in extreme weather and, as a result, a whole slew of domino effects. In 2013, the German Institute for Economic Research (DIW) estimated that climate change will cost the German economy roughly €800 billion by 2050. Despite this, it's still rare to see specific or concerted action being taken based on actual scientific opinion, even though the financial impacts are already becoming noticeable today.

The EU approach towards a sustainable financial industry

In 2015, the world's nations signed on to the Paris Agreement and not only made a commitment to limit the global temperature rise to 2°C, but also agreed to do more to limit the rise to 1.5°C. The European community of states' contribution to the initiative has been to call for transformation in the European economy – industry should play a pioneering role in creating a future-ready, carbon-neutral society. According to estimates, this would require investments of between €175 and €290 billion. The European Commission believes that private investors will play a decisive role in plugging this investment gap.

Until now, however, there has been little in the way of investment. One reason for this is that no-one has yet indicated exactly what kind of investments would specifically support European climate protection goals. To remedy the situation, the EU Commission has drafted a plan aimed at strengthening sustainable finance. Its recommendations cover the following aspects:

- The establishment of a clear and detailed EU classification system for sustainable activities (ie, EU taxonomy) in order to arrive at a common language for all stakeholders in the financial system.
- The introduction of EU labels for environmentally friendly financial products to make it possible to identify ecologically sound or low-carbon products or services.
- The introduction of measures for clarifying obligations affecting asset managers and institutional investors with respect to sustainability.
- Greater transparency of companies when it comes to environmental, social and governance (ESG) policy. The commission will start assessing reporting obligations applying to issuers to ensure they provide investors with correct information.
- The inclusion of a 'green supporting factor' within EU supervisory rules for financial institutions and insurance companies, not only to include climate risks within the risk management policies followed by banks, but also to help financial institutions that contribute to the funding of sustainable projects.

On 18 June 2020, the European Parliament signed off legislation on the introduction of a framework for facilitating sustainable investments. This marked an important milestone for the initiative. The regulations define the disclosure obligations affecting companies, which environmental goals must be included within a classification system and which minimum human rights standards must be observed. They also state that uniform technical assessment criteria must be used for classifying ecologically sustainable business activities. In addition, it is recommended that a platform is introduced for sustainable financing in order to oversee further development.

EU taxonomy

To help with the drafting of a first version of technical assessment criteria, in July 2018 a technical expert group (TEG) was asked to develop a classification system for environmentally sustainable economic activities and ensure that these correspond with the EU's climate protection goals. The name given to this classification system was EU taxonomy, and a proposal for the system was submitted in March 2020 in the *Final Report of the TEG on the EU Taxonomy*. By the end of 2020, the EU Commission intends to publish the delegated legislation that will be required to implement its recommendations.

The EU taxonomy is based on the following six environmental goals:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Prevention and reduction of environmental pollution
6. Protection and recovery of biological diversity and ecosystems.

To qualify as being environmentally sustainable in keeping with the taxonomy system, business activities must have a positive impact in line with one of these six environmental goals. At the same time, they must have no significant detrimental impact on the other five environmental goals. The term used for this principle is 'do no significant harm' (DNSH). Technical assessment criteria are being developed for all six environmental goals and these will make it possible to assess the environmental sustainability of specific activities.

The TEG is using the business activities currently covered by the taxonomy to prioritise the sectors of industry that are responsible for 93.5 per cent of all directly caused greenhouse gas emissions in the EU. It has now defined criteria for assessing the positive impacts these activities have on two environmental goals: climate change mitigation and climate change adaptation. Definitions have also been provided for the DNSH assessment criteria to be used with the other environmental goals.

Taxonomy requirements for the construction and property industry

The activities looked at in the construction and property sector include

- New construction
- Building renovation
- Individual measures and professional services

- Acquisition and ownership of properties

According to the taxonomy definition, to make a substantial contribution to climate protection, it must be shown that planning and constructing a new building results in net primary energy requirements at least 20 per cent lower than the minimum energy level laid down under national regulations.

Renovations must meet domestic or regional requirements for major renovations in keeping with the EU Energy Performance of Buildings Directive (EPBD), or make a minimum improvement to primary energy requirements of 30 per cent. Investments in individual measures or services are considered sustainable if they help to lower energy consumption, reduce the carbon emissions of a building, or both.

Regarding acquisition and ownership, buildings constructed after 2021 must meet the criteria for new buildings. Buildings erected before 2021 must perform on a comparable level with the top 15 per cent of the national stock of existing buildings in terms of calculated primary energy demand. In addition to the climate protection criteria, the individual DNSH criteria also have to be adhered to.

Next steps for the EU taxonomy

The technical assessment criteria contained in the taxonomy for buildings are likely to be updated in the future. The current focus still lies in using primary energy as an indicator, but the TEG has already made a clear signal that it believes greenhouse gas emissions should be used as the basis for assessment in the future. It has also indicated that so-called grey emissions (ie, environmentally damaging gases resulting from the production, construction, maintenance and end-of-life phase of a building) will form part of taxonomy requirements.

As a classification system, the taxonomy will be a core aspect of sustainable finance activities in the EU. Once ratified, it will become the European standard for sustainable investments. The planned disclosure obligation for financial institutions and investors regarding their conformity with the taxonomy will ensure it is adopted by the market. Because the EU plays a role in setting an example on an international stage, it can be expected that the taxonomy will be adopted as an international standard beyond the EU.

Using DGNB certification as a tool for implementing taxonomy requirements

The DGNB German Sustainable Building Council has been using its certification system to assess sustainable buildings, urban districts and building interiors since 2009. As of the end of June 2020, the DGNB certification process was successfully applied to more than 6800 projects in approximately 30 countries. With respect to buildings, this not only applies to new developments and renovation measures, but also to how buildings are operated. In terms of topics addressed, the DGNB System is considered the most ambitious and advanced system of its kind. DGNB certification is particularly popular in Europe, where it is also offered through partner organisations in Austria, Switzerland, Denmark and Spain. Because DGNB assessment adopts a holistic approach and is based on the life cycle of buildings and building performance, it provides a basis for a common understanding within Europe when it comes to the requirements of sustainable building.

A direct comparison of the areas covered by the DGNB certification system and the EU taxonomy shows that using the DGNB System will leave investors and financial institutions well equipped for documenting the criteria and requirements of the EU taxonomy. This illustrates how well the two approaches work together.

New buildings

With new buildings, seven of the eleven technical assessment criteria can be validated by using the requirements laid down by the DGNB System for New Buildings. The remaining four criteria outlined by the taxonomy are already sufficiently addressed in Germany by minimum legal requirements. Taking things the other way round, meeting the taxonomy criteria has a positive influence on certification outcomes under the DGNB System. With new buildings, this affects a good fifth of evaluation criteria for so-called environmental quality.

Renovations

Knowing what to do with existing properties is crucial when it comes to climate protection and buildings. This is not only because of the significant rise in the number of existing buildings that need renovating, but also because of the importance of quality standards used for renovations. Investors have considerable influence when it comes to calling for the taxonomy criteria and demanding that they are adhered to. A comparison with the criteria used by the EU taxonomy shows that they are fully covered by the DGNB System for Renovations. All nine EU taxonomy assessment criteria are captured by the DGNB System for the sustainable renovation of buildings. As a result, they can be reliably validated and verified through DGNB certification.

Acquisition and ownership/buildings in use

Improving climate protection in the industry does not just depend on how buildings are constructed or restored – the other important points of leverage are how they are acquired and owned and, with this, optimised in terms of building operation. It is therefore appropriate and important that aspects relating to how buildings are used are also captured as a ‘living’ standard of the taxonomy – and requirements in this area will become even tighter over time. The forthcoming laws, such as disclosure and taxonomy regulations, will demand that the operators and owners of buildings actually prove that existing or shortly-to-be-acquired buildings are taxonomy-aligned. Only then will banks and other parties providing funding be able to assess how sustainable their finances are.

Published in 2020, the latest version of the DGNB System for Buildings in Use also provides the optimal basis for this reporting obligation, offering suitable methods and reliable information. The criteria catalogue with its new appendix allows users to understand exactly which elements they need to comply with not just to gain DGNB certification, but also to receive confirmation that a building is compatible with taxonomy requirements.

If an existing building adheres to the taxonomy criteria, applying the methods of energy management would allow a building to gain roughly one-fifth of all attainable points in a DGNB assessment for

buildings in use. Taking the future taxonomy criteria as a basis (which, as described above, focus even more strongly on actual improvements in climate protection) even makes it possible to attain almost one-quarter of potential assessment points.

The DGNB System for Buildings in Use lays particular emphasis on strategic climate protection, corresponding risk assessment and taxonomy requirements. The DGNB is thus providing all owners of existing buildings with an evaluation and management instrument for systematically assessing not just individual buildings but also entire portfolios – based on the appropriate and relevant information. This gives them a comprehensive decision-making template, making it possible to minimise risk and achieve climate protection goals as economically and appropriately as possible. The resulting climate action roadmap also highlights required measures, including sensible timings.

Joint study by the DGNB and European partners on the applicability of the taxonomy criteria

The DGNB has joined forces with the Green Building Council España (GBCe), the Austrian Sustainable Building Council (ÖGNI) and the Green Building Council Denmark (DK-GBC) and launched a study to assess the compatibility of the taxonomy with market requirements. The aim of the study is to use actual buildings to verify the extent to which applying the new EU criteria will influence the assessment processes of financial institutions, building owners and investors. The study will also examine how specifically the criteria are applied and how well prepared companies are for future legislation.

The DGNB German Sustainable Building Council

The DGNB German Sustainable Building Council was founded in 2007 and has around 1200 members, making it Europe's biggest network for sustainable building. The aim of the DGNB is to promote sustainability in the construction and real estate industry and instil awareness of building sustainability among the broader population. The DGNB is an independent non-profit organisation. Its certification system offers a planning and optimisation tool for evaluating sustainable buildings, interiors and districts. It was developed to help organisations enhance the tangible sustainability of construction projects. The DGNB System is based on the concept of holistic sustainability, placing equal emphasis on the environment, people and commercial viability. The DGNB Academy is an education and training platform that has already provided 4500 people from more than 40 countries with official qualifications in sustainable building.

For more information, go to www.dgnb.de

Contact at DGNB regarding content of this document:

Dr. Anna Braune
Director of Research and Development
+49 711 722322-67
a.braune@dgnb.de

Press contact:

Felix Jansen
Director of PR, Communications and Marketing
+49 711 722322-32
f.jansen@dgnb.de