



ARTICLE

From spotlight to limelight – where are you?

European Real Estate: Preparing for systemic change

In the wake of the COVID-19 pandemic, with politicians focusing on managing its impact and facilitating an economic recovery, an emerging European policy framework is set to have a dramatic impact on how the real estate sector operates. With the climate crisis driving public concern, how we build, invest and manage all aspects of the built environment is set to change.

Brussels is seeking ambitious new targets leading up to 2030, and beyond to 2050, and for the first time the EU is turning its spotlight on a sector that consumes more energy and emits more GHG emissions than any other.¹ Emerging European regulation seeking to address this will have a dramatic impact. However, our research indicates that the sector is failing to get sufficiently engaged. To adapt and prepare for the future, manage the risk and identify new commercial opportunities, real estate businesses must get involved. In this paper, we outline the EU's proposed legislative programme and highlight what companies should be doing.

Why is the EU spotlight on real estate?

Europe has been quietly nurturing a global role as a regulatory powerhouse and an international standard bearer for good practice, for regulators around the world. On climate change, the EU has been a firm supporter of the Paris agreement² and its first Climate Law³, introduced in March 2021, sets a pathway for Europe to be the first climate neutral continent by 2050.

The European institutions are taking a firm leadership role in a swathe of environmental and social issues that have

¹ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6683

² <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

³ https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law_en

become front and centre. Whether you do business in Europe or not, what happens in Brussels is more likely to impact business elsewhere than ever before. Companies are advised to pay close attention.

The EU Green Deal⁴ (December 2019) is a growth strategy to ‘build back better’ and is an umbrella initiative driving policy change. Real estate is now a political priority with policymakers targeting massive investment in a ‘Renovation Wave’⁵, as well as an ambitious legislative programme on buildings and construction, including on ESG and sustainability issues. The sector has been slow to respond, grappling with the dramatic consequences of the COVID-19 pandemic. How prepared is it for the challenges and opportunities ahead?

“Buildings are the single largest energy consumer in Europe, using 40% of our energy, and creating 36% of our greenhouse gas emissions. That is because most buildings in the EU are not energy efficient and are still mostly powered by fossil fuels. We need to do something about this urgently, as over 85% of today’s buildings will still be standing in 2050, when Europe must be climate neutral.”

KADRI SIMSON

EU COMMISSIONER FOR ENERGY, 15 DECEMBER 2021

Source: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6683

What is the EU’s policy agenda?

On 15 December 2021, the European Commission published its Fit for 55 Package⁶ as part of its flagship Green Deal to drive Europe’s green transition. Its objective is to cut the EU’s GHG emissions by 55% by 2030. It includes a proposal for a revised Energy Performance of Buildings Directive (EPBD)⁷. This will require all new buildings to be zero-emission as of 2030, going even further for new public buildings, which would have to be zero-emission by 2027⁸.

“35% of European buildings are over fifty years old and almost 75% of its building stock is energy inefficient.”

EUROPEAN COMMISSION 2020

Source: https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-feb-17_en

Moreover, the 15% worst-performing buildings in each EU Member State will have to become more sustainable. In addition to the EPBD, there are four other policy proposals within the Green Deal that are directly relevant to real estate and largely focused on energy use and consumption:

- **EU Emissions Trading System (ETS)** – proposed new framework to put a price on emissions generated by heating fuels for buildings for the first time. Costs will be passed onto owners to incentivise the push to decarbonise heating.
- **Revised Effort Sharing Regulation (ESR)** – proposed increases in annual GHG emission reduction targets for every country. The real estate sector will have to reduce its emissions by at least 40%, compared to 2005 levels. This represents an 11% increase as compared to current targets. Up from 29% adopted in 2018.
- **Revised Energy Efficiency Directive (EED)** – an overall framework to deliver energy savings across the EU. It proposes to extend the requirement to renovate 3% of public buildings annually. This should lead to a 9% reduction in energy consumption by 2030, compared to baseline projections. The expectation is that the private sector will follow this lead.

“EU policy could result in the renovation of around 35 million buildings by 2030 and create up to 160,000 construction jobs.”

EU OBSERVER 2020

Source: <https://euobserver.com/environment/149759>

⁴ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁵ https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1835

⁶ <https://www.consilium.europa.eu/en/policies/green-deal/eu-plan-for-a-green-transition/>

⁷ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6683

⁸ Zero-emission buildings are defined as buildings with a very high energy performance in line with the energy efficiency first principle, and where the very low amount of energy still required is fully covered by energy from renewable sources at the building or district or community level where technically feasible. The list of requirements for zero-emission buildings can be found [here](#).



– **Carbon Border Adjustment Mechanism (CBAM)** – the proposed introduction of a new levy on construction imports, applying to steel, cement and aluminium, to avoid the import of carbon intensive products, and to protect the EU’s competitiveness through the green transition.

The five initiatives are still at the proposal stage and the legislative process, including public consultations followed by negotiations, would normally last between one and two years. Now is the time for the real estate sector to get more engaged.

In the limelight – where is the real estate sector?

We looked at how a selected list of 100 of Europe’s top construction and renovation companies, fund managers and investors, real estate companies and private equity companies are engaging with the legislative programme, together with 10 of the sectors leading trade associations, NGOs and Think Tanks.

Our research asked three principal questions to ascertain whether the sector is fully engaged in an important dialogue that will shape the future of the industry, and how it may have to adapt and respond to the challenges and opportunities created by climate change.

– **Who in the real estate sector is engaging with the EU’s emerging legislative process?**

Our research indicates that only a very small number from this stakeholder group has actively participated in any of the initial public consultation programmes associated with each of the four policy initiatives.

– **Is the real estate sector engaging the broader European public on the consequences and implications of emerging policy?**

Our research indicates that public engagement on all four policy initiatives from this stakeholder group is minimal. While online and media activity is building around the issues being raised, the industry is generally not commenting or vocalising any of its priorities or concerns.

– **How does the response to emerging legislation impacting real estate compare with other systemic moments of changes that have impacted other sectors?**

Our research indicates that the level of participation from the real estate sector is extremely low in comparison to four other sectors (chemicals, energy, automotive and financial services sectors) that have recently faced critical moments of change. This includes engaging in the legislative process and ensuring an active and vocal share of voice across the media and digital channels.

Be heard and get engaged!

While Europe is taking a lead on addressing the relationship between climate change and the built environment, reducing emissions from the real estate sector is also becoming more of a priority globally.

At the recent COP26 in Glasgow, a day was dedicated to the impact of cities and buildings. The result is that a total of 136 countries now include building efficiency of building decarbonisation in their climate goals.

Despite the disproportionate impact that the pandemic has had on the real estate sector, expectations are being set and it must respond. Economic recovery is important, but so is the climate crisis.

It is imperative that the industry engages policymakers to ensure that they understand the commercial and technical challenges and to safeguard delivery of what will become increasingly ambitious climate targets. While 2050 is now a fixture on the horizon, 2030 is imminent. By not engaging at the European level, the real estate sector will miss important new commercial opportunities and fail to mitigate future risk.

It is critical for the sector to stay informed, identify its priorities, build alliances and advocate a strong and clear commercial position. What happens in Brussels is important to what will subsequently happen at the national level. Once adopted, the EU's 27 Member States will need to adapt and implement any future EU regulatory framework at national level, with very limited leeway for interpretation.

Be heard and get engaged. With 2030 approaching fast, the time for action is now. Generic commitments for 2050 are not sufficient and expectations have been set much higher. The emergence of this new proposed EU regulatory framework will be a catalyst for systemic change. With Brussels taking a lead, the rest of the world may well follow.

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