



**> Revision of EU Energy
Performance of Buildings
Directive:
A response from Europe's retail
property industry**

Position Paper – December 2022



ECSP

European Council
of Shopping Places

SUMMARY OVERVIEW

ECSP represents Europe's retail property industry. A voice for the landlords, investors and developers that operate shopping places across Europe. Shopping places are an important economic and social hub for the many communities they serve. Often part of mixed-use schemes, they act as retail centres and a focus for business, investment and regeneration.

The retail property sector is already very active in delivering renovation strategies seeking to reduce emissions and increase energy efficiency. This position paper provides a public position from ECSP and its members to the emergence of a new proposed EU regulatory framework and the current revision of the Energy Performance of Buildings Directive (EPBD). It will be a key catalyst for change and is an important part of the EU's agenda to decarbonise the industry. While ECSP fully supports these objectives and seeks to be a partner with the EU in ensuring these ambitions are met, this paper seeks to highlight a number of challenges the industry faces, opinions on the best approach to achieving success, and the additional support and guidance the industry requires.

What is the European Council of Shopping Places?

The European Council of Shopping Places (ECSP) is a Brussels-based trade association established in October 2020 to provide a dedicated voice for the European retail property sector. We currently have 25 members including eight national councils and some of Europe's leading retail property investors, developers and managers. Full details can be found on our website www.ecsp.eu.

In summary, our industry designs, creates, funds, develops, builds, and manages places anchored by retail across Europe. Shopping places provide a focus for every community in every urban centre, often incorporating a mix of leisure, office, and residential space, creating dynamic destinations and spaces for people to buy the things they need and want, to meet and do business, and relax with family and friends. Shopping places are also magnets for investment and regeneration, bringing significant economic & social value to the communities they operate in. The retail and retail property sectors employ more than 6.3 million people across Europe, generates an estimated annual turnover of €750 billion and represents almost 160 million m² of floorspace. Our centres welcome billions of visitors every year, contributing significantly to the vibrancy and attractiveness of towns and cities across Europe.

The role of the built environment in addressing climate change

The built environment has a significant role to play in helping Europe address and meet its ambitious climate targets. Latest figures from the European Commission indicate that buildings currently account for about 40% of the European Union's total energy consumption and for 36% of its GHG emissions¹.

ECSP members are already strongly committed to energy efficiency and climate mitigation with a number of company-level commitments on energy efficiency, GHG emissions reduction and sustainable mobility.

The retail property sector is already very active in implementing extensive energy renovation strategies across Europe. ECSP is keen to partner with the EU to better understand how this can be rolled out more efficiently and effectively.

Case study from Sonae Sierra (member of ECSP): Between 2013 and 2019, the company identified 292 energy optimisation measures across 28 assets. The implementation of 218 of these measures avoided annually 21,400,000 kWh of electricity, equivalent to €2.8 million in costs and around 5,700 tonnes of CO₂e. These measures required a total investment of €2.7 million. 51% of the actions implemented were quick wins. €0.22 million invested on these quick wins generated €1.05 million, 38% of all potential savings.

We recognise the EU Commission's own assessment that buildings represent Europe's single biggest source of emissions and that 75% of its buildings are currently energy inefficient². We also appreciate the Commission's own analysis that an estimated 35% of European buildings are over fifty years old² and that 85% of the total number of buildings are likely to still be in use by 2050³. Consequently, Europe is unlikely to meet its 2030 and 2050 climate targets without significant reductions in emissions emanating from the built environment.

¹ European Commission, 2021: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6683

² European Commission, 2021: https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficient-buildings/energy-performance-buildings-directive_en#:~:text=At%20present%2C%20about%2035%25%20of,stock%20is%20renovated%20each%20year.

³ European Commission, 2021: https://ec.europa.eu/commission/presscorner/detail/en/IP_21_6683

Despite the disproportionate impact that the COVID-19 pandemic has had on the real estate sector, combined with the ongoing energy crisis, expectations are being set. Our industry must respond. Economic recovery is important, but so is the climate crisis. The emergence of a new proposed EU regulatory framework will be a key catalyst for change and the current revision of the Energy Performance of Buildings Directive (EPBD) is an important part of the EU's agenda to decarbonise the industry.

However, retail property has unique characteristics, which can create a very complex environment in terms of impact and access to data which are essential in determining our industry's best response to the climate challenge. Design, layout and use can vary tremendously between different countries, regions and markets. A typical shopping place can involve multiple tenancies, leasing agreements and numerous independent arrangements with different energy suppliers. It is therefore imperative that the retail property industry engages policymakers and works with them to ensure that they understand the commercial and technical challenges to drive and deliver the change that is required, and to ensure it is considered a valued and important partner throughout this process in helping Europe to achieve its climate targets.

ECSP and its response to the current revision of the EPBD

This paper provides a public position from ECSP and its members to the current revision of the EPBD. It follows our formal submission to the European Commission's public consultation process made in June 2021. Given the current economic environment, our primary concern focuses on existing operations for the many thousands of shopping places across Europe. While existing efforts are already well underway to implement effective and impactful energy renovation strategies, how can our existing efforts to transition to net-zero better support the EU's climate targets?

ECSP and its members are keen to engage the EU institutions on all the issues raised in this paper. We want to create better awareness and understanding between ourselves and the EU institutions, at every level of the legislative process, to ensure the best approach to delivering Europe's climate targets.

In summary, ECSP is supportive of the need to review the EPBD. We fully appreciate the important and significant role that real estate, and specifically retail property, has in reducing Europe's carbon footprint and GHG emissions. In addition, we fully support the EU's objective for zero-emission buildings (ZEB) and nearly zero-emission buildings (NZEB) to become the standard for new buildings by 2030.

Key challenges

1. A sector under pressure

As highlighted in our paper on the financial impact of Covid-19 on the retail property sector⁴, the closure of hundreds of thousands of shops, stores, bars, restaurants, and places of commerce across Europe over a sustained period of time, hit our sector extremely hard. For example, in 2020 footfall was down on average by about 50% and rental income was down between 25% and 30%. Landlords across Europe have had to shoulder the economic consequence of significant drops in footfall, rent collection, and increased costs throughout the pandemic. Compared to other sectors, there was very little financial help, support or guidance. Elsewhere traditional bricks and mortar retailing is also under pressure from online shopping and e-commerce, where the sector is seeking a fair and balanced level playing field to compete on an equal footing on issues such as tax and opening hours.

2. A systemic change in how our industry operates

From the materials used to build new retail shopping places, the cement, steel and aluminium, to the way they are heated or air conditioned, the proposed revisions to the EPBD signify a comprehensive change in the way Europe's retail property sector invests, develops and manages its retail property assets. Change at scale in the timelines outlined will be substantial and will require high upfront costs, particularly for landlords with multi-property portfolios.

Case study from ECE (member of ECSP): At an investment cost of around €30 million, ECE is currently implementing fifty photovoltaic systems on the roofs of shopping centres, saving an estimated 16 million kWh of electricity per year and reducing ancillary costs by an average of twenty cents per square meter. Paid for by landlords, this measure can increase the use of on-site renewable energy by approximately 20% to 30% to be used in the common area of a shopping centre.

⁴ ECSP, 2021 https://www.ecsp.eu/wp-content/uploads/2021/03/ECSP-Financial-impact-of-Covid-on-retail-property-March-2021_final.pdf

3. Lack of uniform standards, data collection and methodologies

The way the retail property sector works can be very complex in terms of the commercial arrangements between many different stakeholders. Tenants can be responsible for up to two-thirds of GHG emissions, yet leasing agreements between individual tenants are not uniform and can vary considerably. This can make some comparisons difficult. Additionally, tenants may also have independent agreements with different energy providers that span multiple shopping places, which the landlord may not have oversight of, or overall control in terms of the type of energy being used.

There is also a lack of a uniform methodology on how to measure Energy Performance Certificates (EPC) and what a full life-cycle assessment constitutes; how to assess what exactly a ZEB or NZEB could be, and what an energy efficient renovation roadmap requires. This fragmented approach can be compounded by strict regulations preventing the collection of certain types of data, the application and analysis of different standards as well as varying terminologies in different member states.

4. Feasibility of new sustainable mobility obligations

Many tens of thousands of people visit shopping places every day, using a variety of different transport modes. Accessibility is a key part of a successful and attractive destination and needs to be managed efficiently and effectively. Mobility needs are therefore a key component of the design and layout of any shopping centre and aim to ensure that all customers should be treated equally. Every parking space, whether for cars or bicycles, needs to be maximised so that everyone can find a parking space conveniently. For this to happen, not only does our infrastructure need to reflect current customer expectations, but as we transition to electric vehicles and more sustainable modes of transport, it is imperative that the energy infrastructure is able to meet demand and anticipated growth.

5. Little clarity on funding and financial support

The current revision of the EPBD has prioritised change within the commercial property sector. While the retail property industry is wholly supportive of the EU's climate targets and its responsibility to help achieve them, there has been little clarity on what financial help and support will be made available to help landlords, whether from local, regional, national governments, or from the EU.

Key impacts

6. The long-term decarbonisation strategy

ECSP supports the goal of a climate-neutral building stock. However, any new ZEB or NZEB standards should address the different real estate asset classes and their specificities in terms of emissions and energy use. In the retail property sector, for example, landlords do not have oversight or control of the energy usage of tenants. While landlords can seek to reduce ancillary costs, they may only be responsible for about one third of the energy consumption of a shopping centre. Any move to improve energy efficiency must require both parties to work together to ensure that energy efficiency targets are met.

The reduction of CO₂ emissions should be the key indicator. ECSP believes the choice of energy performance as an indicator makes sense. However, it will be important to ensure there is sufficient public data available for authorities to be able to adopt clear calculation methods.

7. Long-Term Renovation Strategies (LTRS)

The target contribution of the member states' LTRS to the renovation wave should be measured against the long-term goal of 'greenhouse gas neutrality'. This requires a mix of measures including the integration of renewable energies in a building. A long-term renovation strategy should provide a clear structure, including short term milestones. Implemented measures should also reflect equipment end-of-useful life, and also provide targeted subsidy incentives.

8. The monitoring and strengthening of standards

The introduction of binding minimum standards for the energy performance of different building types requires prior detailed examination and impact assessment. Data collection and submission is essential for this process. National and European comparability is important.

ECSP supports the low-threshold collection and aggregation of available data to create a better data base across the EU member states. For the retail property sector to meet the 2030 objectives this will be crucially important. In case of missing data, member states should conduct surveys and studies in which companies within the sector can participate on a voluntary basis.

9. New sustainable mobility standards that do not match current demand

For all non-residential developments and renovations, the current revision is seeking to impose one recharging point for every ten standard car parking spaces and that every parking space should be matched by one bicycle space. The impact of these ambitious requirements on the retail property sector could be profound, and potentially wasteful, incurring high upfront costs to facilitate the changes proposed. It is also dependent upon factors beyond our control, such as the ability of the local grid to provide sufficient capacity, which can vary considerably between different member states.

For example, if an average centre provides around 1,000 conventional parking spaces, new regulations would provide for up to 100 electric vehicle spaces, which could lead to overcapacity based on anticipated demand. The impact would be twofold. First, it will require considerable investment that may not be used in the short-term, leading to congestion in those markets where electric vehicle take up is lower, while electric vehicle stations stand idle and underutilised. Secondly, if there is a dramatic increase in EV uptake, electricity grids may not have sufficient capacity to match the increase in demand.

10. Increased financial burdens will limit ability to reach an effective transition

In its Renovation Wave Strategy, the EU Commission has estimated an additional annual investment requirement of €275 billion to deliver more energy efficient buildings. Significant financial burdens on retail property landlords will limit, not facilitate, an effective transition. The economic impact of both the pandemic and the emerging recession are already limiting our ability to retrofit.

Key asks

ECSP and its members are asking EU decision makers to consider the following key elements for the revision of the Energy Performance of Buildings Directive:

11. A market driven approach

Success cannot be imposed or guaranteed. Given that shopping centres are traditionally very complex environments, we believe that market driven solutions are best placed to respond to ensure the best chances of securing the EU's 2030 climate targets.

- **ECSP calls for the EU to work with our industry to improve existing systems around energy renovation roadmaps rather than seeking to build or impose any new processes.**

12. A European roadmap to 2030 and beyond

Long term renovation strategies will require significant investment. Investors need clarity. The anticipated level of change required in the time indicated is best achieved by identifying a clear and transparent framework to manage and monitor this transition. Our industry needs help and support in identifying and clarifying the most effective and efficient approach. Shorter term milestones will also help by acting as steppingstones to the longer-term vision and target delivery. However, within this framework, we believe that energy renovation roadmaps designed for individual properties offer most flexibility and adaptability to ensure the most effective transition.

- **ECSP calls for the EU to work with the retail property industry and others to identify and develop a pan-European approach to delivering energy renovation roadmaps.**
- **ECSP also calls for a stable legal framework which is essential to attract the long-term investments required by the retail property sector.**

13. Harmonised standards, guidelines and definitions

Europe needs clarity but it also needs consistency. While market variations can be respected, measurements and methodologies need to be comparable between different member states and asset classes to ensure an informed and unified approach in addressing the challenge and a fair and compatible transition.

Data collection and submission is important to create a transparent process where responsibilities in driving and delivering the transition are fair and clear. Moreover, an integrated approach is essential, whereby the interplay between different sectors is also understood and supported.

- **ECSP supports the harmonisation of Energy Performance Certificate (EPC) standards across Europe, to make them more compatible and comparable across member states.**

- ECSP supports the establishment of all relevant European and national databases to be made public to ensure market oversight and comparability.
- ECSP calls for the EU to provide more clarification on its terminology and categorisation of different kinds of renovation and development, e.g. what constitutes an extension, reconfiguration, refurbishment or a new development.
- ECSP calls on member states to conduct studies on how to improve data collection and to facilitate dialogue between landlords and tenants over disclosure and transparency requirements.

14. Customer focused mobility solutions

Shopping places must be accessible to everyone. The provision of new sustainable mobility standards should be flexible, matching demand in their respective markets and the ability of the local grid to meet growing capacity. Additionally, a phased, market-led approach is more efficient than fixed quotas that are systematically imposed.

- Given the high presence of car parking spaces in an average shopping centre, ECSP considers it is more realistic to introduce an initial ratio of 1:100 as a target.
- ECSP asks that new standards are progressive but flexible, reflecting market realities with a gradual phasing of additional electric vehicle facilities, taking disparities into account across different member states.

15. Access to public funds

The European retail property sector will require a coordinated approach from all levels of government and relevant public authorities to ensure access to adequately funded public support programmes that match Europe's ambitions. Over the extended lifecycle of a shopping centre, many different components will need to be replaced. The onus should not solely rest with landlords and tenants where commercial realities will limit and slow implementation.

- ECSP calls on all relevant authorities to ensure comprehensive information and advice on how to access available funding streams from public authorities and that this funding matches its ambition in reducing emissions from the sector.
- The political framework for greenhouse gas reduction and energy saving in the building sector should always be underpinned by a clear cost/benefits analysis. ZEB and NZEB standards must remain economically feasible to enable landlords to carry out renovations in a commercially viable manner.
- Energy renovations across all asset classes should be eligible for public financial support.
- Incentives can help as much as direct funding. This could include tax incentives, a significant increase in subsidies (e.g. favourable loans with repayment subsidies or grants for renovations) or accreditation of renewable energies used in/by the building and/or its climate targets.
- The integration of renewable energies (even without direct reference to the building: purchased green electricity) should also be considered.