# Banking on green homes

Scaling green homes the SMARTER way

Wednesday May 28th 2025

## Energy in residential real estate : New tools and new opportunities for Europe and property stakeholders through the recast of the EED and EPBD

## The role of EU regulations

## Presentation

SMARTER FINANCE FOR EU

Madrid | Peter Sweatman, CEO

CLIMATE STRATEGY & PARTNERS

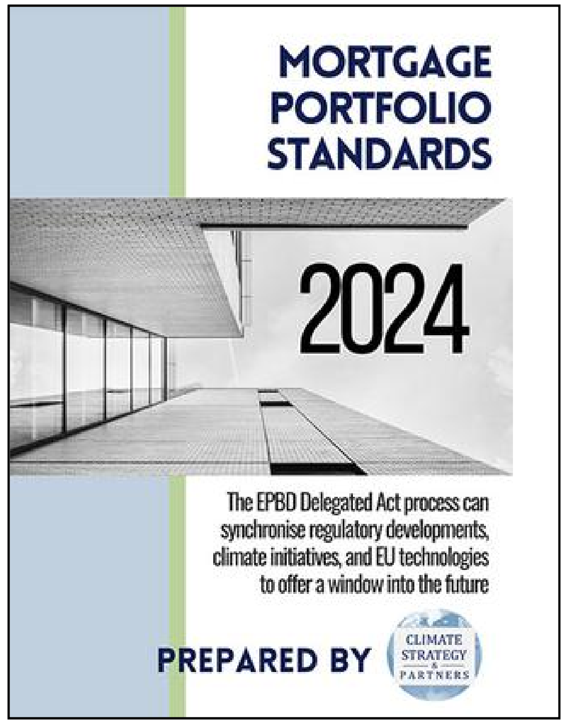
# Climate Strategy & Partners

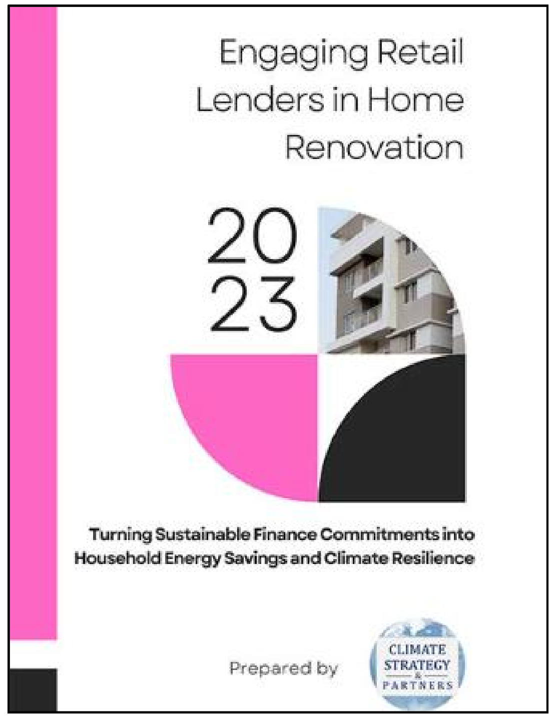
**33 years of experience** advising **companies, banks, and governments** across the world on accelerating the economic transition to a net-zero emissions economy.

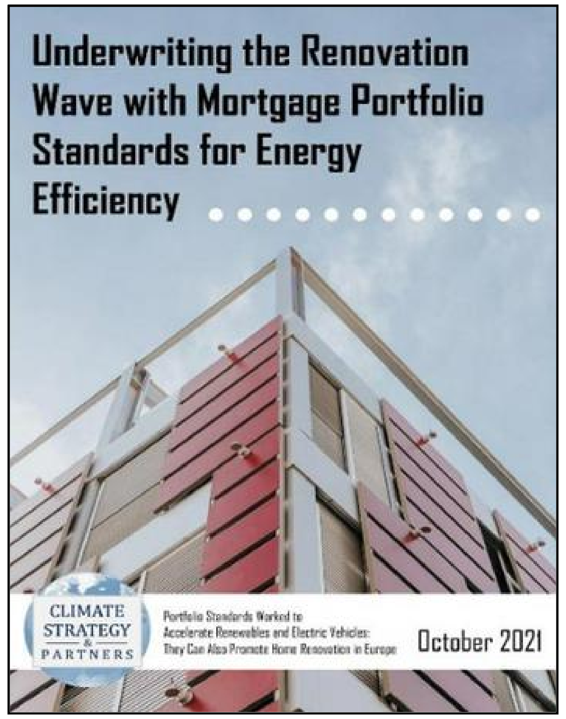
Peter Sweatman, Executive Director: 33 years of outstanding experience in finance and climate strategy with key positions at:

- JP Morgan
- Climate Change Capital
- G20 EEFTG and EEFIG rapporteur
- Energy Efficiency Capital Advisors

## Recent CS publications:

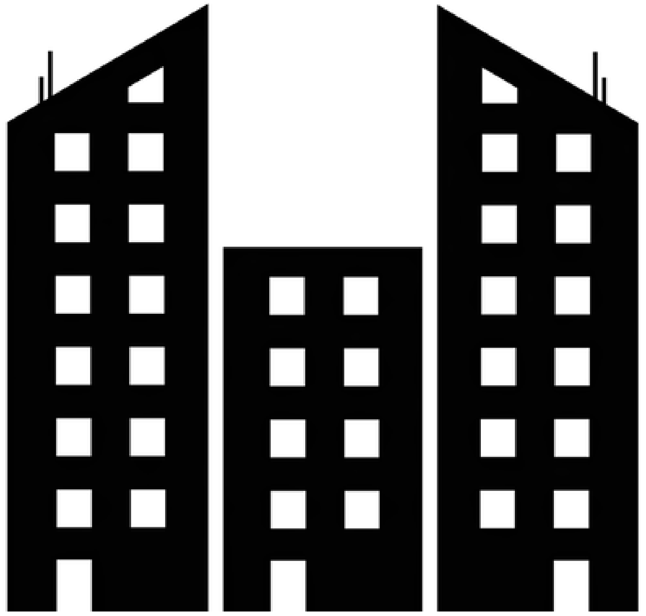




# Setting the scene

# Energy Performance in Buildings

**131 million buildings**

- Buildings have a very long useful life
- They use 40% of Europe's energy
- Buildings heat comes mainly from burning fossil fuel
- Nothing technically prevents efficient buildings



**Most buildings are inefficient**

**9%** **Have some renovation each year**

**1%** **Of renovations impact energy performance**

**0.2%** **Optimise for energy efficiency (only)**

# How European Buildings are Owned and Financed

**Residential buildings**

- 70% of Europeans live in a home they own
- EU27 residential mortgages total €6-7 trillion
- €10+ trillion of home equity is stored in EU homes
- c.8% of EU27 homes (21.5 million) are publicly owned
- 15% of European households own a second home

Worth over € 17 trillion

Euro 3 trillion

**Institutional real estate investments in the EU27**

# 50 million opportunities to be unlocked for the EU Renovation Wave

100 million residential buildings

70 million owned by occupants

50 million are primary homes

Could use an ERL for renovation

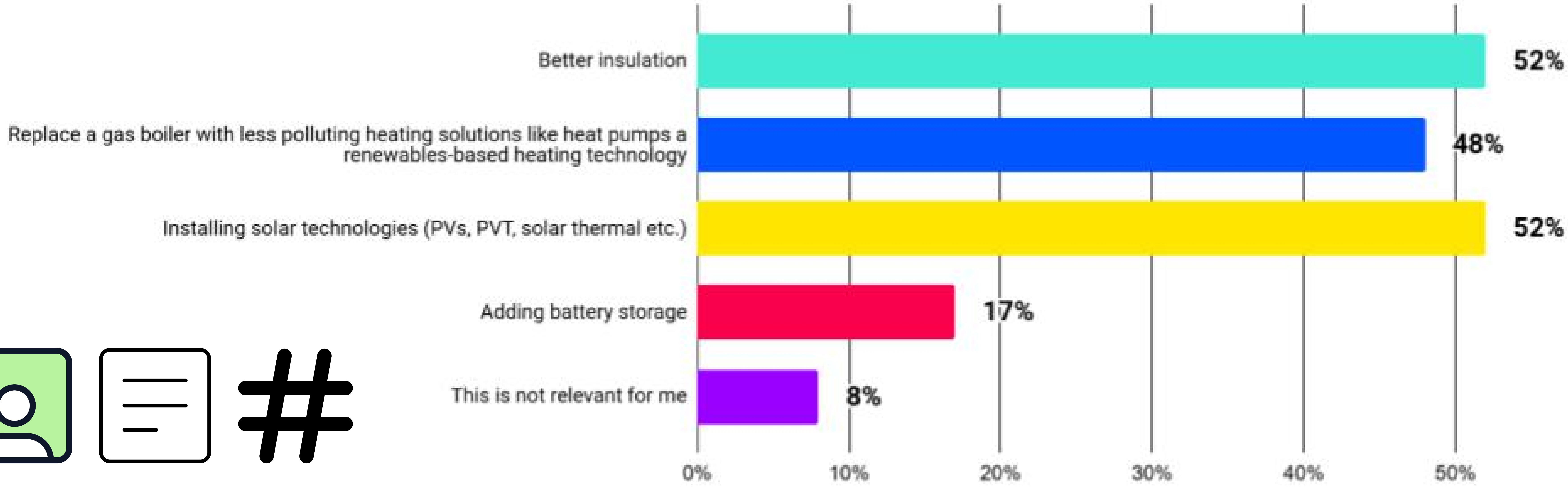
Still standing in 2050

# Consumer Attitudes to Renovation and Funding

**International Union of Property Owners survey revealed key consumer attitudes towards renovation:**

| | |
|---|---|
| **44%** | Don’t renovate as they simply don’t think they need it |
| **44%** | Don’t have the funds |
| **Below 10%** | Saw “lack of information” or “lack of qualified” services as significant barriers to their renovation |

# If Spaniards had access to low or no-interest loans, their key priority would be better insulation

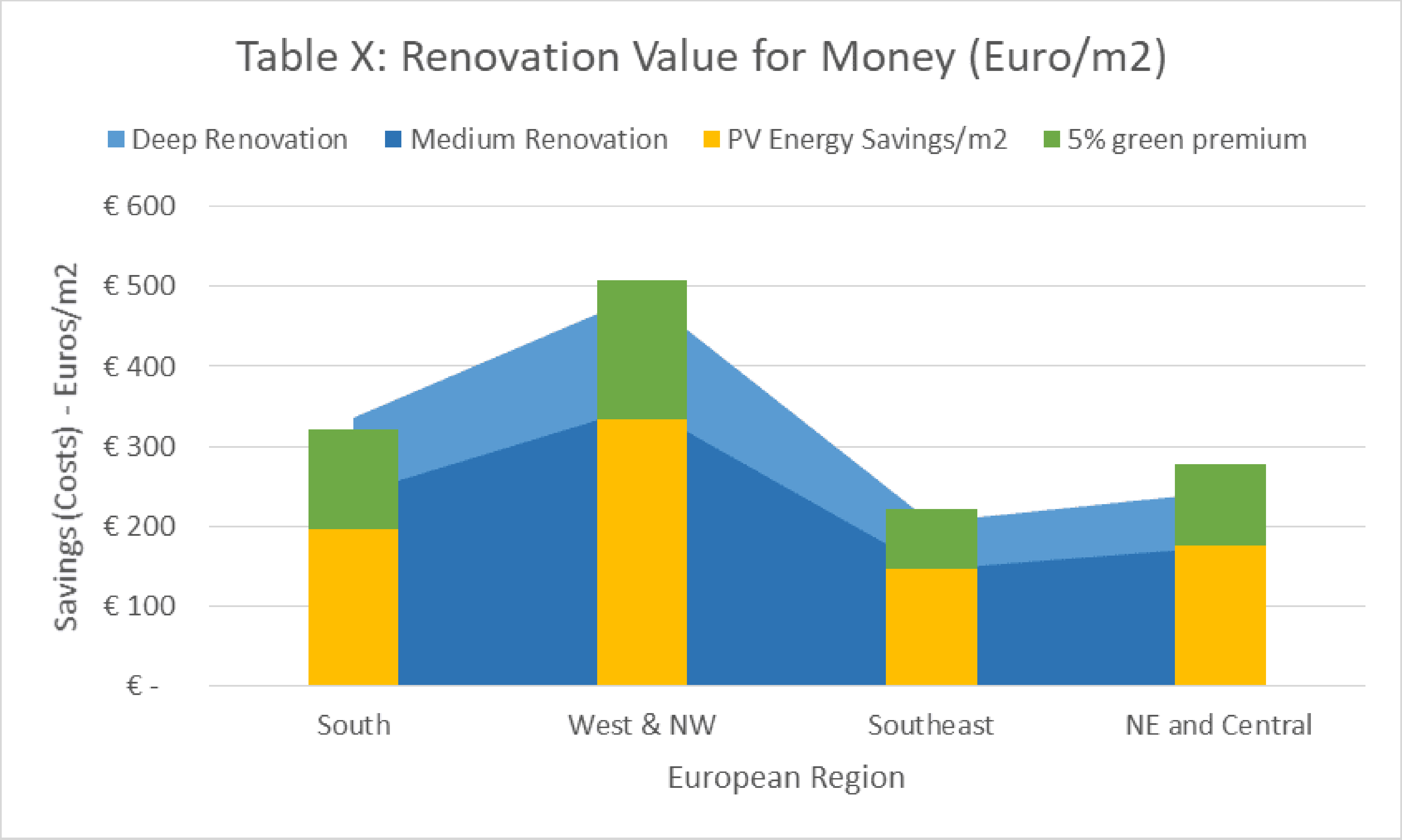



- 89up survey of 12,000 respondents across 5 EU MS ( , , , , and ) with a focus on public attitudes toward home renovation and financing
- The proposed **EU Renovation Loan (ERL)** could help finance exactly these types of upgrades in Spain, such as insulation improvements, making energy efficiency more accessible.

Graph source: 89up, 2025

# Deep renovation pays-out over 30 years…

## Renovation Value for Money (Euro/m2) discounted at 3%:



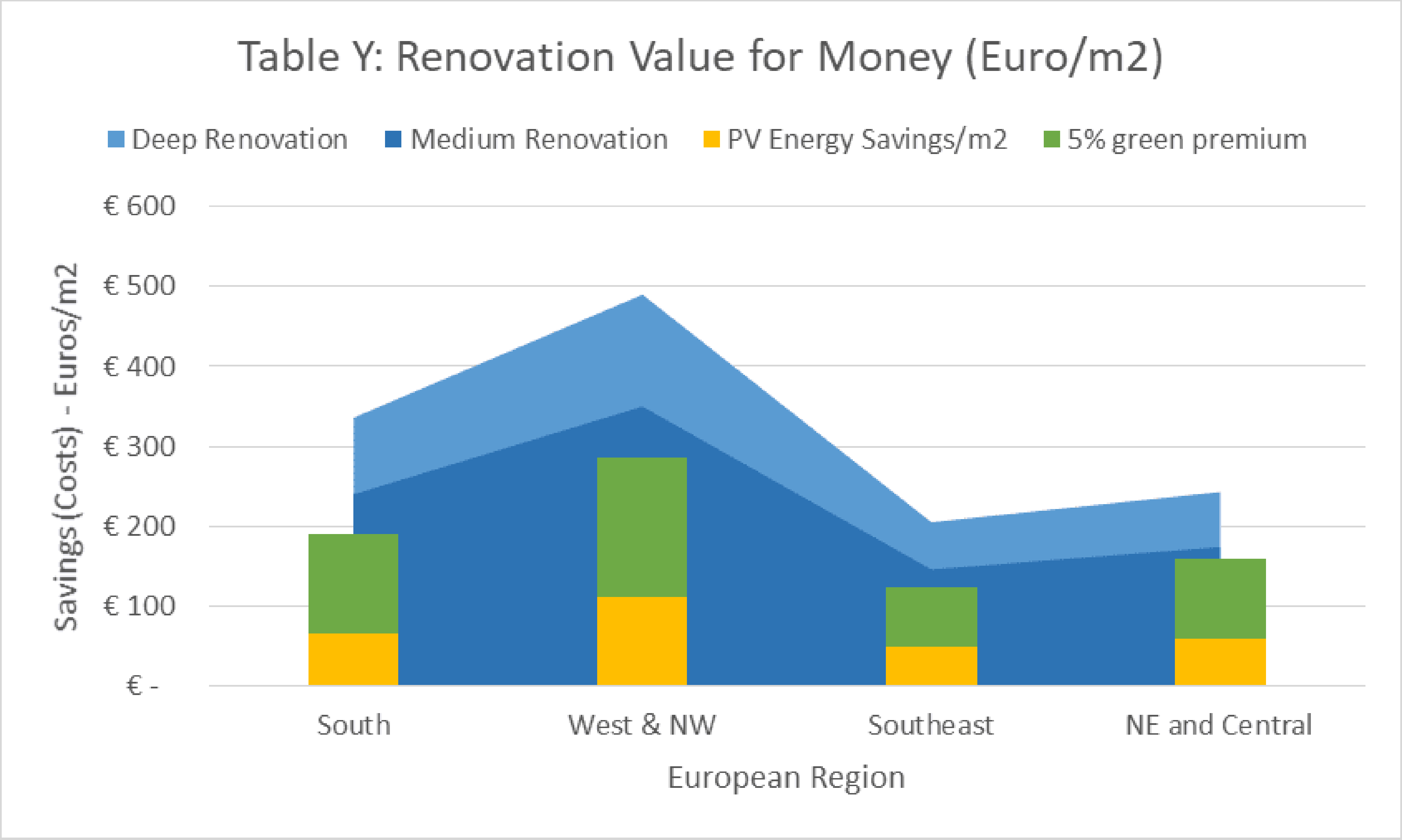

**Investing in renovation makes "long-term economic sense" for homeowners:**

- Cuts bills in half ✓
- Delivers a 5% property value increase ✓

* does not include CO2 value nor other "non-energy" benefits

# …but only at low (less 3%) discount rates

## Renovation Value for Money (Euro/m2) discounted at 15%:




**Medium renovations**

- **If they deliver a 50% reduction in energy costs**

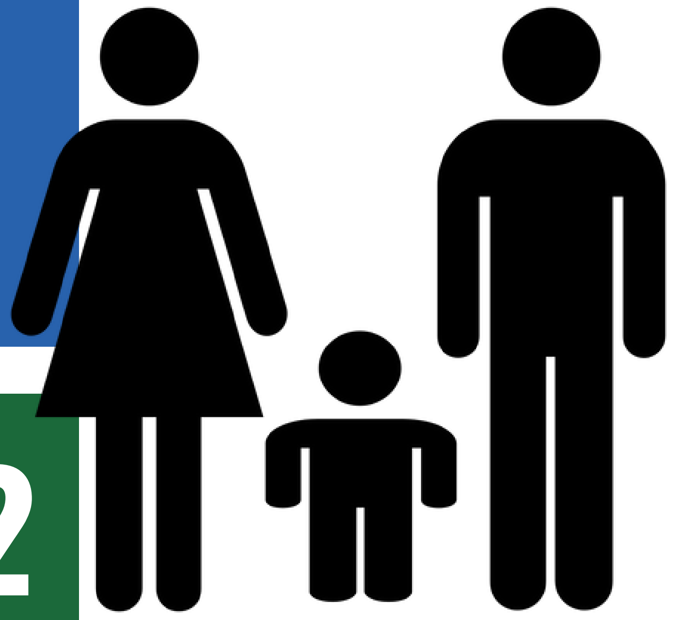
**Don't break even funded at 15% cost of capital**

# The EU Renovation Loan

# Energy Performance in Buildings


## The EU Renovation Loan (“ERL”)

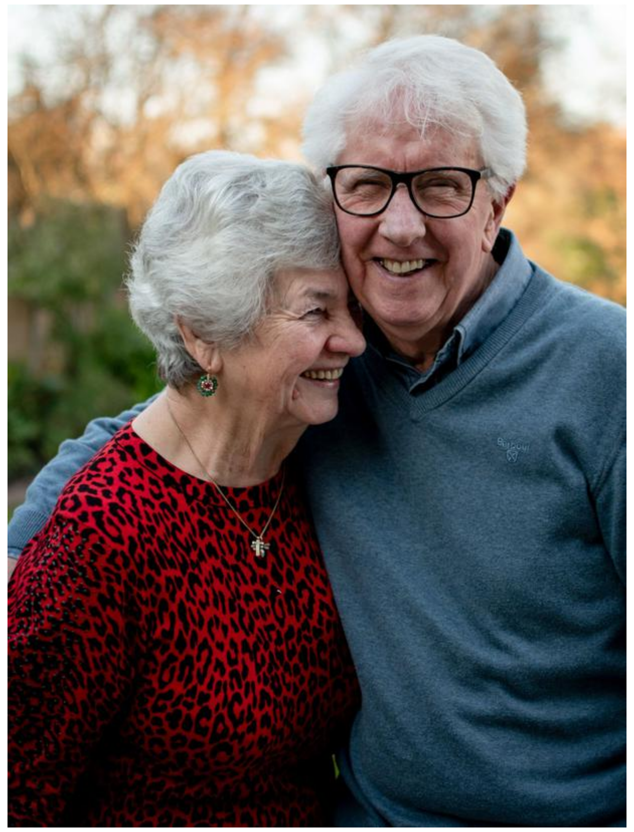
**is an EU-backed, privately contracted, collateralised loan that provides all homeowners fair and equal access to long-term financing for the deep renovation of their home. The funding is provided on a (near) zero-coupon basis with repayment of principal and accrued interest at EU-borrowing costs upon the earlier of transfer, sale or its 30 year maturity.**

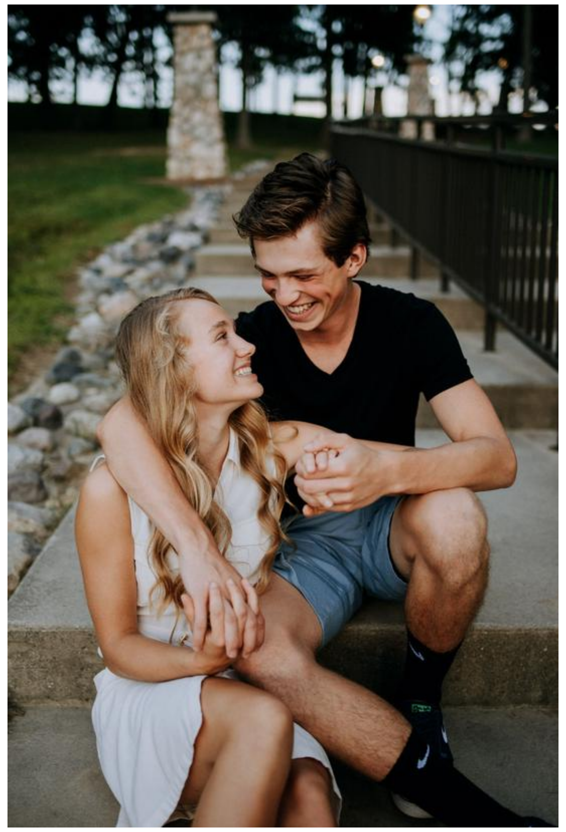


# Consumer Perspective
# ERL supports vulnerable communities

The elderly with reduced pensions

Young couples with a mortgage and with no savings



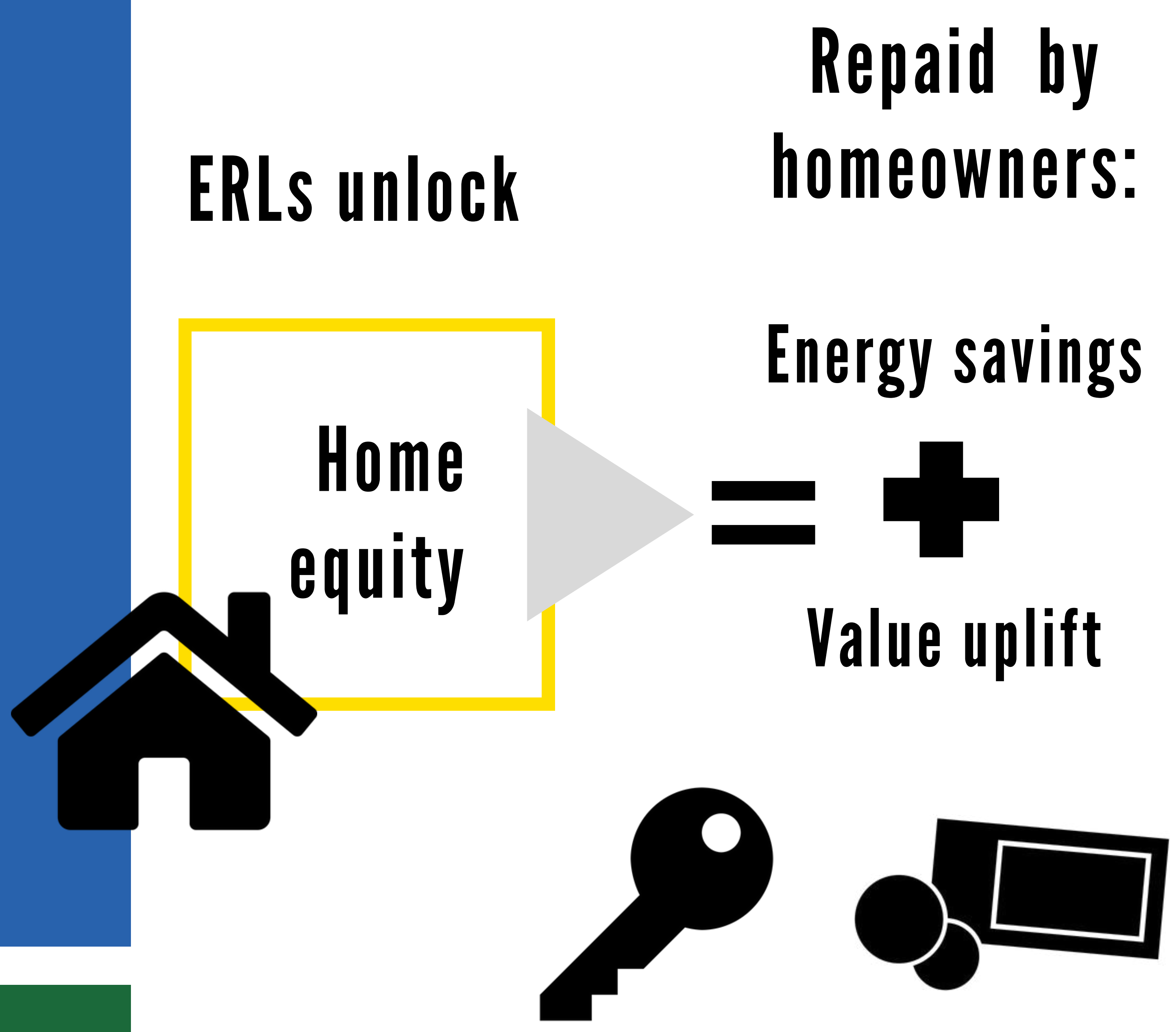


**The ERL targets income constrained homeowners who can't access (more) low-cost mortgage finance**

**ERLs address affordability from a cash perspective by:**

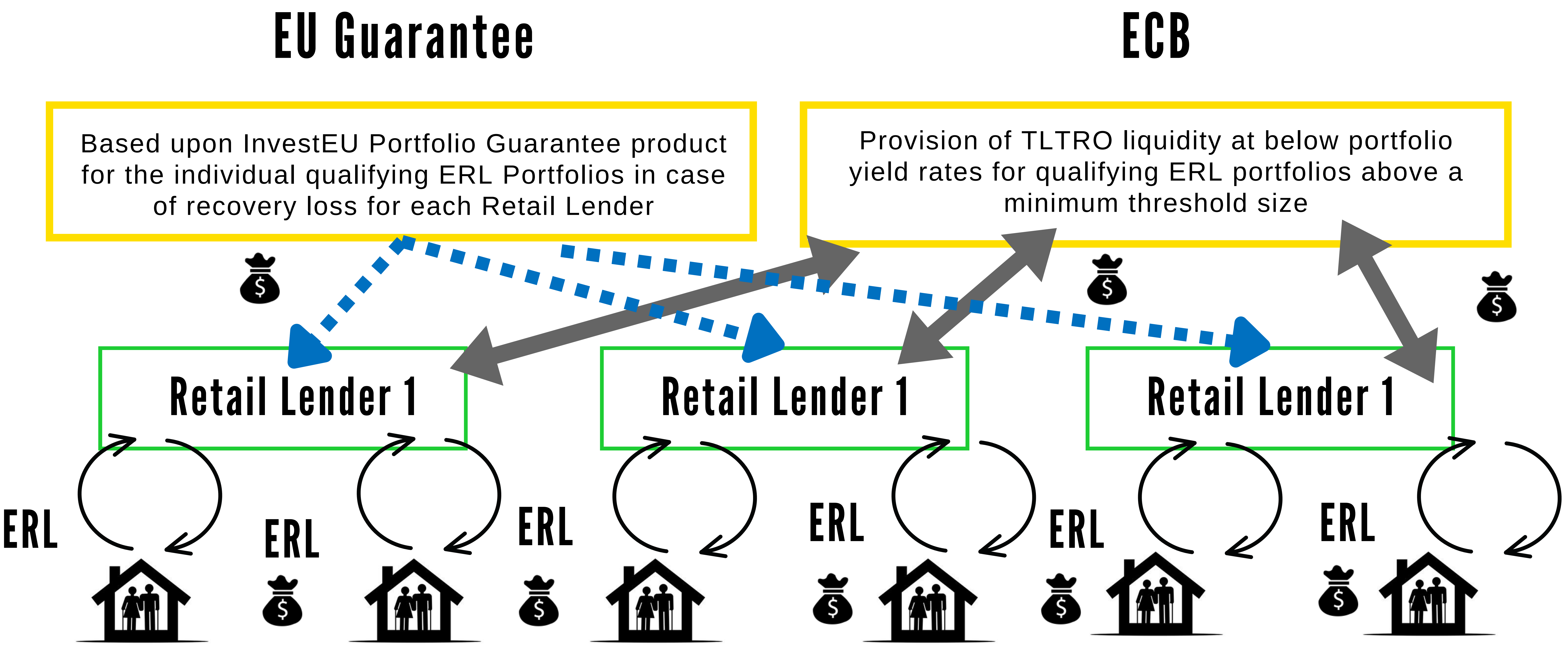
- **Delivering net cash positive savings directly** ✓
- **Rolling up some interest payments until the end** ✓

# The EU Renovation Loan value proposal




- Loans for renovation purpose, **aligned with EU Taxonomy** significant contribution criteria
- (Near) **zero-coupon structure:** so clients benefit from a net-cash positive deal until the property is sold or transferred, or until a 30 year maturity
- Borrowing amount **capped at home value** (to ensure deep renovation can be covered by collateral)
- **Collateralised by home** - lien is junior to existing mortgage
- **EU Guarantee** against eventual collateral insufficiency
- **Interest rate level** struck at EU-30 year borrowing cost (3-4% today)
- Supported by **central bank liquidity**

# Institutional relationships and funds flows that support thousands of branch offerings



# Lenders’ Perspective
# Climate finance $, risk reduction and origination fees

**EU** Renovation Market

**3.5 million**

transactions annually

=

**€100 billion**

Potential

**€1 billion**

Distribution fees annually

**the ERL provides lenders:**

A product to **“green”** their existing property collateral against which their current mortgages are lent

**Improving credit quality** ✓

+

**Energy performance** ✓

**of the whole portfolio**

# EU Renovation Loan: 100x more finance than direct subsidy

EU Guarantee against non-repayment by borrowers

Up to 100x more efficient than direct subsidy

<

Alternatives to:

- Cash grants
- Energy subsidies

TLTRO liquidity provision for ERLs

Activates drive from retail lenders to offer ERLs

- There are insufficient public funds to maintain cash grants and energy subsidies to combat the energy crisis
- Home equity can be mobilised to add resilience to EU homes
- ECB can “green” its activities adding ERLs to its funded programmes

# The ERL Facilitation Framework


# Hearing of Commissioner-designate Dan Jørgensen

Nov 5th 2024

*Would you consider setting up an* ***EU renovation loan*** *to assist in providing the capital funding needed to achieve a net zero building stock by 2050?*

19

**MEP Benedetta Scuderi (Greens/EFA Group)**


# Special Committee on the Housing Crisis in the European Union

## March 3rd 2025

Commissioner Jørgensen

- **Euro 21.3 billion** from the Recovery Resilience Facility has been earmarked for housing reforms and investments.

- We've planned to **double the cohesion policy, investments in affordable housing, and we can mobilize public and private investments through the planned Pan European Investment platform in collaboration with the EIB and other financial partners.**

# The ERL Policy Facilitation Framework

EED

EPBD

Mortgage Credit Directive

Push member states

to ensure

High quality training programs ✓

Energy Data (EPCs)

Certification schemes ✓

Growing the market for ERLs to fund deep renovations requires

**Upskilling of the EU renovation workforce**

**+**

**New certified renovation advisors**

# EED's Article 30 offers a frame to work with Member States on Renovation

- **Facilitate** the establishment of financing facilities to mobilise investments in EE in different sectors
- **Strengthen** cooperation and dialogue with private and public financial institutions

Regulate the voluntary National Energy Efficiency Fund set up by MS

- **Promote** energy efficiency lending products EE mortgages & green loans
- **Introduce** reporting requirements on energy efficiency financing



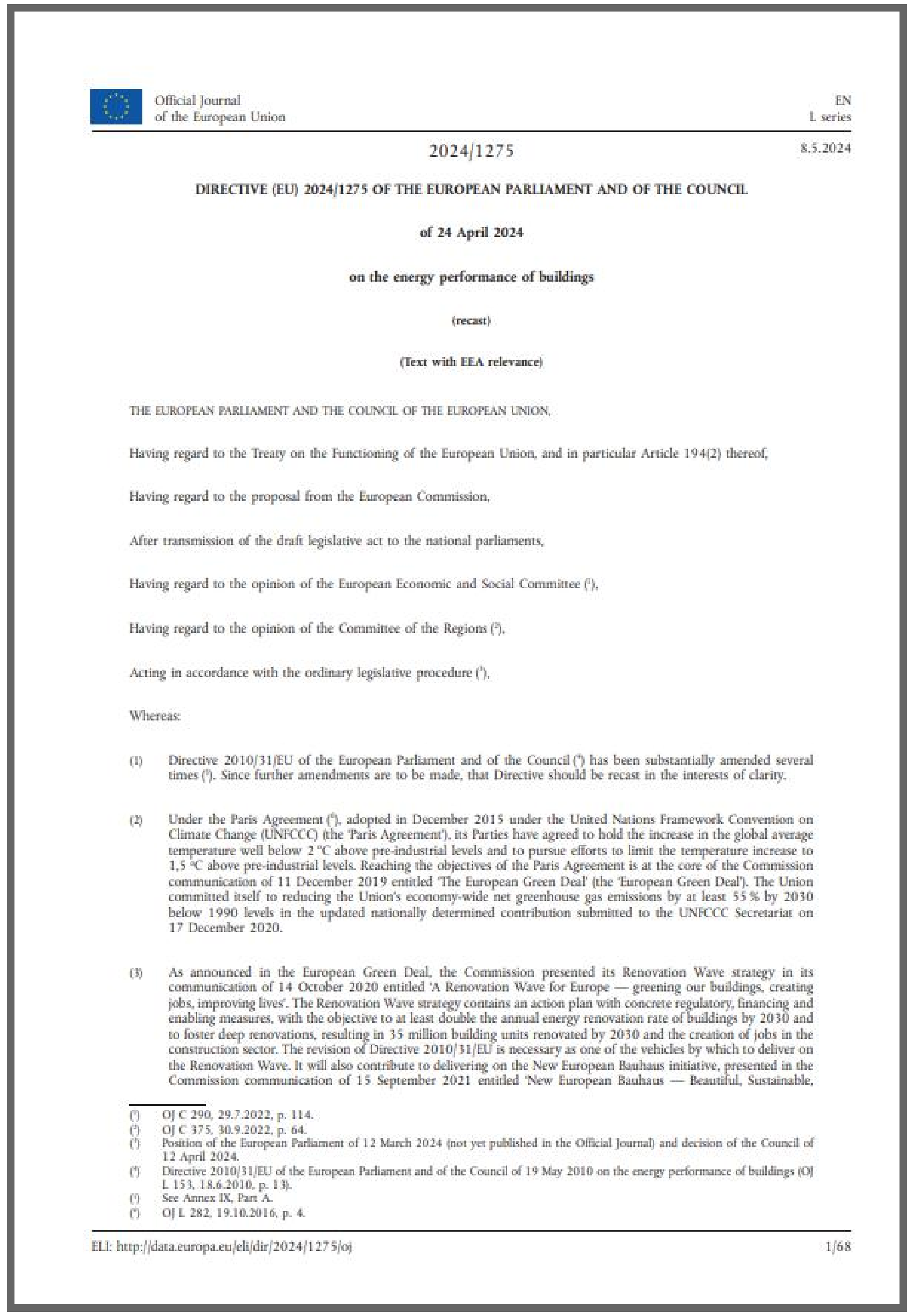
Source: EC, 2023

| ERL Components | | EED recommendation for Article 30 |
|---|---|---|
| A | Zero-coupon structure | Various financing solutions are offered including a standalone loan offer, **zero-interest** 'eco-loans' ✓ |
| B | EU Green Guarantee | Unlock private sector financing for energy efficiency improvements: Member States can actively support private financial institutions to extend suitable lending products, e.g. through de-risking tools **like loan guarantees** ✓ |
| C | A fair interest rate | It is important that the **interest rate** of an energy efficiency financial product is not higher than a regular financial product in the same institution for a comparable type of investment. ✓ |
| D | 30 year final maturity | Affordability can be improved through pre-financing of the work, longer loan maturities that consider the lifetime of the installations, ✓ |
| E | ECB liquidity facility | *Without direct reference |
| F | Designed to benefit low income Europeans | Specific guarantees should be provided to allow youth and the aging population to access energy efficiency lending products. ✓ |

# ERLs help fund MPS

## Mortgage Portfolio Standards (MPS) is a regulatory lever to engage lenders

MPS is a regulatory mechanism where **lenders pledge to work with their clients** to increase the energy performance of the buildings which back their mortgages along a **science-based trajectory for their portfolio.**



Official Journal
of the European Union

EN
L series

2024/1275

8.5.2024

DIRECTIVE (EU) 2024/1275 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

of 24 April 2024

on the energy performance of buildings

(recast)

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 194(2) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee (1),

Having regard to the opinion of the Committee of the Regions (2),

Acting in accordance with the ordinary legislative procedure (3),

Whereas:

(1) Directive 2010/31/EU of the European Parliament and of the Council (4) has been substantially amended several times (5). Since further amendments are to be made, that Directive should be recast in the interests of clarity.

(2) Under the Paris Agreement (6), adopted in December 2015 under the United Nations Framework Convention on Climate Change (UNFCCC) (the 'Paris Agreement'), its Parties have agreed to hold the increase in the global average temperature well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1,5 °C above pre-industrial levels. Reaching the objectives of the Paris Agreement is at the core of the Commission communication of 11 December 2019 entitled 'The European Green Deal' (the 'European Green Deal'). The Union committed itself to reducing the Union's economy-wide net greenhouse gas emissions by at least 55 % by 2030 below 1990 levels in the updated nationally determined contribution submitted to the UNFCCC Secretariat on 17 December 2020.

(3) As announced in the European Green Deal, the Commission presented its Renovation Wave strategy in its communication of 14 October 2020 entitled 'A Renovation Wave for Europe — greening our buildings, creating jobs, improving lives'. The Renovation Wave strategy contains an action plan with concrete regulatory, financing and enabling measures, with the objective to at least double the annual energy renovation rate of buildings by 2030 and to foster deep renovations, resulting in 35 million building units renovated by 2030 and the creation of jobs in the construction sector. The revision of Directive 2010/31/EU is necessary as one of the vehicles by which to deliver on the Renovation Wave. It will also contribute to delivering on the New European Bauhaus initiative, presented in the Commission communication of 15 September 2021 entitled 'New European Bauhaus — Beautiful, Sustainable,

(1) OJ C 290, 29.7.2022, p. 114.
(2) OJ C 375, 30.9.2022, p. 64.
(3) Position of the European Parliament of 12 March 2024 (not yet published in the Official Journal) and decision of the Council of 12 April 2024.
(4) Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).
(5) See Annex IX, Part A.
(6) OJ L 282, 19.10.2016, p. 4.

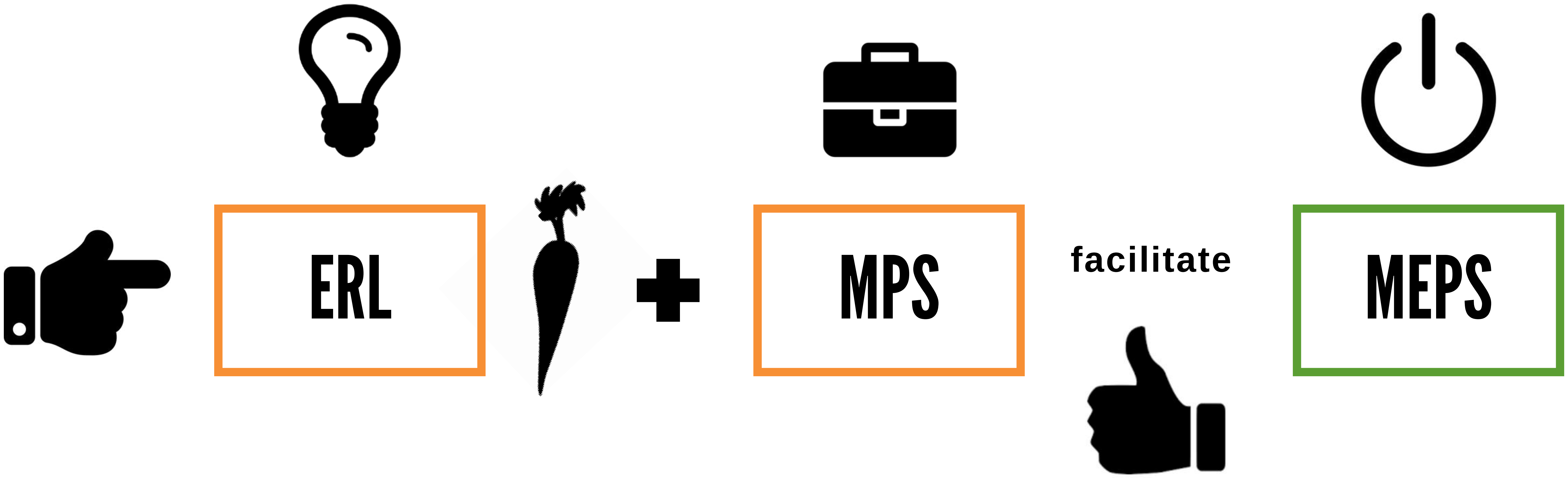
ELI: http://data.europa.eu/eli/dir/2024/1275/oj 1/68

Mentioned in the EPBD recast (April 2024)

**Will promote engagement by MS with FIs to identify and finance**

**buildings in their portfolios with the highest energy savings potential**

# ERLs enable lenders to adopt MPS and together they facilitate and deliver MEPS




- The data, review and operationalisation of a **MPS** will naturally help lenders identify qualifying **ERL** customers
- **ERL** provides a low-cost funding source for a deep renovation to those clients who **banks could not lend more to**

# 350,000 renovation project managers are needed in Europe (like DENA-KfW)

**Germany's DENA**

Has a network of 13k Government accredited energy experts

Work with | retail banks + state bank KfW

To prepare home renovation projects and finance them

**"independent renovation advisors"**

- Prepare a technical project
- Can help arrange financing
- Are required to co-sign loans

**Qualified renovation project manager could deliver**

10 deeply renovated buildings per year

of 35 million European building units

World require 350,000 accredited project managers

138,000 bank branches in the EU

# Answering the question... (without repeating the approaches of the past)

# Recommendations for Next Steps...

- Define Energy Poverty and Increase EU grants for renovating energy-poor homes
- Develop an EU Renovation Loan pilot (ERL) using InvestEU increase
- Offer Member States Renovation Loans using the InvestEU MS compartment mechanism
- Work with retail banks to train and improve contractor workforce

# Define Energy Poverty in each Member State

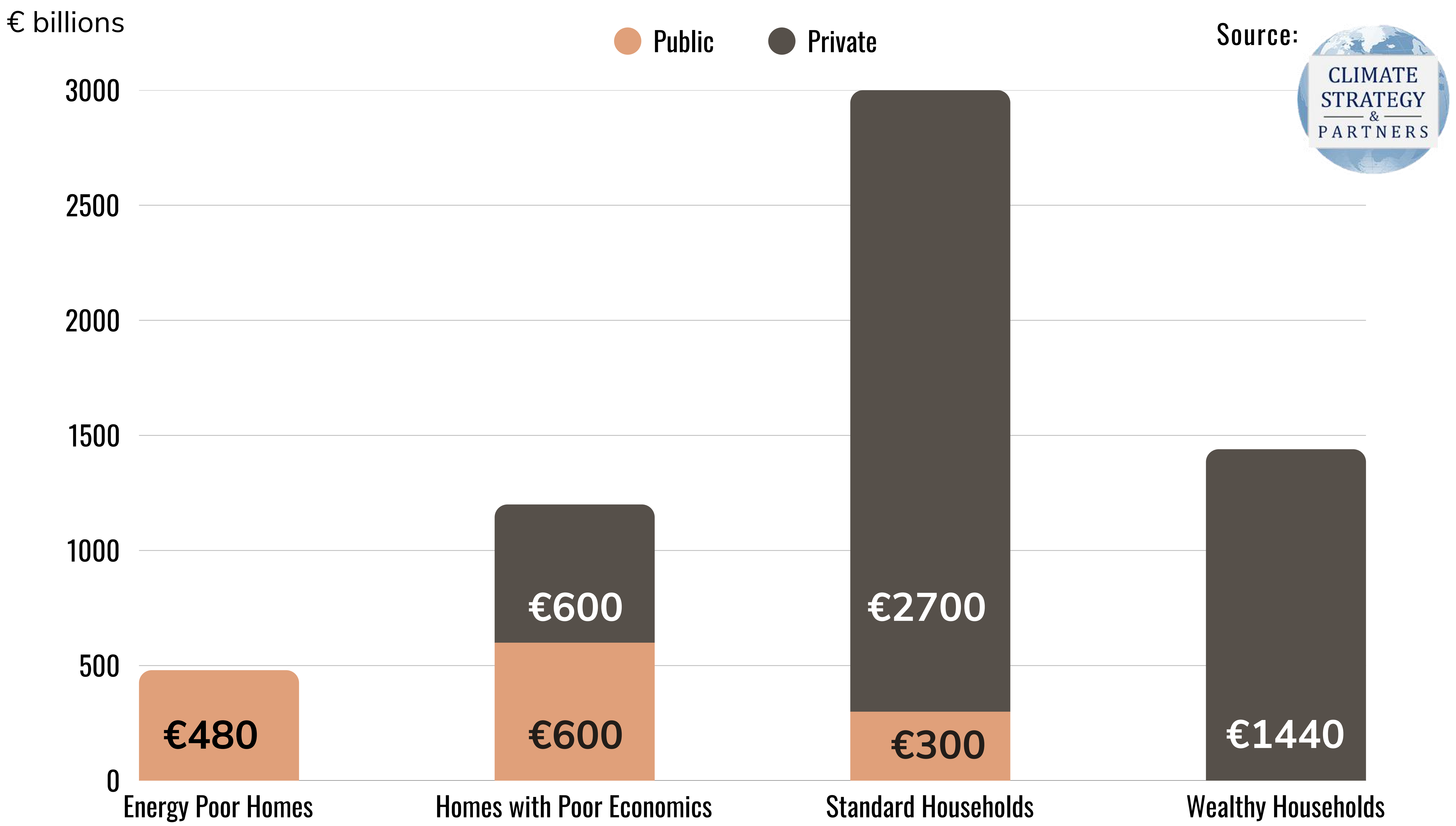
**Energy poor homes**

Represent around
16 million households

**Require up to €480 billion in social investments**

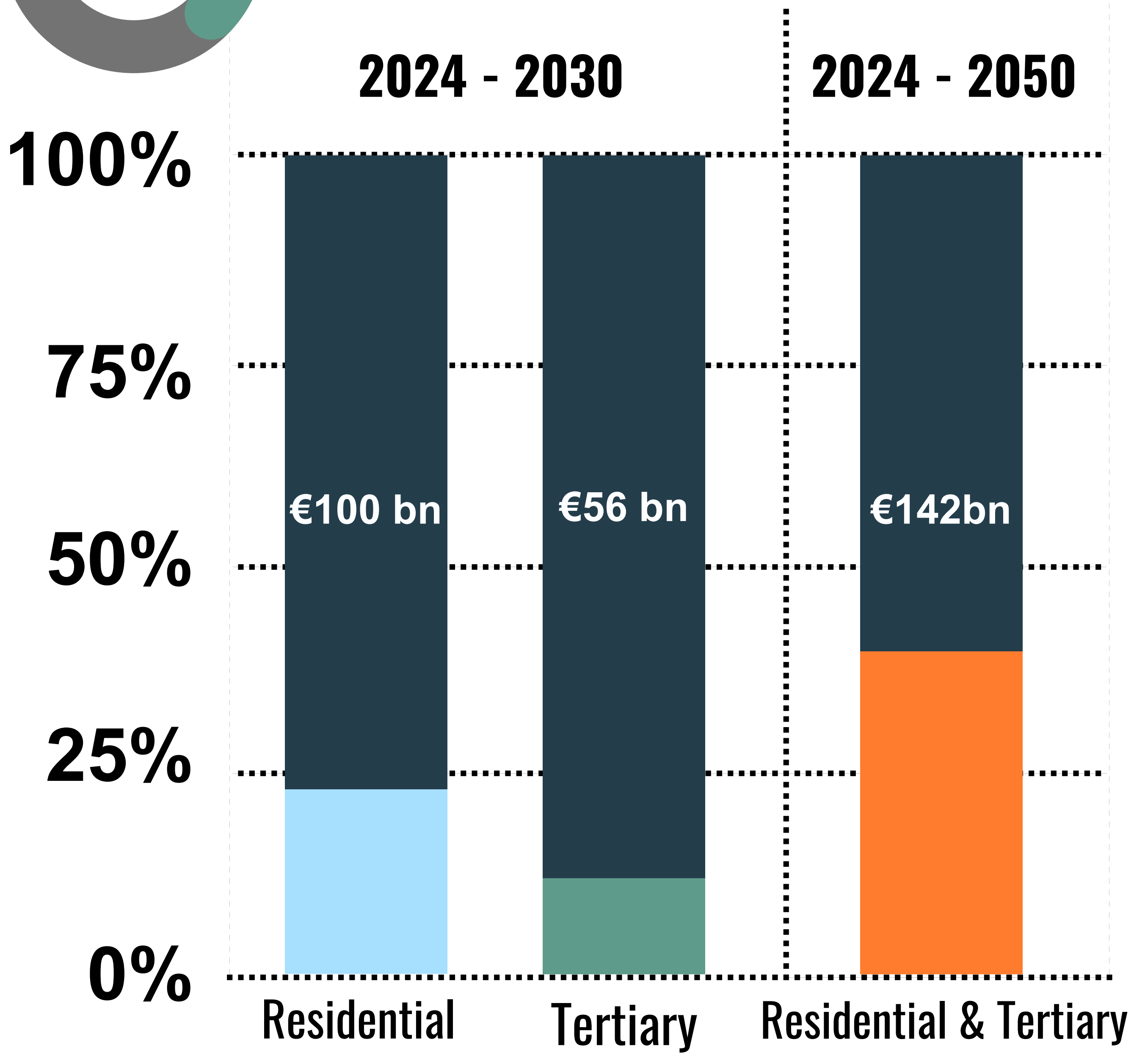
- 8% of the EU's 200 million households cannot adequately heat their homes.
- If each energy poor home received a €30k upgrade investment as a 100% public grant, the total grant funding needed for this segment would be €480 billion.
- Over 10 years, with 1.6 million renovations per year, the cost would be €48 billion per annum, or just over 1% of the €4 trillion annual social expenditure of the EU.

# Map the €6 trillion of home renovation finance needed for 2023-2050



# Identify where the (public) money is...

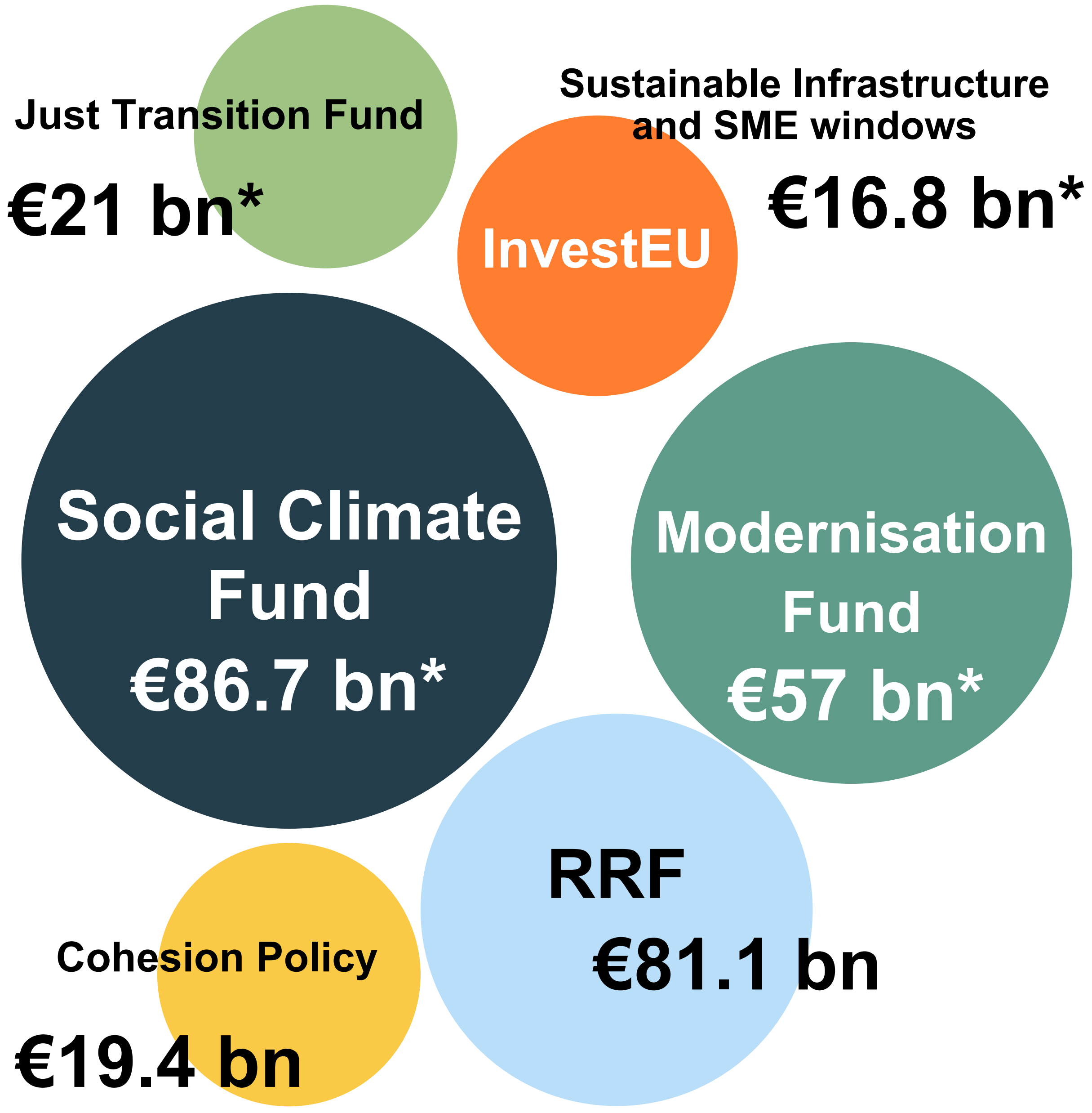
41% public share




Annual share of public & private investment gap of Residential and Tertiary Buildings from total gap

*(Averages from EC 2023, EC 2020b, EC 2022, I4CE 2024, Institute Rousseau 2024)*

EU funds allocated to Buildings investments (estimated amounts unless specified otherwise*)




*Buildings are part of investment scope, but no specific allocation is provided

# InvestEU "Renovation Loan as a Service"

HIGHER LEVERAGE (11.4X)

EU-LEVEL HARMONISATION

LOCALLY TAILORED

ADMINISTRATIVE SIMPLICITY

STREAMLINED DELIVERY

To avoid inefficiencies of the past and ensure Member State demand

1. Enabling local adaptation and local channels = more control and visibility.
2. Ensure aligned timings with national investment planning processes.
3. Excluding the impact of contributions to the EU FIaaS from the national debt calculus.

TA SUPPORT FROM EIB AND NPBS

# 2014 Renovation Loan template, ready to be activated on an "off-the-shelf" basis

Simplified "ex ante" assessment

MS identify in their (Single) Plan(s)

1. Indentify the climate investment gap
2. List the specific assets to be deployed
3. Determine the finance format/ maturity level of the asset
4. Map the end-beneficiaries

Source: Climate Strategy, 2024, "Filling the EU Climate Investment Gap more efficiently"

# Case Study - Repair Your Grandma's Home

**Co-financed by the Modernisation Fund**

follows trend established in 2009


- Created in 2024
- Finances up to 50% of efficiency measure
- Interest free loan offered by the government
- Building societies finance other 50%

- Govt has been using EU funds + local co-financing to promote the deep renovations

**3.9 MM**
Czech dwellings

in the last 15 years

**1/3+**
Renovated



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# Thanks!

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