


The EU Renovation Loan:

a new instrument to fund
the EU Renovation Wave

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3rd November 2022





Agenda

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Setting the scene

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What is the EU Renovation Loan?

3

Facilitation framework



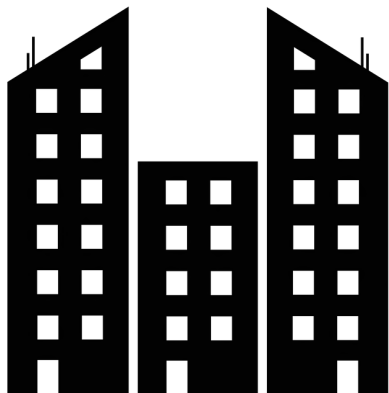
Setting the scene



Energy Performance in Buildings



**131 million
buildings**



**Most buildings
are inefficient**

- 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



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



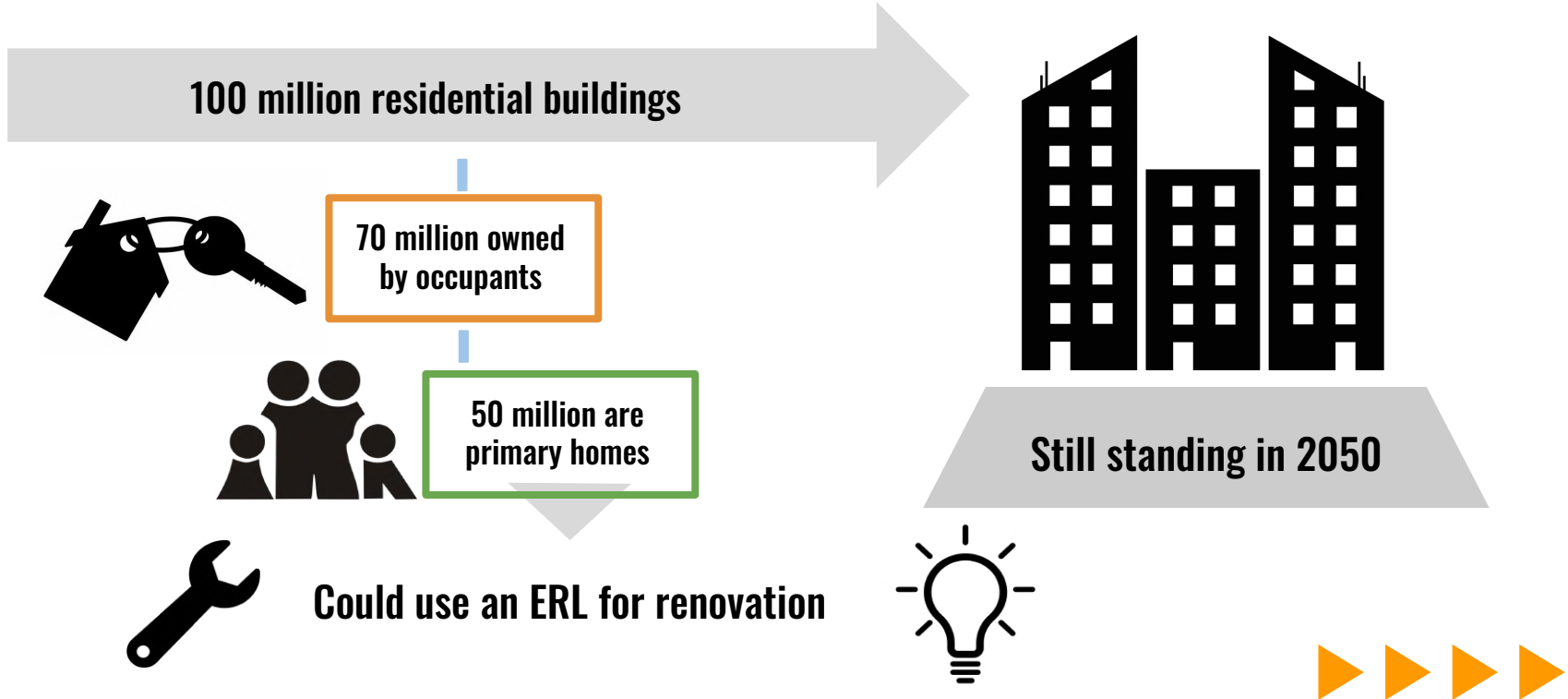
Worth over
€ 17 trillion

- **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

**Euro 3
trillion**

Institutional real estate investments in the EU27

50 million opportunities to be unlocked for the EU Renovation Wave





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



31%

Don't have the funds



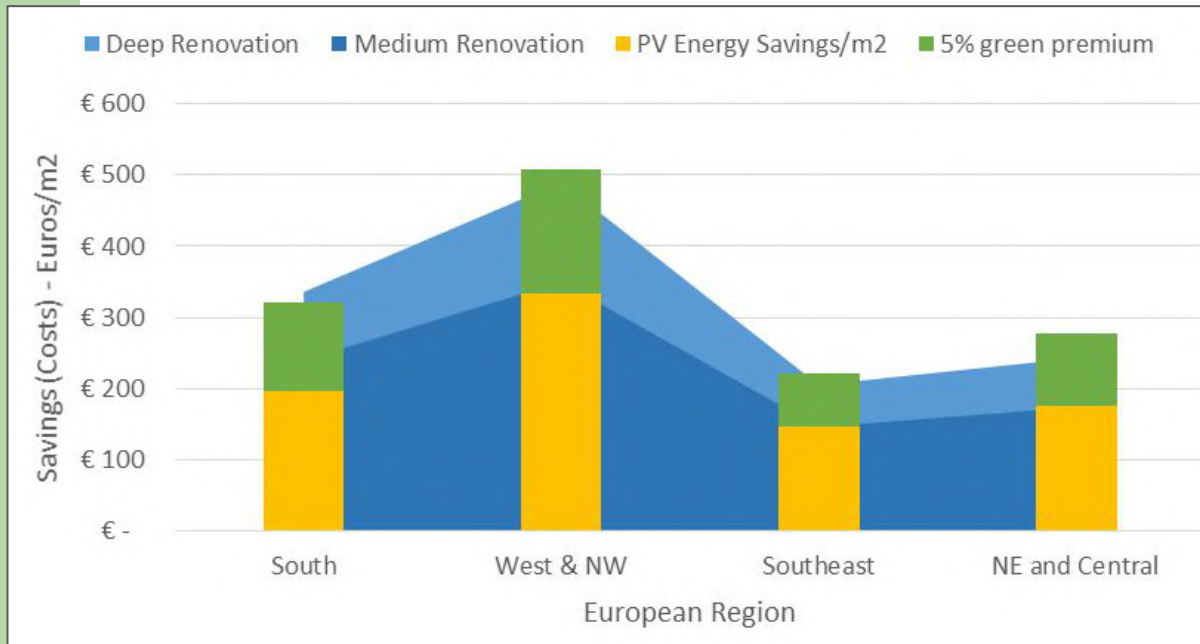
Below 10%

Saw “lack of information” or “lack of qualified” services as significant barriers to their renovation



Deep renovation pays-out over 30 years...

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



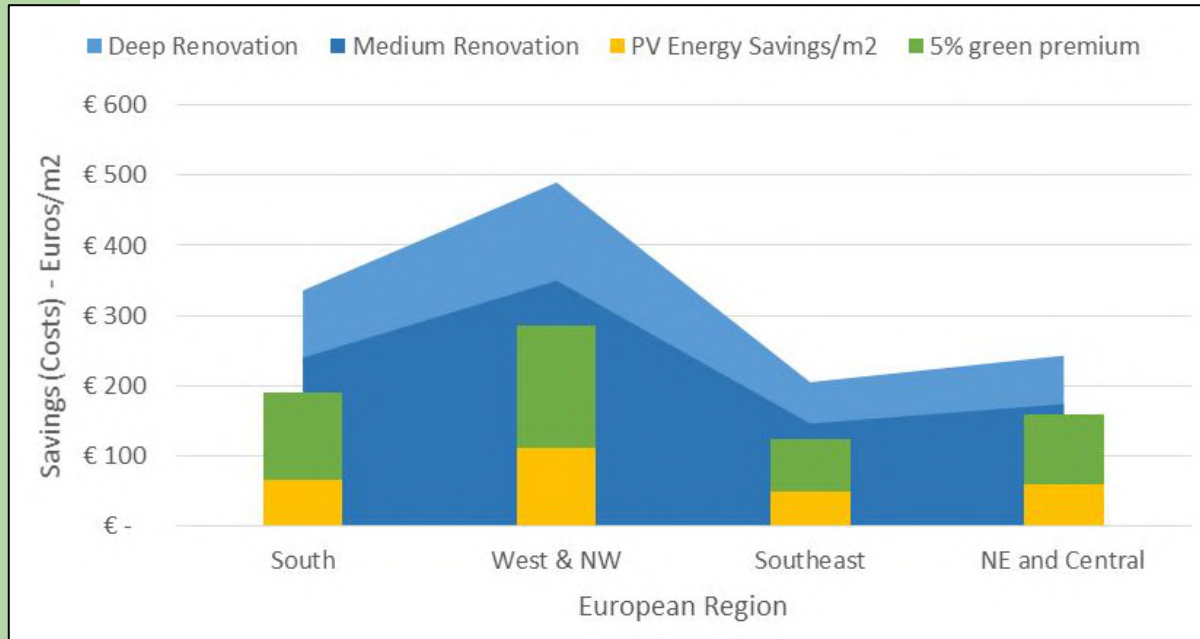
Investing in renovation
makes “long-term economic
sense” for homeowners:

- 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 make any sense



The EU Renovation Loan

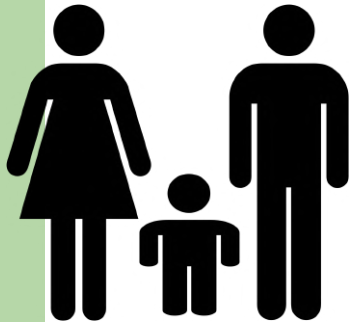


Definition of an EU Renovation Loan



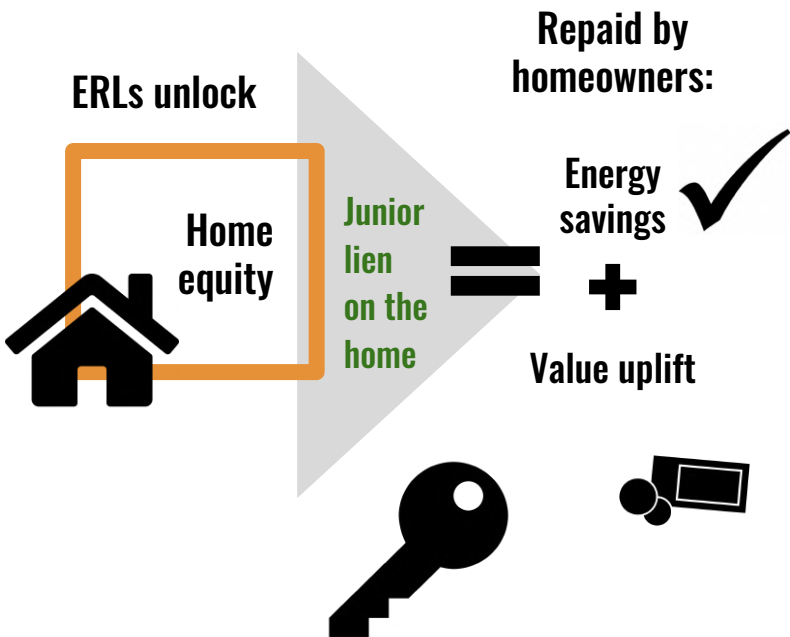
The EU Renovation Loan (“ERL”) is

“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 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.”





The EU Renovation Loan value proposal



- Loans for renovation purpose, **aligned with EU Taxonomy** significant contribution criteria
- **Zero-coupon structure:** so clients do not have to make repayments 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)
- **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 (2.2% today)
- Supported by **central bank liquidity**



35 million Europeans need €235 billion annually to renovate to get to net-zero 2050

2x rate of buildings renovation

+

10x those undertaking a deep renovation

+

Deliver the EU Renovation Wave



ERL is the only instrument that has the scale to be delivered by thousands of EU banks to millions of clients each year



ERL

- Can cost-effectively unlock 10+ trillion of euros of stored home-equity ✓
- To offer up to 50 million homeowners the necessary funds for a deep renovation ✓

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:

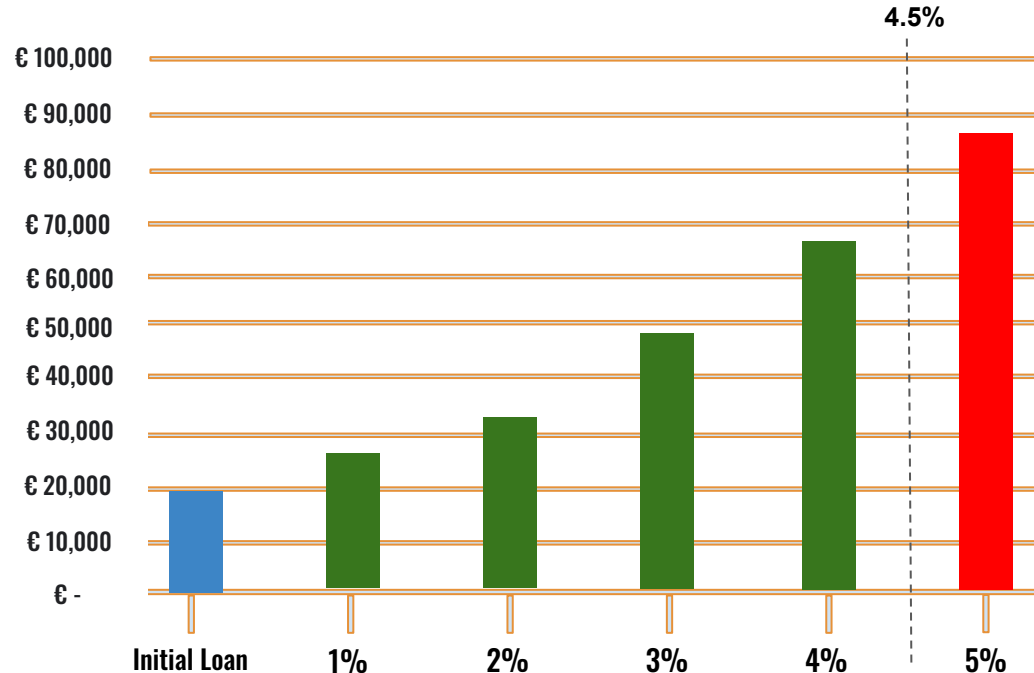
- **Delivering all energy savings directly** ✓
- **Rolling up interest payments until the end** ✓

Consumer Perspective: ERLs address Affordability, Value for Money and Inflation

ERLs

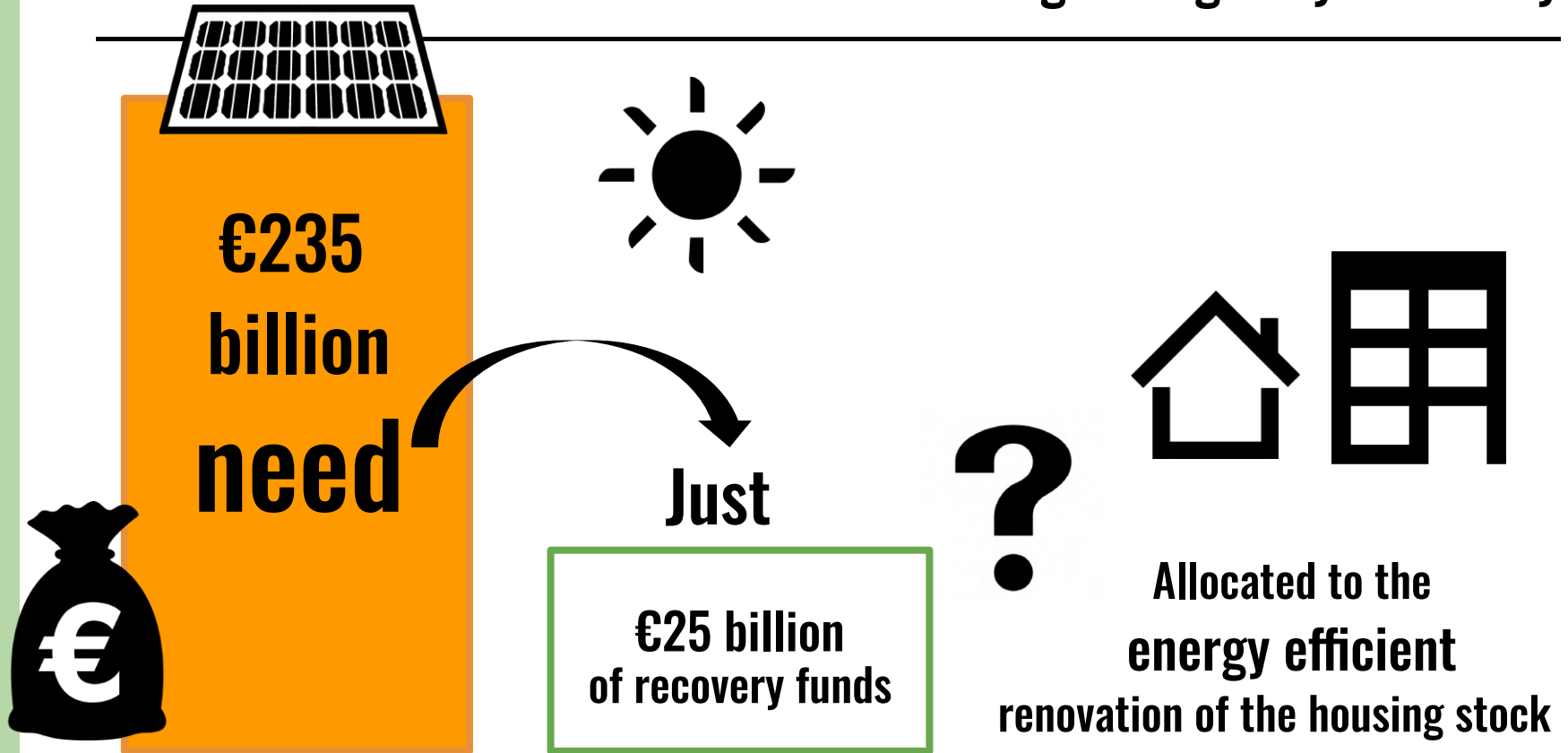
- Interest rate needs to be low ✓
- Proposed cap at 4.5%
- Historical home price increase 5% per annum since 1839
- Beats inflation ✓

ERL Repayments after 30 years vs Interest Rate



EU Perspective:

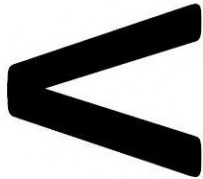
EU Guarantee offers High Budgetary Efficiency



ECB Liquidity enables lenders to play a more active role

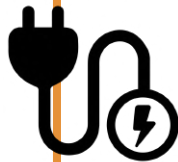
EU Guarantee against non-repayment by borrowers

Up to 100x more efficient than direct subsidy



Alternatives to:

- Cash grants
- Energy subsidies



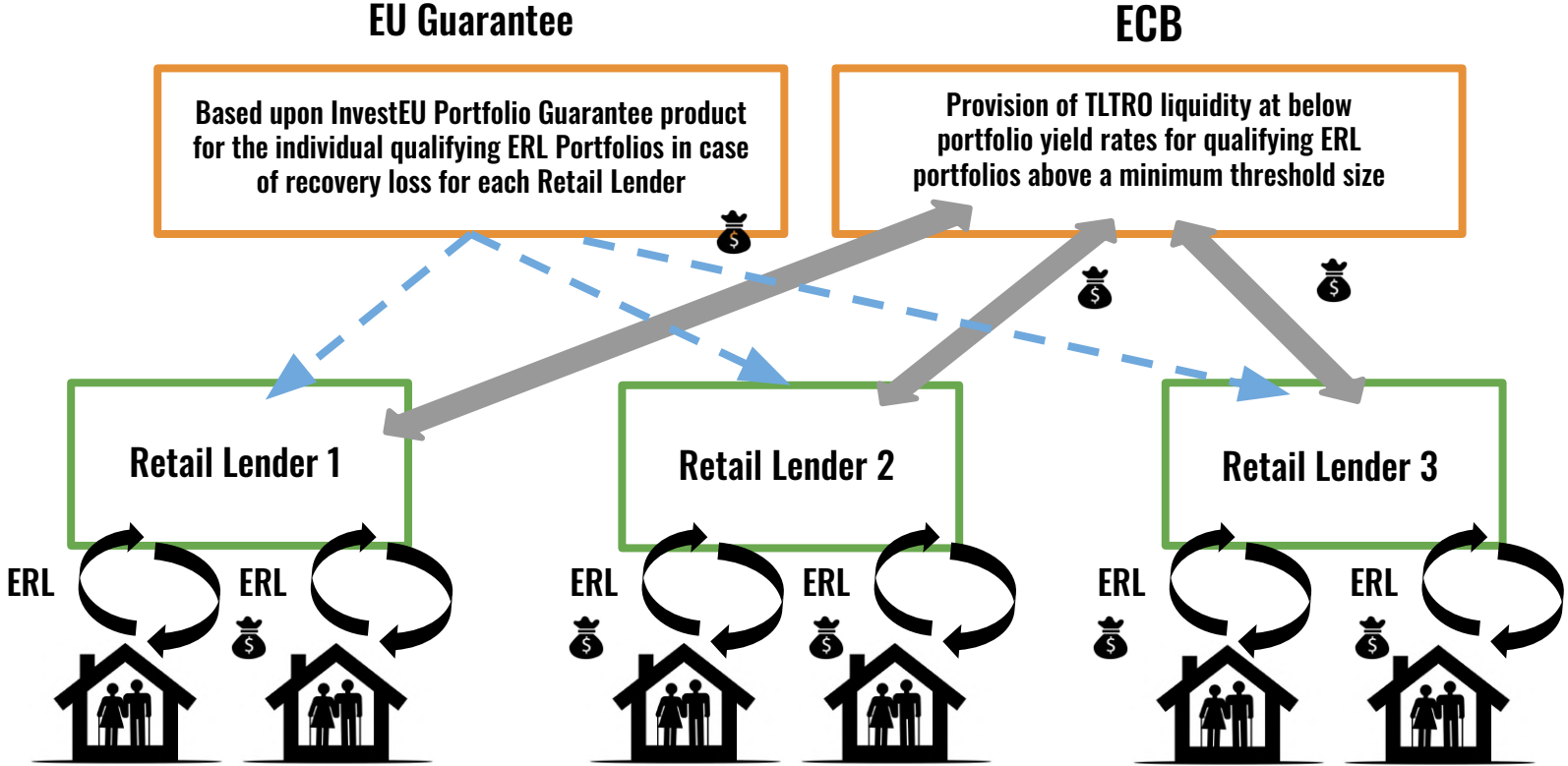
TLTRO liquidity provision for ERLs

Activates drive from retail lenders to offer ERLs



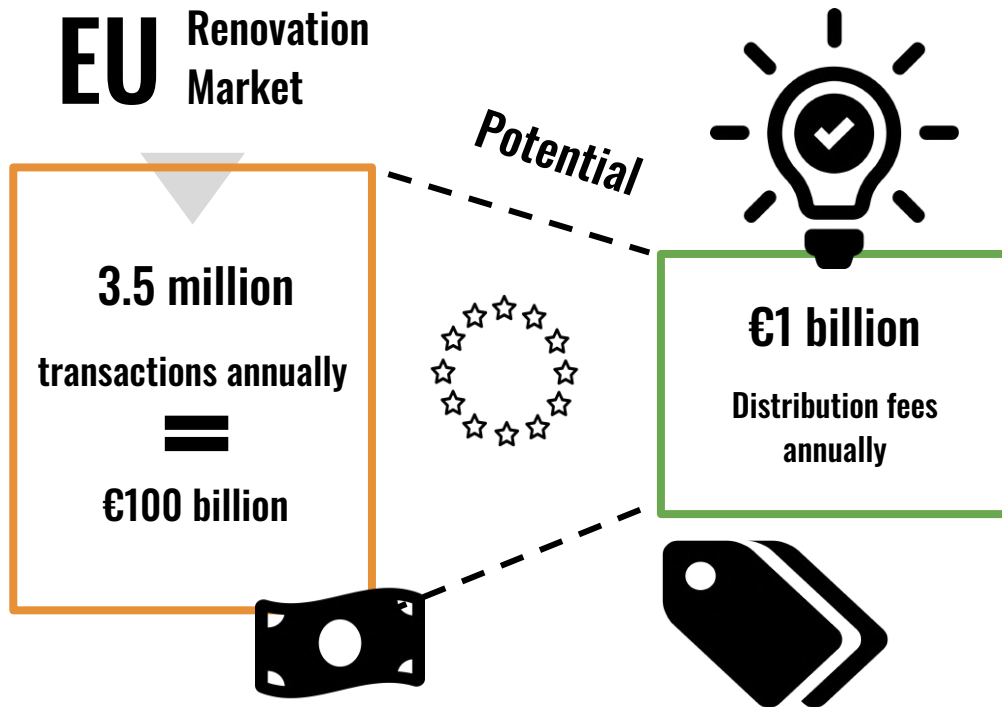
- There are insufficient public funds to maintain cash grants and energy subsidies to combat the energy crisis
- Home equity can be mobilised to add resilience to EU homes
- ECB can “green” its activities adding ERLs to its funded programmes

Institutional relationships and funds flows that support thousands of branch offerings



Lenders' Perspective

Portfolio greening, risk reduction and origination fees



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

The EU Renovation Loan sits alongside existing renovation programmes



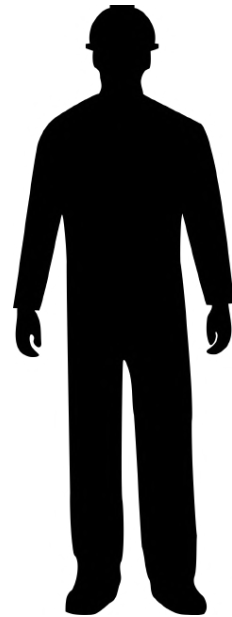
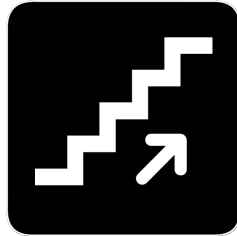
Zero-interest eco-loans (“eco-PTZ”)



KfW’s promotional support for energy efficiency in residential buildings



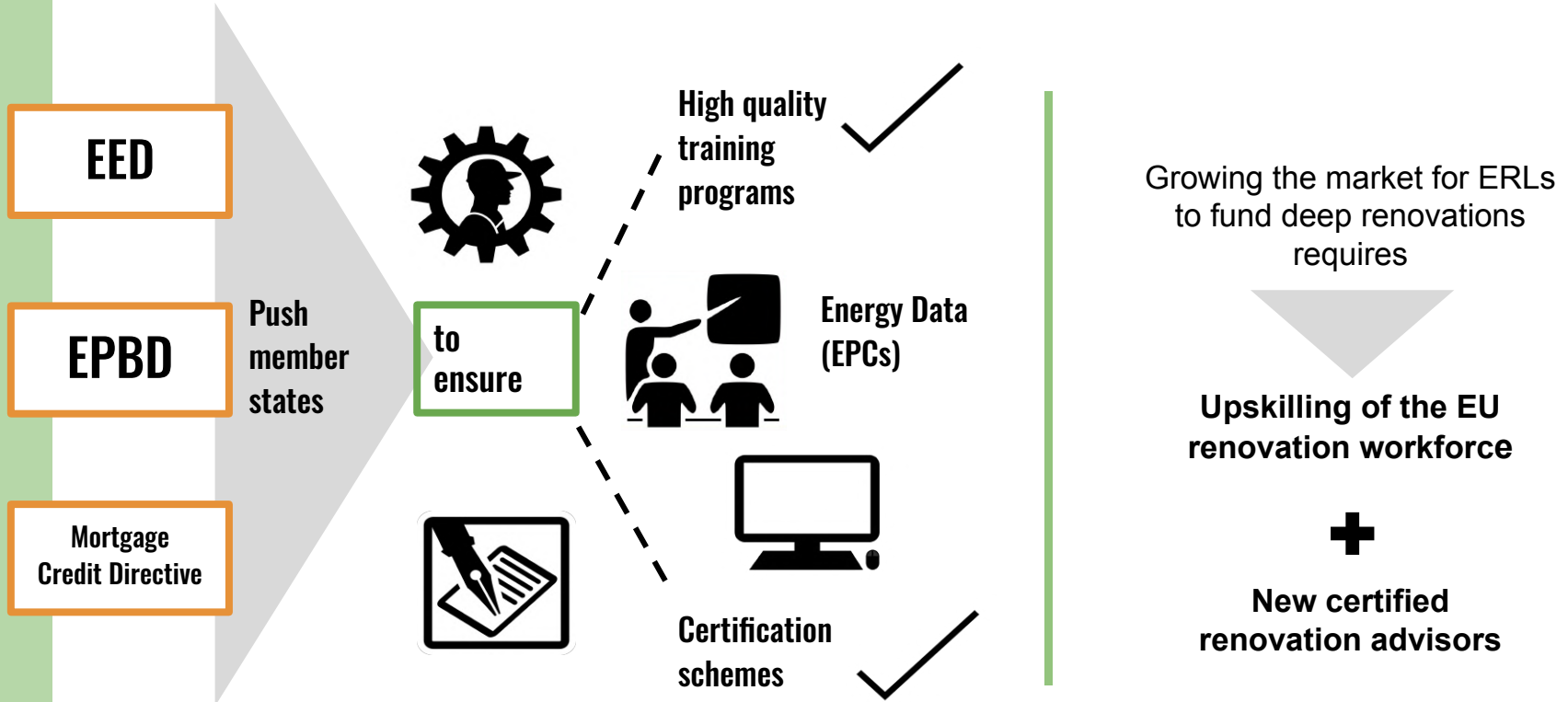
Ecobonus Programme





The ERL Facilitation Network

The ERL Facilitation Framework



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

Germany's DENA

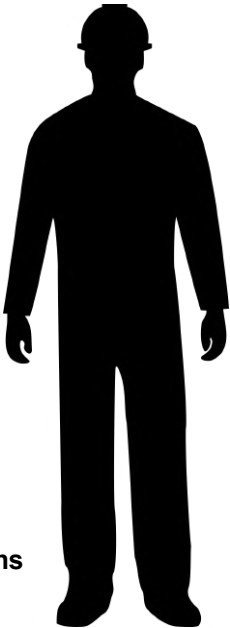
Has a network of 13k Government accredited energy experts

Work with

retail banks + state bank KfW



To prepare home renovation projects and finance them



Qualified renovation project manager could deliver

10 deeply renovated buildings per year

the renovation wave of

of 35 million European building units

World require 350,000 accredited project managers

138,000 bank branches in the EU



"independent renovation advisors"

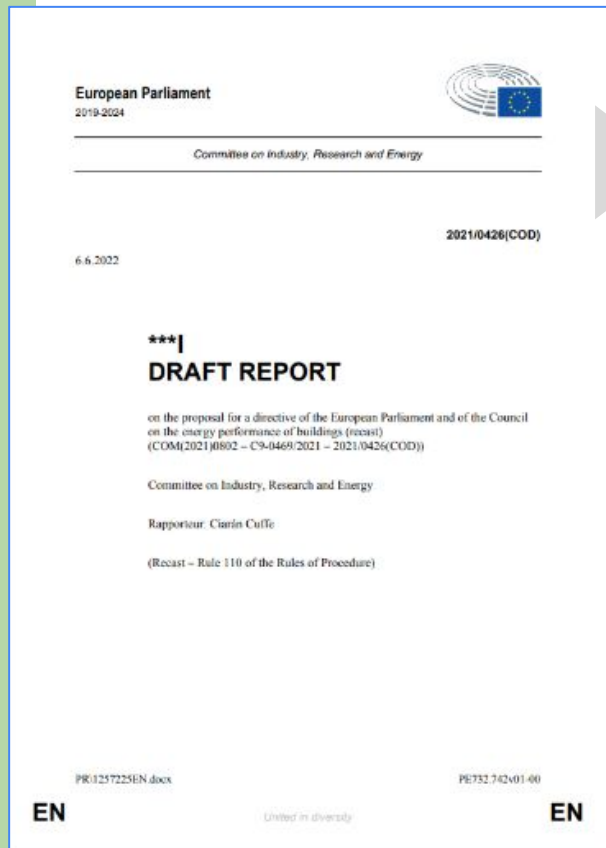
- Prepare a technical project
- Can help arrange financing
- Are required to co-sign loans

DRAFT ITRE Committee Report calls for a special renovation instrument “the ERL”

June 2022, ITRE Committee EPBD Recast adds a new reference to the ERL

Amendment 38, Recital 46 a (new)

(46a) Member States should provide guarantees to financial institutions, in order to promote targeted financial products, grants and subsidies, for enhanced energy performance of buildings for people in energy poverty, vulnerable and low-income households, and other groups having difficulty to access finances or get traditional mortgages. Member States should ensure that those groups benefit from cost neutral renovation schemes, for instance through fully subsidised renovation schemes, or blends between grants and energy performance contracting and onbill schemes. At Union level, special renovation instrument (the "EU Renovation Loan") should be established to provide homeowners with access to Union, long-term borrowing costs for deep renovation.

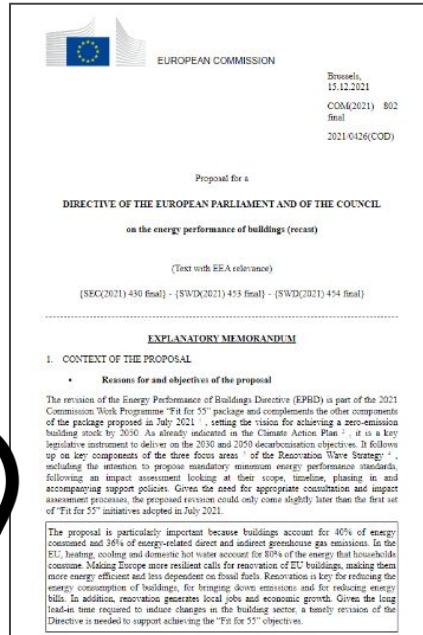


The image shows a document from the European Parliament, dated 2019-2024, from the Committee on Industry, Research and Energy. It is a draft report on the proposal for a directive on the energy performance of buildings (recast). The report is dated 6.6.2022 and has the reference number 2021/0426(COD). The report is titled "DRAFT REPORT" and is authored by Rapporteur Cianis Cuffe. The document is in English (EN) and is part of the PR03257225EN docx file. The document is titled "DRAFT REPORT" and is dated 6.6.2022. The report is on the proposal for a directive of the European Parliament and of the Council on the energy performance of buildings (recast) (COM(2021)0802 – C9-0469/2021 – 2021/0426(COD)). The committee is the Committee on Industry, Research and Energy. The rapporteur is Cianis Cuffe. The document is a recast of Rule 110 of the Rules of Procedure. The document is in English (EN) and is part of the PR03257225EN docx file. The document is titled "DRAFT REPORT" and is dated 6.6.2022. The report is on the proposal for a directive of the European Parliament and of the Council on the energy performance of buildings (recast) (COM(2021)0802 – C9-0469/2021 – 2021/0426(COD)). The committee is the Committee on Industry, Research and Energy. The rapporteur is Cianis Cuffe. The document is a recast of Rule 110 of the Rules of Procedure. The document is in English (EN) and is part of the PR03257225EN docx file.

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.**



Introduced in the EPBD recast
(Dec 2021)



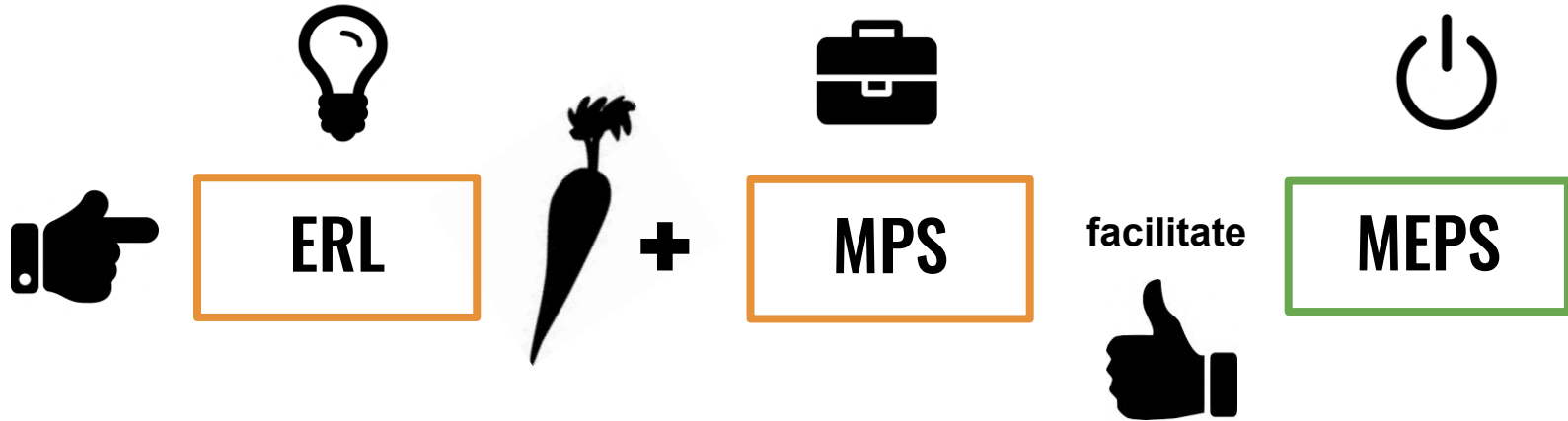
Will promote engagement by
MS with FIs to identify and
finance



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** ✓



Six Take-away Conclusions



1

3.5 million deep renovations needed annually

2

Unlocked by **Euro 10 trillion home equity** ERLs

3

Standardised and offered by **thousands of approved lenders**

4

Using **existing components** (Zero Coupon, Guarantee & TLTRO)

5

Aligns interests of lenders with EU Institutions and Customers

6

Provides confidence to MS to train and engage project managers and renovation supply chains

Key Recommendations

- 1** A **technical task force** must be launched containing senior members of relevant EU institutions to deliver a blueprint for the EU Renovation Loan
- 2** The “fit-for-55 package”, especially the **EPBD**, must provide the outlined “**ERL Facilitation Framework**”
- 3** Retail lenders must **urgently address mortgage portfolio climate risks and support their customers renovate**
- 4** EU **Financial and Prudential frameworks must be fully reviewed** to see that they are not inadvertently doing harm to the energy transition



NOVEMBER 2022



The EU Renovation Loan: a new instrument to fund the EU Renovation Wave



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The EU Renovation loan will
broaden the access to energy
efficiency finance for homeowners

Download report



Thanks!

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