EU taxonomy: Moving towards alignment and consistency
Now that large real estate companies have released their non-financial statements including the reporting on EU taxonomy, the focus is shifting towards reporting alignment. The Real Estate industry is facing major challenges to prepare an aligned EU taxonomy reporting, including a risk analysis, a review of the IT tools and the impacts of this regulation on the strategies of asset managers and developers.

Most large real estate companies\(^1\) are about to publish (if they have not already) their Universal Registration Document, which will include for the first time a specific part regarding their eligibility to the EU taxonomy on their non-financial statement. As a reminder, to have eligible activities means that the company generates Turnover or has CapEx or OpEx related to an activity described in one of the 2 annexes already published (mitigation\(^2\) and adaptation\(^3\) to climate change).

Publishing the ratio of eligibility of Turnover, CapEx and OpEx already generated diverging interpretations across countries. If there may be tolerance and understanding from the European Securities and Market Authority (ESMA) for these first publications, it is reasonable to assume that they will be more demanding as the European Commission is clarifying the requirements and interpretations in the coming years as the focus shifts towards alignment.

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**Fig. 1 – The main steps of compliance to taxonomy**

<table>
<thead>
<tr>
<th>Eligible Activities</th>
<th>Substantial contribution to environmental objectives</th>
<th>Do No Significant Harm to other environmental objectives</th>
<th>Respect of minimum Social Safeguards</th>
<th>Art. 8 Publication of Green key Performance Indicators</th>
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<tbody>
<tr>
<td>Aligned activities</td>
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**Perimeter of Eligible Activities**
Scientific approach to the selection of activities

**Environmental Objectives**
1. Climate change mitigation
2. Adaptation to climate change
3. Sustainable use and protection of aquatic and marine resources
4. Transition to a circular economy
5. Pollution prevention and reduction
6. Protection and restoration of the biodiversity and ecosystem

**Green financial KPIs**
- Share of green TO
- Share of green CapEx
- Share of green OpEx
- Exhaustive Contextual Information

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1. companies who apply NFRD, i.e. large PIE above 500 FTE.
2. resource.html (europa.eu)
3. resource.html (europa.eu)
The real estate industry is facing multiple challenges to be able to define their alignment for next years:

**For developers:**
- Their processes need to evolve to take into consideration new externalities that generate new costs (for example: measurement of biodiversity impacts, minimum rate of 70 percent of circularity in waste generated, mandatory Global Warming Potential (GWP) consideration, etc.)
- They have to update their business IT tools in order to trace and to account for each piece of evidence of the alignment corresponding to each and every Technical Screening Criteria. This would require an interface between these tools and the financial consolidation IT tools to ease reporting.

**For Asset Managers and Developers:**
- They will have to conduct a specific “robust climate risk and vulnerability assessment” of their assets in stock or construction sites.

Most of these new obligations are not present in national regulations and the speed of each government to translate the EU directives (defining some of these obligations) into their respective national regulations already has an impact on alignment country by country. For example, a life cycle analysis is now mandatory in France for every new construction. It provides the Global Warming Potential seen earlier. This is not yet the case in other EU countries.

However, even if stakeholders adapt their processes to these new objectives really fast, the ongoing projects, based on a previous set of less demanding rules, will generate turnover impossible to align for at least two years. Therefore, it is already safe to say that most developers who reported a strong eligibility ratio will have a very close to zero alignment next year and a steady improvement going forward after that.

Before reaching their adequate level. From a governance perspective, according to the recent draft of the annex to the platform on Sustainable Finance report, boards will need to accept and implement the changes required to aim perfect alignment in construction of new buildings (7.1) and renovation of existing buildings (7.2) in 2024, and if possible, even sooner.

The length of the construction cycle (invoicing over several years) has another implication for the characterization of the alignment. Indeed, promoters will receive calls for funds from theoretically aligned operations before being able to deliver proof of this alignment, since it can only be provided on delivery (e.g. Energy Performance Certificate).

Nevertheless, we can make an educated guess that the characterization of the alignment will probably be divided into two phases:
- Phase one before the delivery, when the developer will commit to the alignment, and
- Phase two thereafter, when one will be able to prove it.

There are some interesting developments in the recent draft of the annex regarding other objectives, substantial contribution to circular economy is being clarified for both new constructions and renovations. If it is confirmed, it might offer an alternative for projects aiming (only) Nearly Zero Energy Building (NZEB) level and not NZEB - 10 percent even if the requirements in terms of circular economy are important (design, integration of reused and recycled materials, 90 percent of waste prepared for re-use and recycling). The final version of the text is being expected in the first semester of 2022 and it might have an impact on the chosen strategy by developers to align their programs.

As the first taxonomy reportings are published by companies, the European Commission may continue to share the correct interpretations through its FAQ section and adjustments will probably need to be made to the strategies of asset managers and developers. The sooner the identification of those adjustments are made, the faster the rectifications on strategies will be. The close monitoring of these changes remains an important consideration throughout the process.

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4 Deloitte has developed a tool to address the issue of risk assessment linked to climate change called Climwise.

5 Annex to the platform on Sustainable Finance’s report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy (europa.eu).

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