

Investigating the role of ESG bonds and loans in financing housing renovation among social housing providers

A comparative approach to six European countries

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Publication date

2023

Document Version

Final published version

Published in

RE-DWELL Conference. "Housing co-creation for tomorrow's cities"

Citation (APA)

Fernández, A., Elsinga, M., & Haffner, M. (2023). Investigating the role of ESG bonds and loans in financing housing renovation among social housing providers: A comparative approach to six European countries. In A. Diaconu (Ed.), *RE-DWELL Conference. "Housing co-creation for tomorrow's cities": Conference Proceedings* (pp. 84-85). Zenodo.

Important note

To cite this publication, please use the final published version (if applicable). Please check the document version above.

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RE-DWELL Conference

“Housing co-creation for tomorrow’s cities”

Grenoble, 8-9 December 2022

Pacte Social Sciences Research Centre, University Grenoble Alpes

Conference Proceedings

www.re-dwell.eu

RE-DWELL “Delivering affordable and sustainable housing in Europe” has received funding from the European Union’s Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement No 956082

The European Commission’s support for the production of this publication does not constitute an endorsement of the contents, which reflect the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

RE-DWELL

Deliverable 3.7 RE-DWELL Grenoble Conference

Version 1

February 2023

DOI [10.5281/zenodo.7705327](https://doi.org/10.5281/zenodo.7705327)

Editor:

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Panel 5: From housing issues to policy and back

Alex Fernández, Marja Elsinga, Marietta Haffner, *Investigating the role of ESG bonds and loans in financing housing renovation among social housing providers: a comparative approach to six European countries*

Joris Hoekstra, Martina Gentili, *The position of young adults on the Amsterdam housing market: How to better connect system world and life world?*

Sara Caramaschi, Marco Peverini, *Towards a socio-ecological and territorial understanding of housing issues: A new interpretation of housing dynamics in the case of Milan, Italy*

Investigating the role of ESG bonds and loans in financing housing renovation among social housing providers: a comparative approach to six European countries

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Keywords: ESG, social housing, energy transition, green finance, sustainability

The energy transition across Europe's built environment will probably be one of the main financial challenges of the coming decades. Renovating the social housing stock to attain the built fabric standards introduced in the European Directive on Energy Performance of Building (EPBD) will require the mobilisation of both public and private funding as envisioned by the European Commission in the Renovation Wave. In this landscape of increased investment needs, Environmental, Social and Governance (ESG) standards have risen to a prominent position as the main indicators of sustainable investment. While ESG-earmarked funds have grown significantly in the last years, there is widespread concern about the real impact of ESG-funded projects and whether these are in fact bringing additional investment into key transitional activities such as the renovation of the social housing stock. This project poses two questions, first, *How does ESG funding interlock with the renovation strategies of social housing providers?* And second, *How do institutional factors affect the uptake of ESG funding?* To answer these questions, this project draws from semi-structured interviews with finance officers from housing providers across six European countries with large social housing stocks: Austria, Germany, The Netherlands, France, Sweden, and the UK. The main objective of this paper is to critically assess the contributions of ESG funding to the energy transition and contextualise it within traditional forms of private and public financing of social housing.

Sustainability transition and its financial implications have become an area of legislative focus for European institutions. For instance, the Strategy for financing the transition to a sustainable economy has proposed a set of voluntary standards for European Green Bonds (EUGBS). This standard requires bond issuers to align with the EU Taxonomy, a classification of environmentally sustainable economic activities. When it comes to building renovation, the Taxonomy requires a 30% reduction in primary energy consumption to characterize an investment as "green" and thus be financed through a green bond. For new constructions, the green requirements are even more stringent with primary energy demands set at least 10% lower than national nearly-zero-energy requirements. The introduction of ESG standards does not only target borrowers at the project level but also the information investment funds release to end-investors. The Sustainable Finance Disclosure Regulation ("SFDR") imposes a set of information disclosure requirements on funds so these are comparable and clearly labelled. For asset managers, these regulations result in increased transparency requirements, updated prospectus and the release of more granular information. The SFDR also details indicators to identify green assets. In the case of real estate, a formula has been proposed for the identification of those energy inefficient assets by taking into account the value of buildings under EPC C and nearly zero-energy (NZEB) in proportion to overall stock value. These indicators serve to assess how Taxonomy-aligned are different investment funds. The EU's legislation on ESG has so far focused on environmental indicators and the social Taxonomy is

yet to be finalised, as a result, while green financing is becoming more tightly regulated, social indicators remain less stringent.

Real estate is one of the areas where Taxonomy-alignment is supposed to be higher and willingness for investment is stronger. However, transitional risks in real estate are deeper since banking and the wider financial sector are reliant on property valuations, albeit with major divergences by country. The Joint Research Centre (JRC) (Alessi & Battiston, 2022), has estimated that while a 100% of real estate activities are taxonomy-eligible only 15% of them are taxonomy-aligned, despite the existence of widespread transitional risks for 70% of the sector. The goals of the EU legislation and guidance are to serve as labels directing investment towards sustainable activities and signalling which areas are under higher environmental risks. Ultimately, the objective of ESG finance is to increase the pool of investors into aligned activities resulting in more favourable lending conditions such as lower interest rates and broader investor bases. Traditionally, the academic literature on Green finance has focused on the question of additionally, that is whether ESG brings additional funding into aligned sectors. Some researchers highlight Green Bonds as not generating additional capital for environmental protection, as these usually refinance conventional ones at more advantageous rates (Bongaerts & Schoenmaker, 2019). Research on Green Bonds (Fatica & Panzica, 2021) has found that ESG-linked securities do seem to be financing new investments into aligned projects.

When it comes to social housing, our preliminary findings point to unequal access to ESG finance. Countries such as the UK where social housing providers have been accessing private funding for decades seem to be more accommodating to ESG reporting requirements. For example, Peabody, a large London-based provider, has issued a 12-year £350m green bond under its new sustainability financing framework specifically targeting the energy transition and housing stock renovation. In other countries such as the Netherlands where most social housing associations are funded via loans from the Local Authorities and the Water Banks the implementation of ESG criteria seems to be taking place at the financial intermediary level. Similarly, in France, the Caisse de Dépôts(CDC), a bank providing low-interest loans to housing associations, has issued a green bond that has been used for housing renovation by a Parisian housing association. Preliminarily, the capacity of ESG finance to bring additional funding to social housing renovation seems to be path-dependent hinging on national institutional arrangements and prior direct access to capital markets.

Acknowledgment

The work presented has been carried out within the RE-DWELL Innovative Training Network, funded by the European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement no. 956082.

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