



# Searching for the right approach to green and affordable housing: the example of the EU 2030 energy and climate framework

UNECE workshop

The future of social housing: environmental and social challenges and the way forward

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# Taking stock on green social housing



Figure 1: Trends of stock evolution in the residential sector (million homes)

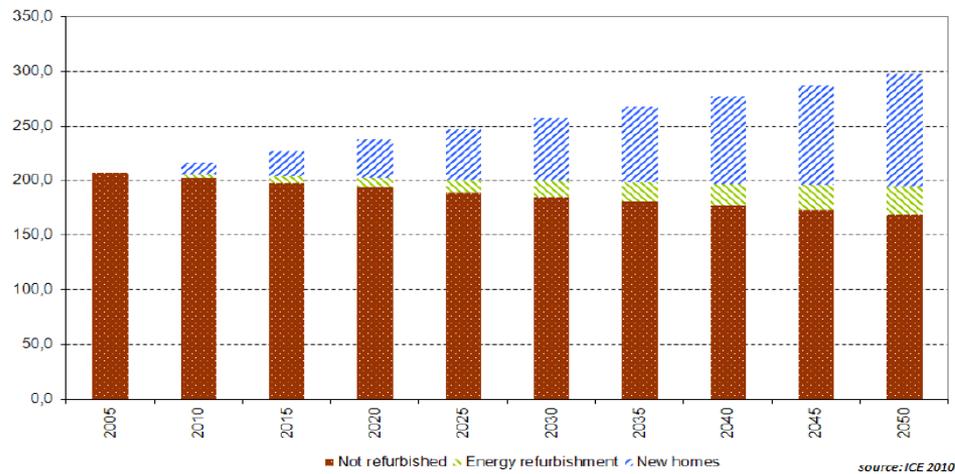
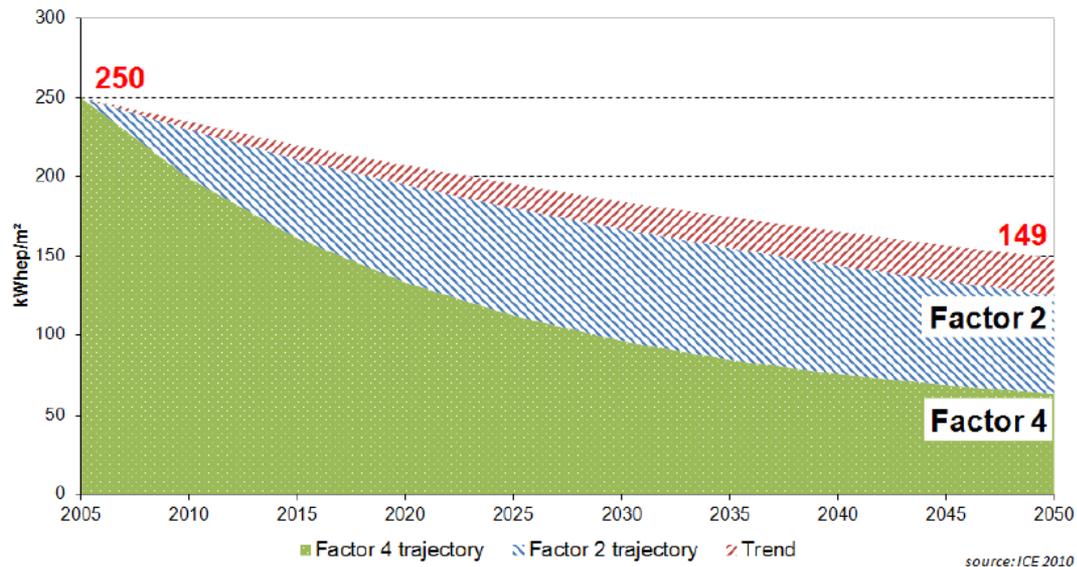


Figure 2: Average evolution of energy consumption in the residential sector.



# How can the housing sector truly trigger its ecological transition ?



- ❑ By bridging the gap between finance and projects
- ❑ Develop new supply of finance:
  - Soft loans, revolving investment funds with public money
  - Guarantee funds to leverage in private financing (loans, but also bonds or equity)
  - Market finance
  - Third-party financing / investment
- ❑ Develop a pipeline of projects:
  - Assistance to develop bankable projects: technical maturity & critical size
  - Aggregation of small individual projects
  - Standardisation of contracts

- ❑ What about stricter energy standards for housing ?
- ❑ Current framework is made of :
  - For renovation: National minimum requirements for the energy performance level of buildings which leads to the lowest cost during the estimated economic lifecycle (EPBD)
  - For new construction : obligation of nearly-zero energy buildings by 2018 and 2020 (EPBD)
  - National indicative targets on Energy efficiency until 2020 (EED); for instance Romania, 17% reduction in final energy use compared to 2009 level ; Lithuania, 17% reduction in final energy use compared to 2009 level (reduction of 740 ktoe); Germany, Annual improvement of energy intensity (energy productivity) by 2.1% pa on average until 2020
- ❑ no need for further legislation on the level of energy performance → key lies within low-carbon/clean finance !

# Finding the right financial models for housing refurbishment



## ❑ SOFT LOANS SCHEMES: THE EXAMPLE OF KFW

Soft loan schemes are a mechanism whereby public funding decreases the cost of loans, which are usually distributed by private banks. Interest rates are between 1 and 2 % for 10 to 30 years BUT focus on « easy » target groups first to trigger a bigger market for energy efficiency

## ❑ THIRD-PARTY INVESTMENT AND ENERGY PERFORMANCE CONTRACTING

ESCO finances and guarantees the savings, and recoups most of the cost savings in order to repay the upfront costs. BUT it is rarely used today to finance investments in deep renovation of buildings. Most EPCs are based on the guaranteed savings model, which does not provide new financing solutions: most energy retrofit projects use a loan taken by the building owner



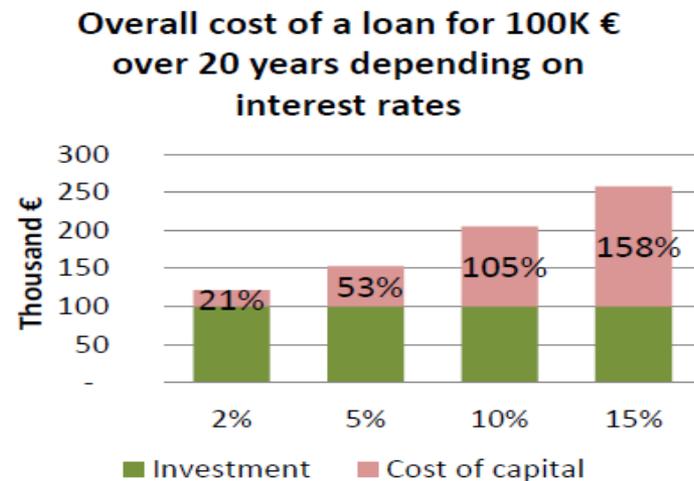
## ❑ ON-BILL FINANCING AND THE UK'S GREEN DEAL

loan facility attached to the property not the householder, which could last as long as 25 years, that enables efficiency improvements to be funded with no upfront costs and repaid via a charge on energy bills BUT loans are expected to be at an interest rate around 7 %, above usual mortgage rates

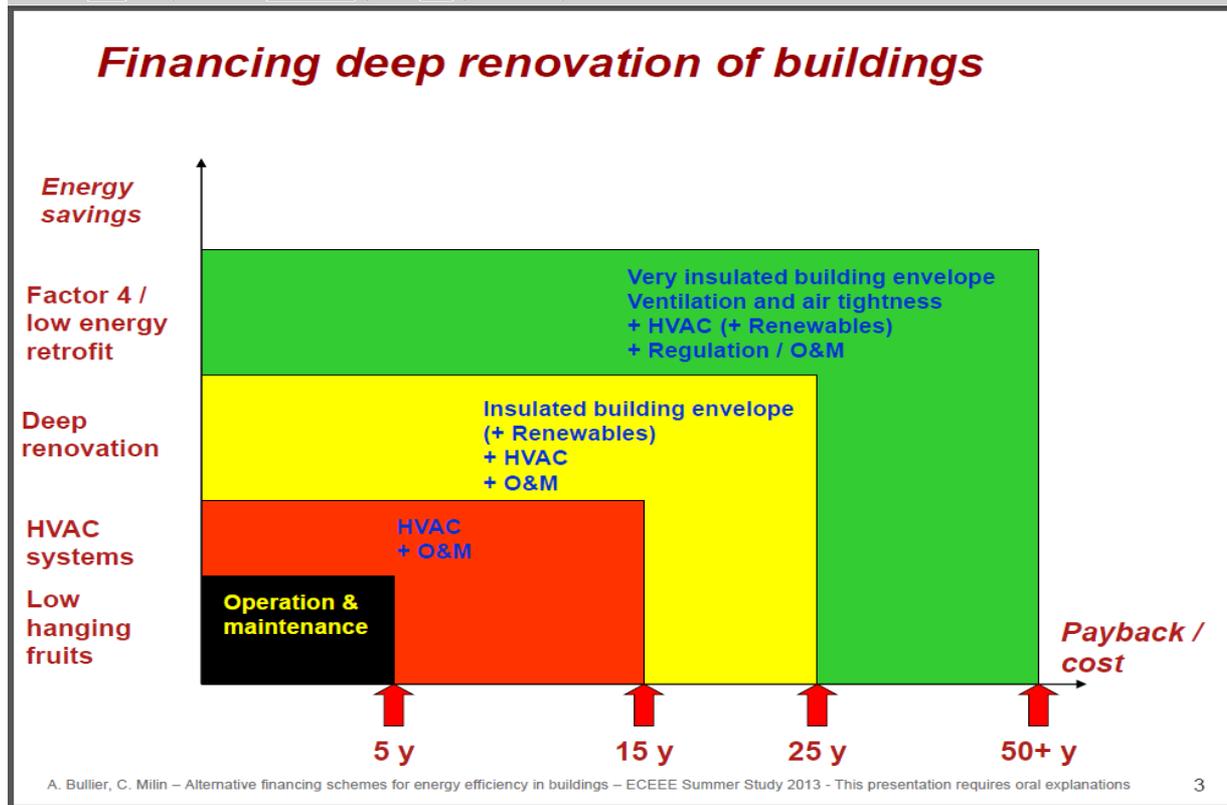
## ❑ Financial guarantees

For instance the Bulgarian energy efficiency fund BgEEF provides loan guarantees for ESCOs carrying out EPCs, which means it will pay for the first losses in case of non-payment by an ESCO; provides EPC portfolio guarantees for ESCOs, which reduces the risk of payment delays thus reducing the overall cost of financing.

- All those schemes have a common feature : reduce the perceived risks of investments → reducing the interest rate



- They also have the same kind of limit : not adapted to large-scale, long term, deep renovations





# The missing ingredients

- ❑ Intermediary entities (private or public) that will both pool financial needs of housing providers and pool financial resources from different stream → reach critical mass to reduce transaction costs

Ex: the Housing Finance Corporation, Public Third Party Investor ENERGIES POSIT IF, Bulgarian Energy efficiency fund (BEEF)

- ❑ Appropriate legislation that will allow development of low carbon market finance

Standardisation of EPC contracts

Transfer of receivables (energy savings) into asset portfolios of investors or as underlying asset for bonds



# The role of the European Union

❑ Energy efficiency is part of the 2030 energy and climate framework

- European Commission considers that to reach a reduction of GHG of 40% in 2030 compared to 1990, we need approximately 25% of energy savings in 2030 (still compared to 1990).

- “this will require large investments in the building sector [...].”

❑ In its Communication on a European Industrial Renaissance :  
“setting up a EUR 25 billion EIB lending capacity for energy efficiency in residential housing”

❑ In the 2014-2020 European Structural and Investment Funds

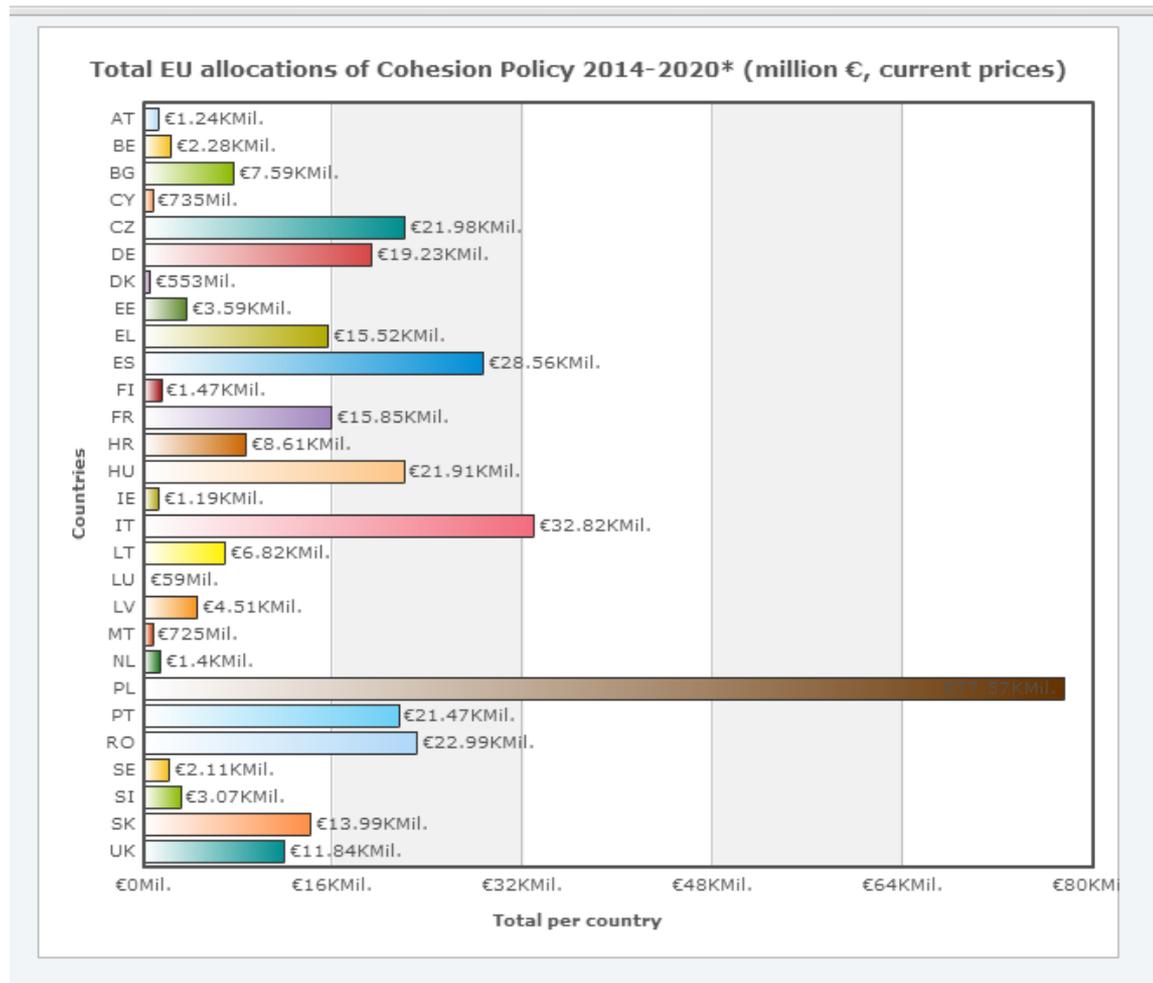


- 1) impose obligatory minimum percentages in the ERDF that must be invested in sustainable energy, including energy efficiency (from 12% for less developed regions to 20% for more developed regions);
- 2) more than double the funding allocation for Sustainable Energy and Energy Efficiency, to an estimated €23bn, under Thematic Objective n°4 “Transition to a Low-Carbon Economy”;
- 3) expand the scope of eligibility for investments in energy efficiency in buildings beyond the ERDF to encourage investments also from the Cohesion Fund (where the housing sector was previously excluded) and the European Social Fund (supporting the up skilling of the labour force for green jobs).
- 4) Give the possibility to use Funds to set up Renovation Loans



□ UNITED KINGDOM: The Housing Finance Corporation Limited (THFC) (United Kingdom) was allocated in 2013 £12m from the London Green Fund (supported by the ERDF) in March 2013.

- Loans to registered social housing providers
- Up to now: 3 housing associations have secured overall £50 million loan
- Environmental requirement: level 4 of the Code for Sustainable Homes





# Conclusions

- ❑ The ecological transition in the affordable housing sector is a necessity (for the climate, quality of life and economy) BUT
- ❑ It requires very concrete steps ( finance, regulation, project development assistance...) that can only be triggered by a public intervention : European Commission , EIB, States, Regional governments, cities.
- ❑ Key are dedicated entities that will act as financial intermediaries/aggregators
- ❑ Emerging examples (in UK, Bulgaria, France) need to be replicated

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