

## Recommendation on unlocking private investments in energy efficiency for Member States and Market Actors

### Introduction – Inefficient buildings are burdening public and private finances

Years of inaction on energy efficiency in the buildings sector are having a dramatic impact on households and public finances. Energy bills skyrocketed in some Member States compared to previous years,<sup>1</sup> exposing millions to the risks of energy poverty and/or the inability to make mortgage payments. In turn, this has become a credit risk for banks, as demonstrated by the European Central Bank (ECB) climate stress test in 2022.<sup>2</sup>

The European think tank Bruegel<sup>3</sup> assessed that around 4% of the EU GDP (€540 billion in the EU, of which €158 billion has been earmarked by Germany alone) has been spent by Member States on subsidising energy bills for companies and households. This is twice the Commission's figure for additional investments needed per year in building renovations.<sup>4</sup>

I4CE estimates the EU climate investment deficit in the building system, (i.e. the difference between the level of climate-friendly investments happening in the EU in the present; and the total investment needs required annually by 2030 to achieve the EU climate objectives) to be of at least 137 billion euros per year, or 0.9% of EU GDP.<sup>5</sup>

The EU can provide some of the funds needed but new instruments are also required to unlock the necessary private investments.

### EuroACE's Main recommendations

- **The EU should stimulate private investments through EU funds**
  - o Design a Recovery and Resilience Facility 2.0 to avoid a funding cliff for energy renovations in 2026 + encourage provisions to progressively attract private finance and investments
  - o When it comes to cohesion funds, use blended finance where relevant and empower national and local authorities through technical assistance on financial instruments
  - o Make sure the EEFC national hubs include stakeholder and private lender representatives
- **Encourage the emergence of new tools to unlock private funding**
  - o Engage banks and private lenders through portfolio performance requirements
  - o Design 0-rate loans suited for people having difficulties to access affordable finance
  - o To incentivise lenders to design affordable green renovation mortgages, the European Central Bank (ECB) should apply a green discount rate on its loans to commercial banks, under the condition that, in turn, the commercial banks use these loans to offer zero-percent loans to their customers for energy efficient renovations.
- **Unlock finance for commercial real estate**

<sup>1</sup> DW, Germany: Consumers can expect heating bills to at least triple (2022).

<sup>2</sup> European Central Bank's climate risk stress (2022).

<sup>3</sup> Bruegel <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices> (Latest update: 26 June 2023)

<sup>4</sup> The analysis underpinning the Renovation Wave strategy indicates that to achieve the proposed 55% climate target by 2030, around EUR 275 billion of additional investment in building renovations is needed every year.

<sup>5</sup> I4CE European Climate investment deficit report 2024

- The pay-for-performance financing model allows building owners to pay for energy-saving upgrades based on the actual energy savings achieved. It ensures that energy savings are quantifiable, verifiable, and accessible to all parties involved, thereby incentivising energy renovations.
- Financial instruments like sustainability-linked loans and bonds are powerful tools for raising capital for energy renovations and the construction of efficient buildings.
- The concept of property-linked finance has the potential to unlock significant investments for energy efficiency improvements and represents a promising avenue to finance energy-efficient real estate projects.

### How can EU funding stimulate private investments?

The Commission estimates that the EU invests €85-90bn in buildings' energy efficiency each year<sup>6</sup>. This is far from what would be needed to meet the EU's -55% GHGs target. The Renovation Wave strategy shows that the total necessary investment, including decarbonising heat in buildings, is €275bn per year to 2035. This is the largest climate investment gap in any sector.

With forecasted total investment needs of over €3.5 trillion by 2030, it is clear that the energy renovation market cannot be upscaled with public financing alone. However, a smart use of public funds can attract and unlock necessary private investments.

The below paragraphs highlight best practices in Member States that used European funding instruments/programs to crowd in private investments for energy renovations:

#### National Recovery and Resilience Plans

Matching funding from national recovery and resilience plans (NRRPs) with additional sources of private investment will be key to bridging this gap and boosting investor confidence. Some Member States have done so using funds from the European Covid recovery budget:

Best practices: using NRRPs to attract private finance (2021):

- Austria granted a 14% investment premium to companies for investments in green transition priorities, including insulation, heating system optimisation and other energy saving measures.
- Romania created a loan portfolio guarantee and 'fund of funds' for energy renovation as a step towards crowding in private capital.
- Croatia's Ministry of Physical Planning, Construction and State Assets in cooperation with the Croatian Government Real Estate Agency is piloting a project to utilise systematic energy management to realise water and energy savings and test the implementation of a new financing model built around it. National scale-up will be considered.
- Italy SuperEcobonus tax credit for renovation. While the credit covers up to 110% of renovation costs, building owners still need to pay for renovation up front – banks and energy service companies were eligible for the tax credit if they provide the capital for renovation.

However, the latest [Renovate Europe study](#) on NRRPs reveals that in most cases there were no clear provisions to progressively attract private finance and investment or combine with other EU and national funding

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<sup>6</sup> EC, 2020, Renovation Wave Strategy

[https://ec.europa.eu/energy/sites/ener/files/eu\\_renovation\\_wave\\_strategy.pdf](https://ec.europa.eu/energy/sites/ener/files/eu_renovation_wave_strategy.pdf)

sources. A step-change in the sustainability of financing is needed: the focus must be on developing the necessary reforms and infrastructure to reduce risk, develop new business models and support innovative financing tools that help to crowd in private capital. That said, it is important to recognise the considerable differences in the landscape and ‘readiness’ of private finance and investment, particularly for renovation, across Member States.

Investment efforts with the NRRPs risk ‘falling off a cliff’ after 2026 if no concerted consideration is given to prioritise funding in the long-term for the creation of vibrant renovation markets which sets the scene for sustained growth.

### Cohesion funding

For the period 2021-2027, [Renovate Europe’s study](#) finds that member states have programmed an estimated €20bn of cohesion policy funding for energy renovation and energy efficiency<sup>7</sup>. With co-financing from member states, total spending for energy renovation and energy efficiency could reach €29bn<sup>8</sup>.

Cohesion policy remains a heavily grant-dominated environment, although positive developments show innovative projects and increased use of financial instruments in the energy efficiency sector. The positive role of cohesion funds can be vastly amplified if they successfully leverage private finance or are coupled with investment from development banks and other institutional investors. Member States should:

- ➔ **Use blended finance where relevant:** Innovative projects in previous programming periods have already demonstrated successful use of Cohesion Policy funding to leverage private capital for renovation. Examples include:
  - Loan-grant combinations to incentivise recipients to undertake more ambitious deep renovation projects;
  - Guarantees to financial institutions to enable loans to market segments perceived as carrying greater risk such as low-income households or homeowner associations;
  - Capital grants and capital rebates linked to performance, to incentivise higher energy savings.
  
- ➔ **Use opportunities for technical assistance on financial instruments:** Poor knowledge of state-aid rules, perceived administrative complexity and difficulty integrating financial instruments into a grant-dominated environment have been cited as potential obstacles to successfully roll-out financial instruments<sup>9</sup>. To encourage uptake, managing authorities need a support framework based on tools such as one-stop-shops and guidelines explaining which financial instruments work well with different building segments and beneficiaries. The Fi-Compass partnership between the EIB and the Commission has analysed barriers to investment in energy efficiency across sectors and drawn attention to existing practices across member states, which can easily be shared between countries<sup>10</sup>.

### The Energy Efficiency Financing Coalition

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<sup>7</sup> The way that programmes are written means that it is not possible to separate out the quantity of funding planned for renovation from other energy efficiency projects and produce a figure that only covers renovation.

<sup>8</sup> This study uses data from the European Commission’s Cohesion Open Data Platform. These databases are regularly updated as managing authorities amend programmes. The data used in the report was extracted on 3 April 2023.

<sup>9</sup> European Commission, 2020, [Stocktaking study on financial instruments by sector](#), Fi-Compass

<sup>10</sup> European Commission, 2020, [The potential for investment in energy efficiency through financial instruments in the European Union](#), Fi-compass



The European Commission and Member States recently announced the future launch of an “Energy Efficiency Financing Coalition, including national hubs. These hubs should engage with private lenders as well as established local industry and NGO representatives.

The Renovate Europe Campaign national partners stand ready to support this initiative. Their deep knowledge of national market conditions make them natural representatives of the sector.

Finally, representatives of national ministries should be present in at least one national hub meeting per year to present their renovation programmes updates and other useful information.

### **Technical assistance programs**

The EU and national budgets should continue to finance technical assistance facilities to support the development of building renovation projects, for example via increased use of DG REFORM’s Technical Support Instrument and the ELENA facility.

### **New instruments to stimulate private investments**

New financial instruments should be designed to support the transition of old, inefficient buildings. In the next decade, European targets focus on the renovation of worst-performing buildings all over Europe.

### **Improving the energy performance of financial institutions’ portfolios through innovative tools**

Under the current review of the EPBD, it is proposed to establish a voluntary framework according to which financial institutions can increase lending volumes for energy renovations and provide support to lenders.

Similar to this, the [Mortgage Portfolio Standard \(MPS\)](#) is a tool that can help banks align their portfolios with Taxonomy-compliant activities and fulfil their Green Asset Ratio, as well as manage the climate transition risks they face in their mortgage portfolio. It is a tool with considerable potential as it can funnel more capital into energy-efficient renovations and boost the energy renovation rate. It is a win-win situation for financial institutions since energy-efficient mortgages have lower financial risk<sup>11</sup>.

### **EU Renovation Loan**

European residential buildings are estimated to be worth €17 trillion and house 220 million homeowners. As there are around €7 trillion of mortgages in Europe, there is €10 trillion of home equity against which owners can borrow for the deep renovation and transformation most of these buildings require by 2050.<sup>12</sup>

The [EU Renovation Loan](#) could unlock these savings. It would take the shape of long-term (30 year) financing with a zero-coupon structure:

- Homeowners borrow the amount they require to transform their home through a deep renovation.
- They do not have to pay cash interest and it accrues until the property is sold or transferred (or the loan matures in 30 years).

EU Renovation Loans could be offered to underserved families and backed by an EU guarantee. Their interest would accrue at EU borrowing costs (plus a small spread) and be distributed through mortgage lenders alongside top-up or commercial mortgages.

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<sup>11</sup> EFIG. [Final Report on Risk Assessment](#). 2022.

<sup>12</sup> Climate Strategy and Partners - The European Renovation Loan: An innovative financial instrument to Repower EU, 2022



### **Attractive rates for renovation loans supported by the European Central Banks**

Currently, the volume of green renovation mortgages offered by banks is scarce and the renovation loans proposed are too expensive. To incentivise lenders to design affordable green renovation mortgages, the European Central Bank (ECB) should apply a green discount rate on its loans to commercial banks, under the condition that, in turn, the commercial banks use these loans to offer zero-percent loans to their customers for energy efficient renovations.

In practice, commercial banks could borrow money for renovation purposes at a lower rate than the ECB's regular policy rate. By adopting this green discount rate, the ECB would both lower the cost of energy renovations and support its mandate to achieve price stability. This policy would indeed reduce EU consumption of imported fossil fuels and reduce price volatility, tackling the primary source of today's inflation - energy.

In addition, an EU-wide renovation guarantee framework should be established to cover the financial risks of the most vulnerable households in case they should default on their loans (for example, via the EU Renovation Loan). By acting as a guarantee, the EU can reduce the risk profile of consumers currently not eligible to receive bank loans. Reducing this risk will also lower the cost of the renovation loans. While some governments already offer state guarantees for renovation loans, an EU-wide guarantee framework would ensure that all Europeans can benefit from this supportive mechanism.

### **Unlocking private financing for commercial real estate**

Commercial property plays a significant role in the European real estate landscape. This sector includes a diverse array of properties such as shops, offices, hotels, healthcare, and other non-residential buildings. As of 2021, the market value of commercial property in Europe was estimated at approximately EUR 8.8 trillion<sup>13</sup>. Within this segment, offices emerge as the biggest property type.

About 35% of commercial real estate is held as an investment, underlining the sector's importance in investment portfolios. Investment by pension funds and insurance companies in European property markets accounts for EUR 1.15 trillion of property investments, i.e. 5.3% of their total Assets Under Management<sup>14</sup>.

### **Commercial real estate has a key role to play in improving energy-efficient buildings in the EU**

The real estate sector stands at a pivotal junction. The value of selling or renting sustainable real estate assets is an increasingly attractive option for investors and renters alike.

In particular, the office real estate market is currently undergoing a significant transformation<sup>15</sup>. Property owners and investors are increasingly motivated to align their portfolios with sustainable practices. Businesses are also more conscious of their environmental footprint, seeking office spaces that reflect their sustainability goals. Both tenants and investors stand to gain: lower operational costs, especially in an era of rising energy prices and carbon taxation. For investors, green buildings not only promise higher rental yields but also tend to have lower vacancy rates, enhancing overall returns and supporting property valuations.

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<sup>13</sup> European Public Real Estate Association. [Real Estate in the Real Economy](#). 2022.

<sup>14</sup> European Public Real Estate Association. [Real Estate in the Real Economy](#). 2022.

<sup>15</sup> DWS. [The Sustainable Next Generation Office 2023](#).



Financing the energy renovation of non-residential real estate can differ compared to funding renovations of homes or multi-family housing. Here are some examples and innovative approaches that should be considered:

1. The **pay-for-performance financing model** allows building owners to pay for energy-saving upgrades based on the actual energy savings achieved. It ensures that energy savings are quantifiable, verifiable, and accessible to all parties involved, thereby incentivising energy renovations.
2. Financial instruments like **sustainability-linked loans and bonds** are powerful tools for raising capital for energy renovations and the construction of efficient buildings. Organisations such as [Berlin Hyp](#) and the [Climate Bonds Initiative](#) demonstrate how these instruments can be effectively utilised to fund energy-efficient buildings.
3. The concept of **property-linked finance**<sup>16</sup> has the potential to unlock significant investments for energy efficiency improvements and represents a promising avenue to finance energy-efficient real estate projects.

Many financial institutions are now implementing **net-zero targets**, as demonstrated by initiatives like the [IIGCC and TPI Centre's Net-Zero Standard for Banks](#) and the [Net-Zero Banking Alliance](#). These commitments by financial institutions signal a growing recognition of the importance of sustainability in the banking sector and provide a model for others to follow. Similarly, investors are increasingly demanding that banks adopt net-zero targets<sup>17</sup>. This external pressure further emphasises the critical role of financial institutions in supporting the transition to a more sustainable economy.

To facilitate this transition, regulatory and financial frameworks should recognise the reduced risk associated with energy-efficient loans and investments. This can lead to more favourable lending and insurance terms for energy-efficient renovation and construction projects.

ENDS

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<sup>16</sup> Green Finance Institute. [Property Linked Finance: rising consumer demand for energy efficiency and financial innovation](#).

<sup>17</sup> [IIGCC and TPI Centre launch Net Zero Standard for Banks and Net Zero Banking Assessment Framework](#).



**For further information**

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**About EuroACE – Energy Efficient Buildings**

EuroACE represents Europe’s leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members employ more than 280,000 people in these activities in Europe and have over 1,100 production facilities and office locations. The mission of EuroACE is to work together with the EU institutions to help Europe move towards a more efficient use of energy in buildings, thereby contributing to Europe’s commitments on climate change, energy security and economic growth.

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