RENOVATE EUROPE

BRIEFING NOTE
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Energy Renovation - Making Financing Accessible to the People

Here's a riddle. Why is a product that can prevent energy poverty, dangerous global warming, indoor air pollution and energy import-dependence not the hottest ticket in town? Doubtless there are several factors – from the power of legacy energy lobbies to the sexiness of the brand – but the financing hurdles remain a key barrier to overcome. Simply put, upfront renovation costs are perceived as being too high to attract the people who need them most, and governments have proved reluctant to invest heavily in public programmes that could make a difference. But across Europe, a wide variety of innovative projects and schemes are now showing what could be a possible solution with a modicum of wit and imagination.

Playing Europe's 'trump card'

Europe's single biggest source of funding for energy renovations is the EU, which has made €18bn available for energy efficiency improvements through 2014-2020, from the European Structural and Investment Fund. But a project is only as successful as its results. The European Commission has not provided figures on the uptake of monies thus far, but under the Barroso administration, EU States are thought to have allowed billions of euros earmarked for efficiency spending to go unclaimed.

Banks and project designers are taking good steps to address the renovations riddle but more are needed and the national renovation plans due from EU states this year offer a perfect opportunity.

A recent report by the EU's joint research center JRC urged the introduction of an EU renovation plan to transform, what it sees as a sectoral market failure, into one key pillar of "the renaissance of EU industry". According to the JRC, such a plan could "de-risk" investments by using a cash pool made up of cohesion funds and existing national monies to finance refurbishments for the energy poor, in line with national renovation strategies. A shift from grants to preferential loans that blend public and private capital would help renovations become "the trump card for the new start for Europe," the report said, spurring employment, economic growth, good health and decarbonisation.

The barriers facing the sector clearly require such a plan. Under today's tenancy laws, home renters in too many States, see little benefit in major cash outlays for improvements that will primarily benefit their landlords. A household's financial capacity to free up savings for renovations anyway depends on its income. Few poor home owners in the rural areas of countries with below-average per capita GDPs will be in a position to renovate their dwellings.

Finding the money for the EU's trump card is thus a core challenge, which may be partly addressed through 'on-bill financing' – the long-term repayment of energy renovation costs through energy bill savings. The Commission's "accessing clean energy in buildings" communication last winter launched a de-risking platform with a database of over 5,000 efficiency projects, and an initiative to explore under-writing the cost of renovations. This is welcome, as is the pledge of more up-to-date energy performance information for investors. But actions from banks and governments are also needed.

The colour of mortgages

Europe's banks have begun an expansion of their green mortgage portfolios, with one eye on the boost that energy renovations give to property prices and another on buy-to-renovate boom in the US housing market. The European Mortgage Federation, which represents Europe's major national banks, is working to increase the availability of green mortgages across Europe. Ambitious energy renovation decreases the chances of mortgage defaults by reducing the monthly energy cost while raising property values and allow banks to reflect the reduced risk with lower interest rates. There are several good examples.

Triodos Bank in the Netherlands winds down its interest rate on loans by 0.1% for every grade increase in a property's energy performance. Rabobank, also in the Netherlands, offers a 0.5% reduction in interest rates over a 10-year period for houses which are nearly zero emissions standard.

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In Belgium too, **ING** began offering renovation loans of up to €50,000 this year, with a 1.95% interest rate over a period of up to a decade. Billboard advertising campaigns have helped to market the campaign, and ING aims to increase its green lending in real estate financing from 20% to 100% within five years. All real estate renovations it finances will have to be completed to a minimum 'C' grade energy class.

Other banks such as **KBC Brussels** have made moves in a similar direction, cutting energy renovation loan rates from 3.95% to 2.7%. Within the sector though, a lack of customer awareness and demand is still seen as an impediment to the greater proliferation of green mortgages, and this is an area where government intervention has the power to make a real difference.

Blueprints for green buildings

One bold programme in Estonia has seen the Kredex Fund offering State-backed housing loan guarantees from a €96m money pot. Grants can cover up to half the cost of energy audits or project design documents, and up to 35% of reconstruction costs depending on the ambition of the renovation. The balance of the money needed for the renovation project comes in the form of a preferential loan. The result? Between 2009 and 2013, nearly 100,000 Estonians benefitted from refurbishments, and more than 40,000 apartments were upgraded.

But the renovation movers and shakers are still concentrated in northwest Europe. A **tax break offered by the Dutch government** to support green investment has helped ensure the country is well represented in some of Europe's most forward-looking initiatives. The Netherlands has put up €400m to subsidise renovations in the rented sector, with low interest loans and grants often targeted at landlords and housing associations. One project, Energisprong, made international headlines with its blueprint for renovating 100,000 outdated low income homes using a mass-produced prefab insulated facade, augmented with solar panels, heat pumps, improved ventilation and new kitchens. The project is paid for by government-supported loans taken out against the expected energy savings over a 40-year period. Its groundbreaking finance model has inspired imitations across Europe, with Transition Zero putting out a tender for pilot projects in France, earlier this year.

Germany's **KfW bank** remains a best-practice model in European renovation financing, with an annual spend of €1.8bn. Home-owners who want to upgrade their properties can receive a subsidy covering 7.5-10% of costs, up to €5,000 per housing unit. Investment grants for KfW 'efficiency houses' can pay as much as a quarter of renovation costs with a maximum grant of €18,750 per housing unit. Generous repayment bonuses are also available.

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In the Czech Republic, carbon market revenues have been ploughed into a Green Savings **scheme** to reduce buildings emissions. When the programme began in 2008, Kyoto-era carbon credits were used but the project is now funded by the EU's Emissions Trading Scheme. So far, around a billion euros have been invested through the scheme which utilises €75m of annual grants to leverage private sector investment. Most of the 5-7,000 beneficiaries each year have been single family households that are typically rural and middle-income earners, according to Chance for Buildings. “In Central and Eastern Europe it is definitely a model to follow,” says Petr Holub, Director at Chance for Buildings. “‘Green Savings scheme is a successful programme but the Czech Republic still only has a 0.4% renovation rate and we need a five-fold increase in our absorption capacity to really contribute to energy savings on the national level.” Another €600m of funding from carbon market revenues is expected before 2021.

How to get houses fit for the 21st Century

Banks and project designers are taking good steps to address the renovations riddle but more are needed and the national renovation plans due from EU states this year offer a perfect opportunity. The path to phasing out or overhauling the worst-performing of Europe's housing stock could be smoothed by identifying 'trigger points' in a building's life where improvements can be made – such as changes of ownership or extension works. Targeted public spending and the increased use of cohesion and structural funds together with carbon market revenues could reduce risk perceptions and lower the cost of upfront investments. Awareness campaigns can then help to stimulate market demand, especially when combined with innovative financing models. Rome was not built in a day and Europe's housing stock will not be renovated overnight either. But better financing can help to put solid foundations in place for the overhaul we need to move our housing stock into the 21st century.

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Renovate Europe is a political communications campaign with the ambition to reduce the energy demand of the building stock in the EU by 80% by 2050 compared to 2005 levels through legislation and ambitious renovation programmes. This will bring the energy performance of the entire building stock in the EU to a Nearly Zero Energy (NZEB) performance level.

Renovate Europe brings together 36 partners from across the building value chain
(trade associations, companies, trade unions, city networks and 14 national partners):