

4 February 2025

Introduction

INREV* welcomes the opportunity to respond to the consultation questions to the HMT Consultation on the UK Green Taxonomy. We share the Government's purpose to support investment into activities aligned with sustainability goals, and to mitigate greenwashing. Therefore, we hope our comments make a constructive contribution to this important initiative from our perspective representing global capital investment into real estate investment funds across the UK and Europe.

Chapter 2

Box 2.A Questions for respondents

- 1. To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?**

Unless the Treasury develops the UK Taxonomy in a way that successfully addresses a number of specific concerns enumerated below, we strongly believe that the UK taxonomy would not be welcome. The extra work, complexity, cost and confusion it would create for the many firms already grappling with the EU taxonomy would not justify any benefits that might arise for others.

If the Treasury decides to go ahead with development of the UK Taxonomy, we suggest that it is:

- a simpler version of the EU taxonomy, which would be an easier instrument for smaller, UK-only businesses to work with, and for UK rules and regulations for which full international alignment is not critical.
- developed with a sufficient degree of real estate sector-specific understanding and insight (specifically, from our perspective, to recognise that real estate definitions and metrics generally need to operate at an asset and portfolio level rather than at a corporate level).
- enables interoperability; because most, or at least a significant percentage of, real estate investors and investment managers domiciled in the UK and elsewhere are global in their scope and operations, for a UK Taxonomy to add value, interoperability with other taxonomies is critically important. Interoperability between a UK Taxonomy and other taxonomies is most likely and straightforward when it is aligned as much as possible with, or improves on, other taxonomies. In this regard, the EU Taxonomy is probably the most useful to be aligned with from a UK commercial perspective. While alignment is important, however, where the EU or other taxonomies are not clear, additional guidance and clarity should be provided, for example to avoid the challenge of applying the EU taxonomy where EPC labels are not available.

Furthermore, interoperability would be facilitated by a UK Taxonomy that includes sector-specific guidance for real estate which is based on metrics developed by the real estate industry and already widely in use. Clearly the metrics that best meet this standard are the INREV SDDS (Standard Data Delivery Sheet), which is already widely adopted by real estate investors and investment managers in the UK, the EU, and much of Asia.

We explain ways in which the UK Taxonomy can be useful in the questions below.

The concerns we have regarding the introduction of a UK Taxonomy are:

- We note further that while major element of the EU sustainable finance regulatory regime under SFDR is based on disclosure, in which the EU Taxonomy plays a key part, the UK regulatory regime under the SDR, provides the option of using investment labels. The FCA has already applied minimum sustainability standards to the labels through investment thresholds and KPIs, among others, without the additional cost involved in developing a separate Taxonomy.
- The opportunity-cost of developing a Taxonomy could also seem to favour more impactful and less costly measures to promote capital into sustainable projects. These could include a stronger corporate disclosure framework, appropriate disclosures by asset managers and intervening directly to address environmental market failures, such as by making it more costly to pollute.
- Divergence with the EU – Many UK sustainable funds are also marketed to the EU and are required to comply with rules and disclosures under SFDR and the EU Taxonomy. In addition, a UK fund using a UK SDR label may (regardless of whether the fund is marketed in the EU) choose to use the EU Taxonomy as its “robust, evidence-based standard” (as expressly confirmed by the FCA on p.36 of PS23/16). The benefit of a UK-specific taxonomy is less clear if managers are already reporting against the EU Taxonomy. Unless the UK decides to align with the EU Taxonomy, divergence is also highly likely to occur in the future, making compliance for managers even more costly and complex. HMT should perhaps explore whether there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders.

a. Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?

The success of a UK Taxonomy hinges on its integration with existing frameworks like ISSB and the FCA’s sustainability disclosure regime. Care must be taken to avoid duplicative reporting requirements, and the taxonomy should align with the practical realities of property investment cycles and holding periods. Aligning with international frameworks, particularly the EU Taxonomy, is also crucial to ensure interoperability and attract non-UK investors. Not addressing this would lead to confusion across the market meaning that capital is delayed in being investing into green initiatives, whilst disrupting the market.

Specifically, from a real estate perspective it is critical the UK Taxonomy considers government policy and sector standards including EPCs, BREEAM, and GRESB.

b. How can activity-level standards or data support decision making and complement other government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)?

A robust framework should aim to link actual performance metrics to strategic objectives, enabling evidence-based investment decisions and the tracking of meaningful progress. This would ensure accountability for achieving real carbon reductions and drive tangible environmental outcomes.

Activity-level standards should complement, rather than duplicate, existing reporting frameworks like the Corporate Sustainability Reporting Directive (CSRD). By aligning with these standards, such a framework can enhance the quality of organisational disclosures while minimising the reporting burden for stakeholders.

In summary, a well-designed framework for activity-level standards and data would bridge the gap between high-level strategic disclosures and measurable performance, fostering transparency, accountability, and actionable insights to support sustainable finance objectives.

2. What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.

From a real estate standpoint, a UK Taxonomy could contribute to its stated goals through a range of specific use cases, both voluntary and linked to government policy and regulation. These use cases would enable targeted action at both the asset and portfolio levels, supporting the overarching objectives of channelling capital and preventing greenwashing.

1. Asset Classification Framework

- **Operational Assets:** Categorises assets based on current carbon performance (e.g., net-zero operational carbon, non-aligned) and evaluates their potential for carbon reduction (high, medium, or limited).
- **Development/Refurbishment:** Classifies assets by design standards (e.g., net-zero ready or future net-zero capable) and assesses embodied carbon in materials (low, medium, or high).

2. Technical Screening Criteria

- Performance metrics such as energy intensity, carbon emissions, renewable energy generation, and water consumption could provide clear benchmarks for assessing sustainability.
- Verification requirements, including independent data verification, performance monitoring, tenant data integration, and smart meter connectivity, would ensure reliability and consistency.

3. Transition Pathways

- **Short-term (1-3 years):** Focuses on energy efficiency improvements, building management optimisation, renewable energy adoption, and robust data collection.
- **Medium-term (3-7 years):** Includes major plant replacements, fabric upgrades, low-carbon technology implementation, and active tenant engagement.
- **Long-term (7+ years):** Encompasses deep retrofits, system replacements, alignment with grid decarbonisation, and measures to enhance climate resilience.

4. Implementation Framework

- At the asset level, this involves collecting performance data, establishing improvement pathways, conducting technical assessments, and creating investment plans.
- At the portfolio level, it focuses on strategic planning, setting transition targets, allocating capital effectively, and conducting comprehensive risk assessments.

These use cases would not only support voluntary adoption but also align with government policies to drive meaningful progress, ensuring that both current performance and future potential are transparently and consistently evaluated.

a. What are respondents' views on the benefits of the proposed use case (paragraph 2.2)?

The proposed use cases outlined in paragraph 2.2 offer several benefits for real estate, particularly in supporting investment, enabling genuine transitions, and driving actual carbon reductions. By providing clear and practical implementation guidance, a UK Taxonomy could help ensure that sustainability efforts are effective and aligned with market needs.

However, a key concern is the potential burden of excessive reporting and overlapping regulatory requirements, which could inadvertently hinder progress. To maximise its benefits, a taxonomy must strike a balance between driving meaningful action and avoiding unnecessary complexity for stakeholders.

Overall, if designed with a focus on practicality and alignment with existing frameworks, the proposed use cases have the potential to facilitate impactful sustainability transitions in the real estate sector.

b. Are there any other use cases respondents have identified?

A UK Taxonomy could have broader practical applications beyond investment and reporting, offering significant value in areas such as:

- **Planning:** Providing a framework for assessing and approving sustainable developments, ensuring alignment with net-zero targets.
- **Valuation:** Enhancing property valuation processes by incorporating sustainability performance metrics, which reflect both operational and embodied carbon impacts.
- **Supply Chain Management:** Encouraging sustainable procurement practices by setting clear expectations for materials and processes used in construction and refurbishment.
- **Operational Efficiency:** Guiding asset management practices to optimise energy efficiency, reduce emissions, and improve resource use.

These additional use cases highlight the potential for a taxonomy to influence a wider range of real estate activities, driving sustainability throughout the property lifecycle.

c. How does each use case identified link to the stated goals?

No response

d. Under these or other use cases, which types of organisations could benefit from a UK Taxonomy?

The value of a UK Taxonomy lies less in benefiting specific types of organisations and more in its ability to drive the right allocation of capital into transitional strategies and prevent greenwashing.

Organisations that could particularly benefit include those who recognise the need for such a framework but are not yet engaging with the EU Taxonomy. A UK Taxonomy could provide these organisations with a structured approach to align with sustainability objectives and track progress. We note here that real estate finance/ debt may need additional consideration.

However, a potential drawback is that a UK Taxonomy might add complexity for international investors already managing multiple taxonomies. This could create challenges for aligning global investment strategies and potentially reduce capital flows into the UK. To address this, ensuring alignment and interoperability with existing international frameworks will be critical.

e. For each use case identified, do respondents have any concerns or views on the practical challenges?

One of the key challenges identified for making a Taxonomy applicable to real estate is the need for close coordination to effectively manage the complexity of different use cases. It is essential to reduce the variation across various schemes and avoid the duplication of reporting requirements, which could lead to inefficiencies and increased administrative burden. Streamlining these processes will be critical to ensure smooth adoption and practical implementation within the real estate sector.

f. What is the role for government within each use case identified, if any (i.e. to provide oversight, responsible for ongoing maintenance, implement legislation, including disclosure requirements)?

Whether or not the UK Treasury progresses with the UK Green Taxonomy, we highlight the need for the government to legislate the mandatory sharing of real estate energy consumption data:

- Real estate funds invest in both residential and commercial buildings for the long term. For this reason, they want properties to meet the highest viable standards now as it will cost more to upgrade them at a later date. In some cases, this can only be achieved if other stakeholders are encouraged to do the same. For example, house builders should continue to be encouraged to install solar panels, air source heat pumps and electric car chargers in new builds.
- There are significant data protection complexities for institutional landlords and operators in collecting energy data even where they can arrange access with the utility company and/or tenants/occupiers. This problem will be exacerbated with GHG Scope 3 requirements when data on indirect emissions will need to be collected such as tenant demise, embodied carbon across the life cycle and arguably associated transport emissions.
- While technological advances and data management platforms are improving, and there is increasing landlord and occupier collaboration and data sharing, plus increasing application of “green” leases in the commercial sector, there are still considerable data gaps.
- Ultimately, it is very difficult for a landlord to evict an occupier for not sharing their energy data, despite what may be in the lease. The importance of the UK Government mandating the sharing of real estate energy consumption data is set out in this Social Market Foundation commentary (https://www.smf.co.uk/commentary_podcasts/we-need-mandatory-sharing-of-real-estate-energy-consumption-data-in-the-uk/).

3. Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.

Further details are needed to assess its value. Two key questions are raised: the necessity of an additional taxonomy and how existing policy instruments would integrate with it. These concerns highlight the need for a clear understanding of how a UK Taxonomy would complement or enhance existing frameworks in driving transition planning and finance.

4. How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?

To evaluate the success of a UK Taxonomy in the real estate market, several key performance indicators (KPIs) were identified:

- **Market Adoption:** Metrics such as investment activity, the number of aligned buildings, green property loans, and the proportion of institutional portfolios aligned.
- **Carbon Impact:** Measurable carbon reductions, improvements in energy intensity, renewable energy adoption, and water consumption reduction.
- **Financial Performance:** Indicators like pricing differentials, cost of capital, valuation impacts, and the speed of letting for aligned assets.
- **Implementation Effectiveness:** Tracking the number of verifiers, assessment times, compliance costs, and data quality.
- **Market Transformation:** Capital flow redirection, retrofit activity, innovation adoption, skills development, and supply chain adaptation.

Success is also viewed in terms of short, medium, and long-term progress, focusing on market adoption, carbon reduction, and capital flows. Ultimately, the effectiveness of a taxonomy will be determined by its impact on directing capital toward transition strategies and reducing greenwashing, in comparison with international peers.

Chapter 3

Box 3.A Questions for respondents

5. There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?

EU taxonomy alignment is an important component in the investment due diligence and approval process for many real estate investors. It also highlights the importance of considering not just UK-based companies, but also overseas capital (investors or firms) entering the UK, as they may already be familiar with sustainable taxonomies from other jurisdictions. This underscores the need for alignment between regional taxonomies to ensure consistency and facilitate decision-making across borders.

6. In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.

Because most, or at least a significant percentage of, real estate investors and investment managers domiciled in the UK and elsewhere are global in their scope and operations, for a UK Taxonomy to add value, interoperability with other taxonomies is critically important. Interoperability between a UK Taxonomy and other taxonomies is most likely and straightforward when it is aligned as much as

possible with, or improves on, other taxonomies in all the areas mentioned. In this regard, the EU Taxonomy is probably the most useful to be aligned with from a UK commercial perspective. While alignment is important, however, where the EU or other taxonomies are not clear, additional guidance and clarity should be provided, for example to avoid the challenge of applying the EU taxonomy where EPC labels are not available. In addition, an area in which a UK Taxonomy could improve on the current EU Taxonomy would be to introduce thresholds for embodied carbon (given the EU Taxonomy currently only requires reporting, without setting any performance thresholds).

Furthermore, interoperability would be facilitated by a UK Taxonomy that includes sector-specific guidance for real estate which is based on metrics developed by the real estate industry and already widely in use. Clearly the metrics that best meet this standard are the INREV SDDS (Standard Data Delivery Sheet), which is already widely adopted by real estate investors and investment managers in the UK, the EU, and much of Asia.

Aligning the UK taxonomy with existing frameworks, such as the EU taxonomy, would simplify investment processes. Consistent criteria, metrics, and terminology across taxonomies would reduce confusion and make cross-jurisdictional reporting more straightforward. The ideal scenario is for the UK taxonomy to mirror the EU taxonomy to ensure seamless integration for firms and investors already familiar with the EU system.

7. Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?

The importance of clear definitions and criteria to ensure stakeholders understand the framework and its applications is a primary lesson learned from other jurisdictions. Transitional activities, such as improvements in high-emission sectors, are seen as crucial for addressing the complexity of sustainability transitions. Additionally, alignment with other global taxonomies is a best practice recommended for consistency.

Box 3.B Questions for respondents

8. What is the preferred scope of a UK Taxonomy in terms of sectors?

As mentioned in our response to question 1; unless the Treasury develops the UK Taxonomy in a way that successfully addresses a number of specific concerns enumerated below, we strongly believe that the UK taxonomy would not be welcome. The extra work, complexity, cost and confusion it would create to the many firms already grappling with the EU taxonomy would not justify any benefits that might arise for others.

If the Treasury decides to go ahead with development of the UK Taxonomy, we suggest that it is:

- a simpler version of the EU taxonomy, which would be an easier instrument for smaller, UK-only businesses to work with, and for UK rules and regulations for which full international alignment is not critical to link to;
- developed with a sufficient degree of real estate sector-specific understanding and insight (specifically, from our perspective, to recognise that real estate definitions and metrics generally need to operate at an asset and portfolio level rather than at a corporate level).
- enables interoperability; because most, or at least a significant percentage of, real estate investors and investment managers domiciled in the UK and elsewhere are global in their

scope and operations, for a UK Taxonomy to add value, interoperability with other taxonomies is critically important. Interoperability between a UK Taxonomy and other taxonomies is most likely and straightforward when it is aligned as much as possible with, or improves on, other taxonomies. In this regard, the EU Taxonomy is probably the most useful to be aligned with from a UK commercial perspective. While alignment is important, however, where the EU or other taxonomies are not clear, additional guidance and clarity should be provided, for example to avoid the challenge of applying the EU taxonomy where EPC labels are not available.

Furthermore, interoperability would be facilitated by a UK Taxonomy that includes sector-specific guidance for real estate which is based on metrics developed by the real estate industry and already widely in use. Clearly the metrics that best meet this standard are the INREV SDDS (Standard Data Delivery Sheet), which is already widely adopted by real estate investors and investment managers in the UK, the EU, and much of Asia.

Splitting out real estate debt from equity would also be very beneficial for a Taxonomy to be most effective.

9. What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?

The key environmental objectives for a UK taxonomy that should be considered for the property sector are broadly the same as the environmental objectives under the EU Taxonomy:

- Climate Change Mitigation: Critical for aligning with net-zero targets, measuring energy performance, and reducing carbon emissions.
- Climate Adaptation: Important due to growing physical climate risks, insurance implications, and the need for asset resilience.
- Circular Economy: Focused on waste reduction, materials specifications, and adaptable designs.
- Pollution Prevention and Control: Relevant for issues such as indoor air quality, construction impacts, and environmental effects.
- Water Resources: Addressing water efficiency, flood risk, sustainable drainage, and greywater recycling.
- Protection and Restoration of Biodiversity: Important for complying with biodiversity net gain requirements applicable in the UK

Additional property-specific objectives, although not necessarily environmental, include health and wellbeing, community impact, heritage preservation, and smart building integration.

10. When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?

Within the real estate sector, we recognise the need for the following best practice reporting principles that are supported by the government should a UK Taxonomy be released. They should:

- enable consistent, transparent, and comparable reporting and disclosure for real estate portfolios and cover all real estate asset classes;
- be aligned with International Sustainability Standards Board (ISSB) guidelines and FCA Policy

Statement 23/16 (Sustainability Disclosure Requirements (SDR) and investment labels).

In the context of our discussion with the FCA, we have developed principles (<https://www.inrev.org/library/esg-metrics-real-estate-proposals>) – now updated as at 29 January 2025, which include reference to the INREV SDDS (Standard Data Delivery Sheet) - aimed to facilitate consistency of disclosures, and are delighted that the Transition Plan Taskforce (TPT) have referenced the 12th January 2024 version in the TPT's Guidance for Asset Owners and Asset Managers. The TPT Guidance is accessible via the IFRS Knowledge Hub:

- <https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/asset-owners-sector-guidance-apr-2024.pdf>
- <https://www.ifrs.org/content/dam/ifrs/knowledge-hub/resources/tpt/asset-managers-sector-guidance-apr-2024.pdf>

Example metrics for evaluating sustainability in real estate across different categories can be seen below:

- Climate Mitigation Metrics: Focus on operational energy use, renewable energy generation, carbon emissions, and carbon reduction targets.
- Climate Adaptation Metrics: Emphasise risk assessments like flood and overheating risks, as well as adaptation measures such as green infrastructure and storm resilience.
- Resource Efficiency Metrics: Include recycled content, water consumption, and waste diversion, along with water stress assessments.
- Implementation Metrics: Concern data accuracy, verification, tenant engagement, and compliance with green leases and supply chain standards.
- The key principles stress the importance of measurable, verifiable, and cost-effective metrics aligned with international standards to drive genuine improvements. Additionally, there is a suggestion to integrate other industry standards like Biodiversity Net Gain and UK Net Zero Carbon Building Standards.

11. What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative)

We would like to discuss this question further with the UK Treasury before responding.

12. What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?

In the event a UK Taxonomy is taken forward, we emphasise the importance of the 'Do No Significant Harm' (DNSH) principle in ensuring that investments perform well across all sustainability aspects. For DNSH to be applied consistently, clear definitions are essential. However, the principle should align with existing frameworks from other jurisdictions, particularly the EU.

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.

Should a UK Taxonomy be implemented, we generally agree with the idea of regular updates, potentially every three years, however the need for updates must be balanced with the need for long-term certainty, suggesting that both aspects should be carefully considered.

a. Do you agree with this regularity?

No response

b. Would this pose any practical challenges to users of a UK Taxonomy?

We are concerned that the administrative requirements surrounding the reporting, particularly given that the volume of sustainability reporting now required distracts from the actual implementation of strategies.

c. Would this timeframe be appropriate for transition plans?

No response

14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

We suggest that self-reporting, along with integrating reporting into existing frameworks such as ISSB and SDR, could help reduce the administrative burden. Expert groups should be involved in informing updates to ensure their expertise is incorporated into the process.

Conclusion

We hope that our comments make a constructive contribution to the important issues raised in the UK Green Taxonomy Consultation. We remain available to provide any further information the HMT would find helpful.

This INREV draft submission has been based on a model real estate industry response prepared by a working group representing industry associations: the Association of Real Estate Funds (AREF), British Property Federation (BPF), Commercial Real Estate Finance Council Europe (CREFC Europe), the European Association for Investors in Non-Listed Real Estate Vehicles (INREV), the Investment Property Forum (IPF) and the Royal Institution of Chartered Surveyors (RICS).

For any inquiries, please contact:

Jeff Rupp

INREV Director of Public Affairs

jeff.rupp@inrev.org

+31 6 300 97 666



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