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Introduction

INREV shares the UK Government's purpose of supporting investment in activities aligned with sustainability goals and mitigating greenwashing. However, the development of a UK Green Taxonomy can only be beneficial if it successfully addresses specific concerns noted below. The added complexity, cost, and confusion for firms already dealing with the EU taxonomy would outweigh any potential benefits.

UK Green Taxonomy

We suggest that a UK taxonomy, if adopted should be a simpler version of the EU taxonomy, developed with a sufficient degree of real estate sector-specific understanding and insight. This is critical because real estate definitions and metrics generally operate at an asset and portfolio level rather than at a corporate level. Furthermore, a UK taxonomy should enable interoperability, considering that most real estate investors and investment managers are global in their scope and operations and deal with other taxonomies, in particular the EU Taxonomy.

In particular, interoperability would be facilitated if sector-specific guidance for real estate is included, based on metrics developed by the real estate industry and already widely in use. 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.

Ensuring a UK taxonomy is interoperable with existing frameworks, particularly the EU taxonomy, would also 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 a UK taxonomy to align with the EU taxonomy to ensure seamless integration for firms and investors already familiar with the EU system.

However, we have concerns regarding the introduction of a UK Taxonomy, including:

- The EU sustainable finance regime under SFDR focuses on disclosure, with the EU Taxonomy playing a key part. In contrast, the UK SDR allows for investment labels, where the FCA has set minimum sustainability standards through investment thresholds and KPIs, therefore potentially avoiding the costs of a separate UK Taxonomy.
- The opportunity-cost of developing a UK Taxonomy could also seem to favour more impactful and less costly other 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: Considering that many UK sustainable funds are also marketed to the EU and comply with rules and disclosures under SFDR and the EU Taxonomy, the benefit of a UK-specific taxonomy is less clear if managers are already reporting against the EU Taxonomy. Unless the UK aligns its taxonomy 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 other existing or alternative government policies that would better meet these objectives or the needs of stakeholders.

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

Conclusion

A UK Green Taxonomy could 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 also 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 interoperability with existing frameworks, especially the EU Taxonomy, a UK Taxonomy has the potential to facilitate impactful sustainability transitions in the real estate sector.