EUROPEAN FEDERATION FOR LIVING

RITTERWALD

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Sustainability Reporting for social and affordable housing providers across Europe

Report by RITTERWALD
prepared in cooperation with the
EFL Finance and Investment Group

Contents

The European Federation for Living (EFL) is a European network of social and affordable housing providers, private companies, public sector organisations, and academic associates. All share the mission to create more affordable housing in a sustainable manner. Summer 2023 EFL has over 70 members and associates from almost 20 European countries (including the United Kingdom) representing residents in 1.5m homes.

As a membership organisation EFL brings together and shares knowledge between all its members and associates in the social and affordable housing industry. The EFL network offers access to relevant expertise and new insights. Through conferences, networking events, research, and projects, EFL enables its members and associates to be at the forefront of the sustainable housing debate and community development across Europe.

The knowledge sharing backbone of EFL is captured through four working/topic groups: Finance and Investment, Digitisation, Construction and Social Domain. These groups meet approx. 3 times a year with each meeting hosted by one of EFL's members or associates. The main purpose is knowledge development and highlighting best practices. The topic groups are complimented by additional tangible outputs including site visits, research papers, best practice case studies, comparative statistics and metrics, procurement opportunities, and EU grant applications. In 2023 and 2024 all topic groups have cross referenced sustainability in their discussions.

Finance and Investment Group

Chaired by Hendrik Cornehl, Head of Sustainability at Dr. Klein Wowi Digital AG (Germany)

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In 2023/24, the Finance and Investment Group, through a series of meetings and workshops, is addressing the whole spectrum of decarbonisation of the legacy housing stock of social and affordable housing providers across Europe drawing on the experience of EFL members among others.

Construction Group

Chaired by Fabien Lasserre, Head of Technological Innovation at Vilogia (France) and Thorsten Schulte, Managing Director Development at Gewobag (Germany)

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— t.schulte@gewobag.de

The Construction Group is focusing on energy efficiency of new residential construction and conversions. Themes that are being addressed include sustainable design, building materials (timber among others), construction costs and innovations in the construction industry.

European Digitisation Group

Chaired by Oliver Falk Becker, Director Business Development at Gewobag and Roman Riebow, Head of IT at Gewobag (Germany)

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The European Digitisation Group is focusing on new ways for digitisation to support the energy transition in the residential sector. In 2023/24 the overall theme of the group is to explore how digitisation impacts on Energy Efficiency.

Social Domain Group

Chaired by John Stevens, Partnerships and Project Manager at Clarion Housing Group (England)

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The Social Domain Group has it focus on measuring social impact by developing metrics among others within an international comparative context. This group works together with the European Housing Network Eurhonet, a network of public and social housing providers committed to delivering excellent services and measuring social impact.

More information about EFL: www.ef-l.eu
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1
Sustainability reporting: from nice-to-have to must-have

The social housing sector in Europe plays a key role in the transition towards a sustainable future, as providers of affordable and energy-efficient homes for millions of residents. Therefore, social and affordable housing providers need to actively contribute to achieving national climate goals, by decarbonising their legacy housing stock. We address the whole spectrum of decarbonisation, the building envelope (fabric), heating systems, the energy supply infrastructure (power grid) and tenant behaviour. Together these aspects inform a successful implementation strategy to accomplish climate goals in a timely manner.

Developing and implementing pathways to net zero carbon emissions come with multiple challenges. One of the drivers of decarbonisation is the fast-developing regulatory, and compliance landscape in the EU and the UK. This is ultimately expressed as mandatory climate related disclosures in respective jurisdictions.

The European Federation for Living (EFL) is providing guidance to members on how and when to comply with the current and future sustainability reporting requirements. Therefore in 2023/24, the Finance and Investment Topic Group is organising a series of meetings and workshops addressing the whole spectrum of decarbonisation of the legacy housing stock. We do this with the following goals:

- Produce robust guidelines for housing providers to address their decarbonisation task.
- Raise awareness for pathways to net zero carbon emissions for existing housing stock.
- Encourage cross-industry and cross-border exchange and best practice.
- Provide transparency on current trends, regulations, and disclosures.

The inaugural meeting of the 2023/24 series was held in Amsterdam in March 2023 and was hosted by pan-european residential strategy consultancy, RITTERWALD. The meeting addressed the emerging sustainability reporting standards and considered financial market insights from UK and Dutch banks. This report shares our conclusions to date and provides the foundations for future discussions exploring data management, decarbonisation strategy development and operationalisation, climate transition planning, and sustainable finance.

In July 2023 the EU published its final version of the European Sustainability Reporting Standards (ESRS), an outcome of the Corporate Sustainability Reporting Directive (CSRD). The CSRD aims to improve transparency in sustainability reporting while the ESRS outlines how companies should report on environmental and social impacts relating to their business and their value chain. It is expected that the ESRS affects 50,000 companies including large and medium-sized social and affordable housing providers: a company needs to comply when at least 2 of the following 3 criteria apply to the company: more than 250 employees, turnover exceeds €40m, balance sheet exceeds a total of €20m. Overall, the ESRS is underpinning the EU's sustainable finance agenda (Green Deal) and the EU taxonomy.

Larger companies (public interest entities with more than 500 employees) that already had to comply to the NFRD, the predecessor of the CSRD, already report against the GRI, the Global Reporting Initiative. And the International Sustainability Standards Board (ISSB) is a global auditing standard setting body established in 2021-2022 under the IFRS Foundation (International Financial Reporting Standards). The standards, in the form of non-financial information are designed to meet with mandatory financial disclosures and cover climate transition and emissions. The auditing standards were released on 26th June 2023 and their adoptions are so far voluntary and are expected to become mandatory by 2028.

The development of such international standards once more highlights the importance of sustainability reporting across the globe. While the ISSB's standards are focused on climate-risks, the new regulations in place from 2024 in the EU cover a broader range of ESG topics. The EU intends to align ESRS, ISSB and GRI in the future to avoid multiple reporting.

EFL members should also note that CSRD/ESRS reporting involves all supply chain partners. In other words, if you as social and affordable housing provider do not have to directly comply you may partner with companies within your supply chain (e.g., your lenders, construction companies) who do have to comply, and will need your company to provide them with CSRD/ESRS data.

This report therefore explores the following. First, in section 2 we provide a summary of the results from a brief sustainability survey among EFL members, social and affordable housing providers in 15+ countries. It shows a baseline in terms of challenges and initial solutions of how EFL members can be positioned in the changing sustainability landscape especially regarding reporting.

In section 3 we address the pillars in the regulatory sustainability framework in the EU: (1) the Corporate Sustainability Reporting Directive (CSRD), (2) the subsequent European Sustainability Reporting Standards (ESRS), (3) the EU Taxonomy and (4) the Sustainability Finance Disclosure Regulation (SFDR). In section 4 we will address similar pillars in the UK market highlighting where it diverges from the EU approach. It is helpful to note that EU regulations are driven by the EU taxonomy while in the UK climate disclosures follow the recommendations of the Task Force on Climate-related disclosures (TCFD).

Then we will be setting the course for successful sustainability reporting by addressing some gaps derived from the survey: sustainability strategy, (double) materiality analysis, data management, climate transition planning, and national and sector-specific reporting standards.

The last section of this report will provide some recommendations how to proceed and how social and affordable housing providers can best prepare themselves for mandatory or voluntary compliance.

2
Sustainability survey among EFL members: setting the agenda

Outcome sustainability survey

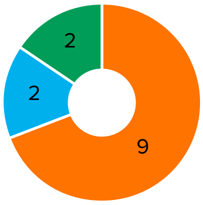
We set out to understand, through a survey among EFL members, where social and affordable housing providers currently stand with their sustainability strategy and reporting to establish a baseline for understanding the implementation of the new requirements. The survey addresses what is being done already, and what must be improved to comply with the upcoming regulations.

We chose to broaden the survey beyond climate disclosures, and environment, to include social and governance disclosures as per the broader Environmental, Social and Governance (ESG) agenda.

RITTERWALD asked the EFL-members, all social and affordable housing providers, to fill out a brief survey about the state of their ESG reporting. The survey took place in July 2023. We received responses from 45% of EFL members providing a glimpse of their readiness towards ESG reporting. The results are summarised in figure 1.

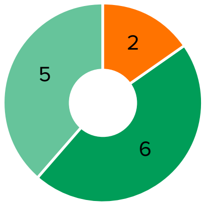
Most of the respondents are familiar with the new regulations. A majority already publishes an ESG report or is in the process of producing their first report. Nationally developed frameworks are typically used; that in Germany (DNK – Deutscher Nachhaltigkeitskodex), France (DPEF - Déclaration de performance extra-financière) and in the UK (SRS – sector-specific Sustainability Reporting Standard). The survey results also point to missing elements to embrace in the ESG reporting process. For now, only 2 respondents use sustainability data management software, while a materiality analysis on sustainability topics is conducted by less than half of the respondents. The survey also highlights the concerns towards what will be required and the lack of clear communication, which are reflected in the high proportion of respondents who do not feel ready for ESRS reporting yet. Challenges and ideas for more guidance were also collected.

Do you use a sustainability data management system?



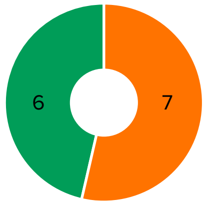
No
No but implementation is planned
Yes

Are you familiar with proposed reporting requirements through CSRD/ESRS (EU) and SDR (UK)?



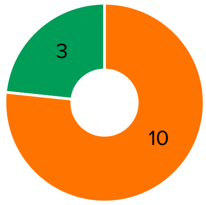
No
Yes
Yes, but only in broad strokes

Did you already conduct a materiality analysis on corporate sustainability strategy topics?



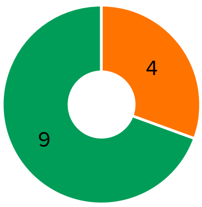
No
Yes

Did your company have an ESG rating at any time?



No
Yes

Did you already publish your first sustainability/ESG report?

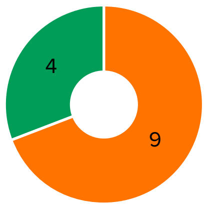


No
Yes

Which standards did you use for reporting?

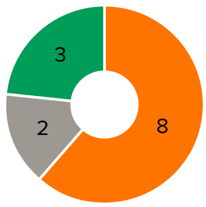
Broadly follows SRS but includes voluntary disclosure
DNK (Germany)
DEF (France)
GRI (Global)
Mixture beetwen GRI and DNK
SRS (UK)

Do you know which indicators you have to report in ESRS (EU) and SFDR (UK)?



No
Yes

Do you feel ready for ESRS-compliant reporting yet?



No
Unsure
Yes

Figure 1:
Sustainability survey results among EFL members
Source: RITTERWALD

Challenges to meet reporting requirements

Five main challenges seem dominant in the change of reporting requirements:

1. **Adaptation from one standard to another**
   Respondents that already report against voluntary ESG standards (like SRS, DNK, DPEF) are concerned about what further changes it will imply for their reporting processes. They also question the creation of consistency between ESG reporting standards and wonder if reporting against the different regulations will lead to overlaps.

2. **Regular and clear information on changes**
   The respondents find the content and the scope of the requirements unclear. Some also wonder if their organisation will have to comply or not. Others point out that they may not be able to keep up with fast-evolving requirements for a net zero transition.

3. **Industry specific information**
   One of the main challenges mentioned deals with industry-specific information and how the new regulations will apply to the housing sector.

4. **Data gathering**
   The availability and accessibility of the data required to report against the standards preoccupies the respondents. It was explained that the information might not yet be at hand, or they might not have the resources yet to gather it.

5. **Other priorities**
   One respondent brings up the fact that their priorities are not on reporting now, as they have other material topics they must address.

Suggestions for guidance

To navigate the changes in regulations and reporting requirements, the respondents shared their ideas on which tools or guides could be useful. The ideas are summarized below:

1. **Step-by-step guidance**
   Respondents would appreciate having guidelines and exchanges on the precise requirements and how to meet them.

2. **Industry-specific "best-practice" methodology**
   Understanding best practices from peers in the social housing sector, as well as getting guidance on materiality and risk methodology for the sector appears important.

3. **Other ideas**
   - An automated reporting tool compatible with data gathering software.
   - Financial reporting and external auditor alignment.
   - A document explaining the link between all the standards and frameworks released.

In section 5 we will address the suggested guidance and ideas.

Abbr.	Meaning	Link
BREEAM	Building Research Establishment Environmental Assessment Methodology	https://bregroup.com/products/breeam/
CDP	Carbon Disclosure Project	https://www.cdp.net/en
CDSB	Climate Disclosure Standards Board	https://www.cdsb.net/
	Climate Bonds Initiative	https://www.climatebonds.net/
CRFD	Climate-Related Financial Disclosures	https://www.gov.uk/government/publications/climate-related-financial-disclosures-for-companies-and-limited-liability-partnerships-llps
CRREM	Carbon Risk Real Estate Monitor	https://www.crrem.eu/
CSDDD	Corporate Sustainability Due Diligence Directive	https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en
CSRD	Corporate Sustainability Reporting Directive	https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
DGNB	Deutsche Gesellschaft für Nachhaltiges Bauen	https://www.dgnb.de/de/zertifizierung/das-wichtigste-zur-dgnb-zertifizierung
DNK	Deutscher Nachhaltigkeitskodex	https://www.deutscher-nachhaltigkeitskodex.de/en-GB/Home/DNK/DNK-Overview
DNSH	Do No Significant Harm	https://ec.europa.eu/sustainable-finance-taxonomy/
DPEF	Déclaration de Performance Extra-Financière	https://www.ecologie.gouv.fr/rapportage-extra-financier-des-entreprises
EFRAG	European Financial Reporting Advisory Group	https://www.efrag.org/About/Facts
ESEF	European Single Electronic Format	https://www.esma.europa.eu/issuer-disclosure/electronic-reporting
ESMA	European Securities and Markets Authority	https://www.esma.europa.eu/
ESRS	European Sustainability Reporting Standards	https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en
FCA	Financial Conduct Authority	https://www.fca.org.uk/about/what-we-do/the-fca
GRESB	Global Real Estate Sustainability Benchmark	https://www.gresb.com/nl-en/about-us/
GRI	Global Reporting Initiative	https://www.globalreporting.org/standards/
GTAG	Green Technical Advisory Group	https://www.gov.uk/government/publications/independent-expert-group-appointed-to-advise-government-on-standards-for-green-investment
IFRS	International Financial Reporting Standards	https://www.ifrs.org/about-us/who-we-are/
INREV	Investors in Non-Listed Real Estate Vehicles	https://www.inrev.org/
ISSB	International Sustainability Standards Board	https://www.ifrs.org/groups/international-sustainability-standards-board/
LEED	Leadership in Energy and Environmental Design	https://support.usgbc.org/hc/en-us/articles/4404406912403-What-is-LEED-certification-
NFRD	Non-Financial Reporting Directive	https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
PRI	Principles for Responsible Investment	https://www.unpri.org/
SASB	Sustainability Accounting Standards Board	https://sasb.org/
SBT	Science Based Targets	https://sciencebasedtargets.org/
SDR	Sustainable Disclosure Requirements	https://www.fca.org.uk/news/news-stories/fca-updates-sustainability-disclosure-requirements-and-investment-labels-consultation
SDS	Sustainability Disclosure Standards	https://www.gov.uk/guidance/uk-sustainability-disclosure-standards
SECR	Streamlined Energy and Carbon Reporting	https://www.gov.uk/government/publications/academy-trust-financial-management-good-practice-guides/streamlined-energy-and-carbon-reporting
SFDR	Sustainable Finance Disclosure Regulation	https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en
SfH	Sustainability for Housing	https://sustainabilityforhousing.org.uk/
SRS	Sustainability Reporting Standards	https://sustainabilityforhousing.org.uk/latest-srs-criteria/
TCFD	Task Force on Climate-Related Financial Disclosures	https://www.fsb-tcfd.org/about/
TPT	Transition Plan Taskforce	https://transitiontaskforce.net/
WELL	WELL Standard	https://www.wellcertified.com/

Figure 2: Abbrevations and links to official websites
Source: RITTERWALD

3
Regulatory sustainability reporting frameworks in EU

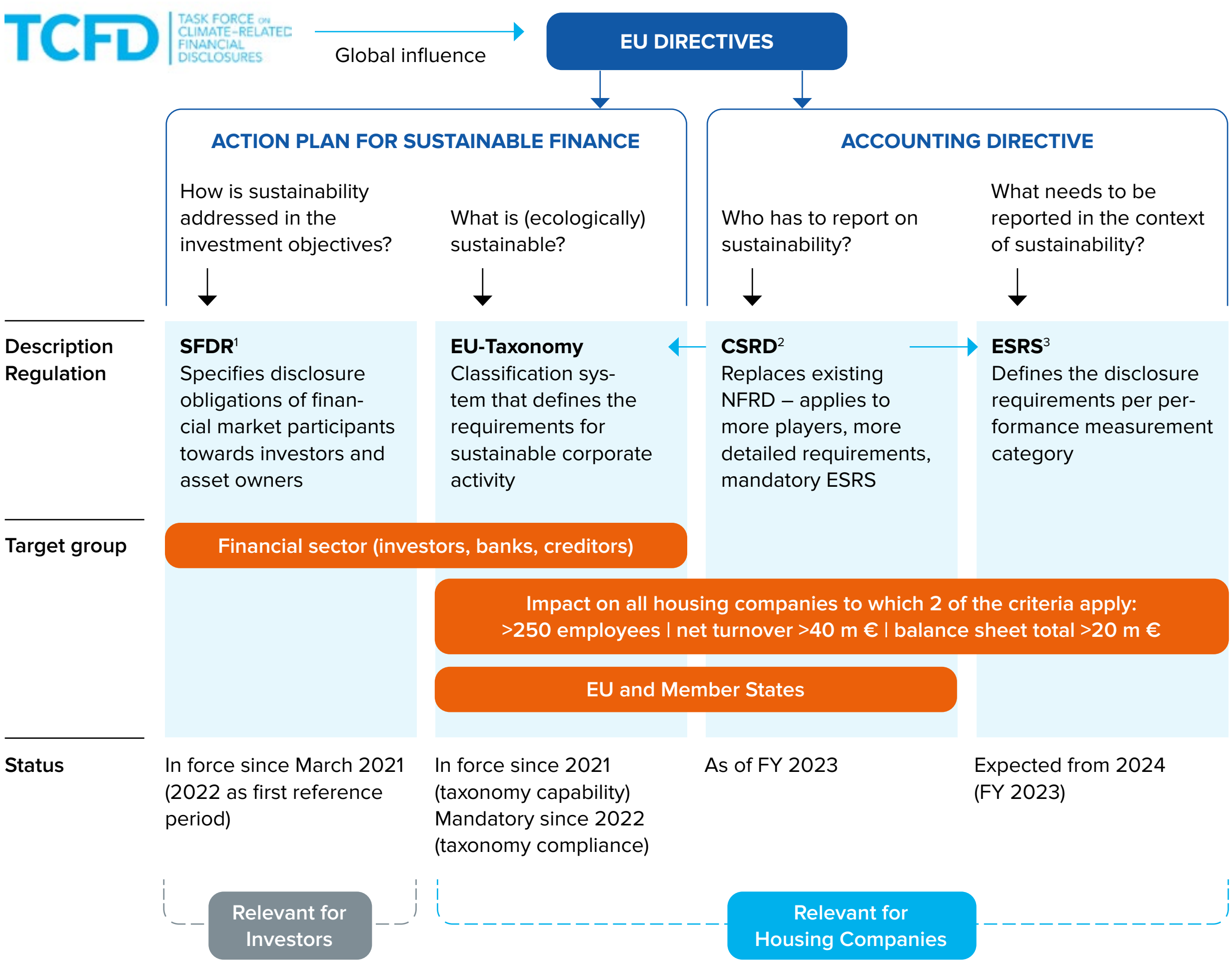
From January 2024, the Corporate Sustainability Reporting Directive (CSRD) will fundamentally change the sustainability reporting of companies in the EU. As a result, many more housing companies will have to comply.

The CSRD can be seen as 'EU law' and regulates **which companies** must comply with sustainability reporting. The European Sustainability Reporting Standard (ESRS) prescribes **what** must be reported on. The ESRS becomes the mandatory reporting standard in the EU. As a result, the extent and quality of reporting in most companies will have to improve. An audit requirement for non-financial sustainability reporting will also be introduced, putting sustainability reporting on a par with financial reporting. This audit requirement will be aligned with the global auditing standards as currently developed by the International Sustainability Standards Board (ISSB).

Moreover, the CSRD also implies that the respective companies must also report against the EU taxonomy conformity of their corporate activities. This leads to considerable additional administrative work for the companies.

Finally, the Sustainable Finance Disclosure Regulation (SFDR) obliges financial market participants to provide more comprehensive information to lenders and investors. This will indirectly force housing companies, especially those issuing bonds, to consolidate and provide corresponding non-financial information. To make this additional effort in sustainability reporting, housing companies should start acting today to collate relevant data and establish metrics that align with mandatory disclosure requirements.

Figure 3: Regulatory framework sustainability – EU
Source: RITTERWALD



1 SFDR = Sustainable Finance Disclosure Regulation
2 CSRD = Corporate Sustainability Reporting Directive
3 ESRS = European Sustainability Reporting Standard

Corporate Sustainablity Reporting Directive (CSRD)

The CSRD will replace the Non-Financial Reporting Directive (NFRD). Under the NFRD, only listed companies with more than 500 employees are required to report on their non-financial performance. The CSRD requires companies to report if they meet 2 out of 3 newly defined thresholds: more than 250 employees, more than €20m total balance sheet, more than €40m net turnover. In residential real estate the last two thresholds will easily be reached.

In 2022 RITTERWALD research among German housing companies has shown that according to the CSRD, 98 of the top 100 housing companies must already submit a sustainability report for the 2024 or 2025 financial year. This research is expected to show the same direction in outcome in other countries. For the housing companies that were already obliged to report under the NFRD, the CSRD will already apply from the 2024 financial year. For all other eligible companies the CSRD will apply from the 2025 financial year. In addition, stock listed small and medium sized enterprises (SMEs) will also be required to report in accordance with CSRD from 2026, even if they do not meet the size definition under CSRD. The first sustainability report according to CSRD must be published no later than 12 months after the end of the financial year.

The CSRD leads to five structural changes in the sustainability reporting:

1. **Uniformity in reporting:** A more comprehensive and uniform reporting system based on the ESRS as reporting standard.

2. **Definition of materiality:** With the introduction of the double materiality, being the union of impact and financial materiality, there is a change in definition and increasing relevance.

3. **External auditing:** the EU is currently defining audit standards for non-financial data. Initially, limited audit assurance is envisaged, to be extended in the medium term to reasonable audit assurance commensurate with the depth of financial reporting. To avoid overlap, the EU audit standards will be aligned with the non-financial reporting standards according IFRS (currently developed through ISSB).

4. **One annual corporate report:** sustainability data is to be presented in the company's annual report, resulting in a financial part and non-financial part (the last one the current sustainability report). The entire report will be audited: see also comments under external auditing.

5. **Electronic labelling of information:** via the mandatory European Single Electronic Format (ESEF), the reports can be read by machines and humans alike. The ESEF is produced by the European Securities and Markets Authority (ESMA).

European Sustainability Reporting Standards (ESRS)

While the CSRD determines which companies must comply, the ESRS prescribes the content of the disclosures. The ESRS is being prepared by the commissioned European Financial Reporting Advisory Group (EFRAG). The final version was published in July 2023. A key element of the ESRS is the concept of double materiality: financial materiality is strictly separated from impact materiality (environmental and social).

For twelve sectors in so-called clusters, the ESRS provides reporting standards, (see figure 4) which are to be applied across all industries: two general, five environmental, four social and one governance standard. Reporting is to be done on those standards that were identified as material for the company (in the sense of double materiality) within the scope of the materiality analysis. It is mandatory to report on the standards ESRS 2 (General Disclosures) and E1 (Climate Change). Depending on the result of the materiality analysis, at least 85 mandatory disclosure requirements for reporting companies already arise from the standards ESRS 2 and E1. For individual disclosures, a transition period is granted until the full reporting obligation, such as for information on a company's supply chain.

Companies will be obliged to disclose sector-specific and company-specific information on sustainability. The clusters of the ESRS essentially correspond to the environmental and social goals of the EU environmental and planned social taxonomy.

Currently, other standards are used for sustainability reporting. Most of these institutions like Global Reporting Initiative (GRI) have already announced that they will align their standards with the ESRS. It is expected that this will lead to an alignment of the different standards. For companies that already report against the GRI, it can be assumed that they will have to adapt the content of their reports to the revised standards in the future, but that they will not have to report according to the ESRS in addition. A change of reporting standard will therefore not be necessary.

STANDARD		CLUSTER
ESRS	1	General requirements
	2	General disclosures
	E1	Climate change
	E2	Pollution
	E3	Water and marine resources
	E4	Biodiversity and ecosystems
	E5	Resource use and circular economy
	S1	Own workforce
	S2	Workers in the value chain
	S3	Affected communities
	S4	Consumers and end-users
	G1	Business conduct

Figure 4: European Sustainability Reporting Standards Clusters
Source: European Commission

EU-Taxonomy

The EU taxonomy determines whether an economic activity is sustainable. For now only the environmental taxonomy is available, the social taxonomy is being planned. The current EU taxonomy sets out six environmental objectives of the EU: climate change mitigation, adaptation to climate change, transition to a circular economy, sustainable use and management of water and marine resources, prevention or control of pollution and protection and restoration of biodiversity and ecosystems.

For a business activity to be sustainable, it must meet three criteria. First, the activity must contribute to at least one of the six EU environmental objectives by meeting technical verification criteria. In addition, as a second criterion, an activity must not cause significant harm (DNSH – Do No Significant Harm) to any of the other five environmental objectives, and as a third criterion, it must meet minimum social safeguards.

If a company is considered to have a reporting obligation according to the requirements of the CSRD, it must – in addition to reporting according to the ESRS – also report on the EU taxonomy. The EU taxonomy was created by the Technical Expert Group on Sustainable Finance with the aim of integrating sustainability more strongly and measurably into financial decision making. On the one hand, the EU taxonomy sets a clear standard which corporate activities are considered environmentally sustainable. This is because the current information and data situation in companies is not sufficient to be able to specifically promote the achievement of the Paris climate goals. On the other hand, reporting will make it easier for investors and lenders to see how sustainable a particular company or fund is operating in relation to the EU environmental objectives.

Sustainable Finance Disclosure Regulation (SFDR)

The last important pillar of the amended regulatory framework is the SFDR (Sustainable Finance Disclosure Regulation). It is intended to increase transparency in the financial market regarding sustainability by specifying the disclosure obligations of financial market participants vis-à-vis end investors and asset owners.

As figure 5 shows, for funds (incl. real estate funds) under Article 8 and Article 9 of the EU Taxonomy, the SFDR requires a report on the ESG risks and consequences of all assets of a fund and the influence of ESG motivations in the investment process. The only distinction between “ESG fund” (Article 8) and “impact fund” (Article 9) is that for an impact fund, the primary motivation for investing is the sustainable impact of the assets, whereas ESG funds also promote the subordinate addressing of ESG characteristics in their investment processes. There are no such requirements for “traditional funds” (Article 6). However, they are expected to indicate that their investments do not take into account the EU criteria for environmentally sustainable investments.

Social and affordable housing providers are expected to be requested by lenders

Figure 5: Reporting requirements according to the type of fund under the SFDR
Source: RITTERWALD

and investors to provide the necessary data for reporting to their funders (equity providers). This creates a second, indirect reporting obligation. Furthermore, there is a risk of housing properties that have not been decarbonised inline with ESG, for lenders and investors to become stranded assets. Social and affordable housing providers should not underestimate the risk for stranded assets. This is because the steering effect of the SFDR will lead to real estate investors paying more attention to the ESG data of properties in the future. Consequences could be no (re)finance or more expense finance, because the lender must keep extra financial reserves to cover extra ESG risk.

4
Mandatory sustainability reporting in the UK

As with the rest of Europe, the UK is impacted by the large amount of legislation and regulation both at an international and domestic levels. It is constantly shifting making it hard to navigate. Until 2023 many large UK housing companies have been required to meet mandatory reporting requirements as per the Streamlined Energy and Carbon Reporting (SECR) standard. This is changing with the Climate-Related Financial Disclosures (CRFD) streamlined according to the Task Force on Climate-related Disclosures (TCFD).

Figure 6: Regulatory framework sustainability – UK
Source: RITTERWALD

UK SUSTAINABILITY REPORTING LAWS & REGULATION

	How is sustainability addressed in the investment objectives? (Still pending)	What is (ecologically) sustainable? (Still pending)	Who has to report on sustainability and what has to be reported about? SUSTAINABILITY REPORTING	
Description Regulation	**SDR**[1] Specifies disclosure obligations of financial market participants towards investors and asset owners	**UK Green Taxonomy** Classification system that shall define the requirements for sustainable corporate activity	**SECR**[2] Disclosure of energy use, carbon footprint, and GHG emissions in annual financial reporting	**CRFD**[3] Streamlined TCFD Reporting (TCFD)
Target group	Mainly financial sector (investors, banks, creditors)	Not clear yet	Private companies to which 2 of the criteria apply: >250 employees / net turnover >£36M / balance sheet total >£18M	Public and private UK companies with over £500M in annual turnover or 500+ employees
Status	Expected to be finalized and take effect 2023	Tbd, final implementation decision shall follow in 2023	As of FY 2019	In effect, expected to change from FY 2023
	Indirectly relevant for Housing Companies	Relevant for Housing Companies		

[1] SDR = Sustainability Disclosure Requirements
[2] SECR = Streamlined Energy and Carbon Reporting
[3] CRFD = Climate-Related Financial Disclosures

The UK government is guided by the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD) as one of the most important global frameworks for companies to effectively disclose climate-related financial information. The mandatory climate-related financial disclosure applies to companies for financial years starting on or after 6th April 2022. The TCFD framework differs from the EU framework in that it does not focus on 'impact materiality' but 'financial materiality'.

In summary: the CRFD stipulates **who** must comply with sustainability reporting and **what** must be reported. Alongside the CRFD the Sustainability Disclosure Requirements (SDR) will regulate sustainability claims by UK financial market actors.

Streamlined Energy and Carbon Reporting (SECR)

The Streamlined Energy and Carbon Reporting (SECR) requires specific company-level disclosures, regarding energy consumption, carbon footprint and greenhouse gas emissions (GHG) as part of the annual financial reporting. Public sector organisations and other organisations undertaking public activities such as housing associations, have to comply with the SECR. It is expected that the next review of the SECR will be by April 2024.

Climate Related Financial Disclosures (CRFD)

The CRFD stipulates the broad content of the non-financial Sustainability Information Statement and must contain the climate-related financial disclosures of the company to enable a reader to understand the effect of climate-related financial risks and opportunities on the business. There is no prescribed format.

Companies are required to make the following mandatory disclosures:

- Description of the governance arrangements of the company in relation to assessing and managing climate-related risks and opportunities.
- Description of how the company identifies, assesses, and manages climate related risks and opportunities.
- Description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company.
- Description of the principal climate-related risks and opportunities arising in connection with the operations of the company, and the time periods by reference to which those risks and opportunities are assessed.
- Description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the company.
- Analysis of the resilience of the business model and strategy of the company, taking into consideration of different climate-related scenarios.
- Description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.
- Key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.

The focus remains principally on scope 1 and 2 carbon emissions. As with the SECR, scope 3 emission disclosures remain voluntary, although these will tend to be the biggest source of emissions for housing companies.

The CRFD will exist alongside the SECR. Companies that must comply by both standards will have to disclose information to both. The CRFD disclosures must appear in the strategy report, while the SECR disclosures must appear in the annual report. Companies not meeting the CRFD criteria will still have to report against the SECR (see figure 6 for the scopes of the regulations).

The first publication of CRFD disclosures cover the financial years beginning on or later than the 6th April 2022, which means the earliest report covers the period from 6th April 2022 to 5th April 2023. It is expected that all companies falling under the scope have published their first CRFD disclosures by January 2024.

UK Green Taxonomy

The UK Green Taxonomy is planned to be built on existing international taxonomies, including the EU taxonomy. It is an opportunity for the UK to set a high bar with a science-based taxonomy that supports and accelerates green finance and the UK's transition to a net zero economy.

The UK Green Taxonomy has not yet been finalised by the government. Once in place, the taxonomy will address the same six environmental objectives as the EU-taxonomy (see section 3.3) and provide strengthened DNSH (Do No Significant Harm) criteria in a similar way to the EU-taxonomy. In October 2022, the Green Technical Advisory Group (GTAG) published advice on the UK Green Taxonomy based mainly on the EU Taxonomy experience, and highlighting what the UK could do differently to the EU. The GTAG will continue to advise the government on developing and implementing a Green Taxonomy and anticipates a final implementation decision to be made later in 2023.

Sustainable Disclosure Requirements (SDR)

The Sustainable Disclosure Requirements (SDR) will operate as an overarching set of measures and is regulated by the Financial Conduct Authority (FCA). The measures will include disclosure requirements, sustainable investment labels and specific marketing and anti-greenwashing rules for the UK financial market. The SDR will have a broader focus than climate-related disclosures targeted by the TCFD, creating an overall framework for all corporate sustainability disclosures. It will also encompass the UK Green Taxonomy once released. The FCA is still finalising the details after consultation and aims to release a policy statement by the end of Q3 2023. The SDR should be applicable one year after the policy statement is released.

Sustainability Disclosure Standards (SDS)

The UK Sustainability Disclosure Standards are expected to form part of a new SDR regime which will include (among others) a UK Green Taxonomy and a requirement for certain entities to disclose a climate transition plan.

The new sustainability disclosure standards (UK SDS) are expected to be endorsed by the UK government by July 2024. The SDS will be based on the ISSB standards issued in June 2023.

The UK's Financial conduct Authority (FCA) has separately confirmed that it intends to update its existing rules on climate-related reporting for listed companies which are based on recommendations made by the TCFD.

At this moment it is still unclear whether the requirements will extend to large companies and LLPs currently required to make mandatory TCFD style disclosures in the UK. Because the earlier roll out of the CSRD it is expected that CSRD sets the bar.

The climate transition plan disclosures guidance will be informed by the work of the Transition Plan Taskforce (TPT), launched by the Treasury in April 2022. The TPT is tasked with developing standards in relation to net zero transition plans under the government's broader green finance roadmap and is expected to finalise its sector-neutral disclosure framework in October 2023.

5
Setting the course for successful sustainability reporting

As we show in this report the climate related mandatory reporting requirement and compliance responsibilities of social and affordable housing providers across Europe are increasing considerably. At the same time, the related content is becoming more specific and detailed. In this section we will address the requested guidance and suggested ideas drawn from the respondents to the sustainability survey among EFL members (see section 2).

We will address the must-haves such as a sustainability strategy, a double materiality analysis, ESG data management, and climate transition planning. Moreover, we will address national and social housing as industry specific reporting standard (in UK).

More in general and this may sound as an open door, but you can only report about sustainability in a compliant way if you are able to demonstrate your ESG credentials. No reporting without credentials.

Sustainable Strategy

To be prepared for meeting the reporting requirements, social and affordable housing providers should urgently revise their corporate sustainability strategy to ensure compliance. A necessary backbone of the sustainability strategy is a (double) materiality analysis (see next section). A materiality analysis can identify material topics that need to be prioritised as a guiding principle for a sustainability strategy and subsequent ESG reporting.

Figure 7: Reference frameworks for a sustainability strategy
Source: RITTERWALD

As figure 7 shows, the sustainability strategy can, for example, be developed and implemented along a normative, a strategic and an operational frame of reference:

- The development of sustainability targets (climate goals), with company-specific dimensions, set the **normative frame of reference**, which provides value- and norm-related guidelines for the company.
- The **strategic framework** is based on the results of the materiality analysis. Measures are developed for the topics identified as material and their progress is monitored by means of a system of key indicators with tracking of responsibility and degree of severity.

- The **operational framework** serves to anchor the sustainability strategy within the company and to provide clear measurable targets in the form of roadmaps for overarching sustainability goals as well as more specific key performance indicators (kpi's). In addition, sustainability reporting serves to present the operational implementation of the strategy.

We are referencing to selected sustainability strategies from EFL members in figure 8.

	Link to sustainability reports
Gewobag	https://berichte.gewobag.de/2022/nachhaltigkeitsbericht/
Vilogia	https://www.vilogia.fr/sites/default/files/2022-08/Declaration-de-performance-extra-financière-2021-Vilogia.pdf
Radius Housing	https://www.radiushousing.org/radius-housing/other/publications/category/corporate-publications
Clarion Housing	https://cdn.clarionhg.com/-/jssmedia/clarion-housing-group/documents/reports/social-impact-reports/social-impact-report-2021-2022.ashx
L&Q	https://www.lqgroup.org.uk/-/media/files/corporate-pdfs/landq-sustainability-report-202122.pdf

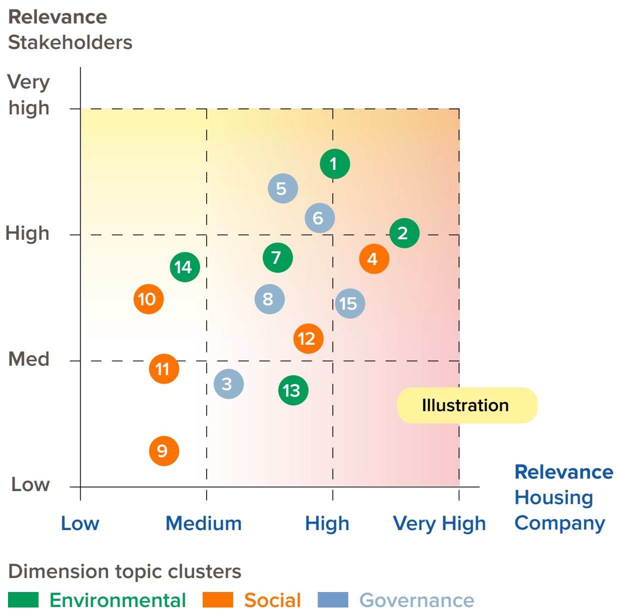
Figure 8: Links to sustainability strategy from EFL members
Source: RITTERWALD

Double materiality analysis

The ESRS are based on the double materiality principles to ensure that companies are only reporting against topics that are relevant to their organisation and value chain. Sustainability topics that are determined to be material from an impact or financial perspective will need to be disclosed under the ESRS. See figure 9 for issues to be addressed in double materiality analysis. Also, social and affordable housing providers will need to identify the impacts, risks, and opportunities associated with different sustainability topics and prioritise these based on their severity. In the UK double materiality does not apply from a regulatory point of view but given ESG reporting is likely to be attractive to housing associations. To make this a little more tangible, figure 10 shows the outcome of a materiality analysis.

Figure 9: Comparing financial and materiality matrix
Source: The SustainAbility Institute by ERM, June 2023

	Financial Materiality	Impact Materiality
Definition	Financial materiality considers those risks and opportunities that may financially impact a company's operations.	Impact materiality considers both positive and negative impacts that a company's business activities may have on the environment or society at large.
Measurement	• Likelihood of occurrence • Size of potential financial effects	• Likelihood of impacts • Severity of impact • In the case of a potential human rights impact, the severity of the impact takes precedence over its likelihood.
Assessment Requirements	Actual or potential risks and opportunities	Actual or potential positive and negative impacts
Time Horizon	Short-, medium-, and long-term	Short-, medium-, and long-term
Influence	Influence on internal factors such as cash flows, development, performance, position, cost of capital or access to finance	Influence on external factors such as environmental or societal issues like climate change, biodiversity, or health impacts.



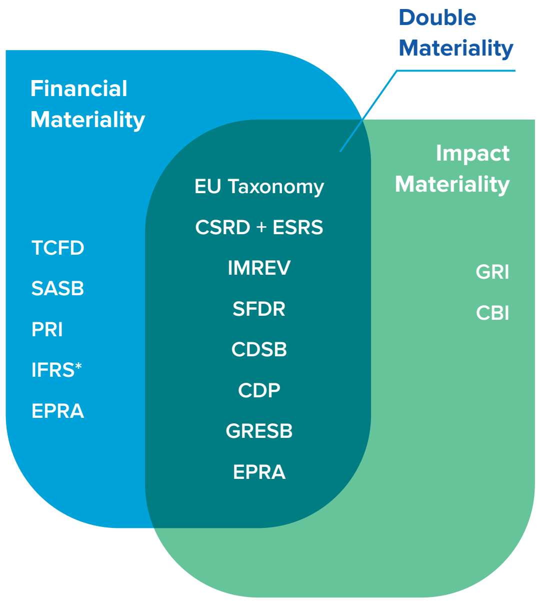


Figure 10: Outcome of a materiality analysis
Source: RITTERWALD, Mapping ESG: a landscape review of certifications, reporting frameworks and practices by PRI, INREV and ULI, April 2023

Data management

Reporting only makes sense when robust ESG data is available. As experience shows, this can be quite a challenge, and particularly for quantitative data, to find out where the different data sets are located within the organisation. It requires professional data management build on transparency, consistency, and comparability.

We distinguish three increasing levels of data management: data gathering, data analysis and data mining. Data gathering refers to collecting high quality quantitative and qualitative data about housing stock, tenants, and company. Data analysis is reading data and using it to monitor the corporate goals, e.g., related to decarbonisation, tenant satisfaction and EDI in the workplace (Equality, Diversity, Inclusion). Data mining refers to data-driven strategies and policies, e.g., assessing early warnings to avoid stranded assets, stress testing and enhancing business operations.

As figure 11 shows social and affordable housing providers in UK struggle with the

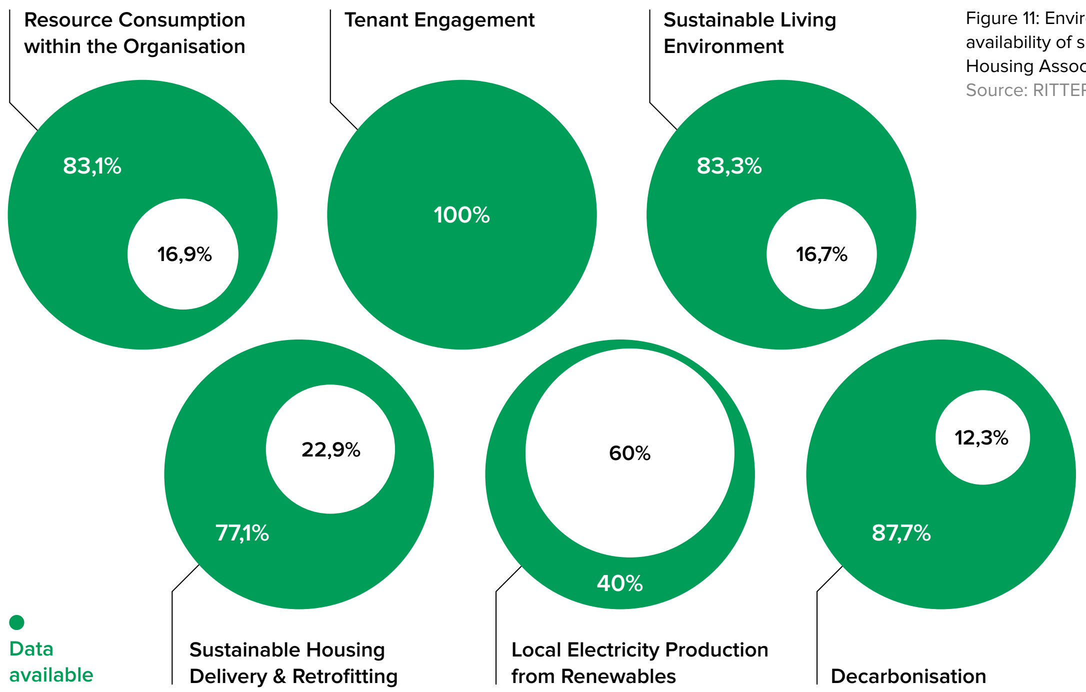


Figure 11: Environmental data availability of selected UK Housing Associations
Source: RITTERWALD

availability of quantitative environmental data. This is due to lack of consistency (changing calculation methods), beyond their control (data with third parties such as property companies or tenants in case of scope 3 emissions) and need to keep data up to date as assets are acquired, developed, renovated, and sold.

Nowadays in each country there a more and better data software platforms available to build and structure corporate ESG data in such a way that the data remains aligned with the fast-changing sustainability regulatory landscape.

Climate transition planning

A climate transition plan shows the social and affordable housing provider how to reach decarbonisation targets (as agreed upon in sustainability strategy) while also illustrating the capital and decision-making needs. Key metrics are the reduction of the absolute carbon emissions as well as the energy consumption per square meter living space. The reduction of both energy consumption and carbon emissions is achieved through a variety of retrofitting measures where technically feasible and economic effective.

Figure 12 shows possible steps for approaching climate transition planning, depending on where a housing provider stands on the sustainability continuum.

1 **Defining approach**	2 **Assessing current status**	3 **Developing decarbonisation pathways**	4 **Assessing economics**	5 **Formulating descision needs**
Focus on reducing energy **consumption** and carbon **emissions** on residential assets	Data must be gathered from **different sources** Gathering **verifiable data** is key component of the anaysis	**Distribute** stock into housing archetypes by current energy consumption and carbon emissions Defining **standard retrofit measures** for each archetype and **aggregate in pathways**	Determining total needed **investment** and (re)financing strategies Discussion **effect on valuation**	Descision making in: **Pace** of decarbonisation, **expectations** on Return on Investment and (re)financing

Figure 12: Approach for climate transition planning
Source: RITTERWALD

Global, national and sector specific reporting

Although the sustainability reporting frameworks have a national and sometimes global scope (e.g. TCFD), only the larger social and affordable housing providers are early adopters, mostly because it is mandatory. Figure 13 (EU) and figure 14 (UK) show the compliance obligations of the EFL members with the knowledge of today.

The UK is the only country with a -voluntary- sector-specific sustainability reporting standard, the SRS. The SRS was set up as sector initiative by a group of housing associations, lenders, investors, and advisors supported by social impact consultant, The Good Economy in 2020 and is now overseen by Sustainability for Housing (SfH), a company limited by guarantee. The standard enables housing providers to measure, manage and report on their ESG performance in a transparent, consistent, and comparable way. In June 2023, 130 companies were adopters of the standard, including 94 housing providers and 36 lenders and investors.

In July 2023, the second annual review of the Standard was published by SfH, providing a glimpse of the adoption benefits among the social and affordable housing community. The review shows that 1/3 of the housing providers who participated in the review obtained ESG-linked finance thanks to reporting against the SRS. On the other hand, funders have indicated reporting makes it easier for them to assess ESG performance in the sector.

In addition, the SRS opens the door to serious improvement by housing providers' meeting their sustainability commitments. The comparison between the first year of reporting and the second shows an increase in energy-efficiency measures across the adopters. On the social and governance side, the SRS helped enhancing support to residents, as well as diversity and inclusion within the companies. More information on the outcomes of the 2nd annual review can be found on the SRS website (see figure 2).

To keep the SRS as relevant and useful for the entire sector, a revision of the SRS criteria will be published by the end of Summer 2023. The SRS 2.0 is to be used for reporting year 2024 which entails 2023 financial year-end data. Of the UK EFL members, at this moment Clarion Housing Group, Peabody, Places for People, and L&Q report against the SRS.

CSRD qualifying criteria	>250 employees	net turnover >40m€	balance sheet total >20m€	Compliance required?
Bo-Vest		●	●	CSRD
Circle VH			●	×
Cluid Housing	●	●	●	CSRD
Domnis		●	●	CSRD
Flüwo		●	●	CSRD
Fondazione Housing Sociale				×
Gewobag	●	●	●	CSRD
Henningsdorfer Wohnungsgesellschaft				×
Inter Vilvoordse			●	×
Joseph Stiftung		●	●	CSRD
LVAS			●	×
NAL Assunot			●	×
Paris Habitat	●	●	●	CSRD
Partenord Habitat	●	●	●	CSRD
Parteon		●		CSRD
Polylogis	●	●	●	CSRD
Redo SGR				×
RLF		●	●	CSRD
Setlementtiasunnot			●	×
Terre d'Armor		●	●	●
Vilogia	●	●	●	CSRD
Volkshaard			●	×
Wohnungsgenossenschaft 1892		●	●	CSRD
Zonnige Kempen			●	×

Figure 13:
EU EFL members' compliance obligation
Source: Publicly available annual accounts, RITTERWALD

SECR qualifying criteria	>250 employees	net turnover >£36m	balance sheet total >£18m	Recommended compliance
Peabody	●	●	●	✓
Clarion Housing Group	●	●	●	✓
L&Q	●	●	●	✓
Places for People	●	●	●	✓
Radius Housing	●	●	●	✓
Wheatley Group	●	●	●	✓

CRFD qualifying criteria	>500 employees	annual turnover >£500m	Mandatory Compliance
Peabody	●	●	✓
Clarion Housing Group	●	●	✓
L&Q	●	●	✓
Places for People	●	●	✓
Radius Housing	●	●	✓
Wheatley Group	●	●	✓

Figure 14:
UK EFL members' compliance
Source: Publicly available annual accounts, RITTERWALD

6
How to proceed?

Stay focused

This report is written to help social and affordable housing providers navigate through the fast-changing landscape of sustainability reporting requirements. Social and affordable housing providers across Europe only started their ESG journey a couple of years ago and reporting about their ESG performance even shorter, let alone comply against standards.

Our recommendation is to stay well informed and to keep an eye on the main road. ESG is here to stay, but not all reporting frameworks apply to housing providers to the same extent, at least not today.

One example is the Corporate Sustainability Due Diligence Directive (CSDDD or CS3D). This is a proposed Directive by the European Commission to create a transparent framework requiring large companies to undertake due diligence on their own activities and those of their suppliers. The core elements of this duty are identifying, ending, preventing, mitigating, and accounting for negative human rights and environmental impacts in the company's operations, value chains and subsidiaries. The CSDDD is supposed to complement EU Taxonomy, SFDR, CSRD and is expected to get into effect in 2029 at the earliest. Moreover, more in general, because social and affordable housing providers across Europe operate in a regulatory environment, the future requirements of CS3D (if coming into effect) seem relatively easy to meet by that time.

The expectation is that towards 2030 the EU and UK reporting standards will be aligned with global standards that apply across the world. Figure 15 shows an overview of global frameworks, standards and certifications. This overview is also helpful to distinguish between the different terminology. It is good to be aware of, but -for now- not the main focus for most social and affordable housing providers.

Figure 15: Overview at the corporate and fund/portfolio levels as well as building certifications applicable to real estate
Source: Mapping ESG: a landscape review of certifications, reporting frameworks and practices by PRI, INREV and ULI, April 2023

	Corporate	Funds / Portfolio	Asset
Frameworks and 'Scoring'	• EU Taxonomy • UK Stewardship Code*	• SDFR • PRI • GRESB*	
Reporting Standards	• TCFD • GRI • SASB • EPRA • CDP • CDSB • Climate Bonds Initiative	• INREV • INCREIF / PREA*	• CREEM (tool)
Accounting Standards	• IFRS / ISSB (prototype) • CSRD (proposal)		
Certifications			• LEED • BREEAM • WELL • Fitwel • DGNB • HQE • NABERS (UK + Australia) • Green Star (Australia) • Energy Star • CASBEE • BELS (Japan) • ZEB • ILFI / LBC* • IREM* • RESET* • PHIUS* • Green Globes*

* not covered in the detailed mapping exercise

Enhance ESG data management

Let's not forget that the regulatory reporting landscape is complex and can be overwhelming when introduced to it and there is no one-size-fits-all standard. However, what does apply to all housing providers is credible (environmental) property data and that a (double) materiality approach defines main characteristics of framework and therefore that you must comply with it. In general, most (medium-sized) social and affordable housing providers are finding it a challenge becoming data-driven organisations: it is not really part of the corporate DNA yet. Our recommendation is to focus on the data transition and be aware of the emerging tools that have the potential to become an industry standard, of which a good example is the Carbon Risk Real Estate Monitor (CRREM): see figure 16 below. CRREM provides the ability to assess the progress of a portfolio's carbon reduction performance against corporate reduction targets compliant with Paris Agreement. Because it is more applied by lenders and investors in real estate, we expect CRREM to become an industry standard.

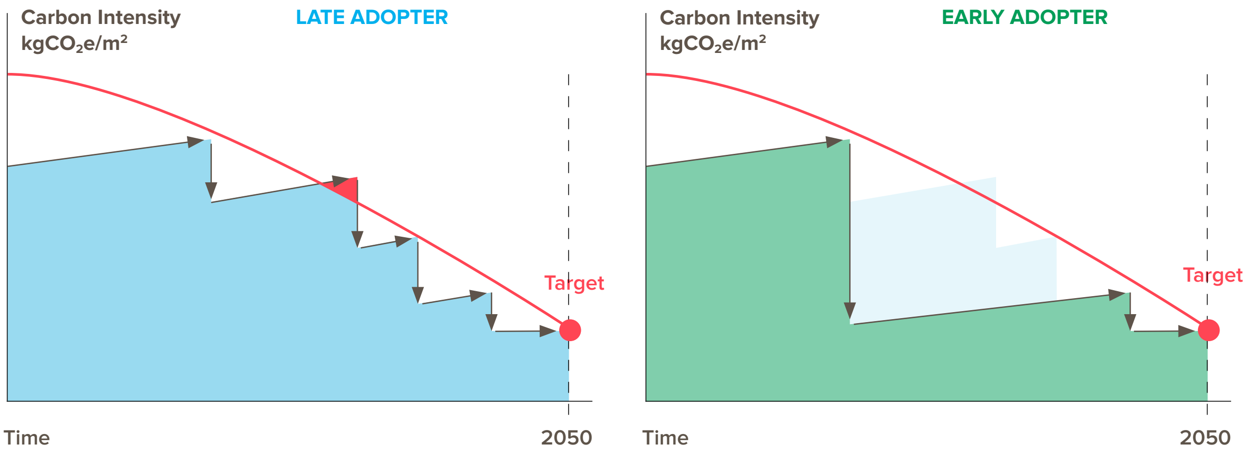


Figure 16:
Managing carbon risk with using CRREM risk assessment tool
Source: Mapping ESG: a landscape review of certifications, reporting frameworks and practices by PRI, INREV and ULI, April 2023

Step by step to compliance

How to proceed from here really depends on where you stand and to what extent you are already familiar with sustainability reporting. In one of the several guidelines, we found an accessible four steps approach as shown in figure 17 below.

The discovery phase focuses on familiarising the key (internal and external) stakeholders with the reporting requirements, identifying, and prioritising materiality topics, and identifying gaps in existing processes and disclosures (e.g., through a gap analysis). The objective of the design phase is to develop a roadmap for action, including timelines and stakeholders that get the company ready for implementation. Quite some social and affordable housing providers are currently in the phase of discover and design and getting ready for further implementation.

Figure 17:
Four steps towards sustainability reporting compliance
Source: The SustainAbility Institute by ERM, June 2023

1 **Discover**	2 **Design**	3 **Implement**	4 **Report**
• CSRD awareness engagements and training • Develop stakeholder analysis & needs assessment • Leadership alignment • Asset mapping • Double materiality • Gap assessment	• Develop bespoke approach • Translate approach into business outcomes • Assess and recommend operationalization journey • Communication and engagement strategy and planning	• Technology selecton • Digital rollout • Build and execute communication and engagement plans	• Pre-assurance • Disaggregated reporting • Corporate reporting • Audit & evaluation • Change adoption assessment and reinforcement activities

Ultimately, as we approach 2030, sustainability reporting will be replaced by non-financial reporting. These requirements are in the ISSB/IFRS accounting standards. We anticipate sustainability reporting, its development supported by the current frameworks, will have matured and will have become part of the usual financial reporting cycle. Until then, all social and affordable housing providers must focus on strengthening their ESG credentials and sustainability reporting efforts.

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RITTERWALD is a pan-European real estate consultancy, incorporated 12 years ago in Germany committed to supporting the social and affordable housing industry. RITTERWALD is a dedicated member of the European Federation for Living (EFL) and actively participating in the Finance and Investment Group and the European Digitisation Group.

RITTERWALD's team with 35+ consultants are providing sustainability related services to housing providers across Europe, of which an important one is ESG accreditation through the Certified Sustainable Housing Label. The sustainability related services complement RITTERWALD's wider business consulting services, corporate sustainability strategies, business optimisation, organisational change, corporate growth, and restructuring. RITTERWALD's team combines extensive knowledge of residential real estate and housing, business process re-engineering and corporate strategy.

Since the issuance of the Certified Sustainable Housing Label late 2019, the focus on ESG has grown steadily creating a rising demand for sustainability related services among clients across Europe. In all cases RITTERWALD enables its clients to demonstrate and enhance their ESG credentials.

ESG Accreditation: Certified Sustainable Housing Label and Sustainable Housing Assessment (captured product for bond aggregators, banks, and funds).

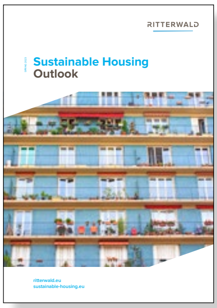
External assessment ESG Report: in the UK, RITTERWALD is offering external assessment of ESG report (against SRS) for its Label holders.

Assurance provider services for borrowers who must measure and report on sustainability performance targets towards their lenders.

Climate Transition Planning: corporate pathways that show how to achieve reduction of energy consumption and carbon emissions through a variety of retrofitting measures where technically feasible and economic effective.

Sustainability Strategy: (double) materiality analysis to support priorities and transitions to net zero.

Sustainable Finance: finance frameworks for preparing issuance of Green, Social and Sustainability bonds (ICMA compliant) or raising sustainability-linked loans (LMA compliant).



RITTERWALD will keep the social and affordable housing community across Europe up to date on sustainability matters through the Sustainable Housing Outlook, that is published twice a year at the Spring and Autumn EFL Conference and can be found on our website.

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HYSTAKE
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Early 2023 RITTERWALD co-founded HYSTAKE Investment Partners, a pan European investment boutique. HYSTAKE focuses primarily on balance sheet (re)structuring by:

Advising on tailor-made and long-term **capital allocations**

Advising businesses and investors on corporate, portfolio and **investment strategy issues** as well as increasing ESG requirements

Accompanying **transactions** M&A, restructurings, and refinancing measures.

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