SPRING 2023

Sustainable Housing Outlook

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Contents

Find the 2nd Sustainable Housing Outlook for download here.

Introduction

It gives us great pleasure to present the third edition of RITTERWALD's Sustainable Housing Outlook to coincide with the European Federation for Living (EFL) conference in France, kindly hosted by Paris Habitat.

Since our second edition last Autumn, social housing providers across Europe have managed to meet the challenges of providing warm homes for their tenants during the Winter. However, the cost-of-living crisis is not over yet, and the geopolitical situation is still unpredictable. While energy costs have fallen, we should remain alert for energy prices in next Winter and if and how national governments are going to support tenants where needed. In that respect it may be worthwhile to reread our piece on energy management models and tenant affordability in our second edition.

RITTERWALD expands its sustainability related services. By regularly raising the bar for the ESG metrics through our Certified Sustainable Housing Label, we maintain aligned with the reporting requirements of different -financial- stakeholders that apply to social and affordable housing providers. Therefore, we have a key article explaining the mandatory sustainability framework and reporting requirements against which social and affordable housing providers must comply. This contribution is drawn from an EFL Topic Group meeting *Finance and Investment* hosted by RITTERWALD at our Amsterdam offices last March.

The EU Taxonomy, mirrored in the UK and cross referenced to TCFD (Task Force on Climate-related Financial Disclosures) criteria, is closely linked to the social housing sector, as it provides a framework for environmentally sustainable investments. The taxonomy defines which economic activities are considered environmentally sustainable, based on strict technical screening criteria. By providing clear criteria for sustainability, the EU Taxonomy aims to drive investments towards activities that align with the goals of the Paris Agreement, including the transition to a low-carbon and circular economy.

The social housing sector has a key role to play in the transition towards a more sustainable future, as it aims to provide affordable and energy-efficient housing for millions of European residents. By incorporating the principles of the EU Taxonomy, the social housing sector can ensure that new housing developments are environmentally sustainable and promote the use of renewable energy sources. This will not only help to mitigate climate change but also contribute to social justice by enhancing the well-being and health of residents.

The second contribution addresses retrofit policies, practices, and pilots in selected countries. This is based on a summary of RITTERWALD's contribution to the 2022 Cambridge Symposium hosted by The Housing Finance Corporation in the UK. All social and affordable housing providers across Europe have started their journey to net zero carbon of their legacy housing stock, often motivated by a combination of regulations and social responsibility. However, it is a bumpy road. Although all countries have -more or less- similar policy aspirations, they apply different regulations and financial support resulting in different pathways to net zero. Moreover, social housing providers face different challenges dependent on the condition of their legacy housing stock both organisationally and nationally. For example, the UK's older housing stock is the least thermally efficient in Western Europe. And the financial capacities of social housing providers and government support vary. There is one goal, but several pathways to net zero.

As in each edition we feature the host country of the bi-annual EFL Conference. France has a rich tradition in social housing provision by both public, semi-public and private sector. We will address important tenures for social housing: Enterprises Sociales pour l'Habitat (ESH), Offices Publics de l'Habitat (OPH), Sociétés d'Economie Mixte pour logement (SEM) among others. Elaborating on the contribution of financial and regulatory frameworks, we address the national sustainable reporting standard, the Declaration Performance Extra Financière (DPEF), which is mandatory for the larger housing companies. DPEF will be compared with the German standard, DNK and with the new requirements under the ESRS (European Sustainability Reporting Standard).

And you will find ESG news from RITTERWALD's clients and holders of the Certified Sustainable Housing Label as well as the new version of the sector specific Sustainability Reporting Standard in the UK as well as the launch of a similar reporting standard for community housing in Australia.

As always, we welcome your comments on this third edition.

1
Financial and Regulatory Frameworks

Sustainability reporting – Regulatory changes in the EU

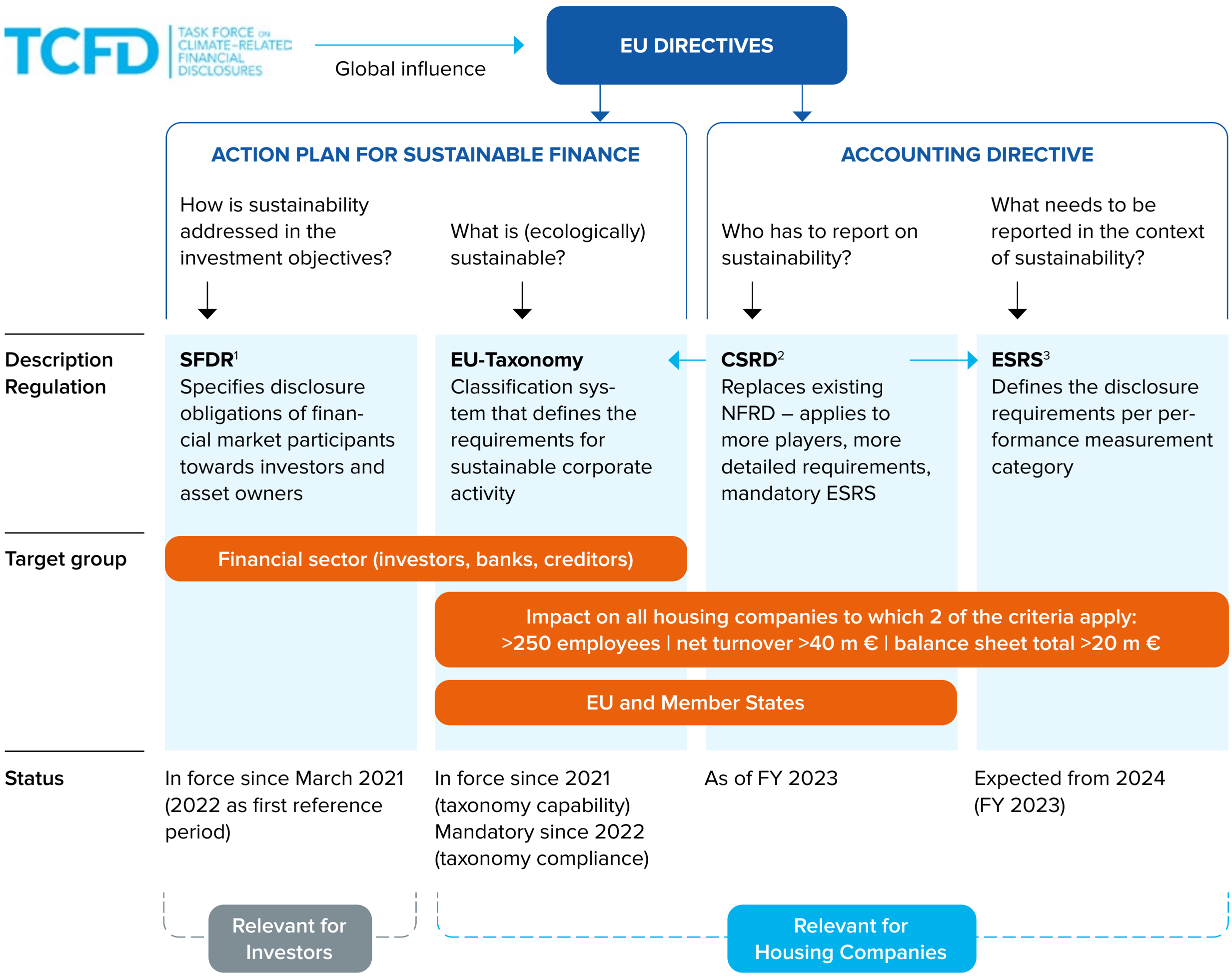
The Corporate Sustainability Reporting Directive (CSRD) will fundamentally change the sustainability reporting of companies in the EU, including housing companies. On the one hand, the example of Germany shows that the target group will expand from a handful of listed housing companies to 98 of the largest 100 German housing companies, and on the other hand, the criteria that must be reported on will be more clearly defined in the future.

The Accounting Directive has clarified which companies must file sustainability reports in the future (regulated in the CSRD) and what must be reported (regulated in the European Sustainability Reporting Standards, ESRS). With the introduction of the CSRD, the ESRS are to become the mandatory reporting standard in the EU. As a result, the quality of reporting in most companies will have to improve drastically to meet the new requirements. An audit requirement for sustainability reporting is also to be introduced, putting sustainability reporting on a par with financial reporting.

Moreover, a reporting obligation, as directed by CSRD, requires companies to report on EU taxonomy conformity at a corporate level, considerable additional work.

Finally, the Sustainable Finance Disclosure Regulation (SFDR) obliges financial market participants to provide more comprehensive information to investors and banks.

Figure 1:
Regulatory Developments in Sustainability Reporting
Source: Eurosif, EFRAG



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

This will indirectly force housing companies to consolidate and provide corresponding non-financial information. In anticipation of the new sustainability disclosure requirements, housing companies need to ensure they are collecting the appropriate data.

Corporate Sustainability Reporting Directive (CSRD)

The CSRD will replace the NFRD from January 2024. Under NFRD, only listed companies with more than 500 employees were required to report on their non-financial performance. According to the CSRD, companies are obliged to report if they meet 2 of 3 newly defined thresholds (> 250 employees; > 20 million EUR balance sheet total; > 40 million EUR net turnover). RITTERWALD research has shown that according to the new requirements of the CSRD, 98 of the top 100 housing companies in Germany must already submit a sustainability report for the 2024 or 2025 financial year. The quota will be similar in other countries. For the housing companies that were already obliged to report on sustainability under the NFRD, the CSRD will already apply from the 2024 financial year. For all other companies that fall under the size category of the CSRD reporting obligation, however, the CSRD will only apply from the 2025 financial year. In addition, listed SMEs will also be obliged 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 major structural changes in the sustainability company reporting.

Firstly, a more comprehensive and uniform reporting system based on the ESRS is introduced. Secondly, with the introduction of the double materiality approach, there is a change in the definition of materiality. Thirdly, a major change is the introduction of external auditing of sustainability information/reporting, for which EU Commission is currently defining audit standards. Initially, limited audit assurance is envisaged, to be extended in the medium term to reasonable audit assurance commensurate with the depth of financial reporting.

The fourth change is that sustainability information is to be presented in the company's annual report. This means that stand-alone sustainability reports will no longer be sufficient to meet the reporting requirements.

The fifth and final structural change in sustainability reporting is the electronic labelling of the information provided. Via the mandatory European Single Electronic Format (ESEF), the reports can be read by machines and humans alike.

European Sustainability Reporting Standards (ESRS)

While the CSRD determines which company is obliged to report, the ESRS are to define the expected report content. In November 2022, the European Financial Reporting Advisory Group (EFRAG) presented a first official draft to the European Commission after consultations with stakeholders. A key element of the proposed standard is the forementioned concept of double materiality, which is defined in the ESRS. In the concept, financial materiality is strictly separated from environmental and social materiality.

The published drafts provide for twelve sector-independent reporting standards (so-called topics), which are to be applied across all industries: two of them are general, five are environment-related standards, four are social standards and one is a governance standard. Reporting must conform to these standards where they are identified as material to the company (in the sense of double materiality) as defined by a materiality analysis. The exception is standards ESRS 2 (General Disclosures) and E1 (Climate Change) where reporting is mandatory. 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 so-called phase-in period is allowed before full reporting obligation, for example required information on a company's supply chain.

A compnay will be obliged to disclose sector-specific and company-specific information on sustainability in addition to the sector-independent information. The requirements for this are still in consultation. The topics of the ESRS essentially correspond to the environmental and social goals of the planned EU environmental and social taxonomy.

Currently, other standards are being used for sustainability reporting. Most of these standard boards, such as GRI, have already announced that they will revise their standards to align with ESRS. It is expected that this will lead to an alignment of the different standards with some, such as the GRI, exceeding the requirements of the ESRS. For companies that already report according to 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 additional ESRS reporting.

EU-Taxonomy

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 financing decisions and in particular the allocation of capital. The EU taxonomy sets a clear standard against which to measure the environmentally sustainable of corporate activities. It's need was identified because typically company information and data is not sufficient to be able to specifically promote and measure performance against the Paris climate goals.

Reporting against the EU environmental targets will also make it easier for investors and banks to assess the progress a company or fund is making delivering against sustainabilty objectives.

Through reporting on the EU taxonomy, every reporting housing company will have to show the share of taxonomy-compliant turnover, investments, and operating costs. The EU taxonomy sets out the EU's six environmental objectives:

- 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
- protection and restoration of biodiversity and ecosystems

For a business activity to be sustainable within the meaning of the EU taxonomy, 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. Secondly an activity must 'do no significant harm (DNSH) to any of the other five environmental objectives. Thirdly and fnally it must meet minimum social safeguards.

Sustainable Finance Disclosure Regulation (SFDR)

The fourth and 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 having regard to sustainability by specifying the disclosure obligations of financial market participants vis-à-vis end investors and asset owners.

Figure 2:
Funds according to SFDR
Source: Eurosif

For funds, including real estate, under Article 8 and Article 9 of the EU Taxonomy Regulation, the SFDR requires a report on the ESG risks and consequences of all holdings of a fund and the influence of ESG motivations in the investment process. The only distinction between “ESG funds” (Article 8) and “impact funds” (Article 9) is that for an impact fund, the primary motivation for investing is the sustainable impact of the holdings, whereas ESG funds also promote wider 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 consider the EU criteria for environmentally sustainable investments. So, housing companies will face increasing requests from banks and investors to provide the necessary data for reporting to their investors and lenders. This creates a second, indirect reporting obligation.

A particular issue for housing companies is quantifying the risk of stranded assets for buildings that have not been modernised in line with ESG, or are impacted by climate change eg flood risk. This should not be underestimated because the SFDR will lead to real estate investors paying more attention to the ESG data of buildings in the future.

Sustainability Reporting Pathway in the UK

Within the EFL Topic Group *Finance and Investment* the changes in, and impact of, the regulatory environment have been discussed amongst housing companies from different jurisdictions, and responses proposed. Even though the new regulations enforced through the CSRD will not apply in the UK, the regulatory changes for the UK are set-out to follow a similar path as the EU. A more detailed review of the upcoming regulations in the UK will be addressed at a future EFL Topic Group *Finance and Investment* meeting.

2
Retrofit in selected European countries

Retrofit: on its way to net zero

All social and affordable housing providers across Europe have started the journey to net zero carbon of their legacy housing stock, often motivated by a combination of regulations and convinced commitment. However, it is a bumpy road. Although all coun-

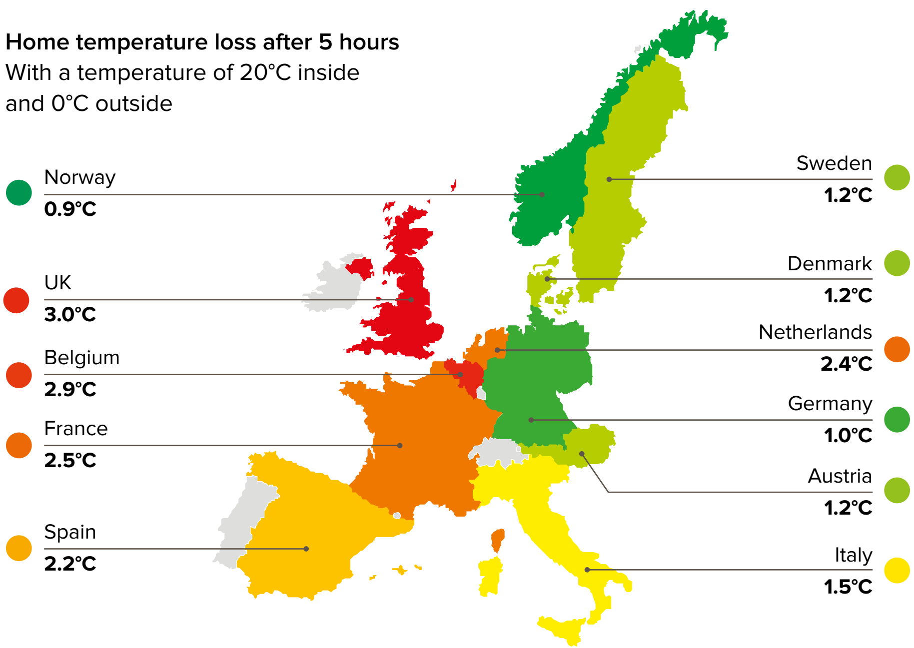


Figure 3: Housing Stock Conditions in Europe
Source: tado

tries have -more or less- similar policy aspirations, they apply different regulations and grant schemes resulting in various pathways to net zero. Moreover, social housing providers face diverse starting points with their legacy stock with the UK's older housing stock being less thermally efficient as figure 3 shows us. And the financial capacities of social housing providers and government support vary. To conclude: there is one goal, but several pathways to net zero.

Social and affordable housing in selected countries

Social and affordable housing providers operate in different policy and regulatory environments. Germany as the largest country with a population of more than 83.0 million only has 3% social housing while at the same time renting is the largest tenure (49%, Eurostat): because of rent control many Germans effectively live in affordable housing. The social and affordable housing sector in Germany has much greater exposure to private investors than elsewhere in Europe.

What is more remarkable when making international comparisons, countries with a high Gross National Product as the Netherlands (EUR58,000 per capita) and Denmark (EUR68,000 per capita) often have a relatively large share of social housing reflecting a strong welfare state.

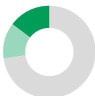
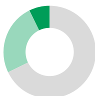
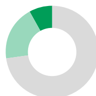
	Germany	Netherlands	Denmark	Finland	UK
GHG reduction goal (in comparison to 1990)	55% by 2030	49% by 2030	70% by 2030	55% by 2030	54% by 2030
Share of renewables in heating & cooling	Data 2019 – 14.5% Goal 2030 – 27% 	Data 2019 – 7.2% Goal 2030 – 32% 	Data 2019 – 47.3% Goal 2030 – 60% 	Data 2019 – 56.8% Goal 2030 – 61% 	Data 2019 – 7.8% Goal 2030 – 27% 
Heat pumps	Installation cost is subsidised with 35% plus an addition 10% if oil heating is replaced	The Sustainable Energy Investment Subsidy offers a subvention of >€500 for the installation of new heat pumps	Scheme to scrap oil boilers outside central and district heating until 2024 and for 'heat pumps on subscription'	Heat pumps are subsidised through ARA energy grants if renovation leads to major improvement of EPC rating	Grants for retrofitting are provided by Social Housing Decarbonisation Fund
Landlord-tenant conundrum	Landlords can recover a part of the cost of energy-efficient refurbishment from the tenant Ideally, the increase in cold rent equals the reduced energy costs	Landlords can recover a part of the cost of energy-efficient refurbishment from the tenant Ideally, the increase in cold rent equals the reduced energy costs	Incentives for energy renovation take the form of high taxes on space heating and tax deductions and grants targeted at buildings and companies	Heating costs and other facilities are generally included in the rent, which avoids this dilemma	Landlords are unable to increase rents after energy efficiency refurbish-ments, hindering volume and pace in retrofitting

Figure 4: Overview of retrofit policies in selected countries
Source: KfW Bank, Netherlands Enterprise Agency, Danish Energy Agency, ARA, UK Department of Energy & ClimateChange, EU

Figure 4 shows some country specific policies for energy transition. One should be aware that these policies are quite dynamic, and, with exception of UK, the EU through the Green Deal is trying to align national policies as much as possible, although the national budgets allocated to energy transition vary.

Prior to the War in Ukraine, the selected countries were already facing a housing affordability challenge translated in the cost overburden rate defined as the percentage of the population spending more than 40% of their monthly income for rent. These rates in 2020 were (Eurostat): Germany (19.9%), UK (15.1%), Denmark (14.1%), Netherlands (8.3%) and Finland (4.1%).

Housing costs are now part of the cost-of-living crisis which has been driven largely by high energy and food prices. It not only affects low-income households but also moderate- and middle-income households including key workers. Households living in legacy stock with poor energy performance are even more affected. Governments intervene by socialising energy market prices for consumers. National bank regulators, EU, ECB, and economists state that national government should acknowledge essential fiscal principles, that dedicated support is temporary and fully budgeted.

European countries in the lead to low carbon

According to the Green Future Index by MIT Technology Review 2021–2022[1] the 10 countries making the greatest progress and commitment towards building a low carbon future are mostly located in Europe (figure 5). A closer look at the country-specific policies for energy transition shows the Nordics are frontrunners in the development of renewable energy production. All selected countries have some form of financial support for renewable heating.

GREEN FUTURE INDEX
Top 10
2021–2022

2022		2021	Country	Index
1		1	Iceland	6.92
2		**2**	**Denmark**	**6.55**
3	↑	**10**	**Netherlands**	**6.42**
4	↑	17	United Kingdom	6.29
5	↓	3	Norway	6.21
6		**6**	**Finland**	**6.21**
7	↓	4	France	6.12
8	↑	**11**	**Germany**	**6.12**
9	↑	12	Sweden	6.07
10	↑	31	South Korea	6.03

Remarks

The Green Future Index ranks 76 economies on their **readiness for a low-carbon future**

16 out of the top 20 countries are **located in Europe**

The assessment takes into account:
- Carbon emissions
- Energy transitioN
- Green society / Consumer behaviour
- Clean innovation
- Climate policy

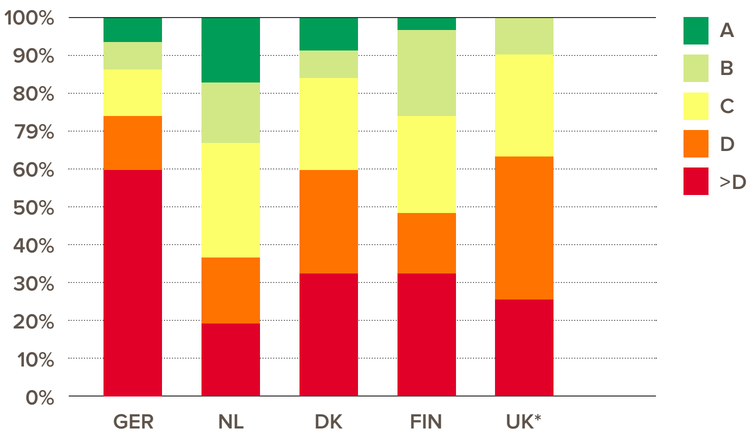
Figure 5: Top 10 of Green Future Index 2021-2022
Source: MIT Technology Review Insights

[1] The Green Future Index 2022 is the second edition of the comparative ranking of 76 nations and territories on their ability to develop a sustainable, low-carbon future. It measures the degree to which their economies are pivoting toward clean energy, industry, agriculture, and society through investment in renewables, innovation, and green policy. ranks 76 economies on their readiness for a low-carbon future. The assessment considers carbon emissions, energy transition, consumer behaviour, clean innovation, and climate policy.

Progress in retrofit

As figure 6 shows EPC ratings demonstrate the progress in national retrofit programs. However, one should be careful with interpretation, because the EPC scales are not comparable on international level. All countries are retrofitting their legacy stock with the goal to reach an average energy efficiency rating of band C. While on the pathway let's not forget that EPC band C does not equal net zero.

Figure 7 shows the use of renewable energies varies greatly across the selected countries; the frontrunner status of the Nordic countries is highlighted. The electrification of heating technologies, e.g. heat pumps, contributed to the growth of renewable energy in heating and cooling. Renewable energy sources include solar, thermal and geothermal energy, ambient heating (heat pumps) as well as solid, liquid and gaseous biofuels and waste. A debate is ongoing as to whether nuclear power is also a renewable given low carbon emission. Electrification is not in itself net zero because of dependency on decarbonisation of electricity production, that is not the case yet; e.g. installing more efficient gas boilers may reduce carbon emissions, but it is not net zero.



* Share of EPC ratings for England and Wales; similar distribution in Northern Ireland and Scotland

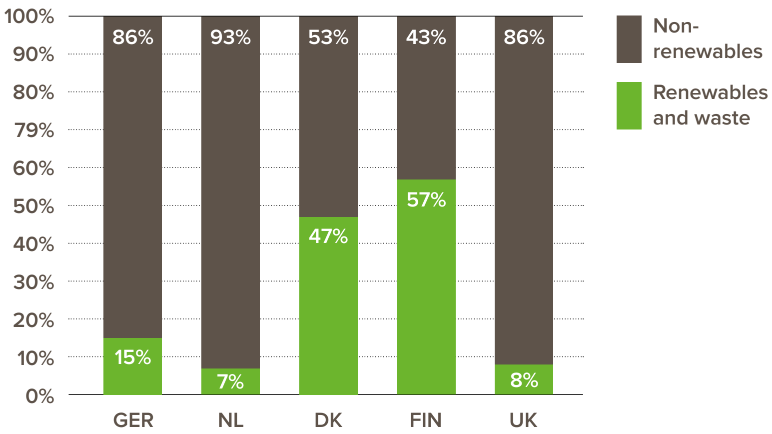
Remarks

- All countries, including the UK are refurbishing with the **goal** to reach an average **energy efficiency rating of C**.
- Private and public landlords not only conduct refurbishments to **comply with regulatory standards** but also to **maintain and increase real estate value** across their stock.

Disclaimer

The EPC-scales are not coherent on an international level. The graphic should therefore always be seen in context with the nationally varying rating systems and scales

Figure 6: Distribution of EPC Label Ratings in the Resedential Sector
Source: X-Tendo, Federal Government Germany



Remarks

- The **electrification of heating technologies,** e.g. heat pumps, contributed to the growth of renewable energy in heating and cooling
- **Renewable energy sources** include solar thermal and geothermal energy, ambient heating (heat pumps) as well as solid, liquid and gaseous biofuels and waste.

Figure 7: Energy sources for space heating in selected countries
Source: Eurostat

Pilots in selected countries

We have identified four pilots to illustrate the operationalisation of sustainability. In the UK one can find more pilots partly financed by the Social Housing Decarbonisation Fund.

Germany: In Germany the Berlin based municipal housing company Gewobag (70,000 homes) engages a mix of approaches to create and maintain a sustainable living environment for its tenants. Gewobag has internal policies to increase the sustainable use of materials for new construction and retrofit. Also, its ESG rating (provided by Sustainalytics) shows Gewobag to be among the top 10% of the rating. The selected pilot shows a redesign of the roof in a renovation project in Berliner Strasse to create more living space by adding 25 homes and improve roof insulation

Gewobag
Die ganze Vielfalt Berlins.

Renovation project Berliner Straße
26 new housing units, 2019

GEWOBAG re-designed the roof in a renovation project to create **more living space and improve roof insulation.**

Renovation Measures

- Renovation measures
- Roof extensions for additional living space without additional sealing of soil
- Implementation of elevators
- Additional combined heat and power units
- Renovation measures on façades

Figure 8: Renovation project example at Gewobag
Source: Gewobag

Netherlands: Rotterdam based housing association Woonstad Rotterdam (60,000 homes) is one of the leading Dutch housing associations in retrofit their legacy stock, currently EPC rating of B across portfolio and 20% of portfolio is heated with renewable energies. Woonstad implements its sustainability strategy since 2015. The selected pilot of 495 senior homes and citizen centre ‘Princess Flats’, is a renovation improving both energy performance and the living environment.

woonstad. rotterdam

Renovation project Princess Flats
495 housing units,
Renovation budget: ca. bn € 49.5
2021–2022

The renovation of senior citizen centre ‘Princess Flats’ has **improved both energetic performance and the living environment.**

Renovation Measures

- Improvement goal: from energy label F/G to A/B
- Façade insulation, new windows
- Implementation of district heating
- Creation of six new flats for handicapped tenants
- Larger balconies and more galleries

Figure 9: Renovation project example at Woonstad Rotterdam
Source: Woonstad Rotterdam

Denmark: In Denmark Copenhagen based public housing company BO-VEST (20,000 homes) aims to reduce the carbon emissions of their stock whilst ensuring energy price stability. Its sustainability strategy is linked to the UN Sustainable Development Goals. Its pilot is the renovation of 600-unit Galgebakken, a large-scale project to improve energy performance and living environment.

Figure 10: Renovation project example at BO- VEST
Source: BO-VEST

BO-VEST

Renovation project Galgebakken
600 housing units
Renovation budget:
ca. bnKR 1.55 (k€202)
2022–2025

The renovation of Galgebakken stock is a large scale project to **improve energetic quality and liveability**

Renovation measures

- Life Cycle Assessment analysis showed CO_2 reduction through renovation is greater than through re-construction
- Façade insulation, new windows and roofs including extra layer of insulation to cut energy consumption in half
- Full sanitation from PCB, Asbestos and mould
- Sustainable energy supply infrastructure including ventilation with heat recovery

Finland: In Finland Helsinki based social housing provider Y-Foundation (18,000 homes) is committed to reach net zero by 2035 through investments in renovation and innovative new built. Y-Foundation issued a EUR100m sustainable bond under a green finance framework. Its pilot is new construction putting experiences from timber construction into a new biodiversity-focused project.

Figure 11: Biodiversity building of Y-Foundation
Source: Y-Foundation

Y-Säätiö

Y-Foundation is planning to put past **experiences from wooden house construction** into a new biodiversity-focused project

Measures

- Construction of the biodiversity building – a wooden building with few points of contact with soil to conserve the site
- Encouraging low-carbon lifestyle through architectural design, e.g. through roof gardening
- Installation of water saving and metering equipment with full transparency on water consumption for tenants

Outlook

While the pace of decarbonisation can be debated, the social housing sector has embarked on the journey to net zero: since COP21 (Paris), COP26 (Scotland) and COP27 (Egypt) there is no way back: although all countries have embarked on different pathways. Governments and markets are moving quickly in response to the climate emergency and the data we have shared in this contribution may already have improved. Finally, we make the following observation for the outlook.

Market disruptors and decarbonisation: the global geopolitical situation (Ukraine, Taiwan, Iran), high energy prices, high cost of raw materials and shortage of labour all causing high inflation and serious economic headwinds against which to progress the journey to net zero. However, it also makes the net zero objective as important as ever. The war in Ukraine and the resulting sanctions against Russia have effectively acted as a carbon tax on Europe driving the rapid development of renewables, while at the same time increasing fossil fuel consumption alongside state support for energy bills previously highlighted.

Sustainability disclosures will become more onerous, as we have highlighted above, and robust **climate transition plans**, highlighted by the TCFD, will be required to demonstrate a company's pathway to net zero.

Access to and the cost of sustainable finance: since capital started talking and acting ESG, accessing sustainable finance is less challenging as ESG mandates have grown, and sustainability disclosures and climate transition plans grow to match Yet, capital cost has become more problematic with higher interest rates that ultimately affect the debt capacity of social housing providers as growth in rental income is constrained by governments to address affordability while costs increases at or above headline inflation.

Opportunities for innovations: lenders can consider new ESG debt instruments that rely less on government grants and guarantees as new retrofitting technologies for scaling and affordability mature, making investments into energy efficiency refurbishments commercially attractive. Linking academia and business as has been illustrated in other sectors as essential for innovation.

Asset management revisited: a greater focus on the life cycle cost of assets and the impact of decarbonisation and climate change, will have implications for capital and revenue allocation required to deliver retrofitting. Redevelopment, replacement and disposal out of sector may be the only alternative to address climate-related stranded assets because of either high investment costs or location risk.

3
France

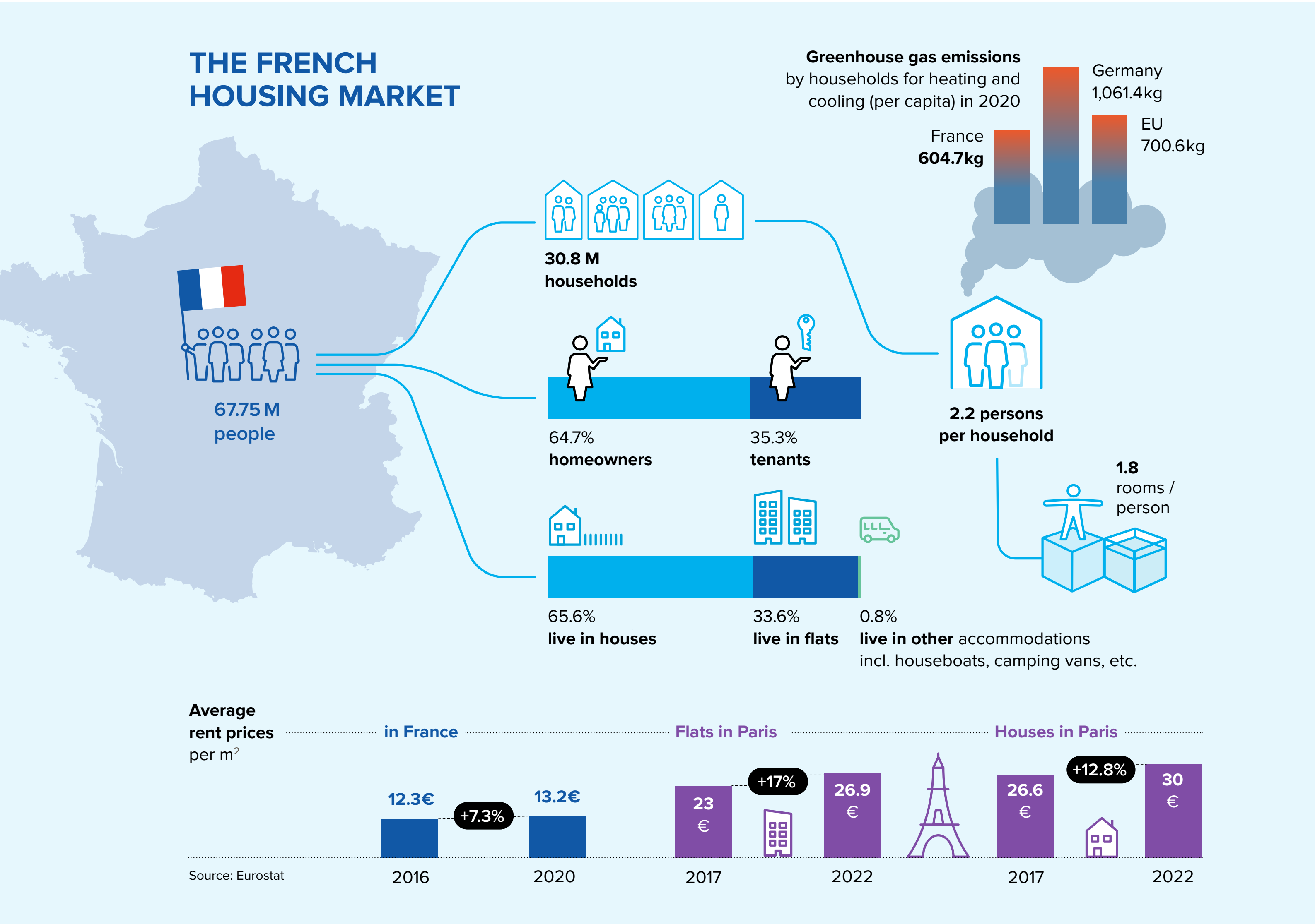
Understanding the French Social Housing Sector

France has a deeply rooted tradition of social and affordable housing, although the right to housing is not part of the French Constitution of 1958. The statutory law of 1982 proclaims that the right to housing is a fundamental right; however, this law deals with rent, and not the general housing issue. The statutory law of 1990 for the implementation of the right to housing, recognizes, a subjective right and a correlative obligation of the community to enforce it. Finally, this resulted in the 2007 DALO (*Droit au Logement Opposable*) Act making the distinction between the right to -rental- housing (existing tenants) and shelter (homeless).

And yet, it is argued housing has been in a state of crisis for decades: 4.0 million people are poorly housed, a number which has been exacerbated by the Covid pandemic. Given that 2.1 million requests for social housing are pending, many are not able to see their housing needs met: around 700,000 current tenants have expressed a desire to move to a different home, while 1.4 million households have an unmet need for social housing.

Most policy makers in France agree that approx. 500,000 new homes of all tenures (rent and homeownership) are needed each year to address the housing crisis, of

Figure 12: Overview of the French Housing Market
Source: Eurostat



which 150,000 should be social housing. Over the last decade the social housing sector has grown by approximately 85,000 homes a year, well short of the suggested target of 150,000 homes a year. We know that this scale of shortfall is not uncommon in other European countries.

Affordable housing in France has a broad definition and refers to a very large category. In fact, it refers to all housing units directly or indirectly subsidised; that includes all individuals benefitting from allowances, 22% of French households. The sector is supported by grants, regulated rent policies, government loan guarantees and individual rent subsidies (*Aide Personnalisée au Logement -APL*). Over the last decade, individual rent subsidies have risen sharply while grants from state and local governments have decreased, a not uncommon trend in European countries of moving from bricks and mortar capital subsidies to personal revenue subsidy. In addition, between 10,000 and 15,000 social homes are sold each year to help finance new housing; currently sale of social housing is restricted by law.

As figure 13 shows, affordable housing is provided by public and private companies.

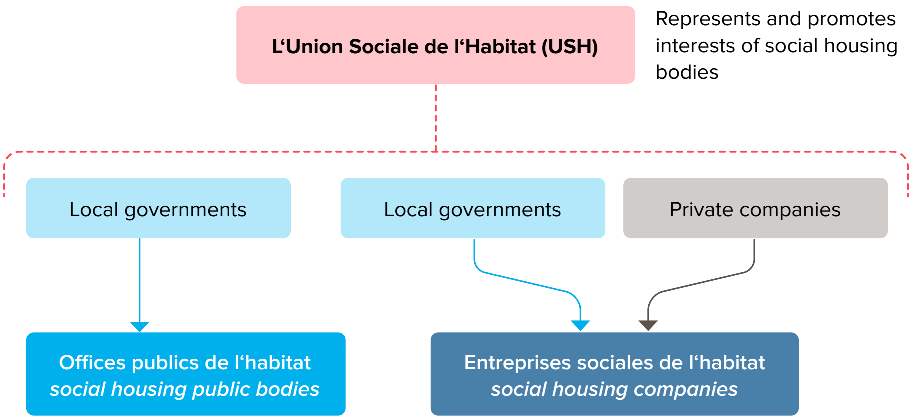


Figure 13: Social and affordable housing providers in France
Source: Camille Mialot: Affordable and Workforce Housing in France (2020)

There are two main types of social housing providers (Habitation à Loyer Modéré – HLM) – that develop, build and manage affordable housing, mainly for rent. This sector is represented by a federation, l'Union sociale de l'habitat (USH).

Public agencies (OPH: Offices Publics de l'Habitat). Selected features:

- Public shareholders, social goals.
- Public entities that provide social housing and related services on local level.
- Owned and operated by municipalities or departments.
- Fédération nationale des Offices Publics de l'Habitat does list circa 190 members at their website: www.foph.fr
  Examples: Paris Habitat (Paris – 125,000 homes) and Partenord Habitat (Lille - 53,000 homes).

Private not-for-profit providers (ESH: Enterprises Sociales pour l'Habitat).

- Private shareholders, social goals.
- Operate at regional or local level.
- Umbrella organisation Les Entreprises Sociales pour l'Habitat (ESH): www.esh.fr
  Examples: Vilogia (Villeneuve d'Asq – 85,000 homes) and Groupe Polylogis (Paris – 45,000 homes).

In addition, there are Housing cooperatives (Coopératives d'HLM), focusing on building housing and renting or selling it to their members. The members have a say in the management and maintenance of the homes. France counts circa 160 of these cooperatives and the umbrella organisation is Fédération nationale des Sociétés cooperatives d'HLM, Les Coop'HLM (www.hlm.coop). Example: Coopérative Habitat Jeunes

Next to HLM's affordable housing (ranging from social to midrental to market rate) is also provided by companies with different corporate missions. These provide rental and sales homes in a different price range. Without pretending to be complete, we clustered these in private and public corporations. These providers can come in different legal entities such as Sociétés d'investissement immobilier cotées -SIIC- (Gecina), Sociétés immobilières (Nexity) and stock listed companies (Action Logement).

Large private corporations

- Private ownership, not directly controlled by French government.
- Larger scale, for-profit organizations, can be stock listed.
- Also operating social housing properties.
- Can raise debt funding from public financing entities like Caisse des Dépôts.
- Example: Action Logement (approx. 1.0 million homes)

Large public corporations

- Large companies that provide social housing and related services
- Owned by regional or national governments.
- Profits are reinvested in new housing development and renovation.
- Have access to significant financial resources and can invest in large scale housing projects and urban (re)development initiatives.
- Example: CDC Habitat (owned by Caisse des Dépôts et Consignations) with approx. 500,000 homes.

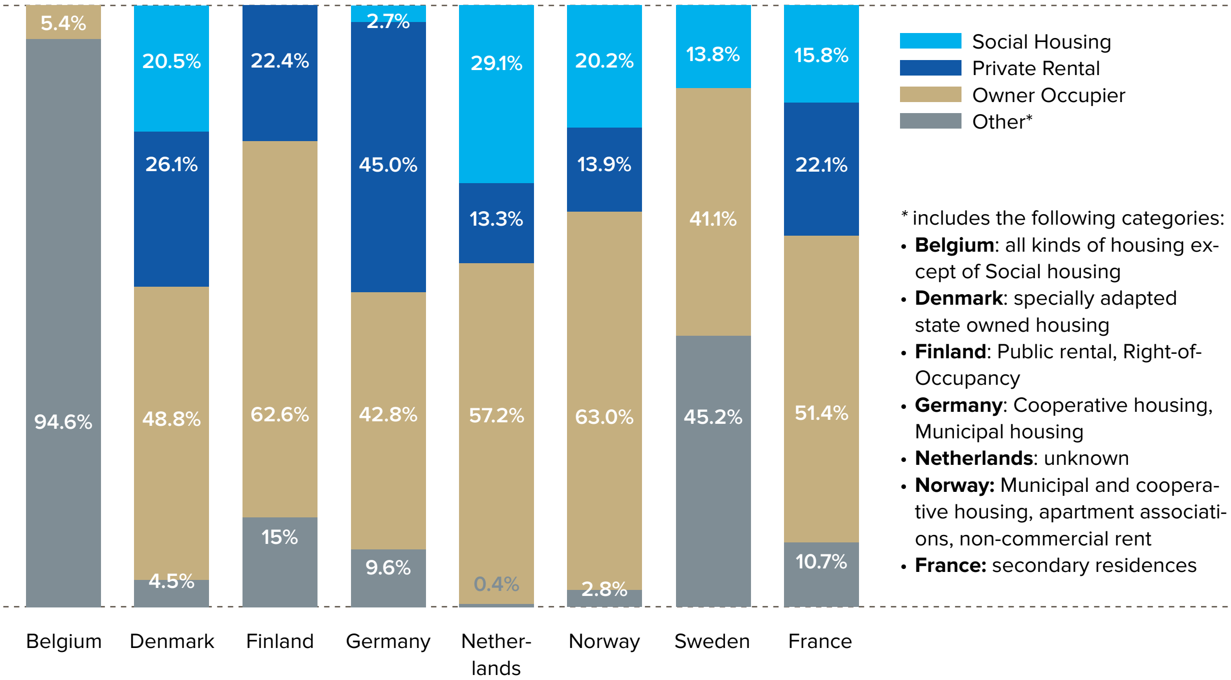
There are also local public enterprises not regarded as HLM, that provide social housing. These enterprises are organized in the Fédération des Entreprises Publiques Locales. These local companies own and manage approx. 650,000 dwellings and build 8,000 new homes per year. Local public enterprises are organized under private law and deliver services of general interest (not exclusively but to increasing extent social housing). Public authorities hold at least 34% of the shares of these limited companies (*Sociétés anonymes*).

In terms of household eligibility social housing and affordable housing is divided into four categories which relate to the method of financing:

- **PLA-I** financed by the Prêt Locatif Aidé d'Intégration, is allocated to tenants in very precarious situations including single-parent families, disabled individuals, or young adults. The maximum income threshold for eligibility is 60% of the median income in the region.
- **PLUS** financed by the Prêt Locatif à Usage Social, corresponds to HLM (low-cost housing) rentals. PLUS is funded by a combination of state, local government, and private financing, and the maximum income threshold for eligibility is 60% to 100% of the median income in the region.
- **PLS** financed by the Prêt Locatif Social, is allocated to prospective tenants who are not eligible for HLM rentals, but who do not have sufficient income to be housed in the private sector. PLS is a financing program designed to promote the construction of new social housing units.
- **PLI** housing PLI housing, financed by the Intermediate Rental Loan and allocated to people whose income is too high to be eligible for HLM housing, but too low to be housed in the private sector.

As figure 14 shows the social housing stock with controlled rents is 16%, 5.3 million homes of the total housing stock of 33.7 million homes. More than 15% of the French households (12 million people) live in social housing, predominantly in urban areas: 65% live in cities with is 100,000+ people. Most of social housing (approx. 2.0 million) has been built between 1960-1975 as multi-family dwellings in soc-called PUZ (Priority Urbanized Zones).

Figure 14: Housing tenure in selected countries
Source: The State of Housing in Europe 2022, Housing Europe



* includes the following categories:
- **Belgium**: all kinds of housing except of Social housing
- **Denmark**: specially adapted state owned housing
- **Finland**: Public rental, Right-of-Occupancy
- **Germany**: Cooperative housing, Municipal housing
- **Netherlands**: unknown
- **Norway:** Municipal and cooperative housing, apartment associations, non-commercial rent
- **France:** secondary residences

Declaration Performance Extra Financière (DPEF)

Based on the regulatory changes, described in an earlier section of this Outlook, social and affordable housing providers need to prepare for the new requirements under the European Sustainability Reporting Standard (ESRS). We address the current sustainability reporting requirements in France and answer three questions: Who needs to report under the current French regulation? What is covered in the French sustainability reporting? and how does DPEF compare to reporting standards in Germany and EU?

Additional statutory reporting first emerged in France through the Directive of 22 October 2014, which covered the publication of non-financial and diversity information. This includes the need to report on the company's ESG policy, its performance measured against key performance indicators and describe the main ESG risks and how they are managed. In 2017 additional statutory reporting was enshrined French law[2] under the "déclaration de performance extra-financière" [declaration of extra-financial performance] (DPEF).

Who needs to report?

Under the current regulations, around 3,800 companies in France, meet the thresholds of the Non-Financial Reporting Directive (NFRD), stating that every listed company that exceeds the following thresholds needs to provide a report of extra financial performance: €20 million balance sheet total, €40 million net turnover and average of 500 employees during the financial year[3].

What is covered in the DPEF?

The ESG structure found in the European Sustainability Reporting Standard (ESRS) can also be found in the existing French DPEF: Environmental factors include disclosures on energy consumption from renewable energies, greenhouse gas emissions (scopes 1, 2 and 3), water consumption per product produced or turnover, number of water quality non-

[2] Articles L 225-102-1, R. 225-104 to R. 225-105-2, L 22-10-36, R. 22-10-29 and A. 225-1 to A. 225-4 of the Commercial Code, Source: Ministères Écologie Énergie Territoires (Le rapportage extra-financier des entreprises | Ministères Écologie Énergie Territoires (ecologie.gouv.fr))

[3] For any unlisted company: EUR 100 million for the balance sheet total or net turnover and 500 for the average number of employees, Source: Ministères Écologie Énergie Territoires

compliance incidents, waste management (quantity of waste produced), impacts on biodiversity and the proportion of the surface area of operational sites owned (leased or managed) located in (or near) protected areas. Social factors include disclosures on their policies and practices related to employees, human rights, community engagement, and social responsibility.

Governance factors include disclosures on the company governance structure, including board composition, executive remuneration and approach to risk management.

In addition to these ESG factors, French companies reporting under the DPEF also need to include information about gender equality, anti-corruption, fight against tax evasion, supply chain management, consumer protection, digital transformation, societal commitments in favour of sustainable development, circular economy, fight against food waste, fight against food insecurity, respect for animal well-being and responsible, fair and sustainable food, actions aimed at combating discrimination and promoting diversity, measures taken in favour of disabled people if applicable. Furthermore, French companies are required to provide an overview of their operating model (main resources, activities, achievements as well as elements of strategy and perspective) and a risk management statement.

How does DPEF compare to DNK in Germany and the new ESRS Standard?

We anticipate the regulatory conditions will change dramatically in the short to medium term. posing the question of how housing companies can prepare best for the new ESRS. National standards such as the DPEF in France and the DNK (Deutscher Nachhaltigkeitskodex) in Germany are expected to follow the same route. The Grafik below maps the current topics of the ESRS with the DPEF and DNK respectively.

The ESRS is structured by the three dimensions Environmental, Social and Governance (ESG). Neither the DNK nor the DPEF follow this exact structure at this point. The DPEF includes various thematic clusters which can be allocated to the ESG dimensions, yet it doesn't use them as the backbone of the standard. The DNK does not yet include the Governance dimension, but similarly to the DPEF its thematic clusters can be allocated to the ESRS structure as well.

Neither the DPEF nor the DNK are sector specific standards, thus the current criteria give way for different reporting metrics depending on the sector. The ESRS on the contrary will include both sector specific as well as cross-sector elements. The required materiality approach adds focus to the sustainability reports of housing associations.

The deliverable from the EFL topic group *Finance and Investment* meeting (Amsterdam, March 2023) will outline experiences of housing associations from different regions, in order to facilitate a knowledge exchange and create a peer network to navigate the new regulatory environment.

DPEF	ESRS	DNK
	General requirements	
• The Business Model, description of main risks, policies to prevent them and result of implementing the policies	General disclosures	• Materiality
• General environmental policy • Climate change	Climate change	• Climate-Relevant Emissions • Resource Management
• Pollution	Pollution	
	Water and marine resources	• Use of natural resources • Resource Management
• Fair and sustainable food • Protection of biodiversity	Biodiversity and eco systems	• Use of natural resources • Resource Management
• Fair and sustainable food • Circular economy	Circular economy	• Use of natural resources • Resource Management
• Equal treatment • Human rights • Actions aimed at combating discrimination and promoting diversity • Employment • „Measures taken in favour of disabled people“ • Health and safety • Social regulations	Company workforce	• Qualifications • Equal Opportunities • Employee Rights
• Equal treatment • Human rights • Employment • Health and safety • Supply chain management • „Measures taken in favour of disabled people“ • Actions aimed at combating discrimination and promoting diversity	Workers in the value chain	• Human Rights • Equal Opportunities • Employee Rights • Depth of the Value Chain
• Equal treatment • Human rights • Actions aimed at combating discrimination and promoting diversity • Health and safety • „Measures taken in favour of disabled people“ • Fair and sustainable food • Social commitments in favor of sustainable development, subcontracting and suppliers	Affected communities	• Human Rights
• Equal treatment • Human rights • Health and safety • „Measures taken in favour of disabled people“ • Actions aimed at combating discrimination and promoting diversity • Fair and sustainable food • Consumer protection	Consumers and end users	• Human Rights
• Fight against corruption • Fight against tax evasion • Digital transformation • Social commitments in favor of sustainable development, subcontracting and suppliers • Fair practices	Business conduct	• Conduct that Complies with the Law and Policy • Rules and Processes • Control • Depth of the Value Chain • Responsibility • Objectives • Corporate Citizenship • Strategy • Incentive Schemes
• Societal commitments in favour of sustainable development • Fair and sustainable food	No direct equivalent in the ESRS / additional criteria	• Political Influence • Innovation and Product Management • Stakeholder Engagement

Figure 15: Comparison of existing and new standards / Source: DNK, French government, EFRA

Outlook

The French government has put climate change at the heart of its (Covid) Recovery Plan (Plan de relance 2020) earmarking €30 billion for 'green' measures as the country looks towards its goal of being carbon neutral by 2050. Retrofitting approx. 40,000 social homes is an important part of this plan. Also, the private sector is contributing to the decarbonisation of the social housing stock, e.g. Action Logement with retrofitting 60,000 homes.

Like in most European countries, also in France there is high demand for new social and affordable housing. In addition, all housing providers meet a great challenge to decarbonize their legacy housing stock. Much is asked for the housing industry, not only in terms of capacities, also in financial resources: new and existing housing must be kept affordable.

At the same time, the French would like to honour their tradition of mixed income neighbourhoods for inclusive communities. Economies of scale in the supply chain, both for new construction and retrofit, will be necessary. Therefore merger & acquisitions, both with affordable housing providers in public and private sector will continue.

4 ESG News

Housing Providers

LINKGROUP

Link Group receives parliamentary recognition for ESG

6 Mar 2023

In relation with the award of the Certified Sustainable Housing Label, Link Group (Scotland) has been praised by a Member of Scottish Parliament for receiving international and national accreditation for its performance relating to Environmental, Social, and Governance (ESG).

Link Group has secured a new £70m funding package with Bank of Scotland

19 April 2023

The agreement includes an existing £10.7m loan and a £60m five-year Revolving Credit Facility. The new Revolving Credit Facility (RCF) borrowing is linked to Sustainability Loan terms and therefore contributes to Link's sustainability objectives whilst generating a discount on the margins applied to the borrowing if Link Group meets their Sustainability Performance Targets in agreed areas.

CLARION HOUSING

Clarion named 'best in class' for social housing retrofit at industry awards,

17 March 2023

Clarion, as part of the national Government's Social Housing Decarbonisation Fund, has been working with supply chain partners since March 2021. Clarion and partners won 'Best Social Housing Retrofit Programme' at the 2023 Retrofit Academy awards, which recognise the hard work and dedication in outstanding retrofit projects across the country.

Metropolitan Thames Valley

New funding boost to cut residents' energy bills

23 March 2023

By securing £9m in funding from the Social Housing Decarbonisation Fund, MTVH will work on cutting residents' energy bills. Over 2,000 homes will be made warmer, saving each resident an average of £167 each year. Measurements will include internal and external wall insulation, loft insulation, the addition of triple glazed windows, modern high heat retention storage heaters and more.

Gewobag Die ganze Vielfalt Berlins.

EIB grants Gewobag €300 million loan for new housing in Berlin

4 April 2023

The state-owned Berlin housing company Gewobag has been granted a loan by the EIB for €300 million to construct more than 2,165 new flats by 2026. Other planned outcomes of the fund are around 350 openings at childcare centres and 210 an assisted living facility, as well as 650 homes for refugees.

Places for People

Joint Venture between PfP Capital and Housing Growth Partnership launched to deliver 1,200 sustainable homes across regional city communities

12 April 2023

PfP Capital, the social value and ESG-focused real estate fund manager, and Housing Growth Partnership, an equity investor with a social impact remit backed by Lloyds Banking Group, have announced a joint venture which will deliver residential-led, urban communities across the UK.

Peabody

Successful trial sees Peabody award contracts to suppliers who add social value

19 April 2023

Peabody is trialling the extension of its sustainability strategy by including thresholds targeted at ESG performance for their suppliers. After a successful trial period of two years, Peabody will apply a 20 percent social value weighting to its scoring criteria when awarding contracts to suppliers.

Highlights ESG Ecosystem

Changes in the UK SRS – Continuous Alignment with RITTERWALD's Certified Sustainable Housing Label

The Good Economy facilitated the creation of the Sustainability Reporting Standard for Social Housing in 2020. The SRS has been developed through the participation of members from the social housing and financial sectors with the goal to provide a voluntary ESG sector standard in the UK and allowing housing providers to measure and communicate their ESG performance in a cohesive way. The standard has been monitored and developed further by Sustainability for Housing (SfH). RITTERWALD has been involved in the creation of the standard by providing metrics for measuring ESG performance.
In 2023 Sustainability for Housing has launched the consultation into version 2.0 of the standard. The expected publication of the second version of the SRS is summer 2023.

Over the last years RITTERWALD's Certified Sustainable Housing Label (CSHL) has been closely aligned with the UK SRS. A screening of the newly proposed SRS criteria, confirms, that this alignment continues with the renewed set of criteria. Around 70% of criteria listed in the SRS are covered in the in the CSHL. The criteria are either identically or target the same core metrics in questions. The remaining 30% of criteria without direct link to the CSHL, are mainly focused on describing the governance and board metrics. As the CSHL applies a more quantitative approach to the metrics and has recently set the focus on the environmental dimension, these criteria do not lie at the centre of the CSHL.

Launch – ESG Reporting Standard for Australian Community Housing

In 2022, the Community Housing Industry Association (CHIA) commissioned a standard tool for measuring, managing, reporting and interpreting community impact generated by the Australian community housing sector. RITTERWALD has been part of a consortium, together with PAXON and SGS economics and planning, to define the key metrics of the new standard for housing in Australia. The standard aims at expanding and diversifying available funding sources, providing access to financial benefits and creating consistency and credibility in the reporting for social and environmental impact. During the first stage of implementation CHIA will facilitate seminars and events to share more information about the standard.
In 2023 and 2024 RITTERWALD will be part of the Steering Committee.

RITTERWALD cooperation with Convene ESG

Convene ESG is the newest product from Convene, the largest Board Portal provider for Housing Associations in the UK. Having worked within the sector for many years, we began to see issues in data quality, collection, and management during the SRS reporting process and conceptualised a new data reporting platform. Often, the data required for reporting needs to be acquired from multiple departments across the organisation and on lots of different spreadsheets. The Convene ESG portal streamlines this process to allow more time for valuable data analysis.
Whilst engaging with our Housing Association clients, we recognised that with Convene ESG we could also capture the CSHL. The core purpose of Convene ESG remained the same - to ensure that the data collected, and thus the data quality are to the highest possible standard. With increased reporting scrutiny both in the housing sector and across the rest of the economy, the use of traditional methods of data capture and management such as spreadsheets will only exacerbate the inefficiencies. As such, we have been excited to have been working with RITTERWALD over the past few months in integrating their Certified Sustainable Housing Label onto our user-friendly platform. Both new and existing label holders will be able to enter their data and attach sources of evidence to support the certification process – all within the same platform.

RITTERWALD

BERLIN
FRANKFURT
AMSTERDAM
LONDON

RITTERWALD is a pan-European real estate consultancy, incorporated 12 years ago in Germany. We are committed to supporting the social and affordable housing industry. We are providing sustainability related services to housing providers across Europe, an important one is ESG accreditation through the Certified Sustainable Housing Label (CSHL). The CSHL compliments our 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 our clients across Europe. In all cases we enable our clients to demonstrate and enhance their ESG credentials.

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

ESG Reporting
Compliant with taxonomies and reporting standards (in UK the Sustainability Reporting Standard). RITTERWALD is offering external assessment of ESG report for its Label holders.

Sustainability Strategy
Materiality analysis to support priorities and decarbonisation transition plan on the partway to net zero.

Sustainable Finance
Finance frameworks for preparing issuance of GSS bonds (ICMA compliant) or raising sustainability-linked loans (LMA compliant). RITTERWALD is offering assurance provider services for sustainability performance targets..

CERTIFIED ✓
SUSTAINABLE
HOUSING

In 2019 RITTERWALD launched its Certified Sustainable Housing Label

In 2023 RITTERWALD co-founded **HYSTAKE Investment Partners**, a pan European investment boutique. Together with Michael Zahn, who led Deutsche Wohnen SE as its long-time CEO, and their former Head of Strategy Dr. Christian Schmalenbach, HYSTAKE focuses on tailor-made and long-term optimal capital allocations:

HYSTAKE
INVESTMENT PARTNERS

- **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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