Investment
Property Forum

Call for Evidence on the Sustainable Finance Disclosure Regulation (SFDR)

28 May 2025

Introduction

The Investment Property Forum (IPF) welcomes the European Commission's review of the Sustainable Finance Disclosure Regulation (SFDR) and appreciates the opportunity to contribute evidence-based insights from the perspective of the real estate investment sector. We acknowledge and support the ambition of the SFDR to bring greater transparency, comparability, and integrity to sustainability-related disclosures in financial markets.

We agree with the Commission's observation that the goals of the SFDR are still valid and that, in general, the SFDR has been effective in increasing transparency and giving investors access to detailed ESG information. However, we also agree with the Commission's assessment that implementation has proven complex and costly and that there is a lack of legal clarity on key concepts. We further agree that there are issues linked to data availability and that the directive does not adequately accommodate either environmental or impact-focused transition strategies. These challenges are especially acute in real estate, where sector-specific complexities demand a tailored application of the rules.

Our response, which has been prepared in consultation with other real estate-focused industry bodies including the Association of Real Estate Funds (AREF) and the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) looks at the main areas of concern identified in the Call for Evidence and offers solutions based on industry experience and input, including real estate industry bodies' guidance and working group reports, as well as the Platform on Sustainable Finance proposal on the categorisation of products under the SFDR. In particular, this response draws on insights from current industry practices outlined in the Aligning Real Estate Sustainability Indicators (ARESI) white paper, as well as forward-looking standards reflected in Reporting Principles – ESG Metrics for Real Estate, which were both developed by a broad group of real estate industry stakeholders. The Metrics principles were originally drawn up in response to a request from the UK Financial Conduct Authority ("FCA") for input on best practice principles. They are specifically referred to in the IRFS Knowledge Hub:

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

Clarification of the Definition of Sustainable Investment

The Call for Evidence recognises that a large majority of stakeholders indicate that there are limitations in SFDR which prevent the objectives of the framework from being fully achieved, including a lack of legal clarity on key concepts. In the real estate sector, this is especially true for the definition of sustainable investment.

INREV's Sustainable Investment Principles (2024) highlights ongoing market confusion resulting from SFDR's allowance for custom thresholds and interpretation of key concepts. By placing the burden of interpretation on financial market participants, the current framework has led to inconsistent market practices and increased compliance costs. This lack of clarity undermines comparability and adds barriers to the efficient allocation of capital to sustainable objectives.

We support the Commission's intent to simplify key concepts and explore the case for categorising financial products that make sustainability-related claims as well as encourage and support investment into transition of inefficient assets and echo the Platform on Sustainable Finance's call for clearer definitions and structured categorisation. In the process of developing these, we believe there is a need for thresholds and indicators that are tailored to reflect the diversity of SFDR products. We also emphasise the importance of accounting for differences in data availability, investment strategies, and distinct asset class characteristics.

We agree with the Platform's proposal to introduce a transition investment category under SFDR, applicable to both environmental and impact transition strategies, to recognise investments into assets with credible, costed refurbishment plans, such as refurbishments to reach Energy Performance Certificate ("EPC") B or CRREM-aligned pathways. Such a classification should allow disclosure based on 'design EPC' or 'business plan-aligned EPC' ratings, acknowledge time-bound improvement commitments (such as within 5–7 years), and include transparent reporting mechanisms to track progress.

Our approach aligns with the investment lifecycle realities in real estate and further supports the EU goal to direct investment into achieving a zero-emission and fully decarbonised building stock by 2050. Which, for many in the regulated real estate industry, will be subject to their fiduciary duty.

Principal Adverse Impacts (PAIs): Proportionality and Applicability for Real Estate

Ongoing industry guidance has emphasised the need for practical application of PAIs in real estate, including adaptations for mixed-use assets and transition pathways. These evolving practices should ultimately align with emerging ESG reporting frameworks that offer standardised metrics and clear boundaries of scope and materiality, allowing for greater coherence across jurisdictions.

The Platform also highlights the challenges of implementing PAIs across all asset types. Our recommendation to prioritise material indicators and ensure proportionality is consistent with the Platform's proposed use of relevant binding elements tailored to sectoral realities. It is also in line with the Commission's stated aim to streamline and reduce disclosure requirements, focusing on the most essential information for investors.

The Commission acknowledges issues linked to data availability and overlaps and inconsistencies with other parts of the sustainable finance framework. In real estate, this is especially evident in the application of PAIs, notably for energy performance and fossil fuel exposure. The Aligning Real Estate Sustainability Indicators (ARESI) White Paper referenced above sets out a proposed approach to address existing ambiguities in the PAIs (mandatory PAI 17, mandatory PAI 18, additional PAI 18 and additional PAI 19).

We reiterate the concerns raised by the IPF, along with INREV and AREF in the SFDR Real Estate Solutions Paper (2023) which sets out targeted, sector-specific recommendations to enhance the SFDR's applicability to real estate and ensure alignment with regulatory intent. The paper highlights significant market confusion around defining fossil fuel exposure and addressing mixed-use assets. We recommend providing clear guidance for applying Principal Adverse Impacts (PAIs) to complex real estate portfolios.

The definition of inefficient assets requires clearer international standardisation. EPC ratings should be harmonised across all 27 EU member states and the UK to increase investor confidence in their validity throughout Continental Europe and the UK. In parallel, we support a further harmonisation of

EPC methodologies across EU Member States (see Annex 1 attached), with a shift toward operational performance-based criteria in line with the revised Energy Performance of Buildings Directive (EPBD). Clear guidance is also needed for acceptable metrics when EPCs aren't applicable, both within and outside the EU. The 'inefficient asset' standard must align with international rating systems like ENERGY STAR and NABERS. 'Inefficient assets' should also be redefined to include transitional states based on EPC targets, CRREM stranding risk before 2035, or equivalent international standards outside the EU.

Data Gaps and Access Barriers

The Commission notes that stakeholders have reported various implementation challenges and undue operational costs. For real estate, a major challenge stems from the frequent lack of access to energy and emissions data due to existing lease structures, infrastructure limitations and privacy concerns of tenants.

Greater consistency in data reporting can be achieved through standardised methodologies focused on asset-level performance. This includes advancing whole-building data collection and harmonised intensity metrics to address gaps created by infrastructure and lease structures.

We recommend establishing a mandatory data-sharing obligation between tenants and landlords, similar to France's *Décret Tertiaire*. This would align with the Commission's goal of reducing the burden of ESG reporting while improving data quality and comparability. Additionally, data proxies, such as the top 30% of local building stock (by energy efficiency) should be permissible when direct data is unavailable.

Furthermore, we highlight the mismatch between asset-level sustainability data and fund-level disclosure obligations. Clear guidance is needed to bridge this gap, including acceptable methods for aggregating or extrapolating asset data for fund-level SFDR reporting.

We further recommend clarifying the application of SFDR and CSRD across real estate ownership structures, particularly distinguishing between directly held real estate assets, operating companies, REITs/listed property companies, and asset-rich corporates. These models present distinct challenges around data availability and reporting obligations, in contrast to traditional private equity FMPs. Real estate managers currently lack clarity on whether CSRD-aligned disclosures from operating companies can be reliably used to fulfil SFDR PAI reporting, and how to handle directly owned assets that fall outside CSRD thresholds but are still subject to SFDR obligations.

While CSRD makes ESG disclosures mandatory, standardised, and auditable for private equity held portfolio companies, this impact is limited for directly held real estate, unless ESRS standards are explicitly tailored to include sector specific metrics and the aforementioned data-sharing obligation between tenants and landlords.

We have a further recommendation around clarifying the treatment of direct real estate ownership structures for SFDR purposes:

- A European private equity real estate fund can comprise multiple alternative investment fund vehicles ("AIFs"). As well as AIFs to accommodate third party investors ("Investor Vehicles"), downstream structuring is commonplace. This comprises ownership structures between Investor Vehicles and the real estate investments. Downstream vehicles can occasionally also feature AIFs, albeit with no third-party investors in those vehicles ("Non-Investor Vehicles").
- Non-Investor Vehicles can arise for a range of reasons. For example, they may feature due to legacy issues if an existing portfolio has been acquired, a fund may have been restructured with third-party investors being rolled up into Investor Vehicles, or they may be necessary due to the specific type and location of the relevant investments.

- Even though Non-Investor Vehicles have no third-party investors, and are not marketed to third-party prospects, their existence currently poses a practical question – are SFDR disclosures and associated reporting also required for each Non-Investor Vehicle?

Clearer guidance on this issue would be welcome. We recommend that SFDR compliance for Non-Investor Vehicles is not required. It is an unnecessary compliance burden for market participants since third-party investors receive all relevant SFDR disclosures and reporting pursuant to their investments in the actual Investor Vehicles.

Do No Significant Harm (DNSH) and Embodied Carbon

In line with the Platform's proposal, we acknowledge the importance of Do No Significant Harm (DNSH) and support the use of performance-based indicators. This reinforces our call to treat embodied carbon and operational metrics as equally material in real estate, and to clarify DNSH expectations with sector-specific nuances.

Assessment frameworks should place equal emphasis on operational and embodied emissions, with disclosure methodologies that reflect a building's lifecycle impact. Future DNSH assessments should leverage the methodologies in the Reporting Principles – ESG Metrics for Real Estate, mentioned above, which advocates for use of whole-building lifecycle emissions, EUI, and embodied carbon metrics normalised for comparability. This would better reflect actual building performance and sustainability impact.

The Commission’s emphasis on reducing the risk of greenwashing and better defining sustainability-related goals must also consider the misalignment in DNSH criteria for real estate investments. Current SFDR interpretations overly favour operational carbon over embodied carbon, which risks incentivising new construction over refurbishment. According to the EU Commission, almost 75% of the European building stock is currently considered energy inefficient and more than 85% of today's buildings are likely to still be in use in 2050. Energy renovation of buildings is ongoing but it is proceeding at too slow a rate. Therefore, the Commission needs to actively promote energy efficient retrofits under the revised SFDR DNSH criteria. We recommend that DG FISMA work with DG ENER on the newly launched Energy Efficiency Financing Coalition and its real estate workstream to support and scale up private finance into retrofit.

We urge the Commission to ensure DNSH and emissions-related disclosure obligations adequately incorporate embodied emissions, in line with the Commission’s stated aim to support investments that contribute to other objectives such as security, which in our sector includes the longevity and adaptability of existing buildings.

Additionally, we suggest limiting DNSH evaluations to mandatory PAIs or clearly defining non-mandatory ones to reduce subjectivity and greenwashing risks.

Transition to a Categorisation System

Real estate industry practice is already moving toward de facto product categorisation in line with ESMA’s Guidelines on Fund Names, that reflect different levels of ESG integration and ambition. We believe these practices, where underpinned by consistent and transparent metrics, should guide the regulatory shift from a disclosure framework to a tiered classification structure.

This approach aligns with the Platform’s proposal to introduce three distinct categories—Sustainable, Transition, and ESG Collection—reflecting different levels of environmental and social ambition. We support this evolution as it better reflects the real estate sector’s spectrum of investment strategies.

We also support the Commission’s suggestion to develop product categories that are also easily understandable by retail investors and that reflect different sustainability objectives. The current framework of disclosure under Articles 8 and 9 does not adequately reflect the breadth of sustainable finance strategies in real estate and does not incentivise investment into critically important real estate environmental and impact transition strategies. Disclosures should be clear and easy to read for investors, without being redundant (e.g. Annex II/III and Website disclosures).

We therefore advocate for an overhaul of SFDR to introduce a classification system that acknowledges pure sustainability, transition strategies, and ESG-aligned investments. This would improve comparability, reduce the risk of greenwashing, and better reflect the complexity of investment products.

If a new well-defined categorisation/ labelling system is implemented, we believe a transition to a new regime is critically important. We would therefore advocate removing the Article 8 and Article 9 framework after a transitional period so that during that transitional period, both systems could coexist but, in the long run, there is only one labelling system. This would allow time for market participants to adapt to the new framework and avoid the confusion of two regimes co-existing indefinitely, whilst preventing undue burdens and costs on existing firms, in particular those disclosing under Article 8 or 9, from having to immediately re-evaluate and comply.

Consideration should also be given to grandfathering certain types of funds from the new regime, for example closed end funds that are no longer raising capital or open to new investors.

We also recommend, as highlighted by the Platform on Sustainable Finance, removing a potential requirement for mandatory assurance reviews, as the need in alternatives is limited considering the type of investors (institutional) and products (closed-end funds). Such reviews should be used on ad-hoc basis depending on specific financial products.

Interoperability with other EU and international frameworks

We strongly support the Commission’s intention to enhance coherence within the sustainable finance framework, including with the EU Taxonomy and CSRD, and would go one step further than just enhancement and recommend complete coherence. As corporate reporting requirements are covered by CSRD, SFDR should be focused on financial products only. Therefore, SFDR entity disclosures should be removed from the new categorisation regime

To be effective and reduce reporting burdens, SFDR must also strive for interoperability with international regulatory and market-based frameworks.

Real estate investment managers often operate across multiple jurisdictions and are subject to a growing set of parallel disclosure regimes. Without alignment, these overlapping requirements create costly unnecessary complexity, inconsistent definitions, and duplication of effort. We believe that interoperability is not merely a technical enhancement but a policy necessity that supports investor trust, reduces administrative costs, and enables real comparability across borders.

We therefore urge the Commission to explicitly encourage the recognition of sector-specific and international frameworks, especially the UK’s Sustainable Disclosure Requirements[1], as interoperable with SFDR, ensuring that real estate managers can ‘plug in’ existing disclosures without compromising regulatory intent or sectoral relevance.

We also encourage the Commission to promote technical and policy-level interoperability with the IFRS S1 and S2 framework, which is being adopted across major global markets, to support consistent sustainability disclosures across jurisdictions. While CSRD/ESRS and SFDR operate under a double materiality lens and IFRS applies a single materiality perspective, there is increasing alignment on core metrics, particularly on climate disclosures (e.g. GHG emissions, targets, transition

[1] https://www.fca.org.uk/publication/policy/ps23-16.pdf

risks), as reflected in the ongoing collaboration between EFRAG and the ISSB. Encouraging technical equivalence or mutual recognition would reduce reporting duplication for cross-border managers with the need for sector specific guidance across both.

Recognising Impact Investing in SFDR

While SFDR seeks to channel capital into sustainable activities, it fails to adequately recognise impact investing as a distinct and legitimate strategy. The regulation classifies financial products based primarily on the characteristics of underlying assets, such as Taxonomy alignment or PAI performance, without accounting for the investor’s intention, contribution, or impact management process, which are fundamental features of impact investing.

This omission limits SFDR’s ability to fully support the European Union’s environmental and social ambitions. Impact investing involves more than owning impactful assets; it requires clearly defined strategic objectives for positive social or environmental outcomes, a documented impact pathway, and a robust approach to measuring and managing both asset-level and investor-level contributions toward those outcomes. These characteristics are increasingly reflected in internationally recognised frameworks and are directly aligned with the EU’s broader sustainability goals, including the Green Deal and the Social Economy Action Plan.

We recommend that SFDR introduce principles-based recognition of impact strategies. This approach could define minimum expectations for what qualifies as impact investing within the SFDR framework. Such recognition would create space for strategies that go beyond passive ownership of green assets and actively drive positive change.

Formalising this recognition would enable the mobilisation of private capital into high-impact areas, increase comparability and clarity for investors, and help safeguard against greenwashing by establishing a clear, outcomes-based foundation for impact-labelled financial products. It would also align SFDR with fast-evolving market practices and investor demand for more intentional and measurable forms of sustainable investment.

Conclusion

We agree with the Commission that targeted simplifications and adjustments are necessary to enhance SFDR’s ability to meet its objectives. Our proposals aim to support simplification and necessary adjustments by providing a workable and effective framework for the real estate investment sector.

Annex 1 - EPC Ratings

With regard to the proportionality and applicability of PAIs to Real Estate, for future consideration, we believe EPC ratings need to be equalised across the 27 member states and the UK, in order for them to be effective, such that a Financial Market Participant (FMP) would gain more confidence in seeing their validity even within Continental Europe and the United Kingdom.

Analogous to a credit rating system by credible credit rating agencies, if Moodys/S&P/Fitch's Aaa/AAA/AAA ratings implied vastly different credit qualities across markets, no prudent FMP would have adopted them – and credit pricing would not be as advanced as it is today without their consistency. It is important for Europe to apply a credible EPC system, and to have that system respected internationally where other analogous energy ratings systems prevail. Consistent with the 'Fit for 55' legislative package proposed by the European Commission to reduce net greenhouse gas emissions in the EU by at least 55% by 2030, relative to 1990 levels, an EPC A rating should target for an EUI of 55 kWh/sqm/year across all of Continental Europe and UK and become more rigorous in its statements and goals.

The charts below show that the current situation is not helpful for real estate landlords/investors, tenants/occupiers, or any FMP in both the public and private real estate markets. An EPC letter grade of an 'A' should mean the same EUI across countries irrespective of how green or brown a given electric grid is for a particular market. There should be no 'grade inflation' between or across markets.

Sources of charts and graphs below: https://globalabc.org/resources/publications/standardising-european-epcs-crucial-step-energy-transition-building-sector

	EPC Ratings & Accompanying EUIs relative to their letter grade								
Country	A+	A	B	C	D	E	F	G	H
Germany	25	50	75	100	130	160	200	250	>250
Austria	15	25	50	100	150	200	250	>250	
Poland	20	45	50	80	150	250	500		
France		70	110	180	250	330	420	>420	
Netherlands	105	160	190	250	290	335	380	>380	
Bulgaria	48	95	190	240	290	363	435	>435	
Ireland		75	150	225	300	380	450	>450	
Belgium	45	85	170	255	340	425	510	>510	

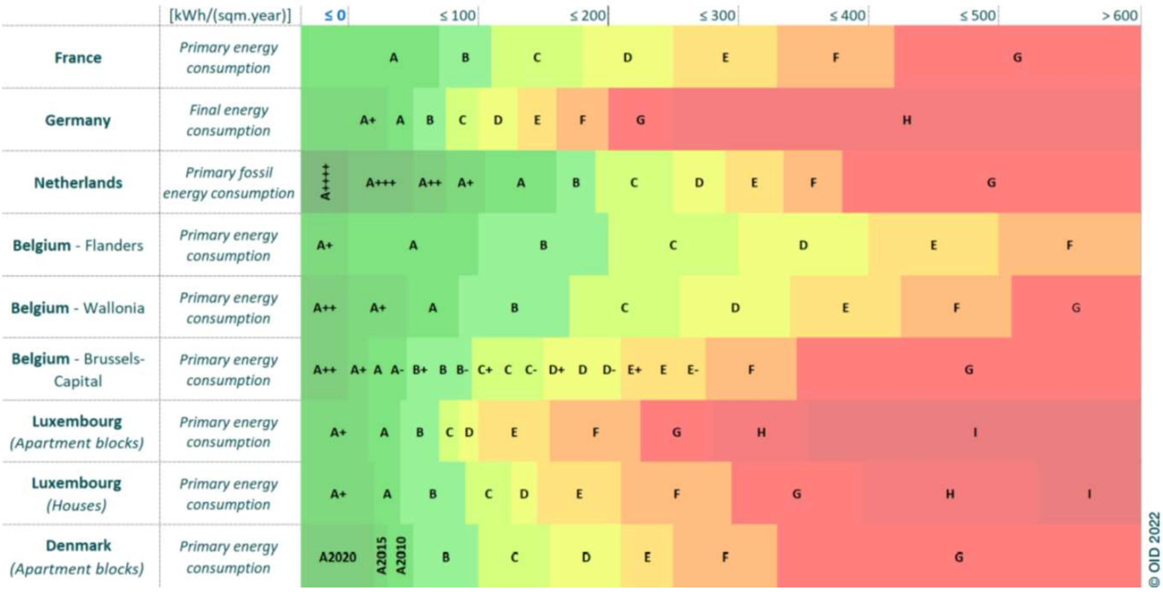

Chart 13: Office Energy Intensity (Electricity Equivalent) by EPC Rating 2021/22

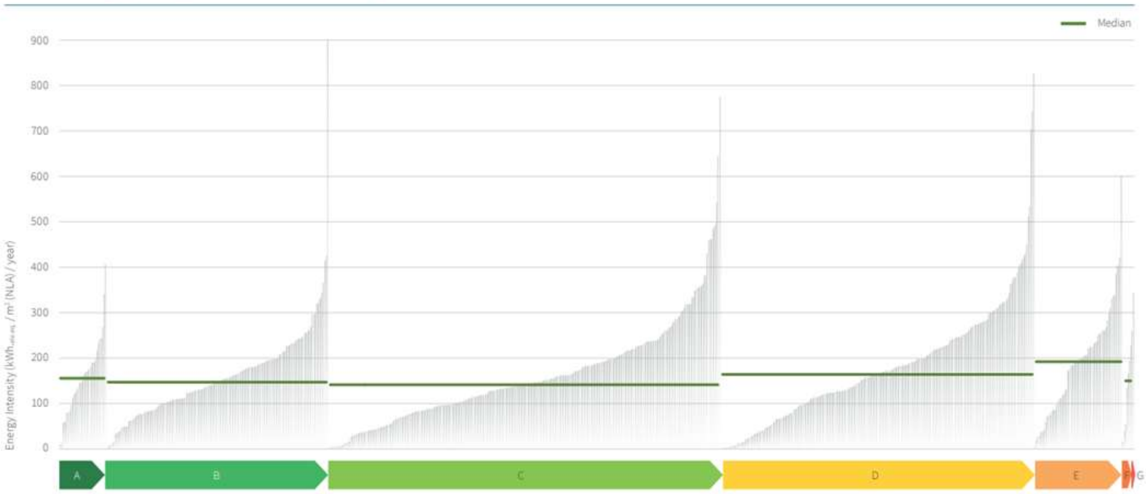

Chart 13 compares the office energy intensities in the REEB dataset with the EPC ratings for those properties. Each grey column represents a single office's energy intensity for a year. They are then grouped together by their EPC rating. The green horizontal line represents the median value of the energy intensities for that group.

When looking at the relationship between EPC ratings and operational energy intensity, the data suggests a very weak relationship. It can be seen that properties within a high performance band can have intensities higher than a lower performance band. Furthermore, there is a significant variation in the range of energy intensity within each EPC band.

Despite the steady improvement in EPC ratings shown in Chart 12, Chart 13 above highlights that EPCs are not a good indicator of operational energy use, and a continuous ratcheting up of design ratings alone will not be adequate to achieve the UK's energy efficiency ambitions.