Press release

The Institut de la Finance Durable (Paris Sustainable Finance Institute) makes 21 recommendations to finance the decarbonization of the building industry

Paris le 23 mai 2024

As part of the work plan of the Ecological Transition Financing Committee, the Institut de la Finance Durable (Paris Sustainable Finance Institute) presents its recommendations for financing the decarbonisation of residential and commercial buildings, whether private or public.

In the 'Ecological Transition Financing Action Plan' published in May 2023, the Paris financial centre notes the low economic profitability of investment projects. At the request of the Minister of Economy and Finance, the Institut de la Finance Durable has continued its work on a sector-by-sector basis to identify the obstacles and levers for financing the ecological transition, with an initial focus on the decarbonisation of buildings. Following the mobilisation of a multi-stakeholder group (more than 50 companies and institutions) and hearings with more than 30 players in the sector, the IFD is formulating concrete proposals.

The building sector is one of the main sources of greenhouse gas emissions. The carbon footprint of buildings accounts for nearly 25% of the total carbon footprint of French citizens (17% of GHG emissions in France in 2022 from building operation, mainly heating). The decarbonisation trajectory for residential and tertiary buildings by 2030 is clear: the change in energy vector should contribute more than 60% of the total effort, insulation 27% and energy efficiency 6%. **Investment in decarbonising this sector must at least double to meet climate targets by 2030**. The annual additional investment requirement is estimated at over 30 billion euros.

The study identifies three major obstacles to the decarbonisation of buildings:

1) <u>An administrative and technical process that discourages project leaders:</u> Despite recent progress, the complexity of the administrative process for obtaining financial assistance and then carrying out the work is an obstacle in itself.

2) <u>Low economic profitability of projects:</u> Regardless of the project owner (household, local authority, private sector), the financial profitability of an energy renovation project is not guaranteed, as the return on investment may exceed the lifetime of the installations. In addition, the objective should be broadened to include carbon efficiency, beyond energy efficiency alone.

3) <u>Conditions for mobilising financing tools are not met:</u> Existing financing tools are still under-utilised today. The necessary cash advances may be too large in relation to the capacities of project

promoters. Finally, debt conditions are sometimes too restrictive, particularly for co-ownerships and local authorities.

In its report, l'Institut de la Finance Durable makes 21 recommendations for financing the decarbonisation of buildings in France in order to ensure that they contribute to the achievement of greenhouse gas emission reduction targets.

Firstly, in order to improve support for project developers in their efforts, the one-stop shop principle for individuals should be strengthened and extended to tertiary sector players (Proposal No. 1). Furthermore, in the context of co-ownerships, property managers could play a key role not only in the technical implementation of projects but also in the design of the financing plan, with support in developing their skills in these areas (Proposal No. 4).

In order to create the conditions for a sustainable market and improve economic balance, public assistance for households needs to be scaled up. This could be achieved by substantially strengthening existing schemes such as MaPrimeRénov', in particular to reduce the remaining costs for the most modest households to almost zero, and by targeting the most cost-effective measures (Proposal No. 10). Alternatively, a tax deduction on the depreciation of the work carried out would allow the government's budgetary effort to be spread out over time (Proposal No. 10 bis). It is also a question of strengthening the zero-interest eco-loan so that it can finance 100% of the investment effort in order to minimise the cash flow effort (Proposal No. 11). For businesses, the depreciation of investments dedicated to renovation should be accelerated in order to massively increase the deployment of projects (Proposal 13).

Finally, project leaders must be provided with financial mechanisms tailored to their respective needs and issues. The renovation of co-owned properties is a particularly difficult challenge. Specific solutions are therefore needed: for co-owned properties, this means relaxing the conditions for taking out a collective loan, in particular by creating a public guarantee fund to insure loans granted in the event of non-payment of debt charges by certain co-owners (Proposal No. 17). In the private sector, the BPI guarantee system should be extended to include energy-efficient renovations of commercial buildings (Proposal No. 21).

The Institut de la Finance Durable will present its recommendations at the next Ecological Transition Financing Committee meeting.

Read the full report

Read the summary of the report

About the Institut de la Finance Durable

Created in October 2022, the Institut de la Finance Durable, a branch of Paris EUROPLACE, aims to coordinate, unite and accelerate the Paris financial centre's efforts to achieve the ecological transition and transform the economy towards a low-carbon and inclusive model, in line with the

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objectives of the Paris Agreement and the Sustainable Development Goals. It brings together all private, public and institutional players in the Paris financial centre and represents the centre's positions at European and international level.

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