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EU Taxonomy

Significance and Challenges in Real Estate Transactions

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Significance and challenges in Real Estate transactions

The EU Taxonomy is a classification system developed by the European Union to evaluate economic activities based on defined sustainability criteria, with the goal of directing investments toward environmentally sustainable practices.

In the real estate sector, this translates into more stringent requirements for energy efficiency, climate protection measures, and sustainable standards for construction and renovation —factors that significantly influence both the financial viability and market appeal of real estate assets.

A common question in the context of EU Taxonomy discussions in the real estate industry is: "Is a building taxonomy-eligible?"

The technical answer is essentially yes, as activity 7.7 'Acquisition and ownership of buildings' is explicitly listed among the economic activities covered by the EU Taxonomy (Delegated Regulation (EU) 2021/2139). However, this is where a common misconception arises: Taxonomy eligibility is merely the entry point —not the decisive factor.

Taxonomy Alignment vs. Eligibility

An economic activity is considered taxonomy-eligible if it is defined in the EU Taxonomy Delegated Regulation (EU) 2021/2139 and can be linked to an environmental objective— regardless of whether it meets the technical screening criteria. Since all real estate owners are either registered in the land register or identified during transactions, taxonomy eligibility for real estate is a given. Many sustainability analyses certify taxonomy eligibility, but these offer little added value.

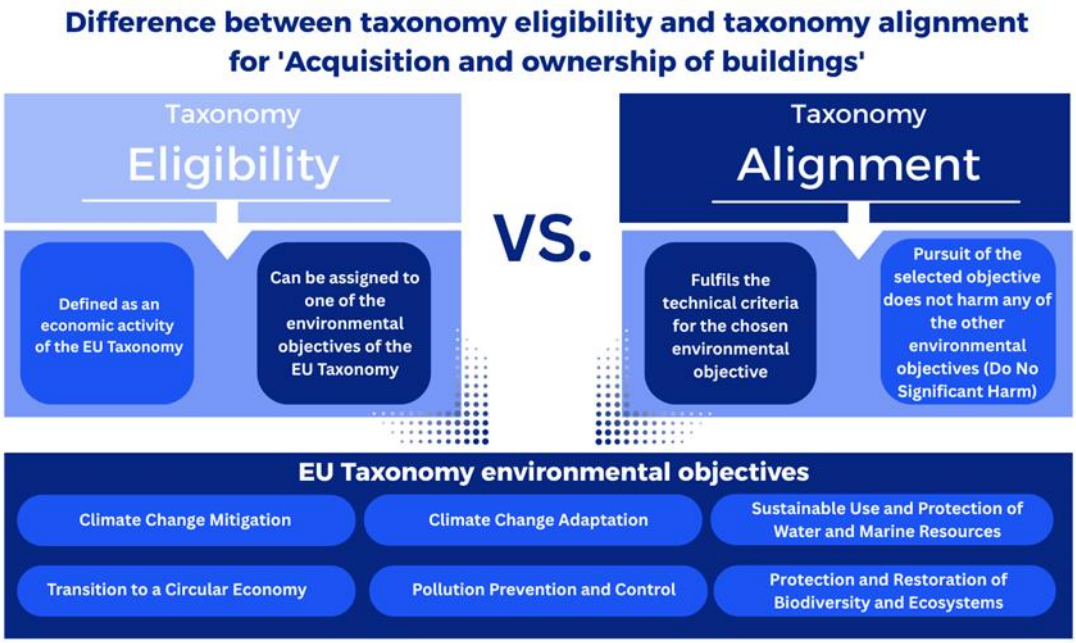
What truly matters for owners, investors, tenants with sustainability goals, and particularly financiers, is taxonomy alignment. Due to their regulatory obligations related to non-financial risks and credit assessments, financial institutions will increasingly focus on sustainability aspects.

Tenants with sustainability goals will choose properties based on environmental and/or social criteria, avoiding those that fail to meet these requirements. This is especially critical for buildings with anchor tenants subject to sustainability reporting obligations under the CSRD.

The European Commission's FAQs on the EU Taxonomy, published in December 2022 and November 2024, focus primarily on compliance with the technical screening criteria for the economic activities 'Construction and Real Estate Activities' —not merely on basic taxonomy eligibility. In addition, rennowned audit bodies are explicitly focusing on auditing the technical screening criteria to ensure actual taxonomy alignment.

The Goal: Taxonomy Alignment

Taxonomy eligibility is merely a formal entry point. True added value in terms of sustainability is achieved only through taxonomy alignment, which is based on clearly defined environmental and energy performance criteria. Therefore, consultants, building owners, investors and occupiers should prioritize technical and sustainability-related criteria to develop or maintain resilient, future-proof real estate portfolios.



EU Taxonomy in Real Estate Transactions

The EU Taxonomy provides technical assessment criteria for the economic activities 'Construction of New Buildings', 'Renovation of Existing Buildings', 'Installation, Maintenance, and Repair', as well as 'Acquisition and Ownership of Buildings'. These activities fall under the overarching category of 'Construction and Real Estate Activities'. This article focuses specifically on the economic activity 'Acquisition and Ownership of Real Estate'.

The EU Taxonomy allows for two selectable environmental objectives within the 'Acquisition of Real Estate' activity: 'Climate Change Mitigation' and 'Climate Change Adaptation'. The Taxonomy defines a total of six environmental objectives.

The following table outlines the technical screening criteria for the economic activity 'Acquisition and Ownership of Buildings', in relation to the EU Taxonomy objectives of 'Climate Change Mitigation' and 'Climate Change Adaptation', as well as the associated Do-No-Significant-Harm (DNSH) criteria. DNSH stipulates that the pursuit of an EU taxonomy objective must not compromise any other environmental objective.

EU Taxonomy objective Climate Change Mitigation		
Build before 31st December 2020	**Build after 31st December 2020**	**DNSH**
Energy efficiency class A or TOP 15 % performance in relation to the primary energy demand of the national or regional building stock, differentiated between residential and non-residential buildings.	Primary energy performance is at least 10 % below NZEB standard threshold, certification via overall energy efficiency according to EPC[1]. *Additionally for buildings > 5.000 m²* *-Air tightness tests* *-Life cycle assessment via greenhouse gas emissions* *-Thermal integrity test; alternatively: traceable corresponding quality control processes during the construction process.* *Additionally for non-residential buildings with a rated output of air conditioning and heating system > 290 kW:* *Proof of the use of an energy management system.*	Carrying out climate risk and vulnerability assessment and developing appropriate adaptation solutions that significantly reduce the material physical risks.

EU Taxonomy objective Climate Change Adaptation	
Technical Screening Criteria	
Carrying out climate risk and vulnerability assessment and developing appropriate adaptation solutions that significantly reduce the material physical risks.	
DNSH	
Build before 31st December 2020	Build after 31st December 2020
Energy efficiency class C or TOP 30 % performance in relation to the primary energy demand of the national or regional building stock, differentiated between residential and non-residential buildings.	Criteria for NZEB, verification via EPC. *Additionally for non-residential buildings with a nominal output of air conditioning and heating system > 290 kW:* *Proof of the use of an energy management system.*

[1] NZEB: Nearly Zero Energy Building | EPC: Energy Performance Certificate

Challenges, Pitfalls and Practical solutions

To meet the EU Taxonomy's complex requirements for energy efficiency of buildings, market participants currently lack the necessary assessment framework, which is yet to be provided by legislators.

Compliance with the NZEB standard and the assessment of building energy performance remain challenging. A key issue is the absence of a comprehensive database on overall building performance, which hinders the identification of the most energy-efficient buildings and their classification within the TOP 15% or 30% of the building stock. Transitional approaches—such as benchmarks from Drees & Sommer or the Global Real Estate Sustainability Benchmark | GRESB for determining the TOP 15% and 30%, or the Fraunhofer model for assigning energy efficiency classes based on the European scale (A to G) — offer practical interim solutions and provide a credible basis for assessment during the transition period. At the same time, the 2024 Energy Performance of Buildings Directive (EPBD) is driving the harmonization of energy efficiency class specifications across Europe. To meet regulatory requirements and future-proof the real estate market, robust data, transparent assessment methods, and practical solutions are essential.

1. NZEB threshold value

Determining the primary energy requirement and the associated NZEB threshold value is and will remain a dynamic process in the future. The primary energy demand for heating, hot water, ventilation and cooling may not currently exceed 0.55 times the value of the primary energy demand of a reference building with the same geometry, usable building area and orientation in relation to the usable building area. The revised German Building Energy Act (GEG) reduced the threshold for primary energy demand from 0.75 (GEG 2020) to 0.55 (GEG 2023), and this value may be adjusted further in the future in response to dynamic developments.

1.1 Determining the TOP 15 % and TOP 30 % energy performance for 'Acquisition and Ownership of Real Estate'

To identify the TOP 15% and TOP 30% of the national building stock, the introduction of a database for the energy performance of buildings, as prescribed by the EPBD 2024, is required. As there is currently no real estate database in Germany, it is not possible to make reliable statements about the TOP 15% and TOP 30%.

The Federal Ministry of Housing, Urban Development and Building (BMWSB) has been commissioned by the Federal Ministry of the Interior, Building and Community (BMI) to make the database for buildings available for use by the end of 2025. So far, it is unclear if the implementation will take place on time. If the BMWSB fails in setting up the database for buildings in time, the market participants in the German real estate market will still not be able to make a formal statement based on regulatory requirements regarding the energy performance of buildings.

1.2 Practice-oriented solution approach

The publication 'Climate Change Mitigation Real Estate Activities - Eligibility Criteria - Top 15% in Germany' by Drees & Sommer from 2023 or the Global Real Estate Sustainability Benchmark | GRESB provides, among other things, a methodological basis for identifying the most energy-efficient buildings in the German stock. As there is currently no central, standardized database in Germany to systematically record the overall energy performance of buildings, this publication represents an interim solution. It defines clear criteria that can be used to determine the TOP 15 % and TOP 30 % of the most energy-efficient buildings.

The methodology draws on existing energy consumption data, building typologies and legal requirements to establish benchmarks for different building categories. Primary energy demand performance and specific consumption indicators are both considered. This approach is particularly relevant for institutional investors, real estate companies and financial institutions that must meet sustainability requirements as part of the EU taxonomy and other regulatory requirements.

By using these standardized criteria, market participants receive a reliable basis for decision-making without having to wait for the future database for buildings. This makes it easier to identify buildings that are eligible for subsidies or particularly sustainable and can help to direct investments towards energy-efficient existing buildings. In addition, the method supports a step-by-step approach to a comprehensive, data-based assessment of the building stock by setting clear standards for energy classification.

2. Energy efficiency class specifications

The EPBD 2024 provides a Europe-wide harmonization of energy performance classes on a scale from A (A+ optional for the Member States) to G. The letter A corresponds to zero-emission buildings and the letter G to buildings with the worst energy performance in the national building stock. The energy efficiency class A+ is obtained when the energy performance of a building is at least 20 % lower than the maximum threshold for zero-emission buildings, and when the building generates more renewable energy on-site annually than its total annual primary energy demand. Accordingly, previous energy efficiency assessments must be aligned with the new standards, and updated evaluations must be implemented.

All energy performance certificates must comply with the new requirements from Annex V of the EPBD 2024 by 29th May 2026.

2.1 Practice-oriented solution approach

The Fraunhofer model is one of the interim solutions for estimating the energy performance of non-residential buildings in Germany until a national database for the energy performance of buildings is established. To close this gap, the Fraunhofer model uses various statistical and machine learning methods to derive energy parameters from existing data sources. These include geodata and cadastral data, building cost databases, energy consumption studies and comparative values for similar building types.

Based on this information, energy consumption for heating, cooling, lighting and other systems can be estimated. The great advantage of the Fraunhofer model is its rapid availability, as it provides reliable estimates without having to wait for a fully established database for buildings. The Fraunhofer model is also cost-efficient, as it is based on existing data and does not require a great deal of data entry. For municipalities, authorities and companies in particular, it offers a practical basis for determining refurbishment priorities and planning initial energy measures.

Another advantage of the Fraunhofer model is the independence of the Fraunhofer Institute from market participants. It works according to scientific principles and will determine the scaling of future energy efficiency classes (A to G) for the German government.

3. Implementation of the Energy Performance of Buildings Directive (EPBD) 2024

The EPBD aims to accelerate the renovation rate and improve building efficiency.

The aforementioned challenges make it difficult for participants in the construction and real estate industry to implement the requirements appropriately, conduct well-founded analyses of the energy performance of buildings and develop targeted measures for energy-efficient refurbishment.

As there is no national and publicly accessible register for energy performance certificates or even measured consumption data for buildings in Germany, it is not possible to allocate their energy performance or determine whether they belong to the TOP 15% or TOP 30%.

The following table provides an overview of key building categories in connection with the requirements of the EPBD and the GEG and describes the EU and national criteria for zero-emission buildings and nearly zero-energy buildings.

Regulation	Nearly zero-Energy Building	Zero-emission building[2]
EPBD	Buildings with a very high energy performance: -No worse than the 2023 cost-optional level reported by Member States, and -the nearly zero or very low amount of energy is covered to a very significant extent by energy from renewable sources produced on-site or nearby.	Buildings with a very high energy performance: -Requiring zero or a very low amount of energy, -producing zero on-site carbon emissions from fossil fuels and -producing zero or a very low amount of operational greenhouse gas emissions. The total annual primary energy use is covered by energy from: -renewable sources generated on-site or nearby, fulfilling the criteria of Directive (EU) 2018/2001; -renewable sources provided from a renewable energy community within the meaning Directive (EU) 2018/2001; - an efficient district heating and cooling system in accordance with Directive (EU) 2023/1791; or - carbon-free sources.
German Building Energy Act (GEG)	The annual primary energy demand compared to the reference building does not exceed: -0.55 times the primary energy demand for heating, hot water, ventilation and cooling. - For residential buildings 1.0 times the primary energy requirement for heat-transmitting envelope surface related transmission heat loss. -For non-residential buildings, the maximum values of the average thermal transmittance coefficients defined in Annex 3 of the Building Energy Act (GEG) shall not be exceeded.	Definitions and requirements are not yet transposed into national law. To be implemented by 29th May 2026 in accordance with Article 35 EPBD 2024.

[2] Delegated Regulation (EU) 2021/2139 does not contain any provisions on reducing CO2 emissions. The EPBD 2024 has the potential to modify the requirements of the EU taxonomy.

A zero-emission building is characterized by very high energy performance. The energy demand of a zero-emission building shall comply with the maximum threshold, which shall at least reach the cost-optimal level. A zero-emission building shall not cause any on-site carbon emissions from fossil fuels and shall, where economically and technically feasible, offer the capacity to react to external signals and adapt its energy use, generation or storage. It requires little to no external energy input, and any such energy shall be entirely covered by renewable sources. Renewable energy shall be generated either on-site or nearby. The maximum threshold for the energy demand of a zero-emission building shall be at least 10% lower than the threshold for total primary energy use established at the Member State level for nearly zero-energy buildings as of 28th May 2024. Furthermore, it shall be ensured that the operational greenhouse gas emissions of a zero-emission building comply with the maximum threshold set out in the national building renovation plans.

A nearly zero-energy building also has very high energy performance but shall not be below the cost-optimal level set by the Member States for 2023. Its low energy demand is covered to a significant extent by renewable energy sources generated on site or nearby. The Commission is responsible for defining a comparative method for calculating the cost-optimal level for new and existing buildings by 30th June 2025.

Conclusion

The development of the real estate market is increasingly characterized by regulatory requirements, particularly due to the linking of the EU taxonomy with European and national legislation. The decisive factor here is not taxonomy eligibility, but actual taxonomy alignment, which serves as a benchmark for sustainable investments. The EU taxonomy remains dynamic due to constant adjustments, such as the simplification of sustainability reporting obligations made with the Omnibus Regulation and requires a continuous examination of new requirements. The current revision of the Omnibus Regulation in connection with the EU Taxonomy, the CSRD, the SFDR and the CSDDD is expected to be completed in Q2 2025.

Practice-oriented ESG Services from Colliers

Colliers' ESG Services department offers a comprehensive range of practical solutions for owners, investors, tenants and project developers who want to achieve their individual sustainability goals and meet EU and national requirements. Together with our partners, we offer analysis, consulting, planning and implementation.

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