The Association of Real Estate Funds
Head Office: 3 Waterhouse Square
London EC1N 2SW
+44 (0)20 7269 4677
info@aref.org.uk
www.aref.org.uk

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Response by email: taxonomyconsultation@hmtreasury.gov.uk

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UK Green Taxonomy Consultation

We, the Association of Real Estate Funds[1] (AREF), have read with interest your consultation paper that aims to gather views on the potential introduction of a UK Green Taxonomy. We have responded to the majority of the questions in the document; this is from the perspective of UK real estate funds industry. Our responses are detailed overleaf.

If you would like to discuss any aspect of our response, please contact Rachel Portlock (rachel.portlock@aref.org.uk), Head of Research at AREF. Also, as our members invest in real estate and other real assets for various types of open-ended and closed-ended funds, we are always willing to assist the Government by sharing this wealth of knowledge and experience.

Yours sincerely

Paul Richards

CEO, The Association of Real Estate Funds

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[1] The Association of Real Estate Funds represents the UK real estate funds industry and has around 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

Chapter 2

Box 2.A Questions for respondents

> 1. **To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?**

Our overarching conclusion is as follows: without further insight surrounding understanding of the Treasury's objectives regarding the UK Taxonomy, the UK taxonomy would not be welcome. The extra work, cost and confusion it would create to the many firms already grappling with the EU taxonomy would not justify any benefits that might arise for others.

Example pushback can be found in the second half of the response to this question.

However, if the Treasury decides the UK Taxonomy is required, we suggest that it is:

a) a significantly stripped-down and simplified version of the EU taxonomy, such as would be an easier instrument for smaller, UK-only businesses to work with, and for UK rules and regulations for which full international alignment is not critical to link to; and

b) developed with a sufficient degree of sector-specific understanding and insight (specifically, from our perspective, to recognise that real estate definitions and metrics generally need to operate at an asset and portfolio level rather than at a corporate level).

c) There is interoperability; because most, or at least a significant percentage of, real estate investors and investment managers domiciled in the UK and elsewhere are global in their scope and operations, for a UK Taxonomy to add value, interoperability with other taxonomies is critically important. Interoperability between a UK Taxonomy and other taxonomies is most likely and straightforward when it is aligned as much as possible with, or improves on, other taxonomies. In this regard, the EU Taxonomy is probably the most useful to be aligned with from a UK commercial perspective. While alignment is important, however, where the EU or other taxonomies are not clear, additional guidance and clarity should be provided, for example to avoid the challenge of applying the EU taxonomy where EPC labels are not available.

Furthermore, interoperability would be facilitated by a UK Taxonomy that includes sector-specific guidance for real estate which is based on metrics developed by the real estate industry and already widely in use. Clearly the metrics that best meet this standard are the INREV SDDS (Standard Data Delivery Sheet), which is already widely adopted by real estate investors and investment managers in the UK, the EU, and much of Asia.

We explain ways in which the UK Taxonomy can be useful in the questions below.

Example Insights Highlighting Potential Failures under the UK Taxonomy Framework:

1. Certain members did not find the EU Taxonomy useful as they did not have particular reason to align with the EU Taxonomy to date and this is unlikely to change with the introduction of a UK Taxonomy. Often members do not pursue investment strategies based on ESG impact, which makes a taxonomy less relevant.

2. Taxonomies are complex – Experience of the EU Taxonomy suggests that it is difficult to apply. While we understand that the EU Taxonomy is designed to be challenging, it is not particularly useful as an opt-in tool and the same is likely to apply to a UK Taxonomy.

3. Competitive advantages – members do not believe that the lack of a UK Taxonomy is hampering UK competitiveness or hampering the ability to raise funds. In the long-term, we understand that the UK could be less influential in the development of global taxonomies if it does not have one of its own but, in the short- to medium- term, there does not appear to be any particular competitive disadvantage to not having a UK Taxonomy.

4. More appropriate policy tools – The architecture of the UK sustainable finance regulatory framework is different to the EU's. A major element of the EU sustainable finance regulatory regime under SFDR is based on disclosure, in which the EU Taxonomy plays a key part. The UK regulatory regime under the SDR, however, provides the option of using investment labels. The FCA has already applied minimum sustainability standards to the labels through investment thresholds and KPIs, among others, without the additional cost involved in developing a separate Taxonomy.

   The opportunity-cost of developing a Taxonomy would also seem to favour more impactful and less costly measures to promote capital into sustainable projects. This could include a stronger corporate disclosure framework, appropriate disclosures by asset managers and intervening directly to address environmental market failures, such as by making it more costly to pollute.

5. Divergence with the EU – Many UK sustainable funds are also marketed to the EU and are required to comply with rules and disclosures under SFDR and the EU Taxonomy. The benefit of a UK-specific taxonomy is less clear if managers are already complying with the EU Taxonomy. Unless the UK decides to align with the EU's Taxonomy, divergence is also highly likely to occur in the future, making compliance for managers even more costly and complex.

a. Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?

The success of the UK Taxonomy hinges on its integration with existing frameworks like ISSB and the FCA's sustainability disclosure regime. Care must be taken to avoid duplicative reporting requirements, and the taxonomy should align with the practical realities of property investment cycles and holding periods. Aligning with international frameworks, particularly the EU Taxonomy, is also crucial to ensure interoperability and attract non-UK investors. Not addressing this would lead to confusion across the market meaning that capital is delayed in being investing into green initiatives, whilst disrupting the market.

Specifically, from a real estate perspective it is critical the UK Taxonomy considers government policy and sector standards including EPCs, BREEAM, and GRESB.

b. How can activity-level standards or data support decision making and complement other government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)?

Activity-level standards and data can play a critical role in supporting decision-making and complementing other government sustainable finance policies and entity-level data, such as those provided by ISSB disclosures or transition plans.

A robust framework should aim to link actual performance metrics to strategic objectives, enabling evidence-based investment decisions and the tracking of meaningful progress. This would ensure accountability for achieving real carbon reductions and drive tangible environmental outcomes.

Activity-level standards should complement, rather than duplicate, existing reporting frameworks like the Corporate Sustainability Reporting Directive (CSRD). By aligning with these standards, such a framework can enhance the quality of organizational disclosures while minimizing the reporting burden for stakeholders.

In summary, a well-designed framework for activity-level standards and data would bridge the gap between high-level strategic disclosures and measurable performance, fostering transparency, accountability, and actionable insights to support sustainable finance objectives.

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2. What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.

From a real estate standpoint, The UK Taxonomy could contribute to its stated goals through a range of specific use cases, both voluntary and linked to government policy and regulation. These use cases would enable targeted action at both the asset and portfolio levels, supporting the overarching objectives of channelling capital and preventing greenwashing.

1. Asset Classification Framework

- Operational Assets: Categorizes assets based on current carbon performance (e.g., net-zero operational carbon, non-aligned) and evaluates their potential for carbon reduction (high, medium, or limited).
- Development/Refurbishment: Classifies assets by design standards (e.g., net-zero ready or future net-zero capable) and assesses embodied carbon in materials (low, medium, or high).

2. Technical Screening Criteria

- Performance metrics such as energy intensity, carbon emissions, renewable energy generation, and water consumption could provide clear benchmarks for assessing sustainability.
- Verification requirements, including independent data verification, performance monitoring, tenant data integration, and smart meter connectivity, would ensure reliability and consistency.

3. Transition Pathways

- Short-term (1-3 years): Focuses on energy efficiency improvements, building management optimization, renewable energy adoption, and robust data collection.
- Medium-term (3-7 years): Includes major plant replacements, fabric upgrades, low-carbon technology implementation, and active tenant engagement.
- Long-term (7+ years): Encompasses deep retrofits, system replacements, alignment with grid decarbonization, and measures to enhance climate resilience.

4. Implementation Framework

- At the asset level, this involves collecting performance data, establishing improvement pathways, conducting technical assessments, and creating investment plans.
- At the portfolio level, it focuses on strategic planning, setting transition targets, allocating capital effectively, and conducting comprehensive risk assessments.

These use cases would not only support voluntary adoption but also align with government policies to drive meaningful progress, ensuring that both current performance and future potential are transparently and consistently evaluated.

a. What are respondents' views on the benefits of the proposed use case (paragraph 2.2)?

The proposed use cases outlined in paragraph 2.2 offer several benefits for real estate, particularly in supporting investment, enabling genuine transitions, and driving actual carbon reductions. By providing clear and practical implementation guidance, the UK Taxonomy could help ensure that sustainability efforts are effective and aligned with market needs.

However, a key concern is the potential burden of excessive reporting and overlapping regulatory requirements, which could inadvertently hinder progress. To maximize its benefits, the taxonomy must strike a balance between driving meaningful action and avoiding unnecessary complexity for stakeholders.

Overall, if designed with a focus on practicality and alignment with existing frameworks, the proposed use cases have the potential to facilitate impactful sustainability transitions in the real estate sector.

b. Are there any other use cases respondents have identified?

The UK Taxonomy could have broader practical applications beyond investment and reporting, offering significant value in areas such as:

Planning: Providing a framework for assessing and approving sustainable developments, ensuring alignment with net-zero targets.

Valuation: Enhancing property valuation processes by incorporating sustainability performance metrics, which reflect both operational and embodied carbon impacts.

Supply Chain Management: Encouraging sustainable procurement practices by setting clear expectations for materials and processes used in construction and refurbishment.

Operational Efficiency: Guiding asset management practices to optimize energy efficiency, reduce emissions, and improve resource use.

These additional use cases highlight the potential for the taxonomy to influence a wider range of real estate activities, driving sustainability throughout the property lifecycle.

c. How does each use case identified link to the stated goals?

No response

d. Under these or other use cases, which types of organisations could benefit from a UK Taxonomy?

The value of a UK Taxonomy lies less in benefiting specific types of organizations and more in its ability to drive the right allocation of capital into transitional strategies and prevent greenwashing.

Organisations that could particularly benefit include those who recognize the need for such a framework but are not yet engaging with the EU Taxonomy. A UK Taxonomy could provide these organizations with a structured approach to align with sustainability objectives and track progress.

Real estate finance/ debt may need its own consideration.

However, a potential drawback is that a UK Taxonomy might add complexity for international investors already managing multiple taxonomies. This could create challenges for aligning global investment strategies and potentially reduce capital flows into the UK. To address this, ensuring alignment and interoperability with existing international frameworks will be critical.

e. **For each use case identified, do respondents have any concerns or views on the practical challenges?**

One of the key challenges identified for making the taxonomy applicable to real estate is the need for close coordination to effectively manage the complexity of different use cases. It is essential to reduce the variation across various schemes and avoid the duplication of reporting requirements, which could lead to inefficiencies and increased administrative burden. Streamlining these processes will be critical to ensuring smooth adoption and practical implementation within the real estate sector.

f. **What is the role for government within each use case identified, if any (i.e. to provide oversight, responsible for ongoing maintenance, implement legislation, including disclosure requirements)?**

Whether or not the UK Treasury progresses with the UK Green Taxonomy, we highlight the need for the government to legislate the mandatory sharing of real estate energy consumption data:

- Real estate funds invest in both residential and commercial buildings for the long-term. For this reason, they want properties to meet the highest viable standards now as it will cost more to upgrade them at a later date. In some cases, this can only be achieved if other stakeholders are encouraged to do the same. For example, house builders should continue to be encouraged to install solar panels, air source heat pumps and electric car chargers in new builds.

- There are significant data protection complexities for institutional landlords and operators in collecting energy data even where they can arrange access with the utility company and/or tenants/occupiers. This problem is going to be exacerbated with GHG Scope 3 requirements when data on indirect emissions will need to be collected such as tenant demise, embodied carbon across the life cycle and arguably associated transport emissions.

- While technological advances and data management platforms are improving, and there is increasing landlord and occupier collaboration and data sharing, plus increasing application of "green" leases in the commercial sector, there are still considerable data gaps.

- Ultimately, it is very difficult for a landlord to evict an occupier for not sharing their energy data, despite what may be in the lease. The importance of the UK Government mandating the sharing of real estate energy consumption data is set out in this Social Market Foundation commentary (https://www.smf.co.uk/commentary_podcasts/we-need-mandatory-sharing-of-real-estate-energy-consumption-data-in-the-uk/).

3. **Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.**

Further details are needed to assess its value. Two key questions are raised: the necessity of an additional taxonomy and how existing policy instruments would integrate with it. These concerns highlight the need for a clear understanding of how a UK Taxonomy would complement or enhance existing frameworks in driving transition planning and finance.

4. **How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?**

To evaluate the success of a UK Taxonomy in the real estate market, several key performance indicators (KPIs) were identified:

Market Adoption: Metrics such as investment activity, the number of aligned buildings, green property loans, and the proportion of institutional portfolios aligned.

Carbon Impact: Measurable carbon reductions, improvements in energy intensity, renewable energy adoption, and water consumption reduction.

Financial Performance: Indicators like pricing differentials, cost of capital, valuation impacts, and the speed of letting for aligned assets.

Implementation Effectiveness: Tracking the number of verifiers, assessment times, compliance costs, and data quality.

Market Transformation: Capital flow redirection, retrofit activity, innovation adoption, skills development, and supply chain adaptation.

Success is also viewed in terms of short, medium, and long-term progress, focusing on market adoption, carbon reductions, and capital flows. Ultimately, the effectiveness of the taxonomy will be determined by its impact on directing capital toward transition strategies and reducing greenwashing, in comparison with international peers.

Chapter 3

Box 3.A Questions for respondents

5. **There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?**

EU taxonomy alignment can be an important component in the investment due diligence and approval process. It also highlights the importance of considering not just UK-based companies, but also overseas capital (investors or firms) entering the UK, as they may already be familiar with sustainable taxonomies from other jurisdictions. This underscores the need for alignment between regional taxonomies to ensure consistency and facilitate decision-making across borders.

6. **In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.**

The importance of interoperability: Because most, or at least a significant percentage of, real estate investors and investment managers domiciled in the UK and elsewhere are global in their scope and operations, for a UK Taxonomy to add value, interoperability with other taxonomies is critically important. Interoperability between a UK Taxonomy and other taxonomies is most likely and straightforward when it is aligned as much as possible with, or improves on, other taxonomies. In this regard, the EU Taxonomy is probably the most useful to be aligned with from a UK commercial perspective. While alignment is important, however, where the EU or other taxonomies are not clear, additional guidance and clarity should be provided, for example to avoid the challenge of applying the EU taxonomy where EPC labels are not available.

Furthermore, interoperability would be facilitated by a UK Taxonomy that includes sector-specific guidance for real estate which is based on metrics developed by the real estate industry and already widely in use. Clearly the metrics that best meet this standard are the INREV SDDS (Standard Data Delivery Sheet), which is already widely adopted by real estate investors and investment managers in the UK, the EU, and much of Asia.

Aligning the UK taxonomy with existing frameworks, such as the EU taxonomy, would simplify investment processes. Consistent criteria, metrics, and terminology across taxonomies would reduce confusion and make cross-jurisdictional reporting more straightforward. The ideal scenario is for the UK taxonomy to mirror the EU taxonomy to ensure seamless integration for firms and investors already familiar with the EU system. However, respondents noted that they are not in a position to prioritise specific design features at this stage.

7.	Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?

The importance of clear definitions and criteria to ensure stakeholders understand the framework and its applications. Allowing transitional activities, such as improvements in high-emission sectors, is seen as crucial for addressing the complexity of sustainability transitions. Additionally, alignment with other global taxonomies is recommended for consistency. Some respondents also suggest that further evaluation is needed before forming a definitive opinion on the potential UK Taxonomy.

Box 3.B Questions for respondents

8.	What is the preferred scope of a UK Taxonomy in terms of sectors?

As per question 1, without further insight surrounding understanding of the Treasuries objectives regarding the UK Taxonomy, the UK taxonomy would not be welcome. The hassle, cost and confusion it would create to the many firms already grappling with the EU taxonomy would not justify any benefits that might arise for others.

Example pushback can be found in the second half of the response to this question.

However, if the Treasury decide the UK Taxonomy is required, it would be welcome provided that it is:

a) a significantly stripped-down and simplified version of the EU taxonomy, such as would be an easier instrument for smaller, UK-only businesses to work with, and for UK rules and regulations for which full international alignment is not critical to link to; and

b) developed with a sufficient degree of sector-specific understanding and insight (specifically, from our perspective, to recognise that real estate definitions and metrics generally need to operate at an asset and portfolio level rather than at a corporate level).

Another crucial question is whether treasury has considered splitting out debt from equity. This would be beneficial because finance require a different lens to be most effective.

9.	What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?

Our working group highlight several key environmental objectives for a UK taxonomy in the property sector that should be considered, including:

Climate Change Mitigation: Critical for aligning with net-zero targets, measuring energy performance, and reducing carbon emissions.

Climate Adaptation: Important due to growing physical climate risks, insurance implications, and the need for asset resilience.

Circular Economy: Focused on waste reduction, materials specifications, and adaptable designs.

Pollution Prevention and Control: Relevant for issues such as indoor air quality, construction impacts, and environmental effects.

Water Resources: Addressing water efficiency, flood risk, sustainable drainage, and greywater recycling.

Additional property-specific objectives include biodiversity net gain, health and wellbeing, community impact, heritage preservation, and smart building integration. The responses also indicate alignment with the EU Taxonomy, particularly in climate change mitigation, adaptation, and pollution control, with overlap in areas like biodiversity and pollution prevention. One respondent suggests reviewing the EU Taxonomy's objectives for relevance and completeness.

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10. When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?

Within the real estate sector, we recognise the need for best practice reporting principles that are supported by the government & considered should a UK Taxonomy be released:

- enable consistent, transparent, and comparable reporting and disclosure for real estate portfolios and covering all real estate asset classes; and
- are aligned with International Sustainability Standards Board (ISSB) guidelines and FCA Policy Statement 23/16 (Sustainability Disclosure Requirements (SDR) and investment labels).

In the context of our discussion with the FCA, we have developed principles – updated in January 2025 - aimed to facilitate consistency of disclosures, and are delighted that the Transition Plan Taskforce (TPT) have referenced the 12th January 2024 version in the TPT's Guidance for Asset Owners and Asset Managers. The TPT Guidance is accessible via the IFRS 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

Example metrics for evaluating sustainability in real estate across different categories can be seen below:

Climate Mitigation Metrics: Focus on operational energy use, renewable energy generation, carbon emissions, and carbon reduction targets.

Climate Adaptation Metrics: Emphasize risk assessments like flood and overheating risks, as well as adaptation measures such as green infrastructure and storm resilience.

Resource Efficiency Metrics: Include recycled content, water consumption, and waste diversion, along with water stress assessments.

Implementation Metrics: Concern data accuracy, verification, tenant engagement, and compliance with green leases and supply chain standards.

The key principles stress the importance of measurable, verifiable, and cost-effective metrics aligned with international standards to drive genuine improvements. Additionally, there is a suggestion to integrate other industry standards like Biodiversity Net Gain and UK Net Zero Carbon Building Standards.

11. What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative).

AREF would like to understand this question further with the UK Treasury before response.

12. What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?

In the event the UK Taxonomy is taken forward; the working group emphasized the importance of the 'Do No Significant Harm' (DNSH) principle in ensuring that investments perform well across all sustainability aspects. For DNSH to be applied consistently, clear definitions are essential. Additionally, there is a suggestion that the principle should align with existing frameworks from other jurisdictions, such as the EU. One respondent highlights the challenges of applying DNSH and seeks insights from those with experience in the EU or other regions with similar frameworks.

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.

Should the UK Taxonomy be implemented; the working group generally agree with the idea of regular updates to a UK Taxonomy, potentially every three years, but there is some uncertainty. While several respondents confirm the need for updates, they note the difficulty in providing a definitive answer without seeing the full details of the taxonomy. One respondent raises concerns about balancing a responsive framework with the need for long-term certainty, suggesting that both aspects should be carefully considered.

a. Do you agree with this regularity?

No response

b. Would this pose any practical challenges to users of a UK Taxonomy?

There is concern that the administrative requirements surrounding the reporting, particularly given the quanta of sustainability reporting now required, distracts from the actual implementation of strategies.

c. Would this timeframe be appropriate for transition plans?

No response

14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

AREF suggests that self-reporting, along with integrating reporting into existing frameworks such as ISSB and SDR, could help reduce the administrative burden. Expert groups should be involved in informing updates to ensure expertise is incorporated into the process. One response also indicates that further consideration is needed regarding the governance and oversight arrangements for ongoing maintenance and updates.