

Sustainable living:

What financing challenges do we face?



Over the coming years, the transition to a more sustainable society will pose many challenges. To meet climate targets, Belgium's existing and ageing housing stock will require energy-efficient renovations on a massive scale. As a result, individuals, businesses and the government will need to invest heavily in the energy transition. Yet not everyone has the resources to fund this energy expenditure. Lending will therefore play a crucial role in the success of the climate transition, by developing specific and adapted credit formulas for households, in dialogue with the government.

The financial sector estimates that at least **€400 billion** will be needed to make Belgium's private housing stock fossil fuel free by 2050. This requires huge financial resources, which not all households can afford. Based on a joint analysis of seven banks (representing more than 80% of the banking sector), we were able to distinguish **four categories of households**¹.

This showed that around 21% of the population has neither sufficient own funds nor sufficient repayment capacity to take out a loan for the necessary renovations.

This is a major challenge that requires open dialogue between the government and the financial sector to actively work together to develop government instruments and adapted financial products that can overcome these constraints.

But everything starts with raising awareness on a large scale of the need of these energy-saving renovations to our existing housing stock. Because even those who can finance them, need to be convinced of this. After all, it

is necessary to increase the pace of renovation if we want to meet the 2050 target. A massive renovation wave within 10 or 15 years time will only lead to scarcity of building materials (and thus higher prices), manpower and financing. The only way to improve the energy performance of our housing stock is to proceed gradually and take action now.

The **energy performance certificate (EPC)** will play **a key role** in this energy transition. After all, data on the energy efficiency of homes in the form of EPC scores, and access to these data, are necessary for the proper functioning of credit markets and for funding the climate transition. The quality of the EPC thus needs to be improved. Access by lenders to the **databases** of the three regions must also be regulated by law.

This will enable lenders to explain the EPC to households, guide them through it and provide the necessary information on the measures available to support them.

To ensure that this transition is successful and on schedule, **Febelfin has developed several proposals** to promote energy-efficient renovations and their financing. We would also like to mention that the European 'Life BE FREE' project offers a unique opportunity to facilitate specific financing solutions.

This project shows that only by working together can we keep the economy moving and secure our prosperity and our planet for the future.

Read all about it in the brochure.

¹For a detailed description of these categories, see the first chapter 'Some figures at a glance'

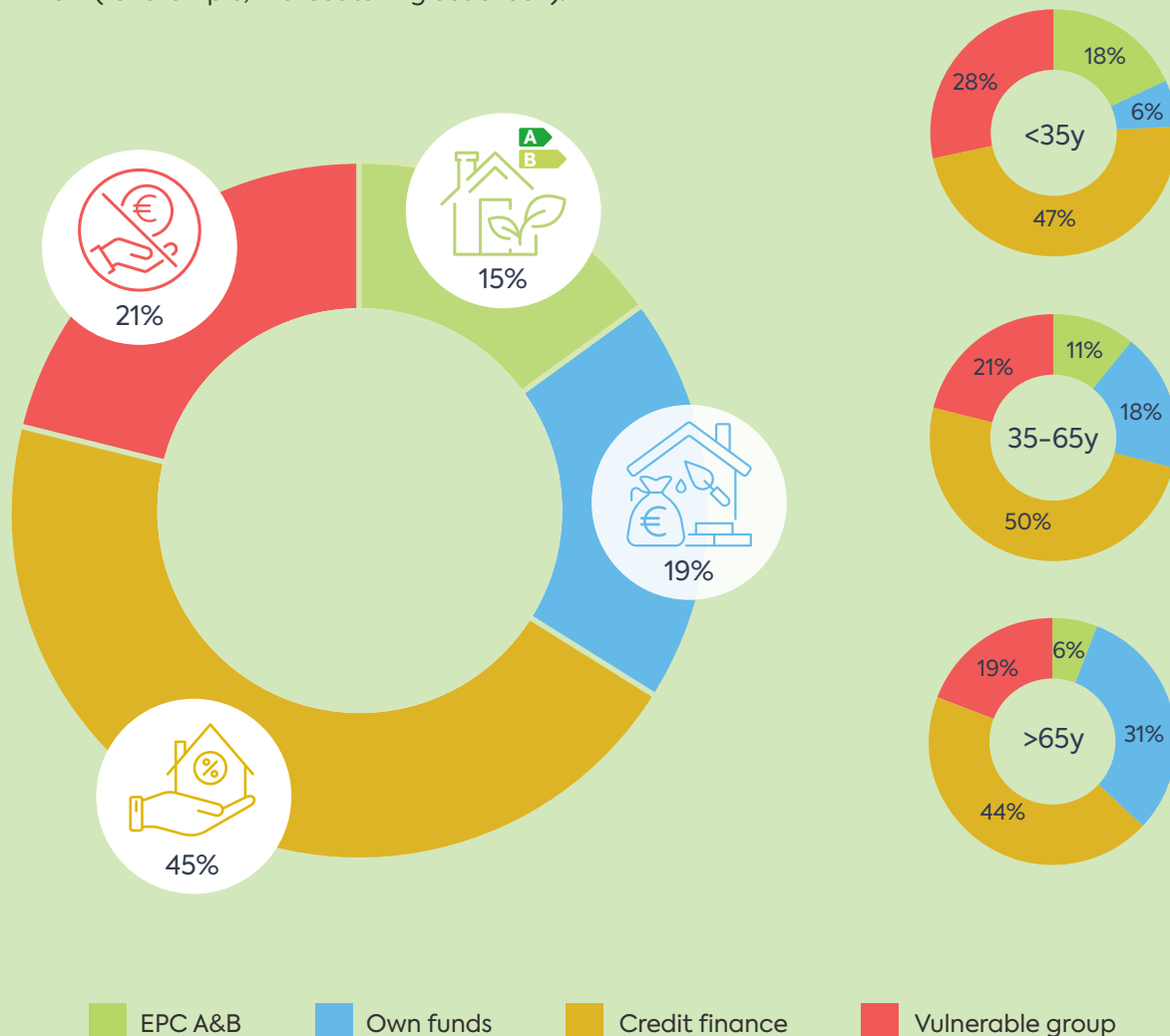


SOME FIGURES AT A GLANCE

Various studies show that at least an estimated **€400 billion will be needed to make Belgium's private housing stock fossil fuel free by 2050**. This is a huge amount that will need to be released over the next 25 years.

Febelfin conducted an analysis in this context **based on data from a number of banks** (representing more than 80% of the banking sector), which collectively ensure sufficient market representativeness. This analysis shows **four distinct categories**:

- **Category 1:** 15% of the population already has a home with energy label A or B (based on Flemish standards).
- **Category 2:** 19% of the population generally has sufficient own funds to do the necessary work (for example, without taking out a loan).
- **Category 3:** 45% of the population (excluding those with sufficient own funds) are sufficiently creditworthy to finance the work concerned through a loan.
- **Category 4:** around 21% of the population has neither sufficient own funds nor repayment capacity to take out a loan for the necessary work.



As we can distinguish different categories of households, each with their own characteristics and needs, different approaches will have to be developed for each category to achieve the renovation target.

Category 1 (15% of the population)



This category requires no further explanation because the **targets for meeting the climate goals are already being met**. However, it should not be forgotten that the recent European Directive of 24 April 2024 “on the energy performance of buildings” stipulates that houses labelled “A” will have to be “fossil-free” by 2050.

Category 2 (19% of the population)



This group generally **has sufficient own funds (including savings)** to cover the estimated average investment of €80,000 for energy renovations. This does not rule out the possibility that some of these households will still use credit to finance the work (for example, because they want to maintain their savings buffer). For this group, raising awareness and understanding is key to encouraging them to make the necessary investments.

In fact, a study by De Nederlandsche Bank of 8 February 2022 on ‘Financing for sustainability upgrades to the housing stock’ shows that only a very small percentage of the group with sufficient own funds would ultimately be willing to use most or part of them for energy-efficient renovations.

Category 3 (45% of the population)



This category includes the population with **insufficient own funds (including savings) but sufficient creditworthiness** to take out a loan to finance the renovations. The financial sector will not have a problem meeting the financing needs of this group if the work to be done is sufficiently spread over the next **25 years** (until 2050). Again, it is clear that all stakeholders, especially the government, will have to make an **effort to raise awareness**.

Category 4 (21% of the population)



This last category refers to the **population that has neither own funds nor sufficient repayment capacity** to repay a loan. Although our own analysis shows that the proportion of this group is lower than in Professor Albrecht's Itinera 2020 analysis (i.e. around 20–25% compared to around 40%), this is still a significant proportion of the population unable to afford the necessary renovations. **Viable solutions** for these households should therefore be sought **in consultation with the regional and federal authorities**.

Everything starts with raising awareness and understanding

Raising awareness and understanding are key to this transition. First, this means raising the awareness of the population group with sufficient own funds, and thus also the understanding of 'sitting owners', i.e. owners who have lived in their homes for many years and do not immediately consider it necessary to carry out energy-efficient renovations. Second, it is also crucial to **raise awareness among the group** that will have to take out loans to finance the renovations, in order to convince them not to wait any longer.

Furthermore, it is essential to increase understanding of the need to secure the future of our children and our planet by reducing CO₂ emissions and ensuring a liveable environment. An adapted regulatory framework can help to provide the necessary incentives – through rewards or penalties – to switch to energy-efficient devices and green energy.

Crucially, in accordance with the obligations of the recent European Directive of 24 April 2024 "on the energy performance of buildings", the government should offer **as specific an evolutionary path as possible**, with **clear milestones** that every home will have to comply with, in order to allow sufficient time for the population to prepare for it.

The energy performance certificate for improved understanding

The energy performance certificate (EPC) can also help improve understanding of the short- and long-term renovations to be carried out. After all, to measure is to know, and an EPC that includes recommendations for improving the energy performance of a home can help convince the homeowners to start making the necessary energy investments.

To improve that understanding, we make the following proposals:

- The current obligation to have a valid EPC (up to 10 years old) when selling or renting a home should be extended to an **obligation to have an EPC for all houses and apartments** (including for 'sitting' owners). The Brussels Capital Region recently implemented this.
- Introducing an EPC for the entire apartment building (as is already the case in Flanders) would also be useful in this respect. Both could then be used together, and could give rise to obligations on all co-owners to take action within a certain time frame.
- To reduce the cost of an EPC for lower-income households, a concession from the regional government can be made available, possibly through European Investment Bank (EIB) or European Investment Fund (EIF) funding programmes.
- An objective EPC score is also recommended for large commercial properties as a measure of this type of property's energy efficiency.



Lending as key to the transition: improving quality and access to the EPC

It is evident that the energy performance certificate (EPC) will play a key role in the energy transition. After all, data on the energy efficiency of homes in the form of EPC scores, and access to these data, are necessary for the proper functioning of credit markets and funding the climate transition. First, the quality of the EPC thus needs to be improved. Care must be taken to ensure that the EPC certificate can be regarded with confidence as a reliable reflection of the EPC value of the home concerned. The regional authorities are working hard on this through training, refresher courses, inspections, and so on, but a more rigorous approach seems appropriate to improve the quality of the EPC. There is still room for improvement in this regard.

Access to EPC data is also particularly important for lenders. Lenders need to have direct and automated access to the regions' EPC databases to play their full role in a loan application for the purchase or renovation of a home.

The **relevance of the EPC will continue to grow** (for obtaining incentives, grants and attractive loan terms), and it is therefore necessary for lenders to be confident that they have the correct information, directly from the authentic source, **without the risk of error or fraud**. This enables them to provide their customers with accurate information, such as about the recommendations included and the estimated financing costs.

It must also be ensured that lenders **can keep this information in their internal files throughout the term of the loan** and can also **use it in their reporting to supervisory and European authorities**, so that this access does not remain a dead letter.



Other proposals to encourage energy-efficient renovations and their financing

Apart from the proposals relating to the EPC, the sector is also making several other specific proposals for regulatory changes to make it easier for households to carry out energy renovations:

- A first proposal is to **re-introduce and extend mortgage registration from 30 to 40 years**, allowing borrowers to avoid fees.
- Second, we also want to propose **making it simpler to carry out energy renovations**

in apartment buildings. This often involves a complex renovation in which owners with different interests need to reach consensus.

- **Extending the maximum time allowed to repay certain consumer loan instalments** may also be considered. This would allow consumers to enjoy a quicker return on their energy renovations.

Special focus on financing solutions for households with insufficient repayment capacity

Providing the necessary financing solutions for those households that do not have their own funds (including savings) or adequate repayment capacity to take out a loan will be a major challenge. The government needs to work out specific solutions for them, where possible in consultation with the banking sector.

Involving this group in the overall project for the energy-efficient renovation of homes requires a comprehensive approach in which **all players are part of the solution**, i.e. both commercial

lenders and recognised social credit institutions, whose role can be upgraded (reintroduction of the guarantee for bank financing, rolling fund, etc.), government bodies such as the Flemish Housing Fund, and so on.

In this way, the necessary tools can be developed to overcome the constraints these households face. A modified form of grants and guarantees are ways to explore this and will be fleshed out through Life BE FREE.

‘Life BE FREE’ project: a unique opportunity to enable specific financing solutions

Along with five other partners (Embuild, VVSG, Wattson, The Shift and Idea Consult), Febelfin has submitted a project to the European Commission to create a **permanent structure of round tables focused on finding financing solutions for the energy-efficient renovation of homes**. The European Commission has approved this project and agreed to subsidise it for three years to get it up and running.

The **Life BE FREE** project, which stands for **Belgian Financing Roundtables on Energy Efficiency**, started in October 2023 and will run for three years. After that, the project is expected to continue for at least another two years under its own funding.

There will be at least two national round tables per year, the first of which took place in February 2024 with the second scheduled for November 2024. Thematic round tables focusing on specific issues will pursue financing solutions for specific segments or situations, such as apartments (co-ownership), landlords, neighbourhood renovation, and more.

Three specific issues were prioritised at the February round table:

- Apartment renovations and the role of the co-owners’ association need to be more flexible;
- EPC certificates;
- Review of allowances and incentives by governments (with room for the mobility budget);
- etc.

All stakeholders are involved in this: governments, politicians, administrations, civic organisations, academics, research centres, civil society, and so on.



CONCLUSION

The banking sector is committed to taking all the initiatives needed to help facilitate this necessary energy transition. It aims not only to play a significant facilitating role, in particular by granting loans for green projects, but also to inform consumers thoroughly by providing clarification and guidance.

Special attention will also be paid to the category of households that have neither sufficient own funds (including savings) nor sufficient repayment capacity. The banking

sector intends to work closely with the government to find specific solutions for this category.

The European 'Life BE FREE' project fits seamlessly into this objective, offering a unique opportunity to jointly develop specific financing solutions in this context. By joining hands with all stakeholders, we are confident that we can make this energy transition a reality by 2050. Together, we can keep the economy moving and secure our prosperity and our planet for the future.





Belgian Financial Sector Federation

www.febelfin.be