



12 August 2020

**Re: Need for grants which do not constitute state aid or add to public deficit for a successful renovation wave**

Dear Madam/Sir,

The European Union is facing the biggest challenges of its existence with finding a European solution for a climate action, managing the socio-economic repercussions of the Coronavirus pandemic, and strengthening the social balance within the member states. Regarding the climate action, the European Union has set itself the ambitious goal to become a climate-neutral society by 2050. However, the energy-saving measures required to meet this objective, e.g. the doubling or tripling of renovation rates of buildings in the EU by means of the renovation wave, must clearly focus on the economic and social capacity of the citizens, if we want to preserve an economically flourishing, socially coherent, democratic Europe that acts in solidarity.

In order to manage the effects of the renovation wave in Europe in a way that can be shouldered by the people and in order to lead them on the way towards a climate-action oriented renewal of society, and in order to lead them on the way towards a climate-action oriented renewal of society, we ask the European Commission to ensure that dedicated funding which does not constitute state aid or add to public deficit is available for the energy renovation of housing and the use of renewable energy.

These are our reasons:

The EU Commission does not want to leave anyone behind with the Green Deal and simultaneously wants to increase the energy renovation rate significantly by means of the renovation wave. By introducing the Recovery Fund and the Just Transition Fund, the EU wants to support Member States in tackling the effects of the Coronavirus crisis and rebuilding the European economy in a green way. A part of the funds is to go to energy renovation of buildings, in particular in the energy renovation of apartments, where households of low and medium income live.

We welcome this European initiative and want to contribute to the success of European climate action. This is why we need to consider that while energy renovation of the building stock brings multiple co-benefits including reduced green-house gas emissions, increased indoor comfort and better neighbourhoods, avoidance of health problems caused by cold or over-heated homes and generates local economic activity and employment, it is very cost-intensive with savings in energy costs in relation to the investments varying depending on the local conditions of the building before works, the cost of labour & materials etc. The co-benefits are not reflected in the balance sheet of the housing provider making the investment, but on a societal level

In EU Member States, where rent increase after renovation are not possible, tight budgets mean that energy renovation may be carried out at the expense of necessary construction in this housing sector, which experiences growing and non-acceptable waiting lists for affordable apartments. In



other European states, tenants must pay significantly higher housing costs after energy-saving renovations.

Housing cost neutrality (entailing rents, energy and operating costs and local taxes) should be the main principle of the EU Green Deal.

As renovation costs can be passed on to the tenants in most European Member states, renovation can contribute to the displacement of residents if the rent increase after energy renovation is higher than the saving of energy costs. Affordability in energy renovation means for tenants that rent increases are fully balanced by energy-savings and grants, since otherwise, the burden of housing costs would become excessive. Affordability in energy renovation means for property owners that investments in higher energy efficiency must not lead to economic losses, considering the limited solvency of the tenants. The model of housing cost neutrality thus combines social and climate goals. The social housing sector stands by the objective: "no renovictions, no gentrification".

Funded energy renovations should be planned and conducted in an open and transparent participation process including tenants and inhabitants.

A higher number of buildings could be renovated if the gap between affordability of housing and the financing of climate protection measures was closed by public funding. For this, housing companies primarily need direct grants.

Grants help housing companies to balance out the uneconomical part of the investment. They reduce the acquisition costs of the investment on balance sheet and therefore have an equity increasing effect in the long term (by reducing future depreciations). Another advantage is that they offer a better financing option, because less capital needs to be loaned. This generally leads to better credit terms, which means that the economic efficiency of the measure can be ensured in the overall package of measures (grants and low-interest loans). These grants have a direct effect on the tenants with their rents increasing less and a gross-rent neutral renovation as the result to be aimed at.

If these grants fall under state aid law or are classed as on-balance sheet lending, however, their effect for the housing industry will not be sufficient to guarantee affordable housing. The renovation rate cannot be increased this way<sup>1</sup>.

Public funding for energy-efficient renovation of public, affordable housing, social housing and housing in the affordable segment, e.g. of co-operatives, is insufficient. This weakens tenants of low and medium income further and intensifies energy poverty of a group that is already vulnerable. The focus of public financing should therefore be prioritised for this sector as the part of the housing sector which shows commitment to advancing socially inclusive energy renovation, respecting cost neutrality in projects such as those highlighted in <sup>2</sup>The European Responsible Housing Initiative.

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<sup>1</sup> We refer in this context to our comments in the consultation on the proposed changes of the General Block Exemption Regulation (HT.5224 – submission from GdW Housing Germany).

<sup>2</sup> <https://www.responsiblehousing.eu/>.



Where public grants for energy modernisation of rented apartments are accessed in the private rental sector they must be used in their entirety to respect the commitment to housing cost neutrality.

We would appreciate if these concerns of public, cooperative and social housing owners and tenants were considered in the announcement of the renovation wave as well as in the concrete design of the Recovery Fund and the Just Transition Fund.

We also suggest a "Renovation Wave Summit" with all important players in October of this year and will gladly support you in holding this important conference.

Kind regards

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