

Press release

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EU Taxonomy: maintain ambition, facilitate application in real estate business

Suggestions to improve the usability of the Climate Delegated Act

In a joint white paper, the Association of German Pfandbrief Banks (vdp) and the Energy Efficient Mortgages Hub Netherlands (EEM NL Hub) call for a pragmatic revision of the rules pertaining to real estate in the EU Taxonomy Climate Delegated Act. Both organisations support maintaining climate change mitigation as environmental objective, yet at the same time propose a more practice-oriented section of the EU Taxonomy in respect of the criteria relating to Construction and Real Estate. They propose seven adjustments that would simplify the criteria of the Climate Delegated Act, align them with national energy efficiency and building requirements, and so make it easier to designate the financing of energy efficient buildings, building renovations and new constructions throughout Europe as sustainable.

“Ambitious climate targets can only be met by ensuring practical applicability,” Sabrina Miehs, Head of Sustainable Finance at the vdp, pointed out. “To be able to channel capital flows into sustainable projects, the regulatory framework for credit institutions, investors and customers needs to be comprehensible and implementable.”

“This joint initiative sees itself as a constructive contribution to the on-going review of the EU Taxonomy. Far from being a step backwards, simplified and clearer rules, that consider data availability and data governance considerations, are a prerequisite for achieving the climate ambitions of the EU Taxonomy,” Vincent Mahieu, one of the founders of the EEM NL Hub, emphasised.

Practical implementation, not regulatory overload

The white paper is based on experience gathered by leading credit institutions from Germany and the Netherlands that together represent around one third of the European mortgage market. As the white paper demonstrates, the current technical criteria of the EU Taxonomy are often difficult to apply to real estate finance in practice. They give rise to uncertainty and impose disproportionate demands, since many provisions are not embedded in national legislation and cannot be demonstrated for individual properties. This makes it particularly challenging to develop financial products aligned with EU Taxonomy for homeowners.

The seven concrete proposals put forward by the vdp and EEM NL Hub are as follows:

1: Align Taxonomy criteria with national EPBD implementation requirements

Observation:

The Climate Delegated Act provides for more stringent energy efficiency values than national standards as implemented under the Energy Performance Buildings Directive (EPBD). The result is legal uncertainty, double regulation and a lack of practicality.

Solution:

The national implementations of the EPBD ought to suffice for EU Taxonomy compliance. An additional tightening by 10% should only be anchored as an option.

2: Update renovation criteria to promote renovation of buildings

Observation:

Even if the Taxonomy criteria for renovation are met in their entirety but the building (unit) does not achieve a high energy-efficiency level after renovation, only a fraction of the loan and not the entire financing of the building (unit) can be classified as EU Taxonomy-aligned. This provides a clear incentive to prioritise buildings that are already relatively energy efficient and only need a small improvement to become EU Taxonomy-aligned.

Solution:

Criteria are needed that promote the renovation of buildings that are currently classified as inefficient (energy classes D-G) and where a renovation might not immediately result in the highest energy class. Under the defined requirements for energy-efficient renovations, the entire property financing should be recognised as EU Taxonomy-compliant for the economic activity “renovation of existing buildings” if certain conditions are met.

3: Simplify renovation criteria, make them more (finance) user-friendly

Observation:

The current requirements under the EU Taxonomy for renovation activities are too technocratic and difficult to verify. Moreover, they prevent certain renovation measures. Loans must be split into different parts so that at least partial amounts can be recognised as EU Taxonomy-aligned.

Solution:

Clear and measurable criteria should be introduced (for example, by way of one of the following requirements: improvement by at least two energy label classes, a reduction of 30% primary energy demand without the need to disregard renewables, or several elements as recommended in a renovation passport). Regarding financing, EU Taxonomy conformity should not apply only to partial amounts, but to the entire renovation loan.

4: Streamline the DNSH criteria to allow for a flexible approach

Observation:

The “do no significant harm” (DNSH) criteria, which are intended to ensure that economic activities do not significantly harm any of the six EU environmental objectives, are excessively complex and out of proportion, especially for small renovation loans. Moreover, in many cases it is impossible to verify or demonstrate compliance on individual economic activity level.

Solution:

Introduce the option to report on the DNSH criteria as observation criteria but not as a requirement for EU Taxonomy-alignment. Only the climate risk assessment could be considered to remain mandatory provided the criteria are easily verifiable in practice.

5: Improve guidance and transparency of regulatory process to avoid uncertainty

Observation:

Frequent and contradictory communications from the European Commission give rise to confusion, room for interpretation and legal uncertainty.

Solution:

It would seem appropriate to introduce a formal consultation procedure with fixed deadlines, public participation by relevant stakeholders, and a clear-cut demarcation of responsibilities.

6: Address data availability and GDPR barriers to allow financial institutions to use property-level data

Observation:

The lack of widespread data availability and lack of clarity and consistency in data protection rules prevents the use of energy- and building-related data. This renders ESG reporting more difficult and reduces transparency but even more importantly, prevents market actors from collecting property related information to create tailored advice to consumers and develop innovative customer propositions.

Solution:

A legal basis is needed that enables credit institutions (and other market actors) to access and use property-level data both for reporting and customer advisory purposes. The General Data Protection Regulation (GDPR) Article 6 (c),(e),(f) ought to apply as a permissive rule regarding sustainability and climate adaptation data.

7: Clarify the application of minimum safeguards to ensure proportionality

Observation:

No differentiation is made between the minimum safeguards for residential and commercial property loans. This results in pointless verification duties and needless bureaucracy. Social standards are regulated at the national level in any case.

Solution:

Mortgage loans to private individuals and SMEs ought to be exempted from minimum safeguard checks. With regard to loans for commercial properties, compliance should be assumed as long as there are no violations.

The complete white paper on the suggestions for the update of the EU Taxonomy, drawn up jointly by the vdp and EEM NL Hub, is available [here](#).

About the Association of German Pfandbrief Banks (vdp)

The Association of German Pfandbrief Banks is one of the five associations that make up the German Banking Industry Committee. It represents the sector's most important providers of financing for residential and commercial property construction, governments and public-sector institutions.

About the Energy Efficient Mortgages Hub Netherlands (EEM NL Hub)

The Energy Efficient Mortgages NL Hub (EEM NL Hub) is an initiative from a diverse group of stakeholders in the Dutch residential housing and mortgage market such as lenders, investors, service providers and other institutions. The members of the EEM NL Hub have committed to supporting and promoting the acceleration and adaptation of energy efficient housing in the Netherlands and the financing thereof.

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