

A Renovation Wave for Europe: Energy Efficiency for Whom?¹

The European Commission proposal for the Renovation Wave Strategy aims to trigger massive public and private buildings renovation in Europe to improve energy performance and thus contribute toward achieving climate neutrality.

For FEANTSA (the European Federation of National Organizations Working with the Homeless) this initiative could provide an opportunity to support lowest-income groups in the energy transition and in doing so address housing exclusion. However, in its current form, the strategy does not clearly establish the necessary instruments and safeguards to ensure this renovation wave will benefit lowest-income groups, address housing exclusion, and avoid becoming an instrument of urban segregation (gentrification).

Leaving no one behind requires explicitly recognising and addressing the social risks constituted by climate measures in the context of housing. The Renovation Wave must set up a regulatory and financial framework to 1) improve lowest-income groups' access to decent, affordable housing, including by directly addressing poor housing conditions 2) prevent the renovation wave from contributing to housing exclusion due to increased housing costs.

FEANTSA recommends the adoption of the following essential steps to deliver on the strategy's stated ambition of addressing energy poverty.

1. Secure targeted financing for hard-to-reach and at-risk households to ensure they benefit

The Strategy for a Renovation Wave underlines on several occasions the specific attention to be given to tackling energy poverty and worst-performing buildings but, beyond the narrative, the strategy does not yet propose ambitious tools or concrete action to address the well-known challenges.

The strategy asks Member States to consider energy poverty as a priority area for policy and funding and aptly describes the challenge. FEANTSA particularly welcomes the recognition that "Vulnerable households must be shielded from rent increases that may follow renovations. Offering blended loans and guarantees from public and private sources through one-stop shops may nurture trust in renovation and ensure certain quality requirements are met." The strategy should therefore propose an ambitious instrument such as an earmarking of funds for renovation that directly addresses the poor housing conditions of low-income households; for example in the form of a dedicated EU "cold homes" fund.

¹ Title borrowed from Prof. Grossman research on the impact of energy efficiency renovation on gentrification. Energy efficiency for whom? A conceptual view on retrofitting, residential segregation and the housing market, Prof. Katrin Grossman, July 2019
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Instead, the strategy relies mainly on existing funding that it aims to redirect towards renovation. It also claims the Renovation Wave could be financed under the MFF and the Recovery and Resilience Facility, still currently under negotiation, in particular it plans to ringfence 37% to be dedicated to climate action. It is yet to be seen, in real terms, what funding will be targeted to the most vulnerable and how the European Commission will support Member States in this prioritization. The current framework points mainly towards existing tools such as the requirement for Member States to use their National

Energy and Climate Plans and Long-Term Renovation Strategies to identify dwellings of people at risk of energy poverty and to develop effective strategies for renovating these.

Positively, the strategy proposes to increase the volume and impact of EU funding by providing more grants, technical assistance, project development support and loans, and making it possible to combine them where this was not possible in the past. FEANTSA stands ready to work with the European Commission for the funds to be targeted, as a priority, towards lowest-income and worst-housed groups and particularly welcomes the European Commission's commitment to examine whether and how the EU budget resources could be used alongside EU Emissions Trading System (EU ETS) revenues to fund national energy efficiency and savings schemes targeting lower-income population. The strategy must also clearly broaden its understanding of target groups beyond social housing to include energy poor households on the private rental market, also in rural areas, and poor property owners particularly in multi apartments buildings.

Last but not least, the strategy mentions the "low risk profile of energy efficiency investment" and proposes to expand the use of ESCOs and energy performance contracts, through the upcoming revision of the EED to make renovation affordable for all households, including those with a limited ability to cover upfront costs. This approach seems to miss out on the reality of ESCOs nature to recoup renovation costs and on lowest-income energy poor households, for which the renovation cannot be based on a "return on investment" approach. For part of the population, costs will not be recouped as energy savings will not necessarily be generated but living conditions improved. The renovation wave must be aware of this reality and actively address it through dedicated ringfenced public funding and support to Member States in this task.

2. Address the social risks attached to the establishment of mandatory minimum energy performance standards

The strategy announces a revision of the Energy Efficiency and the Energy Performance of Buildings Directives that will propose stronger obligation to have Energy Performance Certificates as well as the introduction of mandatory minimum energy performance standards (MEPS) for existing buildings.

The European Commission mentions that its 2021 proposal for MEPS will be accompanied by "support policies" but there is no more indication as to what they are and whom they will support, if and how they will provide support for poor households in this transition, and how they intend those MEPS not trigger rent increases.

FEANTSA argues that if the European Commission is to push for MEPS, it is to establish them necessarily hand in hand with safeguard mechanisms such as a funding that is conditional on

a commitment from Member States to set up strong social mechanisms (e.g. a ban of renoeviction, monitoring of rent increases, and establishment of rent caps after renovations). FEANTSA will work to ensure these safeguards are established and will monitor the compatibility of the Commission proposal for MEPS with the European Pillar of Social Rights principle 19 and the charter of fundamental rights article 34.

Improvement of the Energy Performance Certificates as well as the introduction of mandatory minimum energy performance standards could be of great benefit to people living in worst-performing building as well as lowest-income groups, but this change will only be a positive one if carefully crafted to benefit them.

3. Strengthen Recommendation on Energy Poverty

The European Commission proposes a Recommendation on energy poverty which recalls existing demands on Member States to address energy poverty and to develop targeted financial solutions for lower-income households, as well as access to essential services.

It is obviously a non-legally binding recommendation. The idea of a recommendation is a huge step forward to encourage member states to address energy poverty as a policy priority. It also establishes clearly (point 4) the need for a holistic approach toward energy and social policy, especially in housing. Point 5 justly underlines the need to assess the distributional effects of the energy transition, and to define and implement policies that address associated concerns. It also rightly emphasizes the need to provide due attention to dwellings in most need of renovation.

For FEANTSA, the European Commission and Member States must jointly address the two policy objectives of fighting energy poverty and tackling housing exclusion in the implementation of the Recommendation. It is imperative, both practically and socially, that some of the resources and energy mobilised by the Renovation Wave go directly and firstly to improving the housing conditions of those who fare worst on the housing market. This is in line with point 9 of the Recommendation, which affirms the need to target public funds towards low-income households that have very limited resources of their own and limited access to commercial loans.

Finally, it is important to note recital 11 and recommendation 1 on the liberalisation of energy markets. While the text states that market liberalization can enable benefit sharing across all sections of society, in practice this might not be the case. Member States should be sovereign to establish the necessary framework for such liberalization to remain fair for lowest-income groups. Such a position has no place in a recommendation supposed to address the issue of energy poverty.

4. Affordable Housing Initiative and Long-Term Vision for Rural Areas

These are new proposals that could prove to be positive steps, depending on their contents. The Affordable Housing Initiative will propose to pilot “100 lighthouse renovation districts in a smart neighbourhood approach” to guarantee that local social housing projects have access to necessary technical capacity. FEANTSA is looking forward to seeing the prioritization that will be given to lowest-income and worst-housed groups in this framework and how the district approach will address the potential risks of gentrification, so as to make sure it will leave no one behind. FEANTSA also recommends that this initiative goes beyond social housing in order to target greatest needs (e.g. to target an energy performant transition from shelter to Housing

First; or to reach homeowners living in damp, cold homes.)

FEANTSA is also ready to engage with the European Commission for the Long-Term Vision for Rural Areas to be a basis to respond to the challenge of shirking cities , to support large investments in development in rural areas , particularly for truly affordable, quality housing, in relation with a rethinking of territorial organization. Such a vision for Rural Areas should target housing- related challenges such as aging housing stock, substandard housing, and vacancy, and focus on the interdependence of housing markets with urban planning and employment.

5. Bauhaus: go back to the roots of a social movement

The strategy aims for the Renovation Wave to become a “forward-looking process” that will “match sustainability with style”. It proposes to launch the New European Bauhaus as an incubator for innovation and creativity aiming to drive sustainable design across Europe and beyond. Sadly, this approach totally misses out on the core idea of the original Bauhaus, which was based on a social approach, where art was to serve a social role. For its founding members, the Bauhaus was set out to so that art and architecture would better serve society. Unfortunately, this profound direction has been forgotten in the new Bauhaus narrative and must be restored.

6. Modernising the heating and cooling systems of buildings of lowest-income groups to address energy poverty

The chapter on “Modernising the heating and cooling systems of buildings” does not seem to include the need to particularly support lowest-income groups to also benefit from support, beyond building renovation, in accessing adequate energy efficient heating and cooling systems. FEANTSA argues the recognition of the challenge of heating and cooling systems of buildings should be backed by an appropriate financing of projects that support lowest-income groups change their heating systems or measures to prevent disconnection for households who struggle to pay their energy bills.

Conclusion

The Renovation Wave includes positive steps such as to increase the volume and impact of EU funding by providing more grants, technical assistance, project development support and loans, and making it possible to combine them where this was not possible in the past. Also positive is the European Commission's commitment to examine whether and how the EU budget resources could be used alongside EU Emissions Trading System (EU ETS) revenues to fund national energy efficiency and savings schemes targeting lower-income population. Finally, the strategy's proposal for technical assistance and standardised one-stop shops for delivering tailored advice and financing solutions designed to accompany homeowners or SMEs throughout the preparation and implementation of their projects is very constructive. Local actors and NGOs can build on this platform to create competence centres for various types of advice on sustainable renovation.

However, what the European Commission promises to work on or to encourage Member States to do is insufficient compared to what it commits to achieve (such as mandatory performance standards). There is an unbalanced set of objectives and associated tools.

What we know is that the European Commission will revise the Energy Efficiency and the Energy Performance of Buildings Directives in 2021 so as to propose the introduction of stronger obligation to have Energy Performance Certificates alongside a phased introduction of mandatory minimum energy performance standards for existing buildings. But what we do not know, is how will this be done so that no one is left behind? Who will pay the costs for those who cannot pay? Will they pay the costs through increased housing costs and gentrification? How will the European Commission ensure that those who are currently unable to access decent, affordable housing benefit from the renovation wave? If these questions remain unanswered, the Renovation Wave may increase the gap between the haves and have-nots when it comes to housing.

Amongst other things, the European Commission propose to promote tax breaks and other economic incentives to finance building renovation, but for whom? Will these mechanisms be used for public finance that enables the most excluded and lowest-income groups to benefit from the Renovation Wave?

There is clear evidence that energy performance gains of energy retrofit are often lower than expected (e.g. rebound effect) and consequently savings for reimbursement of investment (through for instance loans or on bill financing) are not a one size fits all solution. Some of the people who would benefit most from renovation will not generate significant savings but will be able to live in decent conditions. There is therefore an essential need for grants that will fund all renovation for lowest-income groups, with no rent increase afterwards. The European Commission strategy has not yet taken the necessary steps to ensure Member States will protect people from the potential backlash of the Renovation Wave. These steps could be:

1. PROVIDE ADEQUATE FUNDING

- Earmarking of European funding to invest into the renovation of worst-performing buildings and lowest-income groups inadequate housing.
- Establishment of a dedicated EU "cold homes" fund to publicly fund renovation of worst performing buildings and housing units of people in situations of energy poverty.

2. INVEST IN HOUSING AS A SOCIAL RIGHT

- Ensure a definition of "worst-performing buildings" that includes an understanding of housing and living conditions. Therefore target "worst-performing" housing including damp, cold, owner-occupied homes, Roma settlements, homeless shelters and other forms of inadequate housing. If the Renovation wave targeted these, it would deliver massive improvements in living conditions in an energy efficient way.

3. PREVENT GENTRIFICATION

- A clear call on Member States to monitor the impact of building renovations on rent increase and prevent these through, for instance, rent caps or interdictions of renovictions.
- Ensure a regulatory framework is set up, locally or nationally, to curtail soaring property prices and maintain the rent levels after renovation works.
- Ensure that the Renovation Wave will not support investment that would lead to further housing exclusion of low-income and vulnerable groups.

4. TARGET LOWEST-INCOME GROUPS IN THE PRIVATE SECTOR AS WELL AS IN SOCIAL HOUSING

- A clear call for Member States to address non-take up by deliberately reaching out to most excluded groups to support them in the necessary technical and financial steps toward building renovation for adequate living conditions e.g. develop incentive programmes, especially for poor households, through zero-interest loans and grants for renovating, outreach and targeting of poor households, partnership with social organisations working with people living in poor housing and facing energy poverty.
- Recommend the development of policies and financing tools that can help overcome the split incentive between landlords and tenants; as well as going beyond the presumption of energy savings e.g. to address the situation of people who are living in damp/cold housing.
- Revive the social component to the Bauhaus and ensure social justice is at the core of the new Bauhaus and renovation wave.
- Proactively design the 100 districts initiative so as to ensure renovations that benefit lowest-income groups and do not lead to gentrification. Ensure it will not only focus on social housing but also address the worst performing buildings on the private rental market.
- Following on the Court of Auditors Special Report on “Energy efficiency in buildings: greater focus on cost-effectiveness still needed,” recommend a targeting of the Renovation Wave financing, as a priority, into retrofitting of low-income cold homes with high potential to deliver warmer homes.

If it hopes to “leave no one behind” the Renovation Wave must be implemented in a way that actively targets firstly hard-to-reach and lowest-income households.