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Introduction

INREV acknowledges that the SFDR has contributed to greater ESG transparency and supports the Commission's view that its objectives remain relevant. At the same time, we recognise the challenges identified by the Commission, including implementation complexity, legal uncertainty, and data limitations. These issues are particularly pronounced in the real estate sector, where a more tailored approach would help ensure the regulation's effective application.

Clarification of the Definition of Sustainable Investment

There are persistent challenges in the real estate sector regarding the lack of clarity in the SFDR, particularly around the definition of 'sustainable investment'. INREV's [Sustainable Investment Principles](#) (2024) highlights that the current framework's provision for custom thresholds, places interpretative burdens on financial market participants, resulting in inconsistent practices, higher compliance costs, and reduced market comparability.

INREV supports the European Commission's efforts to simplify key concepts, introduce clearer and more structured categorisation of sustainable products, and promote investment in transitioning inefficient assets. We emphasise the need for thresholds and indicators that are tailored to reflect the diversity of SFDR products, data availability, investment strategies, and asset class characteristics.

We agree with the Platform on Sustainable Finance's proposal to introduce a new transition investment category under SFDR. This would recognise investments in assets with credible refurbishment plans (e.g., to reach EPC B or CRREM-aligned pathways), allow disclosures based on design or business-plan EPC ratings, and support time-bound improvement targets with transparent reporting.

This approach, aligned with real estate's unique characteristics and investment cycles, supports the EU's goal of achieving a fully decarbonised building stock by 2050, while recognising the fiduciary duties of market participants.

Principal Adverse Impacts (PAIs): Proportionality and Applicability for Real Estate

Current industry guidance has emphasised the need for practical application of PAIs in real estate, including adaptations for mixed-use assets and transition pathways. These evolving practices should ultimately align with emerging ESG reporting frameworks that offer standardised metrics and clear boundaries of scope and materiality, allowing for greater coherence across jurisdictions.

Considering that the Platform also highlights the challenges of implementing PAIs across all asset types, we recommend prioritising material indicators and ensuring proportionality by using relevant binding elements tailored to the sector's specific characteristics.

The Commission acknowledges issues linked to data availability and overlaps and inconsistencies with other parts of the sustainable finance framework. In real estate, this is especially evident in the application of PAIs, notably for energy performance and fossil fuel exposure. We reiterate the concerns about significant market confusion around defining fossil fuel exposure and addressing mixed-use assets. The [Aligning Real Estate Sustainability Indicators \(ARES\) White Paper](#) sets out a

proposed approach to address current ambiguities in key PAIs (including mandatory PAI 17, mandatory PAI 18, additional PAI 18 and additional PAI 19).

We reiterate the concerns raised in the INREV/AREF/IPF [SFDR Real Estate Solutions Paper](#) (2023), which presents targeted, sector-specific recommendations to enhance the SFDR's applicability to real estate. It highlights significant market confusion around defining fossil fuel exposure and addressing mixed-use assets. We recommend providing clear guidance for applying PAIs to complex real estate portfolios.

To improve comparability and support investor decision-making, INREV recommends harmonising EPC ratings and methodologies across EU Member States and the UK, in line with the revised EPBD, with a greater emphasis on operational performance. Where EPCs are not applicable, internationally recognised benchmarks such as ENERGY STAR and NABERS should be used. Clear guidance is also needed on acceptable metrics in such cases, both within and outside the EU. The definition of 'inefficient assets' should also evolve to account for transitional states, including alignment with EPC targets or CRREM stranding risks before 2035, or equivalent international standards.

Data Gaps and Access Barriers

INREV identifies persistent challenges in accessing reliable energy and emissions data within the real estate sector, largely due to lease structures, tenant privacy concerns, and infrastructure limitations. These issues result in significant operational costs and hinder the effective implementation of sustainability reporting.

Greater consistency can be achieved through standardised methodologies focused on asset-level performance, including whole-building data collection and harmonised intensity metrics.

A mandatory data-sharing obligation between tenants and landlords, similar to France's *Décret Tertiaire*, would enhance data quality and support the Commission's objective of reducing the ESG reporting burden. Additionally, data proxies—such as referencing the top 30% most energy-efficient local building stock—should be permissible when direct data is unavailable.

Furthermore, we highlight the mismatch between asset-level sustainability data and fund-level disclosure obligations. Clear guidance is needed to bridge this gap, including acceptable methods for aggregating or extrapolating asset data for fund-level SFDR reporting.

The interaction of SFDR and CSRD across various real estate ownership models remains unclear. Distinctions between directly held assets, REITs, operating companies, and asset-rich corporates create inconsistencies in data responsibilities and reporting obligations. It is particularly unclear whether CSRD-aligned disclosures from operating companies can be used to fulfil SFDR reporting requirements, and how to treat directly owned assets that fall below CSRD thresholds but are still subject to SFDR.

While CSRD mandates ESG reporting for private equity-owned companies, its impact is limited for directly held real estate unless ESRS standards are adapted to include real estate-specific metrics and establish a binding tenant–landlord data-sharing requirement.

Additionally, we raise the issue of compliance obligations for Non-Investor Vehicles within private equity real estate fund structures. These vehicles, which are not marketed to third-party investors, pose a practical question under the current framework. INREV recommends that SFDR disclosures should not be required for these vehicles, as compliance at the Investor Vehicle level already ensures full transparency for third-party investors.

Clearer guidance is needed to resolve these structural ambiguities and avoid imposing unnecessary compliance burdens on fund managers.

Do No Significant Harm (DNSH) and Embodied Carbon

In line with the Platform's proposal, INREV acknowledges the importance of DNSH and supports the use of performance-based indicators. This reinforces our call to treat embodied carbon and operational metrics as equally material in real estate, and to clarify DNSH expectations with sector-specific nuances. Assessment frameworks should place equal emphasis on operational and embodied emissions, with disclosure methodologies that reflect a building's full lifecycle impact.

In order to better reflect actual building performance and sustainability impact, future DNSH assessments should leverage the methodologies in the [Reporting Principles – ESG Metrics for Real Estate](#), which promote whole-building lifecycle emissions and normalised embodied carbon metrics for comparability.

Current SFDR interpretations overly favour operational carbon over embodied carbon, which risks incentivising new construction over refurbishment, which undermines climate goals. Considering that energy renovation of buildings is progressing too slowly, the Commission should actively promote energy efficient retrofits under the revised SFDR DNSH criteria.

We recommend that DG FISMA work with DG ENER on the newly launched Energy Efficiency Financing Coalition and its real estate workstream to mobilise private capital into retrofitting at scale.

INREV also stresses the importance of integrating embodied emissions into DNSH and emissions-related disclosure obligations, in line with the Commission's broader goals, including long-term sustainability, resilience, and the adaptability of existing real estate assets.

Additionally, we suggest limiting DNSH evaluations to mandatory PAIs or clearly defining non-mandatory ones to reduce subjectivity and greenwashing risks.

Transition to a Categorisation System

Following the ESMA's Guidelines on Fund Names, the industry is already moving toward de facto product categorisation, guiding a regulatory shift from a disclosure framework to a tiered classification structure. Where underpinned by consistent and transparent metrics, these emerging practices should inform regulatory developments. This approach is in line with the Platform's proposal to introduce three distinct categories (Sustainable, Transition, and ESG Collection) reflecting different levels of environmental and social ambition. We support this evolution as it better represents the real estate sector's spectrum of investment strategies compared to the current framework of disclosure under Articles 8 and 9.

Disclosures should be clear and easy to read for investors. We therefore advocate for an overhaul of SFDR to introduce a classification system that acknowledges pure sustainability, transition strategies, and ESG-aligned investments. This would improve comparability, reduce the risk of greenwashing, and better reflect the complexity of investment products.

To enable a smooth transition, we recommend that the current disclosure framework be phased out after a transitional period during which both systems could coexist. This would allow sufficient time for market participants to adapt and prevent confusion from two regimes co-existing indefinitely, while avoiding undue burdens and costs on existing firms.

Consideration should also be given to grandfathering certain types of funds from the new regime, for example, closed end funds that are no longer raising capital or open to new investors.

We also recommend removing a potential requirement for mandatory assurance reviews. Given the nature of alternative investment products and their institutional investor base, such reviews should remain optional and applied on an ad hoc basis depending on the characteristics of specific financial products.

Interoperability with other EU and international frameworks

INREV strongly supports the Commission's intention to enhance coherence within the sustainable finance framework and recommends full alignment across key regulations, including the EU Taxonomy and CSRD. SFDR should focus solely on financial product disclosures, with entity-level reporting removed from the new regime, as this is already addressed under CSRD.

INREV calls for interoperability between SFDR and international frameworks, stressing that this is not merely a technical enhancement but a policy necessity. Real estate managers face overlapping and inconsistent disclosure obligations across jurisdictions, leading to unnecessary complexity and administrative burden.

The Commission should explicitly recognise sector-specific and international standards (such as the UK's SDR and IFRS S1/S2). This would enable managers to reuse existing disclosures efficiently, while maintaining regulatory intent and sectoral relevance.

We call for technical and policy-level alignment, particularly around climate metrics, to ensure consistency across frameworks despite differences in materiality principles (double vs single materiality). Encouraging technical equivalence or mutual recognition would reduce reporting duplication for cross-border managers with the need for sector specific guidance across both.

Recognising Impact Investing in SFDR

The SFDR currently fails to adequately recognise impact investing as a distinct and legitimate investment strategy, focusing instead on asset characteristics like Taxonomy alignment and PAI indicators. This narrow approach overlooks core features of impact investing (such as intentionality, investor contribution, and impact measurement and management at both the asset and investor level), which are essential to achieving the EU's sustainability goals.

We recommend that SFDR adopt a principles-based recognition of impact strategies, setting minimum criteria for what qualifies as impact investing. This would support strategies that go beyond passive ownership of sustainable assets and actively seek to generate measurable positive change.

Formally recognising impact investing within SFDR would mobilise capital into high-impact areas, improve investor clarity and comparability, guard against greenwashing, and better align regulation with international standards and evolving market expectations.

Conclusion

INREV agrees with the Commission that targeted simplifications and adjustments are necessary to enhance SFDR's ability to meet its objectives. Our proposals aim to support simplification and necessary adjustments by providing a workable and effective framework for the real estate investment sector.