

***“Discovering the role of public and private financing to unlock home renovation market” with Juan Alario, former European Investment Bank Director***



Juan Alario is a world-leading expert in Energy and Energy Policies and a former Director at the European Investment Bank. He is “the father” of ELENA and many other programs designed at the European level. Juan holds a master’s degree in industrial engineering from Polytechnic University of Barcelona; a post-graduate studies degree in Energy Economics from Grenoble University, a Doctorate in Economic Sciences from Grenoble University and a post-graduate in Business Management & Planning from a Polytechnic University of Madrid.

**What are the main recent policy developments focusing on energy use in buildings in Europe?**

The EU has very ambitious objectives in relation to energy performance of buildings. The long term goal is to fully decarbonize European building stock by 2050. This is a very challenging target that would require massive amounts of investment, over 200 billion euros per year, according to the most recent studies<sup>1</sup>. The 2018 revision of the Energy Performance of Buildings Directive (EPBD) reinforces the policies foreseen in the previous versions of the legislation and strengthens the energy efficiency requirements for existing buildings. For instance, it will be necessary to increase building renovation rate from the current 1% to 3 %, with the aim to promote deep renovation. The EPBD also mentions *the importance of local action by regions and cities, as well as development of adapted finance to implement its objectives.*

**What are the trends in private residential building renovation in Europe?**

There are substantial differences between European countries when it comes to the level of residential building renovation ambition. Overall, I notice that an increasing number of countries and local authorities are developing initiatives to renovate homes at high energy efficiency standards. For instance, in France, national or local programmes, such as Energies Posit’IF or Picardie PASS, are promoting deep renovation, while in Ireland, Super Homes is offering financing assistance for holistic retrofits. A common feature of these initiatives is the delivery of both technical and financial support to homeowners. Many of these initiatives are also supported by the EU institutions, through technical assistance, in particular the ELENA programme, grants from the Structural and Cohesion funds and financing from the EIB. Overall, I’m seeing a faster development of the home renovation market in Europe with a trend towards deep renovation.

**What is the role of grants, subsidies, and financing in home and building renovation in Europe?**

Developing a successful building renovation program requires a combination of measures to overcome the significant barriers to the penetration of renewables and energy efficiency technologies. Homeowners require technical support to identify an effective mix of the investments to be carried out in a retrofit. Additionally, the availability and training of energy services professionals implementing these renovations is key. Moreover, a combination of positive incentives (grants or financing) and negative ones (energy taxes) is necessary. Among the positive incentives, in my view, grants and subsidies should be focused on supporting vulnerable groups in undertaking deep renovations with long pay back. The rest of the investment, should be supported with adapted

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<sup>1</sup> EU Commission, Impact assessment of the EPBD 2018



financing. Programmes can also take advantage of the existing grants by combining them with financing to reduce the cost of finance incurred by homeowners aiming at a high leverage between grants and investment mobilized. This approach would ensure an efficient use of the limited grants available.

### **What is the role of public and private financing in home and building renovation?**

There is sometimes confusion between grants and public financing. Public financing refers here to financing provided by public financial institutions, like the EIB and national public banks. The role of



**EuroPACE** is a three-year, European Commission-funded project designed to make home renovation easy, fast and reliable for all Europeans. EuroPACE contributes to the creation of resilient and vibrant communities that enjoy economic growth and healthy environments. The impact of EuroPACE goes far beyond energy savings. Each Euro invested in building renovations results in societal and economic benefits, including job creation and climate change abatement. The EuroPACE Consortium consists of 8 partners from 4 European countries: Spain, Italy, Poland and the UK. Below you can find a list of frequently asked questions about the EuroPACE program.

public banks varies across Europe. Many public banks have played a fundamental role in financing high energy efficient building renovation themselves or promoting such investments through private banks. The most impressive example is kfW programme in Germany designed to finance energy efficiency investments in new and existing residential buildings: it has financed 30 billion euros a year in 2016! In other countries I also note a substantial increase of financing for energy efficiency investment in building by public banks. Private financial institutions

are beginning to develop initiatives to financing energy efficiency in buildings.

### **How can EuroPACE help unlock the energy efficiency renovation market?**

EuroPACE is a new financial platform aimed to adapt the successful PACE financing model, pioneered in the US, to Europe. Under the EuroPACE Program, the financing for home renovation is attached to the property and not an individual and is repaid through a property-like tax, thus EuroPACE is often termed *on-tax financing*.

EuroPACE can speed up the developing the building renovation in Europe. It brings together adapted and competitive financing with technical advice to homeowners. Plus, EuroPACE financing can be combined with grants and subsidies. EuroPACE is well suited for renovations with a limited investment amount, which constitutes the majority of renovations. Once EuroPACE platform develops a substantial investment volume, similar to US PACE programs, it can tap directly into the financial markets, for instance, by issuing green bonds, and thus mobilize competitive private financing that can be offered to homeowners.

### **What would be a city's involvement in a typical EuroPACE program?**

Cities play a key role in developing the EuroPACE Program, mainly by providing a strong political support. They set the "public objective" of the Program by defining the ambition, in terms of the type of investments to be promoted. Program can focus not only on renovations that improve the energy performance of buildings, but also those focused on non-energy related renovations, such as accessibility, safety of the buildings or water savings. Typically, cities establish and collect EuroPACE payments through the relevant property-related tax and remit these payments to investors. Cities also support EuroPACE activities related to technical assistance to homeowners and to train energy services contractors performing the works. Most importantly, cities bring trust and credibility to citizens which is key to the success of the Program.

