

UPDATING NATIONAL RENOVATION STRATEGY TOGETHER

How to finance
deep renovation?

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WORKSHOP SUMMARY

The final Build Upon workshop was centered around the question of how to finance deep renovation activities in Finland. The day started with keynote presentations showcasing different finance tools for bettering the energy efficiency of buildings through renovation with highlight on Green Mortgage products and their development around Europe. The main questions were how energy efficiency renovations are seen by the financiers and how the building and construction sector could support the development of these products by bringing in their expertise in the subject field. The keynotes also touched upon the opportunities provided by the use of ESCO (Energy Service Company) and EPC (Energy Performance Contracting) models. The conversation continued with observations and remarks by selected experts who portrayed the situation in Finland regarding green finance tools, the future of renovation funding and the specific challenges faced here in Finland.

Widely discussed in the workshop was the fact there are very few energy efficiency related financial products available in Finland. The financiers are not able to provide such products with better conditions than their regular products due to the low overall interest rate. The very first products of this kind have also been seen as too complicated by their terms and demands. It was also mentioned in the discussion that Finland might be a too small of a market for such products to be prospective and profitable. However, the main barrier recognized by the workshop participants was that renovation and energy efficiency improvements do not result in an increase in the value of the building. This was mentioned to be a shared view from the perspectives of the house buyers and the financiers.

The biggest challenge for the financial organisations, based on the views of the workshop participants, seemed to be the low price of energy in Finland as this means that the savings created by the energy efficiency renovation actions are far lower when compared to the situation in other European countries. Regarding the housing co-operatives, it was suggested that the biggest challenges lie in their abilities in long term planning and then again in the energy efficiency renovation plans' ambitions. The credibility of the computational calculations of the renovation was also seen as a potential challenge when compared against the achieved and verified results. The participants also commented that the abilities and preparedness of the housing co-operatives in steering the renovation process are fairly insufficient and the contracts are seen to be too complex, which complicates their financial planning even more.

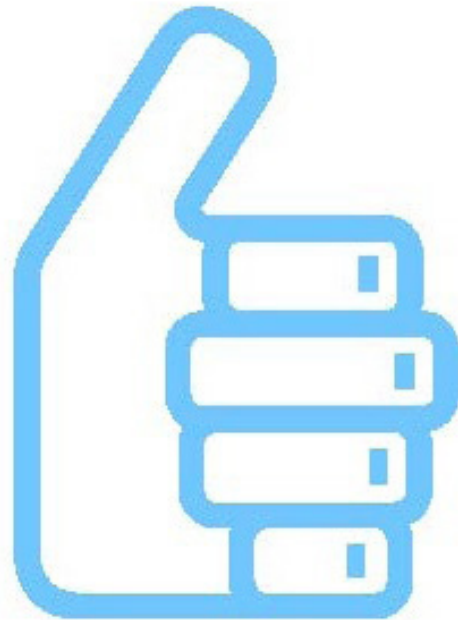
In order for the banks and other lenders to benefit from introducing such financial tools to their customers they would need to gain a better understanding of the effects and results of various deep renovation activities. This is possible to achieve by working together with building and construction industry. When these challenges are overcome, it is possible for the first movers to achieve competitive advantages compared to their competitors and to gain benefits from widening the product range with sustainable alternatives and in doing so creating additional value to the customers. Energy efficiency measures could also help the financial organisations to manage and lower the risks of their investments, for example when the securities of the investments are improved in a way that preserve and even raise their value.

On the other hand, offering such products could lead into a situation where the house owners would have more disposable income due to the savings in energy and other operational costs achieved by the deep renovation measures. This would enable the customers to payback their loans faster or even take on a bigger loan. Therefore financiers would be able to raise the amount of money loaned and grow their business or even be able to grant loans that would not otherwise be possible if these products would allow the banks to ask lower securities for such loans, bring in more affordable capital from the European Central Bank or have lower capital requirements.

Main conclusions from the workshop and proposals regarding the update of the national renovation strategy

- The development of Energy Efficiency or Green Mortgages has been fairly slow in Finland when comparing to the progress seen in other European countries, but based on the workshop there seems to be real interest to bring these products to the market if the national challenges can be overcome.
- The national renovation strategy should support the development of financial tools that account energy efficiency of buildings and facilitate co-operation between the financial and building and construction sector experts to help the progress of bringing these products available.
- Based on the discussions in this workshop, it seems to be possible to create a situation where all renovation stakeholders could benefit from the existence of Energy Efficiency or Green Mortgages and that this would then create higher market demand for deep renovation.
- For financial organisations to be able to bring these products to the Finnish market, it is essential that energy efficiency and renovation efforts would result in an increase in the value of the buildings when purchase decisions are made. On the other hand, this change in the market could be facilitated by the banks and lenders if energy efficiency and renovation activities would be included in their decision making processes.
- The development of such financial tools could also be supported by offering guidelines and document templates regarding life cycle cost calculation, how to improve energy efficiency through renovation and what to account when carrying out these measures (call for offers on deep renovation etc.) to be used by housing co-operatives and house owners or by the banks and lenders.
- The workshop participants suggested financial support to be made available for the planning phase of renovation activities in order to enable better planning and wider assessment of possible actions. This would help housing co-operatives to include wider evaluation of the possibilities and impacts of energy efficiency measures and their long term financial effects. and would then result in more ambitious energy targets to be set for the projects.
- The participants also suggested that the national renovation strategy should also include assessment of possible additional financial subsidies to be granted for deep renovation efforts, such as real estate tax reduction based on the energy performance of the building, including energy efficiency measures in the terms of state guarantee for housing loans or improve the use of household tax reductions in energy efficiency renovation.

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