

Introduction

This memo has been prepared for the purpose of establishing the eligibility of mortgages collateralised by Danish commercial properties with an A or B EPC¹-label as green assets under the Danske Bank Group Green Bond Framework.

The memo gives a short introduction to the EPC scheme in Denmark and describes the distribution of EPC-labels in the Services and trade segment. At the end, the memo concludes by requesting an addition to the existing Danske Bank Green Bond Framework, making it visible to customers and investors that Danish buildings with an EPC-label of minimum B can be considered as Green assets.

EPC-labelling of buildings

EPC-labelling of buildings is mandatory in Denmark. The aim is to promote energy savings by visualising the amount of energy that a building consumes and by outlining the energy saving possibilities. The label was introduced in 1998.

Most buildings used for residential or commercial purposes must be energy-labeled when put up for sale or rental. This applies to:

- Single family homes and multiple family homes
- Apartment buildings
- Cooperative buildings
- Rental residential
- Office buildings, industry, warehouses, etc.
- Public buildings

EPC-labelling of buildings for service and trade is mandatory.

- All newly built buildings of 60 sqm and above must be EPC-labeled before taken into use to make sure that the building complies with the energy requirements in the Danish building regulations
- When a property is sold, the seller must present a valid energy label
- A valid energy label must be presented when a property is sublet in whole or in part, and when a share of the property is transferred
- For buildings over 1,000 sqm, the energy-label requirement applies irrespective of change of ownership

The energy label is valid for 10 years, after which it must be renewed if the property is to be sold, advertised, rented or transferred to another party. The scheme only applies to buildings for service and trade and therefore not agricultural and industrial buildings.

Buildings are labelled according to their energy consumption

When determining a building's EPC-label, it is inspected and measured by an energy consultant. On this basis, the energy consultant calculates the building's energy consumption. The calculation is a measurement of the building's quality in terms of energy consumption vis-à-vis other buildings. It is a theoretical calculation, which can differ from the actual energy consumption that is depending on weather conditions and the habits of those who live in the building.

EPC-labels work similarly to a consumer informative label. The energy performance certificate, furthermore, provides an overview of the improvements in terms of energy, which would make sense financially including the cost and savings that could be obtained.

¹ Energy Performance Certificate

Since its introduction in 1998, the scheme has been used to classify buildings on a scale from A to G. Due to stricter requirements and ambitions in the Danish building regulations, the ‘A’ category now comprises the classes A2010, A2015 and A2020.

A2020 covers low energy buildings, which only consume a minimum of energy, while G-labelled buildings consume the most energy.



The calculation takes into account the current source of heating and contributions from renewable energy sources.

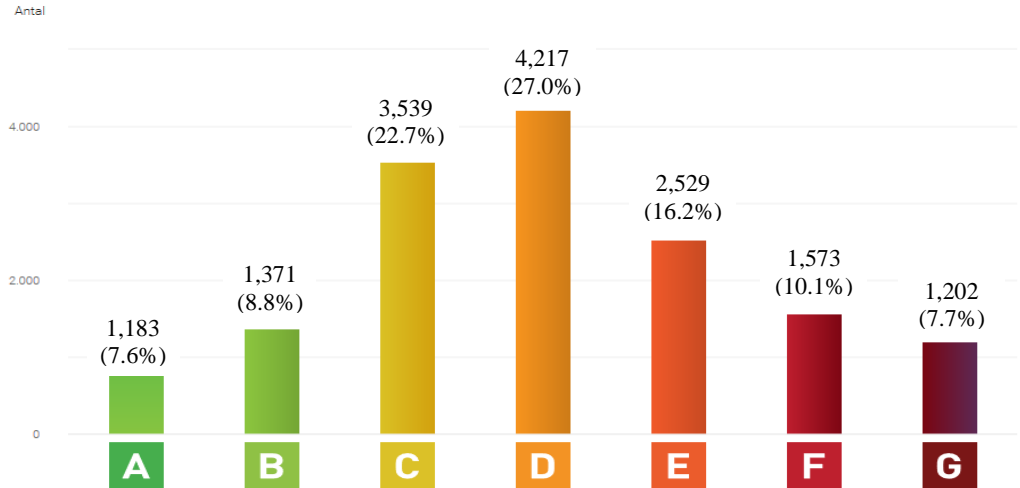
Commercial buildings

Approximately 640.000 buildings in Denmark have an EPC label. There is no specific category specifying commercial buildings. The only category consisting of commercial buildings only is Service and trade².

Farmhouse	24,125
Residential, single family	398,615
Residential, multiple family	144,962
Apartment buildings	55,056
Service and trade	15,625
Total	638,383

The EPC labels of the Service and trade sector are depicted below. 16.4% of the properties have an energy label of either A or B.

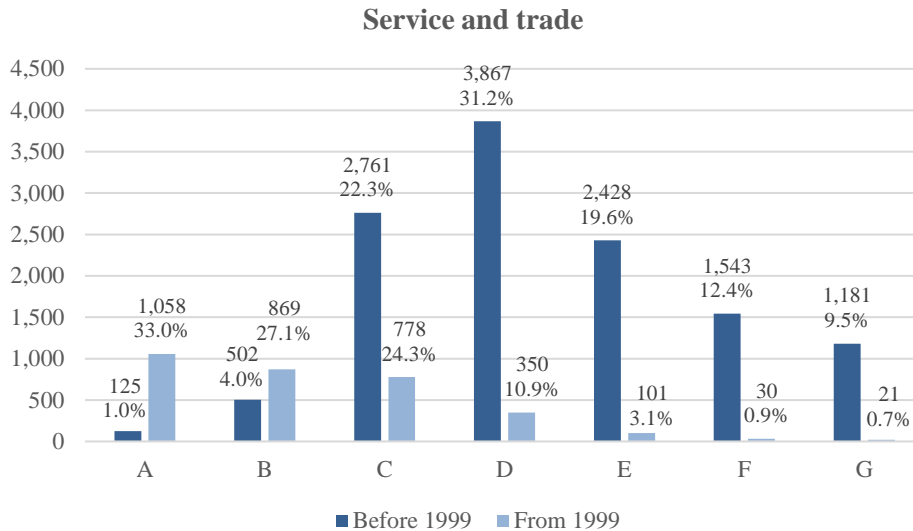
Service and trade, Denmark



Source: Sparenergi.dk, www.sparenergi.dk, November 2019

² Farmhouses are a mix of commercial and residential buildings. The building itself is of course residential, but the mortgage is including the entire property including the land and hence, the mortgage is most often characterized as commercial.

The EPC label was introduced in 1998 meaning that all buildings constructed from 1999 onwards will have an EPC label assigned. This means, that the majority of commercial buildings without an EPC label was constructed prior to 1998. The below chart shows the distribution of EPC labels specified per construction year.



Source: www.Sparenergi.dk

From the chart above it can be concluded that Service and trade buildings constructed from 1999 onwards have a higher EPC label than buildings constructed prior to 1999. 5% of buildings constructed before 1999 have an EPC label of A or B, whereas 57.1% of buildings constructed from 1999 onwards have an EPC label of A or B.

According to data from Statistics Denmark, 87% of all buildings in Denmark are constructed before 1999. Given these numbers, we believe it can be assessed that the commercial A and B buildings will represent the top 15% of all commercial buildings in Denmark.

Danske Bank Group Green Bond Framework

The Danske Bank Green Bond Framework today defines public or commercial buildings as green if they have the below mentioned threshold levels or better:

- LEED “Gold”,
- BREEAM “Very Good”
- Miljöbyggnad “Silver”
- DGNB “Gold”
- The Nordic Swan Ecolabel certification, or
- any other equivalent recognised regional certification with similar standards and approved by the Green Bond Committee, or
- Otherwise determined to belong in the top 15 % most energy efficient buildings in their respective region.

Conclusion

In Denmark, the EPC-label is the predominant energy label since it is mandatory, and only very few properties acquire the above mentioned certificates. To make the Green Bond Framework applicable in the daily processes, Danske Bank would like to include the Danish Energy-label B as green commercial buildings in addition to the Energy-label A already included.

As shown in the memo, A- and B-labels represent 16.4% of the Service and trade segment – considering the Service and trade buildings that have been awarded with an energy label. Buildings without an Energy-label are primarily those constructed before 1998 where the label became mandatory. Due to the increasing requirements in building standards since 1998 most of the buildings constructed before 1998 have a lower energy label than buildings constructed after the introduction of the EPC label, and hence it is our assertion that A and B properties will most likely fall within the top 15% most energy efficient commercial buildings in Denmark.

To make it obvious to customers and investors that A- and B-labelled commercial buildings are within the Danske Bank Green Bond Framework, Danske Bank would like to insert an extra bullet in the above mentioned list:

- LEED “Gold”,
- BREEAM “Very Good”
- Miljöbyggnad “Silver”
- DGNB “Gold”
- The Nordic Swan Ecolabel certification, or
- **EPC label of minimum B in Denmark**
- any other equivalent recognised regional certification with similar standards and approved by the Green Bond Committee, or
- Otherwise determined to belong in the top 15 % most energy efficient buildings in their respective region.