

## Feedback to the European Commission on the revision of EU rules on sustainability-related finance disclosures (SFDR)

This response from the Association of Real Estate Funds<sup>1</sup> (AREF) has been based upon a joint model response drawn up by the European Investors in Non-LISTED Real Estate (INREV) with collaboration from real estate related associations across Europe. Members of the British Property Federation (BPF) have also contributed to AREF's response. AREF and BPF, along with the Investment Property Forum (IPF), will be coming together as one association, Real Estate:UK (RE:UK), on 30 April 2026 to strengthen the voice of UK real estate. AREF and BPF both have members that manage, operate, support, or invest in investment vehicles based in the EU.

### SFDR 2 proposal: progress towards greater clarity and proportionality

AREF welcomes the European Commission's proposal to revise the Sustainable Finance Disclosure Regulation (SFDR) as a constructive step in the evolution of the EU sustainable finance disclosure framework. The proposal rightly recognises both the value of SFDR in enhancing transparency for investors and the significant implementation challenges that have emerged in practice, including legal uncertainty, data availability constraints, overlaps with other parts of the sustainable finance framework, and disproportionate operational costs for financial market participants.

Overall, the direction of SFDR 2, towards greater legal clarity, simplification, and alignment with the EU Taxonomy and the Corporate Sustainability Reporting Directive, represents tangible progress. However, the real estate industry's specific characteristics must continue to be reflected as the framework evolves.

In our response we welcome:

- The introduction of a dedicated transition category. This is a major improvement, recognising brown-to-green and value-add strategies that are central to real estate decarbonisation.
- The impact "add-on". This appropriately recognises strategies delivering measurable environmental or social outcomes alongside financial returns.
- The removal of ill-fitting requirements (including the sustainable investment definition, entity-level PAI disclosures, good governance tests and additional website disclosures). This significantly reduces administrative burden while preserving meaningful asset-level ESG information.

We have asked for further clarification or adjustment on:

- Key product categorisation concepts. Clearer Level 2 calibration is required to ensure consistency and legal certainty, particularly for private markets.
- The "ESG Basics" tag – This tag may be misleading or insufficiently ambitious; alternative terminology such as "Responsible" or "Stewardship" may be more appropriate.
- Indicators and KPIs – These should remain market-based and aligned with established real estate practice rather than overly prescriptive.

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<sup>1</sup> The Association of Real Estate Funds represents the UK real estate funds industry and has around 50 member funds with a collective net asset value of around £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

We believe that:

- Flexibility is needed around eligible investments and methodologies, especially for diverse real estate strategies and non-EU assets.
- Proposed marketing restrictions risk forcing “green-bleaching” for uncategorised products, particularly those marketed to professional investors.
- A clearer distinction is needed between factual sustainability disclosures and promotional sustainability claims.
- Greater alignment and harmonisation are needed for EPCs and energy performance metrics, including recognition of international standards.
- Interoperability with non-EU frameworks should be supported to avoid duplicative reporting for global real estate portfolios.
- Additional flexibility may be required for funds-of-funds due to reliance on underlying product disclosures.
- Level 2 measures must be finalised before SFDR 2 applies and there should be a minimum 12-month transition period.

As we have set out in our conclusion, SFDR 2 has the potential to deliver a more coherent, proportionate, and operationally feasible sustainability disclosure framework. AREF, BPF, along with other real estate related associations, are willing to engage further with the Commission to ensure this is achieved.

## Reflecting real estate investment characteristics

For the real estate investment industry, the SFDR 2 proposal represents a constructive step towards a more workable framework. It addresses several structural shortcomings of the original regulation through the removal of ill-fitting concepts, the introduction of a dedicated transition category, and a sharper focus on proportionality and simplification. These developments are particularly relevant for real estate, where asset characteristics, investment horizons, and data constraints differ fundamentally from other asset classes. The framework was largely designed with liquid, publicly traded securities in mind rather than long-term, asset-based investments characterised by illiquidity, active asset management and evolving sustainability performance over the investment lifecycle.

## Key improvements enhancing workability

The introduction of a dedicated transition category marks a significant improvement. It recognises the central role of brown-to-green and value-add strategies in decarbonising the built environment and allows for greater alignment with real estate investment cycles, capital expenditure planning, and portfolio-level decarbonisation pathways.

Similarly, the formal introduction of an impact ‘add-on’ provides long-awaited recognition for strategies delivering measurable environmental or social outcomes alongside financial returns.

In addition, the removal of concepts such as the sustainable investment definition, good governance requirements, entity-level Principal Adverse Impact (PAI) disclosures, and additional website requirements offers a welcome reduction in administrative burden while preserving meaningful asset-level ESG data collection. This removal therefore enhances the operational feasibility of the framework without undermining existing market practices or other regulatory requirements.

## Areas requiring further clarification and calibration

Despite positive developments, several aspects of the proposal require further clarification to ensure SFDR 2 is both proportionate and practicable for the real estate industry. In particular, further work will be needed at Level 2 to ensure that the revised framework reflects the asset-based nature of real estate investment, avoids divergent interpretation, and supports consistent application across Member States.

### *Product categorisation concepts and Level 2 calibration*

The proposal's new product categories rely on core concepts that are not yet sufficiently operational for private markets. Notions such as 'good sustainability performance/track record', 'outperformance' or 'sustainability factors' vs. 'risks' will need careful calibration in Level 2 to ensure consistent application and to avoid divergent interpretations across managers and national competent authorities. Without clearer guardrails, these concepts risk being applied unevenly, undermining comparability and legal certainty.

### *"ESG Basics" Tag*

The "ESG Basics" tag may not fully reflect the ambition or intent of EU policymakers. The term "ESG" can be perceived differently by investors in various markets and is sometimes viewed as imprecise or inconsistently applied. Additionally, the word "Basics" may not adequately convey the level of ambition required given that entry-level funds will need to do more than consider sustainability risks. "Responsible" or "Stewardship" may be more appropriate terms to be used.

### *Indicators, KPIs and anchoring in market practice*

At the same time, any Level 2 indicators and KPI requirements should remain market-based rather than overly prescriptive, reflecting the asset-based and heterogeneous nature of real estate strategies and the practical difficulty of applying issuer-style metrics to property portfolios.

Such calibration should be anchored in current industry practice as set out in, for instance, the [Aligning Real Estate Sustainability Indicators \(ARESI\) White Paper](#), which provides practical, portfolio deployable approaches to real estate sustainability indicators and supports comparability through consistent definitions and calculation boundaries. This would help ensure that KPI expectations remain implementable across mixed use and multi-jurisdictional portfolios, while still delivering decision useful information for investors.

### *Scope of eligible investments and flexibility within product categories*

We also note that the list of example investments for each of the three product categories includes 'other investments', provided that 'proper justification' is given. To recognise the wide variety of asset types, strategies and sustainability objectives pursued in the market, it is important to preserve flexibility in the types of investments that may fall within these examples and, therefore, each product category.

For real estate strategies in particular, a variety of methodologies could apply, including building certifications, GRESB ratings and other efficiencies. While this flexibility is acknowledged in recital (14) to the SFDR 2 proposal, it would be helpful if this is also reflected in Level 2 guidance on investment approaches and eligible investments for each product category.

### *Scope of marketing restrictions for non-categorised products*

Under Article 13 of the SFDR 2 proposal as it currently stands, financial market participants may only include sustainability-related claims in the names and in the marketing communications of financial products which fall within the ESG Basics, Transition or Sustainable category. Similarly, Article 8(1) of the SFDR 2 proposal prohibits financial market participants from claiming that their financial products integrate sustainability factors in their investment strategy beyond the consideration of sustainability

risks, unless such products qualify under the criteria for the ESG Basics, Transition or Sustainable product categories. Given the stringent criteria required to fall within each of these categories, this will result in many products in the market being constrained in how they communicate their sustainability characteristics.

This problem is particularly acute for financial products which currently disclose in accordance with Article 8 SFDR but will not qualify for a product category under SFDR 2. These products currently disclose their sustainability characteristics extensively in pre-contractual disclosures, website disclosures and periodic disclosures but under SFDR 2 will not be able to do so. In real terms, many of these products will be continuing with the same ESG strategy as they were doing before SFDR 2 but will not be able to disclose this accurately. Fund managers should be able to accurately disclose their products' sustainability characteristics, regardless of whether these products qualify for a product category, and the current position risks 'green-bleaching' and downplaying sustainability characteristics for uncategorised products, which is not beneficial for investors.

A few improvements that we would suggest:

**1. Reducing the 70% threshold under Article 8(1)(a) to 50%**

Whilst there is currently no minimum threshold for the proportion of investments which must promote environmental and/or social characteristics in an Article 8 product, in the real estate market, there is established market practice which has converged around 50% as a minimum threshold. Lowering the threshold for the ESG Basics category to 50% would capture a wider range of existing Article 8 products within this product category, thus allowing such products to continue to disclose their sustainability characteristics in a fulsome manner. We consider that this would facilitate an orderly transition from SFDR to SFDR 2, reduce the risk of 'green-bleaching' and help retain products within the regulatory perimeter, thereby preserving transparency for regulators and investors.

**2. Limiting the marketing restrictions to products which are marketed to retail investors**

It is important that real estate managers are able to accurately disclose the sustainability characteristics of their products – the marketing rules as currently proposed in Articles 13(2) and (3), and the prohibition in Article 8(1) do not allow them to do this. In the case of funds marketed to professional investors, we consider the investors to be sufficiently sophisticated to understand that an uncategorised product can take certain actions in relation to sustainability without meeting the criteria required to fall within the ESG Basics, Transition or Sustainable product category, and fund managers should be able to disclose accordingly. This approach would be more closely aligned with the approach taken by the FCA under the UK Sustainability Disclosure Requirements (UK SDR).

In addition, real estate products offered solely to professional investors are typically subject to rigorous due diligence processes and limited partners may also impose their own sustainability requirements. In this context, managers should be able to respond fully to investor enquiries regarding the sustainability characteristics of both non-categorised products under Article 6a and categorised Article 8 funds. Where communications to professional investors are required to be "fair, clear and not misleading", as under existing EU law, further marketing restrictions are unnecessary.

At a minimum, clearer delineation is needed between factual sustainability disclosures (i.e. 'information on whether and how those financial products consider sustainability factors' under Article 6a(1)) and promotional sustainability claims (i.e. 'sustainability-related claims' under Article 13(2)), as objective reporting on asset characteristics, such as EPC performance or building certifications, should not automatically trigger marketing restrictions. Without a clear distinction,

the proposed rules risk unduly constraining legitimate communications and creating legal uncertainty.

The proposed marketing restrictions could constrain how funds communicate sustainability characteristics, particularly where integrated ESG processes are already in place, but the fund does not qualify for categorisation. Coupled with potential divergences in Member States' supervisory interpretation, these rules could lead to inconsistent application and increase compliance risk for managers with cross-border fund offerings.

### *Asset-level metrics and proxies for real estate*

Regarding Energy Performance Certificate (EPC), we support a further harmonisation of EPC methodologies across EU Member States, with a shift toward operational performance-based criteria in line with the revised Energy Performance of Buildings Directive (EPBD). Clear guidance is also needed for acceptable metrics when EPCs aren't applicable, both within and outside the EU.

The 'inefficient asset' standard must align with various international rating systems, such as ENERGY STAR and NABERS. 'Inefficient assets' should also be redefined to include transitional states based on EPC targets, CRREM misalignment risk before 2035, or equivalent international standards outside the EU.

### *Interoperability and use of non-EU frameworks*

Interoperability between SFDR 2 and other regulatory and voluntary disclosure regimes is also essential for globally invested real estate portfolios, to avoid duplicative reporting, inconsistent definitions and unnecessary operational complexity. Recognising well-established non-EU taxonomies and local sustainability frameworks as valid reference points, where appropriately justified, would enable managers to rely on consistent datasets across jurisdictions, enhance investor comparability and reduce administrative burden, without making EU Taxonomy compliance the sole pathway for demonstrating sustainability or transition alignment. Further clarification will therefore be needed, including at Level 2, on how different frameworks and taxonomies may be used in a complementary manner to support consistent, decision-useful disclosures while avoiding undue reliance on a single methodology.

Without suitable calibration in Delegated Acts, these aspects risk reintroducing disproportionate compliance complexity and legal uncertainty, or inadvertently constraining legitimate real estate investment strategies, including those supporting credible transition activity. Strategies that use credible, active engagement to drive sustainability progress should be reflected in all three categories. Examples of active engagement might include: (1) the installation of rooftop solar panels or energy-efficient systems at logistics assets, (2) implementing sustainability initiatives such as tenant engagement surveys, green leases and energy reduction programmes, (3) securing green building certifications, (4) improving waste management and recycling facilities within assets and (5) introducing smart building technology in relation to energy management and water-saving.

## **Implementation timing and transition arrangements**

The timing of implementation is particularly important. SFDR 1 will continue to apply until the revised framework enters into force, yet the Commission proposal provides only limited transitional relief. The shift to SFDR 2, combined with the risk of divergent supervisory interpretations across Member States, creates legal uncertainty and operational complexity for fund launches, prospectus updates, and investor communications.

To help manage these risks, Level 2 measures must be finalised before SFDR 2 applies, and sufficiently long transition periods must be provided. These should reflect the scale of operational change required, including the review of disclosures, documentation, and KPIs across existing portfolios, and support consistent implementation across national markets. Continuing compliance

with SFDR 1 should be based on ongoing contractual arrangements to avoid uncertainty around switching from compliance with SFDR 1 and 2. We believe that a clear implementation period of at least 12 months (effective only once the applicable Level 2 measures have been finalised) should be put in place.

Clear, proportionate Level 2 guidance, aligned with market practice, will therefore be essential to maintain legal certainty, avoid excessive cost and resource demands, and support continued investment in the sector's decarbonisation.

In addition, it may take longer for funds-of-funds to comply with the new rules, and they may also require flexibility in applying exclusions. Funds-of-funds will rely on the categorisation of – and reports from – underlying products meaning a later implementation date may be needed for them.

## Conclusion and next steps

AREF considers that SFDR 2 has the potential to deliver a more coherent, proportionate, and operationally feasible sustainability disclosure framework. Realising this potential will depend on whether the revised framework accommodates the specific characteristics of real estate investment and is supported by clear, well-calibrated Level 2 measures.

Close cooperation with the real estate sector, and calibration reflecting established market practices, will be critical to ensuring that SFDR 2 is workable, enables credible transition pathways, and does not discourage the mobilisation of long-term capital towards Europe's sustainability objectives.

AREF stands ready to continue engaging constructively with the Commission and other stakeholders throughout the impact assessment and further legislative process to support the development of an effective and balanced SFDR 2.