Policy Measure for Greening Housing

Housing the Next Generation

EMF Hypostat 2023

Virtual Event

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Greening housing requires both price- and non-price policies

- **Market mechanisms** ("price-based"): intrinsic *price premium* and/or effective carbon-pricing
  - Higher coverage/price of emissions from direct energy use, incl. lower subsidies for domestic fuels

- **Policy interventions** ("non-price levers"): *market failure* (uncertain outcome, ineffective signals, timing), liquidity constraints or socially unattainable adjustment of relative prices
  - **Fiscal policies** (e.g., transfers and grants) de-risking of private investment
  - Energy-dependent property taxes (i.e., emission-differentiated)
  - **Structural policies** (e.g., land use, building codes, product standards, and regulations)
    - Harmonize and regulate energy efficiency ratings to increase their availability/commercial relevance
    - Binding targets for energy efficiency improvements
  - **Financial sector policies** (e.g., prudential requirements)
Higher energy prices, construction costs & rates threatening the “Renovation Wave”?

EU Amortization Time of Investment in Renovation/Retrofitting

Years

Source: Refinitiv, Jobst (2023), Allianz Research
Policy interventions are needed for vulnerable households

EU: Average Required Public Sector Support for Renovation/Retrofitting (Target EPC=A) without Increasing Default Risk (ECL)

(renovation cost ↑10%, energy cost ↑100%, interest rate = 3%)

Grants

Interest Rate Subsidy

Sources: Refinitiv, Jobst (2023), Allianz Research. Note: 1/ for an average European household with annual gross income of EUR100k and a mortgage with LTV=80% and interest rate of 3% over 10 years for a property valued at EUR245k; 2/ Upfront investment cost of EUR35k (assuming permanent 10% increase in renovation cost) generating energy savings of EUR3.6k per year.