

New energy requirements may cost DKK 120 billion: The families will end up with unsellable homes

According to several stakeholders, the EU pushing 800,000 Danish families to improve the energy efficiency of their homes will have serious consequences

- by Kristoffer Brahm & Jakob Martini, Finans, Oct 2, 2022, LINK

In the effort to reduce the climate impact and to get rid of Putin's natural gas about 800.000 families have to spend DKK 120 billion for energy renovation of their homes.

This is the consequence, according to Jyske Bank, of a proposal by the EU commission, which several actors call extremely far-reaching and which will make many Danish homes unsellable.

"It is an incredibly ambitious proposal, which will have serious consequences for the Danish housing market. Many properties have to be energy renovated so much, that it would hardly be realistic. In reality they would have to tear them down. That is dramatic", says Mikkel Høegh, head of department in Jyske Bank.

The requirements for energy renovation is part of the big EU climate plan towards 2030, and at the same time a central element to become independent of Russian gas. In short the EU commission will introduce an energy marking system in order to classify the homes in various countries, which will have markings from A to G. The about 15% least energy effective homes will be placed in category G and must by 2030 be renovated to category F. By 2033 all homes must be renovated to category E.

According to an analysis by Jyske Bank 30% of the Danish housing stock must be energy improved by 2033.

By a conservative estimate the bank recons a cost of DKK 150.000 per home, according to a total investment of DKK 120 billion.

"Apart from the fact that the building industry hardly has the capacity for this enormous task – many places in Denmark – especially in the countryside – it would probably not be realistic to lift the value so much," says Mikkel Høegh.

"This will almost pull the rug from under the housing market. It sounds almost like a cartoon series and is really very difficult to imagine, but the consequence would probably be that bulldozers would run over big parts of Denmark," he added.

"If you have an old leaky house, where the energy renovation does not pay by itself, it would be very difficult to carry it out," according to Kim B. Wittchen, senior researcher, Aalborg Uni.

Finans Danmark is also critical about the EU proposal, and call it far reaching although the financial sector association approve the ambition to improve the Danish housing sector.

"It may be very difficult to sell properties that does not live up to these standards. ½What would then be the consequence? To tear them down? How to this in practice? With a bulldozer? We need to have the politicians to relate to this, because there is not much time to think about it", said Ane Arnth Jensen, deputy managing director in Finans Danmark.

This is how the EU demand hits Danish homes

- As part of the new building directive the EU will introduce a new energy marking system in order to classify the individual countries by marking them from A to G. The about 15% least energy effective homes are placed in category G. Properties living up to especially criteria will be placed in group A. The remaining homes will be distributed evenly in categories B to F.
- According to the proposal the buildings in group G must be energy renovated to minimum category F before 2030. By 2033 all buildings in

groups G and F have to be renovated to group E.

- The categorization will be country by country. In that way it is assured to get every country's worst buildings renovated. Otherwise you are not getting all the worst buildings renovated across the EU, because those are mainly in South and Eastern Europe, but Danish homes f.inst. are in average in better a condition.
- The new EU directive for buildings is a central part both of the climate plan 'Fit for 55' and the plan 'Power EU' to make Europe independent of Russian gas.

Jyske Bank points out that mortgage companies are allowed only to finance legitimate homes. And homes that do not comply to the future regulation in respectively 2030 and 2033 will according to the EU proposal not be legitimate.

"Accordingly they are not sellable and consequently people are stake bound," says Mikkel Hoegh.

Therefore the EU proposal may already have consequences far ahead of these demands being valid in eight years.

"Future home buyers will focus on this, and if the home does not comply with the future regulations it may be difficult to sell," says Ane Arnth Jensen.

Kim B. Wittchen, senior researcher with the Institute Build in the University of Aalborg agree with the worry, that a number of house owners maybe will be trapped, if the building directive is being agreed in the present form.

According to him several homes may move up one or two steps on the energy labelling by f.inst. insulation the roof, replacing the windows or replace the gas boiler with an electric heat pump. But in most cases the energy renovation may not pay by it selves, unless these actions are followed up in connection with a general renovation of the home.

"If you are left with an old leaky home, where the energy renovation does not pay by itself it may be very difficult to do. In such a case the cheapest solution may be to renovate by removing the house with a bulldozer, to put it that way," says Kim B. Wittchen.

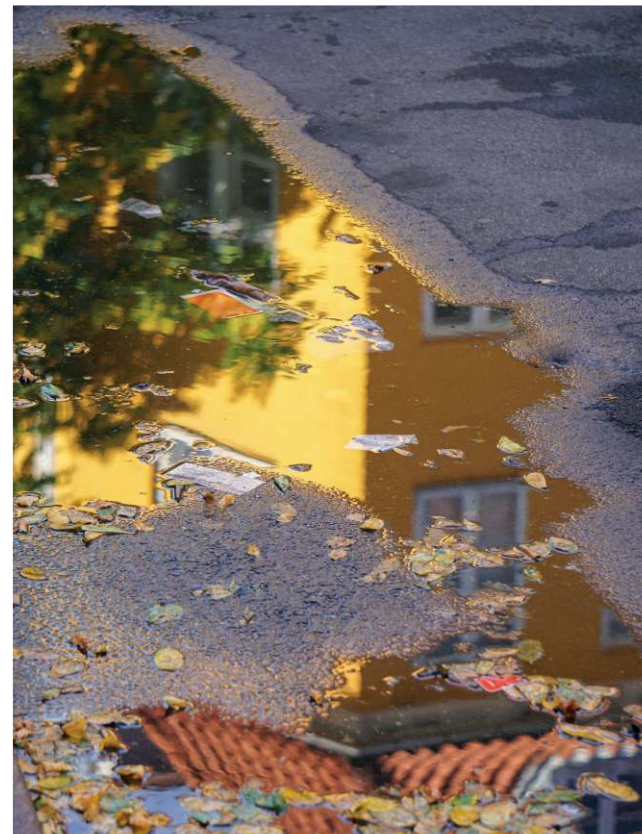
Same melody sounds from the green think tank Concito.

Even if the think tank is an eager promoter of energy effectivity the politicians need to consider the situation of the homeowner, who might be squeezed by the legislation, it sounds from Michael H. Nielsen, senior advisor by Concito and former director by Dansk Byggeri.

"In fact there is a considerable number of homes, where the mortgage value will not allow to investing in them and where the homeowner cannot afford to make the needed energy improvements. Even though we would like very much to speed up the energy improvements, there is no point in turning the blind eye on this challenge.

The proposal still needs to be negotiated with by the EU Parliament and Council, but there are many indications that the mayor part will be approved", says Michael H. Nielsen.

"The EU have become pretty firm about the question of energy. They are looking with great concern about the question of supply of energy, so consequently their proposal presumably maybe will go through in one form or another. Often there is a certain artistic freedom when the single countries are to implement the proposal, so here the Danish politicians have a chance to think creatively about the energy renovation in order to avoid, that Danish people are forced from



their homes", says Michael H. Nielsen.

"The consequence may be, that bulldozers will be running over big areas in Denmark", says Mikkel Høegh, head of department in Jyske Bank.

Morten Helveg Pedersen (R), EU politician and vice chairman in the industry- and energy department, that are working for even scrapper claims than the Commission have proposed. 40% of the EU energy consumption go to buildings and houses and that is why you need massive energy improving, it reads.

"The whole intention with the building directive is to avoid the self-created plague that we are in now, that we are depending on Putin and his gas supply. We need to push harder to get the renovation started and with the prices we have at the moment there will be really many renovations that will pay by itself in relatively short time", says Morten Helveg Pedersen.

There is great concern that there will be relatively many homes, where the renovation does not pay. And if you stay in an over mortgaged house in the countryside it is really difficult to borrow money to such a renovation. What will be the consequence for them?

"Of course it is necessary to pay attention to what we call energy poverty. There is also going to be EU programs and subsidy possibilities in the single countries, where you can apply for assist financing. Anyway, what remains is that it is a declared political wish to get out of Putin's gas", says Morten Helveg Pedersen.

In Jyske Bank Mikkel Høegh is making no secret of the fact that not only homeowners maybe hit.

The building directive may also have far-reaching consequences for the mortgage companies if a part of the houses that they have given a loan to may become not sellable and consequently more or less worthless.

"It reduces the values extremely, if a new buyer cannot borrow money to buy a house. So the value is simply going to zero. Then the mortgage companies consequently will have to reserve extremely big amounts. This also looks completely unrealistic", says Mikkel Høegh.

The Financial Supervisory, which is the watchdog over the financial sector will not form an opinion about the consequences of the EU initiative for the mortgage companies because the proposal is being negotiated at this moment.

It is expected that the EU Parliament and Council of Ministers will present their positions about the proposal before the end of the year, where after negotiations will take place in the coming year.