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Article

"Investment in building energy efficiency: Climate fund to increase rate of refurbishment": Six questions to Karsten Neuhoff

DIW Economic Bulletin

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Neuhoff, Karsten; Wittenberg, Erich (2015) : "Investment in building energy efficiency: Climate fund to increase rate of refurbishment": Six questions to Karsten Neuhoff, DIW Economic Bulletin, ISSN 2192-7219, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 5, Iss. 19, pp. 266-

This Version is available at:

<https://hdl.handle.net/10419/110251>

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Prof. Karsten Neuhoff, Ph.D. is Head of the Department of Climate Policy at DIW Berlin

SIX QUESTIONS TO KARSTEN NEUHOFF

»Investment in Building Energy Efficiency: Climate Fund to Increase Rate of Refurbishment«

1. Professor Neuhoff, in order to improve the energy efficiency of buildings, the German government has made funding available for energy upgrades. Has the refurbishment rate set out in the government's targets been met? According to the government's objective, approximately two percent of buildings need to be comprehensively refurbished each year to ensure that Germany meets its 2020 and 2050 efficiency targets in the buildings sector. The rate of refurbishment is currently static at around one percent however. Against a backdrop of growing construction volume, this is a disappointing result, on the whole.
2. What are the reasons for this? From the real estate owners' perspective, there are a number of risk factors that might be deterring them from refurbishing their properties. First, there is still uncertainty as to what the refurbishment of a property would achieve: how high would energy savings actually be? What about implementation quality? Second, real estate owners are wondering whether the savings will be longer term and how energy prices will develop over time. Some owners also have doubts about how the value of their real estate will develop and whether their property will be continually occupied. Moreover, it is possible that a number of owners may have difficulties securing a loan for long-term comprehensive refurbishment.
3. What can be done to change this situation? It is important that the consultation programs are developed further and that the qualification level and certification of tradespeople continue to improve. We also need funds for high-quality energy upgrades.
4. The expert commission on strengthening investment in Germany was set up to establish measures to address the general lack of investment in Germany. What proposals has the commission made? The commission has noted that pension funds, in particular, are looking for long-term investment opportunities. At the same time, the buildings sector would welcome such long-term investment for energy upgrades. The commission therefore proposes establishing a closed investment fund which collects money from pension funds and makes it available to investors. There are a number of different ways to structure this fund. One idea is to use a different approach to reach certain real estate owners who lack a long-term investment horizon and are therefore unlikely to carry out comprehensive refurbishment measures independently. These owners could be given the option of a third-party implementing their refurbishment investment measures, for example. The owner or user of the property would then pay a fixed monthly service payment at a later stage.
5. How could a climate investment fund like this be implemented? For public and commercial buildings, where project volumes tend to be larger, a fund like this would be very promising. Before implementing energy-efficiency measures in private buildings, however, we would first need to determine how to organize the financing of very small-scale projects with a very large fund. This would enable us to focus on customer groups which the current programs of the *Kreditanstalt für Wiederaufbau (KfW)* have not reached effectively. This might involve customer groups with very short-term investment horizons who are therefore not prepared to take out long-term loans to finance energy saving measures.
6. What are the chances of a climate fund actually being established? It is important that we continue to look for further solutions in this field. At the moment, we are squandering a great many economic advantages by failing to implement energy efficiency measures. How these measures should be structured on the financing side is something that needs to be explored further.

Interview by Erich Wittenberg



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Layout and Composition

eScriptum GmbH & Co KG, Berlin

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