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How is Climate Related Risks Impacting CRE Advisory Services?

Business Issues Forum

The logo for CRE (The Counselors of Real Estate) features the letters "CRE" in a bold, white, sans-serif font. A red swoosh underline is positioned beneath the "E".
THE COUNSELORS
OF REAL ESTATE®

Defining climate risk:

- Climate risks are emerging, *new risk profiles* driven by climate change - impacting natural, economic, and societal systems.

“Past performance
is not indicative of **future** results.”

For today...

- How do we best integrate climate related risks into our education and programs?
- Is there a role for these services to be integrated into upcoming consulting corp assignments?
- How do you recommend we engage our peers, clients, and members?

Rising Sea Levels Pose Risk to Institutional Real Estate Investment

TOP 50 NPI METRO AREAS AND DEGREE OF SEA-LEVEL RISE RISK



67%
of NCREIF Property Index value or
\$360 billion
is in metro areas whose primary cities are among the
20% most exposed
to sea-level rise in the United States

[ULI Heitman Report 2019](#)

Property & Casualty Insurance

Is climate-related risk covered by insurance coverage?

- Mismatch: 1 yr insurance horizon vs 5- to 20-year investment horizon

VIEWPOINTS



Justin Sullivan / Getty Images

FINANCE & INVESTMENT

Hurricanes and Property Values: The Impact May Be Longer Than You Think

A NCREIF and National Hurricane Center study found that, for all property types, a hurricane decreased values by almost 6% one year after the storm hit, and by 10.5% after two years.

Infrastructure Issues: The Grid

- Condition
- Maintenance
- Anticipated Shutdowns
- Financial:
 - Capacity markets
 - Real estate markets
 - Locational issues
 - Development risks

Financial Options

- Renewables
 - Wind
 - Solar
 - Storage
- C-PACE
- Opportunity Zones
- Other financing alternatives

Growth of ESG - What is GRESB?

- Global Real Estate Sustainability Benchmark
- Over 1,000 property companies, REITs, funds and developers participated
- \$4.1 Trillion of Investment Assets Reporting (100,000+ assets)
- More than 100 institutional investors use GRESB data + analytical tools
- GRESB investor members represent \$22 Trillion in institutional capital
- Measured against 7 Aspects:



About TCFD

- The Task Force seeks to stimulate market dialogue and increased transparency on climate-related risks, and establish frameworks for providing information to investors, lenders, insurers, and other stakeholders:
 - Chartered by G20 Finance Ministers and Central Bank Governors and the Financial Stability Board (FSB).
 - TCFD is led by Michael Bloomberg and includes 32 international members from many sectors.
- Process began in 2015, Final Report was released in June 2017.
- Four main recommendations support **specific disclosures** organizations should include in financial filings to provide useful information to investors.
- As of June 2019, over 800 companies have expressed support for the TCFD recommendations. This group includes those responsible for assets of over \$118 trillion.



Source: [Task Force for Climate-Related Financial Disclosures](#)

About TCFD

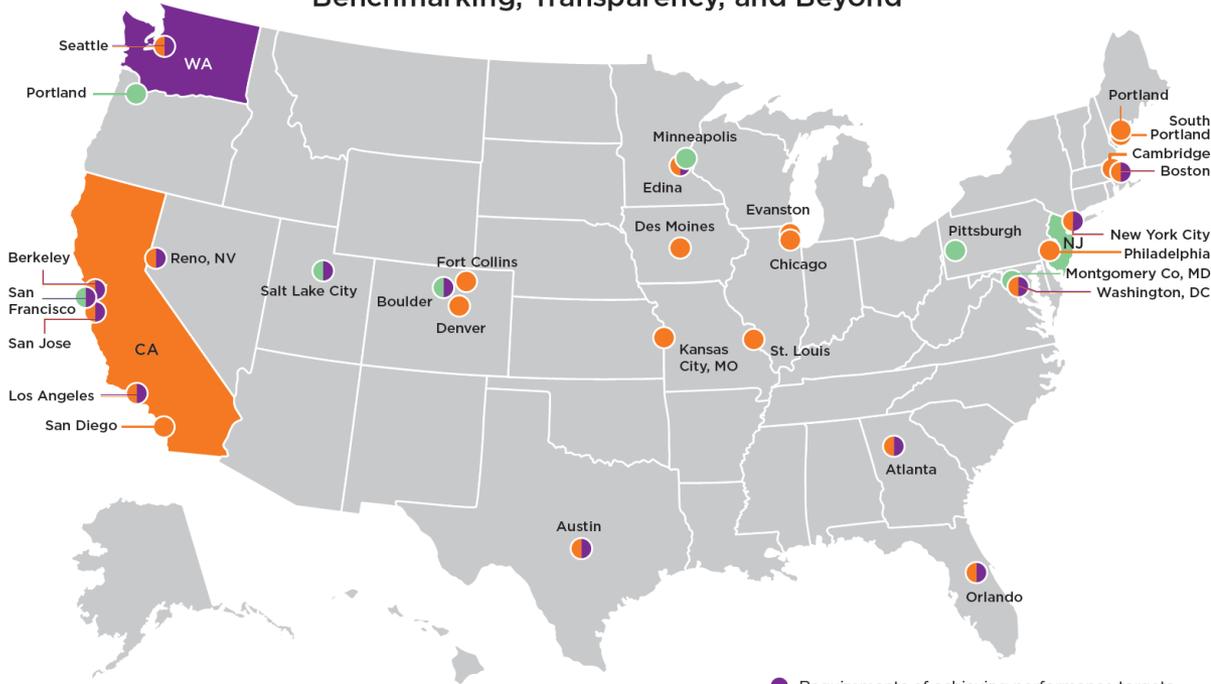
- Types and examples of climate risks to be disclosed:

Transition Risks				Physical/Operational Risks	
Policy and Legal Risks	Technology Risk	Market Risk	Reputation Risk	Acute Risk	Chronic Risk
<p><i>Examples:</i></p> <ul style="list-style-type: none"> Carbon tax Renewable energy mandates Energy disclosure mandates Land use policies Litigation 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> Building or system obsolescence Modernization costs "Stranded assets" Operational efficiency Cost competitiveness "Creative destruction" 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> Supply/demand shifts Regional economic disruption Migration shifts, new demographic patterns 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> Community and public relations Brand mgmt. Political influence Customer loyalty 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> Hurricanes, cyclones Flooding Wildfires Tornados, windstorms Landslides, avalanches Extreme snowfall 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> Sea level rise Drought Heat waves Water scarcity Food security

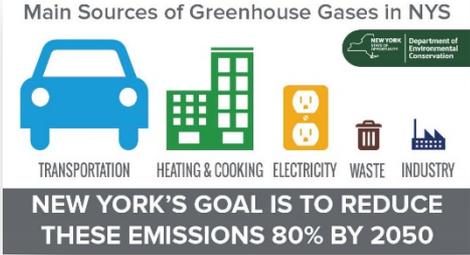
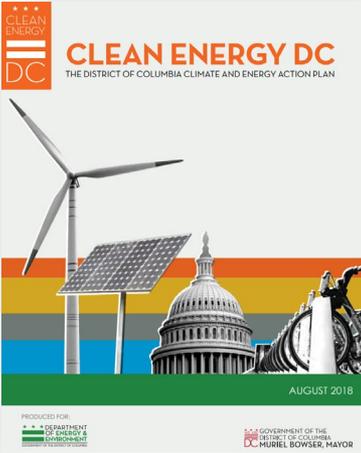
Source: [Task Force for Climate-Related Financial Disclosures](#)

Regulatory Compliance

U.S. City, County, and State Policies for Existing Buildings: Benchmarking, Transparency, and Beyond



- Requirements of achieving performance targets or completing additional actions
- Benchmarking policy for public, commercial, and multifamily buildings adopted
- Benchmarking policy for public and commercial buildings adopted



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Air Quality – Salt Lake City

- Fall/winter inversions
 - Health implications
 - Costs not measured directly
- Commercial development patterns long term
- Residential development patterns long term
- In-migration impacts

Integrating ESG in Real Estate



Next steps?

- How do we best integrate climate related risks into our education and programs?
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- How do you recommend we engage our peers, clients, and members?

Reference slides

Introduction to ESG

A facet of fiduciary responsibility...

Increasingly, investors and stakeholders are stressing the incorporation of environmental, social, and governance (ESG) considerations into investment management. Specifics can vary by institution, but in general ESG factors may include:

Environmental

- Energy
- Water
- Waste management
- Renewables
- Biodiversity
- GHG emissions
- Etc.

Social

- Stakeholder relations
- Employee relations
- Supplier relations
- Community relations
- Economic opportunity
- Health and well-being
- Tenant Engagement
- Etc.

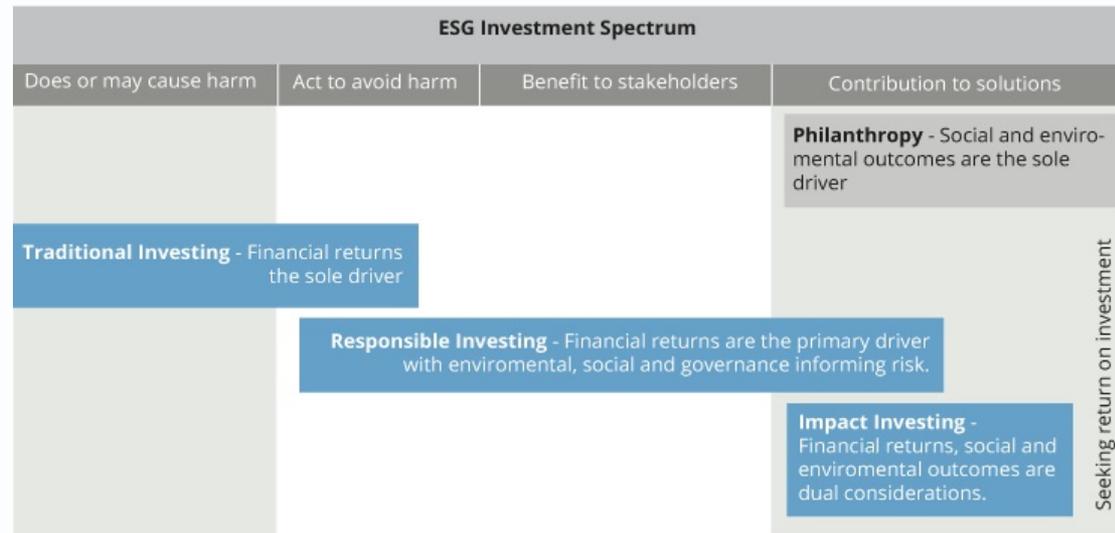
Governance

- Company leadership
- Executive pay
- Internal controls
- Transparency
- Diversity
- Fraud, corruption policies
- Shareholder rights
- Reporting
- Etc.

Drivers of ESG

Investor demand and macro-economic forces:

- Greater availability of ESG data and indexes
- Perception of improved alignment between investor objectives, market realities, and managerial execution
- Potential for improved risk identification and mitigation
- Emerging evidence that ESG strategies can enhance financial performance
- Growing concern on climate change, technological disruption, demographic shifts, societal inequality, and other macro-economic issues
- Proxy for operational and managerial skills and capabilities
- Interest from millennials and women



Source: [Aberdeen Standard Investments](#)

Economic Impacts of ESG¹

- ESG information associated with economically meaningful effects, ESG disclosure associated with:
 - Lower capital constraints
 - Cost of capital
 - Analyst forecast errors
 - Stock price movements around mandatory ESG disclosure regulations
 - Industry-specific classifications of ESG info identify that is value relevant and predictive of firms' future financial performance
 - Less stock price synchronicity whereby prices are moving more because of firm-specific information

¹Amel-Zadeh, Serafeim. Harvard Business School. Why and How Investors Use ESG Information: Evidence from a Global Survey.