

ULI C Change Case Study: Transition Risk Assessment Guidelines

# Q&A on experiences with the guidelines

Catella Investment Management

**"Our risk management approach has evolved significantly due to the transition risk assessment guidelines."**



**CChange**

# Catella Investment Management, a leading specialist in property investment management in Europe, applied the *ULI C Change Transition Risk Assessment Guidelines* to a multi-tenanted residential development in France. In this case study, Marvie Haas, Head of Impact Investing at Catella, shares the company's approach to identifying transition risks when making investment decisions and their experience with using the C Change guidelines.

## What is your company's approach to assessing transition risks?

Initially, we used the CRREM tool to understand the stranding risk of our assets, which refers to potential write-downs and devaluations due to a building's decarbonisation pathway not being aligned with the Paris Agreement. We supplemented our assessments with additional factors like a building's age, EPC rating and other sustainability certifications, as well as the condition of its HVAC equipment.

Following the development of the ULI C Change Transition Risk Assessment Guidelines, we created an in-house tool that expanded on our existing approach and consolidated material transition risks specific to different asset types and locations. This provided a framework for assessing the costs and benefits of decarbonisation and is now used for every acquisition and disposal.

## What are the benefits of an industry-wide approach?

A common approach ensures that all stakeholders in a transaction have a shared understanding of transition risks and their financial impacts. This allows everyone to look beyond the holding period and see either the long-term value created through decarbonisation, or the "cost of doing nothing", which is the potential value lost if decarbonisation is not pursued. This perspective isn't currently considered within the standard valuation and transaction processes but is crucial for articulating the business case for decarbonisation, and accelerating the industry's progress.

## What was your experience of testing the guidelines through a case study?

A case study was the best way to test the guidelines in a real-world setting, allowing us to quantify transition risks and observe their tangible impact on valuation. The asset we chose was a nearly complete residential development which -

thanks to its strong sustainable design features - had a "low" risk of stranding within the next 10 years, according to CRREM modelling.

A low stranding risk reduced the need for capital expenditure (CapEx) on maintenance and improvements, influencing the decision to retain the asset long-term in order to realise its full value.

Comparing our baseline discounted cash flow model (DCF) with a transition risk-adjusted version, the biggest difference came from applying a carbon price to future embodied carbon emissions associated with efficiency upgrades. The guidelines describe this as a "shadow cost" for owners and managers to consider in their decision making and valuations.

As part of our analysis, we conducted the assessment both with and without shadow costs. Factoring in carbon pricing and embodied carbon into our modelling gave us a much clearer picture of potential risks and their financial impacts.

### How did the assessment impact asset value, both quantitatively and qualitatively?

The assessment revealed a green premium for the asset, with the extent of impact depending on the methodology used for calculating the exit yield. We worked with multiple scenarios to gauge how different exit yield approaches influenced valuation outcomes. In some cases, the impact was significant, while in others, it was less pronounced, emphasising the need for more industry-wide consistency.

While our in-house tool does not yet include qualitative analysis, there is a growing recognition of how transition risks can impact access to finance, as lenders increasingly prioritise sustainability. This is something that we would like to understand and incorporate more into our calculations.

### Have the guidelines influenced your investment decision making and long-term planning for asset operation, maintenance and CapEx?

Our risk management approach has evolved significantly due to the transition risk assessment guidelines. While we have always considered transition risks in our investment processes, the guidelines provide quantifiable metrics, making it easier to integrate them into our calculations and the buy/hold/sell analysis. The results offer our internal decision makers, investors and other stakeholders a clear view of the impact decarbonisation can have on a property's long-term value.

### What were the main transition risks identified, and how did they impact financial modelling?

The assessment highlighted key material transition risks which could influence Catella's investment decision-making, beyond the obvious decarbonisation costs:

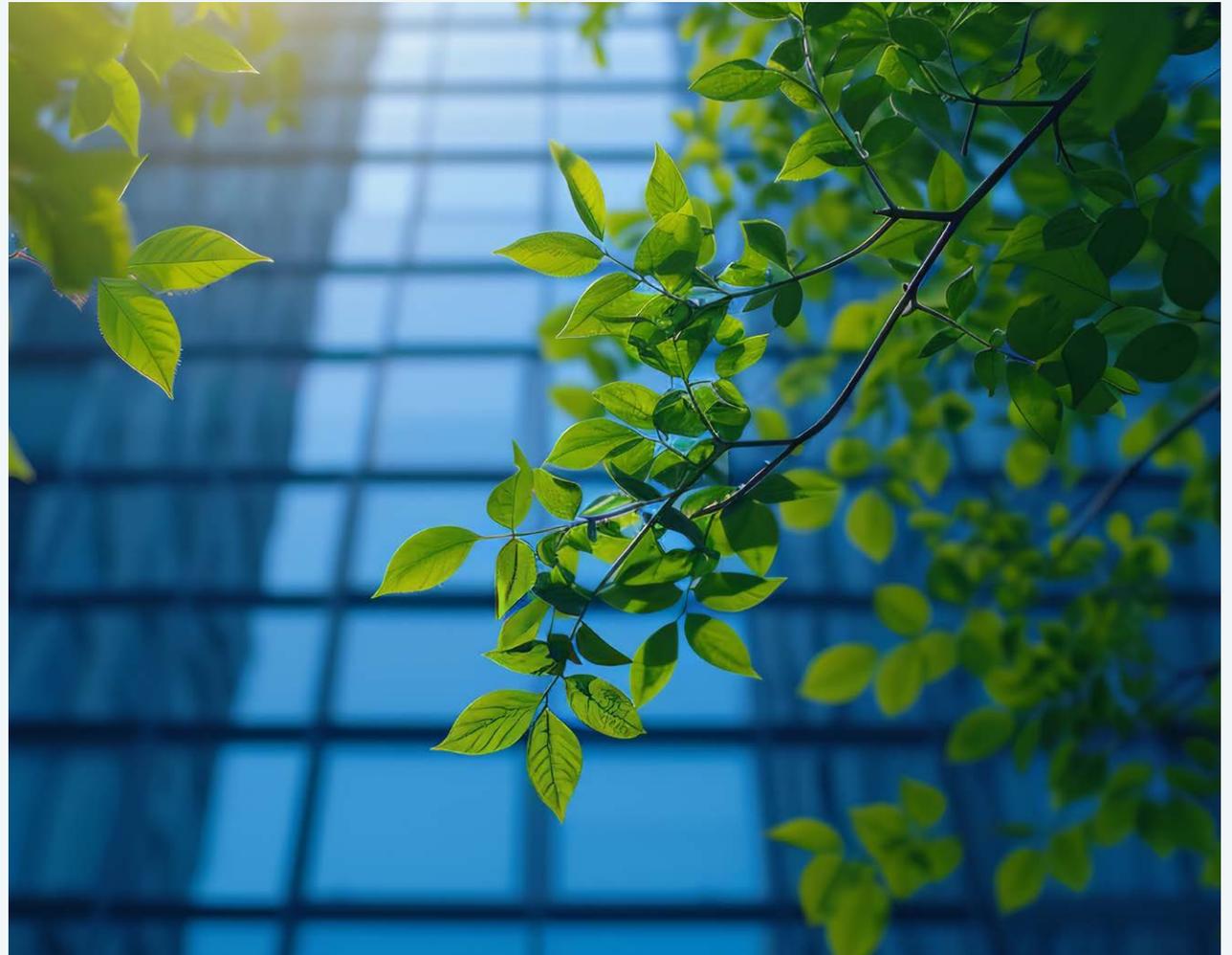
- 1. Energy costs** for this asset are impacted by onsite generation of renewable energy, offering two key financial benefits:
  - Lower Operating Costs – Surplus energy from onsite renewables helps offset the landlord's energy bills for the common area, directly reducing operational expenses. This enhances cost efficiency and improves the asset's overall sustainability profile.
  - Additional Income Stream – Surplus energy is sold back to the grid, and the resulting income is redistributed to tenants, improving gross rent affordability. This approach not only supports tenant retention but also strengthens the property's market competitiveness.
- 2. Exit yield** in this case can be affected by different factors:
  - Sustainability-Linked Pricing – Investors increasingly price assets based on sustainability credentials. Properties with strong energy efficiency, low carbon emissions, and full regulatory compliance are perceived as lower-risk investments. This can lead to a lower risk premium, resulting in a higher valuation and a more favourable exit yield.
  - CapEx Recovery – On the contrary, properties requiring significant CapEx to meet ESG standards may see this reflected as a discount on their selling price. Buyers factor in retrofitting and compliance costs, potentially leading to a higher exit yield (lower valuation) for assets that are not already low in carbon.
  - Energy Savings Recovery – Properties with low energy bills - due to high efficiency or onsite renewables - may see this cost advantage capitalised into their exit yield.
- 3. Carbon price** in this assessment has been calculated based on different scenarios, factoring in potential inflation of this price over the next 10 years, using reputable sources. This calculation considers the possibility of carbon pricing exceeding the CRREM (Carbon Risk Real Estate Monitor) compliance thresholds.

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For developments similar to the one in our case study, which is already prioritising sustainability and wouldn't require much maintenance or CapEx over the next ten years, transition risk assessment can reveal hidden reserve value or the potential for increasing capital gains and the investment's resilience, when compared to that of a “brown property”. This supports the business case for decarbonisation and reinforces our preference for long-term ownership and strategic focus on acquiring similar assets with high sustainability credentials.

## **What challenges did you encounter when using the guidelines?**

The guidelines were a valuable resource for us; however, some aspects remain broadly defined and open to interpretation. Although this allows for flexibility for different asset types and geographies, it also poses challenges in achieving a truly consistent, industry-wide approach. For example, as a next step, it would be useful to standardise data sources and assumptions underpinning the guidelines. We would also welcome more clarity on how to account for embodied carbon in future property improvements. A common approach to carbon pricing across the value chain is important



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too, including alignment on inflation scenarios to help standardise projections. The C Change [Universal Principles for Carbon Pricing in the Real Estate Sector](#) are already addressing some of these issues.

## What was your experience with collecting data required for the transition risk-adjusted DCF model?

Data on energy surplus and, to some extent, decarbonisation costs were relatively easy to obtain, although the latter is not always readily available across the industry. The biggest challenge was calculating the exit yield, given the variations in methodology across asset classes and scenarios. Avoiding double counting, especially regarding CapEx recovery and energy savings capitalisation at the exit yield was also complex. Standardising exit yield calculations would help address these issues.

## What is your approach to sharing the results of transition risk assessments?

We are generally comfortable sharing anonymised results from our in-house assessment tool, as long as investors and stakeholders agree. However, legal constraints, such as NDAs and

similar protections, often limit the ability to share data with transacting parties and other external stakeholders.

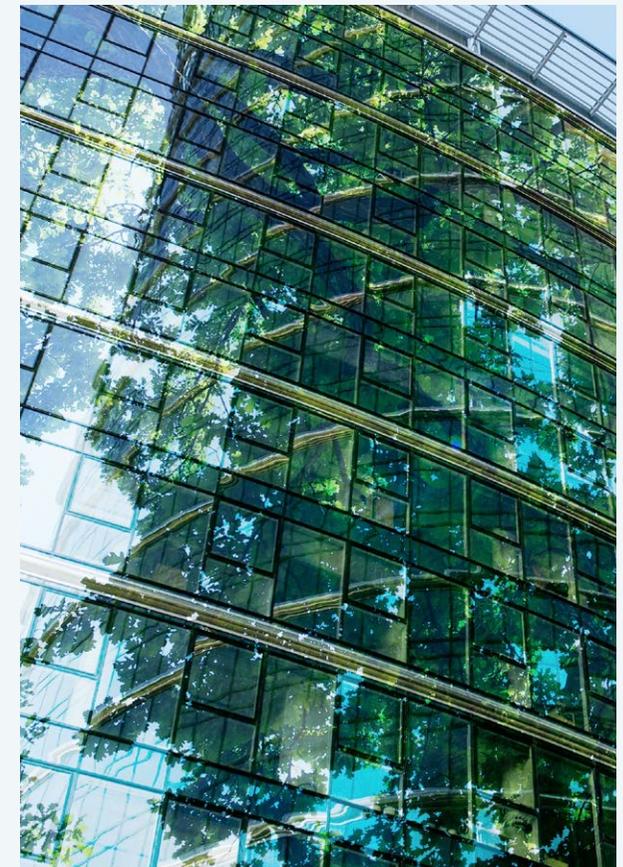
## Will you integrate the guidelines into future assessments?

We have already integrated the guidelines into our assessments and plan to incorporate the forthcoming [Preserve tool](#) into our investment decisions once available. As it stands, we have expanded the use of our interim in-house tool across all assets within one portfolio as a pilot project, which allowed us to compare the results between different assets with varying ESG credentials within the same portfolio.

## What was your overall experience using the guidelines, and would you recommend them to others?

Our experience with the guidelines was positive. Though some clarifications and refinements would enhance consistency in its application, it is a fantastic resource that provides valuable insights for integrating transition risks into risk assessment and buy/hold/sell analysis. We highly recommend other real estate companies test the guidelines and share feedback to help promote

wider adoption and standardisation, reducing interpretation gaps until tools like Preserve are fully developed.



## About ULI Europe

The Urban Land Institute is a non-profit education and research institute supported by its members. Its mission is to shape the future of the built environment for transformative impact in communities worldwide. Established in 1936, the institute has over 48,000 members worldwide representing all aspects of land use and development disciplines.

In Europe, ULI has almost 5,500 members across 15 National Council country networks.

For more information on ULI, please visit <https://europe.uli.org>

## About C Change

C Change is a ULI-led programme to mobilise the European real estate industry to decarbonise. We're a movement empowering everyone to work together for a sustainable future. We connect the brightest minds from across the value chain. We challenge barriers, share expertise, and champion innovation to move swiftly to accelerate solutions that will transform our industry and protect our planet. C Change means real change.

C Change was formed in late 2021 by a group of leading real estate players that was united in its aim to focus on collaboration to ensure companies large and small have access to practical solutions and education on decarbonisation.

Please visit: <https://cchange.uli.org/>

## About the Transition Risk Assessment Guidelines

The Transition Risk Assessment Guidelines were launched by ULI in 2023 as part of the C Change programme, with the intention of providing a standardised approach to assess and disclose climate-related transition risks as part of property valuations. The guidelines are designed to support owners and managers to assess the impact of 12 transition risks which are material to real estate assets over the time series of an investment; both now and in the future. The adoption of these guidelines in the industry can help remove critical barriers, provide consolidation and enable us to accelerate the transition to a low carbon built environment.

You can read the guidelines [here](#).

## About Catella Investment Management

Catella Investment Management GmbH (CIM) is an independent and entrepreneurial real estate investment advisor for funds and mandates with assets under management of approximately EUR 10 billion. As a subsidiary of the Stockholm-based Catella AB, CIM advises more than 25 mutual funds and special real estate funds as well as several mandates across 15 European countries, with a focus on residential, mixed-use, parking, and logistics properties. CIM provides (advisory) services in research, portfolio management, acquisitions, disposals, and asset management. The company operates offices in Berlin, Munich, and Vienna.

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