



Change is Coming: Climate Risk Disclosures and Real Estate Investment

October 4th 2023

Panelists – 11 am ET



Billy Grayson
Executive Vice President, Centers
and Initiatives
The Urban Land Institute



Laura Craft
Global Head of Portfolio
Sustainability Strategies
Heitman



Shivaram Rajgopal
Kester and Byrnes Professor
Columbia Business School (CBS)

Panelists – 9 pm ET



Billy Grayson

Chief Initiatives Officer
The Urban Land Institute



Laura Craft

Global Head of Portfolio
Sustainability Strategies
Heitman



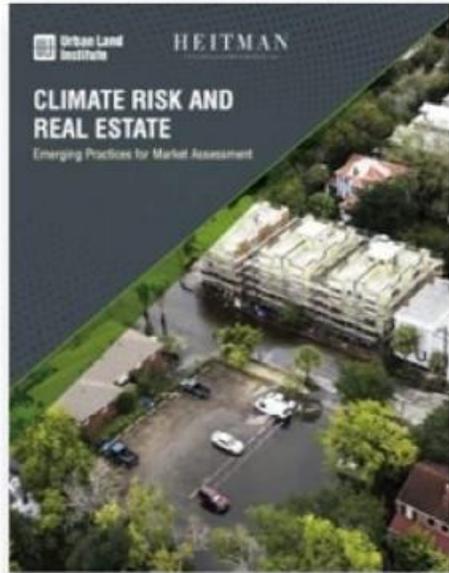
Aniket Shah

Managing Director and Global
Head of ESG and Sustainable
Finance Strategy
Jefferies Group LLC

The ULI – Heitman Climate Risk Series



2019



2020



2022



2023



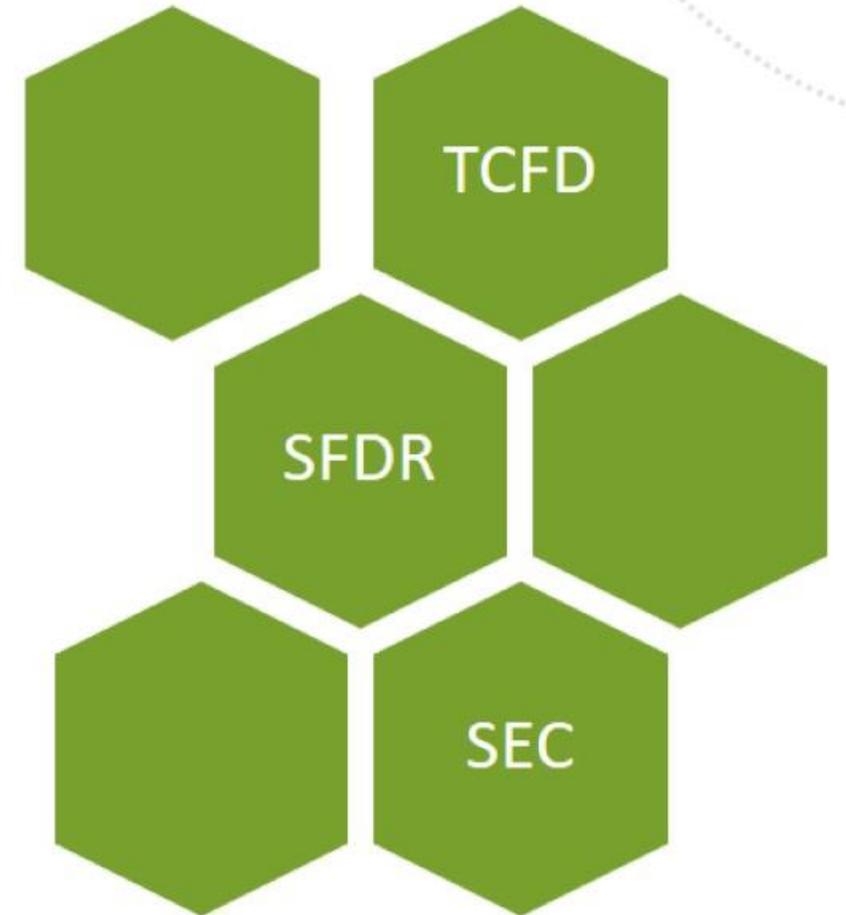
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A REAL ESTATE INVESTMENT MANAGEMENT FIRM

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The present and future of climate regulation – from 50,000 feet

- Transparency and disclosure
- Design and Performance-based requirements
- Targets, fines, and a price on transition risk
- Marketing and Communications on ESG



Setting the Stage – the Global Climate-Disclosure Landscape

- Task Force on Climate-Related Financial Disclosures (TCFD)
 - SEC's Proposed Rule on Climate-Related Disclosures for Investors
- Sustainable Finance Disclosure Regulation (SFDR)
- Local and regional regulations
 - Energy Performance Certificates (EPCs) in Europe
 - Building Performance Standards (BPSs) in the US
 - Disclosure standards in Asia, and worldwide

THE FUTURE OF REPORTING



BUSINESS AS USUAL

Profit and loss statements

Annual reporting

Quarterly reporting

Voluntary sustainability reporting (e.g., annual reports, TCFD, GRESB)



ON THE HORIZON

Business as usual, plus mandatory disclosure of:

Verified greenhouse gas emissions

Physical climate-risk assessments

Fund classifications

HOW INVESTMENT MANAGERS CAN LEAD ON CLIMATE

Leadership as “Change is Coming?”

- Develop a baseline and track your ESG impacts
- Assess your portfolio (for physical and transition risk in the new regulatory environment)
- Get started with voluntary reporting standards and tools (TCFD, SBTI, GRESB)
- Proactively address climate in product offerings, and at the asset level (clear, data-driven marketing and communications)



SEC (US)

THE U.S. SECURITIES AND EXCHANGE COMMISSION

PROPOSED RULE ON CLIMATE-RELATED DISCLOSURES FOR INVESTORS

FIRM DISCLOSURES

- Material Physical Climate Risks
- Greenhouse Gas Emissions
- Climate Targets and Transition Plans

TYPES OF CLIMATE-RELATED RISKS IMPACTING REAL ESTATE



PHYSICAL

- Extreme weather
- Heat stress
- Floods
- Rising sea levels
- Wildfire
- Prolonged drought/ water stress



TRANSITIONAL

- Regulatory changes
- Resource availability
- Greenhouse gas emissions
- Increased insurance costs
- Higher taxes
- Change in investor demand

CLIMATE-RELATED RISKS

Capital Markets

- Reduced investor interest
- Reduced exit value
- Higher loan rates

Rental Revenue

- Reduced occupier demand

Operating Expenses

- Increased operating expenses (maintenance and resource costs)
- Increased insurance
- Increased real estate taxes

Capital Improvements

- Increased capital expenditures

MARKET RISK



PROPERTY RISK



CONSIDER AN ASSESSMENT OF:

Asset Level Climate Risk

Market Level Climate Risk

Portfolio Level Climate Risk



POSSIBLE NEXT STEPS:

- Additional due diligence required
- Increased insurance and operating expenses
- Further analysis regarding potential exit value
- Decision not to proceed with an investment

TCFD (Taskforce on Climate-Related Financial Disclosures) Framework as Guide

TCFD RECOMMENDATIONS	Governance	Strategy	Risk Management	Metrics and Targets
	Governance around climate-related risks and opportunities.	Disclose the actual and potential financial impacts of climate related risks and opportunities	How the organization identifies, assesses, and manages climate-related risks	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities
CONSIDERATIONS FOR IMPLEMENTATION	<p>Dedicated sustainability team</p> <p>Senior leadership oversight</p>	<p>Frequent internal reviews/reporting requirements</p> <p>Integration into business plans</p> <p>Formal analysis of all new investments</p>	<p>Assess portfolio and asset risk related to:</p> <ul style="list-style-type: none"> • Physical risks • Transition risks <p>Look for opportunities with accretive payback periods that reduce on site energy usage and carbon emissions</p>	<p>Example Targets</p> <ul style="list-style-type: none"> • Review of energy & carbon reductions and asset project implementations • Portfolio climate risk threshold monitoring <p>Example Metrics</p> <ul style="list-style-type: none"> • Energy, renewable energy, carbon, water, waste, certifications & energy ratings

Disclosure: Transparency is a key component of TCFD alignment. Investment managers should disclose their approach to climate-related risks and opportunities, including how they integrate climate economic considerations into their investment processes.
 Reporting: Report on climate-related activities and performance in alignment with TCFD recommendations. Provide clear and consistent information to clients and stakeholders about how climate economic considerations are integrated into investment decisions.

SFDR (Europe)

SUSTAINABLE FINANCE DISCLOSURE REGULATION

ALL FUNDS MARKETED IN EU MUST BE CATEGORIZED

ARTICLE 6

May integrate sustainability risk into decision making but are not promoted as having ESG characteristics or objectives

ARTICLE 8

Product promotes environmental or social characteristics

ARTICLE 9

Sustainable investment as the product objective

SEC (US)

THE U.S. SECURITIES AND EXCHANGE COMMISSION

FUNDS TO FOLLOW PROPOSED AMENDMENT TO "NAMES RULE"

FUND NAME

80% of assets must align with the fund's name

- Fund names with terms such as "growth" or "value"
- Fund names indicating that the fund's investment decisions incorporate one or more environmental, social, or governance ("ESG") factors

North America

Baseline Regulation:

Energy disclosure & benchmarking requirements

Advanced Local Regulation:

Carbon limits and fines

Europe

Baseline Regulation:

Energy Performance Certificates (EPC) benchmarking requirements

Advanced Local Regulation:

Minimum EPC rating requirement for letting

Asia-Pacific

Baseline Regulation:

Energy disclosure & benchmarking requirements

Advanced Local Regulation:

Minimum new construction & retrofit energy rating requirement



REGULATORY BUILDING REQUIREMENTS COULD TRIGGER:

Unexpected additional CapEx requirements

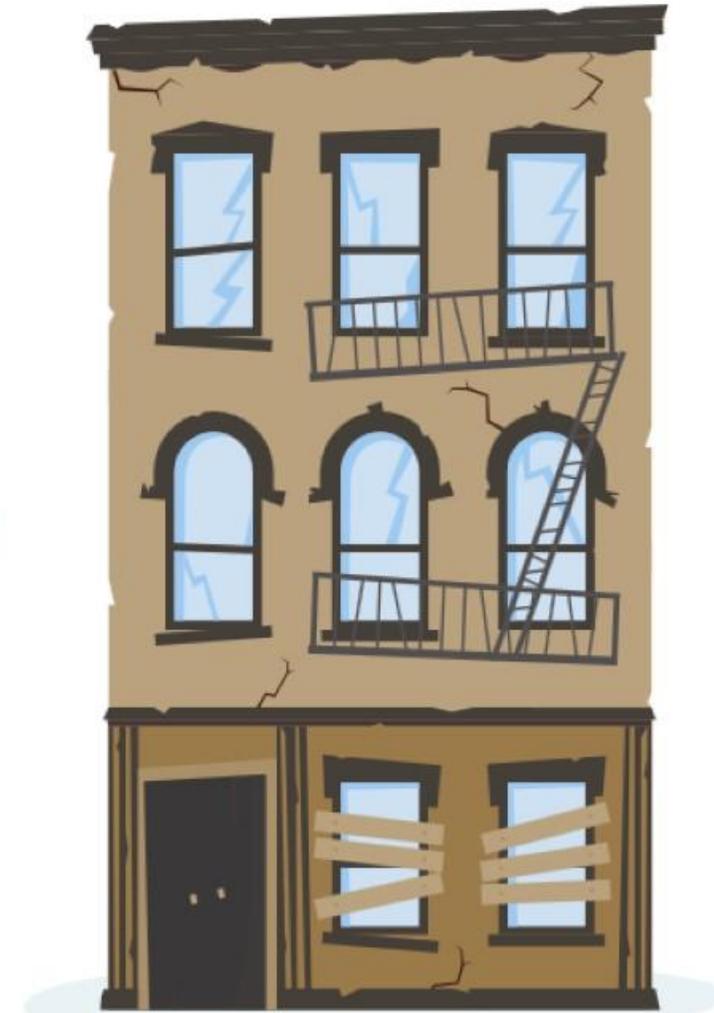
Less liquidity from investors and lenders for
non-compliant buildings

Less demand from tenants with sustainability
targets

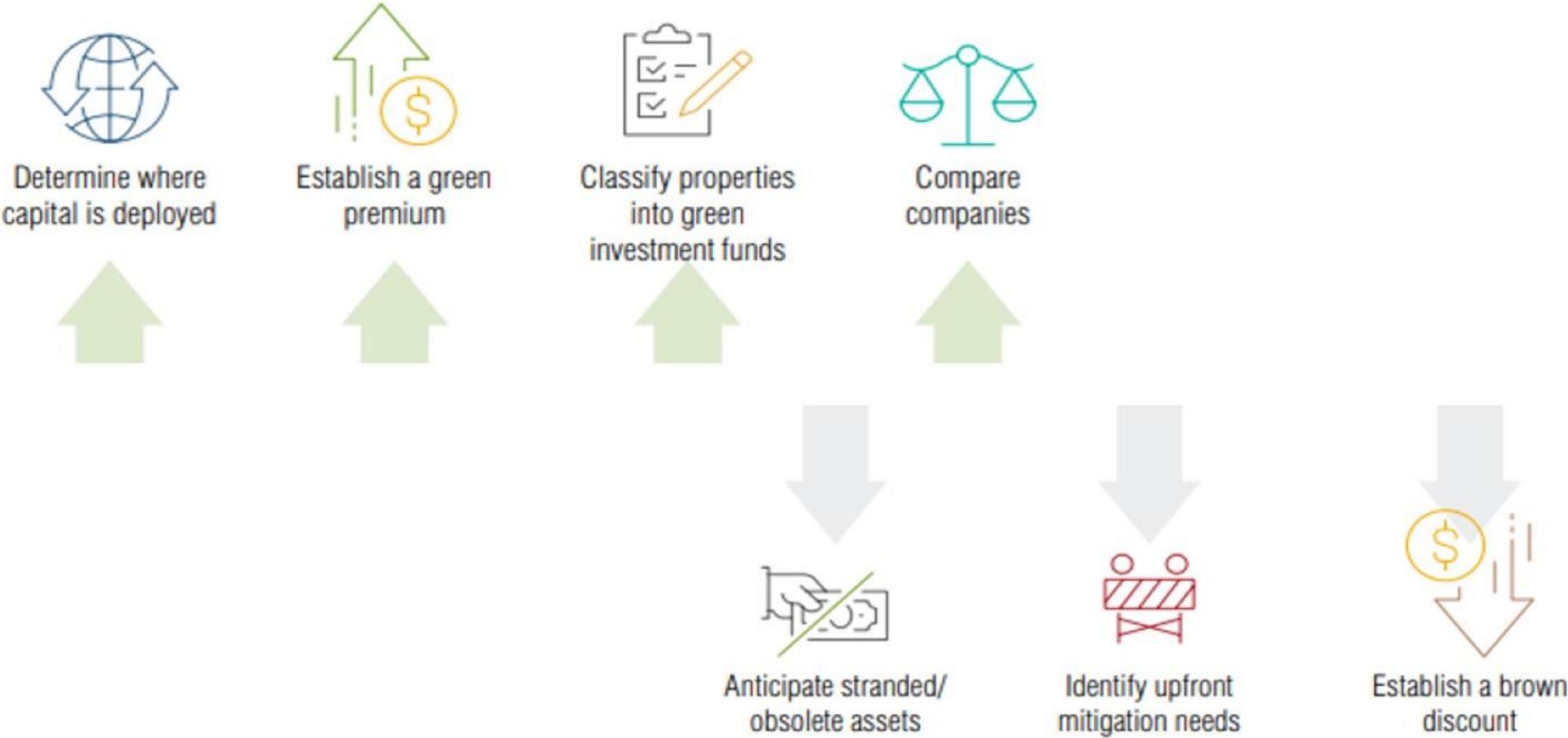
Loss of ability to lease or sell a property

Additional time and consulting fees

Reputational risk



How Can Investors and Investment Managers Use the Data To Their Economic Advantage?



FROM VOLUNTARY TO MANDATORY DISCLOSURE, INVESTMENT MANAGERS SHOULD CONSIDER

Identifying regulatory risks impacting firm,
products and buildings

Managing and underwriting the risks

Disclosing and reporting results to investors



