



Webinar

Change is Coming: Climate Risk Disclosures and Real Estate Investment

(US/APAC)

Date: October 13, 2023

00:00:00 --> 00:00:01: Hi, everybody.

00:00:01 --> 00:00:04: Welcome to our ULI webinar today.

00:00:04 --> 00:00:08: Change is coming, climate risk disclosures and real estate investment.

00:00:08 --> 00:00:12: I'm Billy Grayson, your faithful moderator.

00:00:12 --> 00:00:14: Today, we're just going to wait a minute or two

00:00:14 --> 00:00:17: until everybody can get into the webinar, and then we'll

00:00:17 --> 00:00:18: get started in a minute.

00:00:43 --> 00:00:46: Hello, and welcome to those of you that are rolling

00:00:46 --> 00:00:48: into the webinar right now.

00:00:48 --> 00:00:50: I'm Billy Grayson, your moderator.

00:00:50 --> 00:00:51: This is the ULI webinar.

00:00:51 --> 00:00:52: Change is coming.

00:00:53 --> 00:00:55: Climate risk disclosure and real estate investment.

00:00:56 --> 00:00:59: We're going to wait just one more minute for people

00:00:59 --> 00:01:01: to roll into the webinar, and then we'll get started.

00:01:21 --> 00:01:22: All right, One more time with feeling.

00:01:23 --> 00:01:24: Hello, everyone.

00:01:24 --> 00:01:27: Welcome to our Urban Land Institute webinar today.

00:01:27 --> 00:01:29: I'm Billy Grayson, your moderator.

00:01:30 --> 00:01:34: This is utilize webinar changes coming climate risk disclosure and

00:01:34 --> 00:01:35: real estate investment.

00:01:36 --> 00:01:38: Very excited about our webinar today.

00:01:38 --> 00:01:42: Joining me to talk about climate risk and real estate

00:01:42 --> 00:01:46: investment is Laura Kraft, the Global Head of Portfolio Strategies

00:01:46 --> 00:01:47: at Heitman.

00:01:49 --> 00:01:52: Annika Shaw, the Managing Director and Global Head of ESG

00:01:52 --> 00:01:55: and Sustainable Finance Strategy for Jeffries.

00:01:55 --> 00:01:59: I'm Billy Grayson, Chief Initiatives Officer at the Urban Land

00:01:59 --> 00:01:59: Institute.

00:02:01 --> 00:02:05: We're very excited to be releasing report #4 in our

00:02:05 --> 00:02:09: collaboration between ULI and Heitmann on climate risk and real

00:02:09 --> 00:02:10: estate investment.

00:02:11 --> 00:02:15: We began this collaboration way back in 2019, which at

00:02:15 --> 00:02:19: the time we were just starting to catalyze a discussion

00:02:19 --> 00:02:23: on how climate risk and real estate investment worked and

00:02:23 --> 00:02:28: what investment managers could do to better assess and price

00:02:28 --> 00:02:31: and mitigate this risk in their portfolios.

00:02:32 --> 00:02:35: Our second report with Heitmann looked at market level risk

00:02:35 --> 00:02:38: and how a city's climate risk and resilience strategy can

00:02:38 --> 00:02:41: impact outcomes for all assets within a region.

00:02:42 --> 00:02:45: Our third report looked at the emerging trend of climate

00:02:45 --> 00:02:48: driven global migration and explored how investors in the public

00:02:48 --> 00:02:52: sector can better prepare for and adapt to these changing

00:02:52 --> 00:02:53: demographic patterns.

00:02:54 --> 00:02:57: Our newest report in the series looks at the acceleration

00:02:57 --> 00:03:00: of climate and ESG related regulation and the impact that

00:03:00 --> 00:03:03: these new regulations will have on transition risk, a growing

00:03:03 --> 00:03:06: component of the overall risk picture for climate risk in

00:03:06 --> 00:03:08: real estate investment.

00:03:09 --> 00:03:09: Next slide.

00:03:12 --> 00:03:15: So we titled our report Changes Coming, but a more

00:03:15 --> 00:03:19: appropriate title might be Changes Already Here and More Change

00:03:19 --> 00:03:20: is Changing Every Day.

00:03:21 --> 00:03:25: I wanted to start by sharing some reflections and observations

00:03:25 --> 00:03:29: about what we're seeing happening with climate and ESG regulation

00:03:29 --> 00:03:31: in the last few years, as well as some of

00:03:31 --> 00:03:33: what we see on the horizon.

00:03:33 --> 00:03:37: The first thing I want to share about this growing

00:03:37 --> 00:03:41: regulatory regime around climate, risk and climate and ESG disclosure

00:03:41 --> 00:03:44: is that it's changing every day.

00:03:44 --> 00:03:48: The Urban Land Institute does an annual ESG policy scan

00:03:48 --> 00:03:52: with our green print members for a policy database and

00:03:52 --> 00:03:56: we're currently tracking over 100 global, federal, global

00:03:56 --> 00:04:01: federal and sub federal policies, regulations and incentive programs

connected to ESG disclosure and ESG performance.

00:04:01 --> 00:04:03: And for better or worse, this database is continuously out of date as these new regulations get passed.

00:04:04 --> 00:04:07: Second thing I'd like to note is that the policies that we're seeing in the marketplace right now on ESG and climate will impact real estate investors at every level of their business.

00:04:07 --> 00:04:09: Some of these policies are focused on the asset level, some at the fun level and some at the overall corporate level.

00:04:11 --> 00:04:14: Some of these policies are global, but many if not most are national and sub national and they're very dramatically often in the market that you're in.

00:04:14 --> 00:04:17: And then virtually all of these ESG policies fall into three major themes.

00:04:17 --> 00:04:21: First, regulations that focus on data transparency and data quality.

00:04:21 --> 00:04:22: 2nd, regulations that will have an impact on the green premium for high performing ESG companies, funds and assets as well as the brown discount, whether that's through fines or stricter construction standards for new buildings.

00:04:23 --> 00:04:26: And finally, regulations that are going to impact your marketing and communications around climate and ESG, whether this is in your marketing materials, how you characterize an investment fund that you're building or even what you can say in public on a webinar like this about your programs.

00:04:26 --> 00:04:28: It's a fascinating and ever changing market environment.

00:04:29 --> 00:04:29: Next slide please.

00:04:30 --> 00:04:33: So I'd like to provide a a high level overview of a couple of the global, regional and national standards that we see having the greatest impact on the market today.

00:04:33 --> 00:04:37: The first one I'd like to introduce people to who may already know about it.

00:04:37 --> 00:04:39: If you don't know about it already, it's the Task Force on Climate Related Financial Disclosures or TCFDTCFD by itself

00:05:52 --> 00:05:56: is a voluntary standard that helps companies align their corporate

00:05:56 --> 00:05:59: reporting with integrated Financial Reporting standards.

00:06:00 --> 00:06:04: It requires specific disclosure on climate related risks and opportunities

00:06:04 --> 00:06:06: that your company and your asset will face, both in

00:06:06 --> 00:06:08: the short and the long term.

00:06:09 --> 00:06:13: TCFD is a voluntary standard, but it's moving from being

00:06:13 --> 00:06:17: a solely voluntary standard to a regulatory standard in many

00:06:17 --> 00:06:17: markets.

00:06:18 --> 00:06:22: The proposed SEC rule in the United States references TCFD&TCFD

00:06:22 --> 00:06:27: is a recognized reporting framework or aligns closely with the

00:06:27 --> 00:06:31: national ESG reporting guidelines being released at the national level

00:06:32 --> 00:06:36: for publicly traded companies in Hong Kong, Switzerland, New Zealand,

00:06:36 --> 00:06:40: Singapore, Japan, and several other countries.

00:06:42 --> 00:06:45: The second regulation I'd like to highlight is SFDR, the

00:06:45 --> 00:06:48: Sustainable Finance Disclosure Regulation.

00:06:49 --> 00:06:50: This is a European regulation.

00:06:50 --> 00:06:54: It's mandatory and requires comprehensive ESG reporting at both the

00:06:54 --> 00:06:57: corporate and the product level, and those are asked for

00:06:57 --> 00:06:58: in real estate.

00:06:58 --> 00:07:00: Product means real estate asset.

00:07:01 --> 00:07:04: It makes ESG reporting mandatory for all entities over a

00:07:04 --> 00:07:07: certain size headquartered in or doing business in the EU.

00:07:08 --> 00:07:11: And it requires fund managers to rate their funds based

00:07:11 --> 00:07:13: on the level of ESG strategy of fund contains.

00:07:14 --> 00:07:17: And this data is disclosed to investors, many of whom

00:07:17 --> 00:07:22: are increasingly require some sustainability integration, which in SFDR speak

00:07:22 --> 00:07:26: means that they are requiring funds that are rated at

00:07:26 --> 00:07:29: a level 8 or 9 as opposed to level 6.

00:07:31 --> 00:07:35: Finally, I'd like to share a third category that we

00:07:35 --> 00:07:38: see growing at the city and national level.

00:07:38 --> 00:07:43: And these are energy performance certificates, primarily in Europe, and

00:07:43 --> 00:07:46: building performance standards primarily in the US.

00:07:47 --> 00:07:50: One example of a building performance standard is Local Law

00:07:51 --> 00:07:53: 97 in New York City, but there are several of

00:07:54 --> 00:07:56: these in London, California, Washington, DC.

00:07:57 --> 00:08:00: They require new construction to meet a net zero or
00:08:00 --> 00:08:04: net zero ready standard by 20-30 or sooner, and they
00:08:04 --> 00:08:08: also require existing buildings to meet an energy or climate
00:08:08 --> 00:08:12: performance standard by a certain date or face significant
fine
00:08:12 --> 00:08:15: until they come into compliance.
00:08:16 --> 00:08:20: These regulations apply to both new construction and
existing assets,
00:08:20 --> 00:08:23: although they often treat them differently, and in some cases
00:08:23 --> 00:08:27: they can even mean that an existing asset could lose
00:08:27 --> 00:08:30: its certificate of occupancy if it can't meet a certain
00:08:30 --> 00:08:31: performance standard.
00:08:32 --> 00:08:35: Germany, the Netherlands, France, and the UK all have an
00:08:35 --> 00:08:36: EPC based scheme.
00:08:36 --> 00:08:40: New York City, Washington DC, most cities in the state
00:08:40 --> 00:08:43: of California and Boston, MA all have a version of
00:08:43 --> 00:08:46: the BPS, as well as more than a dozen other
00:08:46 --> 00:08:46: U.S.
00:08:46 --> 00:08:47: cities and counties.
00:08:49 --> 00:08:52: I'll also note that the EU taxonomy and existing SEC
00:08:52 --> 00:08:55: rules have also increased the level of scrutiny on ESG
00:08:55 --> 00:08:58: reporting in an effort to ensure ESG related products are
00:08:58 --> 00:09:00: correctly labeled and communicated.
00:09:01 --> 00:09:04: This is an effort to head off what many call
00:09:04 --> 00:09:09: greenwashing or overstating the environmental and ESG
claims associated with
00:09:09 --> 00:09:12: a specific product or corporate performance.
00:09:13 --> 00:09:17: As a result, we're seeing more and more companies bringing
00:09:17 --> 00:09:20: in legal counsel to review ESG claims and marketing and
00:09:20 --> 00:09:26: investment prospectus, prospective prospectuses and also
following some major investigations
00:09:26 --> 00:09:31: and fines for companies that regulators felt overstated their
environmental
00:09:31 --> 00:09:34: performance on their assets or their investment portfolios.
00:09:36 --> 00:09:36: Next slide.
00:09:40 --> 00:09:43: So what is this going to mean for integrated corporate
00:09:43 --> 00:09:44: reporting?
00:09:44 --> 00:09:46: Well, business as usual looks like this.
00:09:46 --> 00:09:51: Profit and loss statements, annual reporting, quarterly
reporting and voluntary
00:09:51 --> 00:09:54: sustainability reporting like an annual report or a TCFD or
00:09:54 --> 00:09:55: GRASS report.
00:09:56 --> 00:09:59: The future of reporting will look like business as usual,

00:09:59 --> 00:10:04: plus a mandatory disclosure of verified greenhouse gas emissions, physical

00:10:04 --> 00:10:08: climate risk assessments and more ESG related fund classifications.

00:10:10 --> 00:10:14: So what is a forward thinking investor to do in

00:10:14 --> 00:10:18: real estate as they try and navigate this everchanging regulatory

00:10:18 --> 00:10:19: environment?

00:10:20 --> 00:10:23: Well, the leaders that we surveyed for the report hit

00:10:23 --> 00:10:27: on four key themes to prepare for this everchanging world

00:10:27 --> 00:10:29: of ESG regulatory environments.

00:10:30 --> 00:10:33: First, develop a baseline and track your ESG impacts.

00:10:34 --> 00:10:37: Second, if you haven't already, do a complete assessment of

00:10:37 --> 00:10:41: your portfolio, not just for physical climate risk, but also

00:10:41 --> 00:10:44: for the transition risks that are emerging in this new

00:10:44 --> 00:10:45: regulatory environment.

00:10:46 --> 00:10:49: 3rd If you haven't started already, get some practice to

00:10:49 --> 00:10:54: prepare for these regulations with voluntary reporting standards and tools.

00:10:54 --> 00:10:57: TCFD has been an important tool for many ULI member

00:10:57 --> 00:11:01: companies as they prepare to report for SFDR as they

00:11:01 --> 00:11:04: get ready for the SCC climate rule and as they

00:11:04 --> 00:11:07: get ready to report on many of the stock exchanges

00:11:07 --> 00:11:09: that have adopted TCFD.

00:11:10 --> 00:11:14: And then finally proactively start addressing climate risk and

00:11:14 --> 00:11:17: product offerings and at the asset level with clear data-driven

00:11:17 --> 00:11:19: marketing and communications.

00:11:20 --> 00:11:22: Now we're lucky enough today to be joined by one

00:11:23 --> 00:11:26: of those very forward thinking climate risk savvy real estate

00:11:26 --> 00:11:27: investment managers.

00:11:28 --> 00:11:30: So at this point, I'd like to turn it over

00:11:30 --> 00:11:33: to Laura Kraft from Heidman to share a little bit

00:11:33 --> 00:11:36: about what she's seeing in the marketplace and her and

00:11:36 --> 00:11:38: their approach to assessing climate risk.

00:11:40 --> 00:11:42: Billy, appreciate that and thanks for also.

00:11:42 --> 00:11:47: Setting the landscape around regulations, so I work for

00:11:47 --> 00:11:50: Heitmann.

00:11:50 --> 00:11:52: We are an investment manager with over 50 billion assets

00:11:53 --> 00:11:56: under management around the globe.

00:11:56 --> 00:11:59: And what I'm going to go through is some of

00:11:59 --> 00:12:01: the regulations that are impacting at the firm level, the

00:11:59 --> 00:12:01: fund level and the building level.

00:12:01 --> 00:12:04: So at the firm level what we're seeing is.

00:12:05 --> 00:12:08: Firms are are going to need to be able to

00:12:08 --> 00:12:12: disclose climate related risk within at the company level, The

00:12:12 --> 00:12:16: proposed SCC regulations really hone in on three different areas,

00:12:17 --> 00:12:22: material physical climate risk, greenhouse gas emissions, climate targets and

00:12:22 --> 00:12:23: transition plants.

00:12:24 --> 00:12:26: So talk about climate risk.

00:12:26 --> 00:12:28: As it relates to real estate, we tend to talk

00:12:28 --> 00:12:32: about it from two different angles, the physical risk and

00:12:32 --> 00:12:35: the transition risk, so real estate investment.

00:12:35 --> 00:12:40: Managers have portfolios of real estate, so buildings in particular

00:12:40 --> 00:12:46: locations, and those locations are vulnerable to extreme weather events

00:12:46 --> 00:12:51: such as hurricanes, typhoons, droughts, flooding, sea level rise, wildfire.

00:12:51 --> 00:12:53: So all of these things could occur.

00:12:53 --> 00:12:56: And so if you have a portfolio of assets in

00:12:56 --> 00:12:59: various locations, you want to understand?

00:12:59 --> 00:13:03: The threat of any of these physical events to your

00:13:03 --> 00:13:08: portfolio beyond just the physical threat, we also want to

00:13:08 --> 00:13:10: know the transition risk.

00:13:10 --> 00:13:14: So transition relates to any kind of regulatory changes that

00:13:14 --> 00:13:16: could occur at the the fun level, at the firm

00:13:16 --> 00:13:18: level and the local level.

00:13:18 --> 00:13:21: So and how that could impact a portfolio.

00:13:22 --> 00:13:24: Beyond that it's around resource availability.

00:13:24 --> 00:13:26: So you have an asset that needs.

00:13:27 --> 00:13:28: Access to energy and water.

00:13:29 --> 00:13:32: What's that availability for your portfolio?

00:13:33 --> 00:13:36: Is there going to be a strain on particular assets

00:13:36 --> 00:13:37: within your portfolio?

00:13:38 --> 00:13:43: Additionally, portfolios need to track greenhouse gas emissions, how much

00:13:43 --> 00:13:47: carbon is being emitted from your portfolio and trying to

00:13:47 --> 00:13:50: find ways to reduce the carbon emissions from a real

00:13:51 --> 00:13:52: estate perspective.

00:13:52 --> 00:13:55: We also very much care about insurance and taxes.

00:13:56 --> 00:14:00: Insurance is a is a a line item that we've

00:14:00 --> 00:14:05: been very focused on recently as insurance rates have been

00:14:05 --> 00:14:10: going up more than normal with the the most impacted

00:14:10 --> 00:14:14: events in history over the past few years.

00:14:14 --> 00:14:17: So insurance is a major factor that we look at.

00:14:18 --> 00:14:21: And then lastly, change an investor demand, if you have

00:14:21 --> 00:14:23: a portfolio of of assets and you plan to sell

00:14:23 --> 00:14:26: some of those assets, is there still demand in those

00:14:27 --> 00:14:30: markets or is that demand shifting because of some of

00:14:30 --> 00:14:30: these risks?

00:14:34 --> 00:14:36: So just to really translate and hone it down into

00:14:36 --> 00:14:39: the financials, the left side are some of the things

00:14:39 --> 00:14:42: that could occur that would impact property valuations.

00:14:42 --> 00:14:45: So as I mentioned, if you have reduced demand, then

00:14:45 --> 00:14:49: that would mean that you know, there's more risk associated

00:14:49 --> 00:14:52: to that asset, which would drive down that property valuation.

00:14:53 --> 00:14:57: You could have additional operating expenses like I

00:14:57 --> 00:14:58: mentioned, insurance

00:14:59 --> 00:15:02: or real estate taxes.

00:14:59 --> 00:15:02: Or resource costs and all of those things would drive

00:15:02 --> 00:15:05: up operating expenses and drive down the net operating

00:15:05 --> 00:15:07: income,

00:15:05 --> 00:15:07: the cash flows and the property valuations.

00:15:08 --> 00:15:10: So again, this is just tying it to why we

00:15:10 --> 00:15:13: care about climate risk and and this is how we

00:15:13 --> 00:15:15: look at it from an underwriting perspective.

00:15:20 --> 00:15:23: Leading investment managers are are looking at climate risk

00:15:23 --> 00:15:26: as

00:15:23 --> 00:15:26: they acquire assets on in three different ways.

00:15:26 --> 00:15:29: We're looking at climate risk at the building level.

00:15:29 --> 00:15:31: So is the building in a location or in an

00:15:31 --> 00:15:35: area that's exposed to climate risk and is that building

00:15:35 --> 00:15:35: exposed?

00:15:35 --> 00:15:38: So is it in a flood zone and has that

00:15:38 --> 00:15:41: building been elevated out of the flood zone.

00:15:41 --> 00:15:45: So trying to understand the true risk to particular investment.

00:15:46 --> 00:15:50: Beyond just the asset level, it's understanding the market, is

00:15:50 --> 00:15:54: the market exposed to extreme weather events such as heat,

00:15:54 --> 00:15:59: stress, droughts, wildfire, typhoons that could impact the

00:15:59 --> 00:16:03: overall market

00:15:59 --> 00:16:03: and trying to understand the markets mitigation efforts to limit

00:16:03 --> 00:16:07: the risk to the market and to the particular investment

00:16:07 --> 00:16:10: or the particular asset that you may be invested in.

00:16:11 --> 00:16:15: And beyond the asset level and the market level

00:16:15 --> 00:16:19: assessments,

00:16:15 --> 00:16:19: investment managers are also looking at their portfolios

trying not
00:16:19 --> 00:16:22: to overexpose or portfolio to climate res.
00:16:22 --> 00:16:25: Meaning that you may be okay with a certain level
00:16:25 --> 00:16:28: of risk, but you don't want a weather event to
00:16:29 --> 00:16:30: occur to impact.
00:16:30 --> 00:16:33: A large portion of your portfolio.
00:16:33 --> 00:16:37: So we look at climate risk from a diversification factor
00:16:37 --> 00:16:39: analysis as well.
00:16:39 --> 00:16:42: And so any of these risk assessments that we do
00:16:42 --> 00:16:47: could translate into additional next steps of additional due
diligence
00:16:47 --> 00:16:51: as we're acquiring the asset, increased underwriting cost
over that
00:16:51 --> 00:16:55: whole period of insurance or operating expenses sometimes
if we
00:16:55 --> 00:16:57: think that the the asset.
00:16:57 --> 00:17:00: May have less interest when we go to sell the
00:17:00 --> 00:17:03: asset in five or ten years, We may add a
00:17:03 --> 00:17:07: higher exit cap rate which would decrease the valuation and
00:17:07 --> 00:17:11: then at times not proceed with a particular investment
because
00:17:11 --> 00:17:12: it's deemed too risky.
00:17:15 --> 00:17:18: So as a good guidance for investment managers and for
00:17:18 --> 00:17:21: companies that are just starting on this journey.
00:17:21 --> 00:17:23: TCFD is a great framework.
00:17:23 --> 00:17:28: It's been endorsed by a number of countries around the
00:17:28 --> 00:17:32: globe and there are a lot of examples of TCFD
00:17:32 --> 00:17:35: reporting by funds and by firms.
00:17:35 --> 00:17:39: And So what TCFD is organized around is governance,
strategy,
00:17:39 --> 00:17:41: risk management and metrics and targets.
00:17:42 --> 00:17:47: So leading practices to have a dedicated sustainability team,
senior
00:17:47 --> 00:17:51: leadership oversights and buy in a strategy to have
integrated
00:17:51 --> 00:17:56: business planning related to climate risk and climate
opportunities and
00:17:56 --> 00:18:01: analysis upfront of all investments and assessment of
physical risks
00:18:01 --> 00:18:06: and transition risks while also identifying opportunities that
could be
00:18:06 --> 00:18:08: implemented into the portfolio.
00:18:09 --> 00:18:12: And having targets and metrics, so setting targets that can
00:18:12 --> 00:18:16: be tracked and that you can see your progression over

00:18:16 --> 00:18:16: time.

00:18:17 --> 00:18:20: So some of those example metrics would be energy, carbon,

00:18:21 --> 00:18:23: water, waste rating, certifications.

00:18:26 --> 00:18:32: So beyond the firm level, investment products are also being

00:18:32 --> 00:18:35: imposed by regulations, so in Europe.

00:18:36 --> 00:18:39: Well, really any fund marketed in Europe has to comply

00:18:39 --> 00:18:42: with SFDR and what that is is funds have to

00:18:42 --> 00:18:46: be categorized as either an Article 6, Article 8 or

00:18:46 --> 00:18:47: Article 9 fund.

00:18:47 --> 00:18:51: Article 6 funds, they may integrate sustainability, but they do

00:18:51 --> 00:18:53: not promote it as an objective of the fund.

00:18:54 --> 00:18:58: Whereas Article 8 funds promotes either an environmental or

00:18:58 --> 00:19:02: social

00:18:58 --> 00:19:02: characteristic, Article 9 Funds has sustainable investment as

00:19:02 --> 00:19:03: an objective

00:19:02 --> 00:19:03: of the Fund.

00:19:04 --> 00:19:06: What we're seeing in the US is different.

00:19:07 --> 00:19:11: The proposed names amendment, the names rule which

00:19:11 --> 00:19:14: came out

00:19:11 --> 00:19:14: just a few weeks ago states that if you have

00:19:14 --> 00:19:18: ESG or Sustainability in the funds name, then 80% of

00:19:18 --> 00:19:21: those assets have to align with the funds name.

00:19:22 --> 00:19:25: So this is not a mandate of like in Europe

00:19:25 --> 00:19:29: that all funds must be categorized you under the ESG

00:19:29 --> 00:19:33: sustainability realm, but the SEC is is saying that if

00:19:33 --> 00:19:33: you're.

00:19:33 --> 00:19:37: Promoting in the fund's name, then you need to back

00:19:37 --> 00:19:40: up what's in the fund and 80% of that needs

00:19:40 --> 00:19:42: to match the fund's name.

00:19:45 --> 00:19:50: So going beyond product level regulations, we're seeing that

00:19:50 --> 00:19:54: there

00:19:50 --> 00:19:54: are various local regulations around the globe and these

00:19:55 --> 00:19:57: buckets

00:19:55 --> 00:19:57: are general categorizations.

00:19:57 --> 00:20:00: What we're seeing in North America, Europe and Asia

00:20:00 --> 00:20:02: Pacific,

00:20:00 --> 00:20:02: in North America, we're seeing that.

00:20:02 --> 00:20:05: Benchmarking requirements related to energy and carbon.

00:20:06 --> 00:20:09: And in more advanced markets such as in New York

00:20:09 --> 00:20:13: and Boston, we're seeing that there's carbon limits and fines.

00:20:13 --> 00:20:16: So buildings can only emit a certain amount of carbon

00:20:16 --> 00:20:18: and if they go above that, then they have to

00:20:18 --> 00:20:18: pay a fine.

00:20:19 --> 00:20:23: In Europe, what we're seeing is that buildings have to
00:20:23 --> 00:20:27: benchmark against the energy performance certificate rating
and that's a
00:20:27 --> 00:20:31: letter grade rating of an ABCDA being the highest, most
00:20:31 --> 00:20:32: efficient building.
00:20:33 --> 00:20:36: And what we're seeing is that in more advanced regulations
00:20:36 --> 00:20:40: and particularly the Netherlands starting in 2023, so this year
00:20:40 --> 00:20:43: that buildings have to have a letter grade of a
00:20:43 --> 00:20:45: C in order to lease the building.
00:20:46 --> 00:20:50: That same sentiment, that same regulation is going to be
00:20:50 --> 00:20:52: enacted in the UK starting in 2025.
00:20:53 --> 00:20:56: So it's if you're a building owner, you may lose
00:20:56 --> 00:20:59: the right to lease your asset if it falls under
00:20:59 --> 00:21:03: the energy efficiency letter grade of a C In Asia
00:21:03 --> 00:21:08: Pacific, we're seeing that there are energy disclosure
benchmarking requirements,
00:21:08 --> 00:21:12: so disclosing the energy and carbon of a particular asset
00:21:12 --> 00:21:15: and in advance a local regulations.
00:21:15 --> 00:21:18: We're seeing in Japan, Australia and Singapore is there's a
00:21:19 --> 00:21:23: baseline for new construction and major renovations that the
buildings
00:21:23 --> 00:21:27: have to meet a certain energy efficiency level in order
00:21:27 --> 00:21:30: to get approved and final sign off for you to
00:21:30 --> 00:21:34: to finish development of that particular asset or of the
00:21:34 --> 00:21:35: major renovation.
00:21:35 --> 00:21:38: So each region is tackling this slightly differently.
00:21:41 --> 00:21:45: So how might these building regulations impact an investor
or
00:21:45 --> 00:21:46: an investment manager?
00:21:46 --> 00:21:51: It could cause additional unexpected capital expenditures to
upgrade an
00:21:51 --> 00:21:54: asset to make it in compliance to be able to
00:21:54 --> 00:21:58: lease the asset or to be able to avoid fines.
00:21:58 --> 00:22:02: It could mean less liquidity as investors are are looking
00:22:02 --> 00:22:05: at assets to buy and they see that the asset
00:22:05 --> 00:22:08: is not in compliance or you know doesn't meet the
00:22:08 --> 00:22:10: letter grade of a C or is going to need
00:22:10 --> 00:22:14: to pay fines for the carbon emissions that it's mitting
00:22:14 --> 00:22:17: that you could see less liquidity from investors and and
00:22:17 --> 00:22:20: lenders wanting to to lend on the asset.
00:22:21 --> 00:22:23: We're also saying that there are a number of corporate
00:22:23 --> 00:22:26: tenants with sustainability goals around the world.
00:22:26 --> 00:22:29: And more and more they are wanting to locate their

00:22:29 --> 00:22:34: operations and buildings that have high efficiency grades and align

00:22:34 --> 00:22:36: with their sustainability targets.

00:22:36 --> 00:22:39: And so if you do have a building that is

00:22:39 --> 00:22:42: of high performance, you could attract more tenants and if

00:22:42 --> 00:22:45: you do fall below that, you may not attract the

00:22:45 --> 00:22:48: top tier corporate tenants into your building.

00:22:49 --> 00:22:52: And then as I mentioned, there are certain regulations and

00:22:52 --> 00:22:54: coming out of Europe that you may lose the ability

00:22:54 --> 00:22:57: to lease your building and and really ultimately sell your

00:22:57 --> 00:23:00: building if you don't meet certain grades.

00:23:00 --> 00:23:03: So what all this means is it could mean additional

00:23:03 --> 00:23:07: time and consulting fees by investors and investment managers to

00:23:07 --> 00:23:11: analyze portfolios and bring buildings into compliance.

00:23:11 --> 00:23:15: And you know, lastly, there could be reputational risk if

00:23:15 --> 00:23:18: you have buildings that you know can't be leased or

00:23:18 --> 00:23:21: can't be sold or incur particular fines.

00:23:21 --> 00:23:23: And so all these things want to be avoided.

00:23:26 --> 00:23:28: So how are investors using this data or how are

00:23:28 --> 00:23:30: we seeing some investors use this data.

00:23:31 --> 00:23:35: We're seeing some investors use this data to determine where

00:23:35 --> 00:23:38: to deploy capital to place capital into an Article 8

00:23:38 --> 00:23:40: fund or an Article 9 fund.

00:23:41 --> 00:23:44: We're also seeing that in in particularly in Europe at

00:23:44 --> 00:23:47: times there are a green premium for buildings that are

00:23:47 --> 00:23:49: meeting the higher standards.

00:23:50 --> 00:23:53: But ultimately what we're seeing with this transparency is, is

00:23:53 --> 00:23:57: investors really want this data in order to compare companies

00:23:57 --> 00:24:00: that compare buildings, compare funds against each other.

00:24:00 --> 00:24:04: But on the negative side, what we're seeing is that

00:24:04 --> 00:24:08: this could cause some buildings to become stranded or obsolete

00:24:08 --> 00:24:11: in the marketplace or need additional capital.

00:24:11 --> 00:24:14: So all of a sudden, there's a brown discount applied

00:24:14 --> 00:24:17: to the building because in order to bring it to

00:24:17 --> 00:24:20: standard, additional capital has to be deployed into that asset

00:24:20 --> 00:24:23: in order to to really make it competitive in the

00:24:23 --> 00:24:24: marketplace.

00:24:24 --> 00:24:27: So this is how we're beginning to see investors and

00:24:27 --> 00:24:30: investment managers use some of this data that's coming out

00:24:30 --> 00:24:32: of investment managers and owners.

00:24:35 --> 00:24:37: So lastly I just want to sum up that change

00:24:37 --> 00:24:37: is coming.

00:24:38 --> 00:24:39: This was our fourth report.

00:24:39 --> 00:24:44: This was the hardest report to write because very factly

00:24:44 --> 00:24:46: that change has been occurring.

00:24:46 --> 00:24:49: The SEC names rule just came out a few weeks

00:24:49 --> 00:24:49: ago.

00:24:49 --> 00:24:53: The SFDR is has opened a consultation.

00:24:53 --> 00:24:55: So, so there could be some adjustments there.

00:24:55 --> 00:24:59: Local Law 97 in New York has come out with

00:24:59 --> 00:25:03: some, some statements that could roll back some of the

00:25:03 --> 00:25:06: the fines that would occur in 2024.

00:25:07 --> 00:25:08: So it's really important to stay up to speed.

00:25:08 --> 00:25:13: But most importantly for investment managers, it's really identifying the

00:25:13 --> 00:25:16: regulatory risk in your firm and the products and at

00:25:16 --> 00:25:19: the buildings managing and under riding those risks and making

00:25:19 --> 00:25:22: sure that you can disclose those to your investors.

00:25:23 --> 00:25:26: So with that, you know it's important to stay up

00:25:26 --> 00:25:28: to speed with the changing regulatory landscape.

00:25:31 --> 00:25:32: I'll pass it back to Billy at this time.

00:25:36 --> 00:25:37: Thanks, Laura.

00:25:37 --> 00:25:37: I apologize.

00:25:37 --> 00:25:40: I'm having a little bit of trouble with my video.

00:25:40 --> 00:25:41: Looks like we're back though.

00:25:42 --> 00:25:44: Anika, like to kick it over to you now.

00:25:46 --> 00:25:49: Love to hear your thoughts on this evolving world of

00:25:49 --> 00:25:53: ESG regulatory reporting and especially what it means for investment

00:25:53 --> 00:25:55: analysts and advisors.

00:25:56 --> 00:25:58: Sure, Billy, thank you.

00:25:58 --> 00:25:59: And Laura, thank you.

00:25:59 --> 00:26:02: That was a truly a master class in how a

00:26:02 --> 00:26:08: climate actually impacts the investment, the the mechanics of investment

00:26:08 --> 00:26:10: in real estate.

00:26:10 --> 00:26:12: So thank you so much.

00:26:12 --> 00:26:16: Let me just say a few high level comments and

00:26:16 --> 00:26:19: reactions and then we can we can go from there.

00:26:20 --> 00:26:24: The first point I wanted to just echo is that.

00:26:24 --> 00:26:29: Pretty soon investors are going to be inundated with more

00:26:29 --> 00:26:34: disclosure from companies when it comes to climate, and as

00:26:34 --> 00:26:39: a result, investors themselves are of course going to have to disclose more information themselves.

00:26:39 --> 00:26:43: The the question will not be do you have the

00:26:43 --> 00:26:46: data.

00:26:46 --> 00:26:46: The question for an investor will be, do you know

00:26:47 --> 00:26:49: what to use the data for?

00:26:49 --> 00:26:51: And I think that is a particularly true when it

00:26:52 --> 00:26:55: comes to climate and it's particularly true in the real

00:26:55 --> 00:26:58: asset space.

00:26:58 --> 00:26:59: Just knowing for example the embodied CO2 in a physical

00:27:00 --> 00:27:04: asset or in a corporate may give you a sense

00:27:04 --> 00:27:07: that you have information that will make a better investment

00:27:07 --> 00:27:12: decision.

00:27:12 --> 00:27:13: But you need to know how to actually integrate that

00:27:13 --> 00:27:15: in your decision making, and I think Laura did a

00:27:15 --> 00:27:18: Really great job explaining just how different climate risks

00:27:18 --> 00:27:23: can

00:27:23 --> 00:27:28: impact income, can impact expenses, can impact valuations

00:27:28 --> 00:27:29: and so

00:27:29 --> 00:27:32: on and so forth.

00:27:32 --> 00:27:35: So the first one I want to just get across

00:27:35 --> 00:27:38: is you're you're going to have, you're going to be

00:27:38 --> 00:27:40: getting a lot of data in the next little while,

00:27:40 --> 00:27:41: but how you actually use it will be the key

00:27:41 --> 00:27:44: question.

00:27:44 --> 00:27:46: The second point I wanted to get across is that

00:27:46 --> 00:27:51: we're living in a time where.

00:27:51 --> 00:27:55: It's not just important to understand the the fact that

00:27:55 --> 00:28:00: climate has risk associated for investment, but you have to

00:28:00 --> 00:28:01: understand how that risk will transmit itself into your

00:28:01 --> 00:28:05: investments.

00:28:05 --> 00:28:07: What do I mean by that?

00:28:07 --> 00:28:10: For the last 20 years, people have been going on

00:28:10 --> 00:28:13: and on and on about physical climate risk.

00:28:13 --> 00:28:17: Oh, extreme weather events.

00:28:17 --> 00:28:20: So this, so that, you know, droughts, floods.

00:28:20 --> 00:28:25: But I must say it's been a shortcoming of the

00:28:25 --> 00:28:29: investment industry as a whole, as I see it, to

00:28:29 --> 00:28:33: understand the transmission that physical climate will impact

00:28:33 --> 00:28:36: insurance premiums,

00:28:36 --> 00:28:39: that will impact the expenses associated with buying or

00:28:39 --> 00:28:42: owning

00:28:42 --> 00:28:45: real estate, that will impact net income, also will impact

00:28:33 --> 00:28:37: the desire of folks to live in certain places and
00:28:37 --> 00:28:39: instead might actually move.
00:28:39 --> 00:28:41: So they'll be a step change function.
00:28:41 --> 00:28:46: Our step function change in how people react to these
00:28:46 --> 00:28:50: risks and I got to say that whole transmission mechanism
00:28:50 --> 00:28:52: wasn't really mapped out.
00:28:53 --> 00:28:57: Instead, what we saw investors spending the last five years
00:28:57 --> 00:29:00: doing was buying all of these quasi scientific.
00:29:01 --> 00:29:04: Climate models to understand where the risks may be, but
00:29:04 --> 00:29:07: didn't actually think through what that will mean in the
00:29:07 --> 00:29:08: real world.
00:29:08 --> 00:29:09: And we're seeing this right now.
00:29:09 --> 00:29:14: We're actually starting to see migration away from coastal
cities.
00:29:14 --> 00:29:17: We're seeing migration away from coastal states.
00:29:18 --> 00:29:22: In the United States, you're seeing at Laura rightly mentioned
00:29:22 --> 00:29:26: just the spike in home insurance premiums that we're seeing
00:29:27 --> 00:29:31: thirty 4050% a year increases in Florida, in California and
00:29:31 --> 00:29:31: Texas.
00:29:32 --> 00:29:33: This is a global phenomenon.
00:29:33 --> 00:29:34: It's also a huge.
00:29:35 --> 00:29:37: Political risk, which I'll come to in a second, but
00:29:37 --> 00:29:41: I think that's that that whole transmission is completely
underappreciated
00:29:41 --> 00:29:44: and what's something we've been advocating to our clients to
00:29:44 --> 00:29:47: really just not just understand what the risks are, but
00:29:47 --> 00:29:49: how they'll actually play themselves out.
00:29:50 --> 00:29:53: The final point I'll just say as a high level
00:29:53 --> 00:29:57: opening reaction to these great presentations is we spent a
00:29:57 --> 00:29:59: lot of time talking about data.
00:29:59 --> 00:30:01: We spent a lot of time talking about risk.
00:30:02 --> 00:30:05: This is also a once in a generation or once
00:30:05 --> 00:30:09: in a lifetime opportunity for real assets investors and for
00:30:09 --> 00:30:13: real estate investors and infrastructure investors.
00:30:13 --> 00:30:16: And this being that over the next 30 to 50
00:30:16 --> 00:30:21: years, we're going to have to basically build or rebuild
00:30:21 --> 00:30:26: the entire physical infrastructure of the world.
00:30:27 --> 00:30:30: That, that, that that is a level of of capital
00:30:30 --> 00:30:34: investment that we have not seen since I I would
00:30:34 --> 00:30:37: say post major war, major conflict.
00:30:37 --> 00:30:41: And if you've studied in a post 1945, Europe or
00:30:41 --> 00:30:45: Japan, I mean sitting in Japan today, you know that
00:30:46 --> 00:30:51: generational wealth was created by investors who

understood.

00:30:51 --> 00:30:54: What was going to happen as entire cities and countries

00:30:54 --> 00:30:58: had to be rebuilt from scratch, that's sort of where

00:30:58 --> 00:31:01: where we are heading to I think over the next

00:31:01 --> 00:31:03: 20 to 30 years when it comes to climate And

00:31:03 --> 00:31:08: so having that opportunity lens understanding, migration, understanding.

00:31:09 --> 00:31:14: The economic geography basically of cities and of countries will

00:31:14 --> 00:31:18: help investors allocate capital to where it needs to go

00:31:18 --> 00:31:22: and I'm looking forward to chatting about that somewhere.

00:31:22 --> 00:31:25: So those are just a a few high level comments

00:31:25 --> 00:31:29: after two very good presentations and looking forward to discussion.

00:31:30 --> 00:31:30: Awesome.

00:31:30 --> 00:31:31: Thank you, Annika.

00:31:32 --> 00:31:35: I have a couple questions for our panelists, but I

00:31:35 --> 00:31:37: do want to remind folks who have joined us today

00:31:37 --> 00:31:40: that if you have a question, please drop it in

00:31:40 --> 00:31:42: the chat and we'll work through as many of those

00:31:42 --> 00:31:43: questions as we can get to.

00:31:44 --> 00:31:46: Thankfully, we do have plenty of time for questions.

00:31:47 --> 00:31:49: It's great to be the moderator and be able to

00:31:49 --> 00:31:50: ask the first couple.

00:31:51 --> 00:31:52: Maybe I could start with you.

00:31:53 --> 00:31:57: There's going to be this treasure trove of climate data

00:31:58 --> 00:31:59: that will be more.

00:32:00 --> 00:32:03: Comparable across companies, More universal.

00:32:03 --> 00:32:05: It'll be audit quality.

00:32:06 --> 00:32:09: Does this change the game for real estate investors and

00:32:09 --> 00:32:10: investment analysts?

00:32:10 --> 00:32:12: Do they know what to do with this data?

00:32:12 --> 00:32:13: Are they excited?

00:32:14 --> 00:32:14: What?

00:32:15 --> 00:32:17: I mean, not to predict the future, but it's gonna

00:32:17 --> 00:32:18: happen.

00:32:18 --> 00:32:21: Yeah, I'm not sure.

00:32:22 --> 00:32:24: Is is actually my my answer.

00:32:25 --> 00:32:29: I'm quite at odds with many people in the industry

00:32:29 --> 00:32:33: who think disclosure of data around climate solves.

00:32:35 --> 00:32:38: Major problems I've my lived experience is that if you

00:32:38 --> 00:32:40: go to an investment analyst or you go to an

00:32:41 --> 00:32:44: investor they generally don't know what to do with most

00:32:44 --> 00:32:45: of this data.

00:32:45 --> 00:32:49: And again This is why Laura's presentation was just exceptional

00:32:49 --> 00:32:52: because it was so clear how these different risks that

00:32:52 --> 00:32:56: can actually hit hit a an income statement in this

00:32:56 --> 00:32:56: space.

00:32:56 --> 00:32:59: So first what I would say is I'm not sure

00:32:59 --> 00:33:03: if this avalanche of data actually will help and investors

00:33:03 --> 00:33:03: need.

00:33:03 --> 00:33:07: To actually have an understanding of what matters, how it

00:33:07 --> 00:33:10: matters and how we can become part of their models.

00:33:10 --> 00:33:14: The second thing I would say is that the part

00:33:14 --> 00:33:19: of the the risk side that we don't really understand

00:33:19 --> 00:33:23: and and micro data can't really help us on is

00:33:23 --> 00:33:24: the policy.

00:33:24 --> 00:33:27: Risk associated with climate.

00:33:28 --> 00:33:31: And you know, folks talk about the inevitable policy response,

00:33:31 --> 00:33:33: they talk about things like that.

00:33:33 --> 00:33:36: But in in plain language what you are seeing is

00:33:37 --> 00:33:40: level of government and state intervention.

00:33:40 --> 00:33:43: In the insurance market for example, that is we've never

00:33:43 --> 00:33:46: seen anything like this before in the United States.

00:33:46 --> 00:33:51: In Florida, for example, you have the state, the government

00:33:51 --> 00:33:55: owned insurance agency that is now carrying a lot of

00:33:55 --> 00:34:00: the economic risk because the private insurers are 1 by

00:34:00 --> 00:34:03: 1 deciding to fold up shop and leave.

00:34:04 --> 00:34:06: That's not a that's not a data point that you

00:34:06 --> 00:34:09: get from a company that you actually have to understand

00:34:09 --> 00:34:10: the whole system.

00:34:10 --> 00:34:13: And so I think one of the points that I

00:34:13 --> 00:34:16: make to clients is you actually need to have a

00:34:16 --> 00:34:18: systems level understanding of this.

00:34:18 --> 00:34:21: And and Billy and Laura, you guys are masters at

00:34:21 --> 00:34:25: this because even in your presentations you talked about the

00:34:25 --> 00:34:29: policy, the regulation, the investments that changes in capital

00:34:29 --> 00:34:32: flow

00:34:29 --> 00:34:32: valuation and even that just gives you a sense of

00:34:32 --> 00:34:33: where and how.

00:34:34 --> 00:34:37: The world evolves, but I think that is generally missed

00:34:37 --> 00:34:40: by most fairly naive investment analysts I must say and

00:34:40 --> 00:34:43: and and and investors, that's the second point I would

00:34:43 --> 00:34:44: say about data.

00:34:45 --> 00:34:49: And the third thing about data, you know, I always

00:34:49 --> 00:34:53: laugh, Billy, is that if it was December 15th, 2015,

00:34:53 --> 00:34:57: the day the Paris Agreement was signed, there was no

00:34:57 --> 00:35:00: real data point that would have told you.

00:35:01 --> 00:35:06: That this, you know, crazy South African American guy sitting

00:35:06 --> 00:35:10: out in California was, you know, who's creating this car

00:35:10 --> 00:35:14: company that really was going to change how 1/4 of

00:35:14 --> 00:35:17: global emissions evolved.

00:35:17 --> 00:35:19: That that was going to be the right guy to

00:35:19 --> 00:35:21: invest in, the right company to invest in.

00:35:22 --> 00:35:23: You know, there's in some ways there's a.

00:35:24 --> 00:35:25: There's a limit to how much.

00:35:26 --> 00:35:29: Backward looking data can actually help you on when you

00:35:29 --> 00:35:33: when investors are trying to invest in the future and

00:35:33 --> 00:35:36: investing is about discounting future earnings to today.

00:35:37 --> 00:35:39: And so you actually have to have a view on

00:35:39 --> 00:35:39: the future.

00:35:39 --> 00:35:42: And so the last point I would just make is

00:35:42 --> 00:35:45: that again, I'm not, I'm not, I'm not dismissing data,

00:35:45 --> 00:35:49: but investing is a little bit about imagination and it's

00:35:49 --> 00:35:53: about creativity and it's about understanding what may

00:35:53 --> 00:35:55: transpire.

00:35:55 --> 00:35:57: And what we are seeing right now and Bill, Bill

00:35:57 --> 00:36:00: you said it at the beginning, I think you had

00:36:00 --> 00:36:03: a very nice turn of phrase that you're you know

00:36:03 --> 00:36:03: you're trying to track 100 plus different disclosures and policy

00:36:03 --> 00:36:06: things.

00:36:06 --> 00:36:07: I mean this is happening in in real time, there's

00:36:07 --> 00:36:08: no precedent for this.

00:36:08 --> 00:36:11: And so, you know, again, I, I, I, I think

00:36:11 --> 00:36:12: the data will help.

00:36:12 --> 00:36:16: But really this just requires people who have good judgment,

00:36:16 --> 00:36:19: can understand how things are going and have a little

00:36:19 --> 00:36:21: bit of creativity and think outside the box.

00:36:23 --> 00:36:23: Yeah.

00:36:23 --> 00:36:24: Thanks, Anika.

00:36:24 --> 00:36:24: That was great.

00:36:24 --> 00:36:27: And I, you know I think that is a good

00:36:27 --> 00:36:29: segue that the fact that this is always in flux

00:36:29 --> 00:36:32: but yet you have to meet disclosure guidelines is a

00:36:33 --> 00:36:36: weird challenge, especially if you're setting up funds that are

00:36:36 --> 00:36:39: made-up of assets you're going to be holding for five

00:36:39 --> 00:36:40: to 10 years.

00:36:41 --> 00:36:45: Laura, as a real estate investment manager, you and I
00:36:45 --> 00:36:48: were talking offline about SFDR.
00:36:48 --> 00:36:50: You had about two years to figure out how to.
00:36:51 --> 00:36:53: Comply with SFDR at the at the longest.
00:36:53 --> 00:36:56: What were some of the challenges that you encountered
when
00:36:56 --> 00:36:59: you were trying to figure out how to meet that
00:36:59 --> 00:37:00: regulatory deadline?
00:37:01 --> 00:37:01: Yeah.
00:37:01 --> 00:37:06: I think because SFRSFDR was so new, there weren't
examples
00:37:06 --> 00:37:10: out there or best practices of what firms were doing
00:37:10 --> 00:37:11: in order to comply.
00:37:13 --> 00:37:16: So in terms of Article 6, Article 6 is easy
00:37:16 --> 00:37:17: to comply with.
00:37:17 --> 00:37:19: It means that you're not promoting sustainability.
00:37:19 --> 00:37:22: Article 8 means that you're promoting an environmental or
social
00:37:22 --> 00:37:23: characteristic.
00:37:23 --> 00:37:29: And then Article 9 means you're investing in sustainable
investment.
00:37:29 --> 00:37:32: And those investments or some of those investments are
aligned
00:37:32 --> 00:37:36: with the EU taxonomy definition of sustainable investing.
00:37:36 --> 00:37:40: So I think that it was a huge undertaking to
00:37:40 --> 00:37:42: get to where we got to.
00:37:42 --> 00:37:46: I think the real estate market is still trying to
00:37:46 --> 00:37:50: figure out how to comply with Article 8 funds.
00:37:50 --> 00:37:53: I think a lot of investment managers are shying away
00:37:53 --> 00:37:54: from Article 9 funds.
00:37:55 --> 00:37:59: That you taxonomy has a written definition around the
environmental
00:37:59 --> 00:38:03: aspects, but they have not yet written the definitions around
00:38:03 --> 00:38:05: the social aspects.
00:38:05 --> 00:38:08: But what we are seeing is that there are some
00:38:08 --> 00:38:11: real estate funds that are claiming Article 9 under the
00:38:11 --> 00:38:12: social.
00:38:12 --> 00:38:16: So I think that leaves some risk on the table.
00:38:17 --> 00:38:19: But you know, to say all of this is as
00:38:19 --> 00:38:23: the real estate investment manager, we've really had to, you
00:38:23 --> 00:38:27: know, keep our eyes open with the various regulations going
00:38:27 --> 00:38:30: on And to talk a little bit about, you know,
00:38:30 --> 00:38:34: how we're trying to assess climate risk in particular.
00:38:34 --> 00:38:36: And to some of the points that were made earlier

00:38:37 --> 00:38:39: around, you can't just look at the data itself.

00:38:39 --> 00:38:42: And it's not just about disclosure, but it's about the

00:38:43 --> 00:38:44: overall landscape.

00:38:44 --> 00:38:48: You know, 10 years ago, investment managers were talking about

00:38:48 --> 00:38:49: energy efficiency.

00:38:50 --> 00:38:53: They weren't talking about physical climate risk and that's one

00:38:54 --> 00:38:57: of the reasons why we started this ULI Heitman series

00:38:57 --> 00:39:00: and our first report of 2019 of how our leading

00:39:00 --> 00:39:03: investment managers looking at physical climate risk and the US

00:39:03 --> 00:39:06: and a lot of the models around the world related

00:39:06 --> 00:39:09: to climate, we're all historical looking.

00:39:09 --> 00:39:12: And so if we're basing our decisions on those historical

00:39:13 --> 00:39:15: databases, are we making the right decisions?

00:39:15 --> 00:39:19: And the in the US in particular, a lot of

00:39:19 --> 00:39:22: the flood maps were binary in nature.

00:39:22 --> 00:39:24: You're either in a flood zone or out of a

00:39:24 --> 00:39:27: flood zone again, and it's historical looking.

00:39:27 --> 00:39:28: So we didn't feel like we had the best data

00:39:28 --> 00:39:29: sets available.

00:39:29 --> 00:39:32: So I think that we're trying to piece by piece

00:39:32 --> 00:39:36: peel back the layer of, yes, there's climate risk, there's

00:39:36 --> 00:39:40: physical climate risk, there's transition climate risk.

00:39:40 --> 00:39:42: How is that going to impact our portfolio?

00:39:42 --> 00:39:44: What are those levers?

00:39:44 --> 00:39:46: Okay, it's not just about the building, but you know,

00:39:46 --> 00:39:49: our second report was around the market because you can

00:39:49 --> 00:39:51: have a building that's not exposed to flooding, but it's

00:39:51 --> 00:39:53: in a market that's exposed to flooding.

00:39:53 --> 00:39:56: So do you want your building to be the only

00:39:56 --> 00:39:58: building that's standing, but you need a boat to get

00:39:58 --> 00:39:59: to it.

00:39:59 --> 00:40:01: So I think that that's where, you know, you have

00:40:01 --> 00:40:03: to kind of continuously peel back the layers.

00:40:03 --> 00:40:05: And our third report was on climate migration.

00:40:05 --> 00:40:09: So trying to figure out where are people moving and

00:40:09 --> 00:40:13: are people taking climate risks into account with their move

00:40:13 --> 00:40:13: decisions.

00:40:13 --> 00:40:16: And we did this study during the pandemic and we

00:40:16 --> 00:40:18: saw a lot of people are moving to Florida.

00:40:18 --> 00:40:20: So that was kind of against what?

00:40:21 --> 00:40:24: We thought would occur if people were taking climate risk

00:40:24 --> 00:40:26: as the number one factor.

00:40:26 --> 00:40:28: But we realized that people were taking a number of

00:40:28 --> 00:40:29: factors into account.

00:40:29 --> 00:40:32: They're taking into account cost of living, quality of life.

00:40:33 --> 00:40:35: And I they were also banking on the fact that

00:40:35 --> 00:40:38: they could always get insurance at a certain rate.

00:40:38 --> 00:40:41: So at what point do do people living in areas

00:40:41 --> 00:40:44: that are at risk not be able to get insurance

00:40:44 --> 00:40:48: or their quality of life because they have to evacuate

00:40:48 --> 00:40:51: changes to the fact that they make a different decision

00:40:51 --> 00:40:52: on where to live.

00:40:53 --> 00:40:55: So I think that you know, overall kind of what

00:40:55 --> 00:40:58: what this is saying is, is that this is a

00:40:58 --> 00:41:00: complex picture and you have to look at it in

00:41:00 --> 00:41:02: a systems way of thinking about things.

00:41:05 --> 00:41:06: That's great and very true too.

00:41:07 --> 00:41:09: I on a kid took me back to 2015 and

00:41:09 --> 00:41:13: I was I was thinking about the Paris climate agreement,

00:41:13 --> 00:41:15: what the regulatory landscape looked like.

00:41:15 --> 00:41:20: Back then before Paris, we relied on voluntary reporting

00:41:20 --> 00:41:24: standards.

00:41:24 --> 00:41:28: We already had seen an emergence of green building

00:41:28 --> 00:41:31: certification

00:41:32 --> 00:41:36: standards like lead or energy performance standards like

00:41:36 --> 00:41:37: Energy Star

00:41:38 --> 00:41:42: in the US or neighbors in Australia.

00:41:42 --> 00:41:45: We had green building certifications like I believe it's Casby

00:41:45 --> 00:41:47: and DVJ in Japan.

00:41:47 --> 00:41:50: Now that it's 2023 and we have this tremendous regulatory

00:41:50 --> 00:41:50: ecosystem that's very different than 2015.

00:41:55 --> 00:41:56: What do you both think is going to be the

00:41:56 --> 00:41:57: role of those green building certifications in this, in this

00:41:58 --> 00:42:01: new landscape?

00:42:01 --> 00:42:06: Laura, do you want to start?

00:42:06 --> 00:42:09: Sure, I'll start.

00:42:09 --> 00:42:12: So you know, I do think that operational certifications are

00:42:12 --> 00:42:17: important, especially where there are benchmarking

00:42:17 --> 00:42:17: requirements, local regulations in

00:42:17 --> 00:42:17: place or if there are regulations that you have to

00:42:17 --> 00:42:17: meet certain energy efficiency standards that a number of the

00:42:17 --> 00:42:17: sustainability certifications are essentially best practices for

00:42:17 --> 00:42:17: how property management

00:42:17 --> 00:42:19: should manage an asset.

00:42:19 --> 00:42:22: So I think it's a good proxy, a good way

00:42:22 --> 00:42:26: to make sure that the building stays relevant for the

00:42:26 --> 00:42:30: marketplace and stays outside of any kind of regulatory fines

00:42:30 --> 00:42:33: or ability to you know impacts of ability to lease

00:42:33 --> 00:42:34: the asset.

00:42:38 --> 00:42:38: Yeah.

00:42:38 --> 00:42:41: And just to add, maybe, you know, I'm not a

00:42:41 --> 00:42:45: real estate specialist, but but just maybe a little higher

00:42:45 --> 00:42:46: abstraction.

00:42:49 --> 00:42:54: What many of those designations are for many investors?

00:42:54 --> 00:42:56: Are there signals?

00:42:56 --> 00:43:00: They're sort of like a heuristic of understanding where.

00:43:00 --> 00:43:04: A certain asset or their owner what, what their intentions

00:43:04 --> 00:43:08: are, what their values are, what their beliefs are, and

00:43:08 --> 00:43:10: what direction of travel they may want to go.

00:43:11 --> 00:43:15: I think there is a risk over time that what

00:43:15 --> 00:43:18: a lot of those standards were meant to do as

00:43:18 --> 00:43:23: a signaling value sort of just becomes mainstream practice

00:43:23 --> 00:43:26: when

00:43:26 --> 00:43:29: it comes to the real estate space.

00:43:29 --> 00:43:30: And so then the I what I'm looking out for

00:43:31 --> 00:43:35: is what comes next.

00:43:35 --> 00:43:38: And what are the signals that investors are looking for

00:43:38 --> 00:43:42: to say you are really at the cutting edge of

00:43:42 --> 00:43:43: green buildings or of you know, highly efficient buildings and

00:43:44 --> 00:43:46: so on and so forth.

00:43:46 --> 00:43:51: And so over time, I can actually see a lot

00:43:51 --> 00:43:54: of those designations decreasing in value just because the

00:43:54 --> 00:43:57: world

00:43:57 --> 00:43:58: is going to be accelerating its efforts on.

00:43:58 --> 00:44:00: Energy transition and climate transition very quickly over the

00:44:01 --> 00:44:04: next

00:44:04 --> 00:44:06: few years.

00:44:06 --> 00:44:07: I think it's true by the way with ESG in

00:44:07 --> 00:44:10: general, five years ago, something that you could do as

00:44:11 --> 00:44:13: a way to indicate that you're at the, you know,

00:44:13 --> 00:44:14: leader of the pack.

00:44:15 --> 00:44:17: Now it's just basic common practices and I think that's

00:44:17 --> 00:44:19: going to happen in the real estate space.

00:44:19 --> 00:44:21: It's going to happen all across.

00:44:21 --> 00:44:23: The industry, which is a good thing, I mean it's

00:44:23 --> 00:44:25: a good, it's sort of where we wanted to get

00:44:20 --> 00:44:22: to, but the signaling value of saying, oh, I'm the

00:44:22 --> 00:44:24: lead certified or I'm all this stuff I think might

00:44:25 --> 00:44:25: actually decline.

00:44:27 --> 00:44:30: So lead becomes code and well, a green store will

00:44:30 --> 00:44:31: always be a green store.

00:44:31 --> 00:44:33: That means you're the top 25% in your asset.

00:44:34 --> 00:44:34: But.

00:44:36 --> 00:44:38: The bar will probably rise.

00:44:39 --> 00:44:42: Yes, I could see a world where lead or a

00:44:42 --> 00:44:45: neighbor's score becomes closer to code.

00:44:45 --> 00:44:51: In the future, questions start rolling from audience members.

00:44:51 --> 00:44:53: I think this one's probably best for Laura, but I'm

00:44:54 --> 00:44:55: going to ask it to both panelists.

00:44:55 --> 00:44:56: How long?

00:44:56 --> 00:44:57: Actually, no.

00:44:57 --> 00:44:58: Anika, this might be a good question for you.

00:44:58 --> 00:45:01: How long does it take to go from zero to

00:45:01 --> 00:45:03: a quality TCFD report?

00:45:03 --> 00:45:04: Like what's a reasonable?

00:45:05 --> 00:45:09: Amount of time for say a regulator to expect somebody

00:45:09 --> 00:45:13: who hasn't done ESG tracking reporting to produce a high

00:45:13 --> 00:45:14: quality TCFD report.

00:45:16 --> 00:45:20: There's no just very quickly I there there shouldn't be

00:45:20 --> 00:45:23: a long time these days you you could do it

00:45:23 --> 00:45:26: in a year you can do it in less than

00:45:26 --> 00:45:30: a year because this is now pretty well worn process.

00:45:30 --> 00:45:32: We sort of know how to do this we the

00:45:32 --> 00:45:34: Tcfd's been around for.

00:45:34 --> 00:45:38: Guys, it's it's, it's what, October 5th, 2023?

00:45:38 --> 00:45:41: I mean, you know, Mark Carney and Mike Bloomberg were

00:45:41 --> 00:45:43: talking about this in 2015.

00:45:43 --> 00:45:46: I remember I was going to their conferences in New

00:45:46 --> 00:45:48: York and London around this.

00:45:48 --> 00:45:50: So I I my, my humble point is that I

00:45:50 --> 00:45:54: don't have much patience for folks who say, oh, it's

00:45:54 --> 00:45:57: a journey and it takes a long time and there's

00:45:57 --> 00:45:59: a lot of expertise.

00:45:59 --> 00:46:02: There are a lot of good examples across sectors.

00:46:04 --> 00:46:06: I think more and more is an indication of how

00:46:06 --> 00:46:09: serious is a company or a developer in trying to

00:46:09 --> 00:46:11: actually do this correctly and do you hire the right

00:46:11 --> 00:46:14: people and do you pay for the right expertise and

00:46:14 --> 00:46:16: do you actually care about this?

00:46:16 --> 00:46:18: But my view, Lauren, maybe maybe you have a slightly

00:46:18 --> 00:46:20: different view, but it's that you know, you should be

00:46:20 --> 00:46:21: able to do this in the year.

00:46:23 --> 00:46:24: I would agree.

00:46:24 --> 00:46:27: I think that TCFD is kind of a baseline standard

00:46:27 --> 00:46:31: that companies should be able to do if you're just

00:46:31 --> 00:46:33: beginning on the journey.

00:46:33 --> 00:46:37: And especially as you know, I don't like showing or

00:46:37 --> 00:46:41: pointing to any particular regulation because they are in flux.

00:46:41 --> 00:46:45: I do think that companies really need to own their

00:46:45 --> 00:46:48: own processes that are able to reply to multiple different

00:46:49 --> 00:46:51: regulations that may come out or may change.

00:46:54 --> 00:46:57: Another audience question is about.

00:46:58 --> 00:47:03: Green premiums, have you seen a green premium in the

00:47:03 --> 00:47:04: market?

00:47:04 --> 00:47:06: How big are they usually?

00:47:07 --> 00:47:09: What's the percentage for a green premium?

00:47:09 --> 00:47:11: I'll throw it out to you guys and then I'll

00:47:11 --> 00:47:12: I'll share what we've learned from Uli.

00:47:14 --> 00:47:16: Billy, I think you probably have the best numbers since

00:47:16 --> 00:47:18: you have done a study on that.

00:47:18 --> 00:47:22: But we are seeing that there are green premiums in

00:47:22 --> 00:47:25: particular markets, Europe being one of them.

00:47:28 --> 00:47:30: Yeah, we haven't done a comprehensive study.

00:47:30 --> 00:47:31: It is hard to do.

00:47:31 --> 00:47:35: It is hard to figure out market comps and benchmarks

00:47:35 --> 00:47:38: and capture a a time where you can prove a

00:47:38 --> 00:47:40: green premium across assets in a market.

00:47:41 --> 00:47:45: Costar did a fantastic study of Class A office primarily

00:47:45 --> 00:47:48: in the United States of America back in 2012.

00:47:48 --> 00:47:51: They found that there was a 5 to 8% green

00:47:51 --> 00:47:54: premium for LEED certified buildings and there was.

00:47:54 --> 00:47:58: Something almost comparable to that to Energy Star

00:47:58 --> 00:48:01: certification and

00:48:01 --> 00:48:05: that green premium was created because those building

00:48:05 --> 00:48:06: have lot

00:48:07 --> 00:48:10: lower operating expenses because they have better energy,

00:48:10 --> 00:48:14: water and

00:48:14 --> 00:48:18: waste efficiency.

00:48:18 --> 00:48:21: That in turn led to you know comparable market rents

00:48:21 --> 00:48:24: but lower vacancy rates and lower turnover of tenants.

00:48:24 --> 00:48:27: So that's what they attributed that green premium to.

00:48:18 --> 00:48:21: So you're not getting more in rent, but your building

00:48:21 --> 00:48:21: is cheaper to run.

00:48:22 --> 00:48:26: So you're now operating income is improved, your vacancy rate

00:48:26 --> 00:48:30: is lower because people like that building and it's marketable

00:48:30 --> 00:48:31: asset.

00:48:31 --> 00:48:35: And then finally people stay because they they like how

00:48:35 --> 00:48:36: the building is operating.

00:48:37 --> 00:48:40: And I think that's it's it's it becomes more qualitative

00:48:40 --> 00:48:43: and I did studies when I was the head of

00:48:43 --> 00:48:46: sustainability for real estate and investment trust, we looked at

00:48:46 --> 00:48:48: industrial buildings.

00:48:48 --> 00:48:50: The best way to capture that green premium was to

00:48:50 --> 00:48:53: figure out how much we were lowering the operating expenses

00:48:53 --> 00:48:53: of our tenants.

00:48:55 --> 00:48:59: That also helped to reduce vacancy rate so.

00:49:00 --> 00:49:02: I'm I'm happy to follow up with the person who

00:49:02 --> 00:49:04: asked the question because I know there are a couple

00:49:04 --> 00:49:05: of more recent studies out there.

00:49:06 --> 00:49:09: Usually they focus on one discrete market and one asset

00:49:09 --> 00:49:12: class within that market because that's the only way to

00:49:12 --> 00:49:14: get an apples to apples benchmark.

00:49:15 --> 00:49:17: We did have a question that I didn't get to

00:49:17 --> 00:49:20: answer fully on our webinar this morning about one of

00:49:20 --> 00:49:22: our panelists said show me the brown discount.

00:49:22 --> 00:49:26: I want to be able to study how buildings are

00:49:26 --> 00:49:27: losing value.

00:49:27 --> 00:49:30: Especially if it's related to this transition risk that the

00:49:30 --> 00:49:33: thing that we thought would be an interesting study on

00:49:33 --> 00:49:36: that brown discount would be Local Law 97 in New

00:49:36 --> 00:49:36: York.

00:49:37 --> 00:49:39: Because Local Law 97 said if you cannot meet our

00:49:39 --> 00:49:42: greenhouse gas standard, you will be fined.

00:49:42 --> 00:49:44: And here is the fine amount based on how far

00:49:44 --> 00:49:46: below you the standard you fall.

00:49:46 --> 00:49:49: And this fine will be levied on you in 2024.

00:49:49 --> 00:49:52: So if you're transacting an acid in New York and

00:49:52 --> 00:49:54: you know that acid is not going to be able

00:49:54 --> 00:49:55: to meet the standard.

00:49:55 --> 00:49:58: You have to price the cost of that fine into

00:49:58 --> 00:50:00: the total operating expenses of that building.

00:50:00 --> 00:50:02: It affects NOI.

00:50:02 --> 00:50:03: It's a creative devalue.

00:50:03 --> 00:50:08: But New York recently has somewhat relaxed the deadline and

00:50:09 --> 00:50:13: who will be fined according to these standards.

00:50:14 --> 00:50:16: So it's it's probably not going to be the test

00:50:16 --> 00:50:19: case that we thought it could be at the same

00:50:19 --> 00:50:19: time.

00:50:20 --> 00:50:22: I am sure that if we dug through real estate

00:50:22 --> 00:50:25: transactions at high level assets in New York, we would

00:50:25 --> 00:50:28: see savvy investment managers figuring out a way to price

00:50:28 --> 00:50:31: the cost of that fine into those buildings, which essentially

00:50:31 --> 00:50:32: would be a brown discount.

00:50:33 --> 00:50:36: I think it'll be very interesting as places like the

00:50:36 --> 00:50:37: Netherlands.

00:50:37 --> 00:50:41: And Germany and the UK start to deal with assets

00:50:41 --> 00:50:45: that cannot meet their standards and cannot be upgraded cost

00:50:45 --> 00:50:51: effectively to meet ever tightening energy efficiency and environmental standards.

00:50:51 --> 00:50:54: Because in those markets, if you can't meet that standard,

00:50:54 --> 00:50:56: eventually you will not be able to have a certificate

00:50:57 --> 00:50:59: of occupancy for those buildings if you can't have a

00:50:59 --> 00:51:00: certificate of occupancy.

00:51:01 --> 00:51:03: You can't have debt.

00:51:03 --> 00:51:06: You may lose your tenants because they'll have cause to

00:51:06 --> 00:51:08: break their lease and you can't insure your property.

00:51:08 --> 00:51:12: So those properties will quickly become worth very much less

00:51:12 --> 00:51:15: than they were before they experienced that change.

00:51:15 --> 00:51:18: So it'll be interesting to see if the policymakers actually

00:51:18 --> 00:51:22: are able to follow through on that action, if buildings

00:51:22 --> 00:51:25: truly can't cost effectively upgrade and what that'll do to

00:51:25 --> 00:51:29: sort of drive home this concept of a brown discount.

00:51:31 --> 00:51:34: Really, if I can just underline the point that you

00:51:34 --> 00:51:36: make there, which is a point that we, we say

00:51:36 --> 00:51:39: to our clients all the time, which is change is

00:51:39 --> 00:51:42: not happening in a linear way when it comes to

00:51:42 --> 00:51:42: this topic.

00:51:42 --> 00:51:46: It's actually happening with step changes with exponential functions and

00:51:46 --> 00:51:47: so on and so forth.

00:51:48 --> 00:51:51: And if you're a risk manager at an investment firm

00:51:51 --> 00:51:53: or at a bank, or you had a pension fund

00:51:54 --> 00:51:56: or whatever may be on the call, you have to

00:51:56 --> 00:51:59: make sure that your fund managers understand that.

00:52:00 --> 00:52:04: Like to your point about regulation in the Netherlands, that's

00:52:04 --> 00:52:06: not going to lead to like a one or 2%

00:52:06 --> 00:52:10: depreciation of the value that could lead to a 50%

00:52:10 --> 00:52:12: depreciation of the value of property.

00:52:13 --> 00:52:15: And I I don't I think that that way of

00:52:15 --> 00:52:19: thinking is just largely not there when it comes to

00:52:19 --> 00:52:19: climate.

00:52:20 --> 00:52:23: A similarly on the opportunity side, you know this isn't

00:52:23 --> 00:52:27: real estate related necessarily, but but it's linked which is

00:52:27 --> 00:52:29: you know we're starting to now see.

00:52:30 --> 00:52:35: S curve adoption of certain energy transition technologies,

00:52:35 --> 00:52:37: right.

00:52:37 --> 00:52:38: It's not just happening all we have a little bit

00:52:38 --> 00:52:43: more solar.

00:52:43 --> 00:52:49: We we're now having exponentially more solar, exponentially

00:52:49 --> 00:52:52: more wind,

00:52:52 --> 00:52:55: exponentially more electric vehicles, exponentially more heat

00:52:55 --> 00:52:58: pumps and exponentially

00:52:58 --> 00:53:01: more battery storage and that can that can get investors

00:53:01 --> 00:53:05: caught up wrong footed very quickly.

00:53:05 --> 00:53:09: And so one of the things just to echo your

00:53:09 --> 00:53:12: point is this notion of tipping points is very important

00:53:12 --> 00:53:15: both negative and positive tipping points and relatedly this

00:53:15 --> 00:53:17: notion

00:53:17 --> 00:53:20: of exponential change and how that can impact your

00:53:20 --> 00:53:24: investment.

00:53:24 --> 00:53:26: And those are two mental models that we just we

00:53:26 --> 00:53:29: we hope more investors will use when it comes to

00:53:29 --> 00:53:32: anything climate related.

00:53:32 --> 00:53:35: Yeah, definitely.

00:53:35 --> 00:53:38: Laura, there's a question about physical risk discount in the

00:53:38 --> 00:53:42: chat and I thought this might be an opportunity for

00:53:42 --> 00:53:46: you to share a little bit of what you're learning

00:53:46 --> 00:53:49: about insurance markets.

00:53:49 --> 00:53:52: Question about, you know, what is the physical risk discount

00:53:52 --> 00:53:55: at the asset level and do you have any data

00:53:55 --> 00:53:58: on good versus bad coastal project valuations in a similar

00:53:58 --> 00:54:01: location?

00:54:01 --> 00:54:04: Yeah, so that can be a big question.

00:54:04 --> 00:54:07: In terms of the discount at the asset level, it

00:54:07 --> 00:54:10: depends on what risk that property is exposed to.

00:53:52 --> 00:53:57: Is it exposed to heat stress, water stress, hurricanes, typhoons

00:53:57 --> 00:53:58: or flooding.

00:53:58 --> 00:54:00: So let's just call flooding.

00:54:00 --> 00:54:04: If the property is exposed to flooding and there there

00:54:04 --> 00:54:08: need, there may need to be capital expenditure to help

00:54:08 --> 00:54:10: protect it from flooding.

00:54:10 --> 00:54:13: So then there could be that discount of additional capital

00:54:13 --> 00:54:15: if if you're going to buy that asset that you

00:54:15 --> 00:54:17: have to layer into the underwriting assumptions.

00:54:17 --> 00:54:21: The other way that we look at modeling climate risk

00:54:21 --> 00:54:24: into our analysis is looking at the insurance rates over

00:54:24 --> 00:54:25: time.

00:54:25 --> 00:54:28: And not just a linear, you know, 3% increase over

00:54:28 --> 00:54:32: time, but you know we've seen insurance rates over the

00:54:32 --> 00:54:36: past few years and in particular in the past year

00:54:36 --> 00:54:40: double even for insurance that had no claims against it

00:54:40 --> 00:54:45: and insurance that did have claims it was significantly more

00:54:45 --> 00:54:46: double, triple.

00:54:47 --> 00:54:49: And we also are seeing that insurers are pulling out

00:54:49 --> 00:54:50: of particular markets.

00:54:50 --> 00:54:53: So you have to be able to think about that

00:54:53 --> 00:54:56: if you're going to buy an asset in a risky

00:54:56 --> 00:54:56: place.

00:54:57 --> 00:54:59: And then lastly how we think about it is how

00:54:59 --> 00:55:00: long is our hold.

00:55:01 --> 00:55:04: Are we A5 year holder or 10 year holder or

00:55:04 --> 00:55:07: a longer and what do we think the markets going

00:55:07 --> 00:55:09: to be when we exit that asset.

00:55:10 --> 00:55:13: So we'll do an analysis to say that you know

00:55:13 --> 00:55:17: under perfect conditions no risk it would the value would

00:55:17 --> 00:55:21: be you know a certain number and now layer on

00:55:21 --> 00:55:23: this level of risk and uncertainty.

00:55:23 --> 00:55:25: When we go to sell the asset, we're going to

00:55:26 --> 00:55:28: discount how much we think we can sell it on

00:55:28 --> 00:55:30: the back end and then that's how we try to

00:55:30 --> 00:55:33: really price it into the deal and see where they

00:55:33 --> 00:55:36: were still hitting our return on investment that we want

00:55:36 --> 00:55:37: to hit.

00:55:37 --> 00:55:40: So it's really about pricing it it back into the

00:55:40 --> 00:55:40: deal.

00:55:41 --> 00:55:43: But I think that one thing that's going to catch

00:55:44 --> 00:55:46: a lot of people off guard is the fact that
 00:55:46 --> 00:55:49: you know insurance is not just going up literally.
 00:55:49 --> 00:55:52: You know certain insurers are pulling out of markets and
 00:55:52 --> 00:55:55: insurance is going up dramatically in certain places.
 00:55:56 --> 00:55:59: And if you don't have insurance and you're you're banking
 00:55:59 --> 00:56:02: on getting a loan, so you're you need a loan
 00:56:02 --> 00:56:05: for that asset, you're not going to be able to
 00:56:05 --> 00:56:09: get a loan because most banks, most lenders require
 insurance
 00:56:09 --> 00:56:11: on the property that they'll lend to.
 00:56:12 --> 00:56:14: So I think that this has a lot of domino
 00:56:14 --> 00:56:18: effects that could occur and I I just don't think
 00:56:18 --> 00:56:20: it's going to be linear.
 00:56:20 --> 00:56:23: We we've only been thinking about physical climate risk in
 00:56:23 --> 00:56:26: the real estate market and taking it seriously for the
 00:56:26 --> 00:56:28: past five or six years.
 00:56:28 --> 00:56:31: So where are we going to be in another five
 00:56:31 --> 00:56:32: or six years from now?
 00:56:32 --> 00:56:35: I think we're going to be a lot more sophisticated
 00:56:35 --> 00:56:38: investors and we're going to make different decisions.
 00:56:38 --> 00:56:41: So we have to think about the future and try
 00:56:41 --> 00:56:43: to make those predictions now.
 00:56:45 --> 00:56:46: Yeah, it reminds me.
 00:56:46 --> 00:56:51: My earliest pro forma Excel files said that taxes would
 00:56:51 --> 00:56:54: go up 1%, utilities would go up 1.5%.
 00:56:55 --> 00:56:58: Insurance went up 2% and the cost of property management
 00:56:58 --> 00:57:01: and labor went up 3% and those cells were locked.
 00:57:01 --> 00:57:03: Like I couldn't even change them, right?
 00:57:04 --> 00:57:06: We got to unlock those cells because those are much
 00:57:06 --> 00:57:09: more dynamic numbers than they've ever been before in a
 00:57:09 --> 00:57:10: real estate investment analysis.
 00:57:13 --> 00:57:15: If it's okay with everybody, I think I'm going to
 00:57:15 --> 00:57:16: leave it there.
 00:57:17 --> 00:57:20: I'd really like to thank our panelists, Laura and Annika
 00:57:20 --> 00:57:21: for their contributions today.
 00:57:21 --> 00:57:24: I'd like to thank everybody for joining us for this
 00:57:24 --> 00:57:25: webinar.
 00:57:25 --> 00:57:29: You can find a link to the report changes coming
 00:57:29 --> 00:57:33: at knowledge.uli.org and I believe that the team at ULI
 00:57:33 --> 00:57:36: will be sending you a survey.
 00:57:36 --> 00:57:39: Please let us know what you thought of this webinar.
 00:57:39 --> 00:57:43: Good topic, great panelists, fantastic moderator.

00:57:44 --> 00:57:46: Or if you have any constructive criticism or like to
00:57:46 --> 00:57:49: see us tackle other topics in the future, please include
00:57:49 --> 00:57:50: that as well.
00:57:50 --> 00:57:51: Thank you everybody so much.
00:57:51 --> 00:57:53: Have a great rest of your day.
00:57:54 --> 00:57:54: Bye.

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