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Urban Land Institute

Quantifying transition climate risks in real estate investment models: the development of the Preserve tool

ULI Europe webinar

Moderator
Aleksandra Smith-Kozlowska
Director, Research ULI Europe

Urban Land Institute

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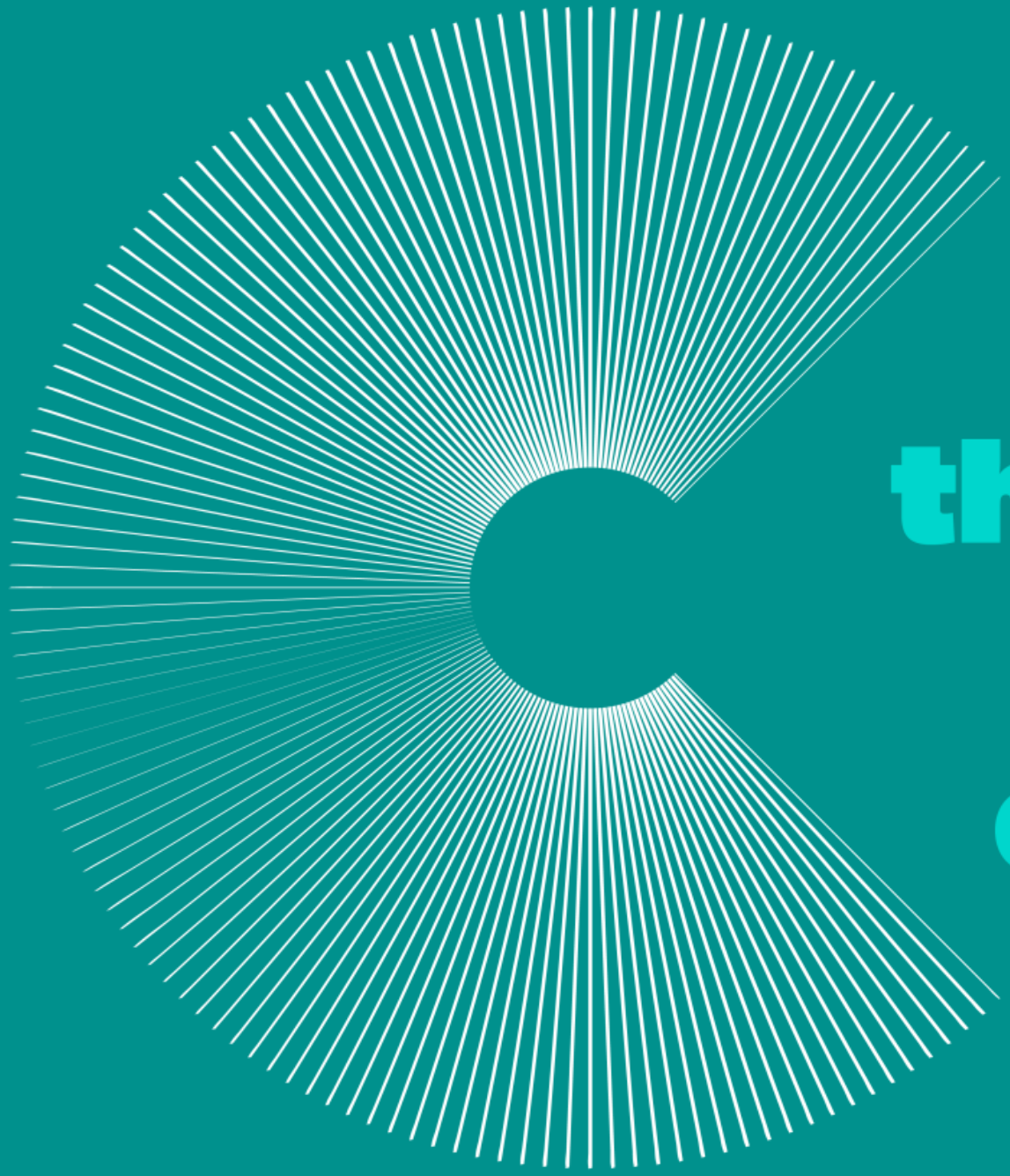
Quantifying transition climate risks in real estate investment models:

the development of the Preserve tool



Mobilising the real estate industry to decarbonise.

cChange

What is C Change

Mobilising the industry to speed up and scale up decarbonisation in Europe

Partners:

Hines

IPUT REAL ESTATE DUBLIN

J.P.Morgan ASSET MANAGEMENT

PIMCO

REDEVCO

Schroders capital

Supporters:

CATELLA

LONGEVITY PARTNERS

OXFORD

PATRIZIA

Sierra Sonae

Urban Partners

We focus on systems change

We collaborate

We co-create solutions

The intervention points

Identified areas for action

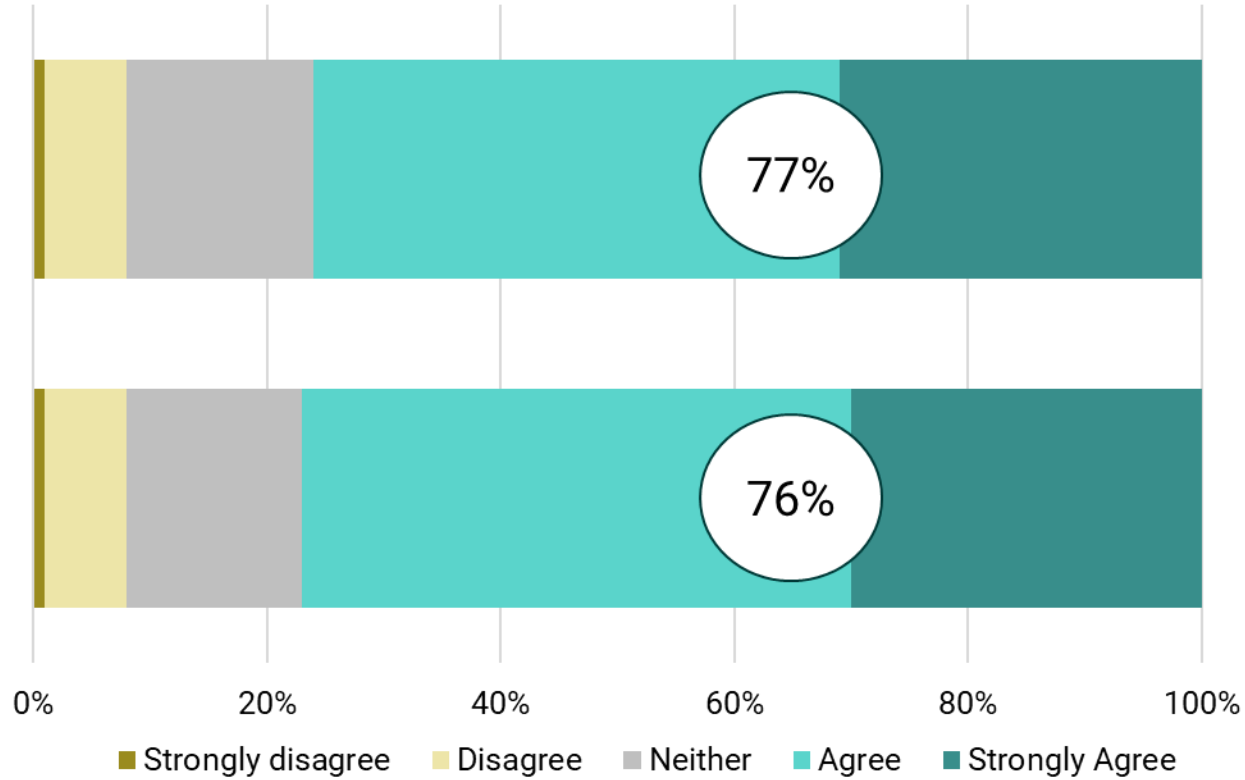
In progress – C Change	Assessing transition risk in valuations	Carbon pricing	Owner/ occupier alignment	City scale solutions	Co-ordinated investment voice
Needs industry action	Skills gap	Building renovation passports	Technology and first movers	Real estate industry voice	Roadmap: targets and actions
In progress – wider industry	Net zero building standards	Energy efficiency database	Whole life carbon		

The valuation challenge

Data from Emerging Trends in Real Estate 2025

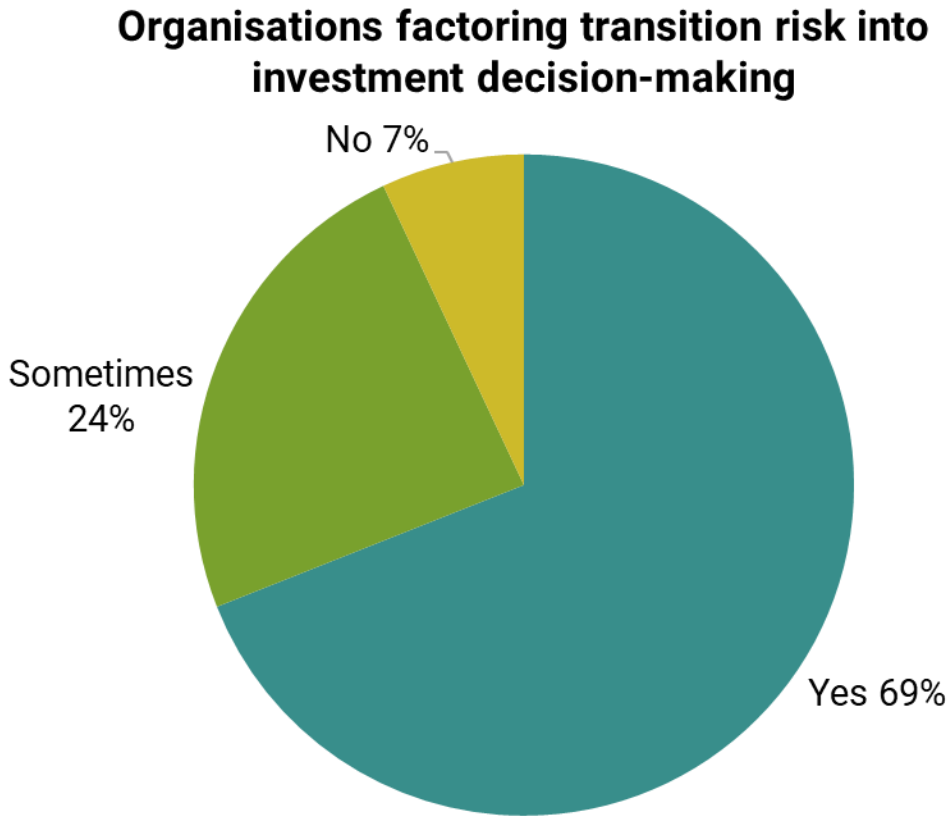
ESG credentials will have a material effect on asset valuations in the next 12-18 months

Current valuations do not accurately reflect current challenges and opportunities impacting real estate such as climate change, social impact and occupier demand fundamentals



The current situation

Transition risk assessment forms a part of investment process



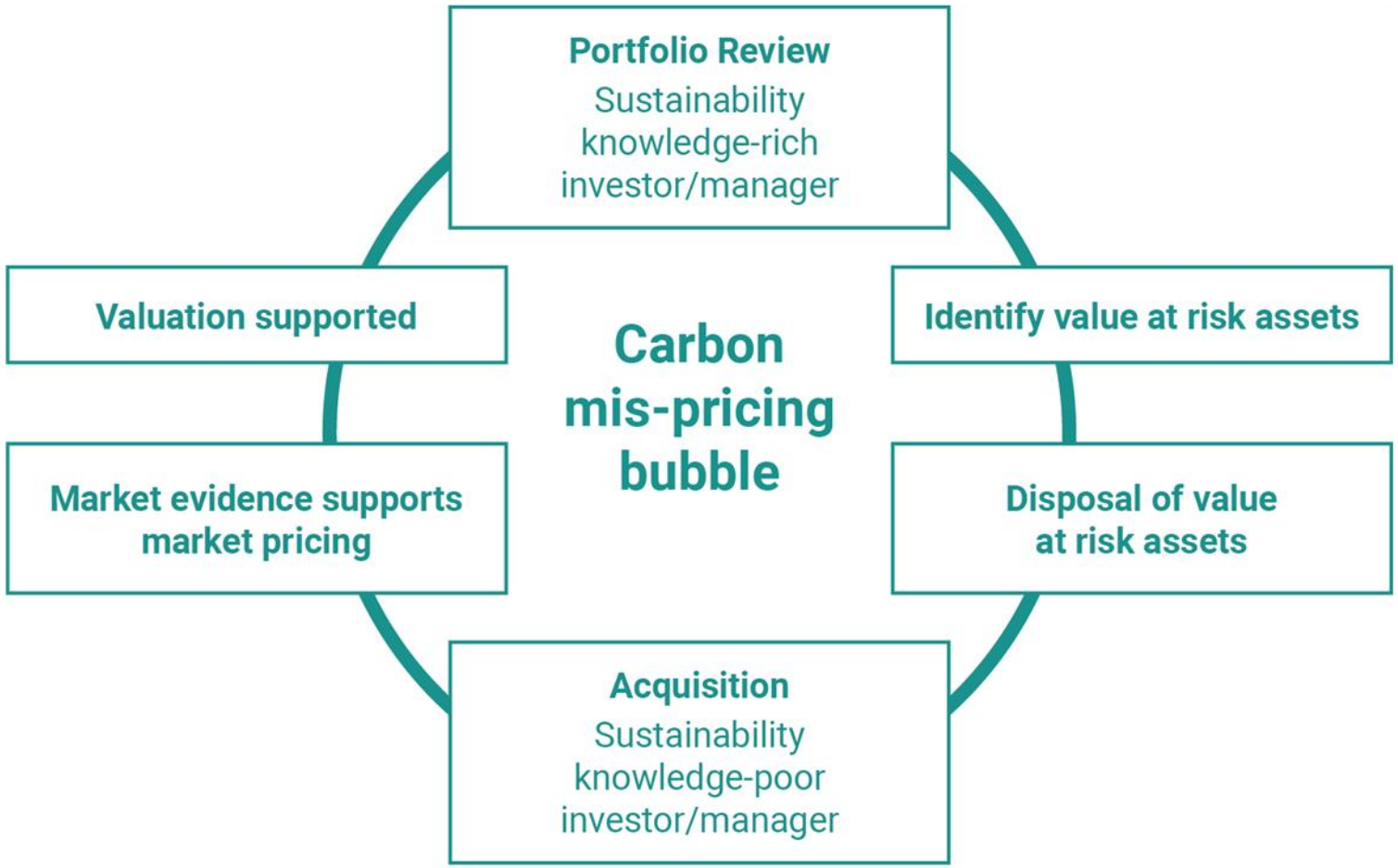
94% of C Change survey respondents said that transition risks had affected their portfolio strategy in the past 12 months

51% of respondents allocated capital to assets with greater transition risks

30% of respondents divest from assets with greater transition risks

Acknowledging the carbon bubble

The need for a common, transparent methodology for transition risk assessment



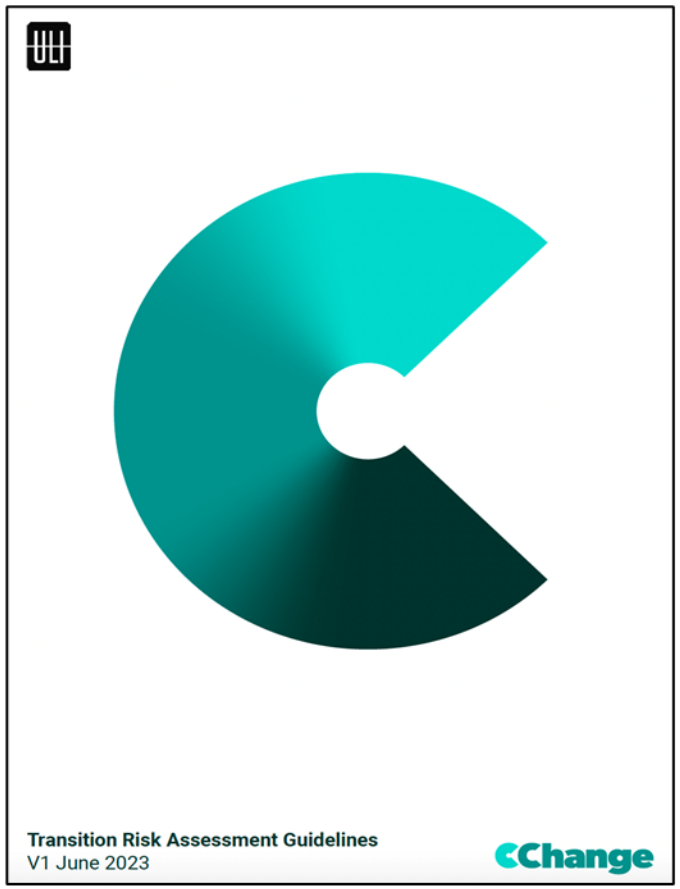
Unlocking the valuation issue was critical

Removing a major barrier to a fast, effective and just transition

Current property valuations do not price in transition risks, particularly the cost of doing nothing

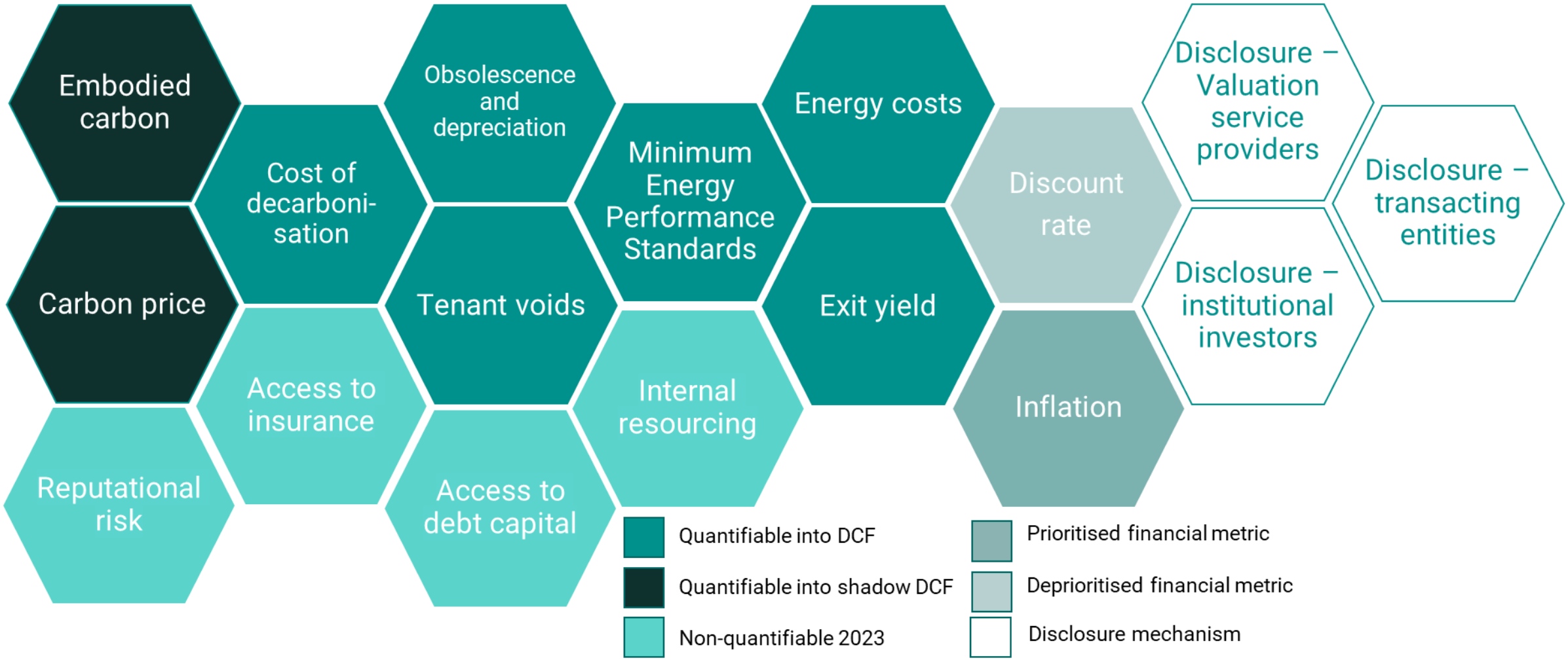
We need to level the playing field between investors to unlock investment in sector-wide decarbonisation

This prompted the development of the C Change Transition Risk Assessment Guidelines



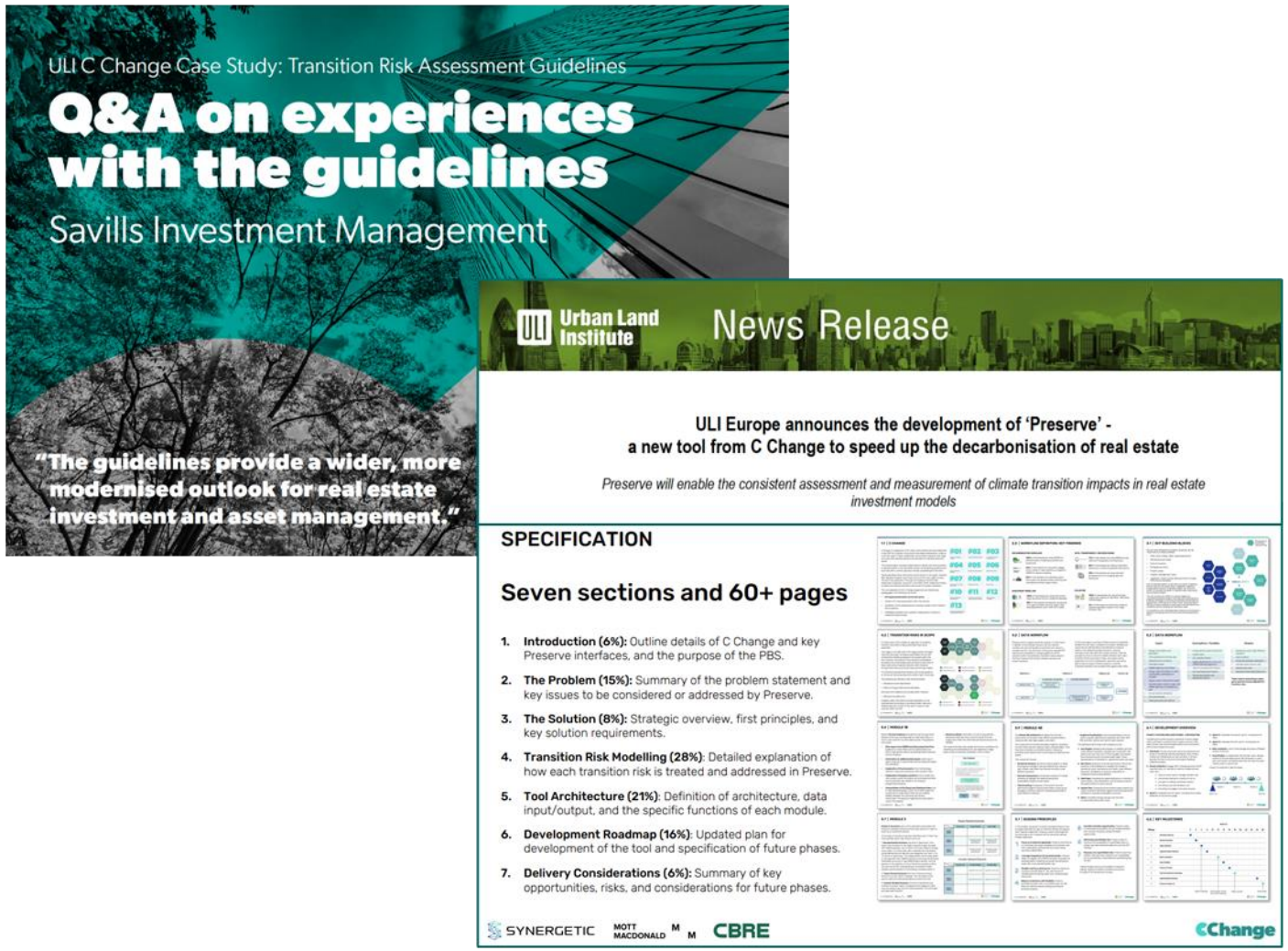
Eight risks can be quantified and assessed

A standardised method for assessing and integrating transition risks in a DCF



Next steps: accelerating adoption

- **Pilot case studies** to gather feedback and test the guidelines in practice
- **Community of practice** to collaborate on shared challenges
- **Preserve tool** to enable easy incorporation of the guidelines into existing valuation processes



C is for come on board and join the movement.

THE PROBLEM

1 **Understanding**: Property investment professionals aren't (usually) decarb experts and lack understanding of what net zero means for investment models.

2 **Consistency**: Reflecting the climate transition in financial models is wildly inconsistent, and makes evaluating investment opportunities difficult.

3 **Complexity**: There are so many tools, policies, and systems involved in the transition that the learning curve is steep with low 'return-on-effort'.

4 **Transparency**: The lack of standardised risk and opportunity assessment limits benchmarking and comparability between models.

THE SOLUTION

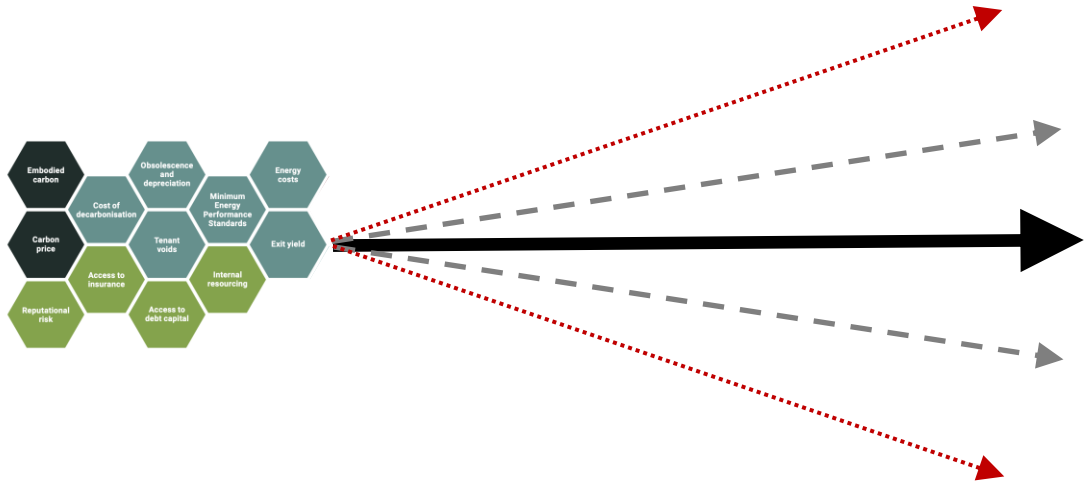
Preserve seeks to create a ‘level playing field’ on which **net zero becomes a deliverable commercial opportunity.**

OUR APPROACH: CORE PRINCIPLES

1. Frame net zero as a **commercial opportunity** to drive both climate action and value creation.
2. Make factoring transition risk into financial models and analyses **easy and consistent**.
3. Ensure **scalability** and **facilitate widespread** uptake across the industry.

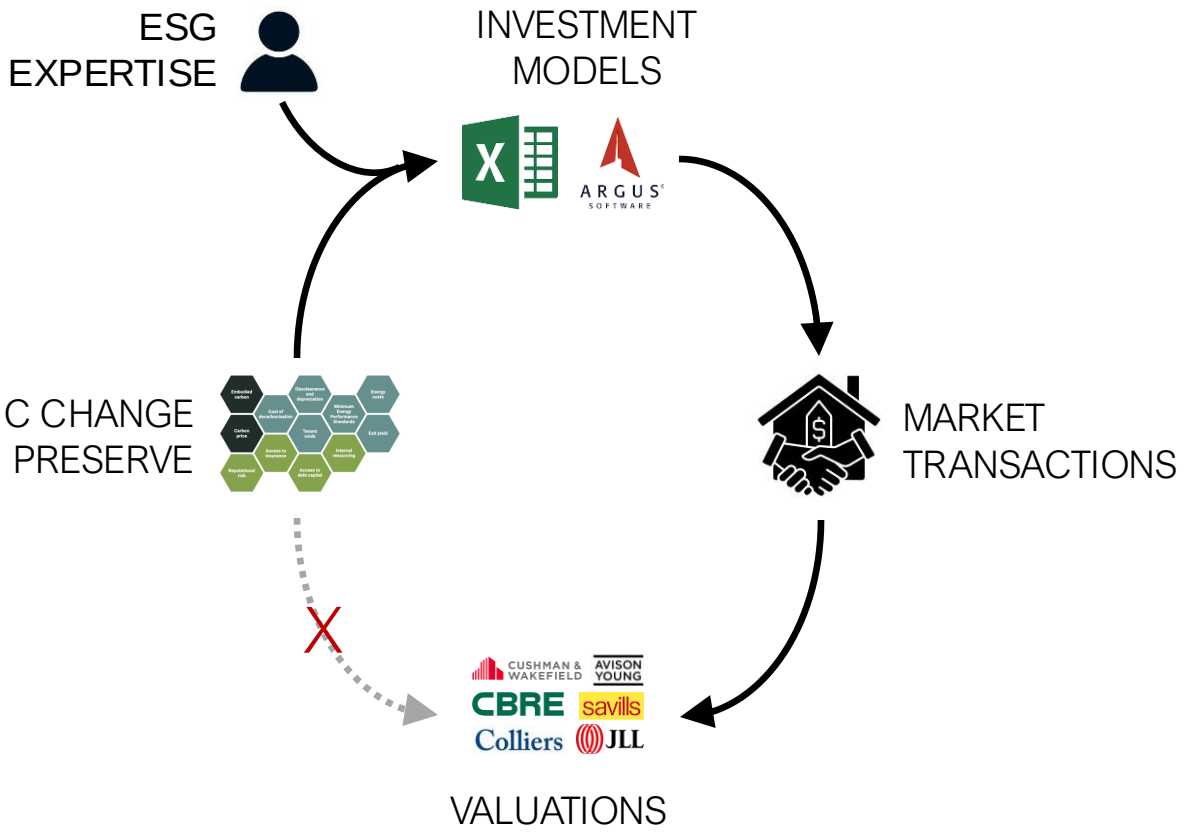
BALANCING CONSISTENCY WITH FLEXIBILITY

Preserve will quantify transition risk in a consistent way, but also allow for optional scenario testing and financial sensitivity analysis.



SHIFTING INVESTMENT MODELS, NOT VALUATION METHODS

Preserve is primarily designed for investment and asset managers, with sustainability professionals and valuers being secondary stakeholders.



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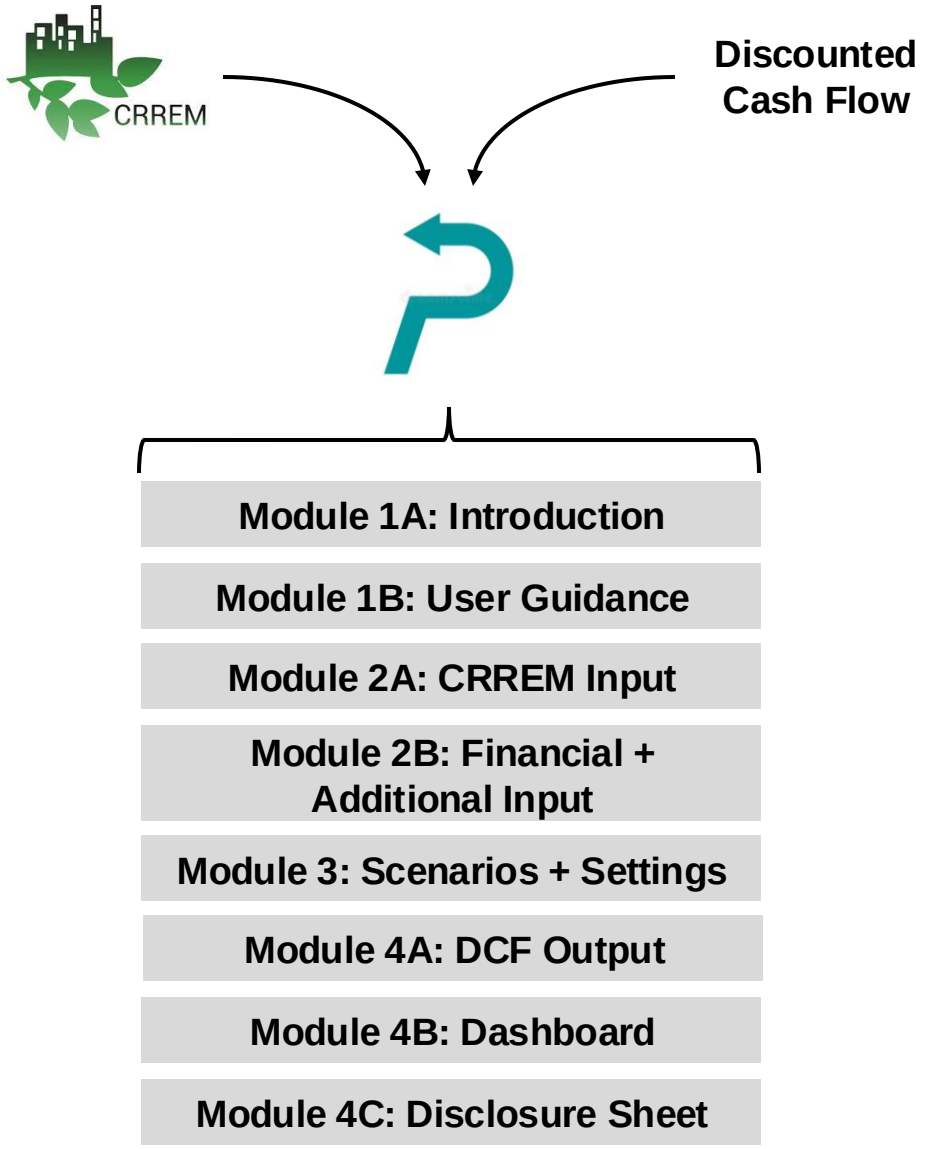
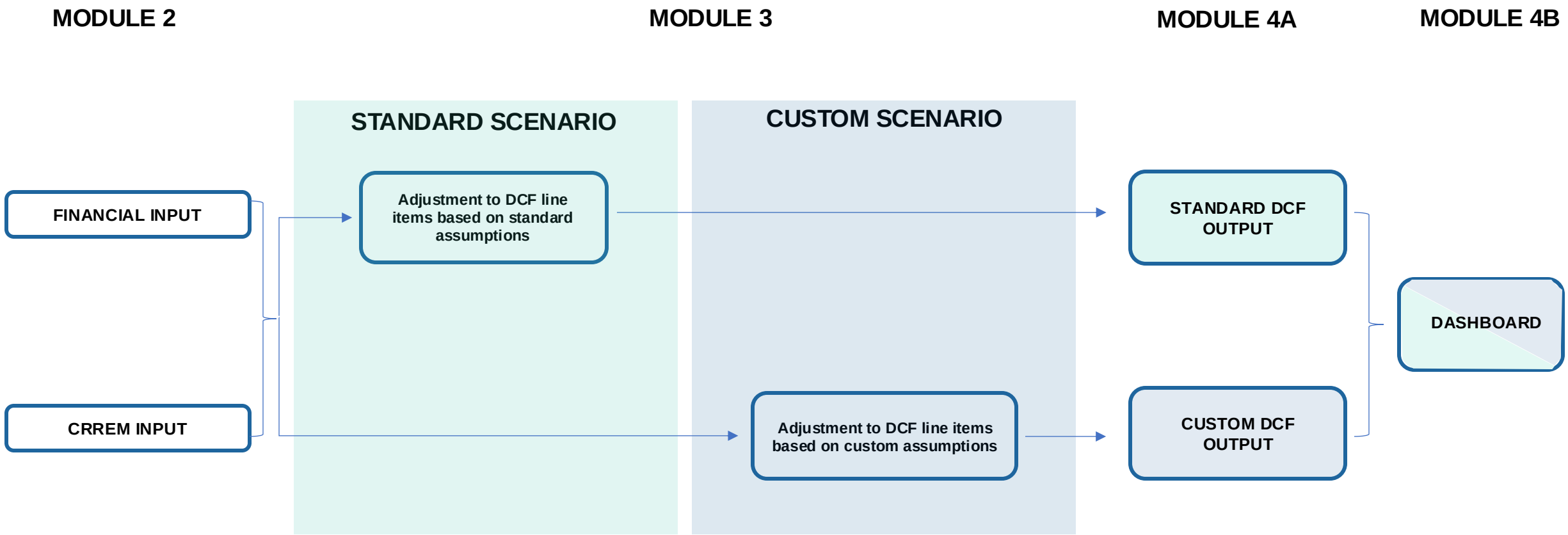
TOOL OVERVIEW

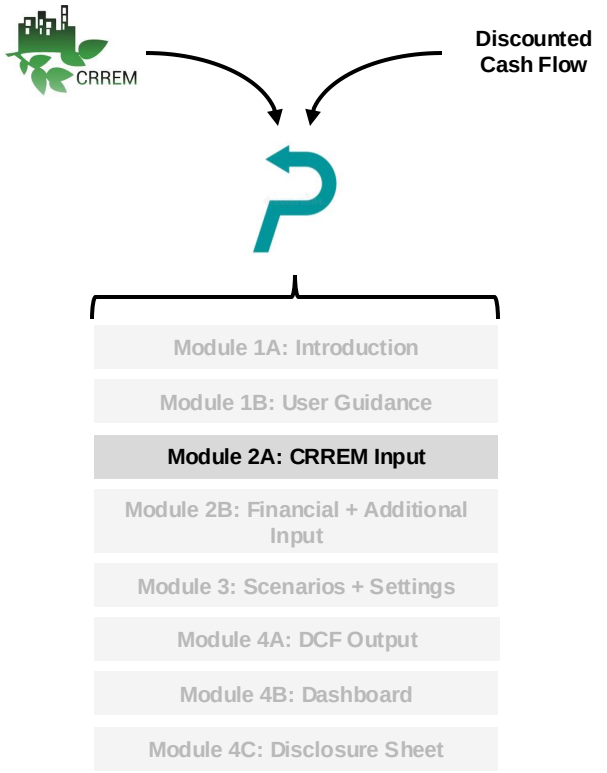


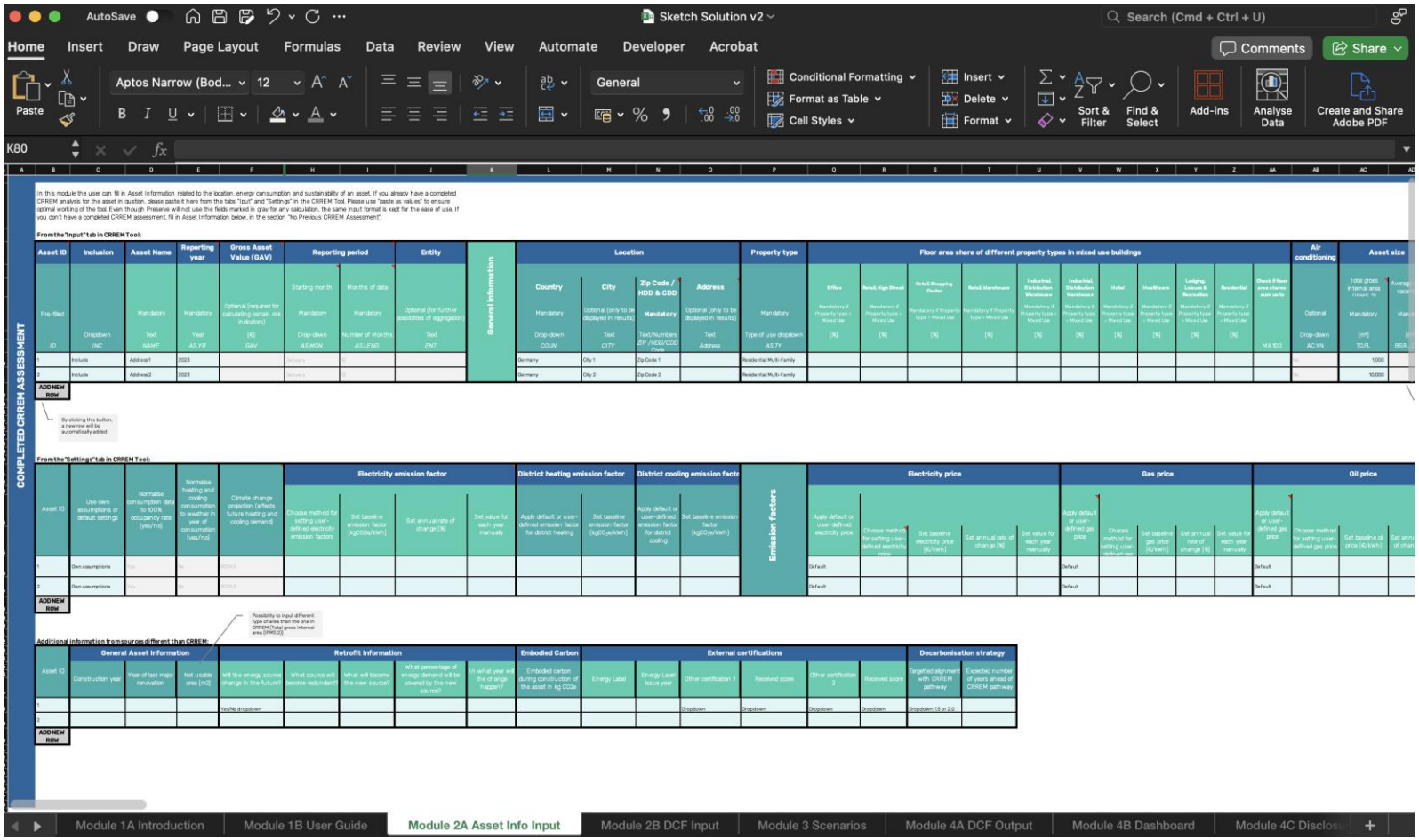
Preserve will be an eight-module Excel-based tool which integrates with CRREM and a range of DCF model formats.

DATA WORKFLOW



Module 2A: Decarb Input





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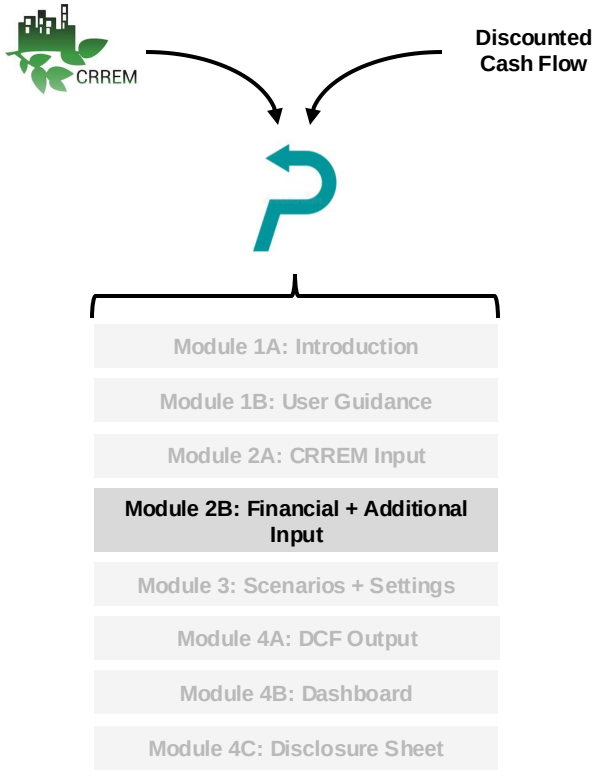
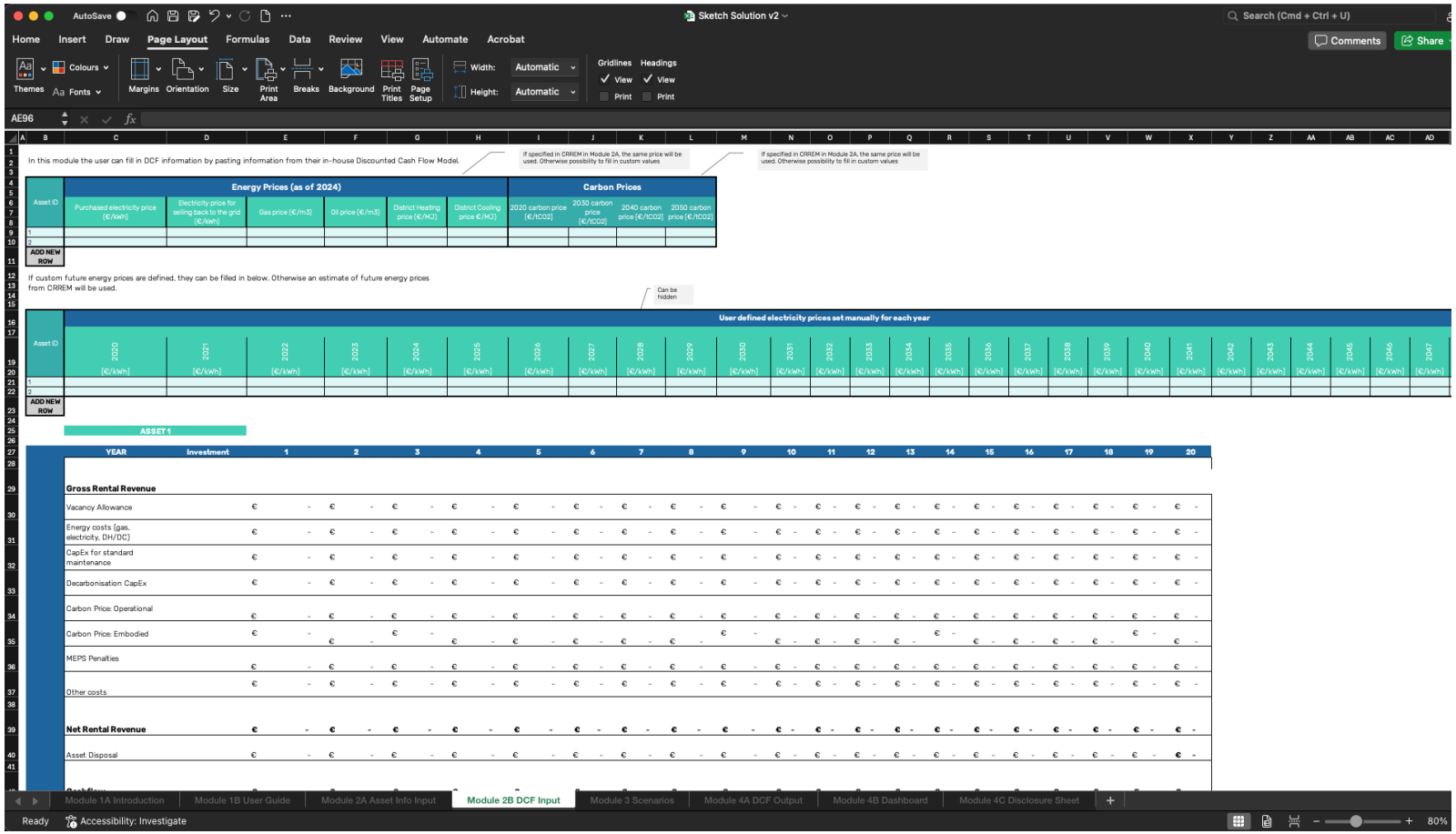
Module 2B: DCF Input





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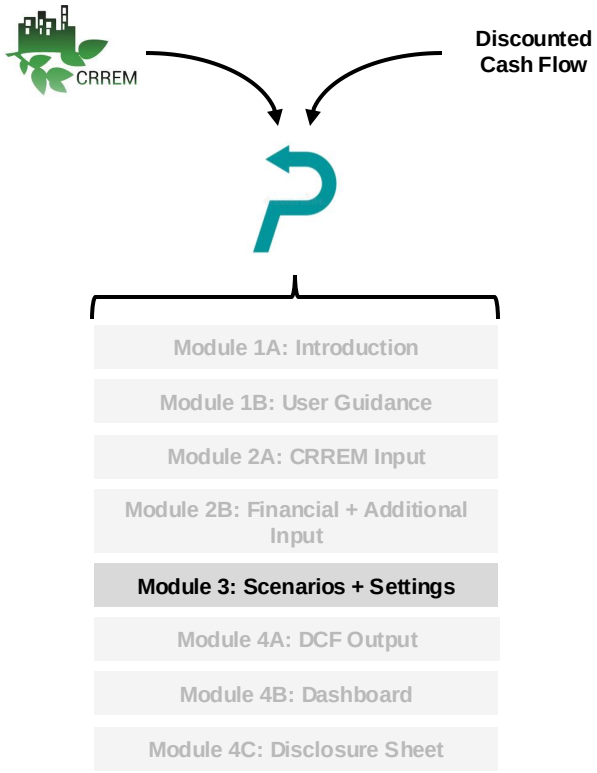
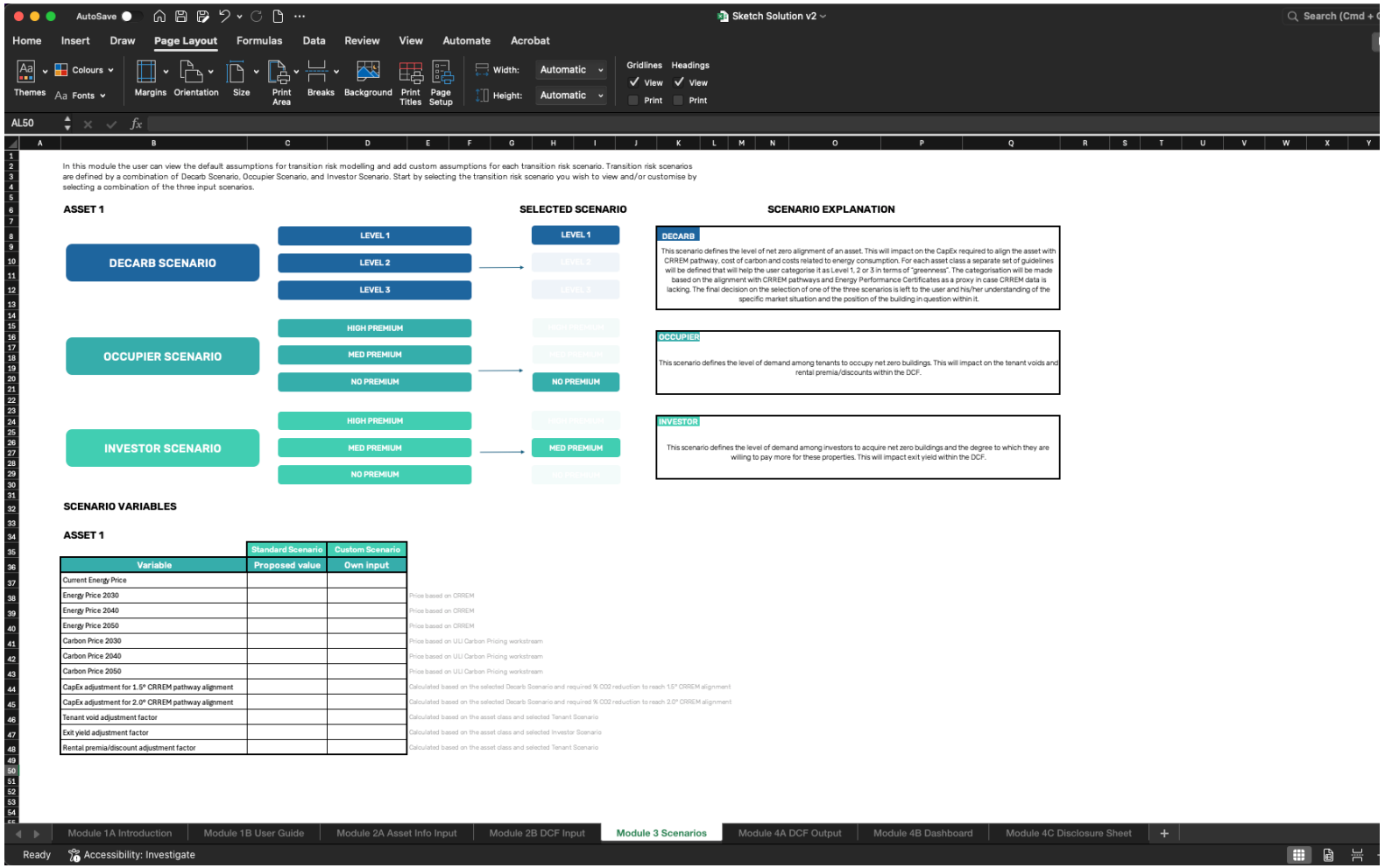
Module 3: Scenarios and Assumptions





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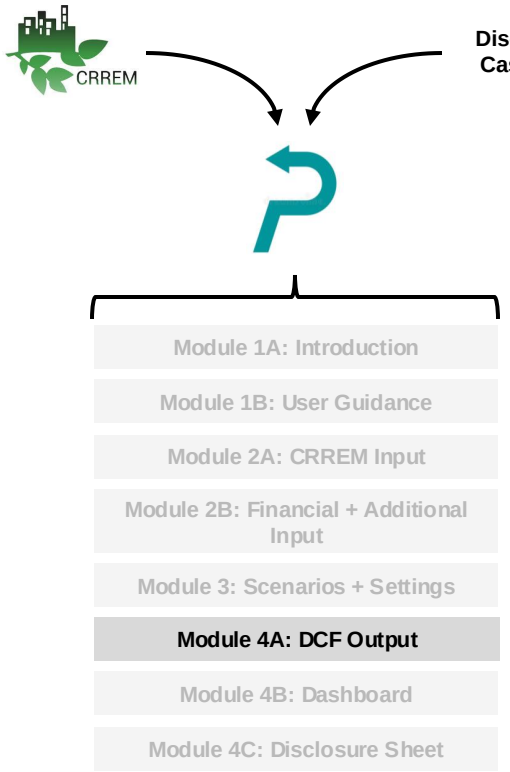
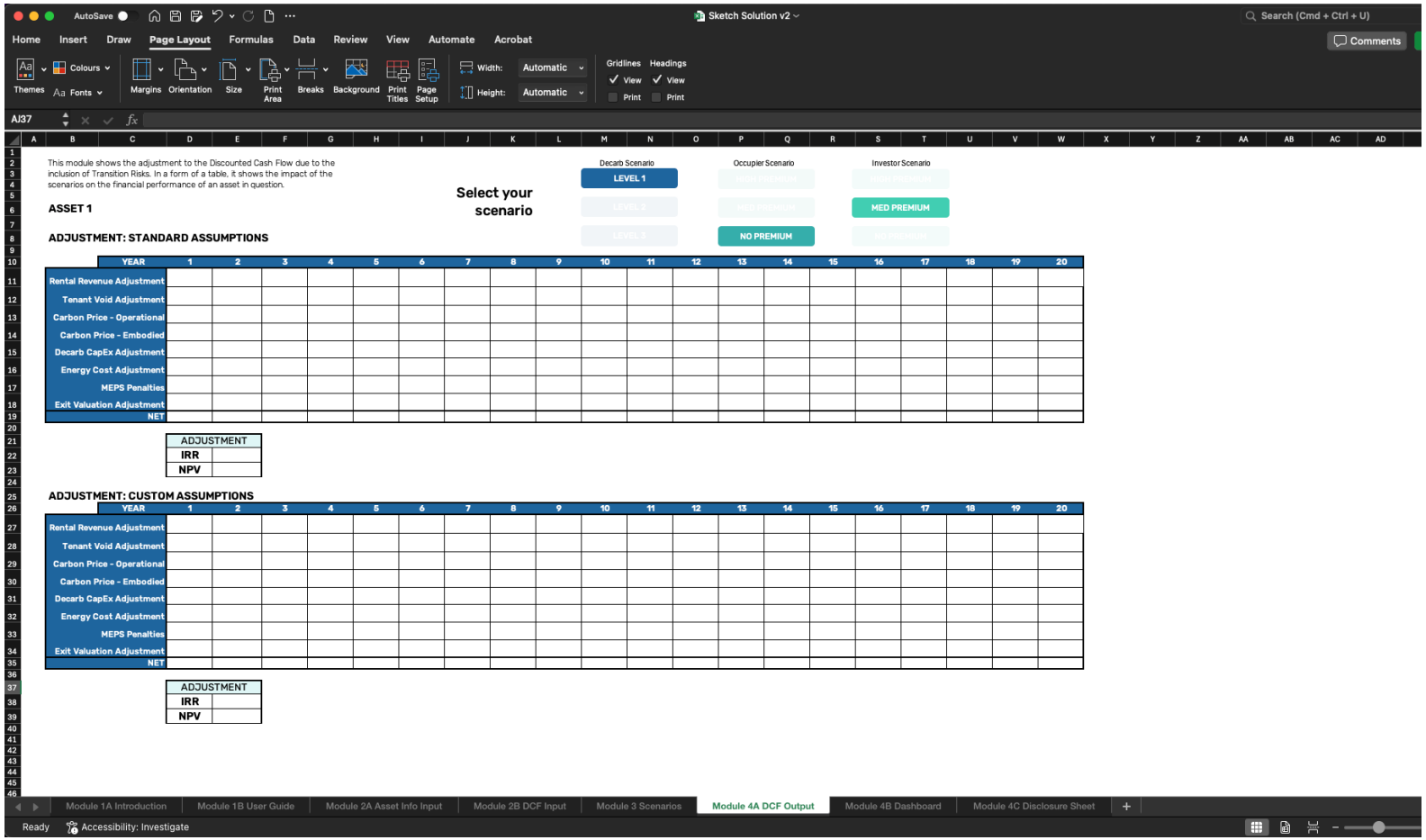
Module 4A: DCF Output





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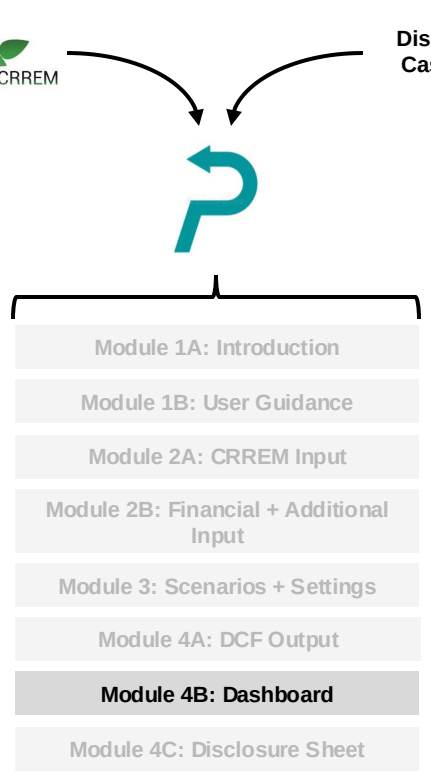
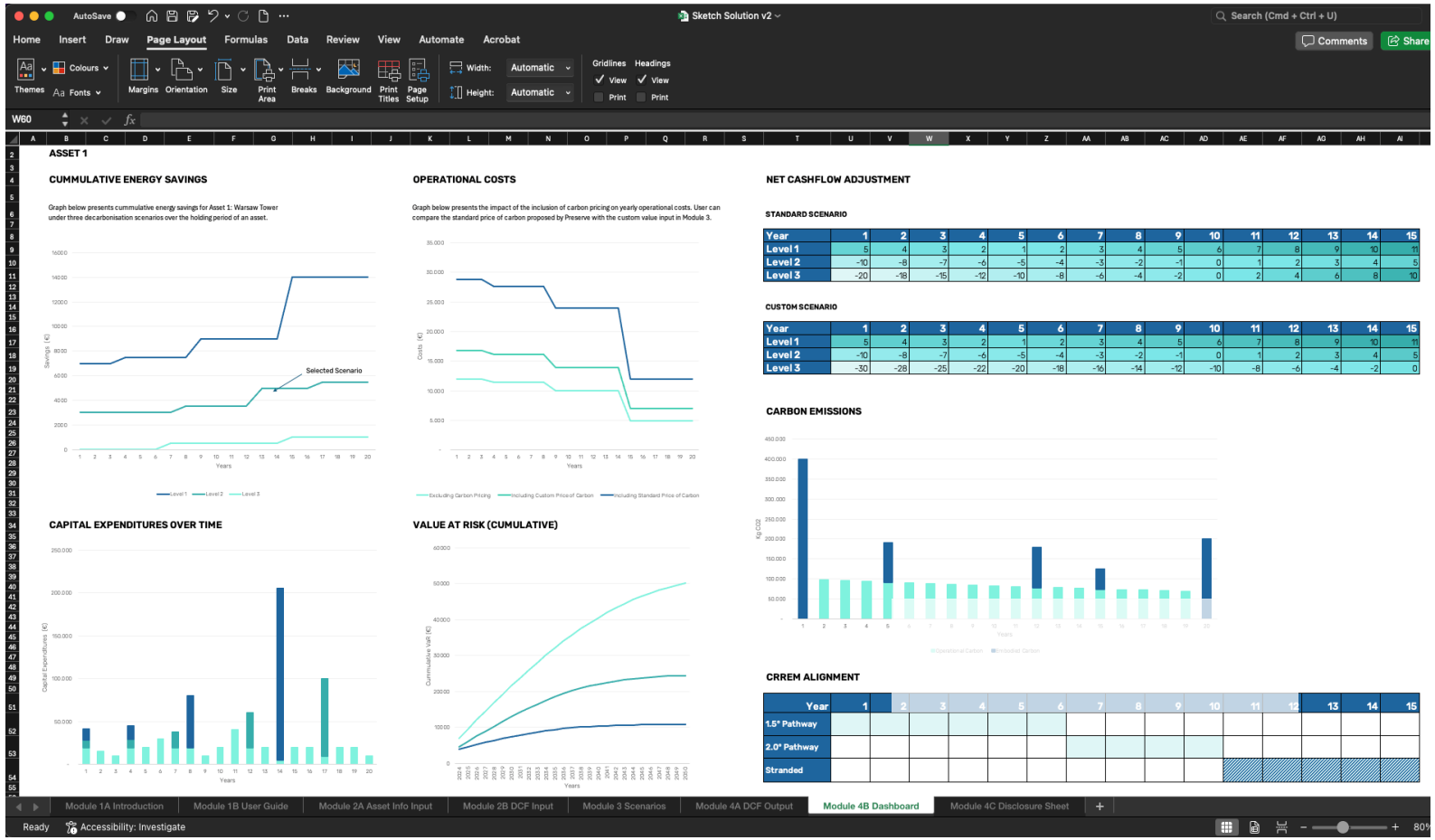
Module 4B: Dashboard





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PROGRAMME OVERVIEW

FIVE PHASES TO DRIVE IMPACT

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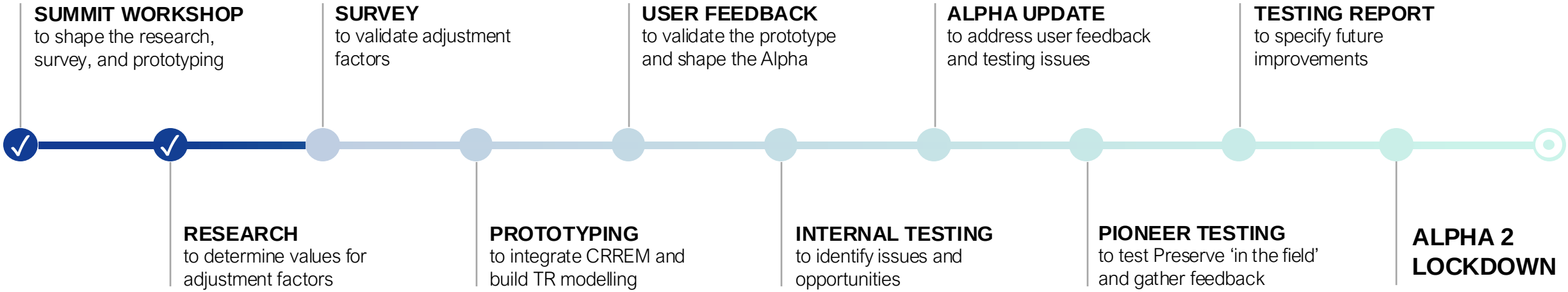
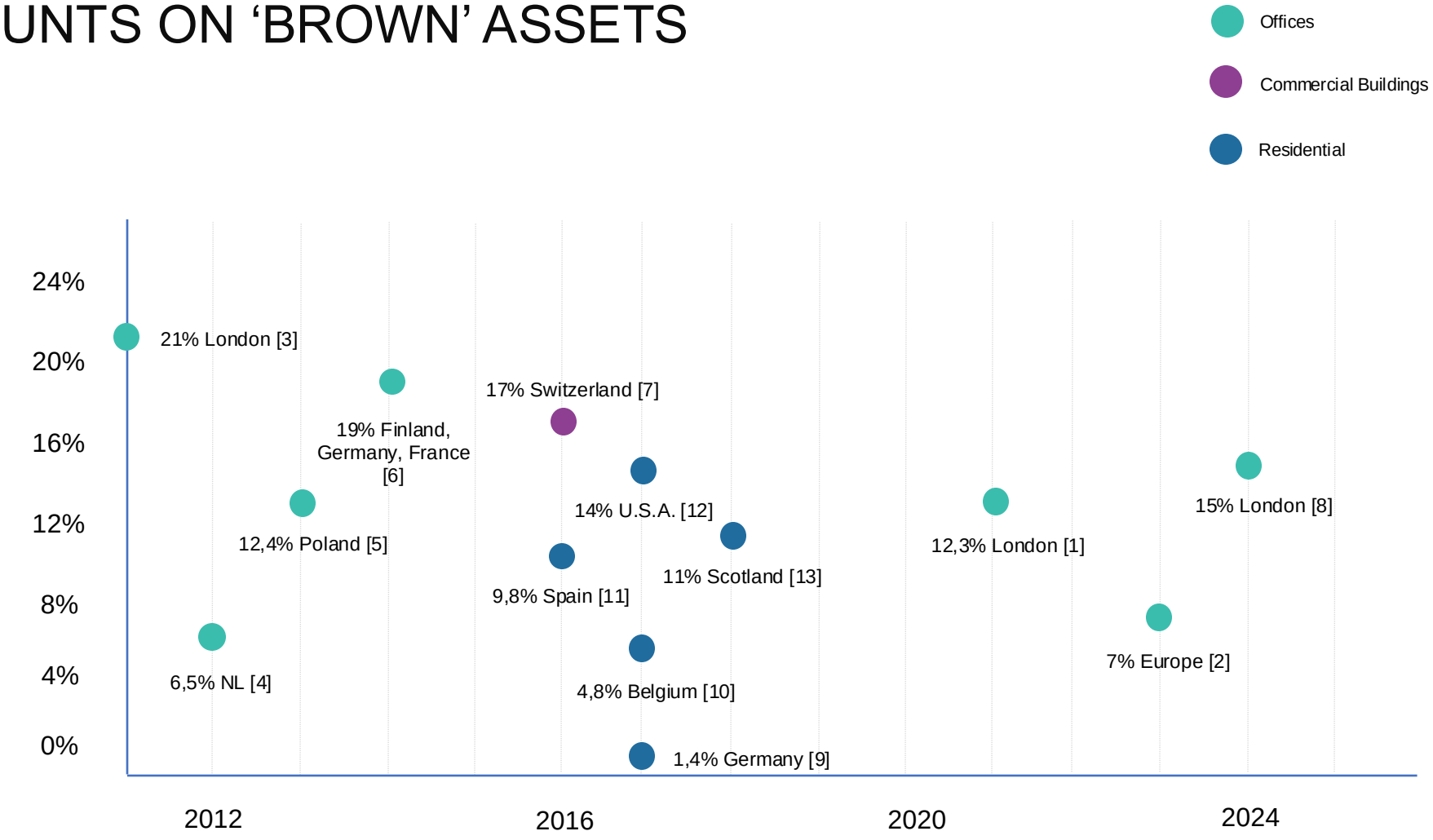
PHASE 2: DEVELOPMENT AND EARLY TESTING



RENTAL RATE DISCOUNTS ON ‘BROWN’ ASSETS

Average	By Asset class
8.56%	Residential
8.39%	Commercial
3.35%	Mixed
Average	**By Geography**
9.70%	Europe (including UK)
6.00%	USA/Canada
10.21%	UK only



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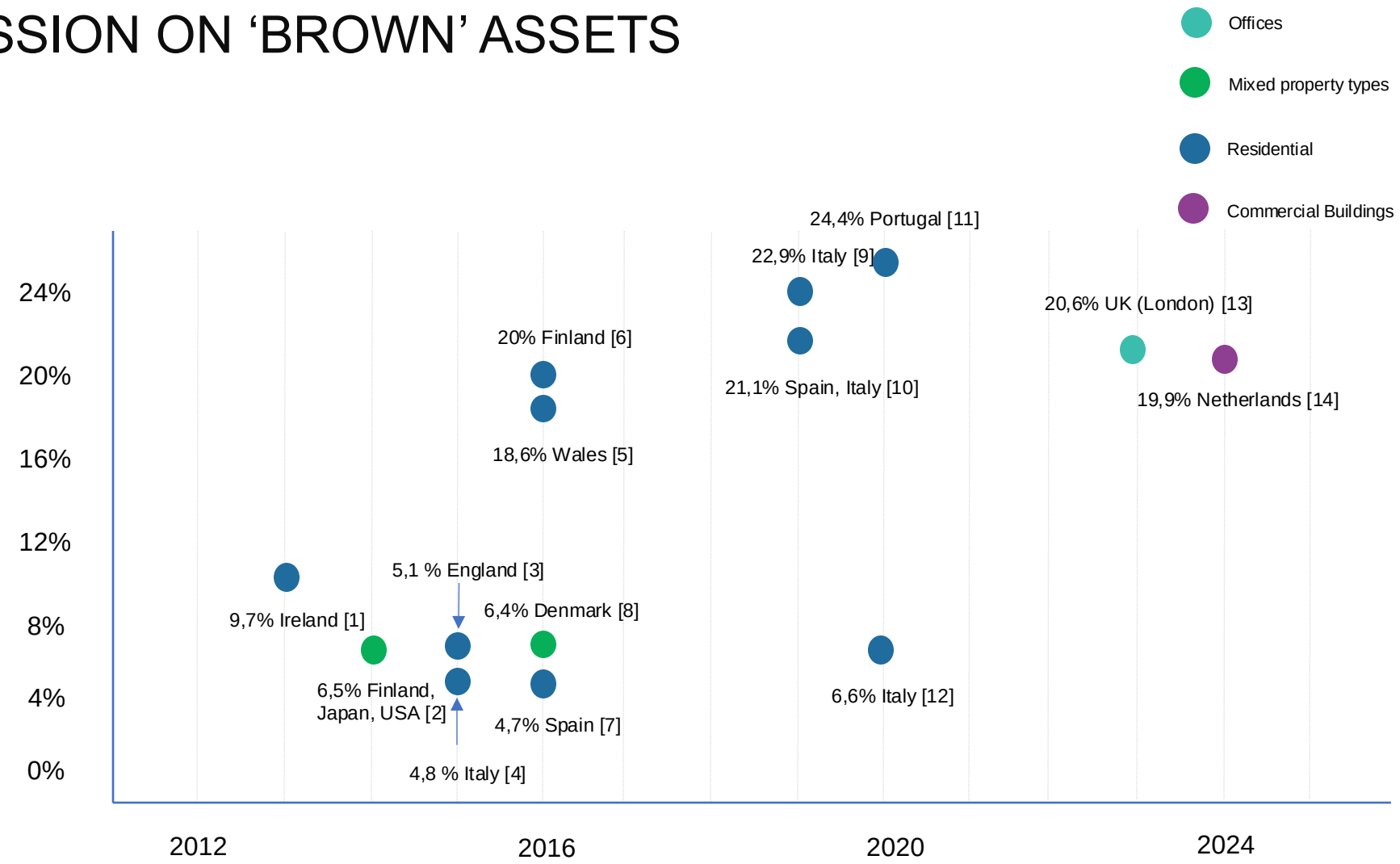
EXIT YIELD COMPRESSION ON ‘BROWN’ ASSETS

Average	By Asset class
11.86%	Residential
12.38%	Commercial
6.4%	Mixed
Average	**By Geography**
12.80%	Europe (including UK)
8.36%	USA/Canada
16.60%	UK only



GET INVOLVED

Preserve is a collaborative project driven in partnership with industry.

Get involved by:

1. Completing the survey
2. Participating in future workshops
3. Joining as a C Change partner or supporter

GET IN TOUCH

For further info on Preserve and transition risk modelling, please reach out to:

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CEO
Synergetic
derek.wilson@synergetic.group

For further info on C Change and sponsorship opportunities:

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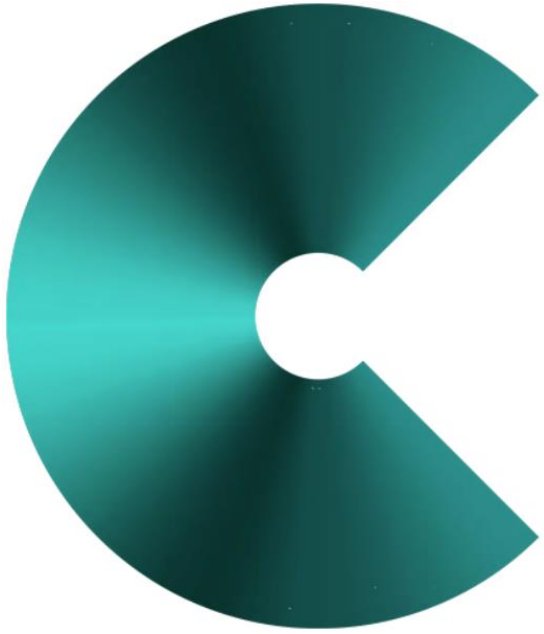

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PRESERVE

INTRO AND INSIGHTS

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Panel Discussion

Daniel Chang
Hines Europe Ltd
Managing Director and
European Head of ESG

Marvie Haas
Catella Investment
Management
Head of Impact Investing

Paul Kennedy
JP Morgan Asset
Management
Managing Director

Derek Wilson
Synergetic B.V.
CEO

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Wednesday 26 February 2025
13:00 GMT / 14:00 CET

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