Webinar
COP26: Key Takeaways for Real Estate
Date: November 19, 2021

00:00:00 --> 00:00:05: Morning and good afternoon. Depending on where you are.
00:00:05 --> 00:00:08: In the Americas. I'm Brad Dock, Sir. I'm the founder and CEO of Green Generation and
00:00:12 --> 00:00:15: we're thrilled to have everybody joining us today to talk
00:00:15 --> 00:00:16: about COP 26 in.
00:00:16 --> 00:00:19: The key takeaways for real estate.
00:00:19 --> 00:00:22: Just a couple of housekeeping items.
00:00:22 --> 00:00:24: This session is being recorded.
00:00:24 --> 00:00:26: If you do not wish to be recorded,
00:00:26 --> 00:00:28: this is your moment in chance to leave.
00:00:28 --> 00:00:32: Otherwise, with your, you are presumed to have consent to
00:00:32 --> 00:00:33: recording.
00:00:33 --> 00:00:39: Uhm, we've got three. You like global governing trustees
today.
00:00:39 --> 00:00:44: Faron Hill is the founder and CEO of Peregrine down
00:00:44 --> 00:00:45: Atlanta,
00:00:45 --> 00:00:49: GA, and we also have Derek Goring in Toronto,
00:00:49 --> 00:00:53: who is the executive VP of Development for North Crest.
00:00:55 --> 00:00:58: All three of us are deeply involved in ULI,
00:00:58 --> 00:01:01: and we're thrilled to be part of this and being
00:01:01 --> 00:01:04: invited to sort of talk about COP 26,
00:01:04 --> 00:01:08: particularly because, you know, we all have a deep
appreciation
00:01:08 --> 00:01:11: for the importance of ULI is a global leader and
00:01:11 --> 00:01:16: the ability to convene leadership across the real estate
industry
00:01:16 --> 00:01:19: around the world offer really important issues around land
use
00:01:20 --> 00:01:21: and the built environment.
00:01:21 --> 00:01:25: Uhm, and I think it's really interesting because if we
00:01:25 --> 00:01:27: go ahead and you know,
00:01:27 --> 00:01:30: think about you know the built environment.
COP 26 was just ended a couple weeks ago. Really was very important and the reality model to the next page. Is that depending on who you ask? Cop 26 was either a great success or a complete failure. Uhm, and there’s a broad range of sort of opinions on which one it actually was. Good news is that COP 26 garnered a tremendous amount of attention to issues around the environment and climate and whether it was President Joe Biden, whether was former President Barack Obama, who gave a really impassioned speech. Or whether it was people like the Prime Minister of Barbados, Mia Mottley, who represented a lot of the countries who are deeply who are not responsible for climate change but in fact are those who are most impacted by the low lying countries. The countries who are on the forefront of these massive impacts and in some cases you know may very well disappear if climate change is not addressed very quickly, and I think one of the really exciting aspects to this is this wasn't just about government leaders. But it was also about youth and activists. Obviously Greta Thunberg has brought tremendous attention to this, but it went well beyond Greta Thunberg with tens of thousands of youth activists convening in Glasgow from around the world to really talk about how important this issue is, go ahead. And the one thing that I think came out of this, regardless of what you think actually happened, is that the tug of war over climate change is over, and whether or not you like where it ended or you don't, I think now the real estate community, investors, developers, financiers now have some certainty. We know where things are going,
whether we like it or not is a secondary issue, but we do know where things are going to end up because the time for discussion, the time for talking about where we might go. He's really done next slide. So let's take a moment and just talk about. Sort of what was agreed on. It was very clear from the two weeks in Glasgow that ESG and sustainability is no longer going to be an option. There was a reaffirmation to the science based target of a 1.5 Celsius limit as basically the CAP beyond which we will tip to outcomes that may not be reversible. The good news is that the capital markets are private sector who really LED much of the discussion in Glasgow committed to over $130 trillion of capital being committed to the transition to net zero. Now that's going to come in lots of different forms from lending to pushing ESG in mutual funds and corporate with companies and shareholder resolutions. But it's clear that there's a lot of capital. Tremendous amounts of capital behind this Cole is going to be phased out. We can discuss them, touch on in a minute. You know this idea of whether coal is being phased out, which was the original language or being phased down the language in the last hour of COP 26 that China and India basically put changes into the announcements. But the reality is, fossil fuels are going to be disappearing. The Capital markets insurance have made clear of that. There was a pledge around methane. One of the interesting things about this is there were strong consensus around methane, which we often don't think about in the built environment, but it really is a byproduct from natural gas, so this is where the electrification of the grid electrification of buildings in California and other markets where gas is being phased out, not just to get rid of the gas appliances, but to get rid of the gas infrastructure in its
entire T is coming from and very deep.

Flashes to methane emissions were pledged and committed to by 2030.

There was also the pledge to halt and reverse deforestation that obviously have implications around the world, but particularly in South America and in the Amazon Basin.

The global capital markets absolutely are now aligned with net zero carbon.

There’s almost no CEO in the world of a major organization who has not made some commitment or really a full commitment to.

Net zero by 2050. That was the easy part.

You’re now seeing companies make much deeper commitments to 2040.

Twenty 3025. You like? Green Print Party has some of its members are already at net zero and then the.

Final point, this is, I think a really important one is will talk about for real estate.

The private sector is way ahead of government.

Much of the debate is still going on around government.

What they’re willing to do, and not willing to do.

Private sector banks, financial institutions, developers, investors, tenants. They’ve largely decided this issue already and their level of commitment is much deeper and much more serious than what we’re seeing from governments.

Monica next slide. Here’s what we didn’t see, and this is the really important part.

What we didn’t see it in Kop 26 in Glasgow was really how to do any of these things.

We didn’t agree on how to actually limit temperature increases to 1.5 Celsius and many of the people looking at this saw the commitments coming from the public sector and basically say if everybody follows their commitments to the full level.

We’re going to be at 1.8% and so even the level of commitments that were.

Date are not enough to keep us under 1.5%
and everything over 1.5 has really deep drastic and long term implications, not just for our communities but for the planet itself. We did not agree on what and how to phase down coal. This is the comment I made a moment ago about India and China's last minute change language. We did not agree on how to get climate legislation passed and developed countries like EU S for most of us I think are in the United States. There's some Canadians here where there's much more consensus around climate, although not enough consensus, but there is by no means political consensus. In the United States, you know, we're watching the you know the legislation that's going to hopefully get voted on today in Washington and the House representatives and get moved over to the Senate. A lot of climate in it, but it's not all the climate that people wanted is not all the climate that progressives think we need. And we're finding it very challenging to to get full and meaningful legislation passed in the United States. We did not agree on how to get the most vulnerable countries funding. There's a broad feeling that the countries who have caused climate change and the United States is a historically has created the largest amount of emissions historically need to basically find ways to provide funding to the most vulnerable countries. Whether it's the Maldives, the Marshall actions. Tuvalu there's a lot of countries that run the risk of simply disappearing. Some are already making plans to move, not just communities, but entire countries, to a new location. And we did not. Talk about and figure out how we're going to impact. Mitigate the impact of climate change on developing countries, not just the most vulnerable, but the other countries. The less developed countries,
they were very loud. They were very strong on what they wanted in Glasgow, and I don't think they left thinking they got everything they needed. And then finally we did not agree on how to implement Article six. Article 6 is sounds very arcane, but it is essentially the mechanism around how we're going to create global carbon markets. Basically, offset trading. To get to net zero which the UI Greenprint Center has done a tremendous amount of work on,
there are only four ways to do it.
Energy efficiency. On site. Renewables officer renewables and carbon offsets all four of those are tools that need to be in any credible program and article six really is designed to help both bring market based solutions to bring capital to offsets, but also to think about what is the nature of offsets.
How do we trade them? How do we monetize them? How do we transfer capital from one party to the other?
And I think ultimately what we learn is that consensus is really hard. Paris COP 21. Glasgow Cop 26.
Both went almost two days beyond where they were supposed to be because they could not agree on the written statement that was going to be taken on and signed by all the countries. At the end.
Two weeks of talking no problem actually putting words down and putting a signature on it really really hard. Uhm, Monica next slide. One of the exciting things out of Glasgow was EU S China announcement, which was very much unexpected. President Xi from China was a no show did not come to Glasgow, has not left China nearly two years, primarily because of COVID, but you had a relationship between
the climate Minister and China who came out of retirement and John Kerry, EU S climate negotiator, long term relationship and they were able to get. Themselves to a joint statement and the exciting thing about this is this unexpected deal. Really signals signaled leadership and cooperation, which is critical to addressing this. It was far more than expected, but honestly, much less than what is needed, and it regulates the decarbonization. It talks about methane emissions and it will fight deforestation. US and China will lead this. They do not expect to do it by themselves, but their hope is that by cooperating together. They will bring a lot of other countries along. But at the end of it, it was also short on actual commitments and China, who is committed to net zero by 2060, made no new commitments around peak carbon. It did not make firm commitments around fossil fuels and coal, which is a major part of their energy generating strategy and ultimately still left a lot of people sort of wanting. I think next slide. So let's just talk for a minute about some of the things that did come out of this. What we're seeing is both institutional commitments in national comments, really, that are going to lead to regulation. You had this net zero asset management initiative, which mobilizes over $57 trillion of a Umm, you had 44 new businesses as new signatories to the World Green Building Council's net zero commitment, now totaling over 150 signatories. Love that. There was a new financial alliance for Net zero out of Glasgow, which represent over 130 trillion of a UM All committing and recommitting to the Paris Agreement in Italy, which is focused on mobilizing cities around the world.
Coming up with 100% renewable cities energy compact and getting lots of signatories to that. At the national level you had more coming out of the UK with mandatory climate related disclosure for public companies and financial institutions. Japan pledged over $10 billion to climate finance over the next five years. In India, pledged to reach net zero by 2070. And while 2070 is, I think, by most estimates are pretty meager commitment. It was the first commitment that India had made at all in this. Manner so this now puts them sort of the most out there. Almost every country in the world is at 2050 or earlier. China is at 2016 Indian at 2070. The next discussion. The next cop will really be focused on getting countries to bring that in, but also to think about what are the intermediate steps that they’re prepared to take. What is their commitment to 20 thirty twenty thirty five 2040? And then at the sub national level and in the United States primarily, all the action regulatory from a regulatory point of view is at the city level. You’ve got a myriad of cities commit really forcing climate legislation. New York with local law 97 is probably the most obvious and well known example, and it is a face basically a defacto carbon tax. Within the next five years, my view is that every single major city in North America will have some sort of carbon or emissions regulation. It’s not a question of if it’s just a question of when and for those of us who are developing a building. Today. We’re already own a building today. This certainly has to impact us whether we’re going to own it or sell it to somebody who is going
to own it inside this period. And it's certainly clear you know that fossil fuels are going to disappear, and we're largely going to be ending the financing of coal China. India pushing back kind of doesn't matter anymore because the capital markets are basically say we're not going to finance coal. And the insurer said, we're not going to ensure coal. So if countries want to say we're going to phase out coal slowly, it no longer matters because there's not going to be money to develop new projects and operate them and insure them. And think about risk. Methane pledge pledge is really important. If you were to do a a word bubble of Glasgow, methane would be, if not the first. The second or third largest word in that word bubble, and I think ultimately, what we're seeing is the capital markets are really writing the rules. They are determining what's happening LP’s on the opportunity side are basically saying you're not getting our money unless you have a strong ESG strategy. Very different from five years ago. If you were a public traded company, your shareholders are basically saying we're not going to own your stock unless you're thinking that ESG and we may be putting shareholder resolutions on the ballot to be voted on. As you saw in the case of Exxon, and insurers are stepping up because at the end of the day. They're bearing the cost of this, and if they pass on the true cost, and if you're going to have a major flooding event, say in Miami every three years, then you need to be expecting to see premiums rising very significantly. We used to talk about the cost of insurance.
Increasingly, in some markets were talking about the availability of insurance at all.

Will private insurers simply leave the market and put us in a pretty bad spot?

Next slide. And so just to sort of wrap up for the first section.

You know, key takeaways for real estate.

Some basic level COP 26 had a very limited direct impact on the built environment,

but in terms of indirect impact,

it couldn't have been more important.

Net zero carbon is here embodied carbon,

which frankly is what everyone in Europe is focused on

because operating carbon feels like very yesterday is already in Europe.

It is already something that we're discussing in the United States.

We have a number of clients who are already.

Focus on a crime framework and cream pathway.

Correct pathway is find a very distinct way to get to net zero.

It is very strict. It is very didactic and there's a lot of investors following low carbon materials are going to be critical.

Increasingly, you're going to see a lot about steel and concrete.

As I said, net zero Ancram pathways are here, and they're here to stay.

Regulation of the city level is already here.

Every major city in North America is going to have it shortly.

Your ability to raise money if you don't do this right will be limited,

and I would argue that you know in five years time 5 to 10% of the real estate investment firms will disappear because they manage this transition poorly.

20 to 25% will have been successful.

They would have transitioned well,

they will have more money.
They will have assets. That have greater value and there would be 2/3 of you know, basically status quo, not better, not worse. It just sort of addressed it in a fairly light way, and the debt capital markets care as well. We're increasingly working with lenders who are looking to integrate climate and ESG and regulatory impacts into their decisions around credit and lending. And while this may feel onerous to some extent, it creates certainty you may not like it, but at least you go in knowing it's going to occur. You know what it's going to cost to comply with regulations. And so let's just go to the last side, Monica, just a couple sort of levels that and think about the rest of our time. Data is going to be very important for everyone here. Whether it's you like greenprint greasby, it's important to measure and set targets to do it in a very transparent way, so that all your stakeholders know what you're doing. Uhm? Define success. Every single person here today will define success differently. For some people it will be about raising more money. For some people, it's avoiding a stranded asset. For others it's simply we want to do it and align ourselves in a manner that's really important so we don't end up having our employees leave our customers our supply chain. And all these are voluntary commitments and I think what's really important is to think about the authenticity of it. Some of you will basically be inclined to just do whatever your peers are doing, whether or not that is the right fit for your organization. But creating a credible narrative to talk about sort of what you're doing, why you're doing it, and what it means to you
Stakeholders eldest, I'll close with this. Historically real estate, and I think we thought we had two stakeholders. We own a building and we sign a lease with somebody and the other stakeholders. The person that signed. At least today. I would argue that the stakeholders is a much broader set of people. It is the person who signed the lease. It is their employees. It is their customers, that is their supply chain up and down. It is their investors on the equity side is their lender. On the debt side, it is the elected officials that oversee and govern the planning and. Permitting process for our projects because all of us are going to need to pull a permit or get a variance at some point. And if we align with our communities will be able to get that very quickly if we do not align with our communities. It's possible we may never get the permit or variance that we need in order to develop our projects and so this is an issue that now pervades every aspect of a bit of our business. From what we design to what we construct, what we operate to what we finance. And I'm I'm really happy that we've got, you know, two other leading real estate industry participants to join us. So I'm gonna ask Faron to sort of kick off the next section, talk a little bit about sort of, you know how this is impacting his business, his clients, and then Derek will talk about in particular his project up in Toronto, and how climate is impacting. A project which is going to be existing for decades both through the development, the construction, and the operations so fair and over to
Thank you Brad. Good morning everyone, just to kind of give you a few thoughts on our business were Capital Advisors. And so we work with developers, owners, operators in addition to capital sources as well and it advisory capacity in terms of structuring transactions. The influence of a comp. Of COPD 26 and the takeaways from it for us are going to be ongoing. 

Uhm, one of the things that Brad mentioned or touched on is the fact that one of the primary goals of the conference is to mobilize finance that phrase that inclusive of financial firms, banks, insurers and investors, each of the participants were asked to contribute $100 billion in climate finance to support developing countries. Some of the ones that Brad mentioned, in addition to the overall number of $130 trillion in. Contributions to green finance over the coming years. So what we envision coming out of that are new financing tools, green bonds, other things and then also other alternatives to finance some of the projects that we're actually discussing or talking about here. During this discussion, we believe an emphasis based on that will be placed on capital raising for groups and institutions who deploy that capital. As well, there will definitely be a mandate around ESG as well as green finance and, and more importantly, net zero as well. Uhm? Over a short period of time, we think that the private and public sector are actually going to have to come together in order to make this happen effectively. But overall, as was pointed out in the slides as well, we feel that the majority of this change is going to be driven by the private sector and in our opinion that's where it should be. Ferring thanks very much Derek.
You want to talk a little bit about,
sort of. Both the Canadian perspective you know more broadly,
but specifically sort of how this is impacting your work
and your project.

So yeah, it's really interesting from our perspective because,
notwithstanding the lack of momentum,
you may want to call it coming out of COP
26 from the government.

This is something that's been on our radar for awhile
anyway.

And and we really think it's a it's a major
driver of our business to provide a bit more context
to the comments I'll make and the discussion today.

Northcrest was created three years ago.
By the public sector pension,
which is one of the largest Canadian pension funds and
they bought an airport,
an existing airport site in Toronto.
370 acre site right next to existing subway infrastructure and
within the city.

And so we are. We as an organization,
we're set up by the pension fund,
whereas city area of the pension fund and our job
is to redevelop this property,
which the pension fund plans to own a significant portion
of for decades to come.
And so, in addition to the fact that the pension
has an ESG focus and is really important in their
decision making for all their investments,
particularly for us because of the long term nature of
our project,
we know we have to make sure that we are
building and designing these new communities to last and
be.

Protecting from an obsolescence perspective,
by making good decisions on things like our carbon footprint
so that by the time the buildings that we build
are actually up and running and operating that they are
meeting the regulations in the future,
not the regulations of today,
so that long term perspective is really helpful for us to be able to make the right decisions for the long term we are thinking about infrastructure. We're thinking about the buildings and energy efficiency, but we're also thinking about. Resilience, so I think we’re at the point now where in addition to the fact that we have to make sure that the buildings we build have as little carbon footprint as possible and that does translate both operating and embodied carbon,

we also have to recognize the fact that there's already changes to the climate. And so we're thinking about things like stormwater management not based on rainfalls of today, but projections of where rain falls and the prevalence of really large intense storms are going to be over the next 2030.

40 years and so these are all decisions that are taking we're taking into account as we design the project that we're working on and and will be important for years to come. Terrific. Derek, thanks but so.

Do couple things now, so will start just a conversation. Please please please if you’ve got questions or want to sort of add to this conversation. Put something in the chat box, we're looking at it. We're monitoring it. But there I'm, I'm curious 'cause you know there are people on this, you know? This webinar and people we've all been talking to. Some are coming to this for the first time we've been doing for a really long time. And your projects been incorporating this very long, how, if at all, has sort of did COP 26 change or thinking?

Or accelerate your planning as it relates to integrating climate?

Yeah, so you know, as I said we we had already
been taking this into account, but I think what it really does is it helps provide momentum and interest and support for all the stakeholders that are involved. So it's raised the profile. The issue for all of our stakeholders and it also helps when we're trying to make decisions that may be on the margins of what might be justifiable from a return perspective or a payback perspective. You can also start to have conversations about well if we don't make this. Decision to push a little bit farther and reduce our footprint a little bit more. You know you may be in a position where your building is obsolete by the time it's built. I mean, we're designing buildings in 2021 and 2022 that won't be in place and operating and stabilized until 2025 plus. And when you think about when that building is up and running, when you have to refinance that building, or when you might want to sell that building, we're talking about 10-15 years down the road. And do you really want to be owning a building at that point in time that that isn't meeting the standards that we all know are coming and so not be focused as much on the standards that are in place today? And so I think you know the term I use. It helps give people courage when they see so many other actors out there that are, you know, telling the world that this is a really important issue. It helps decision makers who have to sign off on some of these things that you know they're a little bit worried about. They're not quite meeting their return threshold, or they're a little bit worried about the IR on a project. But if you can layer in some of these other risk mitigation factors,
it helps people to go that much further.

Great eight so fair and I want to turn it over to you for a minute so you made a comment about green financing and certainly the sort of the largest category of in the capital market. Today is around green financing very broadly defined. And it potentially lowers your cost of capital. It also signifies to the market and stakeholders your seriousness, and you're sort of thinking about climate.

I'm curious, you know, when you're talking to developers and owners about green financing, what's motivating them. They think this is just, you know, going to get them more money, you know, going to get them more money, lower cost of capital. Do they think it's the right thing to do, or are they thinking about? Or are they even changing? Perhaps the development or their cap, ex. Program, you know, as a result of this. So in my experience, there's been sort of a bifurcation in a sense as it relates to green finance and green bonds. You know? There been a few occurrences of developments being focused on green. Green will use utilizing green bond financing in the United States and it's been more prevalent in European markets and so I think what you're seeing here is that in the United States, when it occurs is that it is more intentional and it is around some of the comments that Derek was making about stakeholders being more focused on utilizing that as a financing tool. So I think that's. Primarily what's driving it now, but of course you know as a result of. This conversation and other things that is going to grow and you know its capital sources continue to mandate the use of certain aspects of a development or project. Having some sort of or having significant environmental enhancements...
or changes to it, then you'll see green financing be more prevalent in the market, but not only that, be more useful and I think you know one of the things that's more important for us is realizing or Sorting out some of the tools that we think are going to come to the market with respect to financing. Some of the dogs now, as a matter of fact or offering discounts with respect to rates on refinancing for projects that clear certain certain hurdles from an environmental perspective so. Very abundant in European markets, but in its infancy here in the United States, but we we think over the next few years will be very useful and will grow significantly. Fair and thanks. So it's been interesting, so there's a couple of questions in the chat box and sort of been talking about resiliency and climate risk and sort of been talking about resiliency and climate risk and sort of asset valuation so. I wanna make a comment because I think one of the interesting things in a North American context is one of the MSA is perhaps it has the most favorable sort of macroeconomic factors right now. Is South Florida, Miami at the same time, South Florida, Miami may have the greatest or worst climate profile or value at risk profile that any North American city and you've seen a tremendous amount of institutional and opportunity fund activity in South Florida companies. Even relocating there. And you know, I guess you know it's interesting, fair, and say how? How are the capital markets? Perhaps squaring sort of the macro story, which is what we always want in real estate with the climate risk. Sort of the risk to the collateral value as they're sort of, you know, looking at capital market decision on to finance or invest in places like South Florida. I think that that definitely ties back into Derek's comment and and in their firms being intentional about their
investment and the development that they're doing on their project.

And I think we will have to see more of that happen here in the United States,

I think personally that in markets like South Florida as you mentioned,

specifically that the focus is currently on traditional development,

traditional capital markets, traditional structures and returns.

Also with very little. Emphasis on what's next for the next five years and the possible app obsolescence of an asset in the capital that's going into it so that, to your point and you know, has to be a primary focus for everyone who's involved specifically in the real estate market.

From an investment standpoint and even from a development standpoint as well.

So there needs to be more focused on those than there is currently.

Brad, you also touched on insurance earlier,

and to me, that's that's going to be the big driver is if and when insurance companies are either not willing to provide insurance or or charging premiums that are exorbitant, that will really be a major tipping point.

And it is surprising to me that it hasn't already started to happen because they're the ones, as you said, that are going to bear the brunt of major losses when flooding happens and they have to be.

Thinking about the long term, not necessarily over the next year or two.

Well, Derek to your point about insurance.

It's actually happening now because we run into situations with building owners who may have had damage to an asset as a result of a storm or some other natural disaster, and as a result, what their flight finding is. Insurance companies are not willing to honor the full value of the policy, and so they're looking for creative ways to sort of
fill the gap, and in some cases. For owners who are not as well capitalized or don't have institutional backing, you know they're forced to sell assets in some cases at a loss, so that's actually happening now and and something that should be addressed, and I'm surprised it doesn't get then get more coverage in the press. Well, it's interesting 'cause EU S Center for sustainability and economic performance that Billy Grayson runs has initiated conversations with the insurance industry. I think Derek to your point. We've historically real estates talked a lot about the cost of insurance and the price of insurance, but I think increasingly we need to be speaking about the availability of insurance and if private insurance leaves, say South Florida because the risks are, you know, the 100 year storm is now every four years and you can't charge somebody basically 25% of the total value of the claim every single year you're going to be left basically with. You know public sector programs and that public sector program, say in Florida, is basically going to have all the risks. So it's instead of a claim in Florida, where an insurance company has some claims there. But as a whole bunch of sort of assets in programs in place around the country, that program is going to go out of business. And then there's one storm, and Esteban just put in a comment about the UI. Heitman report, which is exactly right. So Heitman has been neutralized, partner. For research around resiliency and sustainability around climate and insurance is a huge issue in China. The height the only Heitman report talked about the Pearl
River Delta between 60 and 70 million.

People are exposed to climate risk from one single storm.

It does not have to be multiples from this single storm anywhere in that region of Typhoon will impact 70 million people billions and billions of dollars.

And one and RMB of real estate assets, and it will be devastating for real estate now.

The flip side is not all climate risks are the same, so South Florida is exposed to hurricanes.

Everyone in Miami. Basically the same risk darking everyone in Miami does not have the same exposure to coastal flooding and tidal flooding and you start to think about this notion of value at risk.

And investing in resiliency and that starts to give you sort of an interesting opportunity around.

You know how to invest in your assets if you can raise the building effectively from 8 feet to 12 feet or 14 feet by putting in barriers to penetrations, you know that will eliminate several coastal or tidal flooding.

You know events a year where you have a high tide that's combined with a full moon.

Those are bad for South Florida, but you know this is, I think, a real issue and I think.

No, the insurance industry who's largely been. Perhaps quiet is very much now at the central part of this discussion.

So, so Brad what what?

It just dawned on me what what you just outlined may actually be the solution to the problem.

Maybe the insurance industry should come up with a list of criteria for properties that they are willing to insure.

And as a result it should check all the boxes that we're discussing here.

I mean that could be a very good start from the private sector.

I'll will make an operation so you know where I started my career.

JMB Realty and Jane B also has an insurance affiliate and I've spoken to them about this in.
In many cases they do this type of work. They basically give properties a list of the different types of measures they can take that will impact or reduce their insurance premium or simply improved. Their assets it almost to a tee, none of them follow that none of them think about this at all.

So it is something that people are thinking about, you know, and I think the the big challenge is that. Is that? The industry generally isn't pricing it right, and the minute get start it gets priced correctly is the minute people are either not going to.

They can't not take insurance, but they're going to basically start to see the reality of it because there's been some comments about cap rates in climate and you know cap rates were largely reflect the volatility of the certainty of cash flow. And if office had now climate change introduces a whole lot of volatility, your cash flow, you know people will pay more.

For $100 every single year, then they will force A50 this year,

but 150 next year, even if the NPV is exactly the same.

So this is, you know, a very new place to be, and maybe it's not a new place to be, but it's I think a new day as we start to think about a lot of these issues and.

You simply reflect this volatility. Yeah, sorry Brad, I just to build on that.

I think this is where you know places like banks can have an increased role because as you say with cabarets.

Yeah where as low as they are.

Most development projects have very little room to maneuver when it when it comes to things like lower rent or higher vacancy or or unexpected retrofit costs due to new regulations. And if banks start telling their clients that they are going to,
you know, give them you know less loan to value
or higher rates because they're not factoring some of these things into their projects that will have an immediate impact on decisions. And when you think about, you know what I was saying earlier about struggling to justify in the grand scheme of things, relatively minor, increase capital costs to make buildings net zero
carbon,
or at least push yourself as far as you can
down that path.
Relative to a relatively minor increase in your cap rate,
because the banks saying that there's a higher risk in your cash flow then you think there is,
I mean that that would almost immediately have a huge impact on developers and their ability and willingness to make
some of these decisions.
Let me turn this conversation in just sort of,
you know, net zero, both for new construction but also for retrofits.
And how do we get buildings to net zero net zero ready?
Because in the infrastructure bill just passed EU S Congress was signed into law this past week.
There was a bunch of money for investing in building codes and helping cities change their building codes and that is often sort of the stealthiest place out.
You know I'll make an observation.
A tourist, Darren and sharing what you guys think and others in the chat room,
you know. It's hard to build a net zero building,
but relatively speaking the building codes are pushing in that direction.
Now most building codes around North America are essentially our lead gold.
Already, LEED Gold doesn't need to be done.
LEED Silver doesn't really exist,
and we know how to build net zero buildings and the extent our employees and our tenants demand it more.
We're going to build them more,
the existing building stock,
which by and large the buildings that are going to be.
With us in 2030 and 2040 already exist.
How do we take the Class B building the midblock?
Building the Class B. Multifamily how do we help get that to net zero?
Is it a capital markets question?
Is it a technical question?
Is it a business model?
Question, Derek, do you want to maybe sort of start with that?
Well, I think there's a couple issues. Well,
you know, I think they're the technology does exist so I don't think it's a technical issue.
Uhm, it's obviously a cost issue,
but that ties to the regulatory environment and so in Toronto,
and I do want to give credit.
I mean, we touched on regulation before Toronto has said that all new buildings by 2030 have to be net zero and all buildings by 2050 have to be net zero, and that's important for a couple of reasons.
One, they've set out what they mean by that, and I'm going to talk a bit more about that in a second,
but it also they've been forecasting this,
so they're telling people well in advance of what the new regulations we're going to be in the future,
so that developers and building owners can plan for it.
And I think that's really important,
and I don't think that's happening enough yet.
One of the one of the comments that got made on the roundtable discussion that we had on Tuesday with the someone used the term "whiplash regulation,
which I really liked. And it's that idea that governments are going to sort of delay making decisions and then all of a sudden they're going to feel the political pressure, and they're just going to rush to impose a bunch of regulations to make it.
consultation with industry, and without really thinking through the unintended consequences and and
00:44:09 --> 00:44:11: the industry is going to have to deal with that
00:44:11 --> 00:44:11: in less.
00:44:11 --> 00:44:15: We are proactive and are making those decisions and taking
00:44:15 --> 00:44:17: those actions in advance,
00:44:17 --> 00:44:21: so I think that's something that we can and should
00:44:21 --> 00:44:21: be doing.
00:44:21 --> 00:44:25: But part of the problem is is what is net
00:44:25 --> 00:44:25: zero?
00:44:25 --> 00:44:27: You know, are you telling what operating carbon are you
00:44:27 --> 00:44:28: talking about?
00:44:28 --> 00:44:33: Embodied carbon? What happens when you think about electrification,
00:44:33 --> 00:44:37: which is an important part of getting to net zero?
00:44:37 --> 00:44:40: How much are you considering the source of the electricity,
00:44:40 --> 00:44:42: and what the carbon footprint of the electricity is?
00:44:42 --> 00:44:44: So I think one of the things that you know,
00:44:44 --> 00:44:46: I think you'll I can have a role in this,
00:44:46 --> 00:44:49: and we as an industry have to try to work
00:44:49 --> 00:44:55: together to continue to refine and develop the standards and
00:44:55 --> 00:44:57: come up with legitimate and.
00:44:57 --> 00:45:00: Appropriate ways of standardizing the measurement of what.
00:45:00 --> 00:45:03: Net zero is so that we're all talking from the
00:45:03 --> 00:45:05: same playbook,
00:45:05 --> 00:45:07: and I think that will help as well,
00:45:07 --> 00:45:10: but that's really different depending on which jurisdiction you're in.
00:45:10 --> 00:45:12: It's a lot easier to achieve net zero in some
00:45:12 --> 00:45:14: parts of the world than others,
00:45:14 --> 00:45:17: partly based on where the electricity is coming from,
00:45:17 --> 00:45:20: so there's there's definitely a lot of different things that
00:45:20 --> 00:45:20: have to happen.
00:45:20 --> 00:45:23: There's no one thing that has to happen to solve
00:45:23 --> 00:45:24: that problem,
00:45:24 --> 00:45:28: but I think if the developers can share information.
00:45:28 --> 00:45:30: And again, you lie has a place to play here.
00:45:30 --> 00:45:34: Sharing best practices and technical information.
00:45:34 --> 00:45:40: Governments work on regulations. Governments also work on the standardization
00:45:40 --> 00:45:43: of what the definitions mean and and you lie in
00:45:43 --> 00:45:47: the industry can play a part in trying to make
it as common as possible,
so that if you're operating in multiple jurisdictions,
you're not trying to figure out in different ways in
different places.
I think you know one of the challenges you know.
I think there's a big difference grounds for this notion
of.
Net zero and developing net zero buildings for occupiers.
So you know universities, schools,
corporations are going to occupy their own space versus
investors
and trying to think about you know where the demand
is coming from.
It is it is tricky and I think you know
one of the challenges we have in North America is
that there are some communities that really want these
buildings.
There's others that really don't care,
and they're not prepared to pay more.
They don't necessarily equate a net zero building with a
desired sort of attribute or outcome.
It's not an amenity, and it requires,
I think, a lot of us to sort of think
a little bit differently about how we live,
what's acceptable, what temperature do we want?
In our space, what light levels are we prepared to?
For instance, limit the wattage at our work station and
all sort of all everything moved to Power over Ethernet,
and I think Derek you made an interesting point.
'cause obviously grid decarbonization is sort of the one lever
that the the build the real estate community itself does
not control in terms of decarbonization,
but it does control all the balance and in body
carbon I think is a wonderful example.
At the most basic level.
A lot of the decisions running body carbon are really
simple.
Get developers and architects and designers and specifiers
to just
think about these issues.
Right, I mean, Google just introduced her to this notion
of carbon associated with your map,
and so they'll give you your fastest route.
They'll give you. Perhaps they'll give you the low carbon route that may have less stops, or allows you to you know, less carbon based on their algorithms, and we don't necessarily think about that in terms of materials. We don't say you know we're used to just ordering from the same people. Are stone or wood without necessarily saying well that firm is like 1000 miles away versus this one. It's 50. What's the amount of recycled materials? And I think getting the real estate community broadly defined to think more about embodied carbon, which. Is already the case in Europe is important? I mean, I think that that came up in the conversation earlier this week as well as even just getting developers and building owners to ask their suppliers to disclose the carbon footprint and the materials they're supplying. Just just that act alone will cause people to really start to think about it. And if that's part of your evaluation process for which suppliers you're going to work with, suppliers will pretty quickly take action on that. And if you think about the cumulative buying power of the real estate. Industry that is a really big lever to pull on. So I agree with you, I think that's important. Yeah, and and perhaps we need to stop thinking about national buying programs. Start thinking about regional buying programs. So if we're a national real estate firm or national services firm, not simply having one contract that we buy, you know the product from somebody, no matter where they are in the country thousands of miles away. But think more local. You know, more regional. Just want to sort of look at the chat box and see what other sort of questions we've got. You know, I think it you know one of the
other things.
Perhaps you know is worth mentioning is a lot of
the money that government is bringing right now is really
not at the building that EU S government is an
element really isn't doing much at the individual building.
It's talking a lot more about the grid and adding
more renewables.
In fearing, you know you're down in Atlanta,
you know, in the southeast,
which to some extent is not the most progressive utility
market or region in the country.
I'm just curious, you know,
just a month for the real estate community in Atlanta,
you know, are people demanding clean energy?
Are they saying we want renewables?
Or is it you know?
Are people not really thinking about those issues at all?
I think there are some thought.
Well I know there's some thought around the issue and
some conversations as well,
but there is not a mandate at this point or
a requirement specifically since we are on the subject of
utility providers,
we have some small smaller providers in rural markets that
create co-ops.
And then of course you have Southern Company,
which is the largest and I think controls three or
four states.
Energy wise they are slowly moving away from coal and
more to other sources.
I don't think solar is one of them,
but you know that is that is that is a
change that's actually taking place,
but slowly. Uhm so, but to answer questions specifically that
there is no direct mandate from.
Protect market participants at this point.
Yeah, you know. And there was a question.
You know, Molly McCabe for Amanda.
Really interesting point. A moment ago about offsets and
there's
a lot of discussion about offsets.
'cause it's one of the only four sort of that's
the last of the tools if you want to get to net zero, and I think you know without editorializing too much, I think we need to sort of get away from this idea that we can buy Rex from wind farms in Texas to basically offset our projects on the East Coast. Wind energy that already exists as notion of additionality, and I think the the extent offsets are going to play a part here. It's going to be really important to think about the authenticity of the offset program. What are you offsetting? Is it going to something a new project, or is it simply getting an offset from a project that occurred 15 months ago? And they're going to have different values of. You're certainly seeing the tech companies like Stripe and Google and Microsoft paying hundreds, if not $1000 per ton to catalyze direct air capture and other technologies. 'cause that is additional that is going to help things versus a tree that was planted along time ago and perhaps is not even threatened. Should we be even creating an offset from that at all. So we only have a couple of minutes and I want to maybe just sort of close, you know, with a couple of thoughts one. We are seeing tremendous increase in capital flows to projects that align themselves with climate NSG. I think you know we see that in lots of different ways. We know that there's strong interest in this topic. Fastest growing part of UI is the Center for sustainability and Economic Performance. You will, like Greenprint has had tremendous historic growth in membership in the last 18 months. It has had historic interest in its net zero carbon program and its members are making commitments to net
We also know that this is an extraordinarily complex subject. Operating carbon embodied carbon. Net zero absolute net zero.

What does it mean? And I think you know the
there's a lot of discussion around the industry as to
how this is going to play out.

Equity capital, saying we will only do ESG or they
say something if you have a bad history program.

We're not gonna give you any money,
debt, capital markets looking for green projects,
but a lot of tension around what is a green
project?

Greenwashing. Is that enough to simply go get a sustainalytics
report and then go off on your way?

What do debt capital markets want to give you?
Will they give you a lower cost of capital if
give you a lower cost of capital?
What are the teeth? What are the penalties if you
do not meet the requirements in the loan agreement?
If you don't have a certain energy intensity?
If you don't get that certification,
are you going to get a higher cost of capital?
Are you going to be default?
These are really, you know,
hard. Issues and you know you.
I is really committed to being a leader on these
issues.

There was a leadership conference earlier this week that Derek
made a reference to with the global trustees talking about
COP 26.

That was a prelude to this discussion today on December
7th you will I Asia will be convening a meeting
like this for its members in a more time zone
friendly program where we're going to have a number of
companies in the region talking about how COP 26 and
climate is addressing their businesses across Asia.
A much more diverse region than North America as it
goes from Japan to Australia.
New Zealand. For many investors that goes over to India
and then likely right after Christmas. You why Europe will be convening the third and final regional discussion around these issues and that discussion will probably be very different than this because that is a region that is, frankly the discussion, much of which we're having today. They were having two and three years ago. They are a much different. In place with expectations throughout. Net zero in terms of what the tenants want employees want, developers will do, and I know that will be a big part of the UI or meeting in Brussels. In February, the chairman of Immobel, one of the leading developers in Europe and also one of the greenest developers in Europe, will be convening and overseeing. Uhm, just the final point. This will be available on you like knowledge finders, so if you want to go back and listen to it, please do so. If you have friends that weren't able to join, please do so. In addition, you I will be reporting on this in the magazine and online in the coming weeks and months. Urban land was taking notes. Today I will be writing on this and I think everyone should view. This as the beginning of the conversation. By no means the end or even the middle. This will be extraordinarily important to everyone on here. Whether you're building, buying, financing, or managing. The final point I'll make is you know what's been interesting over the last number of years. From my point of view, is that it's important this was there was pushback. EU S Chamber of Commerce, American Petroleum people in the business industry were saying to cities and governments.
Let's slow down. Let's wait, you know, we don't need to rush that fast. Those players, those resistors if you will. Are gone and so the direction is unequivocal. Climate is going to matter. Climate is going to be an intricate part of your business. The only thing we're discussing now, frankly, is whether or not and how fast this is going to go. We're not negotiating or talking about direction, we're only talking about velocity, and I expect that everyone, should, you know, will see an increase in velocity and momentum in the coming months and years. Whether it's the capital market side. Planning side codes regulation. So with that I want to thank everybody for joining today. Martin Monica thank you for hosting this and convening us. And as we said we look forward to having a lot more discussion. Ferron and Derek do you want to just maybe you know any closing words here? My friend. Sure to go back to a couple of points earlier. I think technology is going to be the key and extremely important, and you know spread. You just pointed out this is something that's actually happening Europe from 1990 to 2019. Their economy increased by 78% and they reduced emissions by 44%, so this is real. It's possible. Let's do everything we can to make it happen. The last thing I wanted to mention is the importance of reporting and disclosure and tracking, and one thing that we're trying to implement now is to set a benchmark and measure our progress and be reporting publicly, and I think the more people do that, the more we're held accountable for our actions, and I think that's as an industry.
That's something that we should really be doing across the board.

Derek ferren. Thank you both very much.

You will. I thank you very much and with that everyone have a great weekend.

Thank you bye bye.