Webinar

How to Choose, Use, and Better Understand Climate-Risk Analytics

Date: September 23, 2022

00:00:01 --> 00:00:06: Good afternoon, everyone. I'm Lindsey Brugger, vice president of Uglies

00:00:07 --> 00:00:11: Urban resilience program and we were thrilled to partner with

00:00:11 --> 00:00:15: LaSalle Investment Management on this brand new report, how to

00:00:15 --> 00:00:20: choose, use and better understand climate risk analytics. We have

00:00:20 --> 00:00:24: a fantastic panel today moderated by one of our lead

00:00:24 --> 00:00:26: authors, Spencer Robinson.

00:00:27 --> 00:00:28: Spencer, I'm going to hand it over to you to

00:00:29 --> 00:00:30: get the discussion started.

00:00:32 --> 00:00:34: Lindsey, thank you so much. I'm going to.

00:00:35 --> 00:00:37: Share my screen here.

00:00:47 --> 00:00:49: We're going to do a very brief overview of how

00:00:49 --> 00:00:53: to choose, use and better understand climate risk analytics and

00:00:53 --> 00:00:56: then we will dive right into the insights of our

00:00:56 --> 00:01:00: fantastic panelists. Before we get started, I wanted to thank

00:01:00 --> 00:01:04: the Urban Land Institute LaSalle and the incredible team, including

00:01:04 --> 00:01:08: the other authors, Andrew Sanderford and Leon class that came

00:01:08 --> 00:01:11: together to build this report. It was a terrific work

00:01:11 --> 00:01:14: experience and appreciate the chance to work together.

00:01:17 --> 00:01:20: Let's go straight to kind of the big picture key

00:01:20 --> 00:01:20: takeaways.

00:01:21 --> 00:01:25: First, there's limited alignment among physical risk scores from different

00:01:25 --> 00:01:26: providers.

00:01:27 --> 00:01:29: We'll look at a slide in a couple of minutes

00:01:29 --> 00:01:31: that will detail this, but there's.

00:01:32 --> 00:01:36: Difference in methodology. There's difference in how they're presenting the

00:01:36 --> 00:01:38: scores. It's not all exactly the same.

00:01:39 --> 00:01:42: Part of the reason is that translating climate science into

00:01:42 --> 00:01:45: real estate is really kind of in it's early or

00:01:45 --> 00:01:48: nascent phase. Climate science itself still has a lot of

00:01:49 --> 00:01:53: uncertainty, and then translating that into how real estate professionals

00:01:53 --> 00:01:56: want to use it is a process that is ongoing.

00:01:57 --> 00:02:01: Another take away is climate risk is being priced.

00:02:01 --> 00:02:06: It's not being priced uniformly, it's not being priced consistently

00:02:06 --> 00:02:09: that as we'll talk about, a lot of the institutional

00:02:09 --> 00:02:12: investors are starting to price this in various ways across

00:02:13 --> 00:02:16: the investment, acquisition and disposition lifecycle.

00:02:17 --> 00:02:21: And lastly, increased disclosure from climate providers in terms of

00:02:21 --> 00:02:24: the method and the value at risk is really important

00:02:24 --> 00:02:26: to the industry at this time.

00:02:27 --> 00:02:31: How do physical risk analytic firms measure climate risk? First

00:02:31 --> 00:02:34: to definition, climate risk we tend to think of as

00:02:34 --> 00:02:38: forward-looking catastrophic or insurance risk we tend to think of

00:02:38 --> 00:02:42: as backward looking. So climate risk is evaluating over the

00:02:42 --> 00:02:45: next 10 to 20 to 50 years. Catastrophic risk looks

00:02:45 --> 00:02:49: a little bit more backwards and typically insurance is a

00:02:49 --> 00:02:50: one year horizon.

00:02:51 --> 00:02:54: There's a lot of uncertainty in this climate risk. I'm

00:02:54 --> 00:02:56: going to skip those details. We'll talk about it in

00:02:56 --> 00:02:59: the next slide, about the sources of uncertainty, a lot

00:02:59 --> 00:03:01: of variation, how people estimate it today.

00:03:02 --> 00:03:06: Another kind of definition. We want to look at physical

00:03:06 --> 00:03:08: risk as separate from value at risk.

00:03:09 --> 00:03:13: Physical risk is the likelihood that there is a hazard

00:03:14 --> 00:03:15: at your site.

00:03:16 --> 00:03:19: Value at risk is the actual damage you expect to

00:03:19 --> 00:03:24: happen given anything, but to parallel this to banking terms

00:03:24 --> 00:03:27: you might be more familiar with, physical risk is the

00:03:27 --> 00:03:31: likelihood of a default of a loan, and the value

00:03:31 --> 00:03:34: at risk is the loss given default loss if an

00:03:34 --> 00:03:35: event happens.

00:03:36 --> 00:03:39: Value risk is really important, especially as we look into

00:03:39 --> 00:03:40: some regulatory frameworks.

00:03:41 --> 00:03:45: The mathematics behind bar fairly well established. It's been used

00:03:45 --> 00:03:48: in banking in particular for a number of years.

00:03:48 --> 00:03:51: But when we talk about the real estate portfolio in

00:03:51 --> 00:03:54: this climate, value at risk, number of questions we haven't

00:03:54 --> 00:03:57: really fully answered like what is value? Are we looking

00:03:57 --> 00:04:00: at the market value, are we looking at replacement, are

00:04:00 --> 00:04:03: we looking at damage? Are we looking at some change

00:04:03 --> 00:04:05: in value over a period of time? Are we including

00:04:05 --> 00:04:08: non financial metrics like the capital step? Are we only

00:04:08 --> 00:04:11: looking at our portion or only someone has some ownership

00:04:11 --> 00:04:15: control? Does lease type influence this? What about insurance?

00:04:16 --> 00:04:19: And even bigger question, we'll come back to this very

00:04:19 --> 00:04:22: briefly, is should the real estate firm or the climate

00:04:22 --> 00:04:25: risk analytics firm estimate VAR? There's pluses and minuses to

00:04:25 --> 00:04:28: both, certainly not taking a stand on which one is

00:04:28 --> 00:04:31: better, but it's definitely a question that we should be

00:04:31 --> 00:04:31: considering.

00:04:38 --> 00:04:41: The picture you see in front of you is from

00:04:41 --> 00:04:44: the report and it is a picture provided by one

00:04:44 --> 00:04:46: of the people that we spoke with.

00:04:47 --> 00:04:50: What they did is they took these same set of

00:04:50 --> 00:04:54: assets that had three different providers provide a climate risk

00:04:55 --> 00:04:58: for the same set of assets. So assets A through

00:04:58 --> 00:05:01: G had analysis done by vendors AB and C, All

00:05:01 --> 00:05:04: very good reputable vendors and you can see a wide

00:05:04 --> 00:05:07: range from high to very low or very high to

00:05:07 --> 00:05:11: low and some of the assets the exact same assets.

00:05:11 --> 00:05:13: So why are they a little differ?

00:05:14 --> 00:05:17: Part of it is what hazards actually were included or

00:05:17 --> 00:05:18: excluded.

00:05:18 --> 00:05:21: Part of it is the data description and the sources

00:05:22 --> 00:05:25: of the data. Are we looking at a proprietary database,

00:05:25 --> 00:05:28: a LIDAR based 1A government based one? Are we using

00:05:28 --> 00:05:29: flood maps?

00:05:29 --> 00:05:32: The nature of the model itself, right? There's some.

00:05:33 --> 00:05:36: Core science that people generally agree on, and obviously each

00:05:36 --> 00:05:38: firm is doing things a little bit differently. So what

00:05:39 --> 00:05:40: in their model is unique and different?

00:05:41 --> 00:05:45: Did we include property level information, not just the financial

00:05:45 --> 00:05:48: that we mentioned earlier in the in the bar discussion,

00:05:48 --> 00:05:51: but also are there any resilience measures on site? Did

00:05:51 --> 00:05:54: we consider those or did we ignore them? What about

00:05:54 --> 00:05:58: government, municipal and asset level risk mitigation? Did we look

00:05:58 --> 00:06:01: at those or is that something that's a separate analysis?

00:06:03 --> 00:06:08: Most climate firms are going to examine that forward-looking risk

00:06:08 --> 00:06:12: in terms of some scenario analysis. We'll use the RCP's

00:06:12 --> 00:06:17: or the relative concentration pathways that the IPCC provides.

00:06:18 --> 00:06:20: And those are the 2 1/2 degree, 4 1/2 degree,

00:06:20 --> 00:06:23: or 8 1/2 degree warming sense scenarios. And we could

00:06:24 --> 00:06:26: look at those over 10 years, 20 years, 50 years.

00:06:26 --> 00:06:29: Each of those is going to present a different risk.

00:06:29 --> 00:06:33: So what scenario, what time, what are our baseline assumptions?

00:06:33 --> 00:06:36: All those will contribute to this variation.

00:06:38 --> 00:06:41: How do real estate managers assess the data?

00:06:41 --> 00:06:45: Part of it depends on where your form, where your

00:06:45 --> 00:06:48: firm is on this kind of journey of understanding climate

00:06:48 --> 00:06:52: risk. For the most part, the people we spoke to

00:06:52 --> 00:06:55: fell into either early stage firm or a leading firm

00:06:55 --> 00:06:57: without a lot in the middle.

00:06:57 --> 00:07:01: An early stage firm, it's really just starting to figure

00:07:01 --> 00:07:04: out climate. The primary motivation for most of them, but

00:07:04 --> 00:07:07: not all, is kind of a check the box. But

00:07:07 --> 00:07:11: there's some regulatory or voluntary reporting framework that's asking them

00:07:11 --> 00:07:14: to do climate. So they're doing it, they're checking this

00:07:14 --> 00:07:18: box, but there's not really any kind of active engagement

00:07:18 --> 00:07:21: yet at the investment decision level of disposition on making

00:07:21 --> 00:07:25: this a strategic risk. The other hand, the leading firms

00:07:25 --> 00:07:27: have typically evaluated multiple providers.

00:07:28 --> 00:07:30: They might be using one, they might be using several.

00:07:30 --> 00:07:34: They've integrated climate risk across the investment of the asset

00:07:34 --> 00:07:39: management and the disposition strategies. Frequently they're training staff across

00:07:39 --> 00:07:41: multiple functional areas and importantly.

00:07:42 --> 00:07:45: Climate risk is a mission. It's part of their strategic

00:07:45 --> 00:07:50: objective. It's not just fulfilling a reporting requirement regardless of

00:07:50 --> 00:07:53: where a firm is. They shared frustration, but not any

00:07:53 --> 00:07:57: surprise really, on the diversity of results. People are unsure

00:07:57 --> 00:08:01: the best path to fulfill these regulatory, emerging regulatory and

00:08:01 --> 00:08:06: investor requirements. They're doubtful that physical risk impacts price today,

00:08:06 --> 00:08:10: and they acknowledge this difficulty in translating this very complex

00:08:10 --> 00:08:12: climate science into real estate.

00:08:12 --> 00:08:13: Analysis.

00:08:14 --> 00:08:18: A few steps toward improved decision making. First, does your

00:08:18 --> 00:08:23: providers report meet your strategic objectives? So your business process,

00:08:23 --> 00:08:28: your investment process, regulatory reporting, voluntary reporting doesn't meet all

00:08:28 --> 00:08:32: of that? And then after strategic objective, does it meet

00:08:32 --> 00:08:35: your specific business needs? Do the selection of RCP time

00:08:35 --> 00:08:40: scenarios meet with your strategic objectives? You're reporting your risk

00:08:40 --> 00:08:41: assessment?

00:08:42 --> 00:08:45: Are you really starting to incorporate physical risk into the

00:08:45 --> 00:08:49: entire life cycle? Another step you'll want to look at

00:08:49 --> 00:08:52: is, is it including the municipal and government government risk

00:08:52 --> 00:08:56: mitigation measures? If so, what's there? And if not, is

00:08:56 --> 00:08:59: this something that you were firm is looking at?

00:09:01 --> 00:09:03: Does your provider generate your value at risk?

00:09:04 --> 00:09:07: Again, there's pluses and minuses to the real estate investment

00:09:07 --> 00:09:11: firm taking your own financial expertise and generating your own

00:09:11 --> 00:09:14: value at risk. When someone has given you the likelihood

00:09:14 --> 00:09:17: that you have a physical hazard, there are advantages to

00:09:17 --> 00:09:20: climate firm doing it as well. So if you're having

00:09:20 --> 00:09:23: a climate firm doing it, how are they defining fault?

00:09:23 --> 00:09:26: What is value? What are the assumptions? What's the property

00:09:26 --> 00:09:30: level hazard? What are the valuation metrics? How are they

00:09:30 --> 00:09:32: estimating that tail risk out in the tail of the

00:09:32 --> 00:09:33: normal distribution?

00:09:34 --> 00:09:38: Really consider and ask the question whether your firm wants

00:09:38 --> 00:09:40: to separate the physical risk and the VAR.

00:09:41 --> 00:09:45: If you're using risk assessments from multiple providers, expect them

00:09:45 --> 00:09:47: to be different. At this point, develop a plan to

00:09:47 --> 00:09:49: address them, their strengths, and their.

00:09:49 --> 00:09:50: Weaknesses.

00:09:51 --> 00:09:56: And lastly, is physical risk assessment integrated with your acquisition,

00:09:56 --> 00:10:01: development, financial reporting and asset and portfolio management firms? Our

00:10:01 --> 00:10:04: teams, excuse me, depending on where in the continuum your

00:10:04 --> 00:10:09: firm is, think about developing an internal task force, creating

00:10:09 --> 00:10:13: educational content, maybe bringing in external consultants is a great

00:10:13 --> 00:10:16: first step. This is a strategic risk, right? We are

00:10:16 --> 00:10:21: seeing hazards increasing at an increasing rate. This isn't going

00:10:21 --> 00:10:21: away.

00:10:21 --> 00:10:23: It's really important to the built environment.

00:10:25 --> 00:10:28: Real estate is in the business of understanding risk, right?

00:10:28 --> 00:10:30: We look at financial risk, we look at tenant risk,

00:10:31 --> 00:10:33: we look at all kinds of risk. This is really

00:10:33 --> 00:10:35: just a new one that we need to start treating

00:10:35 --> 00:10:37: as equal and on par with the other ones.

00:10:40 --> 00:10:44: Improved decision making. Uh real estate firms. Be strategic. Understand

00:10:44 --> 00:10:45: your data.

00:10:46 --> 00:10:49: Identify your needs and communicate them. So if you are

00:10:49 --> 00:10:51: one of those early stage firms, you might not have

00:10:51 --> 00:10:55: fully gone through the process of understanding, understanding exactly what

00:10:55 --> 00:10:56: you need.

00:10:56 --> 00:11:00: Integrate that climate risk, both physical and transition, which isn't

00:11:00 --> 00:11:04: the focus of today's webinar in cheerful like life cycle

00:11:04 --> 00:11:04: analysis.

00:11:05 --> 00:11:07: For the climate risk analytic firms on.

00:11:09 --> 00:11:12: Our webinar today. Be transparent.

00:11:13 --> 00:11:16: Your clients really want to understand what's going on. They're

00:11:16 --> 00:11:18: very sophisticated firms and individuals.

00:11:19 --> 00:11:22: And also take the time to understand what your client

00:11:22 --> 00:11:25: needs. Sometimes when we're translating a really difficult

science into
00:11:25 --> 00:11:28: a new discipline, there's some assumption that we understand what
00:11:28 --> 00:11:31: our real estate clients might need. That may or may
00:11:31 --> 00:11:33: not be true. To make sure that the real estate
00:11:33 --> 00:11:36: firms understand what you need. And the climate risk analytic
00:11:37 --> 00:11:40: firms are asking in partnership, we need to develop standards.
00:11:40 --> 00:11:42: And this process is already underway in a couple of
00:11:42 --> 00:11:43: different areas.
00:11:44 --> 00:11:47: We ideally should come together and agree on some standardized
00:11:48 --> 00:11:51: methodologies for VAR climate. Value at risk, right? What is
00:11:51 --> 00:11:53: value? How are we estimating it?
00:11:54 --> 00:11:58: And lastly for everyone, have some perspective that this change
00:11:58 --> 00:12:02: is happening across all industries. Climate risk analytics firms are
00:12:02 --> 00:12:05: serving more than just real estate, and real estate firms
00:12:05 --> 00:12:08: have our own unique operational reporting.
00:12:08 --> 00:12:08: Needs.
00:12:11 --> 00:12:14: Do you have any questions specifically on the report of
00:12:14 --> 00:12:16: the presentation? You are welcome to contact me or Leon
00:12:16 --> 00:12:17: place at ULI.
00:12:19 --> 00:12:22: And now we are going to dive straight into our
00:12:22 --> 00:12:24: questions for our panelists.
00:12:25 --> 00:12:27: Take this share off.
00:12:35 --> 00:12:38: So the first question and we'll open with Elena from
00:12:38 --> 00:12:42: LaSalle is we reference IT firms around a journey to
00:12:42 --> 00:12:45: understand this complex topic. Where is your firm on the
00:12:45 --> 00:12:48: journey and how are you incorporating physical risk?
00:12:50 --> 00:12:54: Thanks, Spencer. So excuse me. We created a global climate
00:12:54 --> 00:12:57: risk Task force a couple of years ago and really
00:12:57 --> 00:13:00: started digging in on this topic. I think we started,
00:13:00 --> 00:13:03: did an initial pass looking at like a dozen providers,
00:13:03 --> 00:13:06: honed in on a couple, ran a bunch of pilot
00:13:06 --> 00:13:10: assets through those and discovered this issue which a lot
00:13:10 --> 00:13:13: of our peers have also discovered and had a big
00:13:13 --> 00:13:16: conversation with all of our peers that led to this
00:13:16 --> 00:13:19: paper. But at this point we have selected one main
00:13:19 --> 00:13:20: provider and.
00:13:20 --> 00:13:23: We we have actually a couple others that we sort

00:13:23 --> 00:13:26: of keep as supplements when we identify.
00:13:27 --> 00:13:30: High risk assets or we have you know, particular concerns
00:13:30 --> 00:13:34: or questions about a weird result. We might supplement it
00:13:34 --> 00:13:38: with another provider. But really you know where we've landed
00:13:38 --> 00:13:41: on this is that the the flags that low, medium,
00:13:41 --> 00:13:44: high or whatever scale the provider uses are really just
00:13:44 --> 00:13:47: indicators of risk. And we don't put a lot of
00:13:47 --> 00:13:51: weight into like the exact VAR that they're giving us.
00:13:51 --> 00:13:53: It's just meant to be like a relative flag of
00:13:53 --> 00:13:57: like this property needs to be looked at more versus.
00:13:57 --> 00:14:00: Not so we really just flag for risk and then
00:14:00 --> 00:14:03: are doing a second level investigation at the property to
00:14:03 --> 00:14:07: understand any potential mitigation measures that are in place or
00:14:07 --> 00:14:10: could be put in place. It's in every deal memo
00:14:10 --> 00:14:15: for acquisitions now. We've assessed our entire standing portfolio and
00:14:15 --> 00:14:18: are looking at mitigation on some of our assets. And
00:14:18 --> 00:14:21: then we're also starting to look at market targeting and
00:14:21 --> 00:14:24: market level risks as part of this as part of
00:14:24 --> 00:14:28: a diversification strategy here as well as insurance.
00:14:28 --> 00:14:30: Impact. So those are kind of the areas that we're
00:14:30 --> 00:14:31: following up on at this point.
00:14:32 --> 00:14:34: Awesome. So it sounds like the salad is definitely a
00:14:35 --> 00:14:37: leading firm. And as the sponsor of this report, we
00:14:37 --> 00:14:40: would expect that. Thanks, Elena. JP, what about you? Where
00:14:40 --> 00:14:42: where's your firm on this journey? Where are you?
00:14:46 --> 00:14:49: Unmuting myself is where I am at this very second
00:14:49 --> 00:14:50: but.
00:14:51 --> 00:14:54: So Elena shared a lot of the same thoughts we
00:14:54 --> 00:14:57: have here which is that we have examined our entire
00:14:57 --> 00:15:01: portfolio we use. We do also have selected a vendor
00:15:01 --> 00:15:04: and we try to whole bunch of different ones. We
00:15:04 --> 00:15:07: use it as just as late as described as a
00:15:07 --> 00:15:10: flag for risk in a due diligence process as part
00:15:10 --> 00:15:14: of what we're looking at to buyer require or reposition.
00:15:14 --> 00:15:17: And again we don't necessarily put a great deal of
00:15:17 --> 00:15:22: stock in the particular dollar value that has been associated.
00:15:22 --> 00:15:25: With any particular set of outcomes, so much as you
00:15:25 --> 00:15:29: know, if there is significant wildfire risk or earthquake risk,
00:15:29 --> 00:15:32: you know, some of those should be identified by the

00:15:32 --> 00:15:36: insurance carrier like earthquake risk is a good one where
00:15:36 --> 00:15:39: that is pretty well understood in terms of where that
00:15:39 --> 00:15:42: is. But a lot of the other risks are not
00:15:42 --> 00:15:45: necessarily today. And so those are flags for us to
00:15:45 --> 00:15:48: not only examine more closely, but also to ensure that
00:15:49 --> 00:15:52: we are budgeting appropriately for those outcomes.
00:15:52 --> 00:15:55: In the business plan of acquiring that asset. And so
00:15:55 --> 00:15:58: if we see that that there's a particular set of
00:15:58 --> 00:16:01: risks that you know especially sort of many of these
00:16:01 --> 00:16:04: are more in the out years, right, until you get
00:16:04 --> 00:16:05: this, this set of data back.
00:16:07 --> 00:16:09: I mean earthquake risk is not in the out years,
00:16:09 --> 00:16:12: but many of the others potentially are. And so those
00:16:12 --> 00:16:15: are just things to make sure that we drill down
00:16:15 --> 00:16:18: in the acquisitions process and ensure that we have appropriately
00:16:18 --> 00:16:22: budgeted for those outcomes in the business plan and the
00:16:22 --> 00:16:24: hold. For the asset that we're acquiring and that we
00:16:24 --> 00:16:28: have made sure to discuss that at the investment Committee
00:16:28 --> 00:16:30: level and that everybody is aware of that. But just
00:16:31 --> 00:16:33: as you shared earlier, Spencer, we just do this now
00:16:33 --> 00:16:36: as another risk that needs to be priced into the
00:16:36 --> 00:16:36: deal.
00:16:37 --> 00:16:39: And there are lots of them and you listed up
00:16:39 --> 00:16:42: most of the ones that we come to mind. But
00:16:42 --> 00:16:44: the most important thing in our book is that our
00:16:44 --> 00:16:47: job as fiduciaries of these folks money is to make
00:16:47 --> 00:16:51: sure that we are appropriately and accurately judging those risks
00:16:51 --> 00:16:54: and making sure that we have a plan to mitigate.
00:16:54 --> 00:16:57: But I say mitigate with quotes because some of these
00:16:57 --> 00:17:00: risks are not necessarily mitigate able, but to better understand
00:17:01 --> 00:17:03: that you have a plan and you can speak to
00:17:03 --> 00:17:06: those confidently and know that you have the budget to
00:17:06 --> 00:17:08: the extent that's the right approach.
00:17:08 --> 00:17:11: To handle those risks during the whole period and the
00:17:11 --> 00:17:14: next little. For the future owner after us.
00:17:15 --> 00:17:18: JP, thank you. And Ann, what about you?
00:17:19 --> 00:17:23: There's there's a lot that has already been said that
00:17:23 --> 00:17:28: I could repeat, but generally so, so specifically at TA,
00:17:28 --> 00:17:31: we actually are earlier on in the journey, so I.
00:17:33 --> 00:17:36: Already have a climate risk group already evaluated?

00:17:37 --> 00:17:40: Several, I think at the time the RFP was for
00:17:40 --> 00:17:44: about 11 different groups. So knowing that there are I
00:17:44 --> 00:17:47: think there's more than 60 groups out there now available
00:17:47 --> 00:17:51: to provide this. So you know evaluating who you're going
00:17:51 --> 00:17:55: to use and understanding the methodologies that they provide so
00:17:55 --> 00:17:59: you can match theirs with yours, right. So, so however
00:17:59 --> 00:18:03: your your corporation wants to view it and evaluate it,
00:18:03 --> 00:18:05: it's important to align those, but.
00:18:06 --> 00:18:09: The we're earlier on we we hired a group in
00:18:09 --> 00:18:13: the spring. We're running through the analysis right now through
00:18:13 --> 00:18:16: all of our assets through our our core fund as
00:18:16 --> 00:18:20: well as our entire portfolio and really trying to create
00:18:20 --> 00:18:23: that report to start digging in. But everything that JP
00:18:23 --> 00:18:26: and Elena said is, is so true. You know we're
00:18:26 --> 00:18:29: not taking this as a, it's a high risk. You
00:18:29 --> 00:18:32: have to jump out and spend thousands and thousands of
00:18:32 --> 00:18:35: dollars to figure out the problem it you have to
00:18:35 --> 00:18:37: take a step back and evaluate.
00:18:38 --> 00:18:41: What the scale is and what the the attributes that
00:18:41 --> 00:18:44: get went into the scoring are actually done at your
00:18:45 --> 00:18:48: asset. So you know most of these evaluation. Most of
00:18:48 --> 00:18:52: these software groups do not take into account whether or
00:18:52 --> 00:18:56: not you already have floodgates at your property and and
00:18:56 --> 00:19:01: physical attributes that you may have already incorporated. So really,
00:19:01 --> 00:19:04: high level you you can't. You can't devote too much
00:19:04 --> 00:19:08: attention to every single red, red flag or high scoring.
00:19:08 --> 00:19:09: Hazard.
00:19:10 --> 00:19:12: And thanks for sharing and thanks for sharing that your
00:19:12 --> 00:19:14: firm is kind of earlier in this process. I'm sure
00:19:14 --> 00:19:17: for some of our audience, it's probably comforting to hear
00:19:17 --> 00:19:19: if they're in a similar spot that they're not alone.
00:19:19 --> 00:19:21: There are some firms that are really fired down the
00:19:21 --> 00:19:23: path and some that are still figuring this out.
00:19:24 --> 00:19:28: Ohh, next question for Elena to open. Who's asking for
00:19:28 --> 00:19:31: this right now? Is it regulators as investors or is
00:19:31 --> 00:19:32: it someone else?
00:19:33 --> 00:19:37: Yeah. Well, first, it's driven by a business decision because
00:19:37 --> 00:19:40: we want to make sure that we don't actually have
00:19:40 --> 00:19:43: a bunch of high risks in our portfolio that we're
00:19:43 --> 00:19:46: not aware of and addressing. But in terms of where

00:19:46 --> 00:19:49: it's coming from, external requests, a lot of the voluntary
00:19:49 --> 00:19:53: frameworks have already started asking for this. So the TCF
00:19:53 --> 00:19:56: D many people are familiar with task force on climate
00:19:56 --> 00:20:00: related financial disclosures is really centered on this and a
00:20:00 --> 00:20:03: lot of investors are asking for that. It's also mandatory.
00:20:03 --> 00:20:06: In the UK now, so all of our European and
00:20:06 --> 00:20:10: UK funds are are have to do T CFD. Grasp
00:20:10 --> 00:20:15: has added climate risk questions, net zero asset managers initiative
00:20:15 --> 00:20:19: requires T CFD and then on the required regulatory side,
00:20:19 --> 00:20:24: the SEC proposed rulemaking asked for an identification of risks
00:20:24 --> 00:20:28: that are likely to have a material impact and how
00:20:28 --> 00:20:33: that's considered in your strategy, which basically is kind of
00:20:33 --> 00:20:34: riffing.
00:20:34 --> 00:20:37: Off DCFD anyway and then also asking to track the
00:20:37 --> 00:20:42: financial impact from events and transition activities and expenditures on
00:20:42 --> 00:20:45: those. And that's kind of a rabbit hole too because
00:20:45 --> 00:20:48: if you, you know have to replace an HVAC system
00:20:48 --> 00:20:49: anyway like.
00:20:49 --> 00:20:52: We had a property that needed a bunch of HVAC
00:20:52 --> 00:20:55: work and then was hit by a lot of hail.
00:20:55 --> 00:20:58: So how do you even say that? Like that Hail
00:20:58 --> 00:21:02: Storm was climate related, that wouldn't have happened anyway. And
00:21:02 --> 00:21:05: how much of the replacement cost is money that you
00:21:05 --> 00:21:09: wouldn't have spent anyway? Like it's gets very hairy to
00:21:09 --> 00:21:12: try and track all these things, but people are starting
00:21:13 --> 00:21:15: to ask for them and then we are starting to
00:21:15 --> 00:21:19: hear from investors as well. So in some current and
00:21:19 --> 00:21:19: perspective.
00:21:20 --> 00:21:22: Investors are asking both for fund level risk and for
00:21:22 --> 00:21:26: identification of our highest risk assets and what our plans
00:21:26 --> 00:21:27: are for those assets.
00:21:29 --> 00:21:32: JPR, anything to add in particular, I'll follow up. Is
00:21:32 --> 00:21:35: there a particular class of investors that is?
00:21:37 --> 00:21:40: Asking more so than other classes of investment capital.
00:21:43 --> 00:21:46: I'm happy to take the cracked fork in rather, and
00:21:46 --> 00:21:48: why don't you take a crack first at that and
00:21:48 --> 00:21:49: I will follow.
00:21:50 --> 00:21:54: Well, my my first response is that European investors and
00:21:54 --> 00:21:58: Asian investors seem to be a lot more interested or

00:21:58 --> 00:22:01: or it's it's higher up on the list I'll say
00:22:01 --> 00:22:05: of questions when asking for just general DQ's and and
00:22:05 --> 00:22:10: inquiries of everything having to do with our SG programs,
00:22:10 --> 00:22:10: so.
00:22:12 --> 00:22:14: JP, I would, I would echo it. It's long equity.
00:22:14 --> 00:22:18: It's people that want to hold assets for long periods
00:22:18 --> 00:22:21: of time. And for us, I just inspire. That tends
00:22:21 --> 00:22:24: to be European and East Asian equity LP's mostly. And
00:22:24 --> 00:22:27: that's where we see strong demand. And you know, those
00:22:27 --> 00:22:31: folks are asking, you know, the question that I always
00:22:31 --> 00:22:33: makes me laugh because I know it's not how a
00:22:33 --> 00:22:36: lot of Americans think about it, but you know, they
00:22:37 --> 00:22:40: ask us, well, what's the obsolescence risk of this asset,
00:22:40 --> 00:22:42: right? And like, you know.
00:22:42 --> 00:22:45: Obsolescence risk, right. I mean, the building still going to
00:22:45 --> 00:22:48: have elevators and windows and then they're they're, well, probably
00:22:48 --> 00:22:51: won't open because, you know, drop windows, but elevator go
00:22:51 --> 00:22:53: up and down, the doors will open, building won't be
00:22:53 --> 00:22:56: obsolete, right, in the mechanical sense, but they want to
00:22:56 --> 00:22:59: know that the asset has a long lifespan coming and
00:22:59 --> 00:23:01: that if they're going to invest with us for long
00:23:01 --> 00:23:04: periods of time, then that value will be retained. And
00:23:04 --> 00:23:06: so that's really where you're seeing that focus is folks
00:23:06 --> 00:23:09: that have quite a long time frame and I'm looking
00:23:09 --> 00:23:10: decently far out into the future.
00:23:12 --> 00:23:15: HP building on that and the obsolescence in my opinion
00:23:15 --> 00:23:19: might focus more on the transition risk than the physical
00:23:19 --> 00:23:23: risk, although they're both important obviously. So you have these
00:23:23 --> 00:23:26: external investors asking for the data and now you have
00:23:26 --> 00:23:29: it. So you have these sort of long term views
00:23:29 --> 00:23:32: of what might happen over the next 5000 years.
00:23:32 --> 00:23:34: Now what do you do with that?
00:23:35 --> 00:23:38: Well, it's a great question, right. I mean some of
00:23:38 --> 00:23:40: those risks again you know these providers will will give
00:23:40 --> 00:23:43: you some risks that are clearly priced in based on
00:23:43 --> 00:23:45: insurance or or today in a shorter time frame view.
00:23:45 --> 00:23:47: Again the good example that I said before is like
00:23:47 --> 00:23:50: earthquake risk, right. I mean that earthquakes are going to
00:23:50 --> 00:23:53: happen whenever they're going to happen and and that is
00:23:53 --> 00:23:55: certainly something that comes up in all these reports, but

00:23:56 --> 00:23:58: could happen tomorrow, could happen in 80 years you know
00:23:58 --> 00:24:00: no real way to know any better I think so
00:24:00 --> 00:24:02: that that in and of itself is probably pretty well
00:24:02 --> 00:24:04: priced and then short run and things that.
00:24:05 --> 00:24:08: We would get from the insurance industry, but there are
00:24:08 --> 00:24:10: a lot of other risks as we've talked about in
00:24:10 --> 00:24:13: the report talks about that are not really and they're
00:24:13 --> 00:24:15: especially in the medium to long term. So what do
00:24:15 --> 00:24:18: we do with that? Again, the most important thing is
00:24:18 --> 00:24:21: to make sure we understand that priced into the deal
00:24:21 --> 00:24:24: because it's our fiduciary responsibility to both deliver returns, but
00:24:24 --> 00:24:27: at the very least ensure we don't destroy capital. And
00:24:27 --> 00:24:29: so we need to make sure that we, you know,
00:24:29 --> 00:24:32: fully understand eyes wide open what that risk is. And
00:24:32 --> 00:24:34: it's not just during our whole period, right, I mean
00:24:34 --> 00:24:35: far hold periods.
00:24:36 --> 00:24:39: 9101112 years. You know, we need to be very convincing
00:24:39 --> 00:24:42: to the folks that are giving us this capital that
00:24:42 --> 00:24:44: the next owner is going to look at that asset
00:24:45 --> 00:24:47: and say, I don't see risk that would require me
00:24:47 --> 00:24:50: to haircut price that you think you're going to get,
00:24:50 --> 00:24:54: right. And I mean again, traditional real estate finance would
00:24:54 --> 00:24:57: suggest that we have a pretty good sense of what
00:24:57 --> 00:25:00: we think the exit value will be based on the
00:25:00 --> 00:25:02: NY plus cap rate if that's not the case and
00:25:02 --> 00:25:06: there's going to be some significant haircut applied for some.
00:25:06 --> 00:25:09: Builders had of reasons then we better be pricing that
00:25:09 --> 00:25:13: into the deal and understanding that quite clearly. And so
00:25:13 --> 00:25:16: then now what is very much about understanding frankly the
00:25:16 --> 00:25:19: exit risk and what is the next owner risk and
00:25:19 --> 00:25:22: how much is that really being thought through? Because again
00:25:22 --> 00:25:25: it's not just about your whole period. I mean if
00:25:25 --> 00:25:28: ours is 1011, twelve years and the next owner we
00:25:28 --> 00:25:31: would imagine has roughly the same and we really need
00:25:31 --> 00:25:34: to be kind of looking out towards the end of
00:25:34 --> 00:25:36: the next home period to ensure that that.
00:25:36 --> 00:25:39: Owner is not then also pricing that in on their
00:25:39 --> 00:25:42: set of calculations. So now what is really about, you
00:25:42 --> 00:25:45: know, again having already stated that we use this to
00:25:45 --> 00:25:49: help price the deal and appropriately you know CAP not

00:25:49 --> 00:25:52: capitalized but the dollars into the deal necessary to do
00:25:52 --> 00:25:55: whatever risks we see. But the most important thing is
00:25:55 --> 00:25:59: to protect the value on exit and understand what the
00:25:59 --> 00:26:01: next owner will see in terms of the risks and
00:26:01 --> 00:26:04: sales price that they're willing to pay us for that
00:26:04 --> 00:26:05: asset on the exit.
00:26:08 --> 00:26:09: Awesome and.
00:26:10 --> 00:26:12: Once you've identified a risk, what are what are your
00:26:12 --> 00:26:12: next steps?
00:26:14 --> 00:26:16: So very similar.
00:26:17 --> 00:26:21: We all have the same kind of thought process here,
00:26:21 --> 00:26:25: so not trying to repeat everyone else, but yeah, it's
00:26:25 --> 00:26:28: evaluating where we can, where we can look at the
00:26:28 --> 00:26:32: asset and take into account, you know, the value that
00:26:32 --> 00:26:35: the value at risk I think you mentioned in your
00:26:35 --> 00:26:37: report specifically is.
00:26:38 --> 00:26:42: Someone else's calculation, right. So you have to take your
00:26:42 --> 00:26:46: own actual valuation process and use that rather than taking
00:26:46 --> 00:26:49: direction. And a lot of people are taking that value
00:26:49 --> 00:26:53: at risk value from the provider, but taking that into
00:26:53 --> 00:26:57: account with their own analysis. So that that's very important
00:26:57 --> 00:27:01: because like JP repeatedly said, we are fiduciaries. We have
00:27:01 --> 00:27:05: to be responsible for the money that we are investing,
00:27:05 --> 00:27:06: who's our clients money.
00:27:08 --> 00:27:09: That being said.
00:27:10 --> 00:27:13: If we have high risk hazards that are listed out
00:27:13 --> 00:27:17: in these reports, the next steps really are to evaluate
00:27:17 --> 00:27:20: how risky they are. If are we going to send
00:27:20 --> 00:27:24: them a specialist to our site writer report, there are
00:27:24 --> 00:27:28: several barriers firms out there right now that are doing
00:27:28 --> 00:27:32: this already. There's no standard yet for that, but that
00:27:32 --> 00:27:36: that's to come hopefully. But I'm just trying to come
00:27:36 --> 00:27:40: up with a clear engineering evaluation of what can be
00:27:40 --> 00:27:40: done.
00:27:41 --> 00:27:44: That should be done or recommended. And then taking that
00:27:44 --> 00:27:47: back to our own investment group and evaluating how we're
00:27:47 --> 00:27:51: going to deal with that asset in particular, like I,
00:27:51 --> 00:27:54: I'm trying to downsize it so it's an individual asset
00:27:54 --> 00:27:57: level at a time because although your portfolio may be
00:27:57 --> 00:28:00: at high risk because of a handful of outliers, it's
00:28:00 --> 00:28:04: usually just that handful of outliers that you can kind
00:28:04 --> 00:28:07: of touch upon and deal with one-on-one on one basis.

00:28:08 --> 00:28:10: Lena, before we go to the next question, anything to
00:28:10 --> 00:28:12: add on kind of the now what once you have
00:28:12 --> 00:28:13: some information, how do you react to?
00:28:14 --> 00:28:17: Yeah. It's same as everybody else. You just really have
00:28:17 --> 00:28:19: to dig in at the asset. We've had some assets
00:28:19 --> 00:28:21: get flagged when we go take a look at the
00:28:21 --> 00:28:25: site. There's something about the property, about how it's already
00:28:25 --> 00:28:27: constructed that makes it actually a lower risk, or you
00:28:27 --> 00:28:30: go and take a look at the actual property and
00:28:30 --> 00:28:33: realize there's interventions you need to make. So basically the
00:28:33 --> 00:28:36: same that everyone else said, we're also looking at geographic
00:28:36 --> 00:28:39: concentration, right? So you don't want a bunch of properties
00:28:39 --> 00:28:41: right next to each other in a high risk area.
00:28:41 --> 00:28:44: So that becomes actually part of diversification strategy.
00:28:44 --> 00:28:47: And part of our whole cell decision, I think on
00:28:47 --> 00:28:49: some marginal cases, it's not going to be like the
00:28:49 --> 00:28:51: factor that makes us hold or sell a property. But
00:28:51 --> 00:28:54: if there are properties that are kind of on the
00:28:54 --> 00:28:57: bubble and they're high risk, that might actually influence our
00:28:57 --> 00:28:58: wholesale decision.
00:28:59 --> 00:29:02: But then when we did this report, we asked every
00:29:02 --> 00:29:06: person, do you think physical climate risk is being priced
00:29:06 --> 00:29:10: into real estate right now, today university, everybody said no.
00:29:11 --> 00:29:13: But now I'm hearing from you know you and JP
00:29:13 --> 00:29:16: and to a lesser extent and this is something you
00:29:16 --> 00:29:19: are pricing. So it's the question is are we at
00:29:19 --> 00:29:23: a point where physical risk is materially impacting real estate
00:29:23 --> 00:29:25: and if not you know when do you see that
00:29:25 --> 00:29:26: happening?
00:29:26 --> 00:29:29: Yeah, it's, it's so interesting that everybody said we're not
00:29:29 --> 00:29:32: seeing it in the market, but we're doing this, you
00:29:32 --> 00:29:34: know, and I and I think that you know also
00:29:34 --> 00:29:38: reflects who was interviewed, right, because the real estate industry
00:29:38 --> 00:29:41: is very big, very diverse and there's probably a lot
00:29:41 --> 00:29:42: of people out there.
00:29:42 --> 00:29:44: We're not thinking about it, but there are a small
00:29:44 --> 00:29:47: and growing number of owners and investors who really are
00:29:47 --> 00:29:50: thinking about it. And there's been so much movement in

00:29:50 --> 00:29:53: the market today that has nothing to do with climate
00:29:53 --> 00:29:56: risk. It's very hard to start like parsing out that
00:29:56 --> 00:29:58: signal from the rest of the noise of everything else
00:29:58 --> 00:30:01: that's been going on in real estate lately and also
00:30:01 --> 00:30:03: the folks even between the three of us on this
00:30:03 --> 00:30:07: conversation and the others that were interviewed for this report,
00:30:07 --> 00:30:10: you know, we're all doing it different ways, right? So
00:30:10 --> 00:30:13: sometimes you're actually including it in your discount rate or
00:30:13 --> 00:30:13: your.
00:30:13 --> 00:30:18: Cooperate, sometimes you're underwriting and into capital expenses. I know
00:30:18 --> 00:30:21: I saw a question come into chat, so I'll go
00:30:21 --> 00:30:24: ahead and and say we have passed on deals due
00:30:24 --> 00:30:27: to climate risk. So it actually might affect the buyer
00:30:27 --> 00:30:31: pool itself. So it's not being done consistently even in
00:30:31 --> 00:30:35: the way it's being underwritten and influencing the price itself,
00:30:35 --> 00:30:37: but it is starting to happen and we kind of
00:30:38 --> 00:30:41: think it can be one of those things that happens
00:30:41 --> 00:30:43: very slowly and then suddenly, right?
00:30:43 --> 00:30:46: Where, you know, we'll see that big uptake, it'll sort
00:30:46 --> 00:30:49: of reach a tipping point where it becomes much more
00:30:49 --> 00:30:50: common.
00:30:50 --> 00:30:52: Very slowly. And then suddenly that's awesome.
00:30:52 --> 00:30:55: Gradually and then suddenly, I think that's a Hemingway quote.
00:30:56 --> 00:30:59: It's it's great. It might be. I don't know. Either
00:30:59 --> 00:31:00: way, it's awesome. I love it.
00:31:01 --> 00:31:03: You think I'm the same question?
00:31:05 --> 00:31:06: Umm.
00:31:07 --> 00:31:11: Yeah, so just like Elena said, this is very repetitive.
00:31:11 --> 00:31:15: It it it's definitely something that we are.
00:31:17 --> 00:31:20: Not yet making changes on at the at the the
00:31:21 --> 00:31:25: deal level, but that value is is definitely there. It's
00:31:25 --> 00:31:30: whether or not you're you're taking it into account in
00:31:30 --> 00:31:31: the entire.
00:31:33 --> 00:31:36: To hold periods and as JP was referring to or
00:31:36 --> 00:31:39: if you're just evaluating how much you're spending on it
00:31:39 --> 00:31:42: in the next near term, it is definitely a real
00:31:42 --> 00:31:46: value. There's a real number there and in some instances
00:31:46 --> 00:31:50: it it's definitely affecting the NOI and the asset. So
00:31:50 --> 00:31:54: making changes now we're evaluating what where your risk is,

00:31:54 --> 00:31:56: is very important because we need to.
00:31:57 --> 00:32:00: Plan that out and in budgets looking forward.
00:32:00 --> 00:32:02: Oh, that's the quick answer.
00:32:03 --> 00:32:06: And JP, you explicitly said you're starting to price this.
00:32:06 --> 00:32:09: A lot of the buildings that you buy and sell
00:32:09 --> 00:32:09: are.
00:32:09 --> 00:32:12: Have a limited number of potential buyers and sellers who
00:32:12 --> 00:32:15: would acquire those. Is this something you're seeing kind of
00:32:15 --> 00:32:16: across the board or more uniquely?
00:32:18 --> 00:32:21: Well, I guess the only other thing I would say
00:32:21 --> 00:32:23: in just on the brief point of, you know, are
00:32:23 --> 00:32:26: we pricing climate risk is I think it's all about
00:32:26 --> 00:32:28: the time frame, right. Meaning if we use one of
00:32:28 --> 00:32:31: these tools and it comes back and says that there's
00:32:31 --> 00:32:34: significant flood risk because of a 3 degree China climate
00:32:34 --> 00:32:35: change scenario.
00:32:36 --> 00:32:39: And therefore, that is likely to occur 48 years from
00:32:39 --> 00:32:42: now, right? That is not being priced into deals today,
00:32:42 --> 00:32:45: let me be clear. But if there are information that
00:32:45 --> 00:32:48: would suggest that is occurring in a much sooner time
00:32:48 --> 00:32:51: frame than that, then yes, absolutely. So I think the
00:32:51 --> 00:32:54: time frame makes an enormous amount of difference. And it's
00:32:54 --> 00:32:57: not just about the whole period, it's just also about
00:32:57 --> 00:33:00: just very far events now that require many, many different
00:33:00 --> 00:33:03: scenarios to occur. Very difficult to figure out how you
00:33:03 --> 00:33:06: would price any of that, right, meaning if in fact
00:33:06 --> 00:33:07: there's a 3 degree.
00:33:07 --> 00:33:11: Climate scenario occurring, maybe a lot of other things are
00:33:11 --> 00:33:14: happening that are not even being remotely calculated in any
00:33:14 --> 00:33:16: of this and that could have a whole series of
00:33:16 --> 00:33:20: other outcomes that wouldn't be necessarily priced into that. So
00:33:20 --> 00:33:22: again, if it's within the, I guess what I would
00:33:23 --> 00:33:25: say is if it's within the realm of an insurance
00:33:25 --> 00:33:29: carriers interest, it is definitely being priced into the deal,
00:33:29 --> 00:33:31: right. If it is outside of that range, but within
00:33:31 --> 00:33:34: the next two whole periods, then we're going to think
00:33:34 --> 00:33:36: very hard about how to price that in.
00:33:37 --> 00:33:40: Beyond that, it's more of a marker of something we
00:33:40 --> 00:33:42: need to keep an eye on and think about how
00:33:42 --> 00:33:45: to potentially address, especially for doing something like a large

00:33:45 --> 00:33:48: scale repositioning. And we have the opportunity to move the
00:33:48 --> 00:33:51: mechanical system from the basement to the second floor. And
00:33:51 --> 00:33:54: you're not going to do that kind of repositioning again
00:33:54 --> 00:33:56: for another 30 years and this may be the moment
00:33:56 --> 00:33:58: to do that, but that's more again of sort of
00:33:59 --> 00:34:01: the time frame we're talking about in terms of you
00:34:01 --> 00:34:03: know, again some of these tools will tell me well.
00:34:04 --> 00:34:07: You know, in an 8 degree scenario, you know, this
00:34:07 --> 00:34:10: could happen, but it's like that's absolutely true. But a
00:34:10 --> 00:34:13: lot of other horrible things probably also happened in that
00:34:13 --> 00:34:15: same time frame, and I don't know that this is
00:34:15 --> 00:34:17: the number one problem we may be facing.
00:34:19 --> 00:34:21: That is great optimism, JP. Thanks.
00:34:23 --> 00:34:26: And JP has mentioned a number of things can affect
00:34:26 --> 00:34:31: the risk at the building site. Obviously there's building resilience,
00:34:31 --> 00:34:34: which you can look at, at the physical asset level.
00:34:35 --> 00:34:39: But what about the presence or absence of public infrastructure,
00:34:39 --> 00:34:43: of government, municipal resilience laws and policies?
00:34:44 --> 00:34:46: Is there a process you have to identify and incorporate
00:34:46 --> 00:34:49: this information and does it affect your decision making?
00:34:50 --> 00:34:56: So so right now we're using consultants mostly to search
00:34:56 --> 00:34:58: for any local or state.
00:35:00 --> 00:35:05: Initiatives, whether it's policies that are already in place, laws
00:35:05 --> 00:35:10: that are in place or evaluating what's surrounding that specific
00:35:10 --> 00:35:14: asset has been upgraded or needs upgraded, right. So if
00:35:14 --> 00:35:18: you're next to a Bayou, for example, in Texas, in
00:35:18 --> 00:35:22: Houston, that may not be the best location to invest
00:35:22 --> 00:35:22: in, but.
00:35:24 --> 00:35:27: It it's still so, so a lot of the information
00:35:27 --> 00:35:31: is coming in from consultants. They're evaluating it through PC's,
00:35:31 --> 00:35:36: through their own research, into government programs and policies that
00:35:36 --> 00:35:40: exist already or are being worked on at the moment.
00:35:41 --> 00:35:44: The you you haven't mentioned then I know you plan
00:35:44 --> 00:35:48: on mentioning later, but this ASTM guideline that is being
00:35:48 --> 00:35:52: created, that is one of the optional attributes to this
00:35:52 --> 00:35:56: report or to this guideline to incorporate what's going on
00:35:56 --> 00:36:00: around the asset and the specific location that you're investing

00:36:00 --> 00:36:03: in. So hopefully this is something that is a lot

00:36:03 --> 00:36:07: more mainstream and in getting that information, but it it's

00:36:07 --> 00:36:11: definitely something that needs to be taken into account.

00:36:11 --> 00:36:14: Because if you're building is, if you Add all the

00:36:14 --> 00:36:17: attributes you need your buildings an island after a hurricane.

00:36:18 --> 00:36:20: That doesn't help anyone else to get to and from

00:36:20 --> 00:36:24: it. So everything, it's not just your specific location, you

00:36:24 --> 00:36:27: have to worry about the community and the surrounding areas.

00:36:28 --> 00:36:31: And since you brought it up, we'll jump ahead a

00:36:31 --> 00:36:34: question or two. We talked about the need for standardization,

00:36:34 --> 00:36:37: asked him International, which is the organization that has the

00:36:37 --> 00:36:41: phase one, phase 2-3 environmental property Condition report is coming

00:36:41 --> 00:36:44: out with a property resilience assessment. I know you are

00:36:44 --> 00:36:46: on the team that is developing the PR. Can you

00:36:46 --> 00:36:49: talk a little bit about what that is and where

00:36:49 --> 00:36:49: that process is?

00:36:50 --> 00:36:54: Yeah, so I have to give credit to Holly from

00:36:54 --> 00:36:58: Holly neighbor from AEI Consultants who is organizing all of

00:36:58 --> 00:37:02: this. But she we there's over 100 people, I believe,

00:37:02 --> 00:37:05: on the task force right now trying to put together

00:37:06 --> 00:37:10: this guideline for a standard reporting process of a property

00:37:10 --> 00:37:15: resiliency assessment, which is currently the plan for what it's

00:37:15 --> 00:37:18: going to be called. The PR a. There's the the

00:37:18 --> 00:37:20: report basically has three stages.

00:37:21 --> 00:37:26: Page 1 deals with the actual hazard screening and verification

00:37:26 --> 00:37:31: of those those those physical climate risk attributes, whether it's

00:37:31 --> 00:37:36: flooding, sea level rise, earthquake, wildfire, and and all of

00:37:36 --> 00:37:38: the other hazards.

00:37:39 --> 00:37:42: Phase two or sorry, stage two is the risk and

00:37:42 --> 00:37:47: vulnerability evaluation of those of that asset calculating the the

00:37:47 --> 00:37:52: vulnerability rating based on the occupancy, based on the use,

00:37:52 --> 00:37:57: based on physical characteristics from a site evaluation and then

00:37:57 --> 00:38:01: stage three and all of these are optional. They're not,

00:38:02 --> 00:38:05: it's not, it's a all cart, I'll call it I

00:38:05 --> 00:38:05: guess.

00:38:07 --> 00:38:10: Program, but stage three is more about the resilience measures

00:38:10 --> 00:38:14: itself. So sending a specialist out, sending a civil engineer

00:38:14 --> 00:38:17: out to see what kinds of, you know, drainage issues

00:38:17 --> 00:38:21: are surround the property and what kind of attributes you

00:38:21 --> 00:38:24: can do, replacing your windows with hurricane glass, that kinds

00:38:24 --> 00:38:28: of things. So hopefully this is a standard guideline that

00:38:28 --> 00:38:31: everyone going forward you're going to be ordering at every

00:38:31 --> 00:38:35: acquisition you're going to be ordering a PCA and ESA

00:38:35 --> 00:38:35: and FPR a.

00:38:37 --> 00:38:40: And and I think the time frame on this right

00:38:40 --> 00:38:44: now, we're planning on submitting a draft to ASTM in

00:38:44 --> 00:38:47: October and hopefully sometime in 2023.

00:38:49 --> 00:38:52: Hoping for approval or recommendation for moving forward.

00:38:53 --> 00:38:55: Awesome, thank you. And just to kind of build the

00:38:55 --> 00:38:58: analogy, the stage one of the PR's like a phase

00:38:58 --> 00:39:01: one environmental, everyone would do that for each asset and

00:39:01 --> 00:39:03: then decide if we needed to move on to the

00:39:03 --> 00:39:05: future stages or phases using the of our mental analogy.

00:39:06 --> 00:39:07: Umm.

00:39:07 --> 00:39:11: JP back to kind of the municipalities and the differences

00:39:11 --> 00:39:11: in.

00:39:12 --> 00:39:15: Laws and resilience, you know, they also have different resources,

00:39:15 --> 00:39:18: different rules, different environmental characteristics.

00:39:19 --> 00:39:22: How does locale impact your investment decision?

00:39:24 --> 00:39:27: Well, it's funny, everything up until right there where you

00:39:27 --> 00:39:31: summarize the question, of course, you know, say the cheesiest

00:39:31 --> 00:39:35: thing by far being said today, that location, location, location

00:39:35 --> 00:39:38: makes of course all of the difference in our transaction

00:39:38 --> 00:39:41: positions. But in particular I would say here what we're

00:39:41 --> 00:39:42: trying to get at is that.

00:39:43 --> 00:39:46: Just because in 80 years from now Miami looks like

00:39:46 --> 00:39:49: it might be underwater does not mean that Miami will

00:39:49 --> 00:39:53: be underwater, right? And the calculations people are using to

00:39:53 --> 00:39:57: make that call are based on totally valid statistical models

00:39:57 --> 00:40:00: and weather models and all sorts of other things that

00:40:00 --> 00:40:02: say sea level rise will be X and Miami is

00:40:02 --> 00:40:05: at YC above sea level, so therefore the math says

00:40:05 --> 00:40:07: that Miami will be underwater.

00:40:08 --> 00:40:11: What it doesn't take into account is any number of
00:40:11 --> 00:40:14: things that we humans might do to prevent those outcomes
00:40:14 --> 00:40:16: from occurring. And So what one might want to do
00:40:16 --> 00:40:19: and looking at this sort of data, is to make
00:40:19 --> 00:40:21: a more nuanced decision on a city by city basis
00:40:21 --> 00:40:24: as to the likelihood of those things actually occurring.
00:40:25 --> 00:40:28: And I think often they're also done by, by a
00:40:28 --> 00:40:31: higher granularity than the city, maybe by state or by
00:40:31 --> 00:40:34: region. And I I think that cities are really where
00:40:34 --> 00:40:37: you're going to see the action happen. And so to
00:40:38 --> 00:40:41: give an example again of Miami, Miami, may in fact,
00:40:41 --> 00:40:45: because the map says be underwater in 80 years, potentially
00:40:45 --> 00:40:48: that could occur. But what's probably a lot more likely
00:40:48 --> 00:40:52: is that Miami has an enormous amount of wealth, whether
00:40:52 --> 00:40:55: that be stored in real estate or in the folks
00:40:55 --> 00:40:55: that.
00:40:55 --> 00:40:58: Are there or any number of other ways to suggest
00:40:58 --> 00:41:00: that if that in fact becomes the case, my guess
00:41:00 --> 00:41:03: is that people in Miami, the government of Miami and
00:41:03 --> 00:41:06: others will take decisive action to ensure that that does
00:41:06 --> 00:41:09: not destroy the city of Miami, whatever that might look
00:41:09 --> 00:41:12: like. Right. And you may come to a different conclusion
00:41:12 --> 00:41:15: about a different city in Florida, right. I don't think
00:41:15 --> 00:41:18: you can say with a broad brush that every city
00:41:18 --> 00:41:21: in Florida is going to have those resources for that
00:41:21 --> 00:41:23: level of ability to prevent that outcome. And so I
00:41:23 --> 00:41:25: think that looking at the, you know.
00:41:25 --> 00:41:28: It's very crude measure with the wealth of the city,
00:41:28 --> 00:41:31: the ability of that greater metropolitan area to try to
00:41:31 --> 00:41:35: deal with those challenges in the future. And again there's
00:41:35 --> 00:41:37: many other metrics than just wealth, but but that is
00:41:37 --> 00:41:40: a good one to look at to say. And again,
00:41:40 --> 00:41:43: we're not talking about the wealth of any one individual.
00:41:43 --> 00:41:46: It's sort of the total economic activity and value of
00:41:46 --> 00:41:48: real estate and all the other things going on in
00:41:48 --> 00:41:52: that metropolitan area that will drive those outcomes. And so
00:41:52 --> 00:41:54: you know the the City of London long ago built
00:41:54 --> 00:41:56: an enormous essentially.
00:41:56 --> 00:41:59: More on the River Thames to ensure that, you know,
00:41:59 --> 00:42:02: when a hurricane or other event comes, it's not going
00:42:02 --> 00:42:05: to come right up to terms and destroy London. London
00:42:05 --> 00:42:07: can do that because London has a lot of money,

00:42:08 --> 00:42:11: right, and has the wealth necessary to make those decisions.
00:42:11 --> 00:42:14: There are plenty of other cities in the world that
00:42:14 --> 00:42:17: have not done those things and have faced plenty of
00:42:17 --> 00:42:20: consequences. And so these tools don't take any of that
00:42:20 --> 00:42:23: into account. And so you need to not just say,
00:42:23 --> 00:42:26: well, the math says that sea level rise equals.
00:42:26 --> 00:42:29: Sea level height of city equals you're screwed. There's a
00:42:29 --> 00:42:32: lot of other variables that go into what might occur
00:42:33 --> 00:42:34: in that timeframe.
00:42:35 --> 00:42:39: JP, thanks. I'm always telling my students that financial econometrics
00:42:39 --> 00:42:42: and math is a tool for decision making, not the
00:42:42 --> 00:42:46: basis with which to make decisions. So awesome. Thank you,
00:42:46 --> 00:42:49: Elena. Just continue on the topic of identifying these sort
00:42:49 --> 00:42:54: of regional, municipal, governmental mitigation measures or selecting a city
00:42:54 --> 00:42:57: based on something JP talked about. Anything you'd like to
00:42:57 --> 00:42:58: add?
00:42:59 --> 00:43:01: Yeah, I mean we're we're doing a deep dive on
00:43:01 --> 00:43:04: a handful of cities where we have a concentration of
00:43:04 --> 00:43:07: assets and there's also high climate risk globally. So just
00:43:07 --> 00:43:10: to pick on the Netherlands, I think people have pretty
00:43:10 --> 00:43:13: high confidence that they're going to be putting infrastructure in
00:43:13 --> 00:43:16: place to protect those low lying assets or you could
00:43:16 --> 00:43:18: pick on New York City and Boston as well, you
00:43:18 --> 00:43:21: know, where there's real flood risk in those places. And
00:43:21 --> 00:43:24: so you have to start thinking about you know, what's
00:43:24 --> 00:43:27: actually in planning in those cities, what's been approved, how's
00:43:27 --> 00:43:29: it going to be paid for, are those.
00:43:29 --> 00:43:32: Costs actually gonna be passed through to property owners like
00:43:33 --> 00:43:35: how is the cost of that infrastructure going to be
00:43:35 --> 00:43:38: socialized? So it's not just like we have a plan,
00:43:38 --> 00:43:41: we have an ambition, but like you know what's the
00:43:41 --> 00:43:45: history of that particular jurisdictions ability to actually get things
00:43:45 --> 00:43:48: passed and implemented and funded? Is it, is it, you
00:43:48 --> 00:43:51: know only a little bit funded or wishfully funded, right.
00:43:51 --> 00:43:53: So we are kind of digging in on all of
00:43:53 --> 00:43:57: those elements. I think the other thing kind of related
00:43:57 --> 00:43:59: to what JP was just saying about cities.

00:43:59 --> 00:44:03: Is density. So density almost becomes a good thing that

00:44:03 --> 00:44:06: if you have a high concentration of real estate value

00:44:06 --> 00:44:09: and a small area that's at risk, it's a little

00:44:09 --> 00:44:13: bit easier to defend than a bigger coastline where the

00:44:13 --> 00:44:17: real estate is more dispersed. Or like for hurricanes, right,

00:44:17 --> 00:44:20: where hurricanes can hit a huge swath of territory, it's

00:44:20 --> 00:44:24: much harder to pinpoint exactly where the physical risk is

00:44:24 --> 00:44:28: from hurricanes versus flooding. So those are all factors that

00:44:28 --> 00:44:30: that we're kind of looking at.

00:44:30 --> 00:44:34: And we've basically honed in on some geographies where LaSalle

00:44:34 --> 00:44:37: in particular has higher exposure and we're trying to.

00:44:38 --> 00:44:41: It almost becomes philosophy philosophical.

00:44:41 --> 00:44:41: Or like.

00:44:41 --> 00:44:45: Political science to try to assess what we think is

00:44:45 --> 00:44:47: likely to happen in those places.

00:44:48 --> 00:44:51: These are terrific insights from all of you. Thank you.

00:44:51 --> 00:44:53: Only a little time for questions in the audience. So

00:44:53 --> 00:44:56: last question for our three panelists from me and then

00:44:56 --> 00:44:59: we'll pick some from the audience. I'm JP. I'll start

00:44:59 --> 00:45:01: with you in one minute or less. What's your advice

00:45:01 --> 00:45:02: to the audience?

00:45:04 --> 00:45:06: Well, I guess I think it's pretty obvious from this

00:45:06 --> 00:45:09: discussion which is you should use these tools, right. I

00:45:09 --> 00:45:11: mean we didn't write the report and go down this

00:45:11 --> 00:45:13: road to say this isn't something that you should do.

00:45:13 --> 00:45:16: And and very clearly that's I think what this panel

00:45:16 --> 00:45:18: is saying and this report is saying is that you

00:45:18 --> 00:45:21: should absolutely use these tools. You just understand the limitations

00:45:21 --> 00:45:24: of them and work them appropriately into your decision making

00:45:24 --> 00:45:27: process today. But I would certainly encourage going down that

00:45:27 --> 00:45:30: road. I think the only other thing I would highlight

00:45:30 --> 00:45:32: is, you know, buyer beware. There's a lot of players

00:45:32 --> 00:45:34: out there. They have all sorts of different.

00:45:35 --> 00:45:38: And you know, you should be asking lots of good

00:45:38 --> 00:45:41: questions and trying to understand what the underlying data is.

00:45:41 --> 00:45:45: Meaning many of the providers are selling the same data

00:45:45 --> 00:45:48: set in different ways. And you should ensure that you're,

00:45:48 --> 00:45:51: you know, not just buying a much more expensive set

00:45:51 --> 00:45:54: of outcomes with the same data because the colors look
00:45:54 --> 00:45:58: better or the reports a little longer there. There are
00:45:58 --> 00:46:01: good questions to be asked and the diligence of these
00:46:01 --> 00:46:04: providers and you should definitely be doing those things.
00:46:05 --> 00:46:06: But you should go ahead and use.
00:46:07 --> 00:46:09: If you thank you and same question.
00:46:10 --> 00:46:14: Umm, yeah. So, so from someone else's perspective, someone who
00:46:14 --> 00:46:18: hasn't started yet, I think it can be very intimidating.
00:46:18 --> 00:46:21: It can look like there's so much out there, you
00:46:21 --> 00:46:24: know, don't get completely overwhelmed with it. So. So I
00:46:25 --> 00:46:28: think someone else has already said this before, but if
00:46:28 --> 00:46:31: if you don't know which road to take, at least
00:46:31 --> 00:46:34: take one. It doesn't matter where as long as you
00:46:34 --> 00:46:38: start moving forward. So I think the most important point
00:46:38 --> 00:46:41: of view for someone who hasn't started is.
00:46:41 --> 00:46:44: Just start talking to these groups. Start looking at the
00:46:44 --> 00:46:45: options and and just.
00:46:47 --> 00:46:49: Start evaluating it. Start looking at.
00:46:51 --> 00:46:54: Yeah, I totally agree. Just get started. And I think
00:46:54 --> 00:46:56: one of the good things in the report that we
00:46:56 --> 00:46:59: didn't talk about too much on this webinar is there's
00:46:59 --> 00:47:02: a one of the infographics and one of the sections
00:47:02 --> 00:47:05: of the report has a list of questions that you
00:47:05 --> 00:47:09: can ask providers about their methodology. So I actually think
00:47:09 --> 00:47:12: that's really helpful because at least now you know the
00:47:12 --> 00:47:15: questions to ask. So for example, with one, one provider
00:47:15 --> 00:47:18: that we tested, we were like, why is it that
00:47:18 --> 00:47:21: all of our assets in like Baltimore and New York?
00:47:21 --> 00:47:24: Boston are showing as higher risk of hurricanes that are
00:47:24 --> 00:47:27: assets in Florida and the provider was like, oh, it's
00:47:27 --> 00:47:31: because we don't include baseline risk. We only include forward-looking
00:47:31 --> 00:47:34: change in risk. And so that's why none of that
00:47:34 --> 00:47:36: Florida assets are showing up. And it's one of those
00:47:37 --> 00:47:39: things where it's like, you know, if you didn't know
00:47:39 --> 00:47:43: to ask that question, you wouldn't be understanding the results
00:47:43 --> 00:47:46: correctly. So hopefully at least this report will give you
00:47:46 --> 00:47:49: like the eight questions to ask the provider to at
00:47:49 --> 00:47:51: least make sure you're understanding.
00:47:51 --> 00:47:54: The results, and I think that's really the key, is

00:47:54 --> 00:47:57: like just get going, make sure you understand the the
00:47:57 --> 00:48:01: methodology of what you're getting. And then for any assets
00:48:01 --> 00:48:04: that get flagged, you really have to just dig in
00:48:04 --> 00:48:07: at the asset level and sometimes you'll determine that it
00:48:07 --> 00:48:10: actually has lower risk than what it was flagged or
00:48:10 --> 00:48:14: you may identify mitigation measures or whatever. But I don't
00:48:14 --> 00:48:17: think anyone on this call is taking like the exact
00:48:17 --> 00:48:20: results of any climate provider down to the decimal point
00:48:20 --> 00:48:21: as accurate, right.
00:48:21 --> 00:48:24: All just using it as like an order of magnitude
00:48:24 --> 00:48:25: barometer to know where to focus.
00:48:27 --> 00:48:29: Some of the pressure off the accuracy.
00:48:30 --> 00:48:32: And thank you all. And some of those, you know
00:48:32 --> 00:48:35: the sponsor of this report with you alive. Some of
00:48:35 --> 00:48:38: those questions that she referred to, to catch some bitter
00:48:38 --> 00:48:40: inside are great in detail in the report.
00:48:41 --> 00:48:43: Somebody ask a question and anyone is welcome to answer.
00:48:44 --> 00:48:46: This is from Jason McIntyre. I'm going to paraphrase here
00:48:46 --> 00:48:49: a little bit, but the question essentially asks.
00:48:50 --> 00:48:53: When climate risk is incorporated in the investment decision making
00:48:53 --> 00:48:53: process.
00:48:54 --> 00:48:56: What does that really mean? Does it mean you're looking
00:48:57 --> 00:48:59: at CapEx? Does it mean you're looking at mitigation strategy?
00:48:59 --> 00:49:02: It doesn't mean you're prioritizing areas? What do you mean
00:49:02 --> 00:49:04: by incorporating that in that decision process?
00:49:09 --> 00:49:12: I go. We are running climate risk as part of
00:49:12 --> 00:49:16: every single allocation now. So it gets teed up for
00:49:16 --> 00:49:20: the fund managers as part of the asset allocation process.
00:49:20 --> 00:49:24: And if it's a higher risk asset, we follow up
00:49:24 --> 00:49:28: to identify as part of the acquisition due diligence process
00:49:28 --> 00:49:33: whether there's any mitigation measures or even someone. As I
00:49:33 --> 00:49:36: said, we go in and sometimes identify that the asset
00:49:36 --> 00:49:39: is actually at less risk because the.
00:49:39 --> 00:49:42: Back on the roof or the elevation of that particular
00:49:42 --> 00:49:45: site is higher or whatever. So but it is like
00:49:45 --> 00:49:47: right at the very beginning as early on in the
00:49:48 --> 00:49:50: acquisition process as we could get.
00:49:50 --> 00:49:50: It.
00:49:52 --> 00:49:54: Yeah. I didn't mean it should affect your CapEx and
00:49:54 --> 00:49:57: OpEx planning. If that's the level of granularity you're seeing

00:49:58 --> 00:50:00: in terms of risk, then absolutely. But I mean, if

00:50:00 --> 00:50:03: it's risk, as we discussed, I mentioned earlier, it's 80

00:50:03 --> 00:50:04: years out.

00:50:05 --> 00:50:07: Harder to say that you're going to spend the money

00:50:07 --> 00:50:09: today to mitigate that. So I think it depends a

00:50:10 --> 00:50:12: great deal on what the time frame of that risk

00:50:12 --> 00:50:14: exists, but absolutely if it's within the realm of of

00:50:15 --> 00:50:17: reason within those next article period of the next, we

00:50:17 --> 00:50:20: will absolutely think about it from CapEx OpEx perspective.

00:50:22 --> 00:50:25: I will answer a question I've seen a couple of

00:50:25 --> 00:50:28: times in the chat about the ASTM international standard thing

00:50:28 --> 00:50:31: that is currently in development that it is not out

00:50:31 --> 00:50:34: to the public yet. So there is no link we

00:50:34 --> 00:50:37: can provide. Ideally that will be authorized in October or

00:50:37 --> 00:50:40: early next year, we can provide it, but right now

00:50:40 --> 00:50:42: it's in development for team members.

00:50:43 --> 00:50:43: Um.

00:50:44 --> 00:50:48: So another question. Let me find who asked. Actually, this

00:50:48 --> 00:50:51: I think may have been an anonymous question, but as

00:50:51 --> 00:50:55: the US withdrew from the Paris climate Agreement, now we

00:50:55 --> 00:50:56: are back in.

00:50:58 --> 00:51:02: Do you think from an international perspective, in particular international

00:51:02 --> 00:51:05: capital, did that have them look at or continue to

00:51:05 --> 00:51:07: look at United States real estate in a different way

00:51:07 --> 00:51:11: than countries or regions like Europe that have been historically

00:51:11 --> 00:51:13: a little more forward-looking on some of this?

00:51:17 --> 00:51:20: I mean, I don't think that whether the United States

00:51:20 --> 00:51:23: signed the Paris climate accord or not is going to

00:51:23 --> 00:51:28: drive people's capital allocation decisions across the globe. That's my

00:51:28 --> 00:51:31: guess. Does it make America look like a bunch of

00:51:31 --> 00:51:34: idiots? You bet like and do should we as Americans

00:51:34 --> 00:51:37: be embarrassed that we're in a club of five countries,

00:51:37 --> 00:51:41: none of which we otherwise would associate ourselves with? Absolutely.

00:51:41 --> 00:51:44: And should we be universally made fun of across the

00:51:45 --> 00:51:47: world for that behavior? You bet. But is that?

00:51:47 --> 00:51:51: Truly changing global capital flows. Hard for me to think

00:51:51 --> 00:51:51: that's true.

00:51:54 --> 00:51:55: Anyone else?

00:51:56 --> 00:51:58: You know, I think that a lot of the action

00:51:58 --> 00:52:02: in America has always been driven by the private sector
00:52:02 --> 00:52:05: since the country was founded. And we're also a bunch
00:52:05 --> 00:52:09: of Federated states. As much as we don't want to
00:52:09 --> 00:52:11: admit it, we have a lot of authority at the
00:52:11 --> 00:52:14: state level here as well. And so it is a
00:52:14 --> 00:52:18: more decentralized model that requires a lot more thoughtful placement
00:52:18 --> 00:52:23: of capital, especially when you're thinking about transition risk and
00:52:23 --> 00:52:27: decarbonization as well. That also very much varies by market.
00:52:27 --> 00:52:31: And so, you know, we hope to help European investors
00:52:31 --> 00:52:35: place their capital in the right places in America. And,
00:52:35 --> 00:52:39: you know, that just requires a additional level of nuance
00:52:39 --> 00:52:42: to be able to find the places that are going
00:52:42 --> 00:52:46: to be successful both from a physical and transition risk.
00:52:46 --> 00:52:47: Perspective.
00:52:50 --> 00:52:52: Question from Horacio Martinez.
00:52:53 --> 00:52:56: A lot of different climate providers are offering their data
00:52:56 --> 00:52:58: in different formats, be it a scale, be it color
00:52:58 --> 00:53:01: code. Is there some presentation of this data that you
00:53:01 --> 00:53:04: found particularly helpful? And we start with Ann, as I
00:53:04 --> 00:53:07: know you're kind of earlier in this process, he said.
00:53:07 --> 00:53:10: So is there something that if you've been evaluating providers,
00:53:10 --> 00:53:12: was that a big component you looked at?
00:53:14 --> 00:53:17: So, so I think it's important to understand your audience,
00:53:17 --> 00:53:21: right. So your acquisitions in my in my example, my
00:53:21 --> 00:53:24: acquisition team has to be able to read the reports
00:53:24 --> 00:53:28: and understand what they're looking at. There is I wouldn't
00:53:28 --> 00:53:29: say.
00:53:30 --> 00:53:33: Green, yellow and red are different than, you know, score
00:53:33 --> 00:53:36: of one through 100. I think the most important thing
00:53:36 --> 00:53:40: is that your your company and your asset managers and
00:53:40 --> 00:53:43: acquisition teams understand what they're reading and as long as
00:53:43 --> 00:53:47: they're comfortable with how they're viewing it and they can
00:53:47 --> 00:53:50: interpret it, that's the most important part.
00:53:54 --> 00:53:55: Any other insights on that?
00:53:59 --> 00:54:03: All right. So one more question and I'm.
00:54:04 --> 00:54:07: Find out. See if I can find who asked this
00:54:07 --> 00:54:10: and JP you alluded to this a little bit one
00:54:10 --> 00:54:11: of your answers.

00:54:11 --> 00:54:16: To a certain extent, some of these risks become uninsurable,
00:54:16 --> 00:54:19: right? If we have an entire city or state flood,
00:54:19 --> 00:54:22: to what extent do you think the federal and or
00:54:22 --> 00:54:27: state level government intervene to, you know, backstop or restore
00:54:27 --> 00:54:28: property values?
00:54:32 --> 00:54:35: You know that that's a hard question to answer. I
00:54:35 --> 00:54:38: don't know that I have a great one. I mean,
00:54:38 --> 00:54:40: I think at the end of the day it is
00:54:40 --> 00:54:43: unlikely that the government will not step in at some
00:54:43 --> 00:54:46: level to prevent catastrophic outcomes, but.
00:54:47 --> 00:54:50: We're in a lot of and certainly the track record
00:54:50 --> 00:54:53: of the US government has shown but.
00:54:55 --> 00:54:57: You know, there's also a lot of folks out there
00:54:57 --> 00:55:00: that believe that that sort of behavior is causing people
00:55:00 --> 00:55:03: to make bad decisions and that the moral hazard of
00:55:03 --> 00:55:05: doing so is high. I I would say that's an
00:55:05 --> 00:55:08: open argument in society. You know, there's lots of interesting
00:55:08 --> 00:55:11: moral hazards that you could potentially try to prevent occurring.
00:55:11 --> 00:55:14: And saying the government isn't going to step in the
00:55:14 --> 00:55:17: reality by anybody reading the last 20 years of history
00:55:17 --> 00:55:20: would suggest that the United States government has stepped in.
00:55:21 --> 00:55:23: To save numerous different.
00:55:24 --> 00:55:28: Sectors, industries, cities, states, et cetera. So I would broadly
00:55:29 --> 00:55:33: say without any personal opinion or anything, the record shows
00:55:33 --> 00:55:36: that in the US the government has been willing to
00:55:37 --> 00:55:41: step in and solve for those problems mostly afterwards for
00:55:41 --> 00:55:45: a wide variety of natural disasters, economic disasters and and
00:55:45 --> 00:55:49: other outcomes. But I don't know that I have. I
00:55:49 --> 00:55:52: why? No, I don't have a crystal ball to say
00:55:52 --> 00:55:54: what's going to happen in the future.
00:55:55 --> 00:55:58: But if the past is any guide, it certainly would
00:55:58 --> 00:56:01: suggest that that is a likely outcome. But I think
00:56:01 --> 00:56:05: that there is no national or societal consensus on that
00:56:05 --> 00:56:06: that I can see.
00:56:07 --> 00:56:09: JP, thank you. Atlanta, one last question. I'm going to
00:56:09 --> 00:56:12: turn it over to Lindsay to share the report again
00:56:12 --> 00:56:12: and close up.

00:56:13 --> 00:56:16: We talked about advice, all of you for our investment

00:56:16 --> 00:56:17: real estate managers on the call.

00:56:18 --> 00:56:21: What about advice for our physical climate risk providers? Anything

00:56:21 --> 00:56:23: sort of big picture that you might want to share

00:56:23 --> 00:56:24: with them?

00:56:25 --> 00:56:30: Please disclose your methodology. Everybody's like let's just you know,

00:56:30 --> 00:56:33: I know that some of the things are black box,

00:56:33 --> 00:56:36: but like some of these assumptions it is, it's so

00:56:36 --> 00:56:41: hard to understand what's driving the differences in the results.

00:56:41 --> 00:56:44: And you know we've had this kind of conversation in

00:56:44 --> 00:56:49: comparison to economic forecasting which is a pretty established area.

00:56:49 --> 00:56:54: There's good reasons why there's still competition in that market

00:56:54 --> 00:56:56: and economic forecasters.

00:56:56 --> 00:56:59: Come out with different results, but you can understand the

00:56:59 --> 00:57:02: approach of those companies and you know how they are

00:57:02 --> 00:57:06: thinking about things differently that leads them to come to

00:57:06 --> 00:57:09: those different findings and you can pick the one that

00:57:09 --> 00:57:13: works for you. But you know, we're having such difference

00:57:13 --> 00:57:16: in methodology plus like people are defining VAPR differently, like

00:57:17 --> 00:57:20: you know, so you don't only have difference in approach,

00:57:20 --> 00:57:23: you actually have people spitting out metrics and calling it

00:57:23 --> 00:57:26: the same metric but that definition being different.

00:57:27 --> 00:57:29: So I think you know it's one of the hardest

00:57:30 --> 00:57:33: questions from this report as people are saying like now

00:57:33 --> 00:57:36: what and I think Anne has part of the answer

00:57:36 --> 00:57:39: or the ASTM group has part of the answer. But

00:57:39 --> 00:57:42: part of the answer is also us all coming to

00:57:42 --> 00:57:45: some agreement on what we mean by CVA R like

00:57:45 --> 00:57:49: it's not defined like net present value or IRR discount

00:57:49 --> 00:57:52: rate. It's not a standardized term as well as just

00:57:52 --> 00:57:57: broader disclosure about methodology so that folks can understand.

00:57:57 --> 00:58:00: Exactly how you're thinking about analyzing these risks.

00:58:02 --> 00:58:04: Lana and JP and Ann, thank you so much for

00:58:04 --> 00:58:07: all the insightful answers and thank you to our audience

00:58:07 --> 00:58:09: for listening in Lindsey.

00:58:10 --> 00:58:14: Thank you everyone for joining us and thank you especially

00:58:14 --> 00:58:17: to our panelists Elena, Anne and JP and to our

00:58:17 --> 00:58:20: moderator Spencer for this Van Tastic discussion.

00:58:22 --> 00:58:25: If you have any questions, you can e-mail us at

00:58:25 --> 00:58:28: resilience at uli.org and in the chat is a link

00:58:28 --> 00:58:30: to the report so you can read it for yourself

00:58:30 --> 00:58:35: and hopefully implement these recommendations to make your own climate

00:58:35 --> 00:58:39: risk decisions just a little bit easier and more transparent.

00:58:39 --> 00:58:40: Thank you all.
