

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 firm, 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,

00:22:48 --> 00:22:51: probably

00:22:48 --> 00:22:51: won't open because, you know, drop windows, but elevator

00:22:51 --> 00:22:53: 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

00:23:23 --> 00:23:26: 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

00:42:39 --> 00:42:42: econometrics

00:42:42 --> 00:42:46: and math is a tool for decision making, not the

00:42:46 --> 00:42:49: basis with which to make decisions. So awesome. Thank

00:42:49 --> 00:42:54: you,

00:42:54 --> 00:42:57: Elena. Just continue on the topic of identifying these sort

00:42:57 --> 00:42:58: of regional, municipal, governmental mitigation measures or

00:42:59 --> 00:43:01: selecting a city

00:43:01 --> 00:43:04: based on something JP talked about. Anything you'd like to

00:43:04 --> 00:43:07: add?

00:43:07 --> 00:43:10: Yeah, I mean we're we're doing a deep dive on

00:43:10 --> 00:43:13: a handful of cities where we have a concentration of

00:43:13 --> 00:43:16: assets and there's also high climate risk globally. So just

00:43:16 --> 00:43:18: to pick on the Netherlands, I think people have pretty

00:43:18 --> 00:43:21: high confidence that they're going to be putting infrastructure

00:43:21 --> 00:43:24: in

00:43:24 --> 00:43:27: place to protect those low lying assets or you could

00:43:27 --> 00:43:29: pick on New York City and Boston as well, you

00:43:29 --> 00:43:32: know, where there's real flood risk in those places. And

00:43:33 --> 00:43:35: so you have to start thinking about you know, what's

00:43:35 --> 00:43:38: actually in planning in those cities, what's been approved,

00:43:38 --> 00:43:41: how's

00:43:41 --> 00:43:45: it going to be paid for, are those.

00:43:45 --> 00:43:48: Costs actually gonna be passed through to property owners

00:43:48 --> 00:43:51: like

00:43:51 --> 00:43:53: how is the cost of that infrastructure going to be

00:43:53 --> 00:43:57: socialized? So it's not just like we have a plan,

00:43:57 --> 00:43:59: we have an ambition, but like you know what's the

00:43:59 --> 00:44:02: history of that particular jurisdictions ability to actually get

00:44:02 --> 00:44:05: things

00:44:05 --> 00:44:08: passed and implemented and funded? Is it, is it, you

00:44:08 --> 00:44:11: know only a little bit funded or wishfully funded, right.

00:44:11 --> 00:44:14: So we are kind of digging in on all of

00:44:14 --> 00:44:17: those elements. I think the other thing kind of related

00:44:17 --> 00:44:20: 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 better or the reports a little longer there. There are good questions to be asked and the diligence of these providers and you should definitely be doing those things. But you should go ahead and use.

00:45:54 --> 00:45:58: If you thank you and same question.

00:45:58 --> 00:46:01: Umm, yeah. So, so from someone else's perspective, someone who hasn't started yet, I think it can be very intimidating.

00:46:01 --> 00:46:04: It can look like there's so much out there, you know, don't get completely overwhelmed with it. So. So I think someone else has already said this before, but if you don't know which road to take, at least take one. It doesn't matter where as long as you start moving forward. So I think the most important point of view for someone who hasn't started is.

00:46:05 --> 00:46:06: Just start talking to these groups. Start looking at the options and and just.

00:46:07 --> 00:46:09: Start evaluating it. Start looking at.

00:46:10 --> 00:46:14: Yeah, I totally agree. Just get started. And I think one of the good things in the report that we didn't talk about too much on this webinar is there's a one of the infographics and one of the sections of the report has a list of questions that you can ask providers about their methodology. So I actually think that's really helpful because at least now you know the questions to ask. So for example, with one, one provider that we tested, we were like, why is it that all of our assets in like Baltimore and New York? Boston are showing as higher risk of hurricanes that are assets in Florida and the provider was like, oh, it's because we don't include baseline risk. We only include forward-looking change in risk. And so that's why none of that Florida assets are showing up. And it's one of those things where it's like, you know, if you didn't know to ask that question, you wouldn't be understanding the results correctly. So hopefully at least this report will give you like the eight questions to ask the provider to at least make sure you're understanding.

00:46:14 --> 00:46:18: The results, and I think that's really the key, is

00:46:18 --> 00:46:21:

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00:47:51 --> 00:47:54:

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
00:48:53 --> 00:48:53: 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
00:48:59 --> 00:49:02: 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.
00:49:33 --> 00:49:36: As I
00:49:36 --> 00:49:39: said, we go in and sometimes identify that the asset
00:49:39 --> 00:49:42: is actually at less risk because the.
00:49:42 --> 00:49:45: Back on the roof or the elevation of that particular
00:49:45 --> 00:49:47: site is higher or whatever. So but it is like
00:49:48 --> 00:49:50: right at the very beginning as early on in the
00:49:50 --> 00:49:50: acquisition process as we could get.
00:49:52 --> 00:49:54: It.
00:49:54 --> 00:49:57: 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

00:51:02 --> 00:51:05: international

00:51:05 --> 00:51:07: capital, did that have them look at or continue to

00:51:07 --> 00:51:11: look at United States real estate in a different way

00:51:11 --> 00:51:13: than countries or regions like Europe that have been

00:51:13 --> 00:51:15: historically

00:51:15 --> 00:51:17: 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.

00:51:28 --> 00:51:31: That's my

00:51:31 --> 00:51:34: guess. Does it make America look like a bunch of

00:51:34 --> 00:51:37: idiots? You bet like and do should we as Americans

00:51:37 --> 00:51:41: be embarrassed that we're in a club of five countries,

00:51:41 --> 00:51:44: none of which we otherwise would associate ourselves with?

00:51:44 --> 00:51:47: Absolutely.

00:51:47 --> 00:51:51: And should we be universally made fun of across the

00:51:51 --> 00:51:54: world for that behavior? You bet. But is that?

00:51:54 --> 00:51:57: Truly changing global capital flows. Hard for me to think

00:51:57 --> 00:52:00: that's true.

00:52:00 --> 00:52:03: Anyone else?

00:52:03 --> 00:52:06: 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
00:52:18 --> 00:52:23: placement
00:52:18 --> 00:52:23: of capital, especially when you're thinking about transition
00:52:23 --> 00:52:27: risk and
00:52:23 --> 00:52:27: decarbonization as well. That also very much varies by
00:52:27 --> 00:52:31: 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
00:53:10 --> 00:53:12: 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
00:53:43 --> 00:53:47: 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.

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