Webinar

Change is Coming: Climate Risk Disclosures and Real Estate Investment (US/APAC)
Date: October 13, 2023

00:00:00 --> 00:00:01:	Hi, everybody.
00:00:01 --> 00:00:04:	Welcome to our ULI webinar today.
00:00:04 --> 00:00:08:	Change is coming, climate risk disclosures and real estate investment.
00:00:08 --> 00:00:12:	I'm Billy Grayson, your faithful moderator.
00:00:12 --> 00:00:14:	Today, we're just going to wait a minute or two
00:00:14 --> 00:00:17:	until everybody can get into the webinar, and then we'll
00:00:17 --> 00:00:18:	get started in a minute.
00:00:43 --> 00:00:46:	Hello, and welcome to those of you that are rolling
00:00:46 --> 00:00:48:	into the webinar right now.
00:00:48 --> 00:00:50:	I'm Billy Grayson, your moderator.
00:00:50 --> 00:00:51:	This is the ULI webinar.
00:00:51 --> 00:00:52:	Change is coming.
00:00:53 --> 00:00:55:	Climate risk disclosure and real estate investment.
00:00:56 --> 00:00:59:	We're going to wait just one more minute for people
00:00:59 --> 00:01:01:	to roll into the webinar, and then we'll get started.
00:01:21 --> 00:01:22:	All right, One more time with feeling.
00:01:23 --> 00:01:24:	Hello, everyone.
00:01:24 --> 00:01:27:	Welcome to our Urban Land Institute webinar today.
00:01:27 --> 00:01:29:	I'm Billy Grayson, your moderator.
00:01:30 --> 00:01:34:	This is utilize webinar changes coming climate risk disclosure and
00:01:34 --> 00:01:35:	real estate investment.
00:01:36 --> 00:01:38:	Very excited about our webinar today.
00:01:38 --> 00:01:42:	Joining me to talk about climate risk and real estate
00:01:42 --> 00:01:46:	investment is Laura Kraft, the Global Head of Portfolio Strategies
00:01:46 --> 00:01:47:	at Heitman.
00:01:49 --> 00:01:52:	Annika Shaw, the Managing Director and Global Head of

ESG
00:01:52 --> 00:01:55: and Sustainable Finance Strategy for Jeffries.
00:01:55 --> 00:01:59: I'm Billy Grayson, Chief Initiatives Officer at the Urban Land
00:01:59 --> 00:01:59: Institute.
00:02:01 --> 00:02:05: We're very excited to be releasing report #4 in our
00:02:05 --> 00:02:09: collaboration between ULI and Heitmann on climate risk and real
00:02:09 --> 00:02:10: estate investment.
00:02:11 --> 00:02:15: We began this collaboration way back in 2019, which at
00:02:15 --> 00:02:19: the time we were just starting to catalyze a discussion
00:02:19 --> 00:02:23: on how climate risk and real estate investment worked and
00:02:23 --> 00:02:28: what investment managers could do to better assess and price
00:02:28 --> 00:02:31: and mitigate this risk in their portfolios.
00:02:32 --> 00:02:35: Our second report with Heitmann looked at market level risk
00:02:35 --> 00:02:38: and how a city's climate risk and resilience strategy can
00:02:38 --> 00:02:41: impact outcomes for all assets within a region.
00:02:42 --> 00:02:45: Our third report looked at the emerging trend of climate
00:02:45 --> 00:02:48: driven global migration and explored how investors in the public
00:02:48 --> 00:02:52: sector can better prepare for and adapt to these changing
00:02:52 --> 00:02:53: demographic patterns.
00:02:54 --> 00:02:57: Our newest report in the series looks at the acceleration
00:02:57 --> 00:03:00: of climate and ESG related regulation and the impact that
00:03:00 --> 00:03:03: these new regulations will have on transition risk, a growing
00:03:03 --> 00:03:06: component of the overall risk picture for climate risk in
00:03:06 --> 00:03:08: real estate investment.
00:03:09 --> 00:03:09: Next slide.
00:03:12 --> 00:03:15: So we titled our report Changes Coming, but a more
00:03:15 --> 00:03:19: appropriate title might be Changes Already Here and More Change
00:03:19 --> 00:03:20: is Changing Every Day.
00:03:21 --> 00:03:25: I wanted to start by sharing some reflections and observations
00:03:25 --> 00:03:29: about what we're seeing happening with climate and ESG regulation
00:03:29 --> 00:03:31: in the last few years, as well as some of
00:03:31 --> 00:03:33: what we see on the horizon.
00:03:33 --> 00:03:37: The first thing I want to share about this growing
00:03:37 --> 00:03:41: regulatory regime around climate, risk and climate and ESG disclosure
00:03:41 --> 00:03:44: is that it's changing every day.
00:03:44 --> 00:03:48: The Urban Land Institute does an annual ESG policy scan
00:03:48 --> 00:03:52: with our green print members for a policy database and

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

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

00:04:01 --> 00:04:03: disclosure and ESG performance.

00:04:04 --> 00:04:07: And for better or worse, this database is continuously out

00:04:07 --> 00:04:09: of date as these new regulations get passed.

00:04:11 --> 00:04:14: Second thing I'd like to note is that the policies

00:04:14 --> 00:04:17: that we're seeing in the marketplace right now on ESG

00:04:17 --> 00:04:21: and climate will impact real estate investors at every level

00:04:21 --> 00:04:22: of their business.

00:04:23 --> 00:04:26: Some of these policies are focused on the asset level,

00:04:26 --> 00:04:28: some at the fun level and some at the overall

00:04:29 --> 00:04:29: corporate level.

00:04:30 --> 00:04:33: Some of these policies are global, but many if not

00:04:33 --> 00:04:37: most are national and sub national and they're very dramatically

00:04:37 --> 00:04:39: often in the market that you're in.

00:04:40 --> 00:04:43: And then virtually all of these ESG policies fall into

00:04:43 --> 00:04:44: three major themes.

00:04:45 --> 00:04:49: First, regulations that focus on data transparency and data quality.

00:04:50 --> 00:04:53: 2nd, regulations that will have an impact on the green

00:04:53 --> 00:04:57: premium for high performing ESG companies, funds and assets as

00:04:57 --> 00:05:00: well as the brown discount, whether that's through fines or

00:05:00 --> 00:05:03: stricter construction standards for new buildings.

00:05:04 --> 00:05:07: And finally, regulations that are going to impact your marketing

00:05:07 --> 00:05:11: and communications around climate and ESG, whether this is in

00:05:11 --> 00:05:15: your marketing materials, how you characterize an investment fund that

00:05:15 --> 00:05:18: you're building or even what you can say in public

00:05:18 --> 00:05:20: on a webinar like this about your programs.

00:05:21 --> 00:05:25: It's a fascinating and ever changing market environment.

00:05:25 --> 00:05:26: Next slide please.

00:05:30 --> 00:05:32: So I'd like to provide a a high level overview

00:05:32 --> 00:05:36: of a couple of the global, regional and national standards

00:05:36 --> 00:05:39: that we see having the greatest impact on the market

00:05:39 --> 00:05:39: today.

00:05:40 --> 00:05:43: The first one I'd like to introduce people to who

00:05:43 --> 00:05:44: may already know about it.

00:05:44 --> 00:05:47: If you don't know about it already, it's the Task

00:05:47 --> 00:05:52: Force on Climate Related Financial Disclosures or TCFDTCFD by itself

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

00:07:51 --> 00:07:53: 97 in New York City, but there are several of
00:07:54 --> 00:07:56: these in London, California, Washington, DC.
00:07:57 --> 00:08:00: They require new construction to meet a net zero or
00:08:00 --> 00:08:04: net zero ready standard by 20-30 or sooner, and they
00:08:04 --> 00:08:08: also require existing buildings to meet an energy or climate
00:08:08 --> 00:08:12: performance standard by a certain date or face significant fine
00:08:12 --> 00:08:15: until they come into compliance.
00:08:16 --> 00:08:20: These regulations apply to both new construction and existing assets,
00:08:20 --> 00:08:23: although they often treat them differently, and in some cases
00:08:23 --> 00:08:27: they can even mean that an existing asset could lose
00:08:27 --> 00:08:30: its certificate of occupancy if it can't meet a certain
00:08:30 --> 00:08:31: performance standard.
00:08:32 --> 00:08:35: Germany, the Netherlands, France, and the UK all have an
00:08:35 --> 00:08:36: EPC based scheme.
00:08:36 --> 00:08:40: New York City, Washington DC, most cities in the state
00:08:40 --> 00:08:43: of California and Boston, MA all have a version of
00:08:43 --> 00:08:46: the BPS, as well as more than a dozen other
00:08:46 --> 00:08:46: U.S.
00:08:46 --> 00:08:47: cities and counties.
00:08:49 --> 00:08:52: I'll also note that the EU taxonomy and existing SEC
00:08:52 --> 00:08:55: rules have also increased the level of scrutiny on ESG
00:08:55 --> 00:08:58: reporting in an effort to ensure ESG related products are
00:08:58 --> 00:09:00: correctly labeled and communicated.
00:09:01 --> 00:09:04: This is an effort to head off what many call
00:09:04 --> 00:09:09: greenwashing or overstating the environmental and ESG claims associated with
00:09:09 --> 00:09:12: a specific product or corporate performance.
00:09:13 --> 00:09:17: As a result, we're seeing more and more companies bringing
00:09:17 --> 00:09:20: in legal counsel to review ESG claims and marketing and
00:09:20 --> 00:09:26: investment prospectus, prospective prospectuses and also following some major investigations
00:09:26 --> 00:09:31: and fines for companies that regulators felt overstated their environmental
00:09:31 --> 00:09:34: performance on their assets or their investment portfolios.
00:09:36 --> 00:09:36: Next slide.
00:09:40 --> 00:09:43: So what is this going to mean for integrated corporate
00:09:43 --> 00:09:44: reporting?
00:09:44 --> 00:09:46: Well, business as usual looks like this.
00:09:46 --> 00:09:51: Profit and loss statements, annual reporting, quarterly reporting and voluntary
00:09:51 --> 00:09:54: sustainability reporting like an annual report or a TCFD or

00:09:54 --> 00:09:55: GRASS report.

00:09:56 --> 00:09:59: The future of reporting will look like business as usual,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

00:11:47 --> 00:11:50: We are an investment manager with over 50 billion assets

00:11:50 --> 00:11:52: under management around the globe.

00:11:53 --> 00:11:56: And what I'm going to go through is some of

00:11:56 --> 00:11:59: the regulations that are impacting at the firm level, the
00:11:59 --> 00:12:01: fund level and the building level.
00:12:01 --> 00:12:04: So at the firm level what we're seeing is.
00:12:05 --> 00:12:08: Firms are are going to need to be able to
00:12:08 --> 00:12:12: disclose climate related risk within at the company level, The
00:12:12 --> 00:12:16: proposed SCC regulations really hone in on three different areas,
00:12:17 --> 00:12:22: material physical climate risk, greenhouse gas emissions, climate targets and
00:12:22 --> 00:12:23: transition plants.
00:12:24 --> 00:12:26: So talk about climate risk.
00:12:26 --> 00:12:28: As it relates to real estate, we tend to talk
00:12:28 --> 00:12:32: about it from two different angles, the physical risk and
00:12:32 --> 00:12:35: the transition risk, so real estate investment.
00:12:35 --> 00:12:40: Managers have portfolios of real estate, so buildings in particular
00:12:40 --> 00:12:46: locations, and those locations are vulnerable to extreme weather events
00:12:46 --> 00:12:51: such as hurricanes, typhoons, droughts, flooding, sea level rise, wildfire.
00:12:51 --> 00:12:53: So all of these things could occur.
00:12:53 --> 00:12:56: And so if you have a portfolio of assets in
00:12:56 --> 00:12:59: various locations, you want to understand?
00:12:59 --> 00:13:03: The threat of any of these physical events to your
00:13:03 --> 00:13:08: portfolio beyond just the physical threat, we also want to
00:13:08 --> 00:13:10: know the transition risk.
00:13:10 --> 00:13:14: So transition relates to any kind of regulatory changes that
00:13:14 --> 00:13:16: could occur at the the fun level, at the firm
00:13:16 --> 00:13:18: level and the local level.
00:13:18 --> 00:13:21: So and how that could impact a portfolio.
00:13:22 --> 00:13:24: Beyond that it's around resource availability.
00:13:24 --> 00:13:26: So you have an asset that needs.
00:13:27 --> 00:13:28: Access to energy and water.
00:13:29 --> 00:13:32: What's that availability for your portfolio?
00:13:33 --> 00:13:36: Is there going to be a strain on particular assets
00:13:36 --> 00:13:37: within your portfolio?
00:13:38 --> 00:13:43: Additionally, portfolios need to track greenhouse gas emissions, how much
00:13:43 --> 00:13:47: carbon is being emitted from your portfolio and trying to
00:13:47 --> 00:13:50: find ways to reduce the carbon emissions from a real
00:13:51 --> 00:13:52: estate perspective.
00:13:52 --> 00:13:55: We also very much care about insurance and taxes.
00:13:56 --> 00:14:00: Insurance is a is a a line item that we've

00:14:00 --> 00:14:05: been very focused on recently as insurance rates have been
00:14:05 --> 00:14:10: going up more than normal with the the most impacted
00:14:10 --> 00:14:14: events in history over the past few years.
00:14:14 --> 00:14:17: So insurance is a major factor that we look at.
00:14:18 --> 00:14:21: And then lastly, change an investor demand, if you have
00:14:21 --> 00:14:23: a portfolio of of assets and you plan to sell
00:14:23 --> 00:14:26: some of those assets, is there still demand in those
00:14:27 --> 00:14:30: markets or is that demand shifting because of some of
00:14:30 --> 00:14:30: these risks?
00:14:34 --> 00:14:36: So just to really translate and hone it down into
00:14:36 --> 00:14:39: the financials, the left side are some of the things
00:14:39 --> 00:14:42: that could occur that would impact property valuations.
00:14:42 --> 00:14:45: So as I mentioned, if you have reduced demand, then
00:14:45 --> 00:14:49: that would mean that you know, there's more risk associated
00:14:49 --> 00:14:52: to that asset, which would drive down that property valuation.
00:14:53 --> 00:14:57: You could have additional operating expenses like I mentioned, insurance
00:14:57 --> 00:14:58: or real estate taxes.
00:14:59 --> 00:15:02: Or resource costs and all of those things would drive
00:15:02 --> 00:15:05: up operating expenses and drive down the net operating income,
00:15:05 --> 00:15:07: the cash flows and the property valuations.
00:15:08 --> 00:15:10: So again, this is just tying it to why we
00:15:10 --> 00:15:13: care about climate risk and and this is how we
00:15:13 --> 00:15:15: look at it from an underwriting perspective.
00:15:20 --> 00:15:23: Leading investment managers are are looking at climate risk as
00:15:23 --> 00:15:26: they acquire assets on in three different ways.
00:15:26 --> 00:15:29: We're looking at climate risk at the building level.
00:15:29 --> 00:15:31: So is the building in a location or in an
00:15:31 --> 00:15:35: area that's exposed to climate risk and is that building
00:15:35 --> 00:15:35: exposed?
00:15:35 --> 00:15:38: So is it in a flood zone and has that
00:15:38 --> 00:15:41: building been elevated out of the flood zone.
00:15:41 --> 00:15:45: So trying to understand the true risk to particular investment.
00:15:46 --> 00:15:50: Beyond just the asset level, it's understanding the market, is
00:15:50 --> 00:15:54: the market exposed to extreme weather events such as heat,
00:15:54 --> 00:15:59: stress, droughts, wildfire, typhoons that could impact the overall market
00:15:59 --> 00:16:03: and trying to understand the markets mitigation efforts to limit
00:16:03 --> 00:16:07: the risk to the market and to the particular investment
00:16:07 --> 00:16:10: or the particular asset that you may be invested in.
00:16:11 --> 00:16:15: And beyond the asset level and the market level

assessments,

00:16:15 --> 00:16:19: investment managers are also looking at their portfolios trying not

00:16:19 --> 00:16:22: to overexpose or portfolio to climate res.

00:16:22 --> 00:16:25: Meaning that you may be okay with a certain level

00:16:25 --> 00:16:28: of risk, but you don't want a weather event to

00:16:29 --> 00:16:30: occur to impact.

00:16:30 --> 00:16:33: A large portion of your portfolio.

00:16:33 --> 00:16:37: So we look at climate risk from a diversification factor

00:16:37 --> 00:16:39: analysis as well.

00:16:39 --> 00:16:42: And so any of these risk assessments that we do

00:16:42 --> 00:16:47: could translate into additional next steps of additional due diligence

00:16:47 --> 00:16:51: as we're acquiring the asset, increased underwriting cost over that

00:16:51 --> 00:16:55: whole period of insurance or operating expenses sometimes if we

00:16:55 --> 00:16:57: think that the the asset.

00:16:57 --> 00:17:00: May have less interest when we go to sell the

00:17:00 --> 00:17:03: asset in five or ten years, We may add a

00:17:03 --> 00:17:07: higher exit cap rate which would decrease the valuation and

00:17:07 --> 00:17:11: then at times not proceed with a particular investment because

00:17:11 --> 00:17:12: it's deemed too risky.

00:17:15 --> 00:17:18: So as a good guidance for investment managers and for

00:17:18 --> 00:17:21: companies that are just starting on this journey.

00:17:21 --> 00:17:23: TCFD is a great framework.

00:17:23 --> 00:17:28: It's been endorsed by a number of countries around the

00:17:28 --> 00:17:32: globe and there are a lot of examples of TCFD

00:17:32 --> 00:17:35: reporting by funds and by firms.

00:17:35 --> 00:17:39: And So what TCFD is organized around is governance, strategy,

00:17:39 --> 00:17:41: risk management and metrics and targets.

00:17:42 --> 00:17:47: So leading practices to have a dedicated sustainability team, senior

00:17:47 --> 00:17:51: leadership oversights and buy in a strategy to have integrated

00:17:51 --> 00:17:56: business planning related to climate risk and climate opportunities and

00:17:56 --> 00:18:01: analysis upfront of all investments and assessment of physical risks

00:18:01 --> 00:18:06: and transition risks while also identifying opportunities that could be

00:18:06 --> 00:18:08: implemented into the portfolio.

00:18:09 --> 00:18:12: And having targets and metrics, so setting targets that can
00:18:12 --> 00:18:16: be tracked and that you can see your progression over
00:18:16 --> 00:18:16: time.
00:18:17 --> 00:18:20: So some of those example metrics would be energy, carbon,
00:18:21 --> 00:18:23: water, waste rating, certifications.
00:18:26 --> 00:18:32: So beyond the firm level, investment products are also being
00:18:32 --> 00:18:35: imposed by regulations, so in Europe.
00:18:36 --> 00:18:39: Well, really any fund marketed in Europe has to comply
00:18:39 --> 00:18:42: with SFDR and what that is is funds have to
00:18:42 --> 00:18:46: be categorized as either an Article 6, Article 8 or
00:18:46 --> 00:18:47: Article 9 fund.
00:18:47 --> 00:18:51: Article 6 funds, they may integrate sustainability, but they do
00:18:51 --> 00:18:53: not promote it as an objective of the fund.
00:18:54 --> 00:18:58: Whereas Article 8 funds promotes either an environmental or social
00:18:58 --> 00:19:02: characteristic, Article 9 Funds has sustainable investment as an objective
00:19:02 --> 00:19:03: of the Fund.
00:19:04 --> 00:19:06: What we're seeing in the US is different.
00:19:07 --> 00:19:11: The proposed names amendment, the names rule which came out
00:19:11 --> 00:19:14: just a few weeks ago states that if you have
00:19:14 --> 00:19:18: ESG or Sustainability in the funds name, then 80% of
00:19:18 --> 00:19:21: those assets have to align with the funds name.
00:19:22 --> 00:19:25: So this is not a mandate of like in Europe
00:19:25 --> 00:19:29: that all funds must be categorized you under the ESG
00:19:29 --> 00:19:33: sustainability realm, but the SEC is is saying that if
00:19:33 --> 00:19:33: you're.
00:19:33 --> 00:19:37: Promoting in the fund's name, then you need to back
00:19:37 --> 00:19:40: up what's in the fund and 80% of that needs
00:19:40 --> 00:19:42: to match the fund's name.
00:19:45 --> 00:19:50: So going beyond product level regulations, we're seeing that there
00:19:50 --> 00:19:54: are various local regulations around the globe and these buckets
00:19:55 --> 00:19:57: are general categorizations.
00:19:57 --> 00:20:00: What we're seeing in North America, Europe and Asia Pacific,
00:20:00 --> 00:20:02: in North America, we're seeing that.
00:20:02 --> 00:20:05: Benchmarking requirements related to energy and carbon.
00:20:06 --> 00:20:09: And in more advanced markets such as in New York
00:20:09 --> 00:20:13: and Boston, we're seeing that there's carbon limits and fines.
00:20:13 --> 00:20:16: So buildings can only emit a certain amount of carbon

00:20:16 --> 00:20:18: and if they go above that, then they have to
00:20:18 --> 00:20:18: pay a fine.
00:20:19 --> 00:20:23: In Europe, what we're seeing is that buildings have to
00:20:23 --> 00:20:27: benchmark against the energy performance certificate rating and that's a
00:20:27 --> 00:20:31: letter grade rating of an ABCDA being the highest, most
00:20:31 --> 00:20:32: efficient building.
00:20:33 --> 00:20:36: And what we're seeing is that in more advanced regulations
00:20:36 --> 00:20:40: and particularly the Netherlands starting in 2023, so this year
00:20:40 --> 00:20:43: that buildings have to have a letter grade of a
00:20:43 --> 00:20:45: C in order to lease the building.
00:20:46 --> 00:20:50: That same sentiment, that same regulation is going to be
00:20:50 --> 00:20:52: enacted in the UK starting in 2025.
00:20:53 --> 00:20:56: So it's if you're a building owner, you may lose
00:20:56 --> 00:20:59: the right to lease your asset if it falls under
00:20:59 --> 00:21:03: the energy efficiency letter grade of a C In Asia
00:21:03 --> 00:21:08: Pacific, we're seeing that there are energy disclosure benchmarking requirements,
00:21:08 --> 00:21:12: so disclosing the energy and carbon of a particular asset
00:21:12 --> 00:21:15: and in advance a local regulations.
00:21:15 --> 00:21:18: We're seeing in Japan, Australia and Singapore is there's a
00:21:19 --> 00:21:23: baseline for new construction and major renovations that the buildings
00:21:23 --> 00:21:27: have to meet a certain energy efficiency level in order
00:21:27 --> 00:21:30: to get approved and final sign off for you to
00:21:30 --> 00:21:34: to finish development of that particular asset or of the
00:21:34 --> 00:21:35: major renovation.
00:21:35 --> 00:21:38: So each region is tackling this slightly differently.
00:21:41 --> 00:21:45: So how might these building regulations impact an investor or
00:21:45 --> 00:21:46: an investment manager?
00:21:46 --> 00:21:51: It could cause additional unexpected capital expenditures to upgrade an
00:21:51 --> 00:21:54: asset to make it in compliance to be able to
00:21:54 --> 00:21:58: lease the asset or to be able to avoid fines.
00:21:58 --> 00:22:02: It could mean less liquidity as investors are are looking
00:22:02 --> 00:22:05: at assets to buy and they see that the asset
00:22:05 --> 00:22:08: is not in compliance or you know doesn't meet the
00:22:08 --> 00:22:10: letter grade of a C or is going to need
00:22:10 --> 00:22:14: to pay fines for the carbon emissions that it's mitting
00:22:14 --> 00:22:17: that you could see less liquidity from investors and and
00:22:17 --> 00:22:20: lenders wanting to to lend on the asset.
00:22:21 --> 00:22:23: We're also saying that there are a number of corporate

00:22:23 --> 00:22:26: tenants with sustainability goals around the world.
00:22:26 --> 00:22:29: And more and more they are wanting to locate their
00:22:29 --> 00:22:34: operations and buildings that have high efficiency grades and align
00:22:34 --> 00:22:36: with their sustainability targets.
00:22:36 --> 00:22:39: And so if you do have a building that is
00:22:39 --> 00:22:42: of high performance, you could attract more tenants and if
00:22:42 --> 00:22:45: you do fall below that, you may not attract the
00:22:45 --> 00:22:48: top tier corporate tenants into your building.
00:22:49 --> 00:22:52: And then as I mentioned, there are certain regulations and
00:22:52 --> 00:22:54: coming out of Europe that you may lose the ability
00:22:54 --> 00:22:57: to lease your building and and really ultimately sell your
00:22:57 --> 00:23:00: building if you don't meet certain grades.
00:23:00 --> 00:23:03: So what all this means is it could mean additional
00:23:03 --> 00:23:07: time and consulting fees by investors and investment managers to
00:23:07 --> 00:23:11: analyze portfolios and bring buildings into compliance.
00:23:11 --> 00:23:15: And you know, lastly, there could be reputational risk if
00:23:15 --> 00:23:18: you have buildings that you know can't be leased or
00:23:18 --> 00:23:21: can't be sold or incur particular fines.
00:23:21 --> 00:23:23: And so all these things want to be avoided.
00:23:26 --> 00:23:28: So how are investors using this data or how are
00:23:28 --> 00:23:30: we seeing some investors use this data.
00:23:31 --> 00:23:35: We're seeing some investors use this data to determine where
00:23:35 --> 00:23:38: to deploy capital to place capital into an Article 8
00:23:38 --> 00:23:40: fund or an Article 9 fund.
00:23:41 --> 00:23:44: We're also seeing that in in particularly in Europe at
00:23:44 --> 00:23:47: times there are a green premium for buildings that are
00:23:47 --> 00:23:49: meeting the higher standards.
00:23:50 --> 00:23:53: But ultimately what we're seeing with this transparency is, is
00:23:53 --> 00:23:57: investors really want this data in order to compare companies
00:23:57 --> 00:24:00: that compare buildings, compare funds against each other.
00:24:00 --> 00:24:04: But on the negative side, what we're seeing is that
00:24:04 --> 00:24:08: this could cause some buildings to become stranded or obsolete
00:24:08 --> 00:24:11: in the marketplace or need additional capital.
00:24:11 --> 00:24:14: So all of a sudden, there's a brown discount applied
00:24:14 --> 00:24:17: to the building because in order to bring it to
00:24:17 --> 00:24:20: standard, additional capital has to be deployed into that asset
00:24:20 --> 00:24:23: in order to to really make it competitive in the
00:24:23 --> 00:24:24: marketplace.
00:24:24 --> 00:24:27: So this is how we're beginning to see investors and

00:24:27 --> 00:24:30: investment managers use some of this data that's coming out
00:24:30 --> 00:24:32: of investment managers and owners.
00:24:35 --> 00:24:37: So lastly I just want to sum up that change
00:24:37 --> 00:24:37: is coming.
00:24:38 --> 00:24:39: This was our fourth report.
00:24:39 --> 00:24:44: This was the hardest report to write because very factly
00:24:44 --> 00:24:46: that change has been occurring.
00:24:46 --> 00:24:49: The SEC names rule just came out a few weeks
00:24:49 --> 00:24:49: ago.
00:24:49 --> 00:24:53: The SFDR is has opened a consultation.
00:24:53 --> 00:24:55: So, so there could be some adjustments there.
00:24:55 --> 00:24:59: Local Law 97 in New York has come out with
00:24:59 --> 00:25:03: some, some statements that could roll back some of the
00:25:03 --> 00:25:06: the fines that would occur in 2024.
00:25:07 --> 00:25:08: So it's really important to stay up to speed.
00:25:08 --> 00:25:13: But most importantly for investment managers, it's really identifying the
00:25:13 --> 00:25:16: regulatory risk in your firm and the products and at
00:25:16 --> 00:25:19: the buildings managing and under riding those risks and making
00:25:19 --> 00:25:22: sure that you can disclose those to your investors.
00:25:23 --> 00:25:26: So with that, you know it's important to stay up
00:25:26 --> 00:25:28: to speed with the changing regulatory landscape.
00:25:31 --> 00:25:32: I'll pass it back to Billy at this time.
00:25:36 --> 00:25:37: Thanks, Laura.
00:25:37 --> 00:25:37: I apologize.
00:25:37 --> 00:25:40: I'm having a little bit of trouble with my video.
00:25:40 --> 00:25:41: Looks like we're back though.
00:25:42 --> 00:25:44: Anika, like to kick it over to you now.
00:25:46 --> 00:25:49: Love to hear your thoughts on this evolving world of
00:25:49 --> 00:25:53: ESG regulatory reporting and especially what it means for investment
00:25:53 --> 00:25:55: analysts and advisors.
00:25:56 --> 00:25:58: Sure, Billy, thank you.
00:25:58 --> 00:25:59: And Laura, thank you.
00:25:59 --> 00:26:02: That was a truly a master class in how a
00:26:02 --> 00:26:08: climate actually impacts the investment, the the mechanics of investment
00:26:08 --> 00:26:10: in real estate.
00:26:10 --> 00:26:12: So thank you so much.
00:26:12 --> 00:26:16: Let me just say a few high level comments and
00:26:16 --> 00:26:19: reactions and then we can we can go from there.
00:26:20 --> 00:26:24: The first point I wanted to just echo is that.

00:26:24 --> 00:26:29: Pretty soon investors are going to be inundated with more
00:26:29 --> 00:26:34: disclosure from companies when it comes to climate, and as
00:26:34 --> 00:26:39: a result, investors themselves are of course going to have
00:26:39 --> 00:26:43: to disclose more information themselves.
00:26:43 --> 00:26:46: The the question will not be do you have the
00:26:46 --> 00:26:46: data.
00:26:47 --> 00:26:49: The question for an investor will be, do you know
00:26:49 --> 00:26:51: what to use the data for?
00:26:52 --> 00:26:55: And I think that is a particularly true when it
00:26:55 --> 00:26:58: comes to climate and it's particularly true in the real
00:26:58 --> 00:26:59: asset space.
00:27:00 --> 00:27:04: Just knowing for example the embodied CO2 in a physical
00:27:04 --> 00:27:07: asset or in a corporate may give you a sense
00:27:07 --> 00:27:12: that you have information that will make a better investment
00:27:12 --> 00:27:13: decision.
00:27:13 --> 00:27:15: But you need to know how to actually integrate that
00:27:15 --> 00:27:18: in your decision making, and I think Laura did a.
00:27:18 --> 00:27:23: Really great job explaining just how different climate risks can
00:27:23 --> 00:27:28: impact income, can impact expenses, can impact valuations and so
00:27:28 --> 00:27:29: on and so forth.
00:27:29 --> 00:27:32: So the first one I want to just get across
00:27:32 --> 00:27:35: is you're you're going to have, you're going to be
00:27:35 --> 00:27:38: getting a lot of data in the next little while,
00:27:38 --> 00:27:40: but how you actually use it will be the key
00:27:40 --> 00:27:41: question.
00:27:41 --> 00:27:44: The second point I wanted to get across is that
00:27:44 --> 00:27:46: we're living in a time where.
00:27:47 --> 00:27:51: It's not just important to understand the the fact that
00:27:51 --> 00:27:55: climate has risk associated for investment, but you have to
00:27:55 --> 00:28:00: understand how that risk will transmit itself into your investments.
00:28:00 --> 00:28:01: What do I mean by that?
00:28:02 --> 00:28:05: For the last 20 years, people have been going on
00:28:05 --> 00:28:07: and on and on about physical climate risk.
00:28:08 --> 00:28:10: Oh, extreme weather events.
00:28:10 --> 00:28:13: So this, so that, you know, droughts, floods.
00:28:14 --> 00:28:17: But I must say it's been a shortcoming of the
00:28:17 --> 00:28:20: investment industry as a whole, as I see it, to
00:28:20 --> 00:28:25: understand the transmission that physical climate will impact insurance premiums,
00:28:25 --> 00:28:29: that will impact the expenses associated with buying or

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

00:30:41 --> 00:30:45:	Japan, I mean sitting in Japan today, you know that
00:30:46 --> 00:30:51:	generational wealth was created by investors who understood.
00:30:51 --> 00:30:54:	What was going to happen as entire cities and countries
00:30:54 --> 00:30:58:	had to be rebuilt from scratch, that's sort of where
00:30:58 --> 00:31:01:	where we are heading to I think over the next
00:31:01 --> 00:31:03:	20 to 30 years when it comes to climate And
00:31:03 --> 00:31:08:	so having that opportunity lens understanding, migration, understanding.
00:31:09 --> 00:31:14:	The economic geography basically of cities and of countries will
00:31:14 --> 00:31:18:	help investors allocate capital to where it needs to go
00:31:18 --> 00:31:22:	and I'm looking forward to chatting about that somewhere.
00:31:22 --> 00:31:25:	So those are just a a few high level comments
00:31:25 --> 00:31:29:	after two very good presentations and looking forward to discussion.
00:31:30 --> 00:31:30:	Awesome.
00:31:30 --> 00:31:31:	Thank you, Annika.
00:31:32 --> 00:31:35:	I have a couple questions for our panelists, but I
00:31:35 --> 00:31:37:	do want to remind folks who have joined us today
00:31:37 --> 00:31:40:	that if you have a question, please drop it in
00:31:40 --> 00:31:42:	the chat and we'll work through as many of those
00:31:42 --> 00:31:43:	questions as we can get to.
00:31:44 --> 00:31:46:	Thankfully, we do have plenty of time for questions.
00:31:47 --> 00:31:49:	It's great to be the moderator and be able to
00:31:49 --> 00:31:50:	ask the first couple.
00:31:51 --> 00:31:52:	Maybe I could start with you.
00:31:53 --> 00:31:57:	There's going to be this treasure trove of climate data
00:31:58 --> 00:31:59:	that will be more.
00:32:00 --> 00:32:03:	Comparable across companies, More universal.
00:32:03 --> 00:32:05:	It'll be audit quality.
00:32:06 --> 00:32:09:	Does this change the game for real estate investors and
00:32:09 --> 00:32:10:	investment analysts?
00:32:10 --> 00:32:12:	Do they know what to do with this data?
00:32:12 --> 00:32:13:	Are they excited?
00:32:14 --> 00:32:14:	What?
00:32:15 --> 00:32:17:	I mean, not to predict the future, but it's gonna
00:32:17 --> 00:32:18:	happen.
00:32:18 --> 00:32:21:	Yeah, I'm not sure.
00:32:22 --> 00:32:24:	Is is actually my my answer.
00:32:25 --> 00:32:29:	I'm quite at odds with many people in the industry
00:32:29 --> 00:32:33:	who think disclosure of data around climate solves.
00:32:35 --> 00:32:38:	Major problems I've my lived experience is that if you

00:32:38 --> 00:32:40: go to an investment analyst or you go to an
00:32:41 --> 00:32:44: investor they generally don't know what to do with most
00:32:44 --> 00:32:45: of this data.
00:32:45 --> 00:32:49: And again This is why Laura's presentation was just exceptional
00:32:49 --> 00:32:52: because it was so clear how these different risks that
00:32:52 --> 00:32:56: can actually hit hit a an income statement in this
00:32:56 --> 00:32:56: space.
00:32:56 --> 00:32:59: So first what I would say is I'm not sure
00:32:59 --> 00:33:03: if this avalanche of data actually will help and investors
00:33:03 --> 00:33:03: need.
00:33:03 --> 00:33:07: To actually have an understanding of what matters, how it
00:33:07 --> 00:33:10: matters and how we can become part of their models.
00:33:10 --> 00:33:14: The second thing I would say is that the part
00:33:14 --> 00:33:19: of the the risk side that we don't really understand
00:33:19 --> 00:33:23: and and micro data can't really help us on is
00:33:23 --> 00:33:24: the policy.
00:33:24 --> 00:33:27: Risk associated with climate.
00:33:28 --> 00:33:31: And you know, folks talk about the inevitable policy response,
00:33:31 --> 00:33:33: they talk about things like that.
00:33:33 --> 00:33:36: But in in plain language what you are seeing is
00:33:37 --> 00:33:40: level of government and state intervention.
00:33:40 --> 00:33:43: In the insurance market for example, that is we've never
00:33:43 --> 00:33:46: seen anything like this before in the United States.
00:33:46 --> 00:33:51: In Florida, for example, you have the state, the government
00:33:51 --> 00:33:55: owned insurance agency that is now carrying a lot of
00:33:55 --> 00:34:00: the economic risk because the private insurers are 1 by
00:34:00 --> 00:34:03: 1 deciding to fold up shop and leave.
00:34:04 --> 00:34:06: That's not a that's not a data point that you
00:34:06 --> 00:34:09: get from a company that you actually have to understand
00:34:09 --> 00:34:10: the whole system.
00:34:10 --> 00:34:13: And so I think one of the points that I
00:34:13 --> 00:34:16: make to clients is you actually need to have a
00:34:16 --> 00:34:18: systems level understanding of this.
00:34:18 --> 00:34:21: And and Billy and Laura, you guys are masters at
00:34:21 --> 00:34:25: this because even in your presentations you talked about the
00:34:25 --> 00:34:29: policy, the regulation, the investments that changes in capital flow
00:34:29 --> 00:34:32: valuation and even that just gives you a sense of
00:34:32 --> 00:34:33: where and how.
00:34:34 --> 00:34:37: The world evolves, but I think that is generally missed
00:34:37 --> 00:34:40: by most fairly naive investment analysts I must say and
00:34:40 --> 00:34:43: and and and investors, that's the second point I would

00:34:43 --> 00:34:44: say about data.
00:34:45 --> 00:34:49: And the third thing about data, you know, I always
00:34:49 --> 00:34:53: laugh, Billy, is that if it was December 15th, 2015,
00:34:53 --> 00:34:57: the day the Paris Agreement was signed, there was no
00:34:57 --> 00:35:00: real data point that would have told you.
00:35:01 --> 00:35:06: That this, you know, crazy South African American guy sitting
00:35:06 --> 00:35:10: out in California was, you know, who's creating this car
00:35:10 --> 00:35:14: company that really was going to change how 1/4 of
00:35:14 --> 00:35:17: global emissions evolved.
00:35:17 --> 00:35:19: That that was going to be the right guy to
00:35:19 --> 00:35:21: invest in, the right company to invest in.
00:35:22 --> 00:35:23: You know, there's in some ways there's a.
00:35:24 --> 00:35:25: There's a limit to how much.
00:35:26 --> 00:35:29: Backward looking data can actually help you on when you
00:35:29 --> 00:35:33: when investors are trying to invest in the future and
00:35:33 --> 00:35:36: investing is about discounting future earnings to today.
00:35:37 --> 00:35:39: And so you actually have to have a view on
00:35:39 --> 00:35:39: the future.
00:35:39 --> 00:35:42: And so the last point I would just make is
00:35:42 --> 00:35:45: that again, I'm not, I'm not, I'm not dismissing data,
00:35:45 --> 00:35:49: but investing is a little bit about imagination and it's
00:35:49 --> 00:35:53: about creativity and it's about understanding what may transpire.
00:35:53 --> 00:35:55: And what we are seeing right now and Bill, Bill
00:35:55 --> 00:35:57: you said it at the beginning, I think you had
00:35:57 --> 00:36:00: a very nice turn of phrase that you're you know
00:36:00 --> 00:36:03: you're trying to track 100 plus different disclosures and policy
00:36:03 --> 00:36:03: things.
00:36:03 --> 00:36:06: I mean this is happening in in real time, there's
00:36:06 --> 00:36:07: no precedent for this.
00:36:08 --> 00:36:11: And so, you know, again, I, I, I, I think
00:36:11 --> 00:36:12: the data will help.
00:36:12 --> 00:36:16: But really this just requires people who have good judgment,
00:36:16 --> 00:36:19: can understand how things are going and have a little
00:36:19 --> 00:36:21: bit of creativity and think outside the box.
00:36:23 --> 00:36:23: Yeah.
00:36:23 --> 00:36:24: Thanks, Anika.
00:36:24 --> 00:36:24: That was great.
00:36:24 --> 00:36:27: And I, you know I think that is a good
00:36:27 --> 00:36:29: segue that the fact that this is always in flux
00:36:29 --> 00:36:32: but yet you have to meet disclosure guidelines is a
00:36:33 --> 00:36:36: weird challenge, especially if you're setting up funds that are

00:36:36 --> 00:36:39: made-up of assets you're going to be holding for five
00:36:39 --> 00:36:40: to 10 years.
00:36:41 --> 00:36:45: Laura, as a real estate investment manager, you and I
00:36:45 --> 00:36:48: were talking offline about SFDR.
00:36:48 --> 00:36:50: You had about two years to figure out how to.
00:36:51 --> 00:36:53: Comply with SFDR at the at the longest.
00:36:53 --> 00:36:56: What were some of the challenges that you encountered when
00:36:56 --> 00:36:59: you were trying to figure out how to meet that
00:36:59 --> 00:37:00: regulatory deadline?
00:37:01 --> 00:37:01: Yeah.
00:37:01 --> 00:37:06: I think because SFRSFDR was so new, there weren't examples
00:37:06 --> 00:37:10: out there or best practices of what firms were doing
00:37:10 --> 00:37:11: in order to comply.
00:37:13 --> 00:37:16: So in terms of Article 6, Article 6 is easy
00:37:16 --> 00:37:17: to comply with.
00:37:17 --> 00:37:19: It means that you're not promoting sustainability.
00:37:19 --> 00:37:22: Article 8 means that you're promoting an environmental or social
00:37:22 --> 00:37:23: characteristic.
00:37:23 --> 00:37:29: And then Article 9 means you're investing in sustainable investment.
00:37:29 --> 00:37:32: And those investments or some of those investments are aligned
00:37:32 --> 00:37:36: with the EU taxonomy definition of sustainable investing.
00:37:36 --> 00:37:40: So I think that it was a huge undertaking to
00:37:40 --> 00:37:42: get to where we got to.
00:37:42 --> 00:37:46: I think the real estate market is still trying to
00:37:46 --> 00:37:50: figure out how to comply with Article 8 funds.
00:37:50 --> 00:37:53: I think a lot of investment managers are shying away
00:37:53 --> 00:37:54: from Article 9 funds.
00:37:55 --> 00:37:59: That you taxonomy has a written definition around the environmental
00:37:59 --> 00:38:03: aspects, but they have not yet written the definitions around
00:38:03 --> 00:38:05: the social aspects.
00:38:05 --> 00:38:08: But what we are seeing is that there are some
00:38:08 --> 00:38:11: real estate funds that are claiming Article 9 under the
00:38:11 --> 00:38:12: social.
00:38:12 --> 00:38:16: So I think that leaves some risk on the table.
00:38:17 --> 00:38:19: But you know, to say all of this is as
00:38:19 --> 00:38:23: the real estate investment manager, we've really had to, you
00:38:23 --> 00:38:27: know, keep our eyes open with the various regulations going
00:38:27 --> 00:38:30: on And to talk a little bit about, you know,

00:38:30 --> 00:38:34: how we're trying to assess climate risk in particular.
00:38:34 --> 00:38:36: And to some of the points that were made earlier
00:38:37 --> 00:38:39: around, you can't just look at the data itself.
00:38:39 --> 00:38:42: And it's not just about disclosure, but it's about the
00:38:43 --> 00:38:44: overall landscape.
00:38:44 --> 00:38:48: You know, 10 years ago, investment managers were talking about
00:38:48 --> 00:38:49: energy efficiency.
00:38:50 --> 00:38:53: They weren't talking about physical climate risk and that's one
00:38:54 --> 00:38:57: of the reasons why we started this ULI Heitman series
00:38:57 --> 00:39:00: and our first report of 2019 of how our leading
00:39:00 --> 00:39:03: investment managers looking at physical climate risk and the US
00:39:03 --> 00:39:06: and a lot of the models around the world related
00:39:06 --> 00:39:09: to climate, we're all historical looking.
00:39:09 --> 00:39:12: And so if we're basing our decisions on those historical
00:39:13 --> 00:39:15: databases, are we making the right decisions?
00:39:15 --> 00:39:19: And the in the US in particular, a lot of
00:39:19 --> 00:39:22: the flood maps were binary in nature.
00:39:22 --> 00:39:24: You're either in a flood zone or out of a
00:39:24 --> 00:39:27: flood zone again, and it's historical looking.
00:39:27 --> 00:39:28: So we didn't feel like we had the best data
00:39:28 --> 00:39:29: sets available.
00:39:29 --> 00:39:32: So I think that we're trying to piece by piece
00:39:32 --> 00:39:36: peel back the layer of, yes, there's climate risk, there's
00:39:36 --> 00:39:40: physical climate risk, there's transition climate risk.
00:39:40 --> 00:39:42: How is that going to impact our portfolio?
00:39:42 --> 00:39:44: What are those levers?
00:39:44 --> 00:39:46: Okay, it's not just about the building, but you know,
00:39:46 --> 00:39:49: our second report was around the market because you can
00:39:49 --> 00:39:51: have a building that's not exposed to flooding, but it's
00:39:51 --> 00:39:53: in a market that's exposed to flooding.
00:39:53 --> 00:39:56: So do you want your building to be the only
00:39:56 --> 00:39:58: building that's standing, but you need a boat to get
00:39:58 --> 00:39:59: to it.
00:39:59 --> 00:40:01: So I think that that's where, you know, you have
00:40:01 --> 00:40:03: to kind of continuously peel back the layers.
00:40:03 --> 00:40:05: And our third report was on climate migration.
00:40:05 --> 00:40:09: So trying to figure out where are people moving and
00:40:09 --> 00:40:13: are people taking climate risks into account with their move
00:40:13 --> 00:40:13: decisions.
00:40:13 --> 00:40:16: And we did this study during the pandemic and we

00:40:16 --> 00:40:18: saw a lot of people are moving to Florida.
00:40:18 --> 00:40:20: So that was kind of against what?
00:40:21 --> 00:40:24: We thought would occur if people were taking climate risk
00:40:24 --> 00:40:26: as the number one factor.
00:40:26 --> 00:40:28: But we realized that people were taking a number of
00:40:28 --> 00:40:29: factors into account.
00:40:29 --> 00:40:32: They're taking into account cost of living, quality of life.
00:40:33 --> 00:40:35: And I they were also banking on the fact that
00:40:35 --> 00:40:38: they could always get insurance at a certain rate.
00:40:38 --> 00:40:41: So at what point do do people living in areas
00:40:41 --> 00:40:44: that are at risk not be able to get insurance
00:40:44 --> 00:40:48: or their quality of life because they have to evacuate
00:40:48 --> 00:40:51: changes to the fact that they make a different decision
00:40:51 --> 00:40:52: on where to live.
00:40:53 --> 00:40:55: So I think that you know, overall kind of what
00:40:55 --> 00:40:58: what this is saying is, is that this is a
00:40:58 --> 00:41:00: complex picture and you have to look at it in
00:41:00 --> 00:41:02: a systems way of thinking about things.
00:41:05 --> 00:41:06: That's great and very true too.
00:41:07 --> 00:41:09: I on a kid took me back to 2015 and
00:41:09 --> 00:41:13: I was I was thinking about the Paris climate agreement,
00:41:13 --> 00:41:15: what the regulatory landscape looked like.
00:41:15 --> 00:41:20: Back then before Paris, we relied on voluntary reporting standards.
00:41:20 --> 00:41:24: We already had seen an emergence of green building certification
00:41:24 --> 00:41:28: standards like lead or energy performance standards like Energy Star
00:41:28 --> 00:41:31: in the US or neighbors in Australia.
00:41:32 --> 00:41:36: We had green building certifications like I believe it's Casby
00:41:36 --> 00:41:37: and DVJ in Japan.
00:41:38 --> 00:41:42: Now that it's 2023 and we have this tremendous regulatory
00:41:42 --> 00:41:45: ecosystem that's very different than 2015.
00:41:45 --> 00:41:47: What do you both think is going to be the
00:41:47 --> 00:41:50: role of those green building certifications in this, in this
00:41:50 --> 00:41:50: new landscape?
00:41:55 --> 00:41:56: Laura, do you want to start?
00:41:56 --> 00:41:57: Sure, I'll start.
00:41:58 --> 00:42:01: So you know, I do think that operational certifications are
00:42:01 --> 00:42:06: important, especially where there are benchmarking requirements, local regulations in
00:42:06 --> 00:42:09: place or if there are regulations that you have to
00:42:09 --> 00:42:12: meet certain energy efficiency standards that a number of the

00:42:12 --> 00:42:17: sustainability certifications are essentially best practices for how property management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

00:43:23 --> 00:43:26: it comes to the real estate space.

00:43:26 --> 00:43:29: And so then the I what I'm looking out for

00:43:29 --> 00:43:30: is what comes next.

00:43:31 --> 00:43:35: And what are the signals that investors are looking for

00:43:35 --> 00:43:38: to say you are really at the cutting edge of

00:43:38 --> 00:43:42: green buildings or of you know, highly efficient buildings and

00:43:42 --> 00:43:43: so on and so forth.

00:43:44 --> 00:43:46: And so over time, I can actually see a lot

00:43:46 --> 00:43:51: of those designations decreasing in value just because the world

00:43:51 --> 00:43:54: is going to be accelerating its efforts on.

00:43:54 --> 00:43:57: Energy transition and climate transition very quickly over the next

00:43:57 --> 00:43:58: few years.

00:43:58 --> 00:44:00: I think it's true by the way with ESG in

00:44:01 --> 00:44:04: general, five years ago, something that you could do as

00:44:04 --> 00:44:06: a way to indicate that you're at the, you know,

00:44:06 --> 00:44:07: leader of the pack.

00:44:07 --> 00:44:10: Now it's just basic common practices and I think that's

00:44:11 --> 00:44:13: going to happen in the real estate space.

00:44:13 --> 00:44:14: It's going to happen all across.

00:44:15 --> 00:44:17: The industry, which is a good thing, I mean it's
00:44:17 --> 00:44:19: a good, it's sort of where we wanted to get
00:44:20 --> 00:44:22: to, but the signaling value of saying, oh, I'm the
00:44:22 --> 00:44:24: lead certified or I'm all this stuff I think might
00:44:25 --> 00:44:25: actually decline.
00:44:27 --> 00:44:30: So lead becomes code and well, a green store will
00:44:30 --> 00:44:31: always be a green store.
00:44:31 --> 00:44:33: That means you're the top 25% in your asset.
00:44:34 --> 00:44:34: But.
00:44:36 --> 00:44:38: The bar will probably rise.
00:44:39 --> 00:44:42: Yes, I could see a world where lead or a
00:44:42 --> 00:44:45: neighbor's score becomes closer to code.
00:44:45 --> 00:44:51: In the future, questions start rolling from audience members.
00:44:51 --> 00:44:53: I think this one's probably best for Laura, but I'm
00:44:54 --> 00:44:55: going to ask it to both panelists.
00:44:55 --> 00:44:56: How long?
00:44:56 --> 00:44:57: Actually, no.
00:44:57 --> 00:44:58: Anika, this might be a good question for you.
00:44:58 --> 00:45:01: How long does it take to go from zero to
00:45:01 --> 00:45:03: a quality TCFD report?
00:45:03 --> 00:45:04: Like what's a reasonable?
00:45:05 --> 00:45:09: Amount of time for say a regulator to expect somebody
00:45:09 --> 00:45:13: who hasn't done ESG tracking reporting to produce a high
00:45:13 --> 00:45:14: quality TCFD report.
00:45:16 --> 00:45:20: There's no just very quickly I there there shouldn't be
00:45:20 --> 00:45:23: a long time these days you you could do it
00:45:23 --> 00:45:26: in a year you can do it in less than
00:45:26 --> 00:45:30: a year because this is now pretty well worn process.
00:45:30 --> 00:45:32: We sort of know how to do this we the
00:45:32 --> 00:45:34: Tcfd's been around for.
00:45:34 --> 00:45:38: Guys, it's it's, it's what, October 5th, 2023?
00:45:38 --> 00:45:41: I mean, you know, Mark Carney and Mike Bloomberg were
00:45:41 --> 00:45:43: talking about this in 2015.
00:45:43 --> 00:45:46: I remember I was going to their conferences in New
00:45:46 --> 00:45:48: York and London around this.
00:45:48 --> 00:45:50: So I I my, my humble point is that I
00:45:50 --> 00:45:54: don't have much patience for folks who say, oh, it's
00:45:54 --> 00:45:57: a journey and it takes a long time and there's
00:45:57 --> 00:45:59: a lot of expertise.
00:45:59 --> 00:46:02: There are a lot of good examples across sectors.
00:46:04 --> 00:46:06: I think more and more is an indication of how
00:46:06 --> 00:46:09: serious is a company or a developer in trying to

00:46:09 --> 00:46:11: actually do this correctly and do you hire the right
00:46:11 --> 00:46:14: people and do you pay for the right expertise and
00:46:14 --> 00:46:16: do you actually care about this?
00:46:16 --> 00:46:18: But my view, Lauren, maybe maybe you have a slightly
00:46:18 --> 00:46:20: different view, but it's that you know, you should be
00:46:20 --> 00:46:21: able to do this in the year.
00:46:23 --> 00:46:24: I would agree.
00:46:24 --> 00:46:27: I think that TCFD is kind of a baseline standard
00:46:27 --> 00:46:31: that companies should be able to do if you're just
00:46:31 --> 00:46:33: beginning on the journey.
00:46:33 --> 00:46:37: And especially as you know, I don't like showing or
00:46:37 --> 00:46:41: pointing to any particular regulation because they are in flux.
00:46:41 --> 00:46:45: I do think that companies really need to own their
00:46:45 --> 00:46:48: own processes that are able to reply to multiple different
00:46:49 --> 00:46:51: regulations that may come out or may change.
00:46:54 --> 00:46:57: Another audience question is about.
00:46:58 --> 00:47:03: Green premiums, have you seen a green premium in the
00:47:03 --> 00:47:04: market?
00:47:04 --> 00:47:06: How big are they usually?
00:47:07 --> 00:47:09: What's the percentage for a green premium?
00:47:09 --> 00:47:11: I'll throw it out to you guys and then I'll
00:47:11 --> 00:47:12: I'll share what we've learned from Uli.
00:47:14 --> 00:47:16: Billy, I think you probably have the best numbers since
00:47:16 --> 00:47:18: you have done a study on that.
00:47:18 --> 00:47:22: But we are seeing that there are green premiums in
00:47:22 --> 00:47:25: particular markets, Europe being one of them.
00:47:28 --> 00:47:30: Yeah, we haven't done a comprehensive study.
00:47:30 --> 00:47:31: It is hard to do.
00:47:31 --> 00:47:35: It is hard to figure out market comps and benchmarks
00:47:35 --> 00:47:38: and capture a a time where you can prove a
00:47:38 --> 00:47:40: green premium across assets in a market.
00:47:41 --> 00:47:45: Costar did a fantastic study of Class A office primarily
00:47:45 --> 00:47:48: in the United States of America back in 2012.
00:47:48 --> 00:47:51: They found that there was a 5 to 8% green
00:47:51 --> 00:47:54: premium for LEED certified buildings and there was.
00:47:54 --> 00:47:58: Something almost comparable to that to Energy Star certification and
00:47:58 --> 00:48:01: that green premium was created because those building have lot
00:48:01 --> 00:48:05: lower operating expenses because they have better energy, water and
00:48:05 --> 00:48:06: waste efficiency.
00:48:07 --> 00:48:10: That in turn led to you know comparable market rents

00:48:10 --> 00:48:14: but lower vacancy rates and lower turnover of tenants.
00:48:14 --> 00:48:18: So that's what they attributed that green premium to.
00:48:18 --> 00:48:21: So you're not getting more in rent, but your building
00:48:21 --> 00:48:21: is cheaper to run.
00:48:22 --> 00:48:26: So you're now operating income is improved, your vacancy rate
00:48:26 --> 00:48:30: is lower because people like that building and it's marketable
00:48:30 --> 00:48:31: asset.
00:48:31 --> 00:48:35: And then finally people stay because they they like how
00:48:35 --> 00:48:36: the building is operating.
00:48:37 --> 00:48:40: And I think that's it's it's it becomes more qualitative
00:48:40 --> 00:48:43: and I did studies when I was the head of
00:48:43 --> 00:48:46: sustainability for real estate and investment trust, we looked at
00:48:46 --> 00:48:48: industrial buildings.
00:48:48 --> 00:48:50: The best way to capture that green premium was to
00:48:50 --> 00:48:53: figure out how much we were lowering the operating expenses
00:48:53 --> 00:48:53: of our tenants.
00:48:55 --> 00:48:59: That also helped to reduce vacancy rate so.
00:49:00 --> 00:49:02: I'm I'm happy to follow up with the person who
00:49:02 --> 00:49:04: asked the question because I know there are a couple
00:49:04 --> 00:49:05: of more recent studies out there.
00:49:06 --> 00:49:09: Usually they focus on one discrete market and one asset
00:49:09 --> 00:49:12: class within that market because that's the only way to
00:49:12 --> 00:49:14: get an apples to apples benchmark.
00:49:15 --> 00:49:17: We did have a question that I didn't get to
00:49:17 --> 00:49:20: answer fully on our webinar this morning about one of
00:49:20 --> 00:49:22: our panelists said show me the brown discount.
00:49:22 --> 00:49:26: I want to be able to study how buildings are
00:49:26 --> 00:49:27: losing value.
00:49:27 --> 00:49:30: Especially if it's related to this transition risk that the
00:49:30 --> 00:49:33: thing that we thought would be an interesting study on
00:49:33 --> 00:49:36: that brown discount would be Local Law 97 in New
00:49:36 --> 00:49:36: York.
00:49:37 --> 00:49:39: Because Local Law 97 said if you cannot meet our
00:49:39 --> 00:49:42: greenhouse gas standard, you will be fined.
00:49:42 --> 00:49:44: And here is the fine amount based on how far
00:49:44 --> 00:49:46: below you the standard you fall.
00:49:46 --> 00:49:49: And this fine will be levied on you in 2024.
00:49:49 --> 00:49:52: So if you're transacting an acid in New York and
00:49:52 --> 00:49:54: you know that acid is not going to be able
00:49:54 --> 00:49:55: to meet the standard.

00:49:55 --> 00:49:58: You have to price the cost of that fine into
00:49:58 --> 00:50:00: the total operating expenses of that building.
00:50:00 --> 00:50:02: It affects NOI.
00:50:02 --> 00:50:03: It's a creative devalue.
00:50:03 --> 00:50:08: But New York recently has somewhat relaxed the deadline and
00:50:09 --> 00:50:13: who will be fined according to these standards.
00:50:14 --> 00:50:16: So it's it's probably not going to be the test
00:50:16 --> 00:50:19: case that we thought it could be at the same
00:50:19 --> 00:50:19: time.
00:50:20 --> 00:50:22: I am sure that if we dug through real estate
00:50:22 --> 00:50:25: transactions at high level assets in New York, we would
00:50:25 --> 00:50:28: see savvy investment managers figuring out a way to price
00:50:28 --> 00:50:31: the cost of that fine into those buildings, which essentially
00:50:31 --> 00:50:32: would be a brown discount.
00:50:33 --> 00:50:36: I think it'll be very interesting as places like the
00:50:36 --> 00:50:37: Netherlands.
00:50:37 --> 00:50:41: And Germany and the UK start to deal with assets
00:50:41 --> 00:50:45: that cannot meet their standards and cannot be upgraded cost
00:50:45 --> 00:50:51: effectively to meet ever tightening energy efficiency and environmental standards.
00:50:51 --> 00:50:54: Because in those markets, if you can't meet that standard,
00:50:54 --> 00:50:56: eventually you will not be able to have a certificate
00:50:57 --> 00:50:59: of occupancy for those buildings if you can't have a
00:50:59 --> 00:51:00: certificate of occupancy.
00:51:01 --> 00:51:03: You can't have debt.
00:51:03 --> 00:51:06: You may lose your tenants because they'll have cause to
00:51:06 --> 00:51:08: break their lease and you can't insure your property.
00:51:08 --> 00:51:12: So those properties will quickly become worth very much less
00:51:12 --> 00:51:15: than they were before they experienced that change.
00:51:15 --> 00:51:18: So it'll be interesting to see if the policymakers actually
00:51:18 --> 00:51:22: are able to follow through on that action, if buildings
00:51:22 --> 00:51:25: truly can't cost effectively upgrade and what that'll do to
00:51:25 --> 00:51:29: sort of drive home this concept of a brown discount.
00:51:31 --> 00:51:34: Really, if I can just underline the point that you
00:51:34 --> 00:51:36: make there, which is a point that we, we say
00:51:36 --> 00:51:39: to our clients all the time, which is change is
00:51:39 --> 00:51:42: not happening in a linear way when it comes to
00:51:42 --> 00:51:42: this topic.
00:51:42 --> 00:51:46: It's actually happening with step changes with exponential functions and
00:51:46 --> 00:51:47: so on and so forth.

00:51:48 --> 00:51:51: And if you're a risk manager at an investment firm
00:51:51 --> 00:51:53: or at a bank, or you had a pension fund
00:51:54 --> 00:51:56: or whatever may be on the call, you have to
00:51:56 --> 00:51:59: make sure that your fund managers understand that.
00:52:00 --> 00:52:04: Like to your point about regulation in the Netherlands, that's
00:52:04 --> 00:52:06: not going to lead to like a one or 2%
00:52:06 --> 00:52:10: depreciation of the value that could lead to a 50%
00:52:10 --> 00:52:12: depreciation of the value of property.
00:52:13 --> 00:52:15: And I I don't I think that that way of
00:52:15 --> 00:52:19: thinking is just largely not there when it comes to
00:52:19 --> 00:52:19: climate.
00:52:20 --> 00:52:23: A similarly on the opportunity side, you know this isn't
00:52:23 --> 00:52:27: real estate related necessarily, but but it's linked which is
00:52:27 --> 00:52:29: you know we're starting to now see.
00:52:30 --> 00:52:35: S curve adoption of certain energy transition technologies, right.
00:52:35 --> 00:52:37: It's not just happening all we have a little bit
00:52:37 --> 00:52:38: more solar.
00:52:38 --> 00:52:43: We we're now having exponentially more solar, exponentially more wind,
00:52:43 --> 00:52:49: exponentially more electric vehicles, exponentially more heat pumps and exponentially
00:52:49 --> 00:52:52: more battery storage and that can that can get investors
00:52:52 --> 00:52:55: caught up wrong footed very quickly.
00:52:55 --> 00:52:58: And so one of the things just to echo your
00:52:58 --> 00:53:01: point is this notion of tipping points is very important
00:53:01 --> 00:53:05: both negative and positive tipping points and relatedly this notion
00:53:05 --> 00:53:09: of exponential change and how that can impact your investment.
00:53:09 --> 00:53:12: And those are two mental models that we just we
00:53:12 --> 00:53:15: we hope more investors will use when it comes to
00:53:15 --> 00:53:17: anything climate related.
00:53:19 --> 00:53:20: Yeah, definitely.
00:53:21 --> 00:53:24: Laura, there's a question about physical risk discount in the
00:53:24 --> 00:53:26: chat and I thought this might be an opportunity for
00:53:26 --> 00:53:29: you to share a little bit of what you're learning
00:53:29 --> 00:53:30: about insurance markets.
00:53:32 --> 00:53:35: Question about, you know, what is the physical risk discount
00:53:35 --> 00:53:38: at the asset level and do you have any data
00:53:38 --> 00:53:42: on good versus bad coastal project valuations in a similar
00:53:42 --> 00:53:42: location?
00:53:44 --> 00:53:46: Yeah, so that can be a big question.

00:53:46 --> 00:53:49: In terms of the discount at the asset level, it
00:53:49 --> 00:53:52: depends on what risk that property is exposed to.
00:53:52 --> 00:53:57: Is it exposed to heat stress, water stress, hurricanes, typhoons
00:53:57 --> 00:53:58: or flooding.
00:53:58 --> 00:54:00: So let's just call flooding.
00:54:00 --> 00:54:04: If the property is exposed to flooding and there there
00:54:04 --> 00:54:08: need, there may need to be capital expenditure to help
00:54:08 --> 00:54:10: protect it from flooding.
00:54:10 --> 00:54:13: So then there could be that discount of additional capital
00:54:13 --> 00:54:15: if if you're going to buy that asset that you
00:54:15 --> 00:54:17: have to layer into the underwriting assumptions.
00:54:17 --> 00:54:21: The other way that we look at modeling climate risk
00:54:21 --> 00:54:24: into our analysis is looking at the insurance rates over
00:54:24 --> 00:54:25: time.
00:54:25 --> 00:54:28: And not just a linear, you know, 3% increase over
00:54:28 --> 00:54:32: time, but you know we've seen insurance rates over the
00:54:33 --> 00:54:36: past few years and in particular in the past year
00:54:36 --> 00:54:40: double even for insurance that had no claims against it
00:54:40 --> 00:54:45: and insurance that did have claims it was significantly more
00:54:45 --> 00:54:46: double, triple.
00:54:47 --> 00:54:49: And we also are seeing that insurers are pulling out
00:54:49 --> 00:54:50: of particular markets.
00:54:50 --> 00:54:53: So you have to be able to think about that
00:54:53 --> 00:54:56: if you're going to buy an asset in a risky
00:54:56 --> 00:54:56: place.
00:54:57 --> 00:54:59: And then lastly how we think about it is how
00:54:59 --> 00:55:00: long is our hold.
00:55:01 --> 00:55:04: Are we A5 year holder or 10 year holder or
00:55:04 --> 00:55:07: a longer and what do we think the markets going
00:55:07 --> 00:55:09: to be when we exit that asset.
00:55:10 --> 00:55:13: So we'll do an analysis to say that you know
00:55:13 --> 00:55:17: under perfect conditions no risk it would the value would
00:55:17 --> 00:55:21: be you know a certain number and now layer on
00:55:21 --> 00:55:23: this level of risk and uncertainty.
00:55:23 --> 00:55:25: When we go to sell the asset, we're going to
00:55:26 --> 00:55:28: discount how much we think we can sell it on
00:55:28 --> 00:55:30: the back end and then that's how we try to
00:55:30 --> 00:55:33: really price it into the deal and see where they
00:55:33 --> 00:55:36: were still hitting our return on investment that we want
00:55:36 --> 00:55:37: to hit.
00:55:37 --> 00:55:40: So it's really about pricing it it back into the

00:55:40 --> 00:55:40: deal.
00:55:41 --> 00:55:43: But I think that one thing that's going to catch
00:55:44 --> 00:55:46: a lot of people off guard is the fact that
00:55:46 --> 00:55:49: you know insurance is not just going up literally.
00:55:49 --> 00:55:52: You know certain insurers are pulling out of markets and
00:55:52 --> 00:55:55: insurance is going up dramatically in certain places.
00:55:56 --> 00:55:59: And if you don't have insurance and you're you're banking
00:55:59 --> 00:56:02: on getting a loan, so you're you need a loan
00:56:02 --> 00:56:05: for that asset, you're not going to be able to
00:56:05 --> 00:56:09: get a loan because most banks, most lenders require insurance
00:56:09 --> 00:56:11: on the property that they'll lend to.
00:56:12 --> 00:56:14: So I think that this has a lot of domino
00:56:14 --> 00:56:18: effects that could occur and I I just don't think
00:56:18 --> 00:56:20: it's going to be linear.
00:56:20 --> 00:56:23: We we've only been thinking about physical climate risk in
00:56:23 --> 00:56:26: the real estate market and taking it seriously for the
00:56:26 --> 00:56:28: past five or six years.
00:56:28 --> 00:56:31: So where are we going to be in another five
00:56:31 --> 00:56:32: or six years from now?
00:56:32 --> 00:56:35: I think we're going to be a lot more sophisticated
00:56:35 --> 00:56:38: investors and we're going to make different decisions.
00:56:38 --> 00:56:41: So we have to think about the future and try
00:56:41 --> 00:56:43: to make those predictions now.
00:56:45 --> 00:56:46: Yeah, it reminds me.
00:56:46 --> 00:56:51: My earliest pro forma Excel files said that taxes would
00:56:51 --> 00:56:54: go up 1%, utilities would go up 1.5%.
00:56:55 --> 00:56:58: Insurance went up 2% and the cost of property management
00:56:58 --> 00:57:01: and labor went up 3% and those cells were locked.
00:57:01 --> 00:57:03: Like I couldn't even change them, right?
00:57:04 --> 00:57:06: We got to unlock those cells because those are much
00:57:06 --> 00:57:09: more dynamic numbers than they've ever been before in a
00:57:09 --> 00:57:10: real estate investment analysis.
00:57:13 --> 00:57:15: If it's okay with everybody, I think I'm going to
00:57:15 --> 00:57:16: leave it there.
00:57:17 --> 00:57:20: I'd really like to thank our panelists, Laura and Annika
00:57:20 --> 00:57:21: for their contributions today.
00:57:21 --> 00:57:24: I'd like to thank everybody for joining us for this
00:57:24 --> 00:57:25: webinar.
00:57:25 --> 00:57:29: You can find a link to the report changes coming
00:57:29 --> 00:57:33: at knowledge.uli.org and I believe that the team at ULI
00:57:33 --> 00:57:36: will be sending you a survey.

00:57:36 --> 00:57:39: Please let us know what you thought of this webinar.
00:57:39 --> 00:57:43: Good topic, great panelists, fantastic moderator.
00:57:44 --> 00:57:46: Or if you have any constructive criticism or like to
00:57:46 --> 00:57:49: see us tackle other topics in the future, please include
00:57:49 --> 00:57:50: that as well.
00:57:50 --> 00:57:51: Thank you everybody so much.
00:57:51 --> 00:57:53: Have a great rest of your day.
00:57:54 --> 00:57:54: Bye.
