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News & Information

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CRE Rising To The Climate Change Challenge

In June 2021, parts of North America faced a heatwave with temperatures far beyond historic levels. Temperatures in the Pacific Northwest and some regions in Canada surpassed previously-recorded highs. In July, China recorded unprecedented flooding in the country's Henan province, and both Germany and Belgium were left cleaning up after devastating floods. In the shadow of the COVID pandemic, concerns about climate change have taken a back seat for many people, but as these events remind us, the issue is still very much on the table as a challenge the commercial real estate (CRE) industry must prepare to face.

Planning for the Right Risk

The recent scenes in China and Europe are prime examples of the most immediate and obvious risks facing developers and investors as they plan their CRE ventures. Factors like flooding, water shortages, and even tropical storms are physical risks, with clear potential impacts in terms of the maintenance or even viability of CRE assets. In addition, insurance premiums on these properties may become more volatile as insurance companies start to include the increased likelihood of climate-related risk in their calculations.

Perhaps less obvious are the more transitional risks that must ultimately also be accounted for, given the long-term nature of CRE assets. As carbon regulations become more stringent, costs associated with maintenance and development will increase in response. Developments may also be required to meet new regulations as cities move to implement emission-curbing policies such as setting energy benchmarks for buildings.

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A Long-Term View

For CRE portfolios, the impacts of these types of measures may be even more noticeable. Data from the Intergovernmental Panel on Climate Change (IPCC) identifies inefficient power use by commercial buildings as an important driver of greenhouse gas emissions. In addition, Europe's Carbon Risk Real Estate Monitor (CRREM) project reports a noticeable difference in emissions from different property types. Retail, hotel and office properties are highlighted as some of the worst offenders.

What all of this means for CRE professionals is that there's a need to plan ahead, not just in terms of months, but potentially for years to come. A development that's meeting current targets for power usage or emissions may become a problem down the line when those goalposts change. Acceptable levels in 2025 may be over the threshold by 2030, leading to costly refurbishment projects to meet new standards. By ensuring current projects implement the best green standards, it is possible to stay ahead of these changes and minimize future costs.

The ESG Revolution

While it may sound like there's a lot of stick and very little carrot in this scenario, it's important to step back and examine the greater context in which the CRE industry is now operating. Increasingly, global commerce is being called on to consider environmental, social and governance (ESG) factors as a part of any enterprise. Consumers and investors are demanding more accountability from the businesses and properties they interact with, including accountability in dealing with the impending climate crisis. The most forward-thinking investors are already decarbonizing their portfolios and using cutting-edge tools like IoT to lead the way in re-imagining better buildings.

For CRE professionals, this move towards a more sustainable future represents an opportunity to get ahead of the curve. Planning for the long-term in this case means being prepared to meet the surging consumer demand for more sustainable developments and buildings. The upshot is that those projects will also be designed to maximize returns and be regulation-compliant for the future.