

News & Information

New MSCI Data Quantifies Climate Risk in Global Cities



According to recent data from investment analysts MSCI, Amsterdam, Shanghai, and Miami are among the cities with the highest physical risk from climate change in coming years.

They quantify physical risks as direct damage to property from natural phenomena like flooding or cyclones and add that the level and types of risk are often very different for each city. MSCI states: "Investors need to appreciate this wide variation of risk in each market."

Risk within Location

As an example, MSCI's graphed data shows that both Amsterdam and Shanghai have a "severe" level of average risk to property, but in Amsterdam's case, that risk is neatly divided between properties on lower versus higher ground. So, while around 45% of Amsterdam properties are at severe risk from flooding, another 47% fall into the "negligible" risk category.

All Shanghai properties meanwhile are divided between "severe", "significant" and "moderate" risk for damage from flooding and tropical cyclones.



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Accounting for Climate Risk

In a recent blog titled "Five Misconceptions About Climate-Change Risk in Real Estate", MSCI note that many investors still make the mistake of believing these kinds of risks will occur too far down the line to affect the value or property being bought today.

As they point out, however, climate risks are increasingly being accounted for in CRE transactions, and even properties not immediately at risk can experience impacts on exit value in the short-term.

There are also additional costs to consider in terms of decarbonizing portfolios, and managing the energy use of buildings as their heating and cooling requirements change with changing average temperatures.

Climate-Savvy Investing

For CRE investors, staying ahead of climate developments, and climate mitigation strategies, will be a key component of growing portfolio value in the coming decades. The important takeaway from MSCI's data, however, is that climate risk is a nuanced issue, with variation at both the city and asset level.

MSCI summarize: "Location and topography can be decisive factors behind the impact of physical climate change risks, and both need to be understood at the individual asset level — not just the market level — when considering the climate VaR [value-at-risk] for real estate portfolios and prospective investments."

