ULI C Change Initiative: Assessing Transition Risks

Ana Cunha - ULI Member
Strategic Sustainability Advisor & CSR Director - Deerns Group

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Real change with C Change

Practical solutions and collective action for industry transformation

- ULI-led multi-year programme to mobilise the industry to speed up and scale up decarbonisation in Europe.
- Accelerating solutions that will transform our industry and protect our planet.
- A movement to connect the brightest minds from across the value chain.
- A focus on systems interventions to enable industry-level change.



Building an industry-leading campaign

Galvanising support with a strong visibility drive



Property

Failure to cut building emissions risks writedowns, industry body cautions

GEORGE HAMMOND

Property groups across Europe risk significant writedowns unless they take urgent steps to reduce carbon emissions from buildings they own, according to an industry research group.

European property owners, investors and valuers have failed to account for the cost of transitioning to net zero, the Urban Land Institute said, resulting in a widespread overvaluation of offices, shops and residential property, which it describes as a "carbon bubble".

The ULI, which has a membership of 46,000 people working in real estate and urban development, said: "If transition risk costs are not factored in now by owners, then the industry could face a major crisis."

A change in regulation or an economic shock could quickly expose the mispricing of older, less green buildings and cause "values to fall quickly", it warned.

decarbonising real estate but these have largely been driven by deep-pocketed property owners improving the energy efficiency of their stock to attract tenants willing to pay a premium.

Large property investors and owners have set their own targets for hitting net zero over the next two decades but the vast majority of property has been relatively untouched.

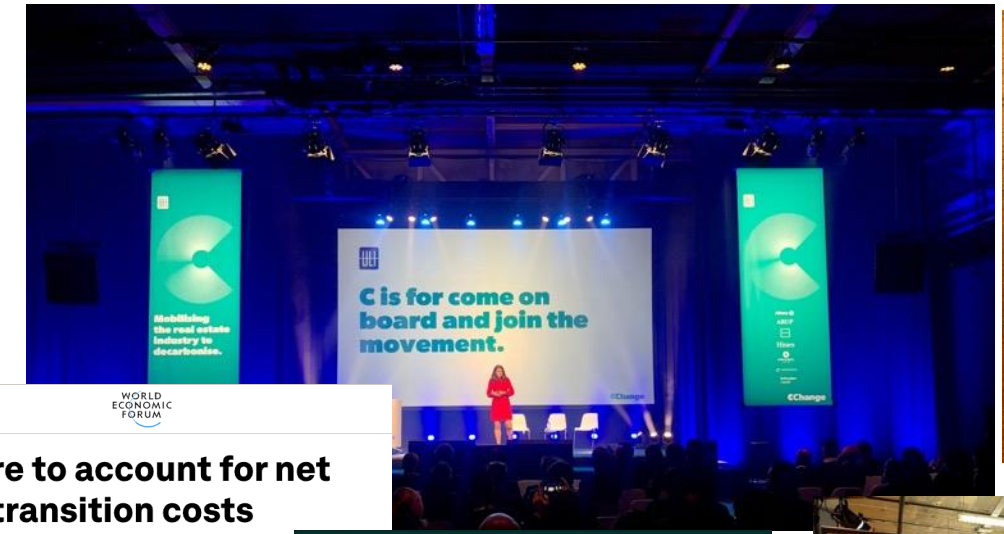
Efforts to decarbonise will also be hit by rising interest rates and inflation, which have slowed office sales and eaten

into the amount European property owners are able or willing to invest in bringing buildings up to standard.

The ULI will this week publish a methodology for assessing the costs of decarbonisation and highlight the risks for property owners and investors.

It hopes this will help put a price on the transition to net zero and encourage property owners and public bodies to invest in retrofitting existing buildings to stave off a bigger hit to values later.

The institute said that the current flawed approach to decarbonisation in the real estate indus





C is for collaborating on the toughest challenge we've ever faced.

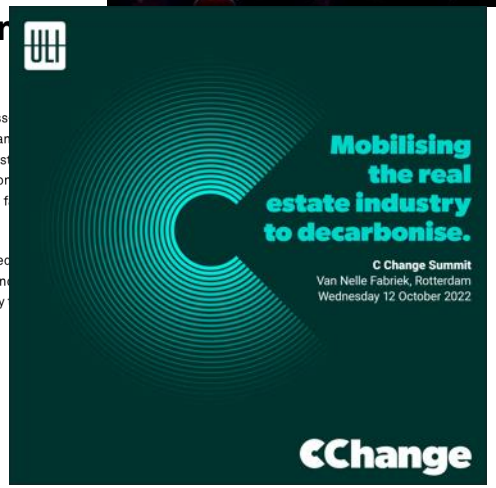
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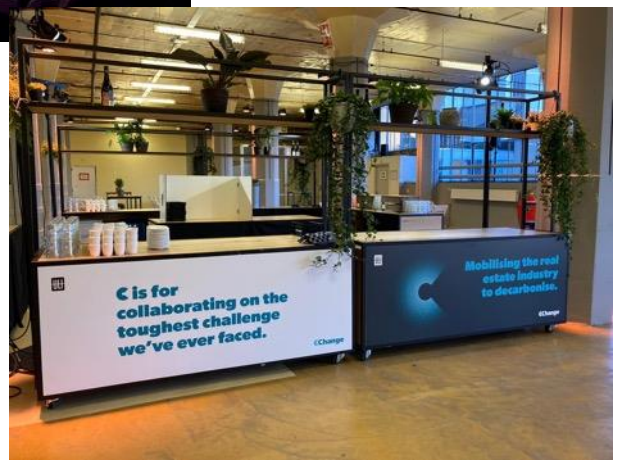
WORLD ECONOMIC FORUM

Failure to account for net zero transition costs results in overvaluation a carbon bubble

The Urban Land Institute Europe (ULI), a global network of cross real estate and land use experts, recently stated that "European owners, investors and valuers have failed to account for the cost transitioning to net zero, resulting in a widespread overvaluation shops and residential property... if transition risk costs are not f now by owners, then the industry could face a major crisis."

The ULI warns of a possible 'carbon bubble' where the continued pricing this transition risk keeps asset values artificially high an perpetuates the chance that they ultimately become too costly resulting in widespread stranding of assets.





CChange

Interventions to industry-shaping impact

The journey from landscape scan to tangible industry impact in 1-3 years

YEAR 1



Refine focus and deliver

Assess the industry. Ask *why* the current pathways aren't delivering and identify the key pain points.

Prioritise the actionable and deliver first small-scale results.

YEAR 2



Set up the enabling conditions to scale

Use lessons learned in small scale delivery to assess most significant barriers to scale.

Prioritise and deliver, plan for critical mass adoption

YEAR 3



Reach industry shaping impact

Complete projects focusing on removing barriers to scale.

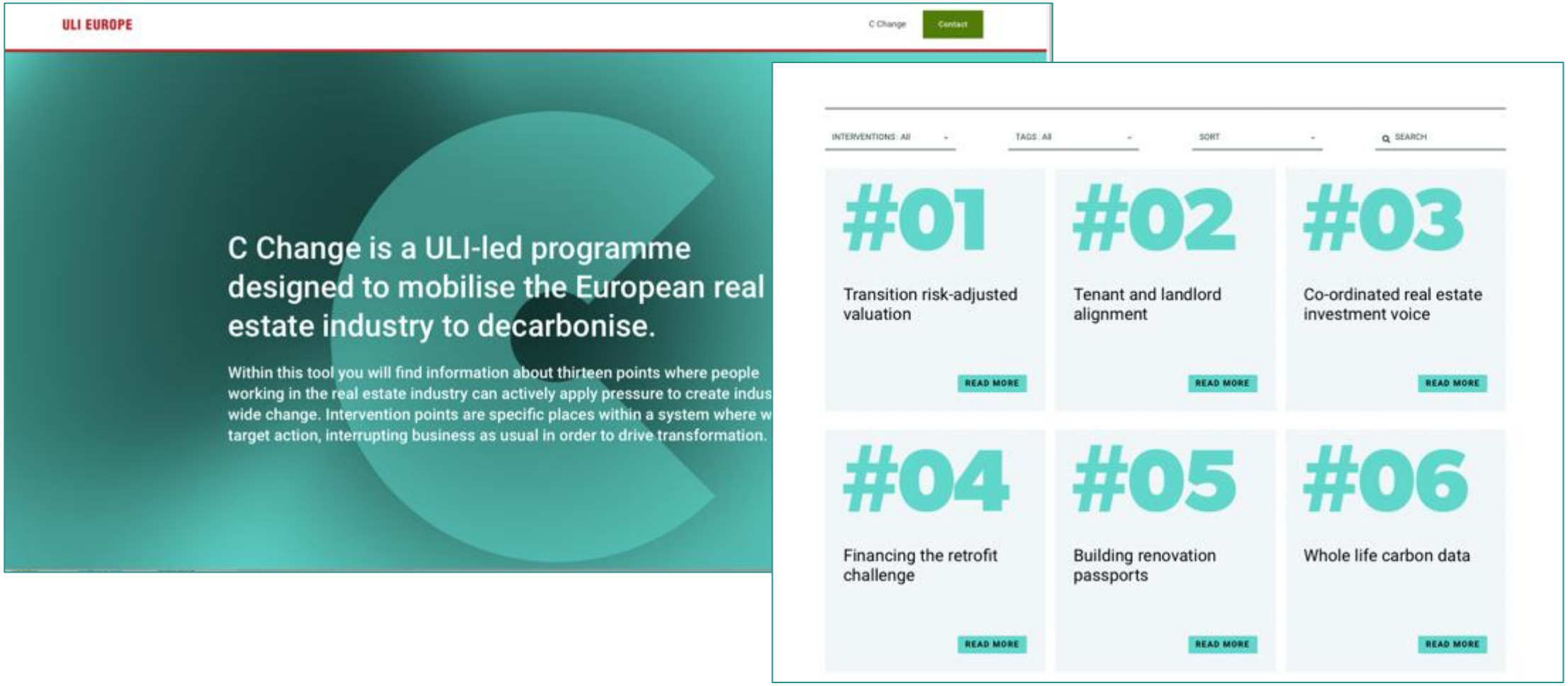
Focus hard on achieving critical mass. When achieved, evaluate, reassess position in industry and move to the next issue.

Intervention points identified for action



Intervention points identified for action

Essential briefings on the 13 intervention points which remove the barriers to decarbonisation

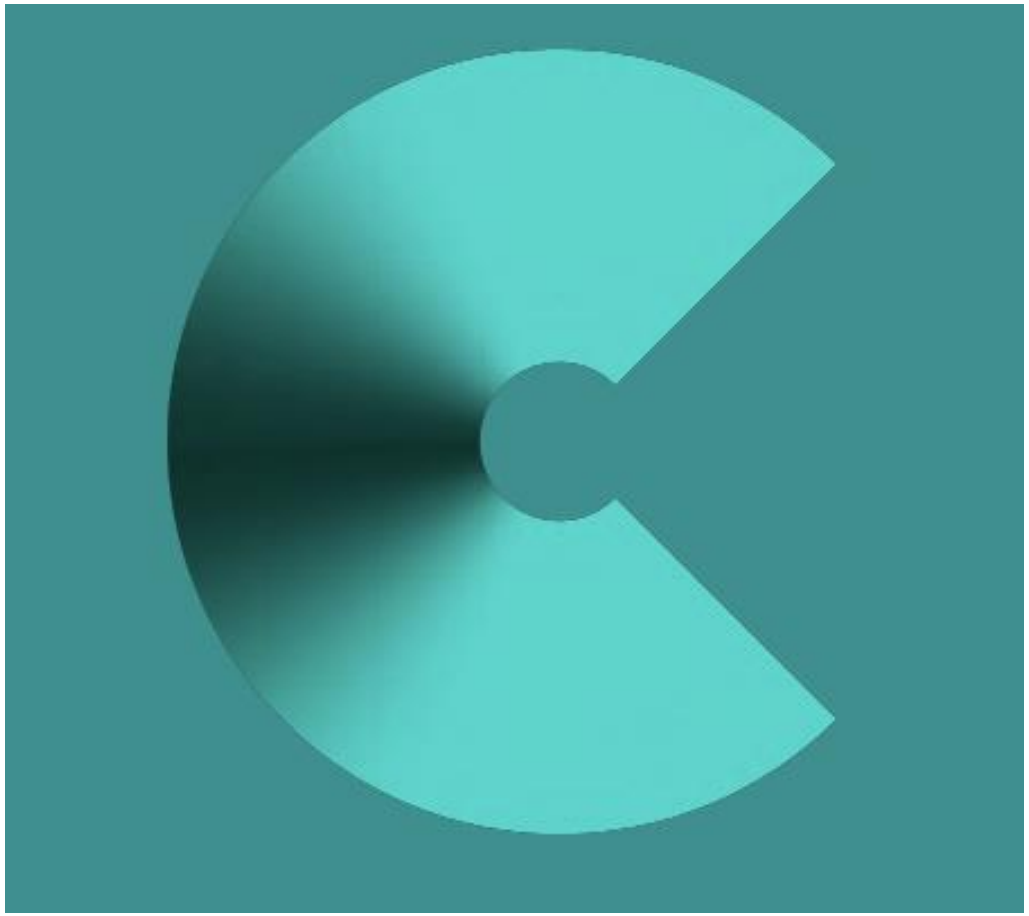


Assessing transition risks intervention

Unlocking the valuation issue was critical

Removing a major barrier to a fast and effective transition

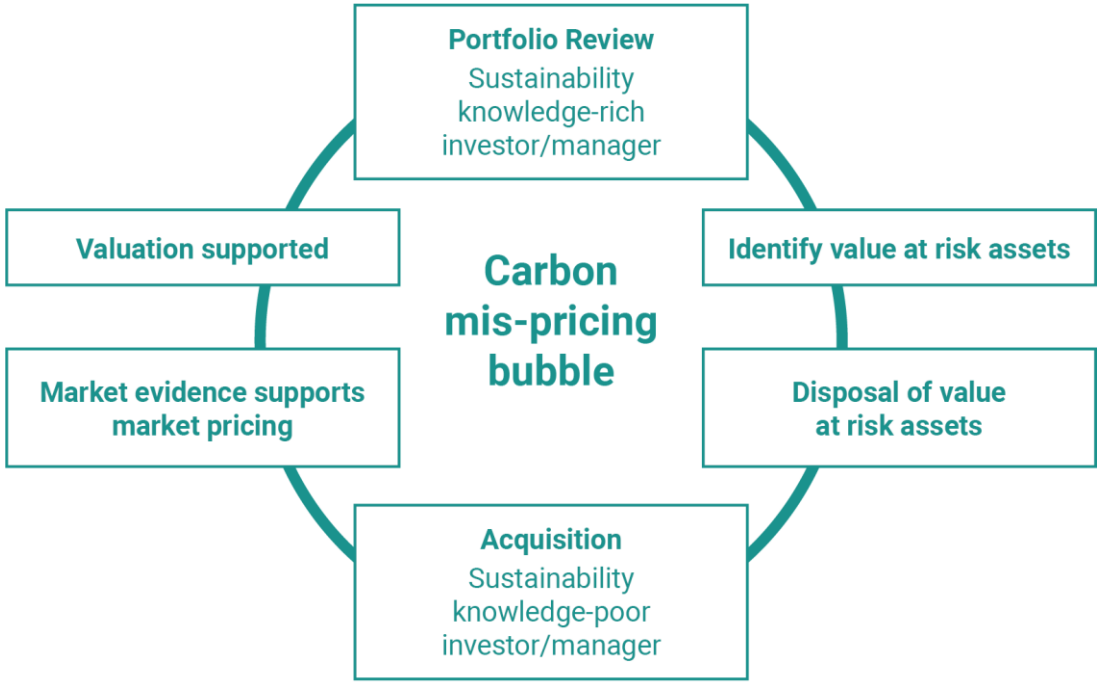
- Current property valuations are holding back the industry's progress towards decarbonisation.
- Climate transition risks are not factored into valuations:
  - no regulation to set deadlines for net zero
  - Valuers need evidence of the impact of transition risk
- Decarbonisation of physical assets is a societal issue, as well as a technical building issue.
- This is not just about **whether** we act but **how** we act.
- Prompted C Change to look at assessing and disclosing transition risks.



Acknowledging the carbon bubble

Bubble of carbon mis-pricing from valuation of low energy performing assets

- Pricing bubble propelled by knowledge gap in market
  - Investors well informed on transitions risks have better knowledge to inform buying/selling activity often with less sophisticated investors
  - Where both sides have knowledge, this is reflected in pricing but valuers cannot attribute to net zero pathways
- Overall industry decarbonisation efforts are being slowed or hampered
- Bubble requires deflating to avoid damaging huge impact on values



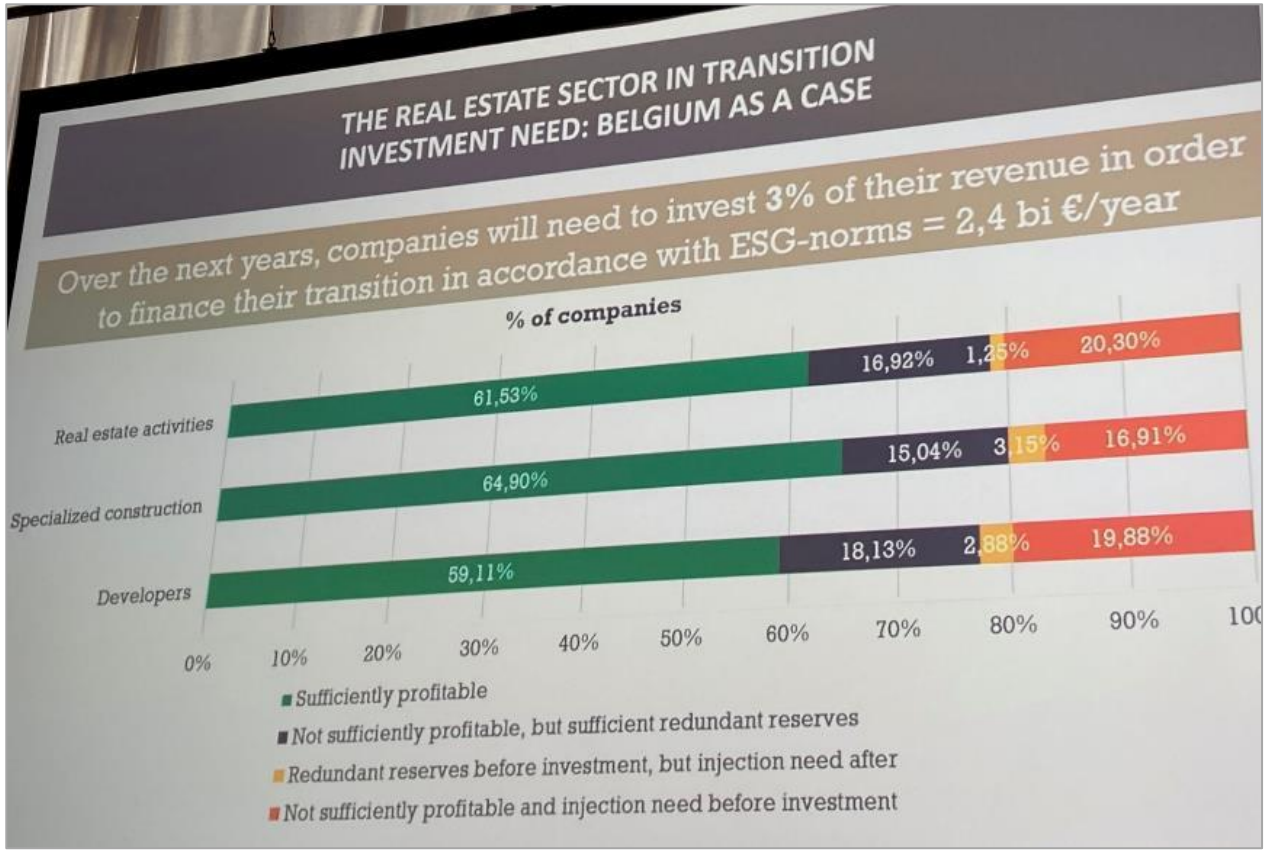
The need to properly value the assets' transition risks

Identify 'Value at Risk' Assets : valuation of low 'energy performing' assets

45% on investors intend to **dispose of up to 20% of their portfolio** (…), namely the "**non-ESG compliant" assets**
Source: Colliers Belgium at REALTY 2023



*"In the next years, companies will need to **invest 3% of their revenue** to finance their transition in accordance with ESG norms".*
Source : REALTY 2023, Belgian Real Estate Market



Engaged industry consultation period

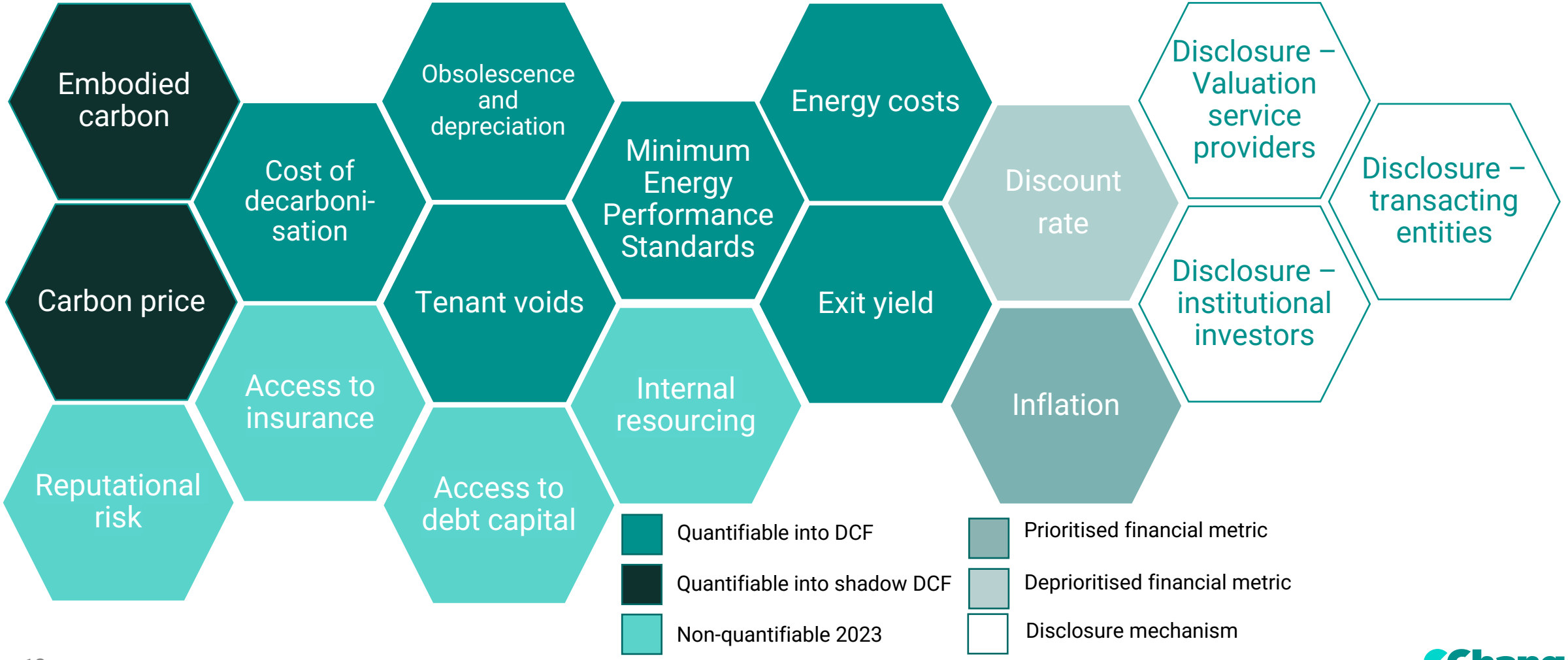
Final guidelines launched at ULI Europe Annual Conference

- A common methodology to enable the industry to assess and disclose transitions risks as part of property valuations.
- Guidelines welcomed and seen as robust, practical solution to address key barrier
- Feedback for consultation through
  - ULI technical panel
  - External sustainability organisations
  - One-to-one meetings
  - Written feedback
  - Survey feedback
- Positive support from RICS

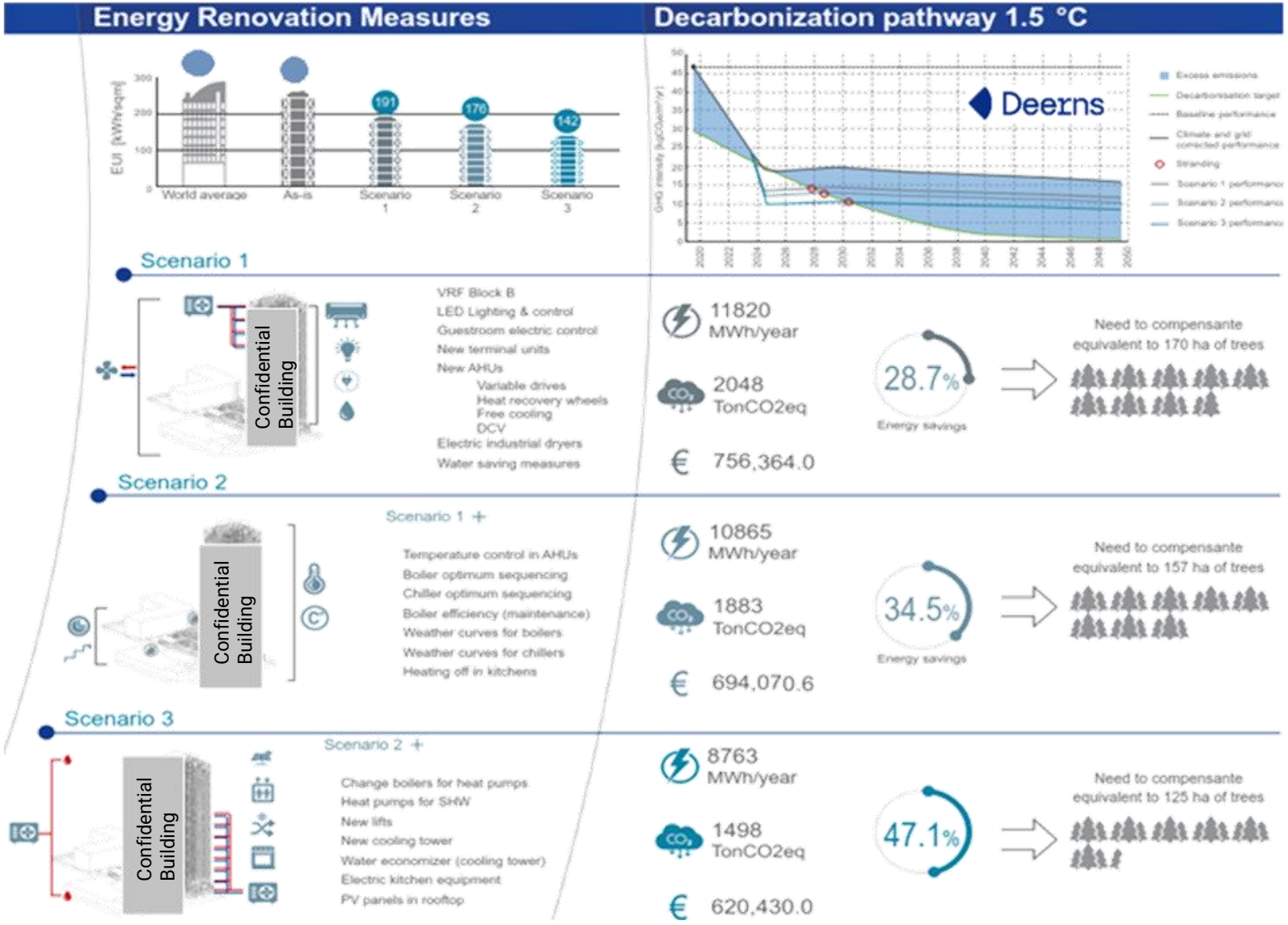


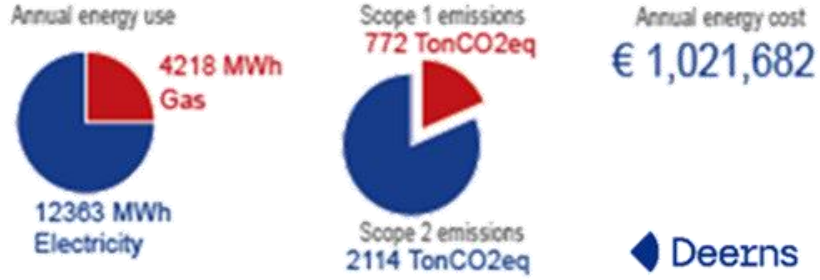
Eight risks can be quantified and assessed

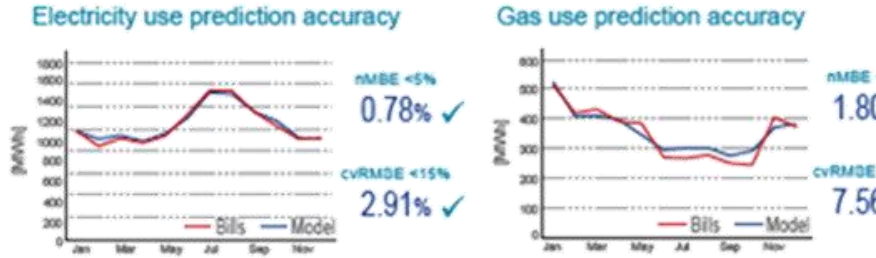
A standardised method for assessing and integrating transition risks in a DCF

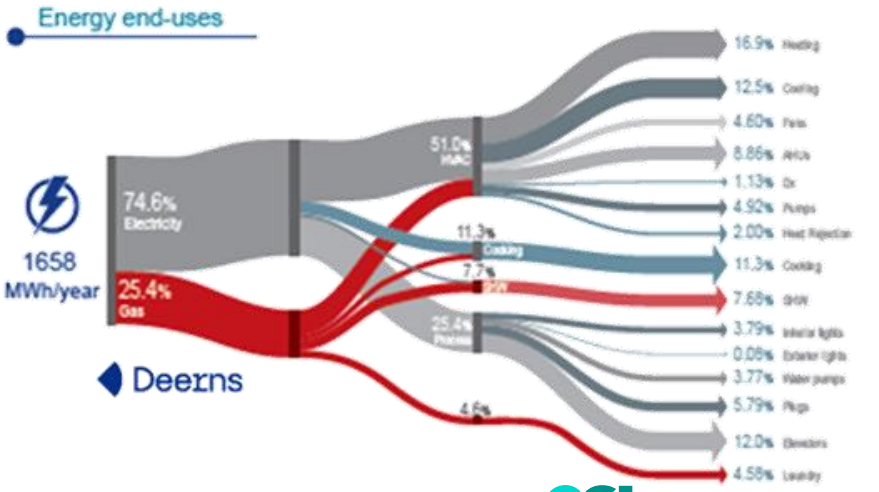


It is key to assess your assets' transition costs, and its ability to decarbonise... or risk devaluation









Source: Deerns / Example of Modeling of Assets regarding decarbonization ability & transition costs / all rights reserved

Benefits bring faster solution and evidence

Supports a more effective and fairer transition

- Closes the information gap
- Helps build business case for greater number of assets
- Creates conditions for a faster transition:
  - A collaborative, non-competitive approach
  - Speeds up industry education and expertise
- Provides evidence base for valuers to factor in transition risks into valuations
- Offers new evidence as to the benefits of transition, such as:
  - lower occupational costs, lower voids and potential new incomes streams from renewable energy.

Next steps: accelerating adoption

Lever 1
Reducing friction of adoption

Guidelines can support companies to develop new practices, but the modelling is complex and multi-facted. A smart tool reduces friction and speeds up adoption (Ref. CRREM)

Development and maintenance of Smart tool: Preserve (2023/2024)

Lever 2
Closing data loops

Guidelines direct disclosure, but the most critical disclosure won't happen without secure closed networks and data sharing protocols.

Further investigation and assessment of data sharing risks and opportunities (2023)

Lever 3
Levelling the playing field

The role of carbon price in investment decision making is not be understated. But the industry is divided. Disclosure templates will enable more comparison, but to preserve real estate assets, there needs to be a concerted effort to mediate a common carbon price & strategy for the industry.

Carbon price study (2023)

Critical mass: requires dedicated and coordinated leadership to drive progress forward.
Solution: real estate investment industry leadership group to stimulate implementation and leverage value chain influence (2023)

Data sharing

Data needed for a transition risk assessment

Required data point	Unit/typology
Floorspace of asset	Square metres or square feet
Sector or typology of asset	Sector as identified using CRREM Reference Guide
Location of asset	Country, climatic zone
Total energy use	Energy types, total kWh
Cost of energy	Energy type, cost per kWh in local currency
Total operational emissions per annum (last reporting year)	kg CO2e
Total operational emissions intensity per annum (last reporting year)	kg CO2e/square metre or square foot
Total future planned embodied carbon responsibility (EN 15978: Construction & Product A1-5, In Use: B3-5 and End of Life: C)	kg/tonnes CO2e
Internal carbon price	Value in local currency
Cost of decarbonisation	Value in local currency, per planned decarbonisation event (not including inflation)
Depreciation of associated decarbonisation hardware and technologies	Lifespan in years
Total potential energy surplus	kWh
Price of energy surplus if sold back to the grid	Cost in local currency per kWh
Expected tenant voids as a result of decarbonisation	Number of weeks or months
Asset stranding date (according to CRREM pathways)	Year
Minimum standard stranding date	Year relative to sector



Standardised disclosure templates

Data point required
Property name/identifier
Property address
Property type/ sector
Floorspace
Property stranding date if no acts of decarbonisation were taken from today (CRREM V 2.02 or latest update)
Energy use per energy type in kWh (mean average of last three reporting years)
Energy cost per energy type in kWh (mean average of last three reporting years)
Total emissions tonnes/ kg CO2e: operational (last reporting year), embodied future (all life cycle stages (e.g.EN15978 A1-5, B1-5, C1-4 as appropriate to asset),
Data sources and assumptions used if any assessments are not based on actual data
Carbon price
Total cost of carbon should no acts of decarbonisation be taken in the following year
List of decarbonisation-related risks impacting blended inflation rate

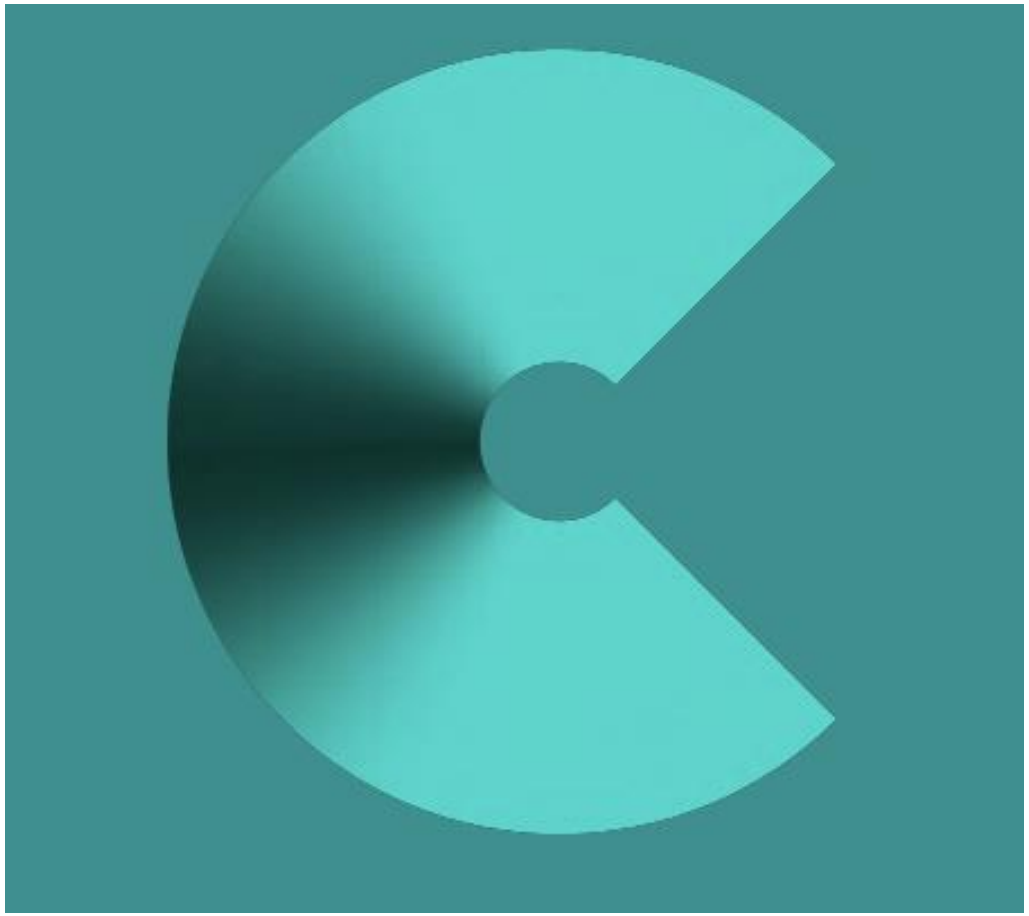
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Energy use per energy type in kWh (mean average of last three reporting years)
Energy cost per energy type in kWh (mean average of last three reporting years)
Total emissions tonnes/ kg CO2e: operational (last reporting year), embodied future (life stages EN15978 A1-5, B1-5, C1-4 as appropriate to asset), embodied historic A1-5 estimation.
Carbon price
Total cost of carbon should no acts of decarbonisation be taken in the following year
Data sources and assumptions used if any assessments are not based on actual data
Market value provided by a third-party valuer
Final negotiated price
List of decarbonisation-related risks impacting blended inflation rate

Data point required	Description of risk impact on value	Underlying assumptions/ data sources	Explanation (if data is not available)
Number of assets in portfolio			Y
Number of CRREM 2050 V2.02 (or latest update) compliant assets in portfolio	Y	Y	Y
Number of CRREM 2050 V2.02 (or latest update) non-compliant assets in portfolio	Y	Y	Y
Total market value of portfolio	Y	Y	Y
Total estimated transition risk-adjusted value of portfolio	Y	Y	Y
Market value of each component asset	Y	Y	Y
Estimated transition risk-adjusted value of each asset and aggregate portfolio (including explicit mention of cost of decarbonisation for FCF assessment)	Y	Y	Y
Notification of sale or existing asset (including details of compliance status as above and reason for exit)	Y	Y	Y
Notification of any destroy and rebuild or new build activities with an asset (including transition risk-adjusted value)	Y	Y	Y
Notification of purchase of new asset and compliance status as above	Y	Y	Y
List of transition risks with a material impact on portfolio value	Y	Y	Y
Total value of each transition risk and its estimated value for the full portfolio	Y	Y	Y

Key findings on data sharing

Value of work is clear but different levels of caution from stakeholders

- Some stakeholders see data disclosure as risky
- Fund managers need time to get ready for disclosures
- It is important for peer organisations to align



Carbon pricing

Relevance of carbon pricing for real estate

Industry-driven carbon pricing can help to resolve many ongoing challenges that are addressed inconsistently, such as:

- Embodied carbon responsibility of a property
- Internalising the cost of decarbonisation
- Overcoming peer competitive concerns
- Building the case for greener energy solutions
- Manage wider risk exposure through e.g., regulatory and reputational drivers

Developing an approach to carbon pricing for real estate

- Real estate sector requires a specialised, not one-size-fits-all approach to carbon pricing
- Carbon pricing is not all about regulatory risk
- Not all stakeholders are equally responsible for carbon emissions in the value chain
- Embodied and operational carbon should both be considered but treated differently
- The language around carbon pricing mechanisms needs to be clearer

Interlinked work scales up adoption

Year two sees more depth and breadth to successful practical approach

Assessing transition risks	Occupier/owner alignment	Co-ordinated Investment voice	City-scale: just and inclusive transition
• Finalise guidelines • Preserve tool • Carbon pricing • Data sharing • Case studies	• Community of practice	• Building key industry advocacy	• Berlin TAP • Advisory panel



Continuation and deepening of ‘year 1’ work

New for ‘year 2’

C is for collaborating on the toughest challenge we've ever faced

For more information contact andrea.carpenter@uli.org