



## QUICK REFERENCE GUIDE

# MANAGING INVESTMENT RISKS FROM CLIMATE CHANGE

Property And Construction Sector



Investor Group on  
Climate Change

## Note

This Quick Reference Guide follows the report of the IGCC, [Assessing Climate Change Risk and Opportunities for Investors: Property and Construction Sector](#). IGCC, in conjunction with its Research Working Group, commissioned the Australian National University to produce that report, which was peer reviewed by the IGCC Property Working Group.

The guidance questions following are intended for institutional investors with interests in commercial property investments as well as investment managers who manage direct, indirect and equity investments in real estate. These questions are also of relevance to real estate companies.

## Purpose

The purpose of this guidance is to provide a set of focused questions investors can ask of themselves, their consultants and their property fund managers on how they manage climate, energy and carbon risks in their direct property portfolios. These questions should also acts as guidance for property fund managers on what they should report to investors and consultants on how they monitor and ameliorate the climate change risks and opportunities in the portfolios they manage.

## About IGCC

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focusing on the impact that climate change has on the financial value of investments.

The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change. The IGCC represents institutional investors, with total funds under management of approximately \$1 trillion, and others in the investment community interested in the impact of climate change on investments.

**The IGCC Property working group** is a consultative forum to provide oversight and expertise in relation to climate change risk and opportunity in the built environment.

For more information please contact [secretariat@igcc.org.au](mailto:secretariat@igcc.org.au)

# Guidance on risk management for property investors

The IGCC's research report [Assessing Climate Change Risk and Opportunities for Investors: Property and Construction Sector](#) underpins this paper and is aimed to help concerned property investors assess and integrate climate risk and opportunity in the Property and Construction sector into investment analysis.

In light of the climate, energy and carbon price risks and opportunities discussed in that report, it is the view of the IGCC Property Working Group that climate change could pose material risks and opportunities to Property and Construction companies. It is consistent with the fiduciary duty of institutional investors and their investment managers to understand, assess and address the evolving investment risks to real estate investments related to climate change.

In recent years, IGCC and affiliate international investor groups have been [advising trustees](#), investors and investment managers on the evolving climate change and sustainability agenda and opportunities for managing the associated risks. More recently internationally, Mercer's [climate scenario study](#) pointed to real estate as one sector where institutional investors should re-think their risk assessment models given the exposure of this asset class. In the following pages are provided guidance on questions institutional investors should ask themselves and their property managers in order to understand and manage these risks.

Trustees and investors have a clear opportunity when selecting and monitoring their property investment managers to actively engage with them and ensure that they are addressing and managing these risks. In order to protect the long-term value of their real estate investments, property investors should understand climate risk and regulatory direction in order to mitigate them ahead of time, and to take advantage of new market opportunities. There is an opportunity to add value to real estate investments through sustainable buildings and energy efficiency. There are many tools and initiatives available to help the sector adapt, however they are not easily accessible, hence the need for this report to facilitate investors in this process.

## 1. Process to follow to integrate this scenario into assessing investment risk

As a quick reference guide to assess climate change risks and opportunities and how prepared property fund managers/operators are in this regard, we suggest:



# Guidance for institutional investors on integrating climate change considerations into real estate investment practices

## 2. Questions institutional investors could ask themselves

Questions for institutional investors	Guidance and sample questions
<b>Should we favour investment managers committed to the responsible property investment agenda and include specific requirements for responsible investment and sustainability expertise in the selection processes?</b>	Is it appropriate for us to require explanations on how sustainability and climate change issues are managed as a feature of requests for proposals for new segregated mandates?
<b>Do we understand enough about the risks and opportunities from climate change and how they affect our commercial property assets?</b>	Do we have an understanding of the potential impacts from climate change and sustainability on their investments ( <a href="#">see here</a> ), and are we encouraging and pursuing opportunities to engage and contribute to dialogue on these issues?
<b>Is the way in which we are rewarding our investment managers conducive to encouraging them to address climate and sustainability considerations?</b>	Are the medium to long-term time horizons over which interventions to address climate change are set are consistent with short term performance horizons typically placed on investment managers?
<b>Are we confident that the regulatory environment is consistent with institutional investors' risk requirements to support investment in climate change resilient and sustainable real estate?</b>	Are we encouraging and pursuing opportunities to engage with policymakers to encourage policies that support scaling up investments in sustainable real estate as well as encouraging our investment managers to contribute to relevant policy and sector-led initiatives?

## 3. Strategic review approach to assess the preparedness of your property managers

Question institutional investors could ask their property investment managers	Guidance and example of answers sort
<b>Do our investment managers take into account the direct impacts of climate change and related changes in sustainability policy and regulation throughout the real estate investment cycle?</b>	Social, environmental and economic considerations of climate change and sustainability are being integrated into standard investment appraisal processes and these issues are incorporated in management, monitoring and reporting procedures.

<p><b>What evidence can the investment manager provide of the policies in place addressing climate change and sustainability, and of the resulting performance in improving the social, environmental and economic impact of climate change and sustainability of the real estate assets under their management?</b></p>	<p>Investment managers are providing a clear sustainability monitoring and reporting framework as part of the annual and quarterly communications and reporting procedures. This includes descriptions of how they are incorporating environmental and social governance in their investment management practices, track record of data collection, presentation of sustainability performance achieved, contribution to sector wide sustainability benchmarks, transparent disclosure of the industry guidelines being followed and whether performance is externally verified and publically reported.</p>
<p><b>What mechanism does the investment manager have in place to embed the climate and sustainability risks in the buy, hold and sell decisions being made on properties?</b></p>	<p>Dedicated sustainability and environmental risk assessment is embedded in standard due diligence processes for acquisitions and disposal of property assets.</p>
<p><b>Has there been a portfolio assessment against climate risks to determine and manage any material risks to the portfolio and that there is an active carbon/energy reduction programme in place:</b></p> <ol style="list-style-type: none"> <li><b>1. What has the manager done to assess risk across the portfolio</b></li> <li><b>2. In terms of mitigation has the manager been able to demonstrate a track record in energy and carbon reduction? Does the manager have targets for future reductions that are relevant within the investors timeframe</b></li> </ol>	<p>CSIRO has released local models based on IPCC projections which means assessments can be done at asset level. Has the manager assessed risks across its portfolio to determine the exposure of each asset with a suitable management response?</p> <p>A recent Collier's survey relating to office accommodation suggests tenants overwhelmingly prefer green buildings, IPD Green Index outperformance of low energy buildings. Avg performance for top AREITS now at 4.5 stars</p>
<p><b>What actions is the property investment manager taking to reduce the environmental footprint of the properties already held in the portfolio, through management and leasing of properties and how do these actions relate to the need to continue to provide competitive returns?</b></p>	<p>Sustainability programmes are in place targeting energy, water, waste, transport and adaptation to climate change. These include activities aimed at establishing and maintaining accurate data, the public communication of performance targets, the disclosure of annual performance and the description of the actions that delivered the performance improvement.</p>
<p><b>What actions and what evidence can the property investment manager provide of reducing environmental impacts from its development and refurbishment activities in recent years?</b></p>	<p>The investment manager demonstrates understanding and implementation of measures to address medium term regulatory requirements development activities. For example, minimum sustainability requirements are in place for development and refurbishment projects aligned with market demand in specific geographies.</p>
<p><b>What actions is the investment manager taking to engage and cooperate with occupiers of the buildings it manages?</b></p>	<p>An active occupier engagement policy is being implemented including for example green clauses in standard leases, commitment to implement joint sustainability programmes with occupiers, and/or occupier surveys to asses the effectiveness of their implementation.</p>

**What policies does the property investment manager have in place to ensure that those supplying goods and services to the property portfolio are doing so in a responsible manner?**

Impact assessments and the resulting policies covering key suppliers are in place, commensurate with the range of the investment manager activities. There is a process to monitor suppliers' performance and ensure that policies are implemented.

**How active is the property investment manager in dialogues within the property industry and with government to develop appropriate awareness and action to reduce the environmental impact of buildings?**

The investment manager is an active contributor to policy dialogue, consultations and sector-led initiatives that support the commitment to disseminate responsible investment practices across the sector. The emphasis placed on training and learning within the organisation will be reflected in staff's awareness and knowledge.

## Acknowledgement

These guidance questions are drawn from work by IIGCC on "[Protecting Value in Real Estate: Managing investment risks from climate change.](#)", March 2013 adapted it to the Australian market.

This guidance was developed by the IGCC Property Working Group members. With special thanks to members of the IGCC Adaptation and Resilience Sub Committee for their contribution.

## Resources

For additional key resources relevant to this guide and the Property and Construction sector visit: [http://www.igcc.org.au/assessing\\_risks](http://www.igcc.org.au/assessing_risks)

## Membership of the IGCC Property Working Group as at June 2013 comprises:

AMP Capital  
AustralianSuper  
BT Investment Management  
Cbus  
Colonial First State Global Asset Management  
DEXUS Property Group  
Eureka Funds Management  
Guardians of New Zealand Superannuation  
MIRVAC  
Rei Super  
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