

Future-proofing our portfolios

Effectively managing climate risk requires data-driven insights, standardized methodology and robust stakeholder engagement throughout the ecosystem of a portfolio.

By Anna Murray,
BentallGreenOak

At BentallGreenOak, we manage climate risk to enhance the resilience of our clients' and investors' long-term investments. As a fiduciary, we see it as essential for us to take into consideration climate change impacts, from both a risk mitigation and a value creation perspective, in order to enhance the long-term financial and operational resiliency of the real estate portfolios that we manage for our clients and investors.

With buildings accounting for approximately one-third of global greenhouse gas emissions and consuming 40% of global energy, there is an incredible opportunity for the real estate industry to reduce its overall environmental footprint. Building owners and operators are in a unique position to proactively address the environmental, social and governance (ESG) risks that businesses face today. By doing so, we are not only mitigating risk, but also safeguarding and increasing the value of our assets.

More investors are beginning to understand the correlation between sustainability and financial performance. According to the Global Real Estate ESG

Investment Study¹ published in early 2019, 83% of real estate fund asset managers have experienced increased investor demand for sustainability disclosure. The study, led by BentallGreenOak, REALPAC and the United Nations Environment Programme Finance Initiative (UNEP FI), found that investors are becoming more attentive to a rising global awareness of the financial merits of sustainable investing as a means of risk mitigation and long-term value creation.

As climate change rises to the forefront of global consciousness, tenants are demanding more resilient buildings from the real estate sector. Sea level rises and extreme weather events impact building costs and performance. With sustainability factors playing a key role in driving tenant demand and climate resilience, fiduciaries are weighing ESG factors as a critical element in their investment decision-making.

At BentallGreenOak, our approach to climate resilience stems from a continued focus on future-proofing our portfolios to drive long-term returns for our clients and investors. We

¹ United Nations Environment Programme — Finance Initiative, *Global ESG Real Estate Investment Survey Results*.

proactively address climate risks at the property and portfolio levels through strategic planning that assesses critical vulnerabilities to the built environment.

Four pillars to managing risk

Actively managing climate risk means the buildings invested in today can thrive tomorrow. When we view the buildings that shape our communities as part of a living, breathing ecosystem, we are better equipped to address the challenges that climate change brings to our increasingly fragile environment.

We focus on four key pillars to effectively manage risk and enhance long-term value: data analytics, portfolio planning, asset management and stakeholder engagement.

1 Data analytics: Understanding the numbers

Our approach to operational efficiency combines data management and stakeholder engagement to identify opportunities to lower energy and water consumption, waste and greenhouse gas (GHG) emissions. These efforts directly reduce costs and add value for our tenants and investors across our managed property portfolios.

We use our annual sustainability benchmarking survey to track property-level sustainability data, measure performance against global best practices, identify opportunities for improvement, drive business decisions, and enhance client reporting and disclosures. The survey informs budget decisions to improve sustainability outcomes in the following areas: energy, water, waste, green building certifications, tenant engagement, and health and well-being. A full 100% of



properties enrolled in our sustainability data management system completed the benchmarking survey.

Our approach to resilience includes our sustainability data management system, Eco Tracker. This proprietary tool benchmarks energy, water, waste and GHG emissions performance and provides the analytics necessary to identify savings opportunities. The objective is to enhance the resiliency of an asset, reduce costs and add value for our tenants and investors across our managed property portfolios.

Moreover, our target setting program is a formalized approach to reducing

energy consumption, GHG emissions and energy costs across our office, residential and enclosed retail portfolios. Since 2012, properties participating in this program have saved CAD\$36 million in utility costs.

2 Portfolio planning: Climate risk as an investment consideration

We have quantified the exposure of a significant amount of our managed portfolios to climate risk, by determining the total dollar value-at-risk (VaR) at the client portfolio level and the individual asset level. The outcomes from this project are used to inform climate risk

² RELI, LEED Resiliency Pilot credit, the City of Toronto's Resiliency Checklist, GRESB Resilience Reference Guide and the City of Los Angeles 2018 Local Hazard Mitigation Plan, among many others.

Task Force on Climate-Related Financial Disclosures

BentallGreenOak is one of the original participants in the UNEP FI Task Force on Climate-Related Financial Disclosures (TCFD) Real Estate pilot group. The TCFD was established in 2015 by the Financial Stability Board (FSB) to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders. Increasing the amount of reliable information on financial institutions' exposure to climate-related risks and opportunities will strengthen the stability of the financial system and facilitate financing the transition toward a more stable and sustainable economy.

The pilot has developed scenarios, models, metrics and a risk assessment tool that will enable investors to assess climate risk across their portfolios. UNEP FI, together with 20 of the world's leading investors, is developing guidelines towards a first set of climate-related investor disclosures. Investors worldwide will be able to adopt and build upon the TCFD's recommended scenarios, models and metrics, contributing to a harmonized industry-wide approach.

mitigation strategies that influence future transactions, asset management and operational activities.

3 Asset management: Adaptation planning as risk mitigation

When it comes to climate resiliency, we work with our asset management teams to develop bespoke strategies to safeguard against climate risk. These climate adaptation action plans provide actionable best practices for both the asset and the properties to consider implementing to enhance their resilience to our changing climate. The result is increased building-level operational efficiency and enhanced tenant satisfaction.

In partnership with the consulting engineering firm RWDI, we provide property and asset management teams with asset-level climate adaptation action plans which include a customized climate risk assessment. The assessment identifies the priority climate-related threats that may pose a risk to each asset, as well as evaluates the current level of operational preparedness. Based on information

gathered through this assessment, a second customized tool considers industry-leading climate resiliency best practices to begin future-proofing the building against identified risks.

The primary goal of climate adaptation action plans is to connect vulnerabilities to actions that could enhance the resiliency of the building. We have consulted with best practice guides² aimed to enhance the resiliency of a building in order to develop a climate change resiliency database that summarizes the best practices suggested in over a dozen guides in one central database. Each of the hundreds of best practices has been tagged with both the climate change threat and building system vulnerability they aim to address.

To create property-specific climate adaptation action plans for each building in the scope of the assignment, we query our database with the building-specific climate threats identified by the operators in their survey responses, as well as the vulnerabilities reported through vulnerability checklists.

4 Engagement: Collaboration within the organization and investment community

Our efforts on climate risk and resilience are done in a collaborative effort across the investment ecosystem, where we partner with cross-functional teams, occupants and the broader industry.

Through our Sustainability Innovation Lab, established with Sun Life Financial in late 2017, we look to our employees for cutting-edge project ideas that can enhance sustainability performance and the resiliency of our assets. The Lab draws on employees' ideas designed to enhance the performance of our buildings, reduce risk of obsolescence, strengthen tenant satisfaction and protect the environment.

Our approach to innovation draws on market-leading ideas that position our buildings competitively in the marketplace. The first pilot project from the Sustainability Innovation Lab was the Zero Carbon Building (ZCB) Performance certification for 100 Murray Street in Ottawa, which earned the title of the first existing building in Canada to achieve this certification. The project team quantified the embodied carbon impact of the LEED EB: O&M Gold certified building and created a zero carbon transition plan. Enhanced operational efficiencies through forward-looking solutions mean better risk management and greater value for our clients.

Engaging with the investment community

Last year, BentallGreenOak was elected as co-chair of the UNEP FI Property Working Group (PWG) to address the most imminent challenges in the field of sustainable real estate investment.

As part of our co-chair role, BentallGreenOak is also a member of the UNEP FI Investment Committee. In this capacity, we lead the global mandate to drive adoption of sustainability in real estate investment and property management. Specifically, we share the responsibility for developing and monitoring the UNEP FI sustainability strategy for the investment industry, and engaging with leading global investors to address pressing sustainability issues.

This includes helping to drive innovation in Responsible Property Investment (RPI) by facilitating access to relevant information and best practices. We're collaboratively developing the

necessary tools to enable property investors and professionals to systematically apply and integrate ESG criteria into investment and lending decisions. Alongside policymakers and others in the real estate investment community, we're also developing and establishing the appropriate policy and regulatory frameworks for sustainable practices to grow.

Conclusion

Our approach to future-proofing our clients' and investors' real estate portfolios is directly informed by understanding our clients' and investors'

needs, addressing our tenants' demands and collaborating with global industry. Long-term sustainable investing at BentallGreenOak is firmly planted in robust data analytics, portfolio planning, asset management and stakeholder engagement. Our sustainable investing strategies, and associated partnerships with building owners, tenants and local communities, are critically important drivers in the creation of long-term value for our investors and clients. ♦

Anna Murray is Vice President, Sustainable Investing, at BentallGreenOak.

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