Impact of Climate Change on Property Investments

Newsletter dated:

5th June 2009

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Adapting to the unavoidable

Although poorly understood for the most part, climate change is more and more recognised as one of the greatest global underlying threats looming within a few decades. Issues such as reducing greenhouse gas emissions might be becoming mainstream, but other aspects such as the consequences of physical climate change have been wrongly put aside.

Facts are piling up about global climate changes in weather patterns, and those changes are starting to be noticed outside the scientific community. Even oil company Exxon, well known for its strong denial on the subject, officially recognised its existence a few days only after the election of the new US President Mr Obama.

Some climate change consequences

Although this is not intended to be a scientific publication, let's indulge into a few examples of major changes already existing: sea levels are rising, glaciers are melting, permafrost is thawing, average temperatures are rising, storm surge heights are increasing, heat waves are more and more frequent. The weather has become more erratic globally.

Concerning rising sea levels, the origin lies into glacier meltdowns because of rising temperatures, creating then another problem: huge quantities of unsalted water mixing with the seas, dramatically altering sea life and major currents among other things, and in turn changing weather patterns globally around the Earth.

Impact on investments globally

On an investment point of view only, should we be worried? We are facing uncertainty because we don't know exactly when or how climate change is going to influence companies and how the knock-on effects will be felt throughout the economy, but we do know with certainty it is going to be drastic. Existing business models will have to be changed leaving companies with difficult business decisions, some of them might even collapse, but at the same time new business opportunities will emerge.

The scale of the threat posed by climate change means that companies and governments need to take action now, notwithstanding the prevailing uncertainties with which we have to deal. The point is we are not asking “if” but “when” climate change consequences will strike our world; this mayhem to come is a statistical certainty barely a few decades away, with a “work in progress” sign all over the news.

So, it comes up quite clearly institutional investors are concerned and should be a lot more involved in incorporating climate change policies into their investment decisions. In that respect, public policy will also greatly influence companies’ behaviours in setting a framework for their actions.

Impact on the property business

Obviously, as far as the property industry is concerned, the impact is huge. We know that buildings are responsible for nearly 50% of all greenhouse gases emitted, without even taking into account the energy consumed in fabricating them and their components, nor their cost of disposal. There are many options allowing to greatly lower this toll, one only needs to have a look around our website for more information.

But how is it possible to generate long-term returns for investors without making sure the buildings (infrastructure, retail, offices, residential, industry) won’t be ruined because of rising sea levels, torrential rains or floods and their consequences? The answer resides mainly in incorporation of climate change risks and opportunities into our investment analysis and decision-making: climate change risk management.

- Property investors need to identify the manner in which the physical impact of climate change and their consequences could affect their business.
- Evaluating and analysing those risks and see how they compare to their accepted exposure to risk.
- Analysing the possibilities for adaptation to those risks, and pricing their costs and benefits. Investors are left with a limited number of options: avoiding risk (leaving endangered areas), reducing risk (taking action to protect the buildings), transferring risk (insurance or outsourcing, disposal), accommodating risk (better planning), accepting risk (mainly related to existing investments), identifying opportunities of investment related to the climate change.
- Monitoring and reviewing risks, as the risk assessment process is dynamic. The rapidly changing scientific knowledge about the physical impacts of climate change and the fast-

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evolving regulatory framework mean that climate change risk assessment is not a one-off activity but needs to be reviewed and updated on a regular basis.

- Reporting to investors about the impact of climate change issues on our investment procedures. This includes detailing the process followed to assess climate change related risks, how these risks are being incorporated into our corporate strategy and decision making, the actual capital costs incurred.

Poune Asset Management is designing the Climate Proof Fund to answer those questions, analysing investment opportunities and developing tailored solutions to protect our assets from climate change-related damages.

Olivier Ribert
Managing Director

"Climate change is not going away, so we need to focus on adapting our Businesses and Investments to reduce our vulnerabilities."

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