Offering "Passive Survivability" to Investors

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Pro-active property risk management: an investor's survival guide

Political, economic/societal and environmental factors are a major concern for investors in search of safe and decent returns on their property portfolios. But investors should also be concerned with the plain survival of their investments, because a property offers no return if it is destroyed or made useless.

One cannot use the greatest car on earth with a flat tire or no gas to power it; no doubt it still looks great and impressive, but what's the use of it then?

Targeted destruction

Dangers and turmoil are not contained within political borders anymore, and they are flowing into what once was some kind of "preserved area" (the western world) mostly free of such radical actions. Indeed, terrorists could target our highly vulnerable energy systems, including high-voltage electrical-distribution networks, transformer stations, and gas and oil pipelines. Our infrastructures are extremely vulnerable to such potential threats, and our inability to control our energy supply makes it even tougher.

We are not only talking here about the physical damage/destruction of property assets, which could be dealt with through proper insurance policies, but also about what could make our property assets unable to deliver.

Although the political risk associated to terrorism is mostly dealt with by our governments, and even if up to now very few but devastating blows were sustained mainly on psychological grounds, our infrastructures are at risk and the consequences should be integrated into property risk management.

Climate change

Climate-change models predict more intense storms, which will cause extended power

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outages and interfere with transportation and refining of petroleum and natural gas.

Even if the world were to reduce greenhouse-gas emissions to the extent that many scientists are calling for (say, an 80% reduction by 2050), we'll still face alarming changes in the global climate over the current century. There is an obvious need to adjust/adapt to this new set of constraints of huge magnitude and implement strong risk management policies. These can be defined as actions taken to cope with a changing climate with the objective of reducing risk and damage, and exploiting potential benefits. Investors should view these adjustments as they would consider any other business risk, and trust an asset manager capable of clearly communicating on these issues.

Furthermore, the risk management process isn't static; it evolves due to changing scientific knowledge and regulatory framework. Climate change risk management isn't a one-off action but a sustainable process requiring regular review and up-dating.

Passive survivability

Well within the lives of buildings being built today, supplies of oil and natural gas could become limited, and there could be shortages of heating oil within the next 10 years. Also, water is looming as a problem that could eclipse energy in severity over the coming decades, leading to rationing in cities and not only in the arid parts of the world.

For these reasons, we should significantly ramp up energy- and water- conservation provisions in our new-builds or refurbished projects in order to make our investments more resilient to extended power outages, interruptions in heating fuel, and shortages in water: a concept called "passive survivability". By mandating high levels of energy performance and water savings, buildings would never put their occupants at risk. Then, if needed and at an appropriate time, it would be very easy to make those buildings carbon neutral, thus increasing even more the investment potential to would-be tenants.

Clearly, from an investor's point of view passive survivability is an essential mean to maximize the value and rental potential of property investments. This is an unavoidable risk management feature, and although it requires additional funding at inception, this is quickly paid-off with higher rents and rising attractiveness compared to other "regular" under-performing buildings.

Poune Asset Management is dedicated to bringing its investors the best quality of property investments, for both today's and tomorrow's needs. Passive survivability is only one part, although an essential one, in our plan to make better investments delivering long-term returns but in a sustainable way.

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