

# You Know Your Carbon Footprint, But Do You Know Your Riskfootprint™?

With losses from extreme weather and climate events increasing, commercial real estate must add physical risk assessments to its awareness of CO2 emissions

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For decades, ESG (Environmental, Social, and Governance) scoring of public companies by investment funds, and the public reporting of those scores, has focused mainly on one side of a climate coin.

Investment funds typically assess what a business is doing to the planet, particularly the “carbon footprint” of that company measured by CO2 greenhouse gas emissions. The other side of that coin, however, is what the planet is doing to the business — its physical climate risk or “risk footprint.”

The effects of the planet on companies’ real assets are increasing right before our eyes. Over the past 40 years, the number of natural disasters causing financial losses in excess of \$1 billion has risen steadily.

But REITS, CREs, and PE firms do not generally measure the extreme weather and climate risks to portfolio assets or new acquisitions. Unfortunately, the due diligence that they employ is quite behind the times.



Albert Slap

Today, ESG sustainable investment is big business – really big. In 2018, the U.S. Forum for Sustainable and Responsible Investments estimated that around [\\$12 trillion](#)

[of assets](#) in the U.S. alone are managed under some sustainable investing framework. According to S&P, the global market for ESG funds may surpass [\\$30 trillion](#).

As a result of the increasing and undeniable impacts of extreme weather, natural disaster losses and physical climate risks to real assets, ESG scoring entities have begun to offer what they call “resilience modules.” This additional layer of assessment and reporting is part of a growing recognition that the risk footprint of a business or asset is as important to the quality of an investment as its “carbon footprint.”

These resilience modules, however, do not provide in-depth, assessments of individual assets, such as an office building or a factory. Furthermore, they don’t provide guidance for investors or investees on how to make buildings safer, more sustainable, and resilient. Rather, they provide a disclosure process to communicate the results of these assessments to the investment community.

Resilience modules [providing reporting](#) frameworks are important, but they do not give asset owners an actionable understanding of the capex required to mitigate existing and future flood, natural hazard, and climate risks.

Understanding a building’s “risk footprint” can give property owners and investors a sound basis for short, medium, and long-range risk mitigation strategies at various cost levels. In order to close this important gap in actionable data and analytics, Coastal Risk developed its unique, cloud-based assessment platform called the RiskFootprint™ Dashboard.

Now, the prestigious U.S. Green Building Council (USGBC) and Coastal Risk are working together in this new resilience tech area to help our societies become safer, more sustainable and resilient.

“Data will define the future of green building, which is why USGBC is working with Coastal Risk Consulting to deliver a RiskFootprint™ for buildings, communities and cities that provides a climate risk analysis,” said USGBC CEO Mahesh Ramanujam. “The RiskFootprint™ service will integrate with [LEED, Arc and GBCI](#) rating systems to help assess a project’s vulnerability,” he said.

Many commercial property owners might obtain a “high-level” risk assessment suitable for investment fund disclosure demands, but have no plans to mitigate those risks. Coastal Risk does not leave its clients hanging when they ask, “OK. That’s the bad news. What do I do, next?”

Coastal Risk works with property owners to assure they have a step-by-step program to accelerate their buildings' safety, sustainability, and resilience in a changing environment. Coastal Risk calls this its B-Resilient™ process.

For some companies, a high-risk asset may need to be sold. For others, certain buildings may need additional capital improvements, such as flood defenses, green or reflective roofs, or upgraded AC chillers.

A commercial REIT partnering with Coastal Risk to assess risks to its portfolio and new acquisition properties is [American Realty Advisors](#) (ARA).

“ARA has been increasingly interested in more fully understanding physical risks to our assets from floods, natural hazards and climate impacts as part of our overall Corporate Responsibility and Sustainability Program,” said Don Pecano, Vice President of Due Diligence at ARA.

## **CONCLUSION**

REITs, Commercial Real Estate, and Private Equity need three strategies to assess current and future physical climate risks to its existing portfolios and new acquisitions:

- portfolio-level analysis for ESG/TCFD disclosure reporting;
- an understanding of the potential capex required to mitigate existing and future flood, natural hazard, and climate risks; and,
- a plan to mitigate risks and accelerate their buildings' safety, sustainability, and resilience in a changing environment.

The starting point is knowing your RiskFootprint™.

*Albert J. Slap is President and Co-Founder of Coastal Risk Consulting, LLC, a geospatial technology, modeling and data analytics company located in Boca Raton, Fla.*