

The Cost Of Climate And Weather Disasters Is Soaring So Commercial Real Estate Leaders Need To Better Assess Their Risks

Some in the industry are increasing their investigations of hazards and investing in cost-effective resiliency measures

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The Intergovernmental Panel on Climate Change (IPCC) report released in August drew more attention to the effects of physical climate risks on real property.

The report and the recent 2021 UN Climate Change Conference (COP26) painted a bleak picture, concluding that even with significant CO2 emissions reductions, it could take 20 to 30 years for global temperatures to stabilize.

Most scientists agree that many of the worst effects of global warming (e.g., sea-level rise, etc.) are already “baked into” our planetary systems and, the damage that we see now is likely to get worse.

According to NOAA, there have been more than 298 U.S. weather and climate disasters since 1980 where overall damages reached or exceeded \$1 billion. The total cost of these events exceeds \$1.975 trillion.



Albert Slap

These figures do not include the 2021 western wildfires or Hurricane Ida losses, which were between \$27 billion and \$40 billion, or Tropical Storm Ida losses, which are estimated at \$16 billion to \$24 billion. Nor do these figures include the tornado outbreak in December.

In the past 40 years, the annual average of \$1 billion disasters in the U.S. has more than doubled. ***If this is not a wake-up call to both reduce CO2 emissions and increase property and infrastructure resilience, then all of us are surely in for a very bumpy ride in the years ahead.***

On a more positive note, however, leaders in commercial real estate are now beginning to move toward a more resilient future by both increasing their investigations of hazards and investing in cost-effective resiliency measures. There are some new and quite significant “drivers” of this nascent movement that corporate managers should know about.

First is the [Task Force on Climate-Related Financial Disclosures](#) (TCFD) and its guidance on both CO2 emissions reduction reporting and physical climate risks.

TCFD asks reporting companies to distinguish between acute risks, such as hurricanes, floods, and wildfires, and chronic risks, such as higher temperatures and sea-level rise. Reporting companies also need to consider the actual vulnerability of properties and the materiality of the risks.

While TCFD is not mandatory in the U.S., many U.S. multinational companies are complying with its requirements.

Another driver is the [ASTM International](#) committee, which is working on a Property Resiliency Assessment (“PRA”) guide and standard. When fully adopted, this PRA standard will establish a new “good and customary practice” for portfolio risk management, property transfer due diligence, loan underwriting, and more.

This may well form the basis for a legally binding standard in commercial real estate practices.

A third driver is the [Environmental Bankers Association](#) (EBA). In 2021, it came out with specific recommendations: “Climate Change Risk Management, Considerations for Bankers.”

The EBA urged:

— inclusion of site-specific, climate risk data for each property appended to a Phase I ESA;

— portfolio-wide review of climate risk data, with a determination of risk – high to low — accompanied by recommendations for further review;

— in the event these reports identify concerns, field observations by building engineers or design professionals to evaluate the physical characteristics of a site.

Finally, and perhaps most important, the U.S. Securities and Exchange Commission (SEC) is considering physical climate risk disclosure requirements. SEC Chief Gary Gensler said prior guidelines on climate disclosure were voluntary and resulted in inconsistent disclosures. “Companies and investors alike would benefit from clear rules of the road,” he said.

Where to Begin?

To begin, companies first need to adopt a rational and disciplined process to make their buildings safer, more sustainable, and resilient — ***and to maintain and increase their market values.***

At RiskFootprint™, we call this our [B-Resilient™ Solutions](#) process. It typically involves ***six steps***:

- (1) portfolio hazard assessment (qualitative);
- (2) identify and verify hazards at the individual property/building level;
- (3) determine the vulnerability and materiality of each significant hazard;
- (4) identify potential resilience measures and costs and benefits of each;
- (5) identify recommendations and specific costs for RFPs;
- (6) implement appropriate resilience measures over the course of years.

Conclusion

While climate change and its associated risks may appear to be inevitable, physical climate risks, such as floods, natural hazards, and extreme weather ***can be reduced at the property level***, if commercial real estate organizations become more prepared and proactive.

Corporate managers can help their organizations get on top of these challenges and build and accelerate resilience by implementing rational processes such as B-Resilient™ Solutions.

Albert J. Slap is President and Co-Founder of Coastal Risk Consulting, LLC, a flood, natural hazard, and climate change risk assessment technology company located in Boca Raton. More information can be found at www.riskfootprint.com.