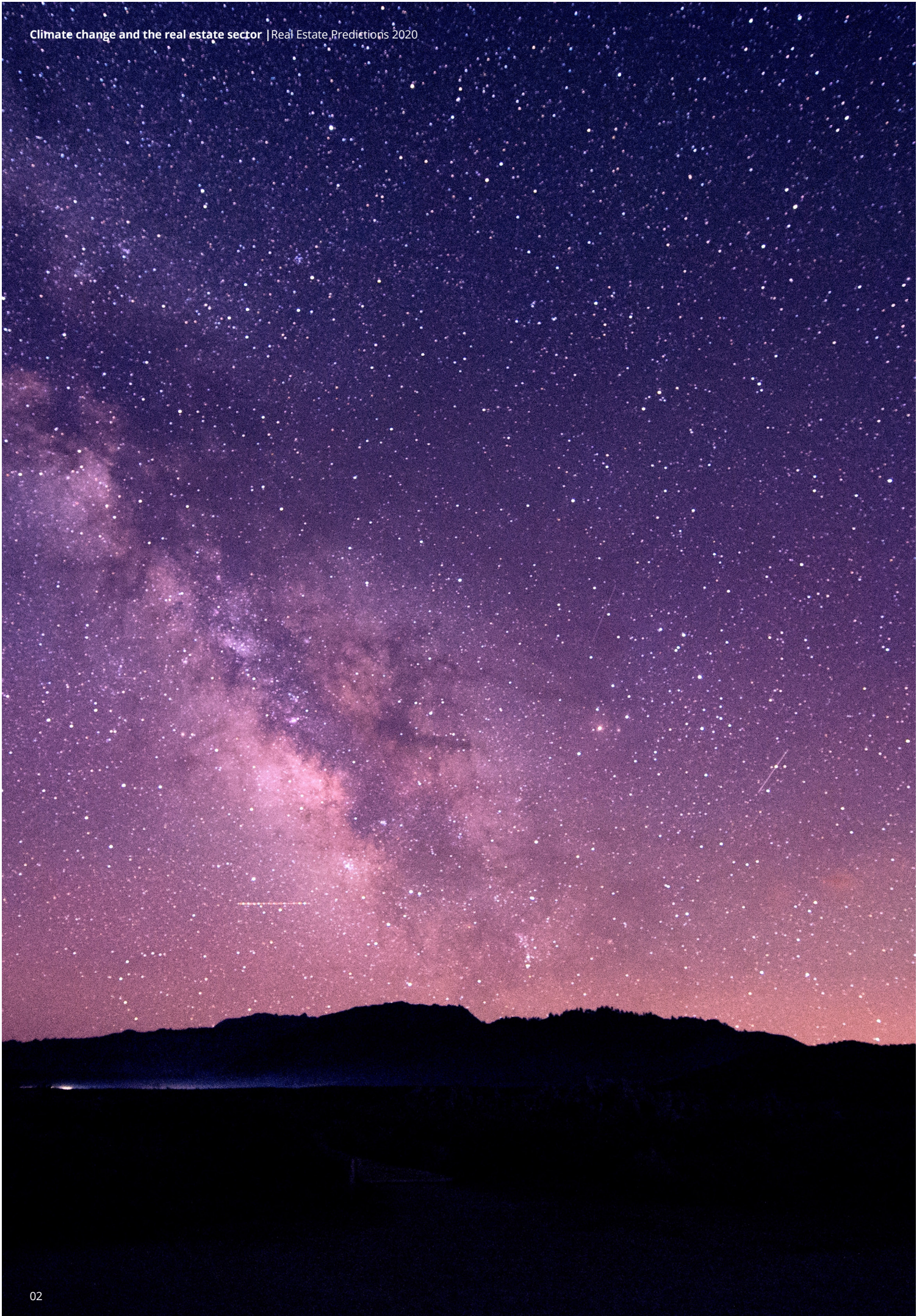


Real Estate Predictions 2020 | Article 1
Climate change and the real estate sector
From pleading guilty to delivering solutions



For years those in real estate and construction have been aware of the impact their sector has on climate change. But while most acknowledged their culpability, little was being done by them to address the problem.

Until now. In the past year, real estate and construction have started to take concerted action to not only mitigate the impact of their sector on climate change but proactively develop solutions. Whether due to expected tighter regulations or public pressure or generational change, the sector's newfound ambition to reduce their impact is a decidedly positive and important step in the climate mitigation effort.

Making the case for change

From carbon production to consumption of resources and land development, the lack of environmental movement from the real estate and construction sectors was contributing to an increasingly negative image of the sector. For years the sector received repeated censure from NGOs and warnings from scientists. Regulations imposed new reporting standards. Millennials, buyers, and even investors voiced their objections.

But only in the past year or so has the pressure started making a difference. And it has only been reinforced by understanding the full extent of the risk climate change poses to real estate assets. In 2019, FourTwentySeven a publisher and provider of market intelligence on the economic risk of climate change, estimated that in Europe, 19% of retail spaces and 16% of offices were exposed to floods and/or sea level rise.

Clearly, the time has come for the real estate and construction sectors to start initiate real action on climate change. Already investors are taking climate change into account in their strategies by:

- Mapping physical risks for current portfolios and potential acquisitions
- Incorporating physical adaptation and mitigation measures for assets at risk

- Including climate risk in their due diligence processes
- Investing directly in mitigation measures for specific assets
- Getting involved in local resilience strategies with policy makers

The construction sector is also adopting new methods and materials to both limit their resources and energy consumption and resist climate-related extreme weather.

These actions bring the sector more in step with much of the business world. More than 500 of the largest companies are now part of the Science Based Targets initiative that champions competitive advantage in the transition to a low-carbon economy.

Moving beyond regulation

Regardless of voluntary actions, the real estate and construction sectors, like every other sector, has to adhere to the rising tide of climate-related regulations. All European countries are now following a path to tighter regulation and more demanding standards. In Germany, the European Energy Performance of Buildings Directive (GebäudeEnergieGesetz) will see numerous building efficiency regulations combined. And in France, by 2021, regulation will be tighter and impose several actions for the real estate sector. This includes low carbon strategies that either adopt new construction methods or integrate circular economy as well as the respect of biodiversity, which calls for reducing or ending soil artificialization, renaturing soil, or developing natural spaces in urban areas.

But even though regulation is mandatory, moving faster than regulation can be a key competitive differentiator. A demonstration of climate concern ahead of and even beyond regulation can prove invaluable

in today's marketplace, where climate and other social issues are playing a much larger role.

Taking bold action

The real estate and construction sectors are not only changing their attitude toward climate change but are embarking on bold actions to take mitigation even further. Recognizing their role in climate change, companies are thinking about even larger solutions that can help society at large limit temperature rise to below 2°C or 3.6 degrees Fahrenheit in the next 10 years, as stipulated in the Paris Agreement. These solutions are expected to revolutionize the sector's approach in four specific fields:

- **Energy production:** Every new building needs to be at least energy self-sufficient and ideally supply urban networks with additional production.
- **Raw material re-usage:** Each building must serve as a material repository: every refurbishment operation is an opportunity to supply other construction (infrastructure, housing, or other) with second-hand material. BIM and technology will facilitate inventorying and monitoring stocks.
- **Biodiversity enablement:** Biodiversity improvement should become a central pillar of every construction and rehabilitation operation, especially in dense urban areas where it is much needed for both health and temperature reasons.
- **Climate transition leadership:** The building sector has to take the lead in mitigating climate change by preparing its employees, products, and clients as well as the population for deep changes.

Leading the revolution

In order to achieve what represents no less than a revolution, the real estate and construction sectors will have to move quickly. They must review their operations and processes and supply chains. They need to adapt to new construction options, such as modular construction, and increase their R&D investments. And they need to recruit, hire, and train new positions like environmental or energy engineers and carbon specialists.

This will all require new ways of working with an increasing number of external partners as well as successfully leveraging technology to ensure fluidity, traceability, and accountability. It's a challenging ask—but one that is no longer optional. Because the time is now for the real estate and construction sectors to finally take a leading role in saving the planet.

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