Climate change and the real estate sector
From pleading guilty to delivering solutions
Climate change and the real estate sector | Real Estate Predictions 2020
For year’s 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 additional production.

- 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.

Authors
Stéphane Martin
stephmartin@deloitte.fr

Pierre Bernat
pbernat@deloitte.fr

Contact
Wilfrid Donkers
WDonkers@deloitte.nl