

Climate Risk Impact on Real Estate

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Physical Risks

Financial Impact

Time Horizon

Physical risks arise from damage to physical assets from extreme **climate events** (rising sea levels, catastrophic weather) and **earthquake events** — and become **financial risks**

- Reduced value of real estate (loan collateral, investments)
- Impacted business activity
- Property insurance claims

Time Horizon

- Immediate
- Event severity and frequency increased in recent years
- Exposure (built environment, people) increasing over time
 - More people
 - More buildings
 - More expensive buildings

Transition Risks

Financial Impact

Time Horizon

Transition risks arise from shift to 'green' economy

- Changing investor and consumer sentiment
- Policy responses to induce the transition (e.g., carbon taxes)
 - Mitigation costs
 - Business restrictions – and new opportunities
- Industry restructuring (coal, oil & gas, farming, construction, etc.)
 - Changed employment patterns while the labour force reskills

Time Horizon

- Longer-term/gradual impact
- Potential sudden changes when policy changes

Impact on Investing and Lending

- Depreciation of value of investments and companies
- Constraints on credit and potential loan delinquencies
- Changes in the company's strategic direction

Risk Transfer

- Insurance against losses from damages to buildings
- Business interruption insurance
- Property owner/business perspective: adequate level of insurance against natural peril (fire, flood, earthquake, etc.)

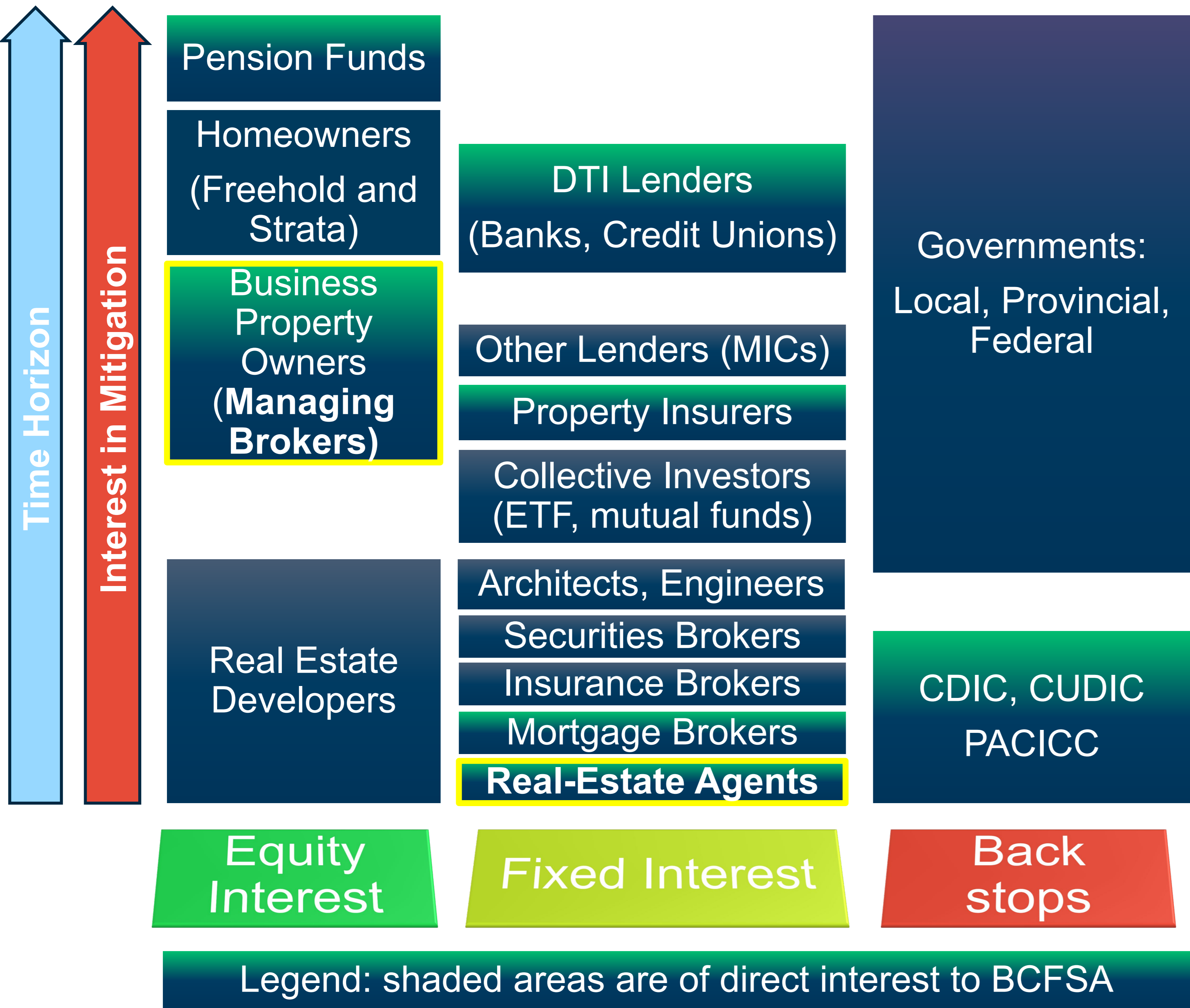
Adaptation

- FireSmart™ designation for homes
- Other environmental rating systems
- Retrofitting for homes
 - Energy efficiency
 - Against physical risks

Mitigating Climate & Earthquake Risk

Risk Transfer

Adaptation



Stakeholders' Interest in Real Estate

- Equity = title holders, “full” interest
 - Average holding time
- Fixed (or limited) Interest
 - Commission-based intermediaries
 - Collective investment vehicles
 - Property insurers
 - Lenders
- Back stops
 - For deposit-taking lenders (DTI)
 - For P&C insurers
 - For everybody (the residual risk)

Climate risk to the financial sector: real estate lending

- Transition risks
 - Physical risks
- ➔ need carbon footprint and resilience of buildings

Need: Ratings for buildings

- Hazard scores
- Resilience
 - Physical
 - Financial (incl. energy efficiency)

Financing options/opportunities

- Lending via financial institutions
 - Backed by government for public interest projects
- Incentives for owners of real estate
 - Mandatory disclosures for buildings
 - Financial incentives (e.g., tax discounts, etc.)

Regulator's Perspective on Real Estate

Need to quantify climate & earthquake-related risks of real estate

Financial Tools and Strategies

Core Elements of Recommended Climate-Related Financial Disclosures



- Governance**
The organization’s governance around climate-related risks and opportunities
- Strategy**
The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning
- Risk Management**
The processes used by the organization to identify, assess, and manage climate-related risks
- Metrics and Targets**
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

[Recommendations of the Task Force on Climate-related Financial Disclosures \(TCFD\)](#), 2017, established by Financial Stability Board in 2015

Evolving Regulatory Expectations

Evolving International Standards

Climate Risk Management Guideline B-15 – Office of the Superintendent of Financial Institutions (OSFI)

Next Steps

- BCFSA to publish a discussion paper on climate and earthquake-related risks
- Seek feedback from
 - **Managing brokers**
 - **Real estate agents**
- Based on the feedback
 - BCFSA to formalize expectations for its regulated sector on management and disclosures of climate and earthquake-related risks

**How Will
Climate Risk
Impact Your
Business
Operations?**

- <https://boabc.org/bc-building-code-changes-coming-may-1-2023/> : updated building codes for BC with increase energy efficiency requirements for new builds
- [McKinsey report](#) on climate risk and socioeconomic impact
- [First Public Report on the National Risk Profile](#)
- [CMHC report](#) on catastrophic flooding events and impacts on the Canadian housing market
- [IBC/CMHC report](#) on climate risk disclosures and actions in the Canadian housing context`

Additional Resources