EG News+Insight

COP26 in Review

EG's industry leading news and commentary on real estate's climate agenda during the first week of COP26

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Introduction

As week two of COP26 gets underway, EG News is keeping readers informed about the discussions, debates and announcements around real estate's climate agenda as they happen with an ESG special from EG editors.

Kicking off our climate coverage, EG reported on stark warnings from JLL's head of sustainability services and ESG, Guy Grainger. Without a plan to transition assets to net zero carbon, property companies could be unable to secure funding in just a matter of years, Grainger says. Climate needs to be front and centre for organisations, and they urgently need to put sustainability strategies in place.

Meanwhile, industry experts have contributed to EG's coverage with valuable comment pieces about what the sector needs to do in the fight against climate change. Among these is Fifth Wall partner Greg Smithies, who made the case for significantly ramping up investment in new technologies to drive decarbonisation. The challenge is enormous, and finding solutions is necessary, he argues.

EG's Samantha McClary also travelled up to Glasgow to feel the sense of urgency at COP26 in person and report on developments on the ground. You will see more from her throughout this week as the conference continues. Turning to UK cities, Julia Cahill led a webinar exploring the role our urban centres play in cutting carbon emissions.

Over the following pages you will find a selection of EG's industry-leading news and commentary on property's climate agenda in this ESG special.

Keep reading EG News for the very latest on the issues as the climate conference continues into its second week. For those of you in Glasgow, be sure to check out EG's exciting event, **Sustainability Live on the 11th November.**

News+Insight

Emily Wright

Companies without plans in place to make their assets net zero carbon could struggle to secure debt against them within as little as two years.

This was the stark warning from JLL's head of sustainability services and ESG, Guy Grainger, as he took to the stage at CREtech's debut London event last week.

"Your debt provider is in a much more heavily regulated and audited business than real estate," he said. "If you have no plans to transition your assets to net zero carbon, I would be surprised if you get a loan in two years' time. At all. Full stop."

Alarm bells

Speaking on day one of US-based event organiser CREtech's first European real estate tech conference, Grainger warned that the urgency around tackling climate change is greater than many in the real estate sector realise. Although he added that he didn't believe in the blame game, he made it clear that the consequences of ongoing inaction would be catastrophic – for the planet first and foremost, but for the sector, too.

The problem, Grainger said, is that there may not be a short-term return on invested capital when it comes to putting practices in place to create efficiency around energy consumption in buildings. This can discourage real estate businesses from investing at all. But he added that the repercussions of doing nothing will be far more costly down the line – and not as far down the line as many might believe.

"I would say most companies at the moment are not putting these practices in place because they have costed it and it doesn't make immediate financial sense. My question then is, how will you maintain liquidity and resilience in your business? Is this an asset that will still be liquid in three years' time if you do nothing? "If acting now means you can still get debt and you still have a liquid asset, there is your return on invested capital. Otherwise, you are up a creek and you don't have a paddle."

Grainger added that targets for 2030 and 2050 are well and good, but warned the sector not to get distracted by longer-lead time frames. He urged the industry to focus instead on a five-year plan: "How can we take those targets and strategies and turn them into real actions? We need to start with changing systems within buildings, we need to change the way we use buildings and change the way we develop and refurbish buildings.

"For too many organisations this stuff sits on the side of their desk while they get on with what they consider their day jobs. Actually, it is a case of putting this front and centre of everything you do."

He added that technology was well placed to help the real estate sector implement some of the practices required to tackle ESG and move towards net carbon zero. "A lot of the technology solutions we need are already here," he said. "The tech is not the challenge. We are the challenge, the people. That's where we hit a lot of bumps in the road, especially with new buildings."

"I am a great believer in the human spirit here saving the day."

Human spirit

A fear of change, of jobs being lost to tech solutions, or experimenting with solutions that might not work initially are all hurdles standing in the way of progress. Proper engagement with people within real estate around the benefits of technology will be crucial, said Grainger.

"People are not resistant to this on purpose," he added. "They are resisting because they haven't been told the full story around why change needs to happen and what role they will play in that change. We need to transition these people and tell the story well."

Does he think the sector will get there? He is hopeful. "I am a great believer in the human spirit here saving the day."

Greg Smithies

This year, the COP26 conference is shining a light on one of the world's biggest contributors to greenhouse gases: the global real estate industry.

The sector is responsible for around 40% of annual CO_2 emissions, consumes 40% of energy annually and uses 40% of raw materials. Buildings also consume water and require HVAC and appliances to run, meaning that every city around the world is home to mass-scale pollution issues, all of which contribute to the global climate crisis.

COP26 is exploring how policy can help the global real estate industry to decarbonise. That's good, but policy is just one tool in the toolkit. I think of policy as a finger on the scales, like using tax incentives to retrofit existing buildings. Incentives decreed by policy work slowly, and they usually fight a losing battle against profit motives that have decades of momentum behind them. What is really needed is increased R&D investment in the technologies that will quickly cut carbon emissions, and do so in a way that is economically advantageous.

New technologies

Current technologies are not enough. Some might think that if you have a LEED Platinum-certified building, you put solar panels on the roof and you use Energy Star-compliant appliances, then you're good to go. Unfortunately, this simply is not the case. Our analysis shows that existing technologies won't resolve even half of the CO_2 emissions from the real estate industry, which means we need to invent new technologies to tackle the challenge.

According to Morgan Stanley, decarbonising real estate requires around $15–20tn (£10.9–14.5tn) in investment. Over the past decade, according to our estimates, real estate firms have invested less than $100m into R&D in climate tech.

So the fundamental question at the heart of this challenge is: how can we bridge this funding gap? How do we get to the $15–20tn in investment required to decarbonise the real estate industry?

Today's real estate industry is an asset class valued at around $326tn, the largest in the world. But unlike other industries – transportation, energy and others – it is very fragmented, making it impossible for one player to move the needle independently. In the real estate industry, it is vital to align the economics in such a way that clean tech actually makes sense on an economic basis. This is a collective-action problem that requires a collective-action solution.

Drivers of change

To close this substantial funding gap, I see three principal drivers at the forefront of change. The first is the cost of capital. As I mentioned, there are $326tn-worth of buildings in the world, making real estate the world's largest user of capital. Many capital allocators, such as sovereign wealth funds, pensions and endowments, have made climate pledges and are chasing green projects, which is bringing down the cost of capital for greener buildings.

The second is the cost of insurance. The insurance risk associated with the impact of climate change is huge, and the world's insurance companies are in the process of reviewing their actuarial models to take forward-looking climate risk into account. Buildings are worth less if they are on fire or under water, so as wildfires, floods and hurricanes climb in intensity, the cost of insurance is similarly going to climb, often to levels where it becomes economically unviable to insure certain buildings.

The third is climate tech innovation – and we need a lot of it. The process of getting a new technology to market happens in three phases: fundamental research at the university level; tech transfer from the lab into manufacturing; and mass adoption of the technology by the industry. Government funding and grants are good at financing university research, and policies such as tax incentives are good at encouraging mass adoption of a technology once it is ready to be deployed on a massive scale.

However, that second stage – transferring technology from the lab and into manufacturing – is where neither government funding nor policy can make a big enough difference. This is where venture capital comes into play. We can look to the outputs of COP26 to help with government grants and government policies, but venture capital investment will be critical to helping transfer tech out of the lab and take it to mass-market adoption.

The writing's on the wall

That is the large-scale action necessary, but small-scale actions will also make a difference. For too long, the real estate industry's contributions to climate change have gone unnoticed in the public eye. To raise mainstream awareness, we recently unveiled the Choose Earth global mural campaign to facilitate a public dialogue about climate change issues associated with real estate. With these murals in New York, Los Angeles and Glasgow, Fifth Wall is bringing the conversation to the streets.

Now is the time to find new ways for the real estate industry to reduce its carbon footprint. But in order to benefit from tomorrow's innovations, it is essential that we invest today in technologies that will transform the built environment and combat climate change. ■

Greg Smithies is a partner and co-lead of the climate technology investment team at Fifth Wall