

# Climate adaptation: risk management, not idealism

Institutional investors are often assumed to move only once regulation forces them to. At Dutch investment manager Bouwinvest, that view is considered outdated. Sustainability and climate adaptation are not idealistic add-ons but an integral part of risk management, and a source of return, Timothy Prescott, Manager ESG at Bouwinvest, argues.

"We regard climate change as an inseparable part of investing in real estate," says Timothy Prescott. "We look, from our data-driven approach, at facts and physics." Shifting climate patterns and their economic consequences are, in his view, sufficiently substantiated by science, and will sooner or later be reflected in real estate valuations. Rising temperatures, changing precipitation, subsidence, heat stress and flood risk affect maintenance costs, rental value, insurability and residual value, with transition risks layered on top.

The argument rests on a physical fact: real estate cannot move. "It is a 'fixed' good: you cannot relocate it to a place with less physical climate risk," Prescott notes. An investor willing and able to look beyond the current set of transactions can therefore add value: less risk, more return. "ESG is not something that happens in a separate staff department. It is an integral part of our portfolio management, in which we try to look ahead with predictive models."

That forward view is anchored in the Carbon Risk Real Estate Monitor (CRREM) pathways, which indicate the carbon reduction needed to keep assets economically viable within future emission targets. But it remains a balancing act. Move too quickly and an investor risks over-investing, spending before the market rewards it; move too slowly and the risk shifts to write-downs, higher operating costs and weaker lettable.

Here a law of diminishing marginal returns applies. Taking a home from a D to a B energy label often delivers more value growth and risk reduction than lifting an already A-rated home to A++. The value of sustainability is becoming sharper, but it calls for nuanced, data-driven decisions rather than blanket spending.



The timing problem echoes Hemingway: bankruptcy arrives gradually, then suddenly. Climate risks accumulate quietly and then become visible all at once. Bouwinvest therefore analyses the returns and effects of its sustainability investments annually, to identify where the gains actually lie. Part of that concerns the debate over a "brown discount" versus a "green premium": whether poorly insulated homes are already being marked

down, or sustainable ones are earning a premium. The answer is hard to isolate in residential markets, where a structural housing shortage clouds the signal. But the signals are there, and warrant monitoring.

For Prescott, none of this requires an ideological foundation. "Ten years after the Paris Agreement, it looks as though we are heading for more than



two degrees of warming. Each additional tenth of a degree causes more economic damage than the last. For a long-term investor, the business case for decarbonisation and climate adaptation is crystal clear." That conviction is set out in the firm's ESG Investment Belief, which holds that a market correction for carbon will occur over its investment horizon. "Emissions are simply not yet well priced into real estate valuations, and that is going to change. The future cannot be postponed."

In practice, every portfolio undergoes a detailed risk inventory: first gross exposures such as flooding, subsidence and heat stress, then object-specific factors such as flood defences, soil type and the building envelope. Each home receives a climate-adaptation risk score, followed by probability calculations across the investment horizon, the basis for deciding how much total risk is acceptable. New acquisitions must be climate-adaptive as a baseline and are expected to sit within the CRREM pathway, while existing homes are continually reassessed for retention, further investment or sale.

Looking towards 2030, brown discounts are already materialising; green premiums, less so. "Whoever ignores carbon is investing against the clock," Prescott says. "The world is changing ever faster and is more volatile. That calls for predictive, data-driven analysis on the one hand and a steadfast investment approach on the other. We invest for the long term and must not be distracted by the hype of the year."



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