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Resilience management: a multifaceted approach to real estate investing

Regan Smith, managing director of real estate sustainability, explores why climate resilience management is vital in the face of climate change and the initiatives that can be undertaken in real estate portfolios and management practices.



Current policies to fight climate change aren't enough to stave off higher temperatures. Even if we manage to meet every global objective to reduce our carbon

footprint, we're still on track for a 2.4°C warming above preindustrial levels by 2100.¹ In fact, even if the world collectively mobilizes every single resource needed to transition to a low-carbon economy, the globe is still expected to warm up by 1.5°C to 2°C by the end of the 21st century.¹ Climate change is here, and it's at the forefront of financial and real asset discussions.

At Manulife Investment Management, we recognize that climate risk has progressively become a core real estate issue. As the impacts of climate change are increasingly felt around the world, it's vital for our investors, employees, and tenants to understand the importance of addressing physical climate risk. While climate change can't be stopped, we can build climate resilience within our real estate portfolios and across our real estate management practices.

Climate resilience: a mitigation and management approach

Climate resilience can be best thought of as a way to help mitigate climate change while simultaneously managing the business risks associated with it. We've built a three-step approach for real estate resilience management that involves creating awareness, continuous self evaluation, and integration of standards into business practices.

Our approach to building a resilience plan against climate change:

1. **Raise awareness:** to arm our teams with the right information and build internal capacity to manage climate risk and improve resilience
2. **Evaluate risks and opportunities:** to identify and understand climate risks and opportunities
3. **Integrate best practices:** by embedding resilience into our business through tools and processes to mitigate and manage climate risks

1 Awareness

There's still a lot of uncertainty and confusion on resilience and how it relates to climate change. While some of this is due to the inherent uncertainty regarding exactly how the climate will change, it also comes from lack of awareness and understanding

of this rapidly evolving topic. Raising awareness is vital to educating real estate stakeholders to understand the reality of climate change, how the climate is expected to change, how climate change can put a business and its operations at risk, what we can do to mitigate it, and how we can prepare and become resilient to its shocks and stressors.

We've implemented two approaches in improving climate risk and resilience awareness through:

- **Training:** is an effective tool to build internal competencies on climate change risk and resilience, and the potential consequences for our business. We train our teams by providing them with the knowledge and know-how to digest information and make better-informed decisions. For example, in 2020, we held trainings, in partnership with the [Intact Centre on Climate Adaptation](#), for our property operations and investments teams to give an overview on climate risk and resilience and why it's important.
- **Access to climate data:** A fundamental component to better understanding and analyzing climate risk is data. We use several sophisticated climate risk analytics and modeling tools to provide relevant and usable information to assess and quantify climate risk and incorporate it across our business teams. The type of data provided and level of detail varies based on the business and team function.

Team function	Business need	Data support
Portfolio management	Require high-level information on how climate change may affect the value of assets	Provide fund managers with portfolio-wide carbon delta evaluation data
Investments	Need to understand	Provide investment

	potential physical risks to inform underwriting decisions	teams with physical climate data for every new deal
Property management	Need to understand the risks they're subject to and how resilient they are to them	Continuously evaluate our entire portfolio and share results with teams

For illustrative purposes only

2 Evaluation

Identifying and understanding the climate risk to a company or portfolio enables the development of resources and tools to effectively manage that risk and improve resilience. We take a company-wide approach to understand our real estate portfolio's climate threats, inventory our existing resilience practices and features, and identify improvement opportunities for climate change management.

Our approach includes an evaluation on both the organizational and portfolio levels. On the organizational level, we conduct a firm-wide assessment to evaluate our current methods and programs that address or intersect with climate risks and resilience. On the property level, we conduct property-level surveys across portfolios to understand property-specific risks and resilience practices. Property-level assessment includes three components:

- **Exposure assessment:** where we use forward-looking climate data to understand exposure to location-based physical climate-related risks.
- **Sensitivity assessment:** where we use industry guidance and best practices to survey our portfolio and collect property-level resilience practices and features. This

includes management and planning practices (e.g., risk evaluation, emergency management planning, business continuity) and physical building features (e.g., water sensors, storm shutters, flood protection).

- **Resilience assessment:** where we use an internally developed assessment model to evaluate property resilience while combining physical climate risk data and results from our property resilience survey. This assessment supports our team in identifying properties at high risk and assessing the level of preparedness to those risks.

3 Resilience integration

Once improvement opportunities for climate change management have been identified, it's necessary to develop operational standards to enhance the resilience of current practices. We integrate our resilience standards into our global portfolio-wide sustainability program. Using a stepwise process to ensure property teams are putting into place essential measures to make our portfolios more resilient, we supplement it with training, guidance, and tools to support action, while incorporating new initiatives to help teams progress and improve.

Resilience is more than just property operations. We also focus on embedding resilience into other aspects of our real estate businesses. Within our investment portfolios, we conduct physical climate risk evaluations during our standard due diligence process. We're also planning to incorporate climate risk and resilience into our real estate development process, are looking to incorporate physical climate assessments when evaluating site selection, and are in the process of identifying standard resilience measures to include in the design process.

Climate change risk management is constantly evolving

Resilience is an ongoing initiative that continues to evolve rapidly. At Manulife Investment Management, we believe that developing a comprehensive approach to addressing physical climate risk across the organization is key to resilience management. Our focus on awareness, evaluation, and integration supports us to further protect our assets as we all look to transition toward a low-carbon economy and help the fight against climate change.

1 [“Climate summit momentum: Paris commitments improved warming estimate to 2.4°C,”](#) Climate Action Tracker, May 2021.

Editor’s note: Much of this material originally appeared in [GRESB, June 23, 2021](#).

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