

The Impact of Climate Change on the Real Estate Market

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ESG Principles and Real Estate Investment

The global finance investment industry has a diverse set of principles that guide its operations. These include environmental, social, and governance (ESG) principles. The ESG principles are a set of guidelines for sustainable investing that focus on the impact of an investment on the environment, society, and governance. They are designed to help investors make informed decisions about where they put their money so that it aligns with their values and goals. The [real estate industry](#) is where ESG principles play a crucial role. Real estate developers often build projects in areas with little or no infrastructure, which can cause environmental damage if not appropriately addressed during construction. In addition, many developers rely heavily on foreign labor to build their projects, which may need to be paid more adequately or treated fairly by management teams overseeing construction at each site location. Finally, some developers may also use unfair practices such as bribery to secure permits from local government officials who could otherwise block construction efforts altogether if they were not paid off beforehand.

Investors use these principles to ensure that their investments are not contributing to any negative impacts on society or the environment. They also help investors understand how companies manage these issues internally and whether they have explicit policies to address them. Many large investors have adopted ESG principles across the globe to ensure that they are investing responsibly. The idea behind them is that if everyone follows these principles, there will be less chance of environmental damage or human rights abuses occurring due to investment activity. The climate change discussion has raised the profile of climate-related concerns among those considering investing in real estate. To quantify the effects of climate change on properties worldwide, researchers use data from various sources, including official reports and independent surveys (Chazanas, 2022).

Climate Change and Property Operating Costs

Extreme weather systems, such as hurricanes and tornadoes, and large-scale catastrophes, such as forest fires and floods, become more frequent and intense as average temperatures rise (Chazanas, 2022). These occurrences make it more difficult to manage the expenses and condition of the property in the real estate market annually. The expenses associated with maintaining a rental property may be directly affected by a rise in temperature. More people are expected to use energy to power fans and air conditioners this summer. The greater the demand, the higher the price of

these items will be. The rising price of these items is being observed in real-time.

Real Estate Exposure to Climate Risk

According to the total value of all assets, real estate is the most popular investment choice in the world. However, real estate is more sensitive to climate change-related calamities when compared to other asset classes such as equities, bonds, gold, and cryptocurrency. The worldwide housing and residential real estate market are vulnerable to the danger of floods, fire, and other natural calamities. A storm in the United States destroyed thousands of homes and apartment complexes in only a few short hours. The frequency of floods, hurricanes, storms, and cyclones, among other severe weather phenomena, is thought by many scientists and environmentalists to be on the rise due to climate change.

Global Property Risks from Extreme Weather

According to Tahir (2021), As much as 35% of the world's real estate is at danger due to climate change as based on the data, 17 percent of these locations are at risk of experiencing inland flooding. In addition, 12% are in danger from hurricanes and typhoons, and 6% are affected by rising [sea levels](#) and coastal floods (Tahir, 2021). Real estate investors in Chicago, on the shore, are factoring in predicted increases in sea level when they determine a property's worth. Also, properties in areas more likely to be impacted by natural catastrophes like floods, tsunamis, and cyclones are seeing lower offers from buyers and sales prices from sellers.

Criticism and Greenwashing in ESG

Marketing of ESG often emphasizes its benefits not just to society but also to businesses and investors. However, the expectations for ESG have far exceeded the substance of the concept and the results it can provide. Consultants, banks, and investment managers that stand to profit from ESG are enthusiastic proponents despite data that supports their claims of financial benefits being, at best unclear and, at worst, flatly contradictory (Cornell & Damodaran, 2020). Consumers and investors may lose faith in green goods and ecologically responsible businesses if they suspect greenwashing (Delmas & Burbano, 2011). This might make them less likely to reward such businesses for their positive environmental performance. Companies will have more motivation to engage in ecologically harmful activity, which has been demonstrated to result in negative externalities and reduce societal welfare (Delmas & Burbano, 2011).

Conclusion

In conclusion, it is reasonable to assume that climate change has had a major impact on real estate assets and the market. Real estate investors worldwide are pressing for more disclosure from their local governments of the risks and costs associated with climate change. Similarly, financiers have seen that strict Environmental and Social Governance (ESG) compliance standards for structures are now essential in the face of climate-related catastrophes and dangers. To effectively enforce ESG standards worldwide, climate-related data must be standardized and automated. The dissemination of climate-related data, says experts, will be a key factor in deciding a real estate firm's success.

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