Climate Change Risks to Real Estate Investment

Real estate developers are increasingly becoming aware of climate risks and are factoring the effects of climate change into real estate investments.

BY ALEXANDER OPICHO

Traditional analysis of risks related with investment in properties and real estate industry had been confined to architectural and financial risks for a long time. The fear of failure to recoup capital invested, or interests on loan remaining higher than incomes from the property have been the key centre of focus when it came to real estate risk prediction and management. This was when the days were good in terms of predicting nature. But things are not the same now for real estate owners and developers. Being underwater of under the weather, for them, has long been metaphorical, only signifying tough times, when property debt exceeds property value, or expenses exceed income. But the term has now coined a new meaning for developers and investors alike: Real estate property could actually be under the weather because of climate change. According to the 2019 Study done at Northmburia University published in The Conversation, there are myriads of risks emanating from anthropogenic globe warming (AGW) affecting property valuation and the general economic performance of the real estate sectors across different markets of the world.

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Extreme weather slows real estate investment

According to the above mentioned study, most notable climate change related risks that affect property market today are hastened physical deterioration of the property leading to un-manageable rate of depreciation and physical obsolescence in property: Extreme temperatures affecting occupancy; wild winds like tornadoes, cyclones, hurricanes and Tsunami, wild fires, stray wildlife, floating coastal lands, changing sea levels, acute storm surges, wild rains, and un-predictable water levels that lead to complete unavailability of ground water.

Very many recent cases from across the world positively testify to the above findings in the Northmburia Study; the late 2019 cyclone Idai which destroyed the coastal city of Berai in Mozambique is one of the glaring example of how climate change is affecting human settlement and hence the economy of real estate and property market. Although the media and research institutions have not yet published the Climate Change perspectives of the early 2020 Australian wild fire, but still it is already clear that most families were rendered homeless in Australia due to extreme temperatures and pollutant smokes from the wild fires. The winds pushed smoke and high temperatures from the wild fires towards urban areas. There was no option, but involuntary mass relocation to new and safe places. Hence, the old homes were rendered valueless. You don't need to be a scientist

though to understand that economic and physical climate change effects could adversely affect real estate. The risks are just too many, too obvious and of massive scale and pace.

No cause for alarm

Unfortunately, The Northmburia University Study only identified how climate Change affects real estate economy; it did not generate solutions and strategies which the players in the real estate economies can adopt to counter the possible physical and financial barbs of climate change. Bjorn Lomborg, the Author of Environmental Skepticism and a key consultant at the Copenhagen Think Tank, an organization that researches into climate change, dismisses over-alarmist arguments about global warming and global cooling, like those perpetrated by the World Watch Institute and the Kyoto Protocol. He argues that history of the earth has no any statistical evidence which can help to justify human fear about climate change. However, Lomborg also argues in a positive tone that those investing in the real estate can avert the perceived climate change related risks by adopting latest risk management technologies, latest civil engineering advise, avoid encroaching on the coastal lands and also buy property insurance policies covering the property owners and investors against climate change related risk. Above all else, Lomborg is for the idea of mass movement for 'green real estate' approach to property development.

Greening the real estate

The Concept of 'Green Real Estate' requires that we uphold green culture in our building and construction, we plant trees as part of housing strategy and that we buy building materials from the suppliers that are compliant to green culture like ISO 14000 Standardisation with focus on minimum tree feeling and minimum wood consumption during the building process.

This means that the developing financial markets like the one in Kenya need to work hand in hand with the lawmakers, engineers and risk management experts to come up with laws that provide for insurance coverage against climate change. They should also do some financial engineering in designing financial instruments than can be used to accommodate or even avert the climate change related financial risks on the Kenyan property market. This, in a nutshell brings us to the fresh awakening that climate change is going to widen the future scope of risks to be borne by investors on the property market. They all must come together and work with governments if they want to stay afloat. The real estate players should formulate and implement policies of protecting the earth by paying for climate change risk mitigation. Otherwise all of you, tenants included will end up underwater/ under the weather literally and financially.

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