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European Climate Adaptation Plan

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Managing climate risk

Climate change poses significant challenges to the real estate sector, making the management of climate-related risks crucial for the longterm creation and preservation of asset values.

Physical climate risks, such as extreme weather events, rising sea levels and changing temperature patterns can directly impact real estate values, operational costs and insurance premiums. These risks can lead to asset damage, reduced property attractiveness and increased expenses.

At LaSalle, our Climate Strategy follows two pillars - managing physical climate risks and managing the transitional risks associated with the transition to a low-carbon economy. By aligning the management of physical and transitional risks, we believe that we can develop comprehensive sustainability-related strategies (including directly in respect of climate change risks) tailored to client investment objectives designed to enhance the likelihood of mitigating the loss of value and/or increasing portfolio value on behalf of our clients. This integrated approach allows for more complete risk assessment, informed decision-making and the identification

of opportunities in the evolving market landscape. Further, implementing adaptation measures to mitigate physical risks often coincides with efforts to reduce carbon emissions, improving both climate resilience and carbon performance.

As climate change continues to reshape the real estate landscape, a holistic risk management strategy becomes not just a responsibility, but a competitive advantage in both protecting and creating value.





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Our commitment

As a Better Buildings Partnership Climate Commitment signatory, LaSalle Europe has developed a comprehensive climate resilience strategy for our managed assets and target investments and is committed to disclosing our progress and performance on our strategy. This document outlines our climate resilience efforts, risk management strategies, tools and metrics.

Climate risk evaluation

The evaluation of both physical and transitional climate risk includes several chronic and eventdriven physical hazards, as well as legislative and regulatory changes across global jurisdictions. This allows us to assess the materiality of the potential financial impact from both types of risks.

Our approach to managing physical climate risk



Our methodology

LaSalle Europe mainly relies on a preferred third-party data provider for physical climate risk assessment, to understand potential risk exposure at an asset and portfolio level. They provide physical climate risk models in eleven different scenarios, and outputs a CVaR (Climate-Value-at-Risk) for seven hazards separately at a specific latitude/longitude location.

For each of these hazards, they produce CVaR (Climate-Value-at-Risk) for four different timehorizons: 2030, 2040, 2050 and 2100. In addition to reporting a CVaR, the model also produces the hazard level of each respective hazard, which describes the physical outcome as a hazard level associated with each hazard, e.g., for flood hazards it reports the inundation depth in meters at the asset in a 1-in-100-year event.

For completion, assessment of CVaR results allows us to form a view with respect to the potential impact of climate risks on value and costs (these may be positive or negative) and functions as one reference point when assessing all those matters which form part of our investment decision making process and asset business plans.

| | | Hazard level (severity of hazard) | Financial Impact (Value at Risk % of Capital Value) |
|-------------------|-----------------------------|--|---|
| Hazard | Unit | Current Year / 2030 / 2040 / 2050 / 2100 | 2030 / 2040 / 2050 / 2100 |
| Coastal Flooding | Inundation depth (m) | Yes | Yes |
| Fluvial Flooding | Inundation depth (m) | Yes | Yes |
| Pluvial Flooding | Inundation depth (m) | Yes | Yes |
| Tropical Cyclones | Wind speed | Yes | Yes |
| Wildfire | Fire probability (annual %) | Yes | Yes |
| Extreme Cold | Days < 0°C | Yes | Yes |
| Extreme Heat | Days > 30°C | Yes | Yes |
| Precipitation | Days >20mm precipitation | Yes | No |
| Snowfall | Days >5cm snow | Yes | No |
| Water Scarcity | Days >60% water stress | Yes | No |
| Wind gusts | Days > 24m/s wind gusts | Yes | No |



What is 'Climate Value at Risk' (CVaR)?

CVaR is the key metric provided by our primary climate risk data provider as a measure of the change of an asset's climate risk, represented as a proportion of its total value. This metric is produced without complete information on the local conditions at the asset that may mitigate exposure to certain hazards; e.g., if a property has an elevated floor plate that could mitigate exposure to flood risk. For that reason, we use the results of the climate risk analysis to highlight potential climate-related risks, which triggers further investigation into the local conditions and asset specifics. For each of these hazards, they produce CVaR over four different time-horizons: 2030, 2040, 2050 and 2100. In addition to reporting a CVaR, the model also produces the hazard level of each respective hazard, which describes the physical outcome as a hazard level associated with each hazard, e.g., for flood hazards it reports the inundation depth in meters at the asset in a 1-in-100-year event.

This analysis of both acute and chronic climate risk is expressed under 11 different scenarios under both IPCC and NGFS future projections, with expected annual temperature rise ranging from 1.5°C to 5.0°C by 2100 across the different scenarios.

Three Stages of undertaking CVaR assessment

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Stage 1

Objective

Hazard screening using our preferred thirdparty Climate Risk data provider, which provide global coverage and report a CVaR for six climate hazards, as well as providing overall risk banding relative to a global benchmark.

Result

This stage covers our global AUM as well as assets we consider for acquisition where results are incorporated in our Investment Committee material together with other relevant data points.

Stage 2

Objective

Where an elevated risk exposure is observed in the first step, we also investigate the presence of infrastructure that would mitigate risk exposure, e.g. flood defences. We also review additional data sources, this include other third-party data providers, or hazard models from local and national bodies as well as historical risk exposure data.

Result

Evaluate and report results from other sources and detailing the potential mitigating infrastructure in place. From this we decide if further action or expense is required.

Stage 3

Objective

Engage with consultants who specialize in building resilience assessments to evaluate building level strategies to mitigate risk, this can entail further detailed risk assessment, of building specs, detailed elevation maps and potential mitigation plans.

Result

Decide on asset level strategy assessing risk exposure and available options and investments. The CVaR is calculated as the NPV (Net Present Value) of the change in expected loss for each individual hazard and combined for each available time-horizon and scenario.

In addition to using our preferred climate risk data provider, for every acquisition we do in the UK, we contract an independent flood risk assessment as part of the technical due-diligence process to better understand potential flood hazards present at the asset level. Additionally, as our research with ULI has highlighted, there can often be a wide divergence of risk across climate risk data providers, to give us a broader view we can access risk reports from secondary climate risk data provider on a need-by basis. In general, we decide to conduct site surveys where potential risk above our internal risk threshold may exist.

Limitations

A known limitation to our methodology includes evaluating the loss to infrastructure adjacent or near the site, the loss of which could materially impact the asset's value. For example, the loss of access via the local road network or damage to public transport infrastructure. Additionally, modelling risk exposure due to supply chain disruption caused by extreme weather events is a further limitation.

The climate risk data provider's risk models also do not include adaptation measures in place at the asset or planned improvements to future local infrastructure.

Integrating climate risk into our investment process

Our Global Sustainability team works with our climate risk data providers and with our regional sustainability teams, to integrate climate risk analysis into the investment process.

Our approach to asset-level evaluation of physical risk exposure starts with screening the asset's location using our preferred third-party climate risk data provider. If this screening shows elevated risk to value, we will further investigate the degree of risk exposure using additional data sources; these can be other third-party climate risk data providers or from local or national

Building resilience into our real estate portfolios

Amongst other financial and non-financial risks and opportunities we assess, efforts to mitigate impacts from both acute and chronic physical climate risks are considered at an asset-by-asset basis and having regard to longer term value implications, tailored to the needs and conditions of the asset. The following are examples to highlight the foregoing.

Addressing chronic risk

Spain faces significant water stress to prolonged droughts, over-extraction of groundwater and the detrimental impacts of climate change, which can lead to elevated flood risk during heavy rainfall. For a Spanish retail asset, the view was taken that value could be protected via the installation of a storm tank to buffer the peak demands of the local drainage system, that could also be used to store water for the asset's watering system, both mitigating the risk of flooding and reducing municipal water demand.

Addressing acute risk

An office asset that is currently under an extensive re-development scheme was flagged as having an increased risk of flooding that would mainly impact the lower basement levels of the building. This risk was confirmed by geotechnicians and structural design teams and will have a significant impact on the property's technical rooms (and hence its value). Therefore, it was decided to completely waterproof the technical rooms at risk to mitigate the risk of damage from flooding.

governing bodies, along with information on local infrastructure that could mitigate risk exposure. If we still deem that there is a significant material risk to the value of the asset, we will engage with qualified consultants to evaluate the asset's physical resilience and propose mitigation strategies and/or an emergency response plan that would be costed into the underwriting plan for the investment. Where material risk to the underlying value is identified in connection with sustainability related issues, we work to integrate considerations around physical climate risk across the investment process. At the strategic level we consider and evaluate market-level risk exposure where we deem it relevant as exemplified in our ISA Brief: <u>Climate risk in</u> <u>practice: Regional, market and asset-level views.</u>

At the portfolio management stage, data on climate risk exposure is updated on a quarterly basis, and risk profiles are shared with the fund and asset teams which can support buy/hold/sell decisions and strategic fund planning. This also feeds into our asset management work, where we look to implement adaptation strategies for our assets where its deemed required due to the risks these create to the value of our clients' portfolios.

How might physical climate risk impact real estate financing?

At LaSalle, we consider sustainability within our lending platform and offer green lending for projects that incorporate certain environmental objectives. Our lending platforms also conduct climate risk assessments to understand what exposure our loan portfolio would have to physical climate hazards as these indirectly impact the risks associated with the loans we made on behalf of our clients. This process is completed in the same way as our equity portfolio, in that we utilise available climate risk data to identify the exposure to physical climate risk. If a deal has elevated risk, we then approach the borrower to understand if sufficient capex has been underwritten in their business plan to mitigate against these risks.

Evolving our strategy through research and thought leadership

Over the last few years, we have worked with the ULI and published two reports relating to physical climate risk and the real estate investment process. The report <u>How to choose, use and</u> <u>better understand climate risk analytics</u> provides guidance to the industry on how to evaluate the output of the many climate risk data providers available in the market and discusses how users of these analytic tools can interpret climate risk data. The report highlights the challenges investors face when considering exposure to physical climate risk hazards, as different climate risk providers can express widely different estimates of risk exposure, highlighting the need to consider multiple different sources.

The second report <u>Physical climate risk and</u> <u>underwriting practices in assets and portfolios</u> maps out more broadly how climate risk analytics is integrated in to the investment process across the industry, and highlights what leading firms are doing based on a wide set of interviews of market participants.

We continuously work to understand the market dynamics from the perspective of sustainability. We take a view on sustainability and investment performance through our framework of sustainability performance indicators, tracking efforts that both help to create and protect value at the asset level. In 2023, we published the report What is the value of green? Looking at evidence linking sustainability and real estate outcomes, which presents the framework of sustainability performance indicators that can be viewed as both value drivers and value protectors. The report highlights findings from a large number of studies linking sustainability attributes to positive outcomes, mainly as attributes driving rent and value premiums. In addition to considering reports with external findings we also work to internally track outcomes of our sustainability efforts on an asset-by-asset basis.

There is, however, limited evidence of marketwide response with respect to climate risk resilience. Results from a <u>2022 Global ESG survey</u> conducted by CBRE shows that 22% of investors would seek a discount if resilience to effects of climate change was absent at the asset location, and conversely 37% of respondents would be willing to pay a premium if resilience measures were in place. Similarly, there is limited evidence in the market regarding occupier dynamics. We do however recognize that locations that have significant and unmitigated exposure to climate risk could be impacted both from the perspective of seeing decreased occupier demand and liquidity.



Looking ahead

The science of modelling and predicting the impacts of climate change is ever evolving, and with that climate risk data providers in the market constantly update their product offerings. We continually review climate risk providers available in the market to ensure that to the extent such matters are one of the many factors in our our investment decision making process, they are is driven by up-to-date and robust data.

We also look to improve the quality of our data, with a focus on better understanding localised adaptation measures taken by cities and local authorities, to better understand how that impacts the risk exposure of our held portfolios.





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