C Change survey
Decarbonisation rises up the investment agenda
The Urban Land Institute is a global, member-driven organisation comprising more than 46,000 real estate and urban development professionals dedicated to advancing the Institute’s mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI’s interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics.

Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 81 countries. ULI has been active in Europe since the early 1990s and today we have more than 5,000 members and 15 National Councils.

The extraordinary impact that ULI makes on land use decision making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanisation, demographic and population changes, new economic drivers, technology advancements, and environmental concerns. Drawing on the work of its members, the Institute recognises and shares best practices in urban design and development for the benefit of communities around the globe.

C Change is a ULI-led programme to mobilise the European real estate industry to decarbonise. We’re a movement empowering everyone to work together for a sustainable future. We connect the brightest minds from across the value chain. We challenge barriers, share expertise, and champion innovation to move swiftly to accelerate solutions that will transform our industry and protect our planet. C Change means real change.

C Change was formed in late 2021 by a group of leading real estate players that was united in its aim to focus on collaboration to ensure companies large and small have access to practical solutions and education on decarbonisation.
Introduction

As climate risks become a greater factor in investment decision-making, it is important to understand how market practice is evolving to adapt to these new challenges.

Investors and managers need to factor in two types of climate risks: physical risks such as flooding or the consequences of hotter periods of weather as well as transition risks, which are those risks associated with the move to a low-carbon environment.

Enabling investors and managers to assess and disclose transition risks was identified as a key priority for the ULI C Change programme, which aims to speed up and scale up decarbonisation of the built environment.

As transition risks cannot currently be factored into formal valuations, there are education and information gaps in the market about the impact of these risks. This is causing owners to under-estimate the affect they can have on value or not being aware of the challenges and costs to decarbonise assets in their ownership.

It is a technical issue for the industry to resolve but will also impact society if we do not remove the barriers to decarbonise the great majority of our buildings. Stranding assets in cities can threaten the livelihood of neighbourhoods and contribute to social decline in communities.

In response to this challenge, ULI C Change published the Transition Risk Assessment Guidelines in June. These guidelines support a common methodology to assess and disclose transition risks by identifying 12 transition risks which are of material impact to real estate assets now and in the future.

These guidelines have been introduced into a challenging market environment, as the industry has contended with the economic impact of rising interest rates and inflation. The resulting slowdown in transactions has only added to the challenges for investors and managers.

Amid these market conditions, this survey checks in on industry progress on decarbonisation and examines if transition risks are already influencing acquisitions and disposals. It is also a useful opportunity to gauge the awareness of the ULI C Change Transition Risk Assessment Guidelines.

The adoption of the guidelines calls for investors and managers to adopt a carbon price so respondents were also asked about their current views on this emerging area of investment practice for decarbonisation.

The ULI C Change Decarbonisation rises up the agenda survey was answered in full or part by 224 respondents. Depending on industry discipline, respondents were asked a range of questions with a focus on investors and managers for the investment decision-making sections of the survey. See page 25 for more information.
Executive summary

Transition risks have already become a significant factor in investment decision-making, adding a new layer of risk analysis to an already challenging market.

The survey has shown that 89 percent of investors and managers now factor in transition risks, indicating these risks are being taken seriously by a growing part of the market. This heightens the need for a common approach and collective action to support the decarbonisation of the built environment. This is particularly important as the industry also contends with the adoption of transition risk analysis in difficult market conditions.

Over 60 percent of investor and manager respondents said that transition risks were impacting acquisition decisions in “nearly all” cases or “often”.

This has resulted in acquisitions not going ahead for 61 percent of respondents. Separately, 54 percent of respondents have allocated assets for disposal because of these risks.

For transactions that went ahead, pricing has already started to adjust to account for transition risks, according to the survey results. Around 62 percent of investor and manager respondents have completed an acquisition at a lower price due to a transition risk assessment. The price was negotiated down due to the higher levels of capital expenditure required and a need for the asset to align with the buyer’s decarbonisation strategy.

Related to the existing portfolio strategy, more than 65 percent of respondents indicated that transition risk analysis led to increased capital expenditure allocation while 44 percent indicated this led to allocating assets for disposal.

On the disposals side, assets earmarked for sale were sold in the case of 50 percent of respondents. While based on a smaller sample size, market conditions are a factor and were holding back a potential sale for 38 percent of respondents.

Again, pricing was a factor with the sale being achieved at a discounted price for 46 percent of respondents. However, for 38 percent of respondents pricing was not affected, implying an information gap with not yet all buyers’ due diligence including transition risk analysis.

The ULI C Change Transition Risk Assessment Guidelines are gaining visibility in the industry with 62 percent of all respondents being aware of the common methodology to assess and disclose transition risk as part of property valuations. In addition, 92 percent of respondents agreed that the guidelines would be useful to support transition risk analysis.

So far, carbon pricing is a minority activity for the industry with just 8 percent of investor, manager and developer respondents working in organisations that are implementing a fee-paying carbon price while a further 4 percent of respondents were incorporating shadow carbon pricing.

The low participation rate demonstrates the need for education and industry leadership on this topic, which was also reflected in the survey results. When asked for the next best steps to increase the use of carbon pricing, respondents were keen to see direction whether that was through regulation as suggested by 61 percent of respondents or through industry guidelines at 60 percent. There was also a clear need for education with 58 percent considering more understanding of carbon pricing to be a next best step.

A lack of knowledge on carbon pricing also led to a wide range of barriers to implementation with the lack of data and data consistency leading the varied responses at 48 percent. Around 39 percent of all respondents thought lack of regulation was a main barrier while the current lack of industry take-up was also an issue at 36 percent.
1. Net zero targets

The results of the survey show a strong uptake by all organisations setting net zero targets with 61 percent of all respondents currently having one in place (Figure 1). For those without a target, 43 percent planned to develop one within the next three years (Figure 2).

At 54 percent, one third of all respondents used a science-based target (Figure 3). Other industry frameworks that were mentioned regularly include World Green Building Council Net Zero Carbon Buildings Commitment, Better Building Partnerships Climate Change Commitment, CRREM pathways and the Net Zero Asset Managers Initiative.

The other main characteristic mentioned by 45 percent of all respondents is that the net zero target is publicly communicated.

When it comes to the scopes covered by net zero targets, 38 percent of all respondents said their organisation covered scopes 1 to 3 (Figure 4). This was followed by 22 percent, which covered scopes 1 and 2. Around 14 percent of respondents tracked one scope. In most cases, this was Scope 1 but not always.

As part of reaching net zero, organisations are still quite heavily relying on off-setting with 40 percent of all respondents expecting to use it to support their net zero targets (Figure 5).
Figure 3

**Characteristics of net zero targets**

- Science-based target: 54%
- Publicly communicated: 45%
- Industry framework: 20%
- Third-party validated: 18%
- Proprietary framework: 13%
- Don't know: 8%
- Other: 3%

*N=103, all respondents. Percentage of respondents indicating a characteristic.*
Figure 4
**Range of emissions scopes covered**

- Scope 1 only (6%)
- Scope 2 only (4%)
- Scope 3 only (4%)
- Scopes 1 and 2 (22%)
- Scopes 1, 2 and 3 (38%)
- Don’t know (26%)

N=103, all respondents

Figure 5
**Plans to use off-sets to help reach net zero targets**

- Using off-sets (40%)
- Not using off-sets (36%)
- Don’t know (24%)

N=103, all respondents
2. Role of transition risks in investment decision-making

The survey results show greater adoption of transition risks could be achieved through wider education on the topic in the industry. The main barriers to incorporating transition risks were seen as a lack of knowledge on datasets/methodology as well as the skills required by 47 percent and 46 percent of all respondents respectively (Figure 6). A challenging corporate environment was also a barrier with slow take-up internally/competing priorities as the third most likely choice at 41 percent.

However, the results also show the business case for decarbonisation is clear with respondents recognising the benefits of incorporating transition risks is to meet future demands of investors at 64 percent while the future demands of occupiers come third in the rankings at 46 percent (Figure 7). The reality of regulation is also on the minds of respondents with 52 percent focusing on transition risks ahead of regulation.

The ULI C Change Transition Risk Assessment Guidelines are gaining visibility in the industry with 62 percent of all respondents being aware of the common methodology to assess and disclose transition risk as part of property valuations (Figure 8).

The potential of the guidelines was evident with 92 percent agreeing that they could support transition risk analysis (Figure 9).

A smaller sample of investor and manager respondents showed that companies are engaged with the guidelines with 34 percent discussing adoption within their organisation while 24 percent were considering producing a case study to better understand the impact of the guidelines (Figure 10).
Figure 7
Main benefits of incorporating transition risks

Meeting (future) demand from investors 64%
Anticipating future regulatory requirements 52%
Meeting (future) demand from occupiers 46%
Supporting the industry to align with Paris Agreement targets 42%
To effectively translate corporate targets into policy and execution 42%
Anticipating future best practice for organisations 39%
Potential (short-term) competitive advantage for organisations 23%
Securing new income opportunities (eg income from renewable energy) 16%
Other 4%

N=134, all respondents. Percentage of respondents indicating a benefit.

Figure 8
Awareness of the ULI C Change Transition Risk Assessment Guidelines

Aware of guidelines (62%)
Not aware of guidelines (38%)

N=143, all respondents
**Figure 9**
Can ULI C Change Transition Risk Assessment Guidelines support transition risk analysis?

- Yes (92%)
- No (8%)

*N=105, all respondents*

**Figure 10**
Plans to use the Transition Risk Assessment Guidelines

- Discussing the potential for the guidelines to be adopted within organisation: 34%
- Developing a case study for the C Change programme: 24%
- No plans at present: 21%
- Testing the guidelines on all or part of portfolio: 13%
- Other: 5%
- Adopted the guidelines as main methodology for transition risk assessment: 3%

*N=31, check respondents. Percentage of respondents indicating a plan.*
3. Factoring in transition risks

Managing transition risks has become a significant part of investment decision-making with close to 89 percent of investor and investment manager respondents factoring them in, according to the survey (Figure 11).

These respondents report that the CRREM is an important tool in assessing transition risks with 56 percent using this methodology while the ULI C Change Transition Risk Assessment Guidelines were used by 13 percent of respondents (Figure 12). However, there was no other methodology that was consistently mentioned. Those using “other” frameworks mainly mentioned company-created proprietorial tools or using a range of datasets.

On average, investor and manager respondents incorporated 6.2 transition risks with the most common – at 77 percent – being cost of decarbonisation and minimum energy performance standards, which are required by regulation. The most likely transition risks incorporated tended to be those identified by the guidelines as being quantifiable in a discounted cash flow such as exit yields and energy costs at 66 percent and 61 percent respectively (Figure 13). The exception was tenant voids, which at 42 percent was lower down the rankings.

Less common were those risks categorised as non-quantifiable including access to insurance and internal resourcing at 29 percent and 21 percent respectively. More challenging aspects such as embodied carbon and carbon pricing were mentioned fewer times, which demonstrates the need for further education in these areas.

Figure 11
Organisations factoring transition risks into investment decision-making

Factoring in transition risks (89%)
Not factoring in transition risks (7%)
Don’t know (4%)

N=85, investor and manager respondents
Figure 12

Methodologies use to assess transition risks

- Carbon Risk Real Estate Monitor: 56%
- Other third-party methodology/datasets: 15%
- ULI C Change Transition Risk Assessment Guidelines: 13%
- Proprietary methodology/datasets: 13%
- Other: 2%

*N=61, investor and manager respondents. Percentage of respondents indicating a methodology.*
Figure 13

Transition risks factored in by organisations

- Cost of decarbonisation: 77%
- Minimum energy performance standards: 77%
- Exit yield: 66%
- Energy costs: 61%
- Obsolescence and depreciation: 58%
- Reputational risk: 53%
- Access to debt capital: 42%
- Embodied carbon: 42%
- Tenant voids: 42%
- Access to insurance: 29%
- Carbon price: 27%
- Internal resourcing: 21%
- Other: 6%

N=62, investor and manager respondents. Percentage of respondents indicating transition risks.
4. Transition risks in the investment process

While transition risks are permeating all parts of the investment process, they were most likely to be factored in by investor and manager respondents during initial acquisition due diligence and asset-level business plans at 90 percent and 84 percent respectively (Figure 14).

The results show that 50 percent of these respondents selected five or six of the options and therefore incorporating transition risks across most of the acquisition and asset/management process, reflecting that for many, the risks cannot be isolated to certain parts of the investment process.

Just 11 percent of investor and manager respondents said that transition risks had no impact on their portfolio (Figure 15). Instead, a better understanding of transition risks was resulting in 65 percent of respondents allocating further capital expenditure to assets with transition risks.

In addition, 44 percent of respondents had seen transition risks analysis result in assets being put up for sale.

When it comes to investment decision-making for assets with transition risks, the portfolio team leads with 69 percent of respondents reporting that this team has final say with advice from the ESG team (Figure 16). Just 6 percent of respondents report that the ESG team can override the decisions of the portfolio team when it comes to results of a transition risk assessment.

Figure 14

Parts of the investment process where transition risks are being factored in

- Acquisition due diligence: 90%
- Asset-level business plans: 84%
- Initial acquisition underwriting: 70%
- Strategic portfolio reviews: 69%
- Hold/sell analysis: 57%
- Disposal due diligence: 46%

N=61, investor and manager respondents. Percentage of respondents indicating part of investment process.
Figure 15
Impact of transition risks on portfolio strategy

- Assets with greater transition risks being allocated for capital expenditure: 65%
- Assets with greater transition risks being allocated for disposal: 44%
- Assets with lower transition risks being allocated for greater capital expenditure: 13%
- No impact on the portfolio: 11%
- Assets with lower transition risks being allocated for disposal: 10%

N=62, investor and manager respondents. Percentage of respondents indicating transition risk impact.

Figure 16
Decision-making process between ESG and portfolio/transactions team on transactions

- The portfolio/transaction teams make the final decision on transition risks with advice from the ESG team: 69%
- The relevant transition risks initiative are incorporated into the portfolio/transactions team so no further input from the ESG team is required: 14%
- The ESG has the authority to overrule the portfolio/transactions teams on final decisions around transition risks: 6%
- Transition risk considerations are not taken into account for acquisitions and disposals: 6%
- Other: 6%

N=51, investor and manager respondents
5. Transition risks and acquisitions

The impact of transition risks on acquisitions is already being felt strongly by the market. Over 60 percent of investor and manager respondents said that transition risks were impacting acquisition in “nearly all” cases or “often” (Figure 17). Just 5 percent of respondents say acquisitions were impacted “rarely” or “never”.

For 61 percent of these respondents, this has resulted in an acquisition not going ahead (Figure 18). The most common reason for a deal to fail was the asset not being in line with the portfolio or organisational sustainability strategy at 72 percent (Figure 19).

Future capital expenditure on transition risks is also a major factor in potential acquisitions. Around 64 percent said the asset was not acquired as the capital expenditure needed would mean return requirements would not be reached, while another 60 percent was not prepared to take on higher than expected capital expenditure.

Around 62 percent of investor and manager respondents said they had also dealt with acquisitions that had gone ahead but at a lower price due to a transition risk assessment (Figure 20). The price was negotiated down for the same main reasons that saw deals fail including the assessment showing higher levels of capital expenditure required and needing the asset to align with the decarbonisation strategy (Figure 21).

Investor and manager respondents were asked about acquisitions acquired for a higher price as a result of a transition risks assessment but just 5 percent of respondents had experienced this (Figure 22). The reason for an increased price was mostly due to the asset being well aligned with the company’s decarbonisation strategy.
**Figure 18**
Has a transition risk assessment resulted in an acquisition not proceeding?

- **Yes (61%)**
- **No (16%)**
- **Don’t know (23%)**

*N=43, investor and manager respondents*

**Figure 19**
Reasons for acquisitions not to proceed due to transition risks

- Asset did not align with overall portfolio or organisational decarbonisation strategy: 72%
- Asset did not meet minimum return requirements due to investment required to prevent stranding: 64%
- Asset required higher than expected levels of future capital expenditure: 60%
- Assessment made offered price less competitive: 24%
- Seller could not deliver required data for assessment: 8%
- Other: 4%

*N=25, investor and manager respondents. Percentage of respondents indicating reason.*
Figure 20
Has a transition risk assessment resulted in an acquisition completing at a lower price?

Yes (62%)
No (26%)
Don't know (12%)

N=42, investor and manager respondents

Figure 21
Reasons for an acquisition to proceed at a lower price

Asset did not currently align with portfolio or organisational decarbonisation strategy 68%
Asset required higher than expected levels of future capital expenditure 64%
Asset did not meet minimum return requirements due to investment needed to prevent stranding 56%
Seller could not deliver required data for assessment 8%

N=25, investor and manager respondents. Percentage of respondents indicating a reason.
Figure 22

Has a transition risk assessment resulted in an acquisition completing at a higher price?

Yes (5%)
No (85%)
Don’t know (10%)

N=41, investor and manager respondents
6. Transition risks and disposals

The survey also asked about how transition risk assessments are affecting hold/sell analysis. The results show that 54 percent of investor and manager respondents said they decided to sell certain assets because of a transition risk assessment (Figure 23). This analysis also prompted 30 percent respondents to hold onto certain assets.

Assets earmarked for disposal were sold in the case of 50 percent of investor and manager respondents but a few remarked that transition risks were only ever one part of the decision (Figure 24). While based on a smaller sample size, market conditions are a factor and were holding back a potential sale for 38 percent of respondents.

For 46 percent of investor and manager respondents, the sale was achieved at a discounted price (Figure 25). However, for 38 percent of respondents pricing was not affected, implying an information gap with not all buyer due diligence yet including transition risk analysis.

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**Figure 23**
Transition risk impact on hold/sell analysis

- Decided to sell certain assets: 54%
- Decided to retain certain assets: 30%
- No impact: 17%

_N=43, investor and manager respondents_

**Figure 24**
Most likely outcome when asset was earmarked for sale

- Sold: 50%
- Not yet put up for sale due to market conditions: 38%
- Other: 13%
- Still on the market: 0%
- Withdrawn from the market: 0%

_N=16, investor and manager respondents_
Figure 25

Most likely reason for affect on price when asset was sold

- The buyer factored in transition risks and it led to a discount in the transaction price: 46%
- The buyer did not factor in transition risks and it did not impact pricing: 30%
- The buyer factored in transition risks and it led to a premium in the transaction price: 15%

N=13, investor and manager respondents
7. Carbon pricing

Carbon pricing is emerging as a useful mechanism to support the industry to decarbonise. It can level the playing field in taking responsibility for emissions as it is based on the principle that the polluter pays. Carbon pricing is designed to incentivise a change in behaviour to reduce emissions more quickly.

Fee-paying carbon pricing sees companies set a price on carbon emissions. The money raised can then be used to fund further initiatives to reduce emissions. Other companies adopt shadow pricing. This assigns a theoretical cost to carbon emissions to encourage a company’s decarbonisation activities. Shadow pricing can sometimes be seen as a first step towards adopting the fee-paying model.

Some companies use offsetting initiatives to help achieve net zero and this should not be confused with carbon pricing. This is different as carbon emissions are offset by funding external initiatives such as forestry but it does not reduce emissions at the source.

Carbon pricing is still a minority activity for the industry with just 8 percent of investor, manager and developer respondents working in organisations which are implementing a fee-paying carbon price (Figure 26). A further 4 percent of these respondents were incorporating shadow carbon pricing. The carbon price used by fee-paying respondents was between EUR80-EUR100 per tonne. The lowest shadow price was EUR50 per tonne.

Based on a small sample of nine respondents whose organisation incorporate carbon pricing, over half said the main reasons were to support a strategy to decarbonise a fund or evaluate potential costs associated with carbon emissions. In most cases, the funding raised was used for innovation initiatives or decarbonisation across the wider portfolio.

There was just a handful of respondents implementing shadow carbon pricing and their reasons were in line with fee-paying respondents. There was no consistent trend as to whether they were using shadow carbon pricing as a gateway to a fee-paying approach in the next one to three years.

The barriers to implement carbon pricing were seen as wide ranging but lack of data and data consistency was noted by 48 percent of all respondents (Figure 27). Around 39 percent of all respondents thought lack of regulation was a main barrier while the current lack of industry take-up was also an issue at 36 percent.

The industry was keen to have guidance as a next best step to implementing carbon pricing whether that was through regulation as suggested by 61 percent of all respondents or through industry guidelines at 60 percent (Figure 28). There was also a clear need for education with 58 percent considering more understanding of carbon pricing to be a next best step.
Figure 27
Main barriers to implement internal carbon pricing

- Lack of data/data consistency: 48%
- Lack of regulations: 39%
- Lack of industry take-up of carbon pricing: 36%
- Lack of understanding of carbon pricing/market mechanisms: 35%
- Lack of consensus on price: 29%
- Concerns over the financial impact for assets/portfolio/funds: 26%
- Concerns over financial impact for organisation: 24%
- Impact on the competitiveness of the organisation: 22%
- Lack of understanding of reasons to adopt carbon pricing: 20%
- No buy-in from leadership/key stakeholders: 19%
- Lack of organisational commitment/resources required to implement: 19%
- Other: 3%

N=124, all respondents. Percentage of respondents indicating a barrier.
Figure 28

Best next steps to support companies to explore carbon pricing

- Regulation to be introduced: 61%
- Industry guidance to set best practice: 60%
- Better understanding of carbon pricing mechanisms: 58%
- Pressure from key stakeholders: 36%
- Better understanding of the reasons to implement carbon pricing: 35%
- Industry peer working groups to help define best practice: 28%
- Stronger take-up by industry companies: 22%
- Setting boundaries for scope 3 emissions: 22%
- Other: 2%

N=121, all respondents. Percentage of respondents indicating a best next step.
8. Survey sample

The ULI C Change survey *Decarbonisation rises up the investment agenda* was answered in full or part by 224 respondents. Depending on industry discipline, respondents were asked a range of questions through an online survey with a focus on investors and managers for the investment decision-making sections of the survey. Other respondents were mainly asked about their net zero targets as well as the benefits, barriers and next steps for issues such as transition risks and carbon pricing.

Investors and managers made up 44 percent of the sample. Others was a significant part of the respondents at 35 percent and include a wide range of companies including consultants, industry associations, architects, proptech firms and lawyers.

With the topics of transition risks and carbon pricing still emerging in the industry, some answers were based on smaller sample sizes and that has been noted in the text. Sample numbers and type of respondent are noted on each graph.

![Figure 29 Full sample breakdown by organisation](image1)

![Figure 30 Investor and investment manager breakdown by AUM](image2)

*N=224, all respondents*

*N=95, investor and manager respondents*