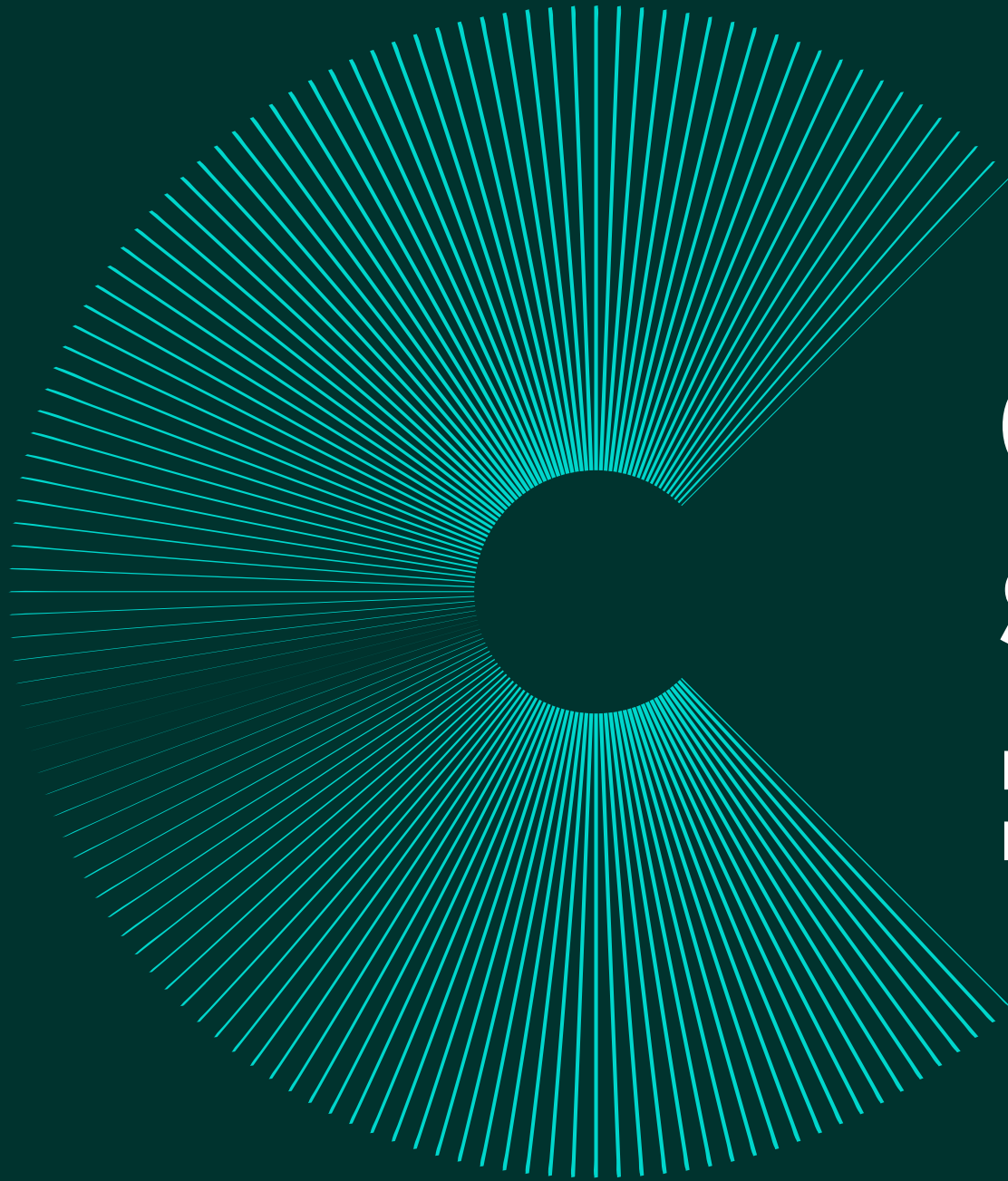




October 2024



C Change survey

Decarbonisation and Transition
Risk in Real Estate Investment

CChange



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.

C Change partners



C Change supporters



Executive Summary

The 2024 ULI survey on transition risks and carbon pricing in real estate investment reveals an industry increasingly aware of the importance of accelerating decarbonisation efforts yet facing significant implementation challenges. The findings provide deep insights into transition risk management and carbon pricing adoption as well as capital allocation strategies aimed at mitigating climate-related risks.

Key findings include

- Ninety-three percent of respondents incorporate transition risks into their investment decisions, although some key barriers remain – the main one being the lack of knowledge on the right methodology and datasets.
- Transition risks continue increasing in importance to real estate organisations, with the cost of decarbonisation and embodied carbon being a source of growing concern, in particular.
- The approach to incorporating transition risks into investment decision-making keeps evolving, driven by changes in the firms' strategic priorities and new regulation.
- More respondents report allocating capital expenditure to assets facing transition

risks rather than divesting from them. This result may reflect low transaction activity in the market and challenges with selling such assets. However, it may also indicate the commitment of many organisations to invest in retrofitting and decarbonisation initiatives.

- Transition risks continue to increasingly affect acquisitions, either by stopping them from proceeding or by resulting in their completion at a lower price. The main reasons for this answer cited in 2024 were the high levels of capital expenditure required to de-risk assets and concerns over asset stranding. In 2023, the survey respondents reported that acquisitions were affected mainly by assets being misaligned with companies' decarbonisation strategies.
- Between 2023 and 2024, there has been an increase of 21 percent in the number of organisations that reported using a voluntary, internal carbon pricing mechanism, which indicates the industry's rising awareness of carbon pricing as an effective decarbonisation tool.
- Most companies (71 percent of firms which reported using an internal carbon pricing mechanism) use a shadow carbon price rather than a fee-paying one.

- Lack of industry take-up of carbon pricing has increased in importance compared with 2023 and is cited as the biggest barrier to organisations implementing this mechanism. This finding indicates that many firms still worry about the impact of early adoption of carbon pricing on their competitiveness.

The C Change programme has been focused on helping the industry address the key challenges relating to assessing transition risks and adopting carbon pricing. As a result, ULI published the "[Transition Risk Assessment Guidelines](#)", which provide a common methodology to assess and disclose transition risks as part of property valuations, and the "[Universal Principles to Carbon Pricing in the Real Estate Sector](#)".

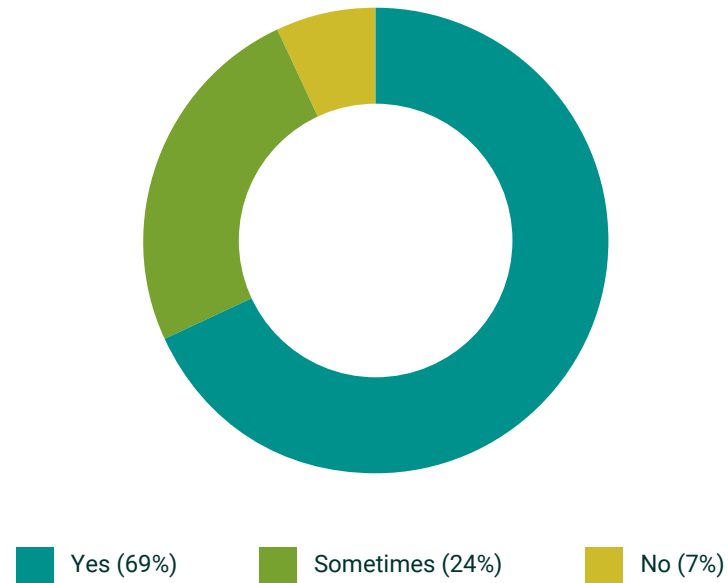
Transition risks in investment decision-making

Increasing importance of transition risks

The 2024 survey data reveal that 93 percent of firms report factoring transition risks into their investment decision-making (Figure 1), which is broadly consistent with 2023 data. Also in line with 2023, the two key transition risks considered by organisations this year are regulations related to minimum energy performance standards and the cost of decarbonisation. This large proportion of businesses taking transition risks into account shows a growing awareness and commitment among firms to integrate climate-related financial risks into their decision-making processes.

Figure 1

Organisations factoring transition risks into investment decision-making



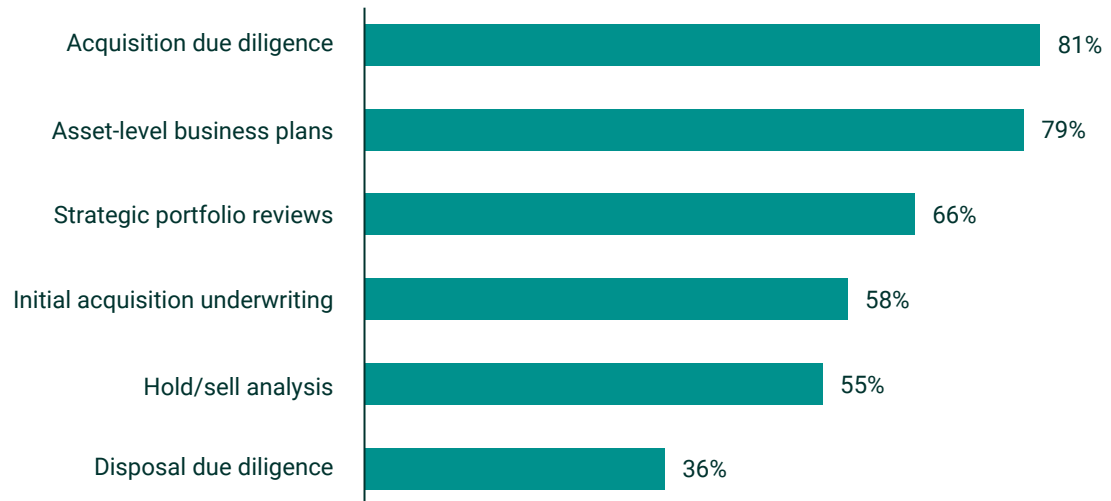
Source: ULI C Change Survey 2024

Among the various processes, acquisition due diligence stands out as the most commonly affected area, according to the 2024 survey results, with 81 percent of respondents integrating transition risk analysis into this process. Asset-level business plans (79 percent) and strategic portfolio reviews (66 percent) follow closely (Figure 2), reflecting a proactive approach to manage and mitigate risks during planning and strategic assessments. These findings highlight the emphasis on assessing risks before capital commitment and during the life cycle of assets, ensuring alignment with net zero and sustainability targets.

Three quarters of respondents stated that some transition risks had increased in importance to their organisations in the past 12 months, with the cost of decarbonisation and embodied carbon being a source of growing concern in particular. In addition, half of the respondents reported that their approach towards including transition risks into investment decision-making has changed over the past 12 months. The two main reasons cited were changes in the firms' strategic priorities and new regulation.

Figure 2

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



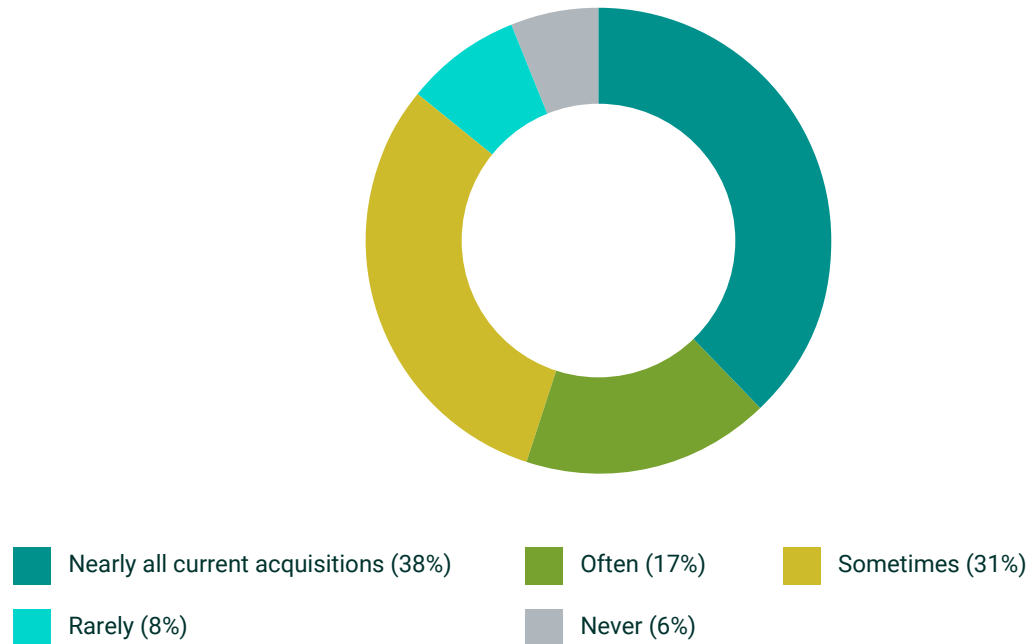
Source: ULI C Change Survey 2024

Percentage of respondents indicating an investment process

Nearly all respondents (94 percent) said that transition risks had affected their portfolio strategy in the past 12 months (Figure 3). In most cases, the assets with greater transition risks were affected, being allocated either for capital expenditure or for disposal. In the past year, more respondents (51 percent) decided to allocate capital to assets with greater transition risks than to divest from them (30 percent), which may reflect low transaction activity in the market and challenges with selling such assets. However, it may also indicate the commitment of many organisations to invest in retrofitting and decarbonisation initiatives, recognising that addressing transition risks head-on can enhance asset value and long-term viability.

Figure 3

The frequency with which transition risk assessments have had an impact on acquisitions in the past 12 months



Source: ULI C Change Survey 2024

Impact of transition risk assessments on acquisitions

In 2024, 53 percent of organisations said that conducting a transition risk assessment resulted in an acquisition not proceeding, compared with 61 percent the year before. In 2023 the main reason for acquisitions not proceeding was misalignment of the asset with the company's decarbonisation strategy; however, in 2024 the most common cause was assets not meeting requirements to prevent stranding and assets requiring high levels of capital expenditure. This finding suggests that

when organisations factor transition risks into their evaluations, the assets they consider might not bring the expected long-term returns.

In addition, 58 percent of respondents reported that conducting a transition risk assessment resulted in an acquisition completing at a lower price, a level similar to that in 2023. Again, last year the key reason stated was misalignment with the company's decarbonisation strategy, while this year respondents overwhelmingly cited high levels

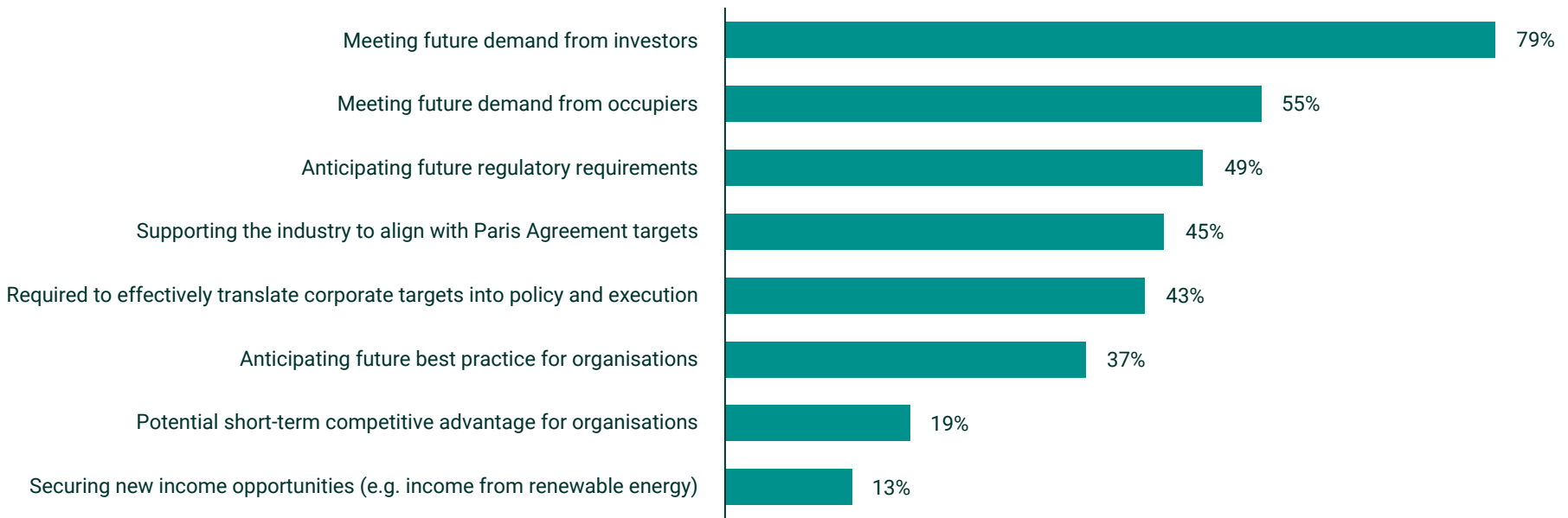
of capital expenditure and concerns over asset stranding as the main drivers for lowering the price.

Key benefits, barriers to implementation and future next steps

As in 2023, future-proofing portfolios is seen as the main benefit of incorporating transition risks into decision-making – the key benefits identified by the respondents (Figure 4) were meeting future investor demand (79 percent), meeting future demand from occupiers (55 percent) and anticipating future regulations (49 percent).

Figure 4

The main benefits of incorporating transition risks into an organisation's investment decision-making



Source: ULI C Change Survey 2024, Percentage of respondents indicating a benefit

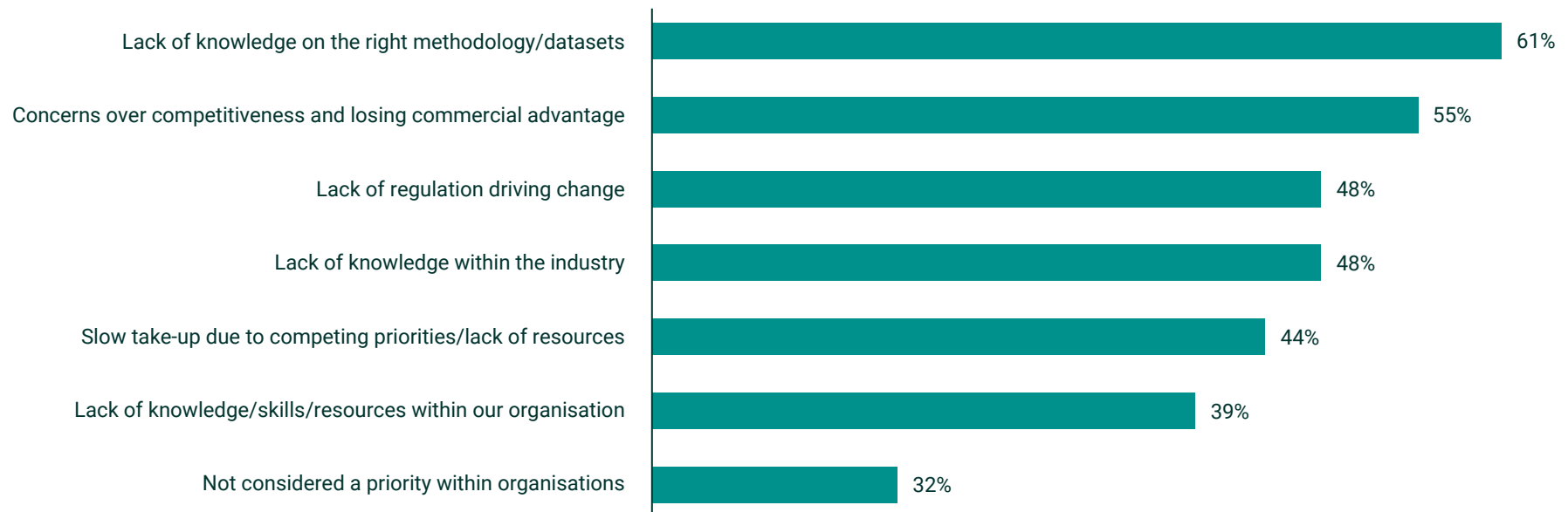
The key barrier identified in the 2024 survey is the lack of knowledge on methodology and datasets (61 percent), which also echoes the 2023 results (Figure 5). However, the growing concern over financial impact, such as losing commercial advantage, needs to be noted. It was the second mostly cited barrier this year, moving from a fifth spot in 2023. This may reflect new internal hurdles as firms weigh the short-term costs of addressing transition risks.

Most respondents (56 percent) stated that their organisations need access to robust, credible data to quantify transition risks to be able to better address transition risks (Figure 6). The respondents also cited the need for stronger industry uptake of a common approach to quantifying transition risks, which may address some of the concerns over competitiveness; the need to embed transition risks within the existing processes;

and the need to educate key decision-makers on the impacts of transition risks to secure buy-in. In 2023, ULI published the "[Transition Risk Assessment Guidelines](#)," which aim to address these points by providing a common methodology to assess and disclose transition risks as part of property valuations.

Figure 5

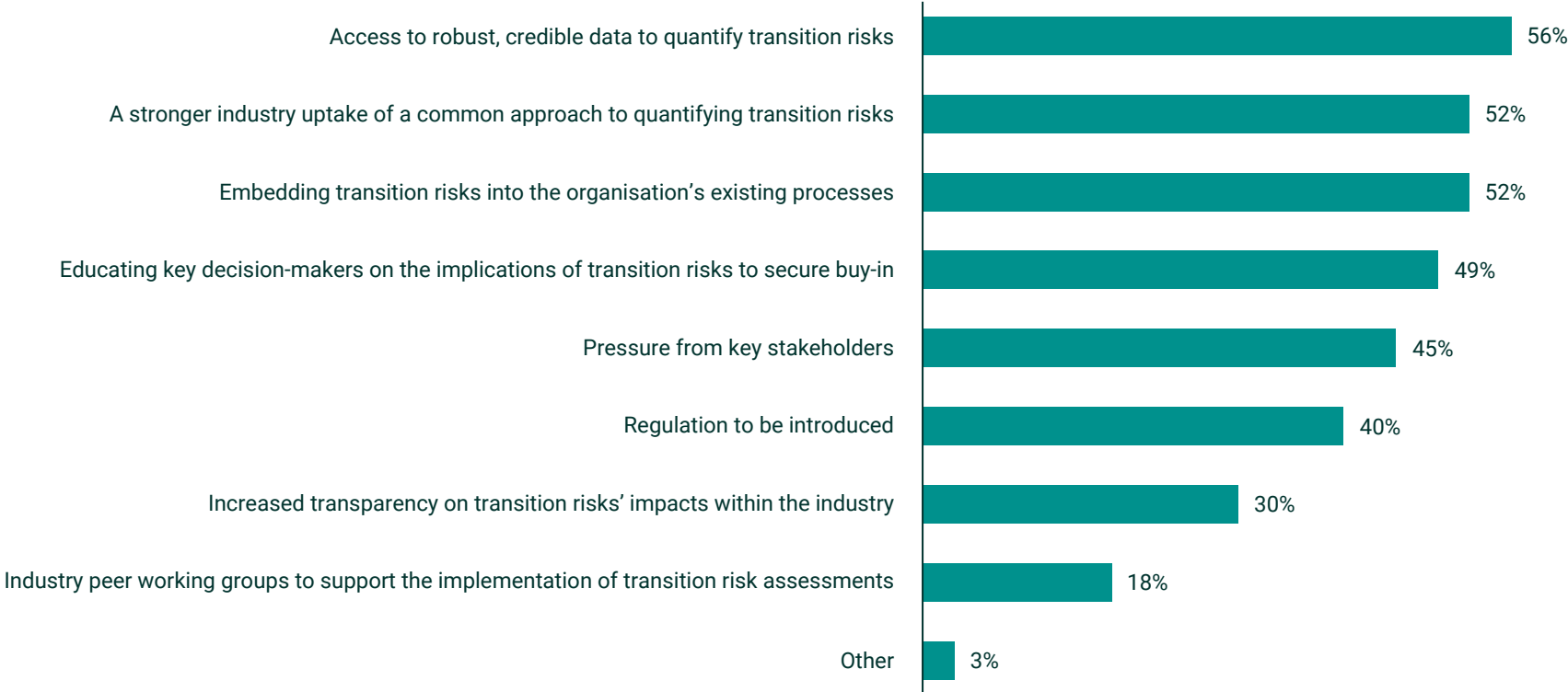
The main barriers to incorporating transition risks into an organisation’s investment decision-making



Source: ULI C Change Survey 2024
 Percentage of respondents indicating a barrier

Figure 6

The next steps to best support organisations to address transition risks



Source: ULI C Change Survey 2024
Percentage of respondents indicating a next step

Carbon Pricing

Rise in carbon pricing

Between 2023 and 2024, there has been an increase of 21 percent in the number of organisations which reported using a voluntary, internal carbon pricing mechanism. Although it needs to be acknowledged that the C Change survey's sample size does not fully represent the entire real estate sector, this result does indicate a higher take-up of carbon pricing by the industry over the past 12 months.

Diverse approaches to carbon pricing

Of the organisations that adopted an internal carbon price, the majority (71 percent) use a shadow carbon pricing mechanism¹, with 18 percent using a hybrid model (a combination of fee-paying and shadow) and only 12 percent using a purely fee-paying carbon price (Figure 7).

The survey shows that the approaches to implementing carbon pricing vary significantly from organisation to organisation. For example, companies which reported using a shadow carbon price mechanism did so mainly to evaluate the potential costs of carbon emissions and to understand potential future risks, as well as to build a better business case for decarbonisation of assets.

¹ Definitions of shadow and fee-paying carbon pricing mechanisms can be found in ULI's "[Accelerating Accountability: The Case for Carbon Pricing](#)" report

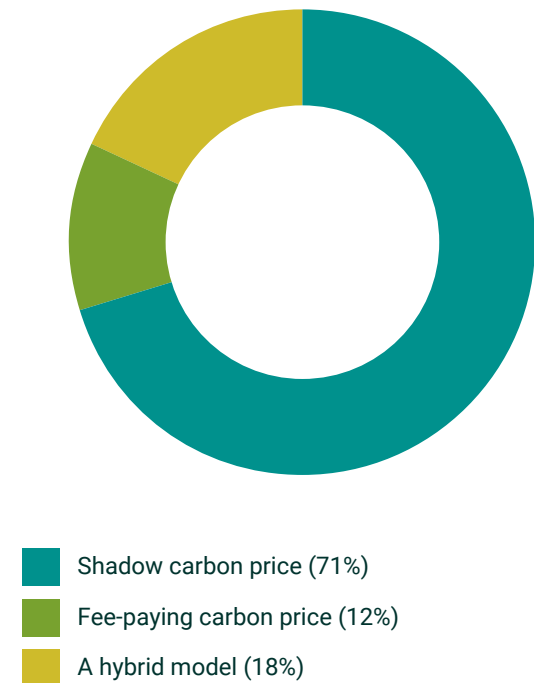
Firms that reported adopting a hybrid model provided a wide range of reasons for doing so. Some companies use a shadow price for operational emissions and a fee-paying price for embodied carbon emissions associated with development and retrofit projects. Others use a company-wide shadow price to assess risks but also apply a fee-paying price to the highest-emitting parts of the business to encourage taking action. In certain cases, a gradual roll-out of carbon pricing (first shadow and then fee-paying) is key to stakeholder engagement and securing buy-in.

Finally, the key reasons for implementing a fee-paying carbon price cited by the survey respondents were to understand potential future risks and to support the integration of decarbonisation into the company culture. The respondents also provided a range of ways in which they use the funds raised by the fee-paying carbon price, such as funding decarbonisation initiatives for the wider portfolio or a selected pool of assets, as well as investing in research and innovation.

Key barriers to implementation and future next steps

Lack of industry take-up of carbon pricing has increased in importance compared with 2023 and is cited as the biggest barrier to organisations implementing this

Figure 7
Incorporating internal carbon pricing in financial reporting

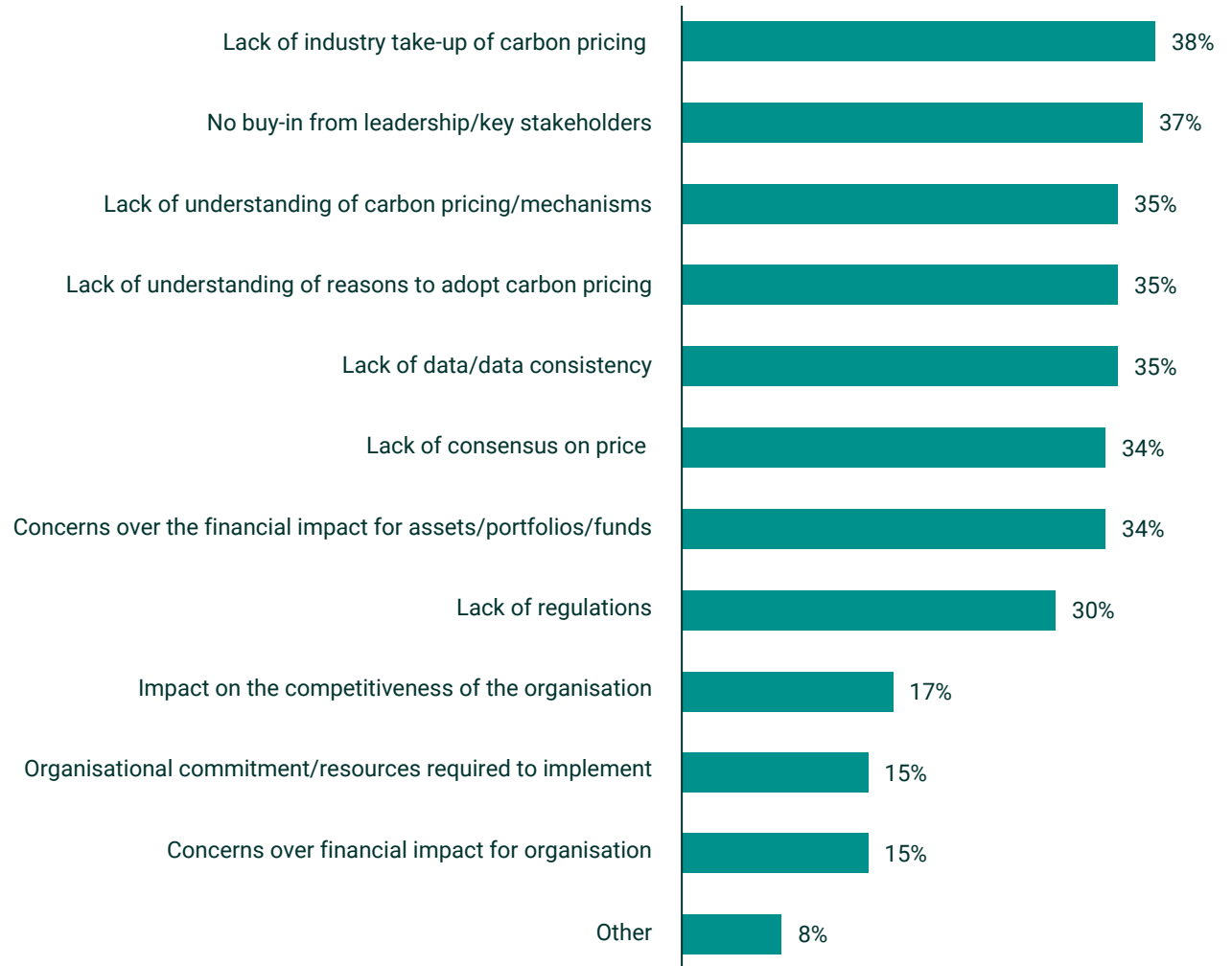


Source: ULI C Change Survey 2024

mechanism, followed by lack of buy-in from the key stakeholders, lack of data and data consistency, as well as lack of understanding of the actual mechanisms and reasons to adopt them (Figure 8). This indicates that many firms still worry about the impact of early adoption of carbon pricing on competitiveness, and they lack clarity on how these mechanisms can effectively influence their financial performance and operational strategies. These challenges, as well as the benefits, are addressed in ULI's ["Accelerating Accountability: The Case for Carbon Pricing"](#) report.

The C Change survey results also show that, according to the respondents, the main next steps to support the industry to explore carbon pricing further are to improve the understanding of carbon pricing mechanisms and to set best practice in industry guidance (Figure 9). These points will also be addressed in the ["Accelerating Accountability: The Case for Carbon Pricing"](#) report, as well as in the ["Universal Principles for Carbon Pricing in the Real Estate Sector"](#). With so many diverse strategies for implementing carbon pricing being observed at the moment, the universal principles can help facilitate consistency, improve take-up rates across the sector and ultimately help accelerate the decarbonisation of buildings.

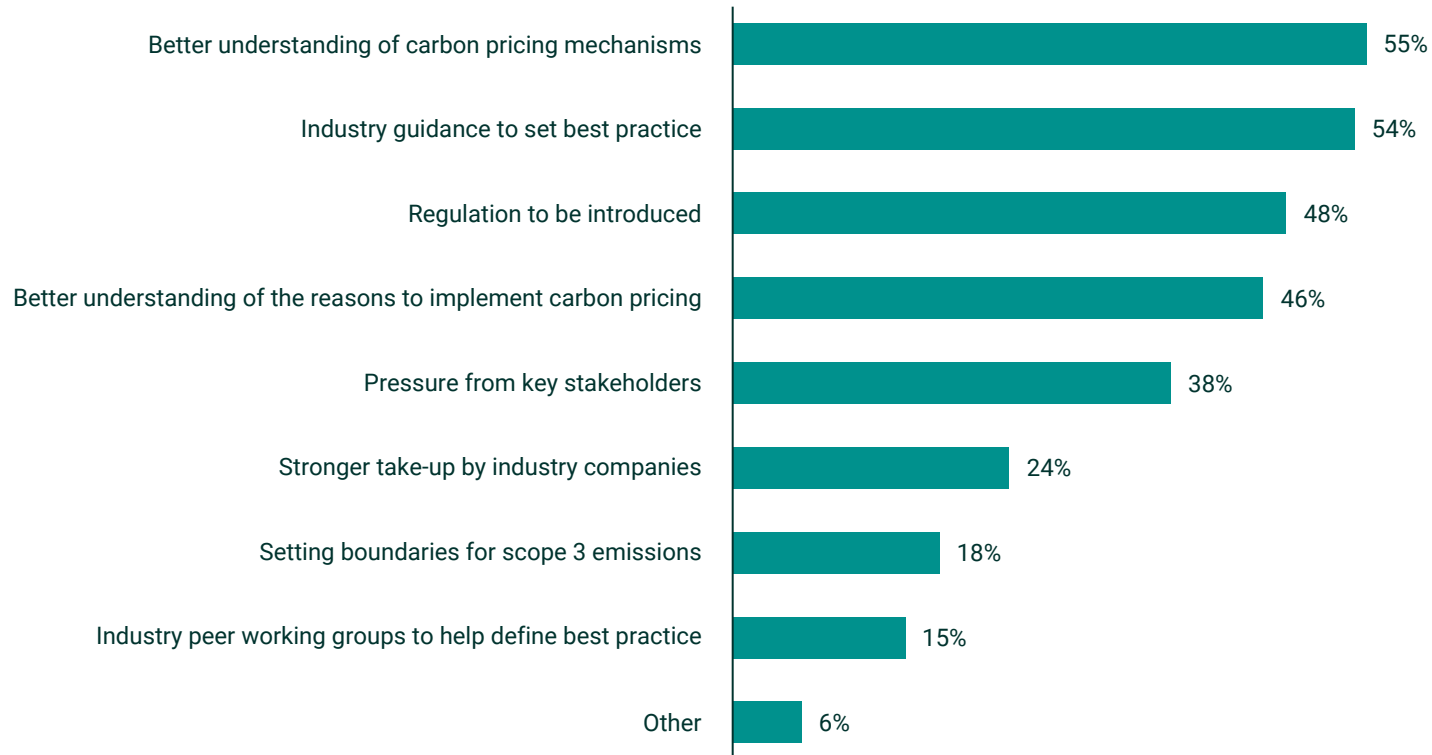
Figure 8
The main barriers to organisations implementing an internal carbon pricing mechanism



Source: ULI C Change Survey 2024
 Percentage of respondents indicating a barrier

Figure 9

The next steps to best support organisations to explore carbon pricing further



Source: ULI C Change Survey 2024

Percentage of respondents indicating a next step

Conclusion

The 2024 ULI survey underscores a real estate industry at a crossroads – making significant strides in recognising the importance of decarbonisation yet grappling with implementation challenges. The survey results also reveal increasing concerns around the lack of industry-wide take-up of consistent transition risk and carbon pricing initiatives, which feeds into broader challenges relating to balancing decarbonisation efforts with short-term financial impacts, competitiveness, and ability to retain commercial advantage.

Integrating transition risks into investment decision-making requires better knowledge on the right methodologies and access to robust, credible data. These findings emphasise the continued need for education programmes to build capabilities internally and across the wider supply chain. There is also a clear need for a consistent methodology for pricing transition risks into valuations to ensure that the impacts of transition risks on asset values are comparable across the industry.

The growing adoption of carbon pricing signals increased awareness; however, transitioning to fee-based models is essential for generating funds dedicated to decarbonisation efforts. Overcoming barriers such as knowledge gaps and data challenges necessitates collaboration with industry peers to standardise methodologies and improve data quality. By taking immediate action – even with imperfect data – and prioritising retrofitting over divestment, the industry can make meaningful strides toward sustainability and long-term resilience in the face of climate-related risks.