



DISCLOSURE OF CLIMATE-RELATED FINANCIAL RISKS

CONSULTATION RESPONSE

PREPARED AND SUBMITTED BY

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OVERVIEW

Introduction

The British Property Federation (BPF) is the voice of the UK property sector. Our industry helps power the economy, adding more than £137.5 bn a year, or 7% of Gross Value Added (GVA). We support one out of 12 jobs across the country and pay more than £7bn in direct taxes each year, contributing another £7bn indirectly to local communities through the planning system.

Our ambition is to work in partnership with national and local government, and with local communities, to create places we can all be proud of. We support every aspect of modern life, investing billions of pounds across the country to provide great homes, work and leisure spaces, to play our part in the UK reaching its environmental goals and to reduce bills for our customers whilst giving them a better experience.

General remarks

Buildings account for around 25% of UK carbon emissions, with 80% of the buildings we will use in 2050 (the date by which the UK has committed to having a carbon neutral economy) having already been built. More sustainable construction and retrofit methods are being developed, however we need new investment, new technology, new materials, new skills and new thinking to deliver solutions. The BPF is supporting the property industry's action to decarbonise through our [Net Zero Pledge](#), building a new green economy not only for the UK but globally and our members are dedicating increasing amounts of time and financial resources towards decarbonising their property portfolios.

However, undertaking this decarbonisation is costly and technically challenging. While many larger property investment businesses may have the balance sheet strength and internal know-how to increase the environmental sustainability of their buildings, there are many property owners in the UK (and likely across comparable economies) that will rely heavily on bank finance and expertise to turn their "brown" buildings into "green" ones. Indeed, it does not feel unreasonable to say that without access to affordable bank finance, decarbonising the UK's buildings will take considerably longer and we would strongly advocate in favour of measures that incentivise (or at least don't discourage) banks to fund sustainable retrofit and energy efficiency works.

What and how banks are required to disclose when it comes to climate-related financial risks matters, because such disclosures cause banks and market participants to focus on particular things and give rise to incentives at both the individual firm and market level.

We are concerned that the disclosure requirements contemplated in the Consultative Document (and in particular the quantitative information in template CRFR3) will invite preparers and users to focus on the wrong things and will encourage individual firms to reduce their lending to energy intensive property borrowers rather than helping them to decarbonise their buildings. Were all lenders to respond in this

(entirely rational, from their own narrow perspective) way, the cost and availability of debt finance to support sustainable retrofit would suffer considerably, as would the UK's ability to decarbonise its built environment.

The detailed comments and responses to consultation questions that follow are closely aligned with the views of the Commercial Real Estate Finance Council (CREFC) Europe and we support the more comprehensive views expressed in CREFC Europe's response to the Consultative Document.

Comments on relevant aspects of the property sector

Diversity of building types and energy profiles

There is a remarkable range of property building types, ages and uses and therefore a large variety of both energy efficiency and energy intensity levels across the built environment. Certain real estate asset classes (obvious examples are cold storage and data centres) are naturally and inevitably very energy intensive. They are also obviously necessary for modern economies and societies to function.

These kinds of buildings therefore need to be made as energy efficient and low carbon as possible – and that requires capital. The disclosures required from banks could and should be designed in such a way as to support that goal; but the proposals in the Consultative Document seem to us to create the opposite incentive, encouraging banks to reduce their exposure to inherently energy intensive sectors rather than support their decarbonisation. It would neither reduce climate-related financial risks nor serve any other useful socioeconomic purpose simply to discourage banks as lenders from funding them.

The rise of “commercial” residential property

The last two decades have seen a surge in the development of new residential property designed and built specifically with the intention of renting it out, rather than selling to owner-occupiers. Such rental property caters to a person's entire lifespan, with purpose-built student accommodation (PBSA) for those in university, Build-to Rent (BTR) for those who choose to (or have no other option but to) rent during their adult lives and senior living accommodation that provides for the specific needs of older people. The BTR sector in the UK has gone from virtually nothing to being worth £40bn since 2013, while the UK PBSA sector is currently worth an estimated £85bn (having started to grow ahead of BTR).

Such property is “residential” in terms of its occupational use, but it is “commercial” in the sense that it entails the financing of real estate developers and institutional asset owners and managers, rather than retail mortgage finance for households. Such buildings need to be capable of effective and efficient commercial management and operation over many decades.

One aspect of that is that it is common to see a strong focus on energy efficiency and climate (resilience, adaptation and impact) in the construction, refurbishment and operation of rental housing. It can be seen that the economics of this kind of housing are better aligned with delivery of new homes at scale, and it offers fertile ground for innovative design and sustainable, long-term thinking. Based on the approach in the Consultative Document, it would be invisible.

The need to retrofit

Buildings are fundamentally “wasting assets”: without periodic investment, most buildings will fail to attract occupiers, and may fail to comply with changing legal or regulatory requirements (these can include around fire/building/cyber safety, accessibility and of course energy efficiency). Our towns and cities are full of older, less energy efficient buildings, most of which will be with us for decades to come.

If we are to achieve a sustainable, net zero carbon (or low carbon) built environment, the large majority of existing buildings will need to undergo energy efficiency-improving, emissions-reducing retrofit as part of their natural refurbishment cycle. Critically, refurbishment itself will generally increase emissions temporarily (even if operating carbon emissions are thereby reduced), but in most cases refurbishment is likely to be the best solution, and much more carbon-efficient than demolishing and building afresh.

Where a bank finances decarbonisation through retrofit, that is likely to give rise to a period of temporarily higher Scope 3 financed emissions as a result of the works; and the operating carbon performance of the refurbished building, while improved, may not match that of a brand new building. However, the whole life carbon (embodied plus operating carbon) cost is likely to be significantly lower in the retrofit/refurbishment scenario than in a demolish-and-rebuild scenario. Real estate developers and investors are increasingly thinking along these lines, with industry frameworks adopting a building lifecycle approach to carbon against the backdrop of an available ‘budget’ of carbon emissions that can be ‘spent’.

It would be extremely useful for driving the decarbonisation of the built environment if banks were also to think of carbon emissions in terms of a budget and how that budget is ‘spent’ over time.

A well-constructed disclosure regime for banks would encourage them to support ‘spending’ the carbon budget on the decarbonisation of buildings, thereby reducing climate-related financial risk not merely for the individual bank, but for all of us. That would complement the transition plans that banks are putting in place, where a major focus is on helping less climate/carbon-aware borrower clients become more informed and adopt and execute plans to improve their assets (and protect the value against which banks have already lent).

We believe that the proposals in the Consultative Document require a significant rethink so that they might work in this way. As currently configured, the proposed disclosure requirements are more likely to encourage banks to abandon the customers who most need support to improve their buildings, withdrawing capital from the parts of the built environment that arguably most need it.

RESPONSES TO SELECTED CONSULTATION QUESTIONS

Q4 - Would the Pillar 3 framework for climate-related financial risks be sufficiently interoperable with the requirements of other standard-setting bodies? If not, how could this best be achieved?

The real estate industry has been developing various frameworks and tools for guiding the transition to net zero of individual assets (see for instance [Proposals around ESG Metrics for Real Estate](#)). It is unlikely that many of the organisations involved will be reviewing and responding to the Consultative Document. As currently proposed, we do not feel that the disclosures proposed by the Consultative Document are meaningfully interoperable with the approaches and metrics emerging from the real estate industry.

Q25 - What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?

As identified by our [Towards Net Zero](#) report, access to reliable data around the energy consumption of buildings is one of the top challenges when it comes to decarbonising the property sector. Because there is no legal requirement on building owners and occupiers to share energy consumption data, many occupiers decline to provide it and so property owners find it very hard to accurately judge how much energy their buildings use – and therefore what level of carbon they emit. This obviously has a knock-on impact on the quality of data that a property borrower can provide to their lenders and lenders' ability to report on their financed emissions in a property context.

Problems also arise in relation to households/individuals, because their data, including in relation to energy, may be protected by privacy laws (such as the EU's GDPR).

Q42 – What are your views on the usefulness [of] banks' disclosure of quantitative information on their risk concentration, ie of the bank's material exposures to sectors or industries subject to transition risk or to sectors/geolocations subject to physical risk relative to its total exposure?

Discussing concentration risk in relation to physical climate risks makes sense, as flood or wildfire risks are not evenly distributed geographically. However, it is not clear to us how (or why) transition risk should be assessed from a risk concentration perspective. In the context of property, a major transition risk arises from government regulations relating to minimum energy efficiency standards (MEES).

Such regulations, which in the UK require buildings to meet a specified rating or standard in order to be lawfully lettable, have been a very powerful tool for focusing the attention of investors and lenders on energy efficiency/performance and driving investment to improve it. As a result of this, the UK has seen the emergence of 'green premium' and/or 'brown discount' in property values, reflecting the perceived rental

performance and value of buildings by reference to their energy performance (and consequently the amount of money that an owner will need to spend on it to make it compliant).

It would be a perverse outcome if as a result of the disclosures proposed in the Consultative Document the market should start to perceive the presence of such regulations in a jurisdiction as concentrated transition risk.

Q47 – What are your views on the structure and design of the proposed templates in relation to helping market participants understand the climate-related financial risks to which banks are exposed?

We comment only on Template CRFR3 – real estate exposures in the mortgage portfolio by energy efficiency level.

The proposed metric of kWh/m² does not measure “energy efficiency” as suggested by the Consultative Document, but rather energy usage per unit of area (or energy intensity). There is a need for understanding the energy intensity and total energy consumption of a building, but transition to a low carbon built environment requires much more than that, including a move from fossil to non-fossil fuels in the energy mix, resulting in reduced GHG emissions, and optimising the carbon and energy efficiency with which buildings are constructed, refurbished and operated. In this context, bucketing buildings by kWh/m² doesn’t seem particularly relevant to us.

The proposed bundling of all commercial property (including rented housing, as explained above) together means that the disclosures are likely to tell us more about the **type** of property that banks are lending to than their **actual energy efficiency**. For example, the most energy efficient data centre or cold storage facility (with inevitably high energy needs for cooling/refrigeration) will look terrible from a kWh/m² perspective compared to almost any other kind of commercial building. Decarbonisation frameworks developed and used by the industry (including by the [Carbon Risk Real Estate Monitor](#)) recognise the variation across buildings by type, use, age, location, etc. and allocate carbon budgets accordingly. This disclosure framework should do so as well.

More generally, CRFR3 doesn’t tell us anything about what kind of contribution the bank is making to decarbonising the built environment through its mortgage lending. This matters, because of the importance of that decarbonisation process not only to climate policy but also to socioeconomic, political and financial stability.

Indeed, the template as proposed seems to us likely to exacerbate the decarbonisation challenge by encouraging banks to reduce their exposure to assets and sectors that have inherently higher energy requirements per unit of area (as explained, this is a measure of energy intensity, and nothing to do with energy efficiency), while providing very little incentive to improve the energy performance and reduce the GHG emissions of assets that are already in the best achievable “energy efficiency” bucket.

It would be much more interesting and useful for quantitative disclosures relating to the mortgage book to capture (a) whether the owners of the buildings against which the bank has lent have a credible net zero

carbon plan (and their record in implementing it); and (b) the degree to which energy efficiency (or other climate risk-mitigating) measures are implemented during the period of the bank's exposure to a building.