

The growing risk of stranded assets

Over the past ten years, the issue of “stranded assets” resulting from different risk factors has loomed large in the real estate industry. The 2015 Paris Agreement united countries in a collective goal to limit the global average temperature to below 2 °C above pre-industrial levels, and limit the temperature increase to 1.5 °C above pre-industrial levels. Therefore, a greater number of cities and countries are starting to make the changes necessary to meet legislative requirements, in order to achieve net zero carbon by 2050. The real estate industry is responsible for approximately 39% of energy-related CO₂ emissions globally, making it a key target in global efforts to reduce carbon emissions.

What are stranded assets?

A stranded asset is an investment that loses its value prior to the end of its anticipated useful and economic life cycle because of the impact of various changes. Assets may become “stranded” due to their incompatibility with a low-carbon economy, as sustainability regulations, such as the SFDR or the European Taxonomy, become stricter.

Factors that cause stranded assets also include falling clean technology costs and changes in consumer behaviour asking for better environmental performance. There is in fact a clear and growing demand for green buildings, both in transactions among investors and on the tenant market. More stakeholders realise that alignment with an effective ESG strategy is not just a question of safeguarding our future and ecosystems, but of avoiding financial risk and securing the value of real estate assets and investments.

How can this scenario impact your portfolio?

In the near future, investors and asset managers will find that buildings with particularly high CO₂ emissions will lose so much value that it will no longer be possible to sell them on the commercial real estate market. Tools such as the CRREM (Carbon Risk Real Estate Monitor) have been developed to guide real estate actors towards a trajectory compatible with European objectives. However, if greenhouse gas (GHG) reduction and energy consumption targets are not met by the defined dates, the EU and national authorities will certainly tighten their policies, increasing the financial risk for investors who do not comply.

Managing assets exposed to this risk

New net zero carbon buildings are important in achieving the EU’s sustainability target but improving existing buildings should be the primary focus. Around 80% of the buildings built today will still be standing in 2050.

Today, asset managers and owners can take various initiatives to reduce the current GHG emissions and energy consumption of individual assets or even their entire portfolio. Deepki’s SaaS data intelligence platform allows users to project and visualise pathways to predict their future ESG performance and thereby allocate their resources to the most efficient course of action.

Are you interested in finding out how Deepki’s end-to-end ESG solutions can help protect your portfolio from risks such as brown discounting and stranded assets? Come and meet us at our stand (A8) in the United Grand Paris tent at MIPIM, 15th - 18th March in Cannes.