



Pathways to Zero Net Carbon Emissions in International Real Estate Investment

Background

Governments in major developed markets are committed to reducing their countries' net carbon emissions by target dates stretching between 2030 and 2050. Many cities around the world have established policies and strategies to deliver on these commitments, whilst real estate investors are increasingly being asked to put in place their own pathways to net zero.

Looking globally, it is challenging to find consistency in methodologies. There is a range of options available for global investors to pursue, with considerable implications for risk-return trade-offs, as well as investment managers' behaviour. Some measures are beginning to gain more traction compared to others because they are investor-led. For example, CRREM¹, has integration with the performance information GRESB² collects on real estate assets.

The implications of issues such as embodied carbon, stranded assets and mis-pricing of portfolio risk would be welcome areas for a detailed examination, as the industry is at a relatively early stage in turning its attention to these.

Research Aims

To highlight these issues and provide an understanding of the implications for investors, the IPF wishes to commission a study with the following key objectives:

- i. To analyse the challenges to achieving zero net carbon emissions by sub sector, identifying the key issues within each that need to be addressed. How does the balance of a portfolio affect efforts to achieve zero net carbon? Should an investor have more logistics or self-storage assets versus data centres, for example? What might be the potentially unintended consequences for the more 'difficult' asset types – such as a focus on those sectors that support investors on the path to net zero resulting in more problematic sectors getting less capital and less attention?
- ii. To analyse by geography, to identify issues that relate to particular countries that make the path to zero easier or harder, together with appropriate explanation.
- iii. To consider the role of carbon offsetting – how is this used? Is offsetting confined to investors in 'dirty grid' countries or is this a 'lazy' way for some to claim zero net carbon? For instance, should a UK investor use offsets if they can achieve zero net carbon naturally?

Approach

The study should commence with a summary analysis of the competing pathways to net zero carbon and how these interact with the carbon grid in various countries, in order to draw out the implications for timing of stranded asset risk.

Once the objectives described above have been addressed, the investigation should conclude by giving practical insights for the application of the research. Possible consequences and recommendations should be explicit in regard to the implications for portfolio construction and [could] extend to the way in which acquisitions are evaluated, particularly those of older stock, with the potential for pricing differentials to appear in certain markets.

The research methodology is for the applicant to define but will form a major consideration in the selection of the preferred bidder.

It is anticipated that case studies covering a representative number of countries in different regions will be used by way of illustrating the issues encountered.

¹ Carbon Risk Real Estate Monitor

² Formerly known as the "Global Real Estate Sustainability Benchmark"



Scope

As a minimum, it is expected that the research will include the UK, France, the Netherlands, the US and Australia. As these countries already have some of the strongest market signals and industry organisation around this topic, however, the research will benefit further if the focus extends to other Tier 1 European and/or Asian markets.

Outputs

The principal outputs will comprise a detailed Report (including an executive summary of no more than two pages), the main body of which should extend to a maximum of 40 pages and a non-technical summary report.

Both should be written in a succinct, business-friendly style and be clearly practical and relevant to the real estate investment community.

In addition, the authors will be required to support any IPF-organised events arranged to promote the Report on publication.

Research Monitoring

Under the chairmanship of Ben Sanderson, Director International Investment, Federated Hermes, a Project Steering Group (PSG), will act as a monitoring group to oversee the research and to provide constructive support to the appointee. The membership of the PSG will include IPF Research Director, Pam Craddock, and other parties knowledgeable in the subject area.

The research team will be required to liaise with the IPF's Research Director at regular intervals throughout the duration of the project, in addition to pre-agreed meetings between the team and the PSG during its term.

The PSG will also be responsible for approving the final Report prior to publication.

Project Duration

The findings of the research should be available for dissemination within a period of no more than six (6) months following the appointment of the contractor.

Appointment Process

Expressions of interest and funding proposals should be submitted by email to the IPF Research Director, Pam Craddock (pcraddock@ipf.org.uk) by close of business, **Monday 8 March 2021**.

[Submission Guidelines](#) are available to download from the IPF website or may be provided on request. All research funding proposals must conform to the requirements of these Guidelines.

The IPF reserves the right not to proceed with any proposal, as well as to appoint a research contractor without conducting interviews.

Cost

As a guide, the typical budget the IPF sets aside for major studies of this nature is in the range of £40,000 to £60,000 (net of VAT), excluding production and dissemination costs.