Unlocking Value: How Active Asset Management is Transforming Real Estate in a High-Interest Era

Key Takeaways: Canada Roundtable Discussion

Introduction

On Thursday, March 20, EVORA Global hosted a roundtable discussion with BGO on 'How Active Asset Management is Transforming Real Estate in a High-Interest Rate Era', welcoming a select group of clients and industry professionals to BGO's Toronto office at 1 York St.

At the start of the event, we asked each of the attendees about the outcomes they wanted to achieve from the roundtable discussion. They included the following:

- How are non-office tenants caring about sustainability in 2025 and how does this affect asset manager decisions?
- Within industrial real estate, how is capital being prioritized re sustainability?
- How are attendees and their companies utilizing data to inform decision making?
- How can sustainability professionals help asset management executives in their investment decision making (e.g., for long-term capital upgrades)?
- How is asset value affected by carbon reductions and performance?
- What is the best way to target sustainability improvements given variable hold periods of assets?
- How can we elevate sustainability teams within the multi-residential sector?
- How can we better engage tenants?
- How do we best manage scope 3 data collection and reporting?
- How do we best quantify the value of sustainability in the short and long term?
- What are C-suite perspectives on net zero?

Although there was not enough time to address all these questions, we were able to touch upon many of them. The roundtable discussion covered asset risk analysis and asset repositioning & enhancement, highlighting key challenges and opportunities. Below is a summary of the key themes and insights. We consider the drivers that push the need to address sustainability, including current trends; resultant implications and possibilities stemming from such implications. We also document 'solutions' – approaches from the roundtable that were suggested the industry needs to take to address sustainability effectively in investment.

Asset Risk Analysis

Trends, Drivers & Existing Approaches

- Asset risk is being assessed based on physical climate risk and transition risk (e.g., decarbonization, regulations)
- Commercial real estate is beginning to use more data to assess risk. Verification of this data is important
- Based on corporate decarbonization target and trajectories, risk should be measured and managed
- Climate risk has received C-suite attention, and has been communicated to various other internal teams (e.g., operations, asset management, property management, investment management)
- Unclear if climate risk is being incorporated into underwriting, terminal cap rate and cash flow
- Unclear if incorporating building carbon pricing into your financial modelling is beneficial or puts you at a disadvantage against competitors who are not incorporating carbon pricing

Implications

- We need to assess what risk variables we have control over and which we do not
- Important to note that methodologies from risk data providers (e.g., Munich RE, Moody's, etc.) vary from provider to provider and may miss some risks
- We need to be aware of assumptions that go into our risk tools/models
- Although risk can be assessed on an individual asset, insurance premiums are often determined on a portfolio basis, not on an asset by asset basis (e.g., high insurance of assets in Florida being offset by lower insurance of assets in Chicago with low climate risk)
- It is not always clear if risk actually impacts the value of an asset currently
- A deeper dive is often needed to assess the climate risk of a building beyond a high-level risk assessment (e.g., downtown Toronto core buildings are not designed to withstand extreme heat, further analysis is needed)
- We need to consider how to respond to climate risk in short-term vs. long-term holds
- Investment teams are not always fully ready to incorporate climate and sustainability risk into their modelling/calculations
- Green building certifications are not as impactful as they once were (market is saturated), the market is increasingly focusing on actual performance rather than proxies of performance via green building certifications

Possibilities

- Asset classes that are not as advanced in sustainability and risk management (e.g., industrial, multi-res) can look at learning from other more advanced asset classes in sustainability (e.g., office)
- Risk should be priced into assets (e.g., it's ok to build in a flood plain, but this should be reflected in the asset's value and/or insurance)
- We are past the 1.5 degree warming scenario. We should be assessing 2 degree warming at a minimum
- We need to assess regulatory risk (e.g., natural gas bans in Vancouver and Montreal)

Solutions

- Sustainability teams should connect with their insurance teams and leverage any risk and scenario analysis they are already doing
- Work with insurance providers to demonstrate that you have assessed risk in an asset or portfolio and have actively implemented measures to reduce this risk where possible. This may lower insurance premiums
- Risks vs. opportunities, we need to reposition risks as opportunities and the associated narrative

Asset Repositioning & Enhancement

Trends, Drivers & Existing Approaches

Retail

- Secondary markets are not too focused on repositioning & enhancement
- Cost control is most important factor for tenants (drives loyalty)
- Focus on tenant, community, and employee engagement
- Look at what peers are doing

Office

- Healthy buildings - super important during and post pandemic
- Amenities like dry cleaning, change rooms
- Class A office lobbies starting to look like hotel lobbies – provide space for people to socialize
- Accessibility
- Focus on common areas

Residential

- In some markets, making spaces/studios for influencers
- Specialized exercise (e.g., Pilates)

Do tenants ask/care more about carbon performance of a building or energy performance of building?

- Energy is typically more important because it is cost based
- Some specialized tenants have prioritized carbon
- Tenants getting smarter around lease language for building fines (ensuring building fines are not passed from landlord to tenant)

Implications

General

- We need to create places where people want to be
- By helping tenants (experience, amenities, services), we help ourselves (retention, demand, rent)
- Leasing brokers have lots of intel on what tenants are looking for

Retail

- Vast majority of emissions are scope 3 (through tenants)

Office

  - Return to office driven by amenities vs. corporate policies
  - Class A office buildings need to attract global talent
  - Is your building commute-worthy?

Industrial

- Personal relationship/engagement with tenants is hugely important (e.g., in-person tenant visits)

Residential

- Personal relationship/engagement with tenants is hugely important (e.g., tenant events)

Social

- Social/community programs are not always driven by ESG
- Is there/how do you calculate the payback on social initiatives (e.g., gyms lose money, but are a minimum expectation by tenants)?
- Social measures can be as important as environmental and CapEx measures for tenant retention
- Employees often take pride in their company's net zero goals (example of how Environment can help Social)

Carbon

- Where does carbon matter? Publicly traded companies, companies with public net zero commitments, companies with disclosure regulation obligations

- Some sophisticated tenant sustainability reporting teams are asking landlords more questions around emissions (e.g., for whole building data and/or tenant share – landlords may or may not have tenant breakdown. Landlords can be hesitant to give tenants any scope 3 data beyond their own tenant emissions)
- Some real estate developers are ok to buy contaminated land, but carbon/transition risk not factored into asset value in the same way

Split incentive problem

- Variable Frequency Drive (VFDs): landlord pays, but tenants experience cost reduction
- Switch from natural gas to electricity can increase energy costs for tenants

Electrification

- Redundancy, what happens when power goes out? Would a dual source roof-top unit switch to gas (during a power outage or during peak times)? Dual source is susceptible to extreme cold, needs to be offset by good resiliency
- Alberta grid still dirty, electrification doesn't make sense in the province (and other provinces with dirty grids) currently
- Some buildings have new/young natural gas boilers and do not have space to accommodate air source heat pumps
- Grid electrification is a political issue – policies need to be in place to support it and utility providers need access to renewable energy and cost savings

Valuation

- Feedback from acquisition team that if you want them to do ESG, they won't win big. There needs to be a fundamental market shift where ESG actually impacts valuation
- There needs to be comparability/standardization between how ESG factors are valued in properties

Possibilities

- We can work more with our leasing colleagues to better understand latest tenant wants
- Split incentive problem
  - Residential: efficiency charges back to tenants would most likely need to be captured in a direct rental increase, rather than through a separate charge
- Climate communications – position as abundance over scarcity, opportunity over risk (e.g., lead with cost savings, amenities – more positive approach)
  - Canadian – pessimism (don't want to spend money), US/Europe more positive
- For net zero, you need to continually adjust your strategy. Keep calm, it will not be perfect or solved from the first iteration of your net zero strategy
- We should aim to work with valuation teams to understand where sustainability adds value
- Sustainability and climate risk (or lack thereof) need to be baked into cost (e.g., European investor bought a German asset because it had clear net zero plan, there's not enough of this in the market, and this is not reflected in pricing)

Solutions

- Currently, some sustainability improvements may 'pencil' or be approved more easily if you focus on energy savings rather than carbon savings (there is typically an easier cost saving and more easily accepted narrative here)
- Split incentive problem: Efficiency charge can be charged back to tenant through green lease language or supported through incentive programs
- Municipalities can use rolling energy funds to fund energy efficiency and renewable energy projects over time

- We need to look towards lenders like the Canada Infrastructure Bank (CIB), large institutional green loan issuers, and possibly European/international opportunities, to help fund the climate transition

EVORA's Actions Going Forward

EVORA found the session insightful and engaging and we believe the roundtable attendees did too.

Since our Toronto roundtable, we also hosted a webinar with GRESB, BGO, and PGIM on a similar topic. A recording of this session is available here: https://youtu.be/SMqs4EC9pgw

Our key takeaways were:

- Investors want **consistent, transparent KPIs**, especially around emissions and certifications, but data is a key dependency.
- **Regulations are shaping decisions**, but a fragmented landscape presents challenges.
- **Social impact and tenant engagement are rising priorities**, especially in office markets.
- The **debt community has a growing role** in driving sustainable performance
- **Sustainability is not optional** – it's central to cost reduction, tenant retention, and asset liquidity.

A further summary of the session can be found here: https://evoraglobal.com/how-sustainability-is-powering-performance-in-a-high-interest-market/

We want to help our clients, and the wider industry to ensure that sustainability is embedded throughout investment decision making and management. We will continue to work to progress this and we hope you will too.

We would like to extend our thanks to all participants for their contributions to the discussion. We look forward to continuing these conversations with them.

For further insights or to discuss how EVORA can support your ESG strategies, please reach out to us.

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Disclaimer

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Contact Us

contactus@evoraglobal.com

company/evora-global

@evoraglobal

@evoraglobal