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Measuring Metro-Level Environmental Risk in Commercial Real Estate

The events of the past year have brought environmental, social and governance (ESG) front of mind for investors and experts in commercial real estate. The growing number of weather-related disasters that produce billions of dollars of property damage, changes in work practices spurred by the COVID-19 pandemic, and recognition of the need for equity and diversity have created an urgency for businesses to act on ESG criteria.

This is not entirely new: Over the last decade or more, the industry has taken steps by implementing "green" construction standards, retrofitting buildings to reduce energy consumption, and developing other ESG strategies. But in this new environment as the world slowly emerges from a historical pandemic and a year of environmental and political turmoil, addressing ESG has taken on a newfound urgency.

In the U.S., for example, the new Biden administration has driven change from the top. After his inauguration in January 2021, President Biden immediately rejoined the Paris Agreement, a 2015 accord to reduce emissions and deal with the impact of climate change. He has instructed regulatory agencies to incorporate into reviews "the interests of future generations," reversing the policies of the former president, whose regulatory efforts were geared at easing the compliance burden on business.

Biden also has proposed a $2 trillion infrastructure package that will invest in technologies to reduce greenhouse gas emissions with a goal of eliminating power sector emissions by 2035. The bill would—among other things—facilitate installation of electric-vehicle charging stations, funds for energy-efficient housing and construction of new power lines. The size and scope of the package are being debated in Congress, with passage likely in the fall.

Federal agencies are taking the environment seriously. Treasury Secretary Janet Yellen has pledged to create a climate change task force, noting that it is an "existential threat" to the banking system. Regulators may, for example, require banks to account for