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Climate Change Impacts Family Offices' Real Estate Investment Strategies

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Luis Raúl Solá

Chief Operating Officer, Kingbird Investment Management

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The impact of climate change is changing the way family offices and enterprises manage and mitigate risk in real estate investments.

In September 2017, Hurricane Maria struck the coast of Puerto Rico. After claiming the lives of 3,000 people, it became the deadliest storm to ever hit the island. Nearly two years later, Puerto Rico and its people haven't yet fully recovered.

For Grupo Ferré Rangel, Puerto Rico's largest family-owned company, the impact was unprecedented. The catastrophe changed the 100-year-old business forever and altered the way decisions were made by its media, customer engagement, and real estate segments.

"Having gone through the recent experience of Hurricane Maria, we are cognizant more than ever about climate change and severe weather in evaluating investment opportunities," says Luis Raúl Solá, Chief Operating Officer of Kingbird Investment Management, the group's real estate subsidiary.

Solá says the team has altered the decision-making process and narrowed the location criteria to account for infrastructure preparedness. It takes special measures to ensure every property is well protected from nature's wrath. The group deploys water reserve tanks, implements power generators for electrical service and water pumps, stores several months worth of diesel, and strikes special supply agreements with local diesel suppliers in case of emergency in an effort to protect its commercial property portfolio in Puerto Rico before every hurricane season.

Similar measures are taken in the team's property investments across the Sunbelt in the U.S. "Severe weather is increasingly common (here), so we've had to create severe weather preparedness plans for our buildings," says Solá. He says the team took precautionary measures such as draining the pool, tarping the roof and sandbagging entrances, and established an evacuation communication protocol to protect a property in North Charleston, South Carolina, that was in the path of a severe storm.

"Our first priority is to protect our people and then our properties," he says. "We work closely with our insurer and broker to have full understanding of our coverage, including special coverage such as "limited pollution," which we may incur in cleaning up a property after a flooding or other severe weather event."

Laura Klein

Chief Operations Officer, Casoro Capital

However, the impact of climate change on real estate investors isn't always physical or vividly tangible. Family offices like Casoro Capital management say the impact has been more subtle. "We've seen minimal impact to management of our properties due to climate change, but insurance prices are steadily increasing do to hail and wind damages in Central and North Texas," says Casoro's Chief Operations Officer Laura Klein, who oversees asset management. Klein says the rising cost of insurance has been an important factor for its portfolio's value and the team mitigates the risk by navigating different coverage plans to fit their needs.

Meanwhile, in other parts of the U.S., the future impact of climate change is already being priced in. Nearly 20 coastal cities across the country have already seen property value eroded from climate change impact, according to data the First Street Foundation, a New York-based nonprofit that looks at the im of rising water levels and flooding.

Residential properties in Florida lost the most value between 2005 and 2017, according to First Street's research. The report estimates homes in the state collectively lost as much as $5.4 billion in value over the period, followed closely by New Jersey and New York at $4.5 billion and $1.3 billion, respectively. Ocean City, New Jersey, which saw an overall value loss of $530 million, was the worst hit metropolitan region.

According to a similar report from the Urban Land Institute, institutional investors and wealthy property owners must take this risk into account or risk downward pressure on their assets as the market allocates capital to locations less prone to severe climate impacts over the long-term.

"Climate change is now an active part of our discussions with clients," says Andy Hart, managing partner of Delegate Advisors. "I think there is interest in divestments from certain properties before there is a tangible shift in attitudes on climate change."