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Paradigm Shift in Real Estate :

From Reactive Reporting to Proactive Value Creation

Contents

Purpose and timing

Real estate is moving from an era of relatively predictable cycles to one defined by structural uncertainty, climate transition and regulatory fragmentation, where volatility is the baseline rather than the exception. This represents a concise shift for asset owners, managers, and lenders operating in the space, urging the industry to move from passive, reactive reporting to active value creation across asset classes.[1,2,3]

This paper is intentionally non-promotional and draws on recent work from **RICS, ULI's C Change and Optiml**, as well as other leading real asset houses, to argue that environmental, social, and governance factors (ESG) as well as wider sustainability data must become an integrated **"system of action"** rather than a backward-looking compliance exercise.

The central claim is simple: in an age of climate-driven value disruption, the winners will be those who use decision intelligence, internal carbon pricing and prudent valuation to decide what happens next, not just report what already occurred.[4,5,1]

The new normal : structural uncertainty, not temporary shock

RICS has highlighted that climate risk, geopolitical instability and higher-for-longer rates are reshaping asset values and challenging traditional valuation models built on reliable, historical patterns.

In its “From Reliable Pasts to Volatile Futures” 2025 webinar, RICS emphasises that asset value is “no longer solely defined by location or traditional market factors; instead, resilience to climate extremes is becoming central,” signalling a fundamental change in how risk and value are understood.[3,1]

This is reinforced by market commentary and outlooks from major advisors, which describe prolonged price discovery, wider spreads between prime and secondary assets, and mounting questions around obsolescence and sustainability capex. Climate-related shocks—from floods to heatwaves—are already triggering second-order effects on insurance, credit and regulation, making volatility a structural feature that investors must manage, not a short-term anomaly to wait out. As David Lázaro MRICS explained in RICS’ recent webinar:

“We can't eliminate risk, but we can manage it and in doing so, protect both assets and society.”[2,1,3]

David Lázaro MRICS · RICS Europe Webinar

Limits of reactive reporting

Despite the urgency of the climate crisis and the rise of extreme weather events globally, much of the industry still responds to this new environment with old tools, treating ESG primarily as a reporting obligation by gathering historical data, responding to investor questionnaires, and ticking alignment boxes for the EU's Sustainable Finance Disclosure Regulation (SFDR) or the Task Force on Climate-related Financial Disclosures (TCFD).

A key reason for this reactive posture is fragmented data infrastructure: energy consumption figures spread across spreadsheets, inconsistent meter data from multiple sources, and manual processes that make real-time visibility nearly impossible. Purpose-built sustainability data platforms are beginning to close this gap by automating collection and centralising ESG data — but uptake remains uneven across the industry.

This reactive stance leaves investment and asset teams largely focused on ex-post disclosure instead of using sustainability information to change capital allocation, asset strategy or tenant engagement in real time.[2,3]

ULI's C Change programme underscores this gap, noting that writing ESG commitments into reports is not enough; data must be measured, monitored and managed so that it actively shapes current and future decision-making. A C Change survey from 2024 shows that transition-risk assessments already spur many investors to reconsider acquisitions, re-prioritise capex, or earmark assets for disposal, but this is far from universal practice. Without such integration, managers risk discovering climate and regulatory impacts only when these affect valuations, influence refinancing terms or tenant churn — precisely at a time when options are most constrained.[6,7,1]

To continue driving discussion and awareness on how ESG indicators — supported by consistent data — can be responsibly embedded into the valuation process, the ongoing RICS European Leaders Forum on Impact of ESG and Valuations provides a collaborative industry initiative. The focus of the initiative is not on imposing change in the absence of evidence, but on improving data quality, market transparency, and professional judgement. One of the core outputs is the RICS ESG Data List, which consists of a practical framework designed to support greater transparency and comparability of ESG-related indicators at asset level.[15]

From ESG reporting to system of action

The emerging alternative to the current status quo is to treat sustainability and climate data as part of an integrated “system of action” that underpins portfolio and asset-level decisions, rather than as a compliance exercise at the end of the year.

Real Estate Decision Intelligence (REDI) platforms exemplify this shift by centralising technical, financial and sustainability data and by running simulations at scale. This enables managers to test renovation strategies, re-evaluate hold/sell/retrofit/ repurpose decisions and project net zero pathways across entire portfolios.[5,8,4]

To simulate, for each asset, the impact of interventions such as envelope upgrades, HVAC replacement, energy efficiency measures, electrification or on-site renewables, REDI uses AI-driven scenario modelling and digital twins to reflect individual buildings accurately.

These scenarios are projected at asset and portfolio level to identify the combinations that deliver the greatest risk-adjusted benefit. REDI “helps identify the most impactful retrofitting and capex strategies — ensuring both cost savings and environmental compliance at the portfolio level, linked to financial metrics such as NAV, NOI or IRR,” **Nico Dehnert, Co-founder at Optiml says, adding that the platform allows turning sustainability constraints into a competitive edge and driver for asset values rather than a cost centre.**[8,5]

To further implement a system-of-action mindset among real estate asset owners and managers, three principles need to be embedded in their day-to-day workflow:

Continuous data enrichment and validation for auditability

using engineering-grade and AI-enhanced data to support decisions on decarbonisation, capex and risk even when raw building data is incomplete.[5,8]

Portfolio and asset-level optimisation

where capex and management attention are allocated based on dynamic trade-offs between financial return, carbon reduction, regulatory alignment and tenant requirements, rather than treating each asset in isolation.[9,5]

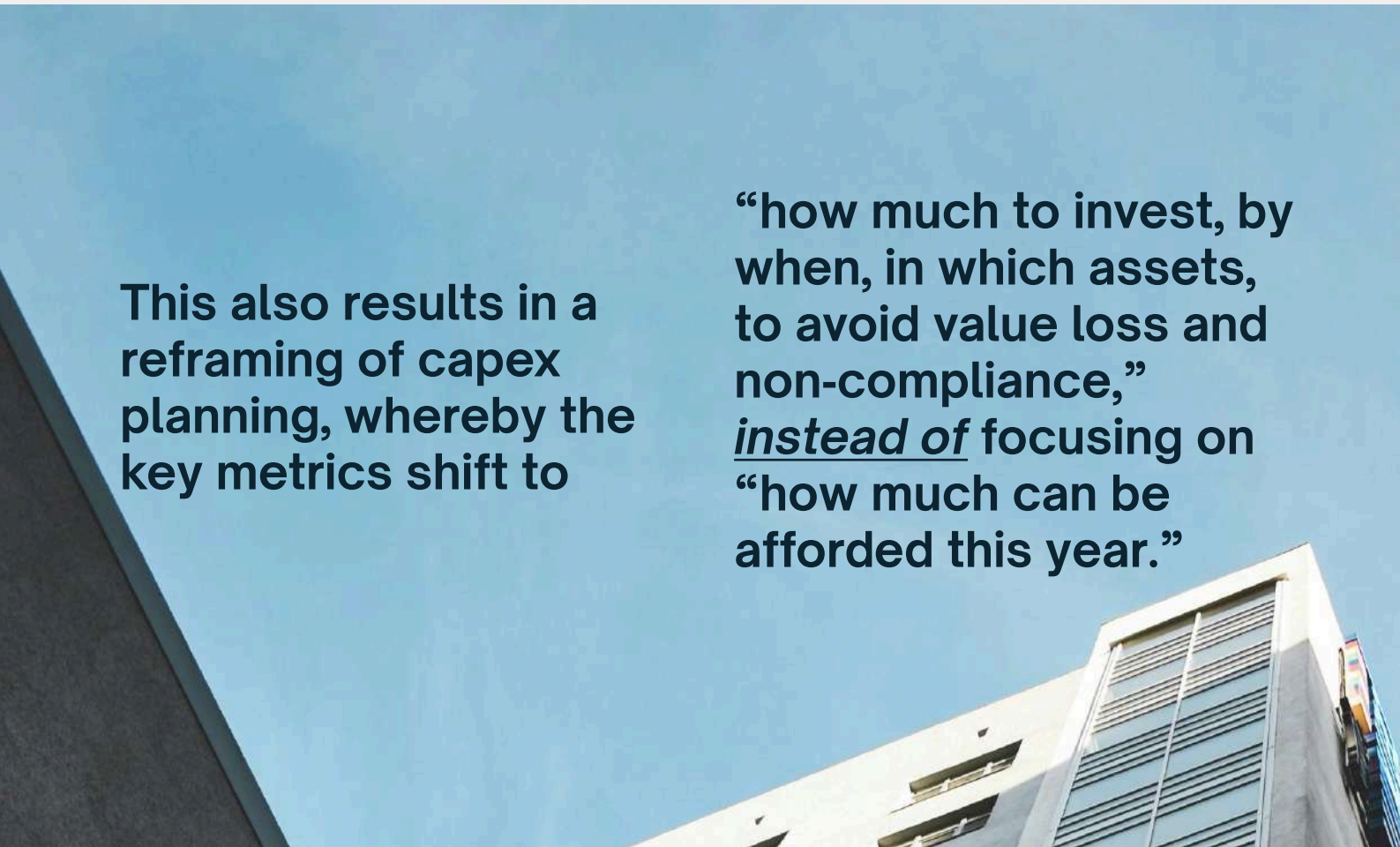
Feedback loops into governance and incentives

ensuring that board-level climate objectives, internal carbon prices and risk appetites are reflected in underwriting, asset business plans and performance metrics.[4,6]

Decarbonisation, capex and transition risk

At asset level, decarbonisation capex is increasingly a response to transition risk—tightening minimum energy standards, carbon pricing, lender requirements and occupier expectations—rather than a discretionary "nice-to-have." ULI's 2024 C Change survey shows that a majority of investors and managers have already adjusted capex plans or acquisition strategies after assessing transition risk, with many indicating high future capex needs and asset stranding as reasons for lowering the price of a transaction.[10,7]

To better assist asset owners and managers, the Carbon Risk Real Estate Monitor (CRREM) has become a de-facto reference tool by providing science-based decarbonisation pathways for different property types and regions. CRREM's concept of the "Misalignment Year" —the point at which an asset's projected carbon intensity exceeds its pathway—acts as "an early warning system and important piece of information to help investors identify transition risks in a globally standardized way."[11,12]



This also results in a reframing of capex planning, whereby the key metrics shift to "how much to invest, by when, in which assets, to avoid value loss and non-compliance," *instead of* focusing on "how much can be afforded this year."

Climate resilience and affordable housing

This system-of-action framework should not be limited to decarbonisation and transition risk alone. For instance, affordable housing provides a compelling parallel case where fragmented policy and capital structures have produced structural underinvestment.

Climate resilience and housing affordability are becoming increasingly interconnected risks. Climate-driven insurance repricing, stricter building standards and transition capex requirements are disproportionately affecting affordable housing supply. Without a structured pan-European investment vehicle capable of absorbing long-term transition costs, decarbonisation could unintentionally reduce affordable housing stock. Integrating decarbonisation pathways with dedicated affordable housing finance ensures that climate transition strengthens, rather than weakens, Europe's social infrastructure.

As Jaime Luque argued in IPE Real Assets' December 2025 issue, Europe lacks a financial architecture capable of mobilising long-term capital into regulated, limited-profit and cost-rental housing at scale. A pan-European Affordable Housing Investment Fund (AHIF) would apply precisely the same principles outlined here: standardised governance, blended finance, risk calibration, transparent reporting, and measurable social impact.

In other words, affordable housing should be viewed not only as a social policy challenge but as a portfolio-level capital allocation problem requiring structured co-investment platforms.The European Commission Housing Advisory Board recommends explicitly calling for affordable housing investments to receive differentiated regulatory treatment under the Capital Requirements Regulation and Basel standards. Recognising affordable housing as a lower-risk, socially anchored asset class could unlock bank lending and institutional allocations at scale — much as renewable energy benefited from regulatory clarity in earlier decades.

The role of internal carbon pricing

The need to increasingly address climate risks and adapt to a more volatile environment has also led to calls for integrating a price on carbon across the real estate sector. Internal carbon pricing translates abstract climate risk into a financial indicator that can guide investment decisions, capex timing and business planning. ULI's C Change 2024 report "Accelerating Accountability: The Case for Carbon Pricing" argues that "taking immediate action now to incorporate internal carbon pricing can provide the industry with better long-term planning and the opportunity to address stranding risk on buildings ahead of the 55 percent carbon emissions reduction required by 2030."[10,4]

The accompanying "Universal Principles for Carbon Pricing in the Real Estate Sector," developed with seven professional associations, sets out high-level, voluntary principles to standardise how emissions are measured and priced across portfolios, aiming to mobilise private capital and align climate goals with commercial incentives.

"Any company within the built environment value chain looking to accelerate its sustainable transition should swiftly implement internal carbon pricing…serving as the most effective 'change agent' ever employed," notes Mert Ogut of WBCSD, one of the associations contributing to the creation of the principles. Internal carbon pricing, when embedded into hurdle rates and discounted cash flows (DCFs), helps reveal which retrofits create net value after considering future carbon costs and which assets may be better exited early.[6,4,10]

Operational excellence as value creation:

The new discipline of asset management

For much of the past decade, real estate performance was driven primarily by market tailwinds: falling interest rates, yield compression and abundant capital. In that environment, asset management often focused on monitoring performance and reporting results. **Today, this paradigm is changing.**

Higher financing costs, regulatory pressure and shifting occupier demand are forcing investors to move from reactive reporting toward proactive value creation.

Portfolio performance increasingly depends not on market timing but on how effectively assets are operated, upgraded and positioned within changing market conditions.

This shift is visible across the broader asset-management industry. According to PwC, profit per assets under management has fallen by roughly 19% since 2018, while 89% of asset managers report margin pressure.[16] At the same time, institutional investors are increasingly favouring managers with strong technological and operational capabilities: around two-thirds say they are more likely to allocate capital to managers investing in advanced technology and data capabilities.[16]

19% fall in profit per assets under management since 2018[16]

89% of asset managers report margin pressure[16]

For real estate managers, this means operational excellence is becoming a central driver of value creation. Buildings must increasingly be managed as operating platforms rather than passive financial assets. Leasing performance, tenant retention, operating costs and capital-expenditure execution now directly influence portfolio resilience.

However, creating value through operations requires overcoming one of the industry's structural constraints: fragmentation.

Large portfolios operate across multiple countries and asset classes while relying on extensive networks of operational partners, including property managers, facility managers and technical consultants.

Each actor often works with different reporting standards, data formats and processes. The result is a fragmented data environment that limits the ability of asset managers to make timely portfolio decisions.

Moving from reactive reporting to proactive asset management therefore requires standardisation of operational data and processes.

One key element is the standardisation of tenant contracts and leasing data structures. In many commercial portfolios, lease information is stored in inconsistent formats across jurisdictions and funds. By introducing standardised contract structures and data models, asset managers can create a consistent information layer across the portfolio. This enables leasing performance, tenant exposure and income stability to be analysed at portfolio level rather than building by building.

Equally important is the standardisation of operational data flows with suppliers. Property managers, facility managers and consultants generate large volumes of information, from maintenance costs to technical performance data. Without common reporting standards, these datasets remain fragmented and difficult to use for strategic decision-making.

Standardised reporting frameworks and digital interfaces allow asset managers to integrate operational data across their portfolios.
This creates the foundation for benchmarking operating performance, identifying inefficiencies and prioritising capital expenditure more effectively. **Industry research highlights the importance of this shift.**

KPMG

A global PropTech survey by KPMG found that asset management is the area most likely to benefit from investment in digital technologies, reflecting the operational complexity of large portfolios.[17]

The built environment

Studies of the built environment highlight a persistent productivity gap in real estate operations, suggesting that significant efficiency gains remain achievable through improved data integration and lifecycle management.[18]

JLL

Research from JLL highlights the emergence of "intelligent infrastructure", where real-time building data is increasingly used to optimise portfolio performance.[19]

CBRE

CBRE notes that in a higher-interest-rate environment investors are placing greater emphasis on active asset management and operational performance to protect income and valuations.[20]

Taken together, these developments are redefining the role of asset managers. Asset management is no longer limited to overseeing buildings and reporting results. Instead, it increasingly involves orchestrating complex operational ecosystems in which tenants, service providers and technical partners operate within a shared data and governance framework.

In this model, asset management becomes the bridge between building operations and capital markets. Operational insights inform portfolio decisions, capital allocation and long-term asset strategy. The paradigm shift described in this paper therefore extends beyond sustainability reporting or regulatory compliance. It reflects a deeper transformation of the real estate operating model.

The managers that succeed in this new environment will be those that move beyond reporting performance to actively shaping it through operational excellence, data integration and portfolio-wide decision-making.

Portfolio-Level optimisation: a practical example

When decarbonisation, capex and risk are integrated, portfolio-level optimisation moves from concept to practice. Consider an anonymised European core-plus office portfolio of 40 assets with mixed EPC ratings and varying lease lengths:[7,5]

ACTION	DETAIL
CRREM & C Change Assessment	A CRREM-based assessment and C Change-style transition-risk review identify 10 assets with a Misalignment Year before 2030, representing 35 percent of current portfolio value.[12,7,11]
REDI Scenario Modelling	Using a REDI platform, the manager models multiple scenarios: business-as-usual maintenance at the end of component lifetime; targeted deep retrofits on selected assets; and a mixed strategy combining disposals, operational optimisation and staged capex.[8,5]
Chosen Strategy	Under the chosen strategy, roughly 60 percent of planned five-year capex is redirected into deep retrofits on six high-priority assets (envelope, HVAC, electrification), while four structurally misaligned, high-capex assets are scheduled for disposal and the remaining portfolio undergoes low-capex operational optimisation.[9,5]

At an illustrative level, the combined effect is:

~45%

reduction in portfolio operational emissions by 2030 relative to 2023.[7,11]

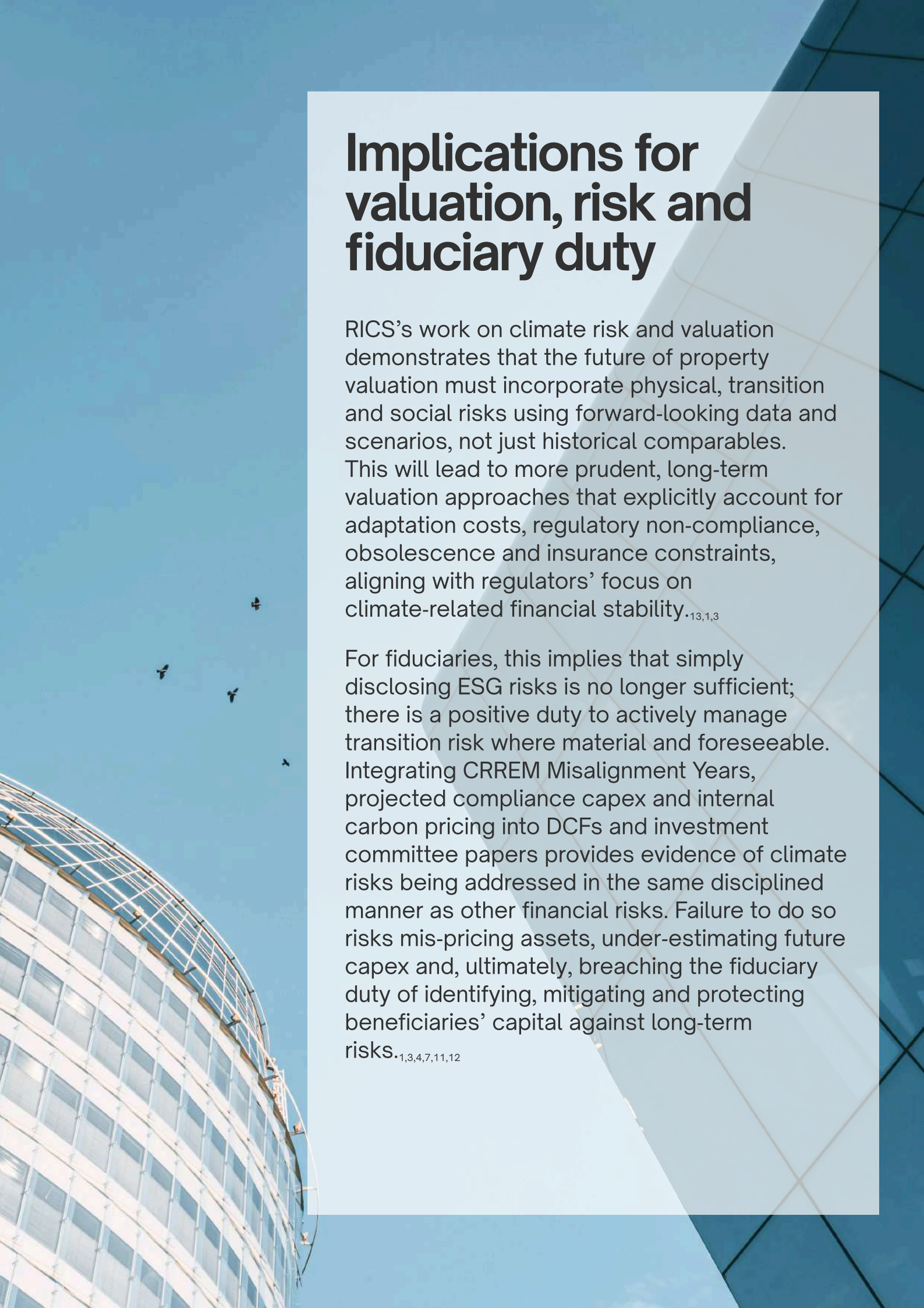
double-digit

reduction in projected transition-risk-related write-downs versus business-as-usual, driven by avoiding the steepest Misalignment Year cliffs.[11,12]

modest uplift

in risk-adjusted returns, as capital is reallocated from endlessly patching future-stranded assets to future-proofing those with durable income and liquidity prospects.[5,9]

While the figures are illustrative, this structure mirrors how advanced owners are already using CRREM pathways, internal carbon pricing and decision-intelligence tools to sequence interventions, allocate capex and make hold/sell calls at portfolio scale.[12,7,5]



Implications for valuation, risk and fiduciary duty

RICS's work on climate risk and valuation demonstrates that the future of property valuation must incorporate physical, transition and social risks using forward-looking data and scenarios, not just historical comparables. This will lead to more prudent, long-term valuation approaches that explicitly account for adaptation costs, regulatory non-compliance, obsolescence and insurance constraints, aligning with regulators' focus on climate-related financial stability.[13,1,3]

For fiduciaries, this implies that simply disclosing ESG risks is no longer sufficient; there is a positive duty to actively manage transition risk where material and foreseeable. Integrating CRREM Misalignment Years, projected compliance capex and internal carbon pricing into DCFs and investment committee papers provides evidence of climate risks being addressed in the same disciplined manner as other financial risks. Failure to do so risks mis-pricing assets, under-estimating future capex and, ultimately, breaching the fiduciary duty of identifying, mitigating and protecting beneficiaries' capital against long-term risks.[1,3,4,7,11,12]

Aside from financial value, asset owners and managers also need to think about the wider definition of value creation in an era of increased climate risk and profound change, according to Marjolijn Versteegden, Global Solution Director, Smart Sustainable Buildings at Arcadis.

She asks: “How do these investments affect social inequality and spatial justice? What is the risk of divestment in vulnerable neighbourhoods?” Versteegden recommends incorporating human health metrics, green locations and low energy secured buildings within the value creation of real estate investments.

Fiduciaries must consider how divestment in vulnerable neighbourhoods might exacerbate social inequality, and instead seek ‘resilience by design’ that protects both the asset and its surrounding urban fabric.

Practical agenda for asset owners and managers

A practical agenda is emerging that brings these elements together into an implementable system of action. Key priorities include:

Data & Intelligence > Pricing & Pathways > Valuation & Incentives > Disclosure & Engagement

Deploy decision - intelligence platforms

- Deploy decision-intelligence tools to centralise data, simulate retrofit and capex scenarios, and leverage satellite-derived climate data to improve flood and heat risk forecasting.[8,5,21]
- Use machine learning and digital twins to keep recommendations dynamic and auditable as regulations evolve, energy prices change and new data arrives, ensuring that strategies remain robust in a volatile environment.[5,8,21]

Embed internal carbon pricing and Net Zero roadmaps

- Adopt internal carbon pricing in line with ULI's Universal Principles to give a consistent, monetary signal that can be built into capex decisions, underwriting and budgeting.[6,4]
- Develop portfolio-wide roadmaps using CRREM pathways to map Misalignment Years, sequence interventions and flag assets where disposal may be more value-preserving than retrofit.[11,12]

Align valuation, risk frameworks and incentives

- Collaborate with valuers and lenders to ensure that climate-related capex, obsolescence and compliance risk are reflected in valuations and lending standards, drawing on emerging prudent valuation guidance.[13,1]
- Adjust internal incentives so that investment and asset managers are rewarded for delivering decarbonisation, resilience and tenant-quality outcomes alongside traditional return metrics.[7,4]

Strengthen transparency and stakeholder engagement

- Maintain robust disclosures (e.g., SFDR, TCFD) that show not just policies but measurable progress against pathways, capex plans and internal carbon prices, using them as evidence of an active system of action.[3,4,21]
- Engage the wider community including tenants, lenders and regulators as partners in decarbonisation and resilience projects, recognising that value creation increasingly depends on coordinated, cross-stakeholder action.[1,6]

Steering outcomes in an age of uncertainty

Across RICS, ULI C Change, institutional managers and decision-intelligence providers, a consistent message is emerging: volatility and climate transition are now structural features of real estate, not temporary or ad-hoc dislocations. In this context, reactive ESG reporting is insufficient for protecting value or fulfilling fiduciary obligations; the industry needs integrated systems of action that use data, internal carbon pricing and prudent valuation to steer outcomes.[13,1,4,7,11,5]

Those who build this capability will be best placed to comply with evolving regulations, retain access to capital, and capture performance premiums from resilient, low-carbon, future-proofed assets across cycles, turning sustainability from a cost of doing business into a driver of long-term, risk-adjusted returns.[10,3,5]

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