

Video Segment 3: Climate Change and the Real Estate Market

“There’s a recognition in the housing space and the mortgage space that these growing risks are going to need to be addressed and that the federal government is not going to simply pick up the tab in the ways that they have in the past.” – Dr. Benjamin Keys

NOTE-TAKING GUIDE

As we think about the intersection of business and the climate crisis and ESG risk, the real estate industry faces its own set of challenges. After all, real estate is its own kind of investment. For example, science suggests that the warming of the planet is causing more frequent and severe weather events, requiring homeowners in higher-risk regions to pay more for insurance. Benjamin Keys, a Wharton School finance and real estate expert, talks about how the market is making people aware of the true risks they face — and considering prices that are fair to all property owners. In this real estate context, provide more details about the significance of the following themes (use both insight from the video and from the below vocabulary list):

Severity of Weather Events (Why Is There Cause for Concern?):

Risk Rating 2.0 (Pricing Risk Accurately):

Flood Scores and Flood Factor:

You are a building owner (see below for the definition of commercial real estate) and you want your property to become more energy efficient. Define each of the following and explain how these factors might support your efforts:

Public-Private Collaboration:

PACE Program:

Market Innovation (Why is it critical as the climate crisis threatens entire industries?):

Now think about the ESG-focused nature of your own property. Do you live in a region that floods during storms, or have you or someone you know experienced real estate-related issues as a result of recent weather events? Describe your experiences from the perspective of a property owner (or at least a resident). Did you suffer from property damage? Does your family have flood insurance or need better flood insurance? What are your thoughts on the real estate risks associated with weather events, including the financial risks?

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[Consumer Price Index \(CPI\)](#)

[Pricing](#)

[Housing Market](#)

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[Innovation](#)

[Residential Real Estate](#)

[Low-income household](#)

[Mortgage Loan](#)

30-year Mortgage: A home loan that gives you 30 years to pay back the loan, plus interest.

Buyers: In the real estate market, this might refer to someone who is looking to buy a home, office space or retail.

Climate Crisis: Many believe that the rising temperatures associated with climate change are deeply harming the environment, causing natural disasters and leading to social and economic crisis across the planet.

Durable Assets: Goods that do not quickly wear out and therefore do not need to be purchased very often, like a house.

Energy Efficiency: Using less energy to get the job done—which often translates to burning less fossil fuel.

Energy-efficient Buildings: Environmentally friendly buildings that are designed to use less energy, through their construction and operations, including heating and cooling.

ESG: ESG stands for Environmental, Social and Governance and refers to a system for how to measure the sustainability of a company. It is an evaluation of a firm's beliefs and attitudes about social and environmental factors. Companies are thinking hard about how to incorporate ESG factors into their business strategy to appeal to investors, customers and other stakeholders. And investors are turning to ESG rating firms to screen their investments on these various factors.

Fannie Mae: Also known as the Federal National Mortgage Association, it is a source of affordable mortgage financing in the U.S.

FHA (Federal Housing Administration): The U.S. government agency that provides mortgage insurance to approved lenders. Its home loan program is designed for borrowers who can't make large down payments on a new home.

First Street Foundation: A nonprofit that helps companies, governments and individuals understand the climate risks facing American properties, communities and businesses.

Flood Factor: A way to learn about a property's current and future risk of flooding.

Flood Score: A score that assesses the risk that your home or other property might flood.

Freddie Mac: Also known as the Federal Home Loan Mortgage Corporation, Freddie Mac buys mortgages, pools them, and sells them as a mortgage-backed security to private investors on the open market. This secondary mortgage market increases the supply of money available for mortgage lending and increases the money available for new home purchases.

Investment Horizon: The total amount of time that an investor expects to hold a security or an asset.

Lender: In real estate, this typically means mortgage lender and refers to a financial institution or organization that lends out money to real estate buyers.

Mortgage Insurance: An insurance policy that compensates lenders when someone defaults on their mortgage loan and isn't able to pay it back.

National Association of Realtors: An organization that supports people who work in the real estate industry.

National Flood Insurance Program: A U.S. government program that seeks to share the risk of flood losses through flood insurance and reduce flood damages by restricting development in areas that are likely to flood.

Nationalized Mortgage Market: Nationalization is when the government takes control of a company or industry, in this case the mortgage market through Fannie Mae and Freddie Mac.

Net Deficit: The amount by which a company's liabilities, or what it owes, exceed its assets, or what it owns.

PACE (Property Assessed Green Energy): A program that seeks to finance energy efficiency and renewable energy on private properties. Through these programs, residential or commercial property owners can finance the up-front costs of clean energy or other improvements.

Policy Shift: When policymakers abandon old policies or ways of doing things for a different, often updated approach.

Private Sector: Businesses and other entities in the U.S. national economy that are not controlled by the government.

Public Sector: The part of the economy that is controlled by the government, such as public education, public transportation and the police.

Real Estate: Property consisting of land or buildings, including residential real estate like houses and commercial real estate like office parks.

Real Estate Developer: Someone who develops a real estate property from the ground up or renovates an existing property.

Redfin: A publicly traded real estate brokerage that has introduced new ideas into the process of buying and selling a home.

Risk: When you are exposed to potential problems or danger with your investment. For example, climate change is increasing the risk of floods to your property.

Risk Rating 2.0: Undertaken by the Federal Emergency Management Agency or FEMA, Risk Rating 2.0 makes sure the rates for flood insurance are fair to all homeowners so they can purchase flood insurance as a first line of defense against flood damage.

Subsidized Properties: Housing that receives subsidies (financial aid or support) from federal, state or local government. They are also often called affordable housing.

Underwriting Loans: This is what lenders do when they are verifying your debt, income and other variables to give final approval for your loan.

Weather Events: These refer to hurricanes, tornadoes, blizzards and the like. Weather events are important to the climate change discussion because science suggests that the warming of the planet is causing more frequent and severe weather events, which can potentially impact the real estate we own.

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