

Focus Issue: TCFD reporting

We want to keep the negative effects of our business operations on the environment and people as low as possible. Conversely, we are also examining the extent to which climate conditions and climate risks may adversely affect our buildings, either at present or in future. In order to create transparency in this area, we have decided to report in accordance with the requirements of the TCFD (Taskforce on Climate-Related Financial Disclosures), which involves disclosing our procedures in relation to the identification, management and measurement of our climate-related risks and opportunities according to this structure. Thanks to our long-standing participation in the climate change survey carried out by the CDP (Carbon Disclosure Project), we have already been able to draw on a solid basis.

The TCFD disclosures for the areas “strategy” and “management” will be mostly dealt with in this focus issue. Further information concerning targets and metrics can be found in the “Portfolio” chapter (pages 228–249) and in the KPI table on pages 298–299. **A summary table containing references to content concerning TCFD elements** can be found on pages 296–297. More detailed information can also be found in the answers to the CDP climate change survey. This information is publicly available: www.cdp.net

Climate strategy

We have analysed short-term, medium-term and long-term climate-related risks and opportunities in relation to climate change. The definition of short-term, medium-term and long-term is based on the typical investment cycles in the real estate sector⁵. The following table displays the risks for two opposite scenarios: a scenario under which the world community acts in accordance with the Paris Climate Agreement and takes effective action to reduce greenhouse gas emissions (RCP 2.6), which will entail a large number of transition risks, and on the other hand a scenario under which greenhouse gas emissions continue unabated (RCP 8.5), which will result in an increase in temperatures by more than 4 degrees by the end of the century and will be associated with considerable physical risks (RCP 8.5)⁶.

⁵ Further details concerning timeframes can be found on page 309.

⁶ A description of the various climate scenarios can be found on page 308.

RCP 2.6		Short-term (up to 5 years)	Medium-term (2030-2050)	Long-term (2051-2100)
Physical risks	Chronic risks: moderate increase in heat days (increase by between 1 and 5 heat days by 2060)			
Transition risks	Regulation: increasing requirements for the disclosure of climate risk strategy and management			
	Regulation: stricter (local and national) regulations on building standards, the replacement of heating powered by fossil fuels, energy efficiency following renovation, installation of photovoltaic systems			
	Regulation: stricter (local and national) regulations on embodied carbon emissions and circular economy (regulations on reuse, restrictions on demolition)			
	Regulation: increase in CO ₂ prices (steering charges or taxes), also affecting the prices of input materials			
	Market: higher energy prices (costs of energy transition towards renewable energies), higher prices for energy efficiency technologies due to demand			
	Market: stricter requirements by tenants on sustainability aspects of properties, lower demand for properties with high energy costs			
	Market: stricter requirements for investors in terms of transparency and proof of measures to combat climate change			
	Reputation: increased reputational risk in the event that standards cannot be adhered or if our measures are considered to be too weak			
	Technology: accelerated obsolescence of technical equipment			
Potential financial implications	<ul style="list-style-type: none"> – Increasing investment in the early exchange of heating, insulation, higher prices for input materials – Rising opex and other costs for disclosure, certification etc. – Higher financing costs if properties do not comply with strict sustainability standards – Limited flexibility and ability to use properties (limited scope for demolition and new construction, limited choice of materials due to climate change related regulation, limited flexibility due to heritage preservation requirements) – this may also affect acquisition and divestment decisions – Downward correction of valuation of properties with high energy costs/without high sustainability standards (higher vacancy rates, lower profitability), premium for properties with high sustainability standards 			

RCP 8.5		Short-term (up to 5 years)	Medium-term (2030-2050)	Long-term (2051-2100)
Physical risks	Chronic risks: increasing number of heat days, heatwaves and generally higher average temperatures (2 to 3 °C by the middle of the century)	[Green bar]		
	Chronic risks: increasing risk of extended periods of drought		[Green bar]	
	Acute risks: higher risk of hail and storms		[Green bar]	
Transition risks	Regulation: increasing requirements for the disclosure of climate risk strategy and management	[Green bar]		
	Market: stronger demand from tenants for cooling systems, as hot offices reduce productivity	[Green bar]		
	Regulation: stricter rules on indoor climate		[Green bar]	
	Regulation: stricter rules on adjustment to climate change (e.g. insulation, protection against storms and flooding, protection against heat)		[Green bar]	
	Regulation: stricter rules on water usage		[Green bar]	
Potential financial implications	<ul style="list-style-type: none"> - Greater investment in cooling systems, insulation, creating shade, electrochromatic windows, greening - Greater investment in measures to protect against inclement weather such as storms and hail - Higher or lower ancillary costs in relation to energy usage, depending upon whether or not higher energy consumption for cooling is offset by a reduction in the energy required for heating - Higher insurance costs for buildings that have not sufficiently adapted to climate change - Need for building re-positioning or disposal on account of restrictions on usage - Reduced profitability and downward correction of valuation of properties for which cooling/insulation is not possible (high vacancy rates, lower rents) 			

The most likely scenario lies between RCP 2.6 and RCP 8.5. This means that we must assume transition risks as described in RCP 2.6, although also an increased level of physical risks as described in RCP 8.5, albeit in mitigated form. Overall, we assess both the corresponding transition risks as well as the physical risks to be low to moderate. Conversely however, we do not recognise any significant opportunities. Although our strategy and our financial planning, e.g. for investments, has been affected, this has not been so significant as to result in any significant change in our business model (see “Management/measures” in table page 295). Considerations relating to climate change are also being increasingly incorporated into the assessment of any added value for a property purchased. However, as a general rule we do not sell properties solely on account of their high CO₂ footprint, as a sale will only change system boundaries, and does not solve any problems.

The results of the scenario analysis have confirmed our current business strategy of investing in carbon reduction, energy efficiency and tenant comfort. An important strategic step in setting our climate strategy came with the subjection of debt financing to our sustainability and CO₂ reduction strategy in the autumn of 2022 (bonds) and the spring of 2023 (loans).

Resilience of the strategy

Transition risks

As far as transition risks are concerned, we consider ourselves to be well prepared thanks to the calculation of our CO₂ reduction pathway and the formulation of clear CO₂ reduction targets. An additional comparison carried out during the reporting year between our own reduction pathway and CRREM reduction pathways showed that we are well on track for our 1.5 °C medium-term target by 2035 (see Focus Issue “CO₂ reduction pathway with reference to the CRREM” on pages 230–231). The measures that will be necessary in order to achieve the planned reductions are set out in our renovation plan. We are currently carrying out work to integrate the reduction pathway calculation directly into our renovation planning tool. This will make it easy for us to establish whether the actual pathway is diverging from the originally projected pathway.

We have arranged for a value-at-risk calculation (VaR 5%) to be carried out in relation to transition risks for one part of our portfolio (Basel and Geneva), based on the assumption that measures to achieve COP21 targets (Paris Climate Conference) will be implemented. This established that, whilst the potential loss in percentage terms – including after a renovation has been completed – may well lie in the two-figure range for some individual properties, the average figure is around 5%. This means that some properties could by all means fall in value as a result of transition risks. However, since the properties themselves are high value and are largely situated in CBDs and generate high rental income, the **likelihood of an asset suffering a massive fall in value is low**. It should also be pointed out that the CO₂ tax on fuels in Switzerland is already fairly high compared with elsewhere in Europe at CHF 120 per tonne of CO₂.

Physical risks

Using the tools and databases of two different providers (Munich Re and Wüest Partner) we analysed our portfolio's current exposure to natural hazards as well as the potential change in exposure to these hazards or the emergence of new risks with reference to various climate change scenarios (RCP 2.6, RCP 4.5 and RCP 8.5)⁷ over the medium and long term. Although climate conditions between the main cities in which our properties are situated vary somewhat, there is by and large no significant differentiation in terms of climate change risks.

⁷ A description of the various climate scenarios can be found on page 308.

Due to the location of the properties, our portfolio has very limited exposure to natural hazards such as hurricanes, earthquakes, avalanches or massive flooding. It is thus not necessarily the acute risks but rather the chronic risks that require attention, including above all the increase in heat days or heatwaves and the growing prevalence of dry periods. Rising summer temperatures go hand in hand with rising winter temperatures, resulting in reduced cold stress. Under a scenario that is closer to RCP 8.5, over the long term this may result in more drastic risks such as extreme heat, significantly longer periods characterised by extreme heat days as well as arid periods. However, these effects are more than one investment cycle into the future. By taking appropriate action in relation to each property over the next investment cycle, we should be well prepared to deal with these risks. However, we shall carry out additional, more detailed analyses on how to adapt individual properties to cope with extreme heat and aridity, thereby refining our assessment further. **To summarise, the risks over the short to medium term appear to be low to moderate under all scenarios.**

Current exposure to natural hazards

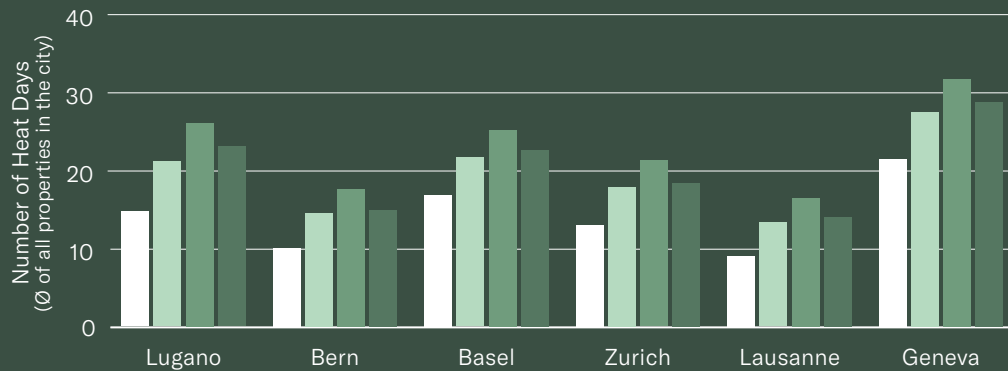
Our portfolio is not or only negligibly exposed to risks associated with volcanoes, tsunamis, tropical storms, tornadoes, lightning and wildfires. On account of the climate zone, part of the portfolio has a moderate to high exposure to storms and hail. As a result of tectonic conditions, properties in Basel are subject to a slightly higher earthquake risk than other properties. In addition, a considerable portion of the portfolio is exposed to an increased flooding risk due to the vicinity of rivers. At present, 76.6% of properties have a low flood risk evaluation. 18.0%, i.e. 30 properties, are situated in areas that would be highly exposed to flooding at 50-year intervals (“zone 50”) under an “undefended” scenario, i.e. if any flood prevention measures outside the building are disregarded. However, this type of scenario is unlikely. In the “Defended” view, which takes into account the level of flood defences in a particular area, less than 1% of the portfolio is in zone 50.

Future risks due to natural hazards as a consequence of climate change

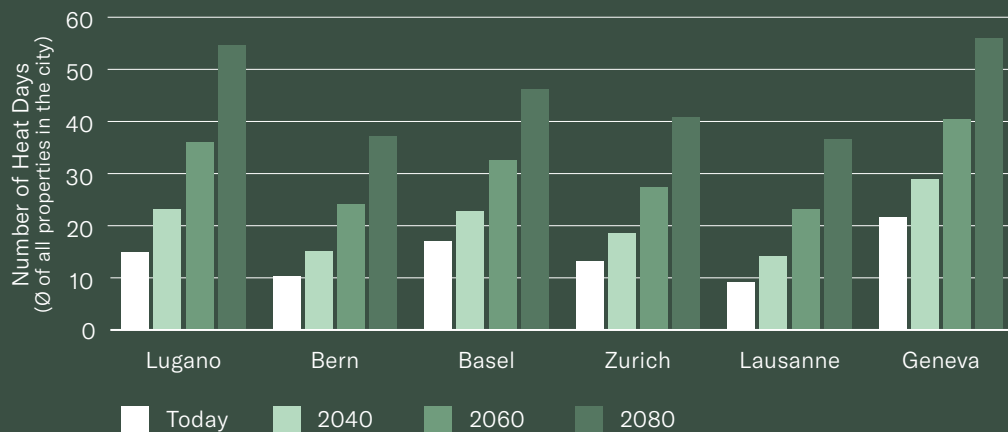
Flood risk: as far as acute dangers such as rivers bursting their banks are concerned, exposure will not change significantly under either the RCP 4.5 scenario or the RCP 8.5 scenario.

Heat stress: when expressed in terms of the heat stress index, which incorporates multiple temperature-related parameters and classifies climatological heat stress scenarios on a scale of 0 (very low) to 10 (very high), the exposure of a large portion of our portfolio has been assessed as “low to medium” under all scenarios in 2050. “Heat stress” in the sense of higher maximum temperatures will only start to have tangible effects from 2050 onwards. If greenhouse gas emissions continue unchecked (RCP 8.5), by the middle of this century the Central Plateau in Switzerland is likely to experience a further increase in average annual temperatures of 2 to 3 °C compared to the norm as measured between 1981 and 2010. High summer temperatures would entail a need for cooling within buildings. On the other hand, warmer winters could lead to a decline in demand for thermal energy. Switzerland uses more energy for heating than for cooling, so the net effect in terms of energy transition could be positive. A key consideration when assessing the need for cooling in relation to the operation of offices is not only peak temperatures but also the number of heat days (days above 30 °C). It has been established that our properties in Geneva, Basel and Lugano are most heavily exposed. It is already becoming apparent that various options for the efficient cooling of office properties are having to be assessed as a matter of course for each renovation project.

Number of Heat Days city comparison: RCP 4.5



Number of Heat Days city comparison: RCP 8.5



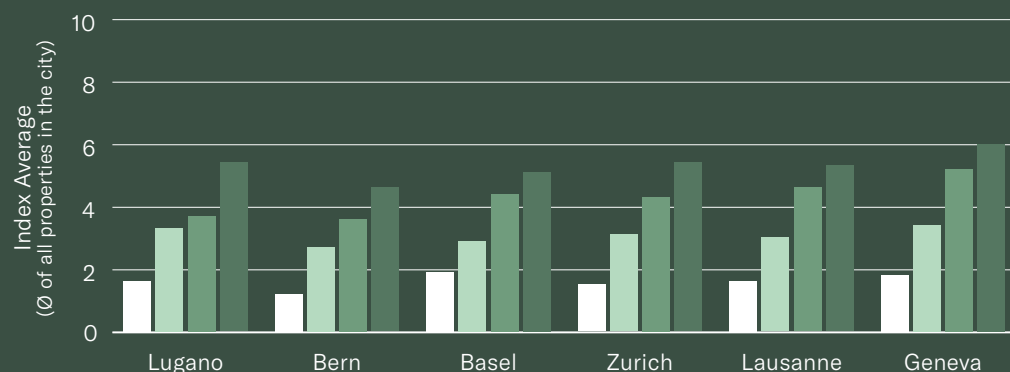
Source: CH2018 – Climate Scenarios for Switzerland/Wüest Partner

Drought stress: the risk of drought will increase sharply for all properties within our portfolio under RCP 4.5, and dramatically under RCP 8.5, albeit starting from a low level. The largest increase in dry periods under RCP 8.5 will occur between 2050 and 2100. In 2050, most properties will still be within the “low to medium range” for drought stress, although it is clear that the risk of extended dry periods will increase. This is less of a problem for offices, and more of a challenge for hotels and restaurants, which may potentially have to consider imposing restrictive water saving measures.

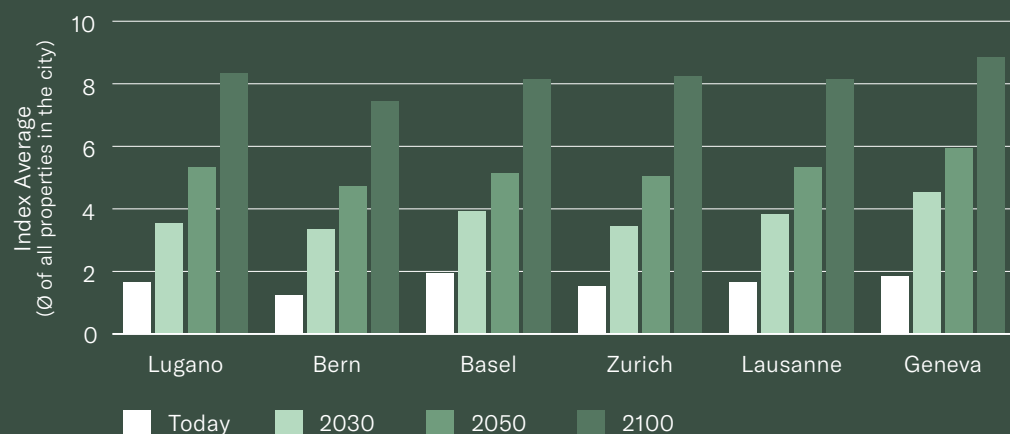
Precipitation stress: 3 properties in Ticino are already exposed to high precipitation stress with an index figure above 9 (they are also exposed to a higher hail risk), whereas all other properties lie within the middle range. This picture does not change significantly under the various climate change scenarios.

Priority 2024 In 2024 and subsequent years we aim to systematically record the state of play regarding adaptation measures for the portfolio and to carry out an in-depth analysis of individual properties in terms of exposure to physical risks associated with climate change.

Drought Stress Index city comparison: RCP 4.5



Drought Stress Index city comparison: RCP 8.5



Source: Munich Re/Risk Management Partners

Management of risks and opportunities in relation to climate change

As is the case for all other business and operational risks, climate-related risks are dealt with and prioritised on the basis of their significance for the Company and the likelihood of their occurrence. We have established both qualitative and quantitative metrics for defining whether a risk has a “significant financial impact”. Risks and opportunities are managed on the basis of our established risk management process. Risks relating to climate change are essentially all directly related to assets. A Risk Report is drawn up twice each year and reviewed by the Board of Directors within the ambit of its responsibility for risks. Depending upon the type of risk, responsibility for and management of risks are delegated to individual members of the Executive Board.

Priority 2024 We shall continue to pursue our efforts to identify and manage climate risks in accordance with the roadmap on pages 296–297 and to communicate these efforts publicly.

Identification and assessment of risks

Regulatory risks

- **Regular meetings** involving Asset Management, Construction, Energy Management and Sustainability in order to exchange information concerning new/future local as well as national and international legal requirements
- **Climate VaR analysis** concerning transition risk for a Paris-aligned scenario, identified low to moderate risks

Physical risks

- **Scenario analysis of acute and chronic risks** for RCP 2.6, 4.5 and 8.5, identified low to moderate risks over the short to medium term, in-depth analysis of properties with slightly higher exposure to physical risks to follow
- **Energy and alarm management** with ongoing monitoring enables trends for heating and cooling needs to be identified at an early stage

Marks risks and opportunities

- **Regular tenant surveys** in order to recognise changing requirements relating to sustainability and climate protection (e.g. expectations in terms of renewable energies, CO₂ emissions, certification of buildings and indoor climate)
- **Regular direct contact with tenants** in order to recognise any potential increase in complaints concerning heat/indoor climate
- **Regular meetings** with district heating and cooling providers in order to identify any delays in network expansion that could jeopardise our plans for CO₂ reduction

Reputational risks and opportunities

- **Regular dialogue with tenants, business partners and local authorities**
- **Regular dialogue with investors** in order to obtain feedback concerning targets and performance on climate-related issues
- **Media monitoring process** (daily)

Management/measures

Asset Management and Construction

Measures to reduce risks (see details on pages 228–249):

- Identification and announcement of a CO₂ reduction pathway 2021
- Incorporation of the calculation of CO₂ emissions into tools for assessing the impact of measures and a comparative review of the original pathway calculated against the dynamically adjusted pathway following any changes in plans
- Consideration of the following aspects as part of any renovation plans:
 - anticipated legislation (e.g. on insulation or overhaul of heating systems)
 - anticipated physical risks, including in particular hot summers (efficient cooling systems, insulation, creating shade, electrochromatic windows, protection against storms and hail, water-saving measures)
 - tenant requirements (e.g. in relation to cooling or energy efficiency)
- Proactive dialogue with providers or district heating and district cooling over several years before any planned replacement of heating systems and agreement on transition solutions where schedules do not overlap and/or connection is unavailable, where applicable, examination of alternative solutions
- Guidelines concerning energy efficiency and material selection for new buildings (e.g. target energy consumption, maximum window area, criteria for embodied carbon) for service providers and suppliers

Risk avoidance measures:

- Investment strategy focused on city centres and creating added value avoids risks:
 - Physical risks: avoidance flood plains, areas prone to landslides, avalanches or coastal erosion
 - Transition risks: lower relevance of energy/CO₂ costs thanks to high land value or high rents
 - Inclusion of climate change risks in the due diligence process for potential acquisitions – can lead to a negative decision in combination with other factors if we cannot create added value with a renovation

Risk acceptance:

- Risk acceptance for certain listed properties where measures such as better shading, high-tech windows or better insulation are difficult or impossible to realise

Transfer of risk:

- Sale of a property (only in conjunction with other reasons for selling a property)

Property management

Measures to reduce risks (see details on pages 254–261):

- Conclusion of leases incorporating sustainability clauses in order to encourage tenants to save energy
- Stronger focus on energy optimisation as an ongoing task, also includes training property managers and caretakers in relation to energy optimisation

Communication

Measures to reduce risks:

- Transparency concerning climate-related measures implemented by us and our portfolio's CO₂ footprint as well as the related CO₂ reduction pathway
- No excessive promises in relation to targets and measures

TCFD – Overview and Roadmap

Questions	Status in reporting year
Governance	
a) How does the Board of Directors supervise climate-related risks and opportunities?	– Information via Risk Report
b) What role does Management play in assessing and managing climate-related risks and opportunities?	– Management of climate-related risks incorporated into sustainability and risk organisation
Strategy	
a) Which climate-related risks and opportunities has the Company identified over the short, medium and long term?	– Assessment of transition and physical risks for various climate change scenarios (RCP 2.6, RCP 4.5, RCP 8.5) and over various timeframes; identification of high-risk properties
b) What impacts do the risks and opportunities identified have on business areas, strategy and financial planning?	– Qualitative assessment of effects on capex, opex and rental income as well usability and positioning of properties and evaluation. – Action taken in response to risks and opportunities
c) How resilient is the Company's strategy with taking into consideration different climate-related scenarios, including a 2 °C-or-lower scenario?	– Assessment of the portfolio with reference to increased transition and physical risks points towards good resilience over the short to medium term
Management	
a) Which processes are used for identifying and assessing climate-related risks?	– Description of processes for identifying regulatory risks, physical risks, market risks and reputational risks – Assessment on the basis of quantitative (e.g. climate VaR for transition risks, risk index for physical risks) and qualitative data
b) Which processes are used for managing climate-related risks?	– Description of risk management processes for various types of risks
c) How are the processes described in a) and b) integrated into Company-wide risk management?	– Risk management concerning climate risks is incorporated into Company-wide risk management
Metrics and targets	
a) Which metrics are considered when assessing climate-related risks and opportunities in line with its strategy and risk management process?	– KPI in the overview table concerning long-term strategy and priorities (portfolio and tenants) – EPRA table with environmental KPIs (energy, CO ₂ , water) – Differentiation of the risk index and figures within the portfolio for different climate risks
b) Are scope 1, scope 2 and, if appropriate, scope 3 emissions and related risks disclosed?	– Reporting of scope 1 and scope 2 emissions (market-based) – Reporting of scope 3, category 6: Business Travel – Reporting of estimates for scope 3, category 13: Downstream Leased Assets – Reporting of embodied carbon for new buildings
c) What is the position regarding targets and performance against targets as regards the management of climate-related risks and opportunities?	– CO ₂ reduction pathway: on track – Interpretation and assessment of annual performance – 100% renewable electricity by 2025: already more than 99% achieved – 3 MWp of additional installed photovoltaic capacity over the next 5 years – Annual climate protection priorities

Disclosure	Next steps (2024+)
Page 225 Pages 73–80 Page 224	
Pages 289–290	<ul style="list-style-type: none"> – In-depth analysis of specific risks (e.g. number of heat days or flooding) for selected high-risk properties – More systematic recording of climate change adaptation measures within the portfolio
Pages 289–290	<ul style="list-style-type: none"> – Specific quantification of financial effects under scenarios RCP 2.6 and RCP 8.5 for selected properties – Stronger focus on embodied carbon and circularity in planning
Pages 291–294	<ul style="list-style-type: none"> – Regular repetition of the assessment of risks and opportunities on the basis of in-depth analysis
Page 295	<ul style="list-style-type: none"> – Incorporation of quantified data concerning climate risks into the Risk Report – Assessment of restructuring of risk categories in order to improve visibility of climate risks
Page 295	
Page 294	
Pages 226–227	
Pages 298–299 Pages 293–294	
Pages 298–299 Pages 298–299 Page 257	<ul style="list-style-type: none"> – Reporting of scope 2 location-based emissions in EPRA table – More systematic recording of tenant electricity in order to determine scope 3, category 13: Downstream Leased Assets – Determination of methods for meaningful calculation of scope 3, categories 1 and 2: Purchased Goods and Services, Capital Goods
www.psp.info/en/scope-3	
Pages 230–231 Pages 240–243	<ul style="list-style-type: none"> – Annual priorities – More specific targets in terms of greening and biodiversity
Pages 226–227	