



REAL ESTATE CASE STUDY

Three Chamberlain Square, Birmingham: climate resilience in the real world



Our Q3 real estate case study looks at climate resilience in the real estate sector and profiles Three Chamberlain Square in Birmingham, UK, which has one of the lowest embodied carbon levels in a commercial building in the region.

As investors continue to unpick the impact of climate change on people and the natural world, at Federated Hermes we are using innovative tools and approaches to assess the unique implications of rising global temperatures on the built environment.

Real estate is a leading contributor to global emissions and climate change¹. It is also uniquely exposed to its effects. This puts the asset class and those who invest in it, in a pivotal position to be at the forefront of the global decarbonisation efforts.

From an investor's point of view, climate change represents a material financial and investment risk to assets amid research that suggests that a third of real assets globally are exposed to climate hazards such as storms, floods, fires, extreme heat and other risks². Existing and future buildings and infrastructure are exposed to unprecedented levels of climate risk. For this reason, climate resilience is fast ascending to the top of the industry's long-term agenda.



Tools to assess climate value-at-risk

Climate resilience is achievable only with consistent climate intelligence and modelling that is finely tailored to the needs of the real estate sector. In conjunction with independent, qualitative analysis, we use the MSCI's Climate Value-at-Risk tool to garner deep insight into how climate change will affect assets across our portfolios. This industry-leading tool measures climate-related risks, as well as opportunities, at the asset level using forward-looking, return-based valuation assessments.

Using this framework, we aim to optimise portfolio performance, manage risks and provide timely regulatory reporting.

What is climate resilience?

In real estate, climate resilience refers to the ability of the industry and its assets to adapt to, and recover from, the impacts of climate change. Assessing and incorporating climate resilience into portfolios is an important element of our investment process. To achieve this, we consider how each asset is exposed to the two main categories of climate risk.

Physical risk: This refers to risks arising from acute climate-related events such as floods, fires, extreme heat, and storms, as well as incremental phenomena such as steadily rising sea levels and changing average temperatures.

Transition risk: This relates to governmental and social responses to climate change, such as economic changes, government regulations, public sentiment and consumer behaviour.

As members of the Better Buildings Partnership, our climate resilience approach is guided by industry best practices and seeks to mitigate, adapt to and disclose climate-related risks in a manner that is both precise and timely. Our ESG-focused investment stance has allowed us to build a holistic approach that draws on quantitative and qualitative data to bring climate considerations into the development, investment and management of assets.

¹ 40% of emissions come from real estate; here's how the sector can decarbonize – United Nations Environment – Finance Initiative ([unepfi.org](https://www.unepfi.org))

² ESG Risk Solutions & Management - Moody's ([moody's.com](https://www.moody's.com))



Three Chamberlain Square, Birmingham: a focus on climate resilience

Three Chamberlain Square is part of the Paradise Birmingham regeneration scheme. The scheme is developed through a public-private partnership between BTPS and Birmingham City Council and Federated Hermes is the manager.

Development on the 189,000 sq ft office and commercial space – Paradise’s fourth office building – began in May 2023 and it is one of the first buildings in the region to achieve a BREEAM outstanding rating³ for sustainability in the built environment.

From the outset of the project, we saw Three Chamberlain Square as an opportunity to apply the industry’s best thinking on climate resilience at every stage of the development and management of a socially significant asset.

The UK faces many climate-related challenges, including increasing occurrences of heatwaves and droughts during the summer months, along with increased rainfall and flooding in the autumn and winter. Steadily rising sea levels are also eroding the British coastline.

Despite evidence that global mean temperatures are almost certain to surpass the Paris Agreement goal of limiting temperature rises to 1.5°C above pre-industrial



levels in the next decade, most UK design standards are based on historic, and out of date, weather data. This means that many buildings and infrastructure projects are unsuited to the mid- and long-term climate outlook for the UK, magnifying their vulnerability and exposure to risk.

When we began work on Three Chamberlain Square, we commissioned a resilience risk analysis of the site to identify the impact of expected weather conditions arising from climate change on the building over its projected life cycle. The independent report sought to identify the key risks to the project and propose actions designed to mitigate them.

The risks identified related to increased average and maximum summer temperatures, decreased rainfall in the summer, increased rainfall in the winter, and increased water levels resulting from rising sea levels and precipitation.

Having assessed the magnitude and scale of the hazards identified, we began implementing measures to mitigate and adapt to these risks as far as our assessment judged practically feasible.

The measures we implemented included:

- Protecting against future utility cost changes with energy efficiency measures and onsite systems.
- Incorporating cooling system capacity and equivalent space allowance to address increased summer maximum temperatures.
- Ensuring material selection is resilient to future peak summer temperature projections for 2080.
- Minimising stress on local infrastructure with smart controls, natural ventilation, and photovoltaic and storage capacity in anticipation of increased energy demand.
- Implementing water-saving features including rain collection in anticipation of increased water demand.
- Incorporating sufficient drainage, flood resilience and emergency management strategies for evacuation in the event of flooding.

The real estate sector will play an increasingly crucial role in the global decarbonisation agenda. We see climate resilience as an opportunity for the sector to significantly reduce its carbon emissions while also safeguarding investors, occupiers and local communities from the long-term financial and non-financial risks associated with changing global climates.

This is all part of a wider strategy and climate resilience review on 3CS as part of reducing the whole life carbon of the building, including significant reductions in upfront embodied carbon and operational energy.

By working in collaboration with suppliers and contractors, we have good data on the carbon on every element of the materials across the project. Every design decision is made with this as a consideration, from the selection of the structural frame down to the internal fixtures and finishes. The building stands to achieve one of the lowest embodied carbon levels in a commercial building in the region represents a significant milestone for the city.

³ BREEAM Outstanding is the top-level ranking for a sustainable built environment, achieved by less than 1% of new non domestic buildings, and requires careful planning of each process during the design, procurement, construction, and delivery phase of the building (Source: Paradise Circus General Partner Limited 2023)

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