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## Climate Risk is Now a Balance Sheet Issue for Real Estate Owners

By James Gilles & Dru Douglas

**F**or real estate owners, extreme climate events are no longer an abstract or future concern. Flooding, wildfire, heat stress, wind, and freeze–thaw cycles are already influencing asset performance, capital planning, and long-term valuations. What has changed most meaningfully in recent years is not simply the occurrence of these events, but the expectations placed on owners to understand and actively manage their exposure.

Climate risk has moved well beyond an environmental or ESG discussion. It is now a core business issue that touches governance, financing, and risk transfer. Boards are asking more pointed questions, lenders are embedding climate considerations into underwriting decisions, and insurers are increasingly rewarding portfolios that can demonstrate resilience. In this environment, failing to assess and address climate exposure is less about risk appetite and more about oversight.

From a board and shareholder perspective, physical climate risk now sits alongside interest rates, liquidity, and operational risk as a factor that can materially affect enterprise value. Directors are asking management

teams to explain where assets are vulnerable, how downside scenarios could play out, and whether capital is being deployed thoughtfully to protect long-term cash flows. This is particularly relevant for portfolios concentrated in major urban centres, where a single climate event can impact multiple assets simultaneously.

Lenders are reinforcing this shift. Many banks and institutional capital providers are increasingly incorporating climate considerations into credit decisions and refinancing discussions. Assets with poorly understood exposure to flooding, wildfire, or extreme heat are more likely to be viewed as higher-risk collateral. Over time, this can translate into higher borrowing costs, reduced leverage, or tighter covenants—outcomes that directly affect returns.

From an insurance standpoint, the current environment is more nuanced. Following several years of elevated catastrophe losses, 2025 has been a relatively low-impact year for major catastrophe events. As a result, insurance markets have shown signs of softening, with improved capacity and more competitive terms emerging for many real estate owners. Having said

this, owners should not rely on the favorable market conditions to stop the implementation of sound risk management practices around climate risks.

Structured climate risk assessment remains critical, regardless of current market conditions. Assessments should be conducted at the portfolio level, not just building by building. Two assets that appear similar can face very different loss profiles based on micro-location, infrastructure resilience, construction characteristics, and reliance on utilities or access routes.

A meaningful assessment examines geographic exposure to key perils, asset-specific vulnerabilities, and potential business interruption impacts, not just physical damage. For portfolios spanning major Canadian cities with some U.S. exposure, this often reveals concentrations of risk that are not immediately obvious but become highly relevant in stressed scenarios.

The value of this work is realized when assessment insights are translated into targeted resilience measures. These may include flood protection, wildfire defensibility, roof and envelope upgrades, protection or redundancy for critical building systems, or improved monitoring and emergency response planning. The objective is not to eliminate risk, but to reduce loss severity and downtime in a disciplined, capital-efficient way.

Construction contractor partners play an essential role in this process. Turning risk insights into practical interventions—particularly during retrofits, capital programs, or new development—requires close coordination between owners, engineers, and builders. When aligned properly, resilience investments can be integrated into long-term capital plans rather than treated as incremental costs.

From a total cost of risk perspective, resilience investments are best viewed as counter-cyclical. Making improvements during softer market conditions positions portfolios to weather future firming with less disruption. Reduced losses, lower volatility, and improved insurability all contribute to a more resilient financial profile.

For real estate owners today, climate resilience is not about reacting to last year's losses. It is about preparing portfolios for the next cycle. Those who take a proactive, portfolio-driven approach are better equipped to satisfy boards, reassure lenders, and maintain optionality with insurers when conditions inevitably change.

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