

# Climate Risks

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Information on scenario analysis  
and risk management strategies  
in accordance with TCFD

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## Information on scenario analysis and risk management strategies in accordance with TCFD

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 been reporting in accordance with the requirements of the TCFD (Taskforce on Climate-Related Financial Disclosures) since 2024.

In addition to the information in the current annual report, this document provides more detailed information on the scenario analysis and the various risk management strategies to counter climate risks.

### **Scenario analysis of climate-related risks and opportunities**

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 sector. 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)<sup>1</sup>.

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<sup>1</sup> A description of the various climate scenarios can be found on page 11.

RCP 2.6		Short-term (up to 5 years)	Medium-term (2030–2050)	Long-term (2051–2100)
Physical risks	<b>Chronic risks:</b> moderate increase in heat days (increase by between 1 and 5 heat days by 2060)			
Transition risks	<b>Regulation:</b> increasing requirements for the disclosure of climate risk strategy and management			
	<b>Regulation:</b> stricter (local and national) regulations on building standards, the replacement of heating powered by fossil fuels, energy efficiency following renovation, installation of photovoltaic systems			
	<b>Regulation:</b> stricter (local and national) regulations on embodied carbon emissions and circular economy (regulations on reuse, restrictions on demolition)			
	<b>Regulation:</b> increase in CO <sub>2</sub> prices (steering charges or taxes), also affecting the prices of input materials			
	<b>Market:</b> higher energy prices (costs of energy transition towards renewable energies), higher prices for energy efficiency technologies due to demand			
	<b>Market:</b> stricter requirements by tenants on sustainability aspects of properties, lower demand for properties with high energy costs			
	<b>Market:</b> stricter requirements for investors in terms of transparency and proof of measures to combat climate change			
	<b>Reputation:</b> increased reputational risk in the event that standards cannot be adhered or if our measures are considered to be too weak			
	<b>Technology:</b> accelerated obsolescence of technical equipment			
Potential financial implications	<ul style="list-style-type: none"> <li>– Increasing investment in the early exchange of heating, insulation, higher prices for input materials</li> <li>– Rising opex and other costs for disclosure, certification etc.</li> <li>– Higher financing costs if properties do not comply with strict sustainability standards</li> <li>– 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</li> <li>– 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</li> </ul>			

RCP 8.5		Short-term (up to 5 years)	Medium-term (2030–2050)	Long-term (2051–2100)
Physical risks	<b>Chronic risks:</b> increase by between 10 and 22 heat days by 2060, heatwaves and generally higher average temperatures (2 to 3 °C by the middle of the century)	[Green bar spanning all periods]		
	<b>Chronic risks:</b> increasing risk of extended periods of drought		[Green bar spanning medium-term and long-term]	
	<b>Acute risks:</b> higher risk of hail and storms		[Green bar spanning medium-term and long-term]	
Transition risks	<b>Regulation:</b> increasing requirements for the disclosure of climate risk strategy and management	[Green bar spanning all periods]		
	<b>Market:</b> stronger demand from tenants for cooling systems, as hot offices reduce productivity	[Green bar spanning all periods]		
	<b>Regulation:</b> stricter rules on indoor climate		[Green bar spanning medium-term and long-term]	
	<b>Regulation:</b> stricter rules on adjustment to climate change (e. g. insulation, protection against storms and flooding, protection against heat)		[Green bar spanning medium-term and long-term]	
	<b>Regulation:</b> stricter rules on water usage		[Green bar spanning medium-term and long-term]	
Potential financial implications	<ul style="list-style-type: none"> <li>– Greater investment in cooling systems, insulation, creating shade, electrochromatic windows, greening</li> <li>– Greater investment in measures to protect against inclement weather such as storms and hail</li> <li>– 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</li> <li>– Higher insurance costs for buildings that have not sufficiently adapted to climate change</li> <li>– Need for building re-positioning or disposal on account of restrictions on usage</li> <li>– Reduced profitability and downward correction of valuation of properties for which cooling/insulation is not possible (high vacancy rates, lower rents)</li> </ul>			

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. This does affect our strategy and our financial planning, e. g. for investments, but not to the extent that it would lead to a significant change in our business model.

## Resilience and exposure to risks

### Transition risks

As far as transition risks are concerned, we consider ourselves to be well prepared thanks to the calculation of our CO<sub>2</sub> reduction pathway and the formulation of clear CO<sub>2</sub> reduction targets. 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 CO<sub>2</sub> tax on fuels in Switzerland is already fairly high compared with elsewhere in Europe at CHF 120 per tonne of CO<sub>2</sub>.

### 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)<sup>2</sup> over the medium and long term. This quantified analysis of exposure was carried out for the first time in 2023 and is repeated regularly and also applied to (potential) new acquisitions.

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<sup>2</sup> A description of the various climate scenarios can be found on page 11.

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. 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. 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.

The drastic effects described are more than one investment cycle away. Risks are minimised by integrating appropriate measures into the next investment cycle for each property. The focus here is on improved insulation and the installation of cooling. In-depth analyses of adaptation to heat and drought are carried out for individual properties in order to refine the assessments and, where necessary, bring forward certain measures if this is in the interests of improved tenant satisfaction. **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.

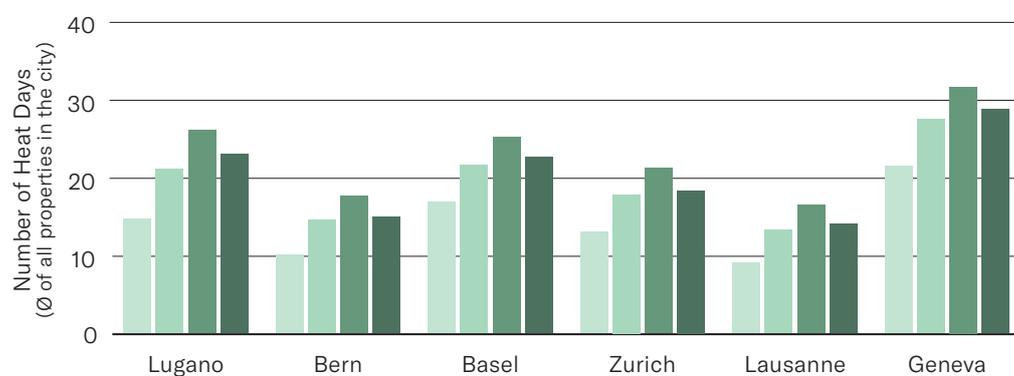
### ***Future risks due to natural hazards as a consequence of climate change***

**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.

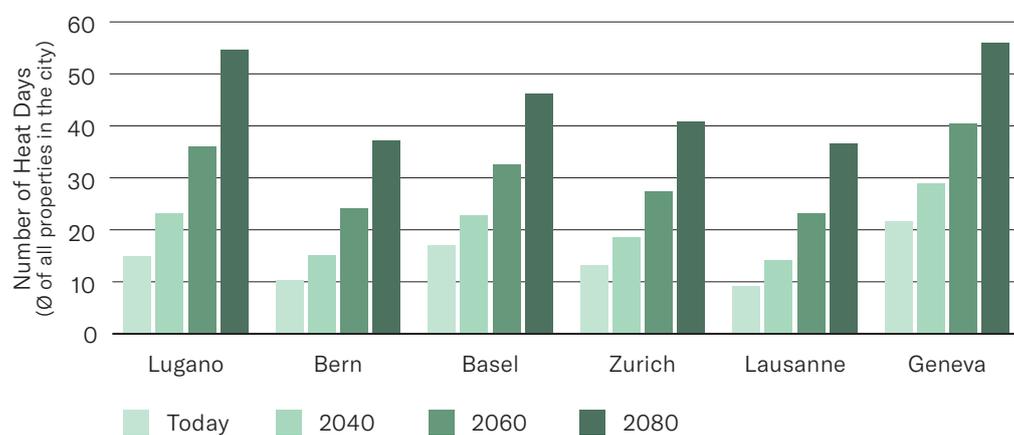
**Heat stress:** when expressed in terms of the heat stress index, which incorporates multiple temperature-related parameters and classifies climatological heat stress scenarios on a scale of 0 (very low) to 10 (very high), the exposure of a large portion of our portfolio has been assessed as “low to 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**



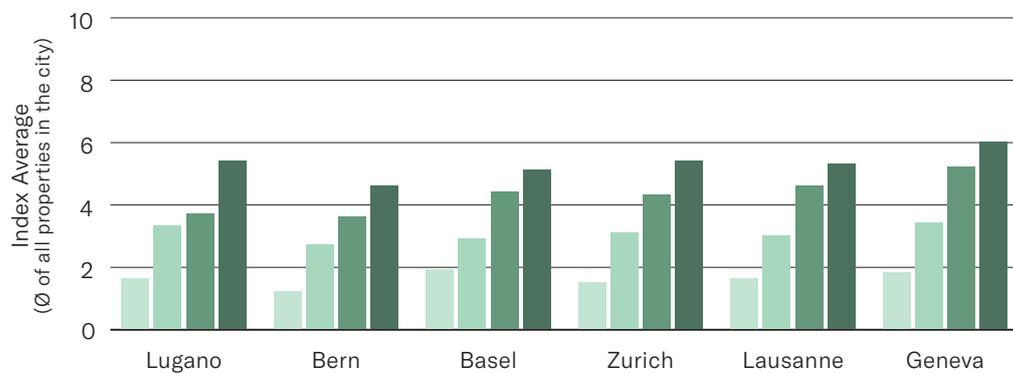
**Number of Heat Days city comparison: RCP 8.5**



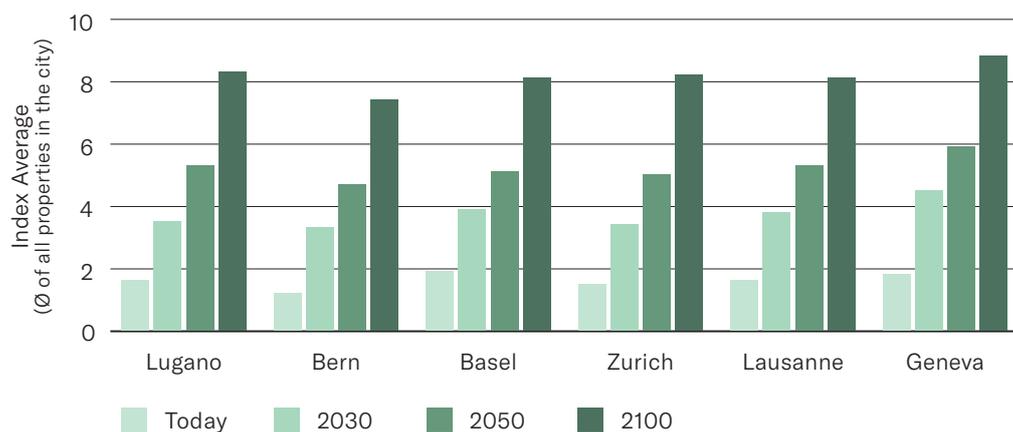
Source: CH2018 – Climate Scenarios for Switzerland / Wüest Partner

**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.

**Drought Stress Index city comparison: RCP 4.5**



**Drought Stress Index city comparison: RCP 8.5**



Source: Munich Re / Risk Management Partners

**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.

## Identified climate-related risks and corresponding risk management strategies

Identification and assessment of risks	Management/measures
<p><b>Regulatory risks</b></p> <ul style="list-style-type: none"> <li>- <b>Regular meetings</b> 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</li> <li>- <b>Climate VaR analysis</b> concerning transition risk for a Paris-aligned scenario, identified low to moderate risks</li> </ul>	<p><b>Asset Management and Construction</b></p> <p><b>Measures to reduce risks (see also Sustainability Report, Climate Change):</b></p> <ul style="list-style-type: none"> <li>- Identification and announcement of a CO<sub>2</sub> reduction pathway 2021</li> <li>- Incorporation of the calculation of CO<sub>2</sub> 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</li> <li>- Consideration of the following aspects as part of any renovation plans:               <ul style="list-style-type: none"> <li>- anticipated legislation (e.g. on insulation or overhaul of heating systems)</li> <li>- anticipated physical risks, including in particular hot summers (efficient cooling systems, insulation, creating shade, electrochromatic windows, protection against storms and hail, water-saving measures)</li> <li>- tenant requirements (e.g. in relation to cooling or energy efficiency)</li> </ul> </li> <li>- 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</li> <li>- 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</li> </ul>
<p><b>Physical risks</b></p> <ul style="list-style-type: none"> <li>- <b>Scenario analysis of acute and chronic risks</b> 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</li> <li>- <b>Energy and alarm management</b> with ongoing monitoring enables trends for heating and cooling needs to be identified at an early stage</li> </ul>	<p><b>Risk avoidance measures:</b></p> <ul style="list-style-type: none"> <li>- Investment strategy focused on city centres and creating added value avoids risks:               <ul style="list-style-type: none"> <li>- Physical risks: avoidance flood plains, areas prone to landslides, avalanches or coastal erosion</li> <li>- Transition risks: lower relevance of energy/CO<sub>2</sub> costs thanks to high land value or high rents</li> <li>- 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</li> </ul> </li> </ul>
<p><b>Marks risks and opportunities</b></p> <ul style="list-style-type: none"> <li>- <b>Regular tenant surveys</b> in order to recognise changing requirements relating to sustainability and climate protection (e.g. expectations in terms of renewable energies, CO<sub>2</sub> emissions, certification of buildings and indoor climate)</li> <li>- <b>Regular direct contact with tenants</b> in order to recognise any potential increase in complaints concerning heat/indoor climate</li> <li>- <b>Regular meetings</b> with district heating and cooling providers in order to identify any delays in network expansion that could jeopardise our plans for CO<sub>2</sub> reduction</li> </ul>	<p><b>Risk acceptance:</b></p> <ul style="list-style-type: none"> <li>- Risk acceptance for certain listed properties where measures such as better shading, high-tech windows or better insulation are difficult or impossible to realise</li> </ul> <p><b>Transfer of risk:</b></p> <ul style="list-style-type: none"> <li>- Sale of a property (only in conjunction with other reasons for selling a property)</li> </ul>
<p><b>Reputational risks and opportunities</b></p> <ul style="list-style-type: none"> <li>- <b>Regular dialogue with tenants,</b> business partners and local authorities</li> <li>- <b>Regular dialogue with investors</b> in order to obtain feedback concerning targets and performance on climate-related issues</li> <li>- <b>Media monitoring process</b> (daily)</li> </ul>	<p><b>Property management</b></p> <p><b>Measures to reduce risks (see also Sustainability Report, Climate Change):</b></p> <ul style="list-style-type: none"> <li>- Conclusion of leases incorporating sustainability clauses in order to encourage tenants to save energy</li> <li>- Stronger focus on energy optimisation as an ongoing task, also includes training property managers and caretakers in relation to energy optimisation</li> </ul> <p><b>Communication</b></p> <p><b>Measures to reduce risks:</b></p> <ul style="list-style-type: none"> <li>- Transparency concerning climate-related measures implemented by us and our portfolio's CO<sub>2</sub> footprint as well as the related CO<sub>2</sub> reduction pathway</li> <li>- No excessive promises in relation to targets and measures</li> </ul>

## Explanations and definitions

### Climate scenarios

The RCP (Representative Concentration Pathway) climate scenarios of the IPCC have been used as a basis for analysing risks in relation to climate change.

**RCP 2.6, very stringent climate protection:** climate protection measures are taken. An immediately implemented cut in emissions will stop the increase in greenhouse gases in the atmosphere in around 20 years. This will enable the goals under the 2016 Paris Climate Agreement to be achieved. The figure for radiative forcing in 2100 is 2.6 W/m<sup>2</sup> compared to 1850.

**RCP 4.5, limited climate protection:** although greenhouse gas emissions will be reduced, the concentration in the atmosphere will continue to rise for a further 50 years. The 2.0 °C target will be missed. The figure for radiative forcing in 2100 is 4.5 W/m<sup>2</sup> compared to 1850.

**RCP 8.5, no climate protection:** humanity carries on as previously, does not implement any climate protection measures and continues to emit more greenhouse gases. Temperatures will increase by the end of the century by between 3 and 4 degrees on average. The figure for radiative forcing in 2100 is 8.5 W/m<sup>2</sup> compared to 1850.

The graphs with the drought stress index and with the heat days refer to the respective average of the drought stress indices and the heat days of all properties in the respective city.

The data on heat days is based on the Swiss climate scenarios: CH2018 Project Team (2018): CH2018 – Climate Scenarios for Switzerland. National Centre for Climate Services. doi: 10.18751/Climate/Scenarios/CH2018/1.0. The information on natural hazards such as earthquakes, flood risk, heat stress and drought stress is based on the Portfolio Risk Report by Risk Management Partners/Munich RE from December 2023.

## Definition of timeframes under the CDP and the TCFD

**Short-term:** we regard a timeframe of 1–5 years as being short term. A standard lease has a term of 5 years. Only minor changes to our properties are possible over this period. The basic structure or equipment cannot be changed over this period.

**Medium-term:** we regard a timeframe of between 5 and 20 years as being medium term. The life expectancy of many building systems is around 20 years. Major changes need to be made within this timeframe. Changes of this type to equipment and infrastructure (e. g. change of heating system) may have major effects on the building's CO<sub>2</sub> footprint.

**Long-term:** we regard a timeframe of between 20 and 50 years or longer as being long term. The basic structure of a building has a life expectancy of at least 50 years. After this period, a building can be thoroughly altered or replaced with a new more environmentally efficient structure.

## TCFD – Overview and roadmap

Questions	Reporting year status	Disclosure	Next steps (2026+)
<b>Governance</b>			
a) How does the <b>Board of Directors</b> oversee the climate-related risks and opportunities?	– Orientation via risk report	Sustainability report, p. 240 f.	
b) What role does <b>management</b> play in assessing and managing climate-related risks and opportunities?	– Management of climate-related risks integrated into sustainability and risk organisation	Sustainability report, p. 240 f.	
<b>Strategy</b>			
a) What climate-related <b>risks and opportunities</b> has the Company identified over short, medium and long-term periods?	– Assessment of transition and physical risks for different climate change scenarios (RCP 2.6, RCP 4.5, RCP 8.5) and various time horizons, identification of properties with increased risks	www.psp.info/climaterisks, p. 3 f.	– In-depth analysis of specific risks (e.g. number of heat days or flooding) for selected properties with increased risks – More systematic recording of climate change adaptation measures in the portfolio
b) What <b>impact</b> do the identified climate-related risks and opportunities have on the business divisions, strategy and financial planning?	– Qualitative assessment of the impact on CapEx, OpEx, rental income, usability or positioning of the properties, and valuation – Initiated measures in response to the risks and opportunities	www.psp.info/climaterisks, p. 3 f.	– Concrete quantification of financial effects in the case of RCP 2.6 and RCP 8.5 for selected properties – Greater focus on embodied emissions and circularity in planning
c) How <b>resilient</b> is the Company's strategy under different climate-related scenarios, including a 2 °C or lower scenario?	– Assessment of the portfolio in terms of increased transition and physical risks indicates good short- to medium-term resilience	Sustainability report, p. 253 www.psp.info/climaterisks, p. 5 ff.	– Regular repetition of the assessment of risks and opportunities based on an in-depth analysis
<b>Management</b>			
a) What are the processes for <b>identifying and assessing</b> the climate-related risks?	– Description of the processes for identifying regulatory risks, physical risks, market risks, and reputational risks; assessment based on quantitative (e.g. climate-VaR for transition risks, risk indices for physical risks) and qualitative information	www.psp.info/climaterisks, p. 10	
b) What are the processes for <b>managing</b> climate-related risks?	– Description of the risk management processes for the different types of risks	www.psp.info/climaterisks, p. 10	
c) How are the processes described in a) and b) <b>integrated into</b> the company's enterprise-wide risk management?	– Risk management for climate risks is integrated into company-wide risk management	Sustainability report, p. 272 ff.	– Integration of quantified statements on climate risks in the risk report – Evaluation of a restructuring of risk categories to improve the visibility of climate risks
<b>Key figures and targets</b>			
a) What <b>key figures</b> are used to assess climate-related risks and opportunities (in line with the strategy and risk management process)?	– KPI on energy and water use, CO <sub>2</sub> emissions, share of renewables – Distribution of the risk indices and key figures in the portfolio for various climate risks	Sustainability report, p. 238 f. Sustainability report, p. 247 Sustainability report, p. 280 f. www.psp.info/climaterisks, p. 5 ff.	
b) Are <b>Scope 1, Scope 2 and, where necessary, Scope 3 emissions</b> and associated risks disclosed?	– Disclosure of Scope 1 and Scope 2 emissions (market-based and location-based) – Disclosure of Scope 3, Category 6 (Business Travel) and Category 13 (Downstream Leased Assets) – Disclosure of embodied CO <sub>2</sub> emissions of new buildings	Sustainability report, p. 247 Sustainability report, p. 280 f. www.psp.info/en/scope-3	– Identification of methodologies for meaningful calculation of Scope 3, Categories 1 and 2: Purchased goods and services, capital goods
c) What are the <b>objectives and target achievement</b> in the management of climate-related risks and opportunities?	– CO <sub>2</sub> reduction pathway: On track – Interpretation and assessment of the annual performance – 100% renewable electricity by 2025: already achieved 100% in 2024	Sustainability report, p. 238 f. Sustainability report, p. 245 ff. Sustainability report, p. 248 f.	– Annual priorities – More specific goals in the area of greening and biodiversity – More specific goals for Scope 3



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Reuters: PSPZn.S

Bloomberg: PSPN SW