

# Climate Risk in Real Estate

## *New Law Society Practice Note*

Real Estate and Environmental Disputes 2025

**Stephen Sykes**

Head of Environment, Climate &  
Sustainability Law

s.sykes@capitallaw.co.uk



# Categories of Climate Risk in Property Transactions

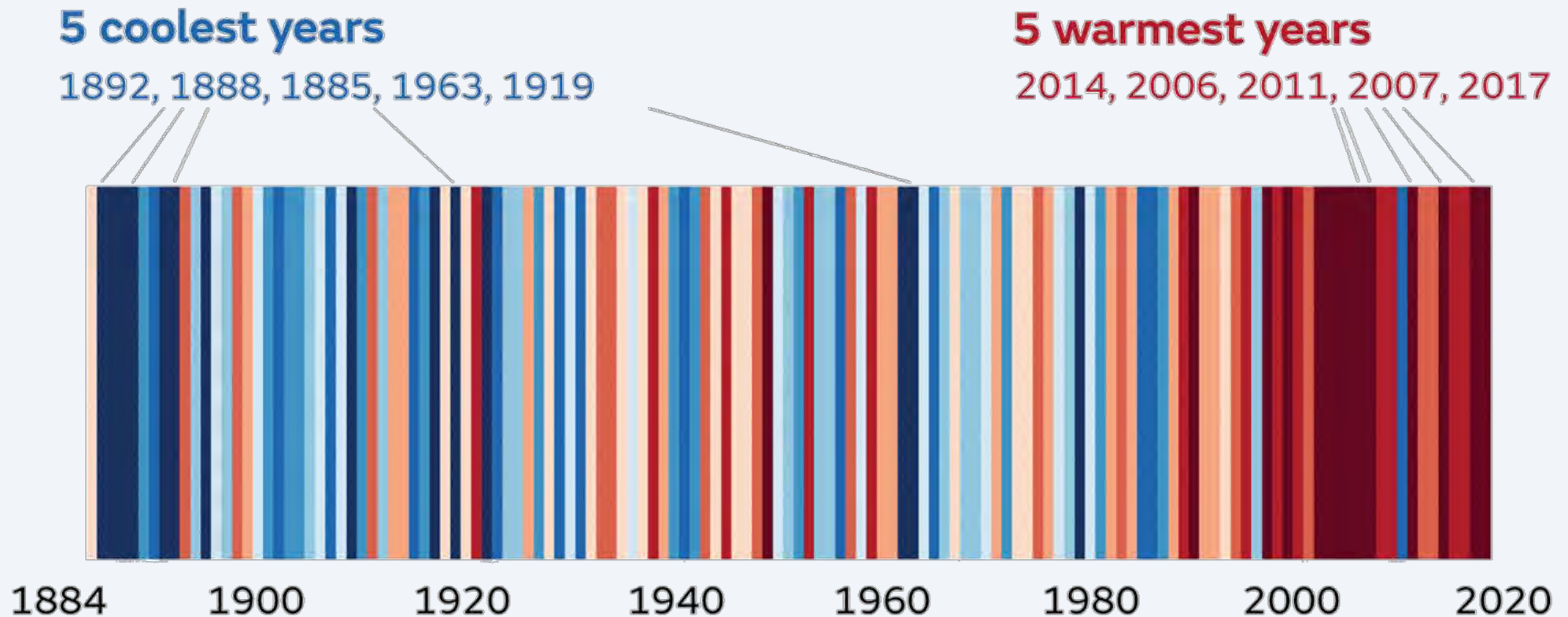
- 01** Physical Risks
- 02** Transition Risks
- 03** Liability or Legal risks



Which type of *climate risk* concerns you the most?



# Met Office — UK annual temperature



# Physical Risks



# Physical Risks

## Extreme weather impacts:

- commercial and residential properties.
- infrastructure upon which the property depends, e.g. transport and utility infrastructure.
- insurability, sales, leasing, development or financing, property value or marketability, or affecting use and/or enjoyment.

## *Examples:*

Ground stability/subsidence

Coastal erosion

Flooding (groundwater, coastal, river, surface and tidal)

Sea level rise

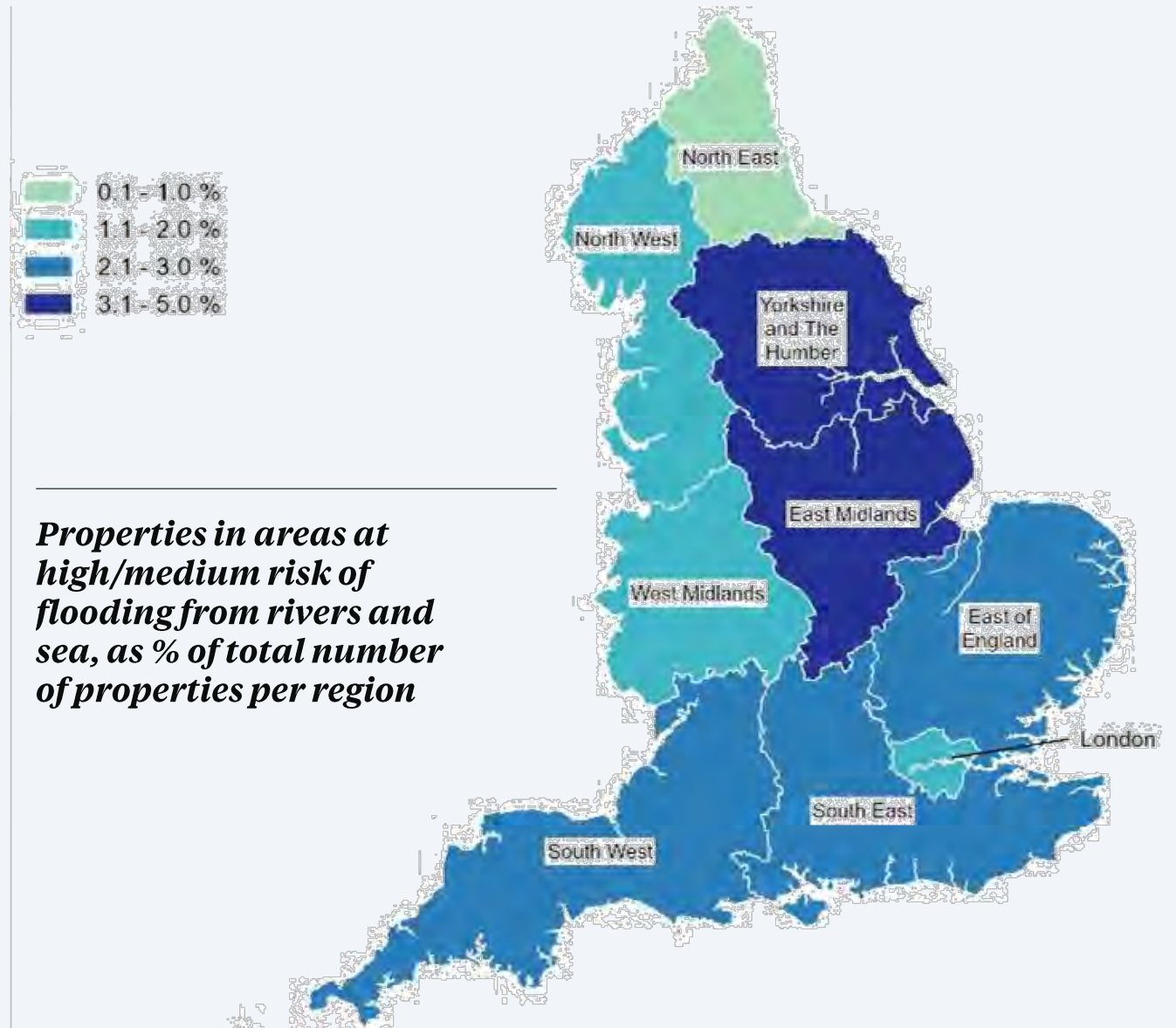
Wild-fire risk

Physical damage to the property from extreme weather events

# Flooding — *England*

6.3 million properties (homes and businesses) at risk of flooding from **one** or a **combination** of sources.

With climate change this could increase to around **8 million** by mid-century.



# Flooding

## — *Wales*

Estimated around 270,000 properties at risk of flooding.





# Transitional Risks



# Transitional Risks

**Arise during the shift toward the UK's target of achieving Net Zero emissions by 2050.**

*Transition risks stem from:*

1. New policies
2. Laws
3. Regulations, and
4. Market dynamics introduced by governments, industries, and consumers as they work to reduce carbon emissions and combat climate change.

## **Examples:**

- MEES 2018 (minimum acceptable Energy Performance Certificate rating)
- UK Building Regulations
- Greenhouse Gas Reporting requirements
- Whole Life Carbon Assessment for the Built Environment (RICS)
- The Future Home and Building Standards
- UK Net Zero Carbon Buildings Standard

# Minimum Energy Efficiency Standard (MEES)

Financial penalties and reputational damage for landlords if premises EPC rating is substandard — currently an “F” or “G”.

Guidance relates to commercial property, but **MEES risk** is relevant for landlords of residential property.

Recent consultation tightens commercial standard to EPC “**C**” by 2027 — properties currently compliant at “**E**” could become non-compliant / attract penalty in future.

**Green leases and Minimum Energy Efficiency Standards | The Law Society**



# Considerations for all properties

- How long does the client intend to hold the property?
- Does your client intend to occupy the property or let it to third parties?
- Does your client intend to develop the land?
- Does the client have access to third party expertise on climate-related risks?
- Has the client set a net zero target?
- Does the client have a transition plan?



# What you can expect from your conveyancer/solicitors

## *Solicitors should:*

- 01** Commission a climate search.
- 02** Report findings — if needed, signpost to surveyors, engineers.
- 03** Advise the client on their potential legal liabilities.
- 04** If reporting a climate risk search confirm they are not able to provide'/advise on a technical interpretation of the results.



# Climate Risk — Lenders and Insurers

## Lender

- Solicitors should encourage buyers to get **additional** surveys to understand climate-related vulnerabilities and maintenance needs.
- Valuers must flag any information that needs legal verification **before** the valuation can be relied upon.
- The UK Finance Lenders' Handbook specifies clients should not rely solely on a lender's valuation.

## Insurer

- Insurers' willingness to cover affected by climate risk e.g. flooding and subsidence.
- Insurers may decline coverage or increase premiums for properties exposed to **unmitigated** climate risks.
- This can affect not only ongoing costs but also mortgage availability and resale value.

# Climate Risk — Searches

Obtained from commercial data providers as standalone searches, or as modules included within an environmental search.

Initial screening reports to give users (e.g. prospective property owners and their legal advisors) a medium to long-term future insight into risks likely to impact property.

E.g. physical climate risks and transition risks.

## *Points to consider on climate risk searches include:*

- Predominantly use publicly available data based on non-property specific information
- Who can rely on the search?
- Does the climate risk search provider offer professional indemnity insurance for the search
- Does the climate risk search provide any analysis of the implications of its findings.

# Law Society's Due-Diligence Checklist

1. Advise client on potential legal liabilities
2. Consider and advise
3. Record in writing
4. Clarify with the client
5. Document any advice in writing
6. If acting for a lender...

***Sample wording for report on title...***



*[We have obtained for [you ] [as required by your lender ]*

*[Option A - an environmental desktop search of the property that includes desktop forecasts of climate risks (including flood) that are likely to occur in the future]*

*[Option B - a desktop climate risk search of the property that forecasts climate risks (including flood) that are likely to occur in the future]. We wish to highlight the following opinion from the search provider on the search results [    ].*

*This climate risk search provides only a limited analysis of the risks. As solicitors we are not qualified to advise on the technical, practical and financial consequences which flow from the search results, nor necessarily to advise what are the next steps or whether further investigations are required (since this may relate to non-legal matters).*

*You should seek further advice from [your specialist advisors] [suitably qualified professionals such as building surveyors] to evaluate the risk and what it means for the property and its potential value]. Questions about the search results may also be raised with the search provider.]*

**Thank you.**  
*Any Questions?*

