

AEW RESEARCH | EUROPE

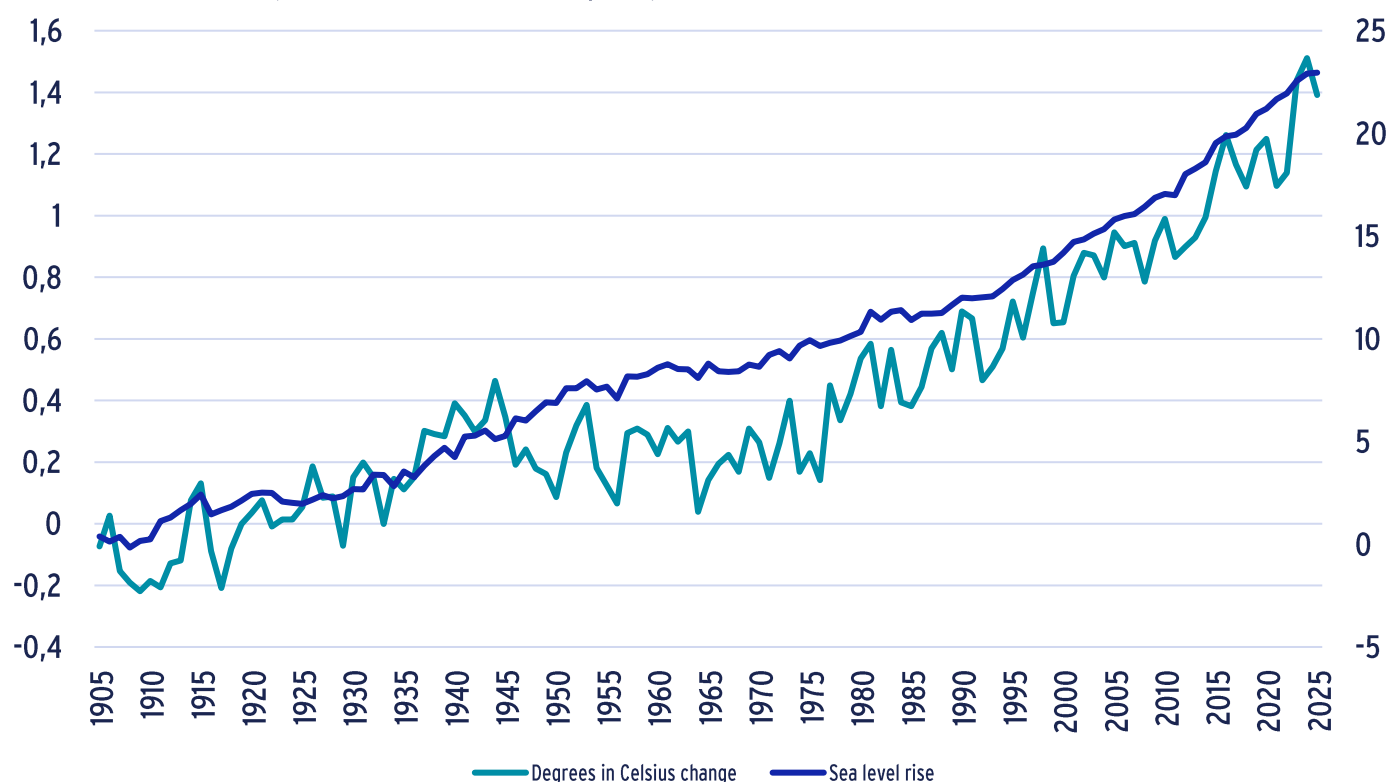
Adding Physical Climate Risks

SEPTEMBER 2026

HOW WILL PHYSICAL CLIMATE HAZARDS IMPACT EUROPEAN REAL ESTATE RETURNS?

- This research report is our seventh on climate-related risks, with this edition focusing on a more complete quantification of the impact of physical climate hazards on projected European real estate market-level returns.
- Even if this summer's record number of wildfires and droughts across Europe is not yet reflected in the latest available data, annual Earth System Science Data (ESSD) confirms the long-term trend that global surface temperatures have increased by 1.39°C relative to pre-industrial levels. Additionally, sea levels have risen by 23cm over 1901–2025.
- Climate change, through wildfires, droughts, floods, and rising temperatures, reduces economic growth. It also increases inflationary pressures, via higher energy costs, for example, possibly triggering higher interest rates. Moreover, damage to river shipping, agriculture, tourism, energy and health systems reduces output and productivity.
- Our data partners' latest analyses allow for a more precise estimate of climate-related physical hazard impacts, considering both direct impacts on landlords and indirect impacts on tenants. Most can do this across several accepted future climate scenarios, with some also able to reflect current and future flood defenses.
- As in prior reports, we apply our relative value approach to a market-representative portfolio of 964 buildings, assuming a 20-year holding period (2026–45) and a single climate scenario, SSP2. Using four data partners allows us to compare results. We compute aggregate estimates of the climate risk premium by geography and property type.

GLOBAL SURFACE TEMPERATURE (DEGREES IN CELSIUS CHANGE FROM THE 1850-1900 REFERENCE PERIOD, LHS) AND SEA LEVEL RISE (CENTIMETERS FROM 1901, RHS)

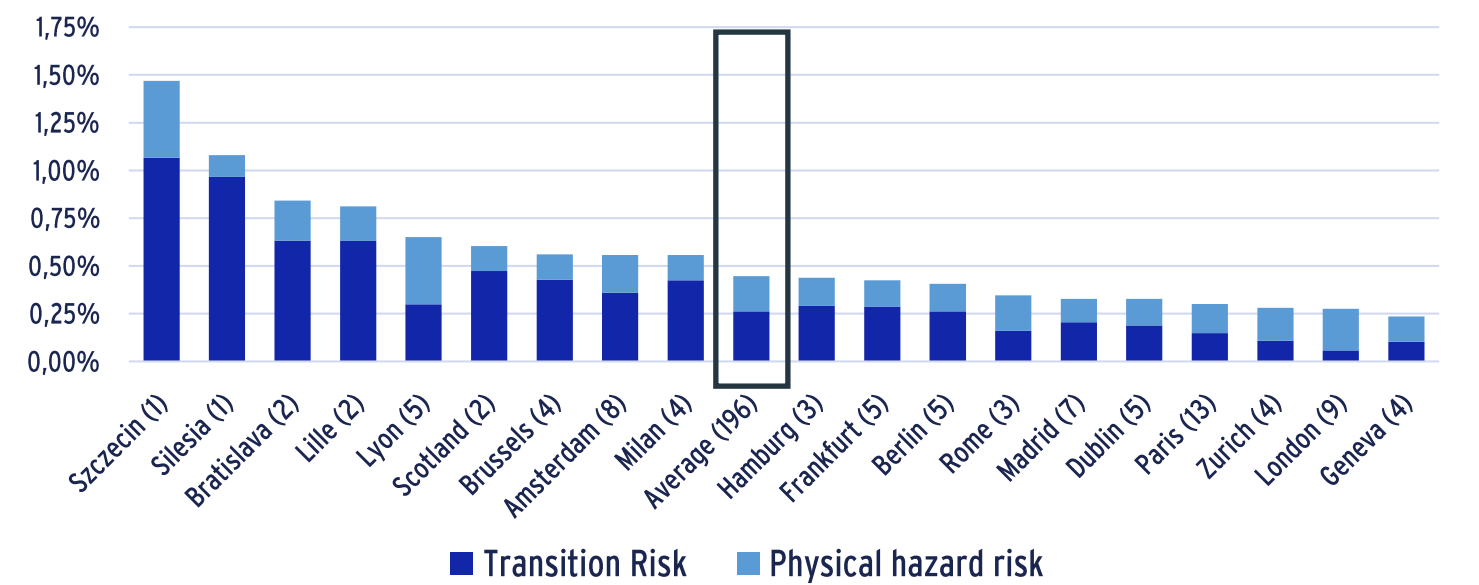


Sources: AEW Research & Strategy, Earth System Science Data 2025 Update as of 2Q 2026

EUROPEAN CLIMATE RISK PREMIUM NEAR DOUBLES TO 45BPS P.A. DUE TO PHYSICAL HAZARD LOSSES

- With climate change advancing more quickly than anticipated, our focus is shifting from decarbonisation and mitigation to physical hazard losses and adaptation of buildings. Physical climate risks are determined by location-driven hazard exposures and building- and site-specific vulnerabilities.
- Our approach assumes investors should be compensated for risk, with our market-specific estimates of physical hazard losses allowing investors to reflect these risks in required returns by market. That said, as these estimates can't capture all building-specific characteristics and micro-locations, a more in-depth audit may be needed to manage climate hazards.
- Our analysis relies on four data partners: ClimateX, S&P Climanomics, First Street (MSCI) and Jupiter Intelligence. Each partner provided annual loss estimates based on exposure and vulnerability for each building in a market-representative (non-AEW-managed) portfolio of 964 properties selected to reflect all our 196 covered European prime city-sectors.
- In estimating physical hazard losses, we (1) included as many hazards as estimated by our data partners; (2) assumed the SSP2 (middle-of-the-road) climate scenario; (3) included only losses for which landlords have direct responsibility; and (4) assumed a 20-year holding period. Some exclusions and limitations remain in our current analyses.
- Annualised losses of 10bps p.a. are estimated for our three core hazards (floods, wildfires, and wind stress) across our European markets. To address some of the data inconsistencies, we use the average estimate across all four available sources for each core hazard for each building.
- Overall physical hazard losses are estimated at 19bps p.a., after including three additional hazards: (1) subsidence, with an estimated average loss of 4bps p.a. (ClimateX, Jupiter, and First Street); (2) landslides, with an estimated average loss of 2bps p.a. (S&P and ClimateX); and (3) heat stress, with an estimated average loss of 3bps p.a. (Jupiter and S&P).
- Results across countries show that Norwegian markets are most affected, with an estimated physical loss of 41bps p.a., while markets in Austria show the least impact, at 11bps p.a.
- Across property sectors, subsidence, floods and landslides emerge as the key hazards. For logistics, an elevated level of flood risk and wildfire risk is evident, which can be explained by the suburban location of many warehouses.
- As shown in the chart below, we quantify an overall climate-related risk premium of 45 bps p.a., averaged across 196 European markets. This is composed of last year's projected transition risk of 26 bps (dark blue), combined with our new 19 bps estimate for physical hazard risk (light blue).
- Regional markets in CEE and France are estimated to have the highest combined risk premium, driven by remote logistics markets with high transition risk. Swiss markets, as well as Paris and London, rank well in our combined assessment, due in part to the high prime capital values in their submarkets.

COMBINED CLIMATE-RELATED TRANSITION AND PHYSICAL HAZARD RISK PREMIUM FOR SELECTED EUROPEAN CITIES & REGIONS, % P.A. OF PRIME CAPITAL VALUE (NUMBER IN BRACKETS REPRESENTS NUMBER OF SUBMARKETS INCLUDED)



Sources: AEW Research & Strategy, CRREM, Building Minds, CFP Green Building, Deepki, Helios Exchange as of Q2 2025 and ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climanomics as of Q3 2026

SECTION 1: PHYSICAL CLIMATE HAZARDS INTRODUCTION

LIMITING CLIMATE HAZARDS TO DIRECT LANDLORD-RELATED IMPACTS

- Recent studies highlight the difficulties of consistently measuring physical climate hazards across asset types.¹
- Data providers identify direct damage to buildings, contents, and inventory and indirect impacts on operational revenues and expenses.
- Landlords are assumed liable for any direct building and site damages as well as required capex to protect against future hazard damages, even if they can't (yet) be estimated.
- We assume tenants will need to absorb any negative impacts on long-term attractiveness of micro-locations and short-term impacts on inventory, operational revenues and expenses.
- Tenants might push for free rent periods or even exercise lease breaks if buildings can't be used safely by workers and the public. We have excluded these indirect effects for now.
- Both landlords and tenants are likely to insure against damage. Yet, future insurance cover and cost are uncertain and not separately examined by most data partners.

PICKING THE RIGHT CLIMATE SCENARIO - SSP2

- In the past, climate scenarios were mostly based on Representative Concentration Pathways (RCPs) linked to a specific 2100 warming level and policy response strength.
- The IPCC switched to Shared Socioeconomic Pathways (SSPs), which link to political scenarios of varying degrees of global growth, conflict, and climate policy cooperation.
- Optimistically, SSP1 assumes the world responds and cooperates more to address climate change, with less consumption and more investment in clean energy.
- Conversely, SSP5 assumes rapid economic growth powered by rising fossil fuel exploitation, no mitigation, and therefore a greater need to adapt to climate change.
- In line with consensus, we assume the SSP2 scenario, which reflects modest but uneven improvements in living conditions, clean technologies, and policy changes.
- Other scenarios are available from the data partners for those who believe these are more likely.

AVAILABLE CLIMATE-RELATED HAZARD LOSSES DATA

- INREV provides a useful reference for the inclusion of different hazard categories, but it should be noted that definitions and coverage vary across our four data partners.
- Each data partner was asked to quantify financial losses from climate risk hazards for 964 buildings selected to represent 196 property markets covered in 20 European countries.
- Precise definitions, sub-categories and loss quantifications vary across partners, which required us to consolidate their estimates into as similar hazard categories as possible.
- Some partners can take into account current (and planned future) flood defenses in their assessments.
- Impacts are assessed by location, current and future hazard vulnerability, and damage severity, using basic building data and partners' proprietary data and modeling.
- Impact assessments vary across partners, with some able to estimate both direct building impacts for owners/investors and indirect impacts on occupier revenues and costs.

OVERVIEW OF CLIMATE DAMAGE IMPACTS ACROSS LANDLORDS & TENANTS

Damages / Losses	Landlord	Tenant
Building & Site	☒	☐
Building Contents	☒	☒
Building Inventory	☐	☒
Operational Revenue	☐	☒
Operating Expenses	☐	☒

Sources: ClimateX, First Street (MSCI), Jupiter Intelligence, S&P Climametrics and AEW Research & Strategy as of Q3 2026

OVERVIEW OF CLIMATE SCENARIOS & ASSOCIATED GLOBAL WARMING PROJECTIONS

Main Shared Socioeconomic Pathways (SSPs)	Paired with Representative Concentration Pathways (RCPs)	Range of global warming by 2100
SSP1: Sustainability	1.9 and 2.6	1.0-2.4° C
SSP2: Middle of the Road	4.5	2.1-3.5° C
SSP3: Regional Rivalry	7.0	2.8-4.6° C
SSP4: Inequality	3.4 and 6.0	N/A
SSP5: Fossil-fueled Development	8.5	3.3-5.7° C

Note: SSP1-1.9 and SSP1-2.6 scenarios are considered broadly aligned with the Paris Agreement which targets to keep global temperature rises well below 2.0° C and greenhouse gas emissions to be cut 50% by 2030. Recent actual increases seem to indicate that this goal might no longer be achievable.

Sources: UN Intergovernmental Panel on Climate Change (IPCC) and MIT Climate Portal & Coupled Model Intercomparison Project (CMIP) as of Q2 2026

OVERVIEW OF QUANTIFIED FINANCIAL LOSSES FROM PHYSICAL CLIMATE CHANGE HAZARDS ACROSS DATA PARTNERS*

Physical Climate Hazard	Climate X	S&P	Jupiter	First Street	INREV
Flooding	☒	☒	☒	☒	☒
Wind Stress	☒	☒	☒	☒	☒
Wildfire / Forest fire	☒	☒	☒	☒	☒
Heat stress	☒	☒	☒	☒	☒
Landslide	☒	☒	☒	☒	☐
Subsidence	☒	☒	☒	☒	☒
Water Stress	☐	☒	☒	☒	☒
Drought	☒	☒	☒	☒	☒

* Ticks in grey indicate availability of hazard metrics other than direct financial loss or availability of financial loss metrics that were not made available for the sample portfolio at the time of analysis.

Sources: INREV, ClimateX, First Street (MSCI), Jupiter Intelligence, S&P Climametrics and AEW Research & Strategy as of Q3 2026

SECTION 2: ESTIMATING THE PHYSICAL CLIMATE-RELATED RISK PREMIUM

LITTLE CONSISTENCY FOR HAZARDS COVERED BY ALL SOURCES

- Due to variations in methodology and underlying data, consistency in loss estimates across providers remains low.
- The thresholds and sensitivities of models vary, with some providers being able to estimate even very small losses, resulting in 100% sample coverage for a given risk.
- For example, for wind stress, ClimateX and Jupiter have an estimated loss for all 964 buildings, while First Street and S&P report an estimated loss for less than 10% of the sample.
- For flood risk, on the other hand, S&P estimates losses for each building, with ClimateX at just above 50% and Jupiter and First Street at 20% or below.
- Given our objective of creating a market-level quantification and limited understanding of the accuracy of each provider's estimate, we consider all their results as illustrated below.
- In this report, we do not compare the differences in proprietary data, methodologies, and approaches that might drive discrepancies in the estimates.

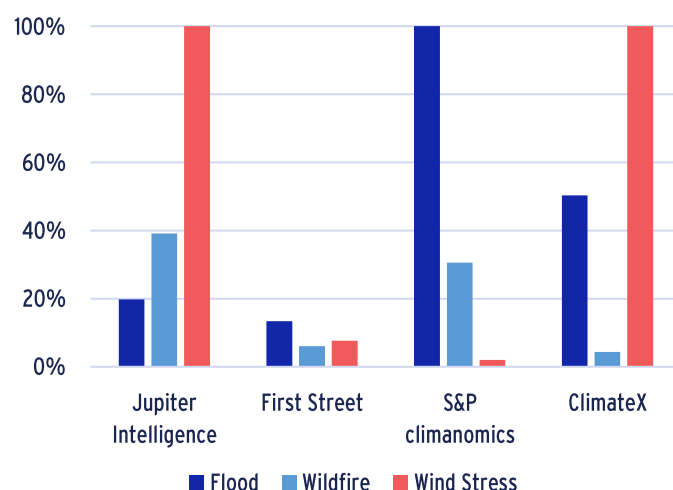
THREE CORE CLIMATE HAZARDS' LOSS ESTIMATED AT 10BPS PA

- Annual losses (as % of the estimated capital value) are estimated for the three core physical hazards, flooding, wildfire and wind stress, from all four data partners.
- These hazards' aggregate losses range between 3bps (First Street) and 17bps p.a. (S&P) on average across the full market-representative portfolio.
- Flood risk is the dominant among these three core climate hazards, with loss estimates between 3bps and 16bps p.a.
- To arrive at our own 10bps p.a. estimate, we have used the average for each building of each of the three core hazards across all four available sources.
- This resolves the data inconsistency for these core hazards and makes the next step less uncomfortable to consider hazards only estimated by any single source.

TOPPING UP OUR ESTIMATED PHYSICAL HAZARD RISK PREMIUM TO 19BPS

- We can add an average subsidence loss of 4bps p.a., which is based on limited building data provided, proprietary data and modeling from ClimateX, First Street and Jupiter.
- Next, we include 2bps p.a. in losses due to landslides (S&P and ClimateX) and a 3bps estimate for heat stress-related losses (increased cost of cooling) from S&P and Jupiter.
- Our initial estimate for the physical risk premium (losses related to physical climate hazards) comes in at 19bps p.a., but this can be updated as new data becomes available.
- We note that average loss estimates for water stress (S&P and Jupiter) and drought-related losses (S&P) do not directly affect landlords and are therefore not included.
- A range of S&P-reported extreme heat-related losses are also excluded from our market-level physical risk premium. These are discussed in more detail later in the report.

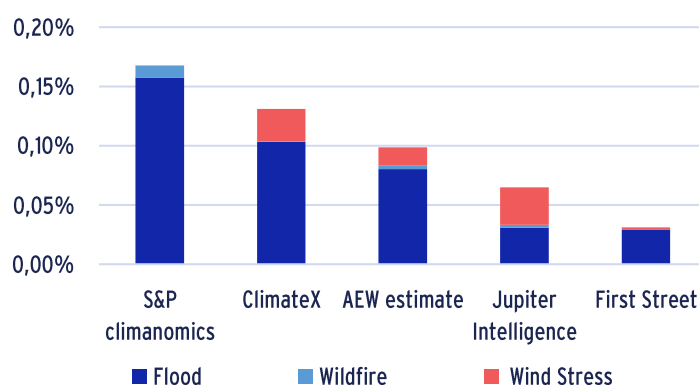
% OF 964 BUILDINGS MARKET REPRESENTATIVE PORTFOLIO WITH AN IDENTIFIED LOSS FROM THREE CORE CLIMATE HAZARDS



Sources: ClimateX, First Street (MSCI), Jupiter Intelligence, S&P Climanomics and AEW Research & Strategy as of Q3 2026

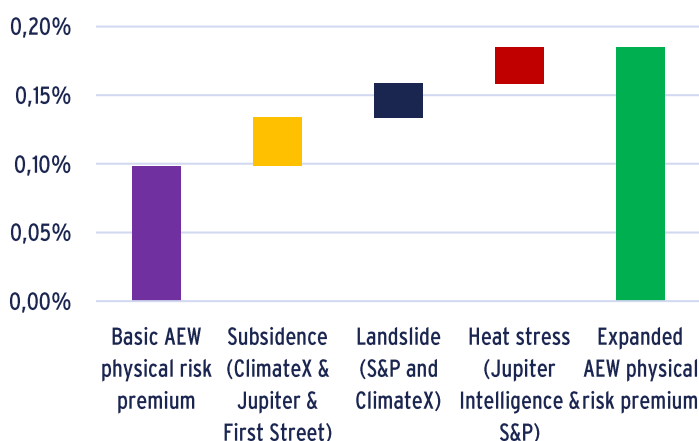
Note: AEW much appreciates the collaboration from ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climanomics by providing estimates and explanations.

ESTIMATED AVERAGE ANNUAL EXPECTED LOSS FROM FLOOD, WILDFIRE AND WIND STRESS BY VENDOR & AEW ESTIMATE, % P.A. OF CAPITAL VALUE



Sources: ClimateX, First Street (MSCI), Jupiter Intelligence, S&P Climanomics and AEW Research & Strategy as of Q3 2026

AEW ESTIMATED PHYSICAL CLIMATE HAZARD RISK PREMIUM BY COMPONENT, AS % OF CAPITAL VALUE ACROSS EUROPEAN MARKET PORTFOLIO



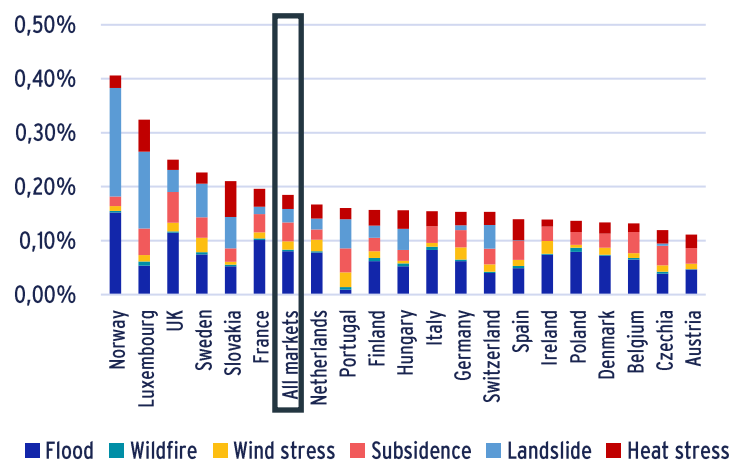
Sources: ClimateX, First Street (MSCI), Jupiter Intelligence, S&P Climanomics and AEW Research & Strategy as of Q3 2026

SECTION 3: PHYSICAL CLIMATE RISK PREMIUM ACROSS COUNTRIES AND SECTORS

COUNTRY-LEVEL RISK PREMIUM RANGES FROM 11BPS TO 41BPS PA

- Based on our methodology, we can estimate a risk premium as a cumulative annual loss due to physical climate-related hazards for all portfolio buildings in each country's markets.
- Investors in Norwegian real estate should be compensated 41bps p.a. for taking these specific risks, while investors in Austria require only an 11bps risk premium.
- For each country, we can identify the main hazards, with subsidence, floods and landslides making up a high proportion of most country-level premiums.
- 15 of the 20 countries covered are within the 10bps to 20bps range close to the overall European average of 19bps.
- Most investors and asset managers are already taking into account physical hazard risks, including assets' micro-locations and the technical specifics of each building.
- In that context, our market-level estimates are not designed for portfolio management, as only limited data on technical building specifics were made available to our data partners.

ESTIMATED PHYSICAL CLIMATE-RELATED RISK PREMIUM AND ITS COMPONENTS PER COUNTRY, EXPECTED ANNUAL LOSS AS % OF CAPITAL VALUE

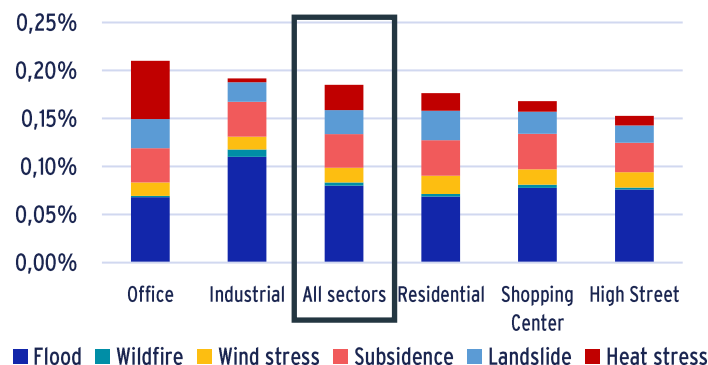


Sources: AEW Research & Strategy, ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climametrics as of Q3 2026

SECTOR RISK PREMIUMS SHOW MORE CONSISTENCY ACROSS HAZARDS

- The estimated hazard losses for buildings across property sectors confirm that subsidence, floods, landslides and heat stress are key hazard loss drivers.
- In fact, there seems to be a good level of consistency across sectors in these key hazard drivers.
- In the office sector, the elevated level of heat stress is evident, which might be explained by exposure to urban heat islands given the CBD locations of offices in our sample.
- For logistics, we observe elevated flood and wildfire risk, which can be explained by the suburban location of many warehouses.
- Elevated landslide risk in the office and residential sectors, relative to other sectors, is more difficult to explain.

ESTIMATED CLIMATE RISK PREMIUM AND ITS COMPONENTS PER SECTOR, EXPECTED ANNUAL LOSS AS % OF CAPITAL VALUE

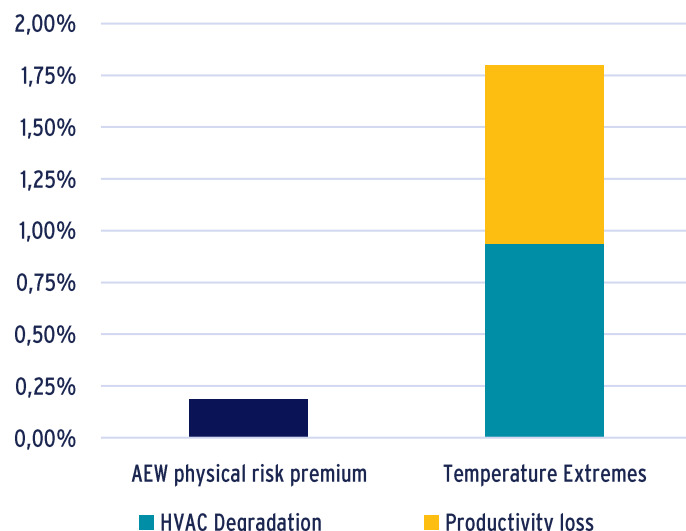


Sources: AEW Research & Strategy, ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climametrics as of Q3 2026

EXCLUDED TEMPERATURE EXTREMES COULD MAKE BIG DIFFERENCE

- Cooling expenses from temperature extremes by S&P were included in the heat stress component of the physical climate hazard risk premium.
- Additionally, S&P estimates two more types of cumulative losses relating to temperature extremes.
- At 93bps p.a., HVAC degradation refers to equipment needing to be replaced (much) earlier than planned after being forced to run at maximum capacity more frequently.
- At 86bps p.a., productivity losses relate mostly to lost working hours from overheating plants, machinery and staff.
- Under most leases, landlords get tenants to reimburse them via service charges for HVAC replacement while productivity losses do not directly affect landlords.
- Landlords might need to absorb these increased costs in the long term, if tenants are unable to afford them. Lower rents and occupancies might also affect landlords over time.
- But since this specific study isolates direct landlord physical damage to maintain cross-vendor comparability, we exclude temperature extremes effects for now.

AEW PHYSICAL RISK PREMIUM & TEMPERATURE EXTREMES-RELATED LOSSES, EXPECTED ANNUAL AVERAGE LOSS AS % OF CAPITAL VALUE ACROSS ALL EUROPEAN PROPERTY SECTORS



Sources: AEW Research & Strategy, ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climametrics as of Q3 2026

SECTION 4: FITTING PHYSICAL RISKS INTO AN OVERALL CLIMATE-RELATED RISK PREMIUM

PHYSICAL HAZARDS ADD TO OVERALL 45 BPS CLIMATE RISK PREMIUM

- To arrive at a single integrated climate-related risk premium we combine our estimated transition risk from last year with the physical climate risks discussed above.
- After our 2025 CRREM pathway and expanded methodology update, our transition risk was estimated at 26bps p.a. for the market-representative portfolio of 964 buildings.
- Our transition risk is based on the estimated annual retrofit capex costs to meet the CRREM decarbonisation pathways over a 20-year assumed holding period.
- Our physical climate risk premium is estimated at 19bps p.a. based on expected annualised losses over the same 20 years, excluding any adaptation capex that might limit future losses.
- For both estimates, it should be noted that each building in the sample had both an estimate for transition-related capex as well as for physical climate-related hazard losses.
- Additionally, for both estimates, we relied on independent data partners, and no single source was asked to provide both transition and physical climate risks.

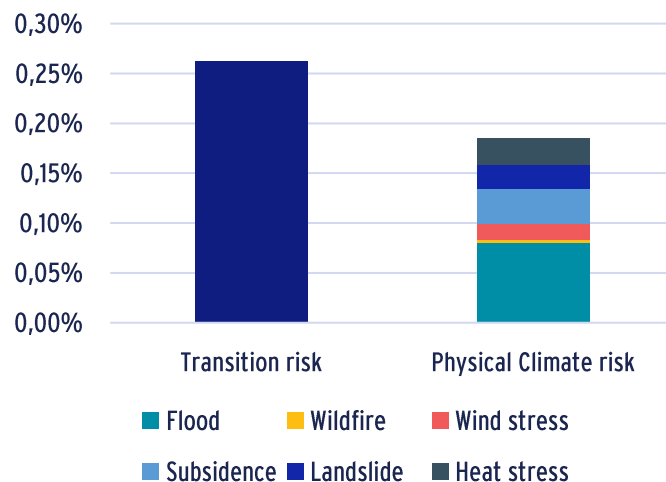
COMBINED LOCAL CLIMATE RISKS DRIVEN BY SECTOR EXPOSURES

- The combined transition and physical climate-related risk premium ranges from 25bps p.a. to near 150bps p.a. across each of our 196 (city-sector) covered market segments.
- The highest combined climate risk premiums are estimated for regional CEE and French markets, which are led by remote logistics markets where transition risks dominate.
- Conversely, Geneva and Zurich rank strongly with the lowest estimated climate-related risk premiums.
- Paris and London also do well in our analysis, which is due to the high prime capital values in these cities' submarkets.
- Clearly, the number and types of sectors included in a city average moderate or exaggerate more extreme impacts.
- Finally, our scatter chart clearly shows that there is no correlation between the two different types of climate-related risk across the covered markets.

CLIMATE RISK IN THE CONTEXT OF OUR REQUIRED RATE OF RETURN

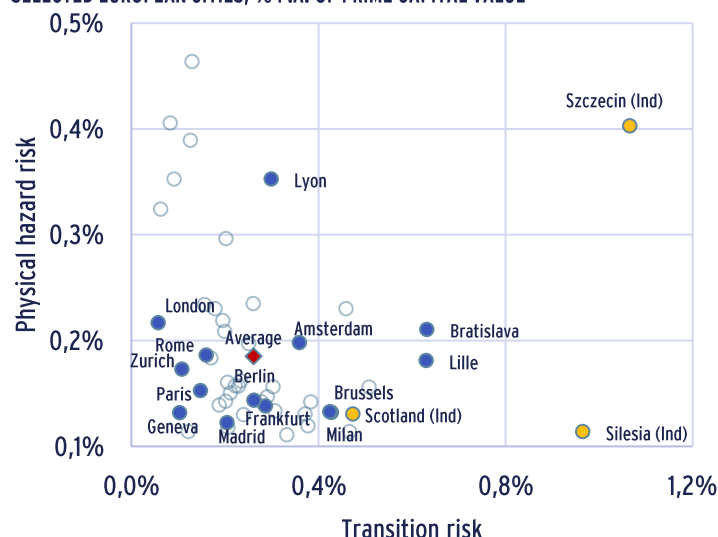
- Our 45bps p.a. combined transition and physical climate-related risk premium adds to the 8.8% required rate of return (RRR) for the 168 markets in our RelVal framework.
- In our view, climate risk is one of the risks that investors need to be compensated for bearing. But it is not the only one or even the biggest risk, as shown in the chart.
- Liquidity and gross depreciation risks make up much larger shares of the RRR and come on top of the risk-free 10-year government bond yield (as of Q2 2026).
- As markets change and data improves, our RelVal analyses can be updated to reflect our market-level conviction on where the best risk-adjusted relative value is available.
- If climate change continues to exceed forecasts, it might become a larger component of the RRR across the board and help investors identify less affected markets.

TRANSITION AND PHYSICAL RISK COMPONENTS OF CLIMATE RISK PREMIUM, % P.A.



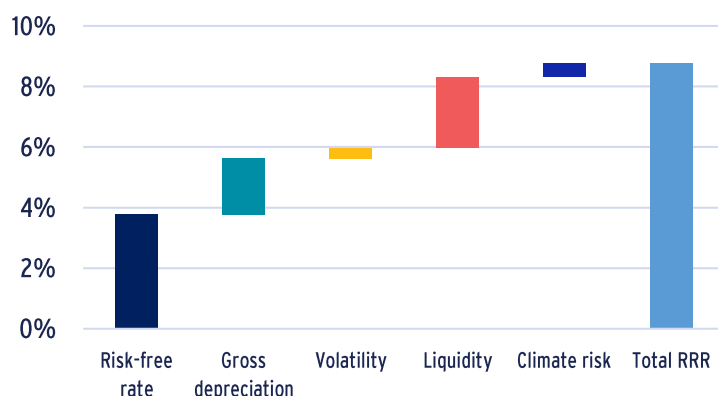
Sources: AEW Research & Strategy, CRREM, Building Minds, CFP Green Building, Deepki, Helios Exchange as of Q2 2025 and ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climanomics as of Q3 2026

COMBINED CLIMATE-RELATED TRANSITION AND PHYSICAL HAZARD RISK PREMIUM FOR SELECTED EUROPEAN CITIES, % P.A. OF PRIME CAPITAL VALUE



Sources: AEW Research & Strategy, CRREM, Building Minds, CFP Green Building, Deepki, Helios Exchange as of Q2 2025 and ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climanomics as of Q3 2026

REQUIRED RATE OF RETURN (RRR) IN BPS FOR 2026-30 -AVERAGE ACROSS 168 EUROPEAN MARKETS



Sources: AEW Research & Strategy, CRREM, Building Minds, CFP Green Building, Deepki, Helios Exchange as of Q2 2025 and ClimateX, First Street (MSCI), Jupiter Intelligence and S&P Climanomics as of Q3 2026

ABOUT AEW

AEW is one of the world's largest real estate asset managers¹, with €73.2 billion of assets under management as at 30 June 2026. AEW has over 815 employees globally, with its main offices located in Boston, London, Paris and Hong Kong and offers a wide range of real estate investment products including comingled funds, separate accounts and securities mandates across the full spectrum of investment strategies. AEW represents the real estate asset management platform of Natixis Investment Managers, one of the largest asset managers in the world.

As at 30 June 2026, AEW managed €34.7bn of real estate assets in Europe on behalf of a number of funds and separate accounts. AEW has over 500 employees based in 11 offices across Europe and has a long track record of successfully implementing Core, Value-Add and Opportunistic investment strategies on behalf of its clients. In the last five years, AEW has invested and divested a total volume of over €13bn of real estate across European markets.

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¹Source "2026 IRE.IQ Real Estate Managers Guide". The Guide, published annually by Institutional Real Estate, Inc., ranks real estate managers based on the gross value of real estate AUM (\$m) as of December 31, 2025. ²CFA® and Chartered Financial Analyst® are registered trademarks owned by the CFA Institute

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