

Episode 9 – S&FT

The Fallacy of the Safe Market

Signal 5 – Physical Climate Risk & Hazard Exposure | Signal 6 – Chronic Climate Stress & Systemic Drift | Signal 10 – Climate Migration & Demographic Shift

MARKET SETUP

The map you drew in your head when you bought that property – or financed it, or insured it – had a logic to it. The logic was: here is where the risk is. And here, by contrast, is where it isn't.

That map was drawn on climate data that no longer describes the climate we have.

For those of you who haven't been here before, welcome to Climate-Ready Real Estate Investing. Each week, in addition to guest expert interviews, our audience receives three short briefs focused on market intelligence, strategy and underwriting, as well as narratives of current events with future implications, like this one. The theme underlying Climate-Ready Real Estate Investing is a deep concern for the well-being and viability of our planet, today and tomorrow, and a desire to explore how best to support this USD nearly \$400 trillion industry in making both profitable and forward-thinking, big-picture decisions, borrowing from the Hippocratic Oath to 'first do no harm.'

This month, we are reframing climate change as a matter of market structure, not ideology. With that as context...

Last time, in Episode 8, Re-Pricing a Stabilized Asset for Climate Reality, we walked through the math on a City of London trophy office. Then we widened the lens to Frankfurt, Sydney, Madrid, and Singapore. The through-line was this: stabilized assets in the most transparent, most institutional markets in the world are quietly carrying the largest pool of hidden climate mark-to-market risk on global LP balance sheets. And the trigger isn't a storm, a flood, or a heat wave. It's a refinance window. A lease renewal. A revaluation. The cycle event reveals what the climate event has already set in motion.

At the end of that brief, I told you about a market that no longer fit the way it was underwritten. That's today's story.

THE STORY

Let's go back to October 29, 2024.

In the towns and suburbs south of Valencia, Spain – the Horta Sud region – the day started normally. People were commuting. Children were in school. Shopkeepers were opening. The region is prosperous, Mediterranean, and foreigners love it. British, German, Dutch, and North American investors have been acquiring residential property there for years – drawn by the sun, the infrastructure, the quality of life, and the relative affordability compared to Barcelona or Madrid.

By mid-morning, a DANA storm — in Spanish, Depresión Aislada en Niveles Altos, which translates roughly to "an isolated cold air mass at high altitude" — had positioned itself over the coast of southeastern Spain. DANA events are not new in this region. They happen. But what happened that day was categorically different.

The rain came all at once. By early afternoon, the weather station in Chiva, just west of Valencia, recorded 491 millimeters — or just over 19 inches — of rainfall in eight hours. That is the equivalent of approximately one full year of average rainfall delivered in a single morning. The Rambla del Poyo — a seasonal drainage channel, also known locally as the Barranco del Poyo, that most Valencia residents drove across without a second thought — became a wall of water within minutes of the first official alerts. Those alerts, issued by AEMET — Spain's national weather agency — arrived via the regional government's emergency phone system at approximately 8:12 PM. By then, the water had already hit. AEMET had issued its maximum red alert at 9:48 that same morning — more than ten hours earlier.

At least 230 people died. Seventy-five municipalities were affected. The infrastructure and economic damage — roads, bridges, rail lines, vehicles, residential structures, commercial buildings — was estimated by the European Centre for Medium-Range Weather Forecasts at approximately €16.5 billion, making this the costliest natural disaster in Spanish history and one of the largest in European history. It was also the deadliest natural disaster Spain had experienced in more than fifty years.

Now here is the question that matters for every real estate investor, lender, and insurer in this room.

Was Valencia a known risk zone?

The honest answer is: partly. Spain has a state-backed insurer called the Consorcio de Compensación de Seguros — the CCS — that covers flood risk for residential property through a statutory levy attached to every property insurance policy. So, for most Spanish homeowners, residential flood coverage is automatic. That is a significant structural advantage compared to, say, the United States, where National Flood Insurance Program coverage is optional and widely under-purchased.

But the keyword in that sentence is residential. Commercial real estate, infrastructure assets, and institutional portfolios usually operate under different coverage frameworks. Many commercial operators maintain policies that exclude sudden flash-flood events, classifying them as force majeure or extraordinary natural phenomena — a carve-out standard in many European commercial property contracts. In Spain, the CCS does automatically cover commercial property, offices, warehouses, and industrial sites if a standard insurance policy is in place — but the coverage triggers and applicable deductibles vary by policy type and situation. When the water arrived, the coverage conversation began, and it was complicated.

More importantly, the Rambla del Poyo was not a secret. The watercourse and its flood risk had been documented in municipal planning records. A major flood event had occurred in the same corridor in 1957. The European Flood Awareness System — EFAS — had flagged elevated flood

probability for southeastern Spain days before the event. The signal was always there. What changed was the magnitude — a magnitude shaped by Mediterranean climate intensification.

SIGNAL ANALYSIS

Signal 5 — Physical Climate Risk & Hazard Exposure

Signal 5 describes the direct physical hazard a property faces — flood, wildfire, storm surge, extreme heat, drought, or other hazards. For Valencia, the Signal 5 reading should have been higher than it was. Here's why.

The flood zone maps for the Horta Sud region were drawn using historical return-period data — specifically, 100-year flood return probabilities. But those probabilities were calculated on a baseline climate that no longer exists. The atmospheric dynamics that produced the October 2024 event — an intense DANA system feeding off an abnormally warm western Mediterranean, with sea surface temperatures running 2 to 3 degrees Celsius above the seasonal average — were not observed in that combination in the historical record. The 100-year map was drawn on a different planet's weather.

This is the core problem with Signal 5 in today's market: hazard maps are backward-looking instruments embedded into forward-looking pricing decisions. When you underwrite a Valencia commercial asset using flood zone classifications set on historical data, you are pricing Signal 5 using data from a climate that climate science tells us is already obsolete. World Weather Attribution's peer-reviewed rapid analysis found that rainfall events of this intensity are now approximately twice as likely and roughly 12 percent more intense than they would have been in the pre-industrial climate — a direct consequence of the 1.3°C of global warming already locked in.

Signal 6 — Chronic Climate Stress & Systemic Drift

Signal 6 describes the slow accumulation of climate stress — not the sudden event, but the direction of travel. For the Mediterranean basin, that direction is unambiguous. Western Mediterranean sea surface temperatures in summer 2024 were approximately 2 degrees Celsius above the 1981-to-2010 baseline. The Mediterranean basin is warming at approximately 1.5 times the global average rate. DANA events are becoming more intense as the thermal gradient between the warming sea and autumn cold-air intrusions increases.

Signal 6, the chronic stress signal, does not announce itself. It moves underneath the asset for years before a market event makes it visible. In Valencia, the chronic drift — a warming Mediterranean, more energetic DANA systems, and aging flood infrastructure that had not been redesigned since the 1957 event — had been underway for a decade before October 29, 2024. The DANA was the revelation event. Signal 6 was the cause. And the return period for a DANA event of October 2024's magnitude is projected to shorten significantly under continued warming. The math is not speculative. It is consistent with the Intergovernmental Panel on Climate Change's Sixth Assessment Report projections for the Mediterranean basin.

Signal 10 — Climate Migration & Demographic Shift

Signal 10 is the signal that sometimes gets underestimated in European markets because we tend to associate migration with physical displacement — people leaving coastlines and heat zones in the global south. But Signal 10 is subtler in mature markets, and the Valencia event is the example.

In the months following October 29, 2024, property managers in flood-affected Valencia municipalities reported a notable increase in cancellations from long-term rental tenants who relocated away from the affected areas. Insurance industry conversations shifted. International buyer sentiment — particularly from British, German, Belgian, and Dutch buyers, who represent a significant share of the coastal Valencia property market — was affected in hard-hit communities, even as overall demand for real estate in Valencia province remained strong. Some owners of vacation properties and buy-to-let holdings in the most affected municipalities began listing their properties.

This is Signal 10 in a market that was not expecting it: the demographic assumption — that northern European retirees and remote workers would continue to flow into sun-belt Mediterranean markets — paused in the most exposed communities. Not a reversal. A pause. But in real estate, a pause in inbound capital in a specific geography is a repricing event. The vacation-home market, the long-term rental market, and the commercial hospitality and retail assets that serve that demographic all share a common vulnerability to that pause.

FUTURE THINKING

Let me ask you to hold additional geographies in your mind simultaneously.

Picture Valencia, a Mediterranean coastal market that most institutional investors classified as moderate-to-low climate risk. Historic, stable, high quality of life, backed by a state insurance system. The risk appeared manageable. The event of October 29, 2024, revealed that the hazard mapping was built on a broken baseline.

Now think of Lisbon, which shares the Iberian Peninsula, the same drought dynamics, increasing wildfire exposure, and coastal infrastructure that was not designed for the sea-level trajectory now projected for the Atlantic coast of Portugal. Add Naples, which faces DANA-equivalent events in the Tyrrhenian weather system, aging coastal infrastructure, and a mounting insurance affordability gap that is already compressing investment activity in the southern Italian residential market. Finally, envision Nice, where the Var River corridor continues to attract residential investment despite a Signal 5 profile structurally similar to that of the Rambla del Poyo. This area, like Valencia, experienced catastrophic flash-flood events in 2015 and 2020.

None of these is a frontier market. These are trophy geographies — markets where institutional buyers pay premiums for quality of life, infrastructure maturity, and perceived stability. The myth of the safe market is the assumption that premium geography equals manageable climate risk. The DANA event in Valencia dismantled that equation.

Hazard mapping in European Union member states is undergoing mandatory revision under the European Climate Law and the EU Floods Directive. That revision process is not complete. It is not

priced. And when the revised flood zone maps are finalized and published — at various points between 2025 and 2030, depending on the member state — some assets that are currently outside the priority flood zone will be inside it, with material implications for insurance availability, lender covenant compliance, and regulatory capital treatment for banks holding mortgages on those properties. Additionally, properties in designated high-risk flood zones may no longer qualify for green bond financing under the EU Taxonomy for Sustainable Finance. This downstream funding implication is not yet priced into most acquisition models.

The repricing will not be optional. It will be disclosure-, regulation-, and reinsurance-triggered in that sequence over the next three to seven years. And the markets where that repricing will be most visible are exactly the markets that feel the safest today.

STRATEGIC IMPLICATIONS

There are three things to take away from today's brief.

The first is that your geography map needs a climate overlay, not just a market overlay. The mental model that equates European coastal Mediterranean markets with safety has long been accurate. It is becoming less accurate on a trajectory that is now measurable. If you are building a cross-border portfolio and your risk framework indicates that the EU regulatory environment is the primary variable, that is not the case. The physical hazard — Signal 5 — is the primary variable. The regulatory environment is the accelerant that will reveal it.

The second is that state-backed insurance systems reduce consumer exposure but do not eliminate institutional exposure. Spain's Consorcio de Compensación de Seguros is a genuine structural advantage for residential investors. It does not protect commercial operators in the same way. It does not protect infrastructure assets. And it does not protect the underlying value of a residential portfolio when Signal 10 — climate-driven demand shift — begins to compress international buyer activity in the hardest-hit communities.

The final thing is that disclosure is arriving in this market, whether it feels ready or not. The EU's Sustainable Finance Disclosure Regulation — SFDR — and the Corporate Sustainability Reporting Directive — CSRD — both require EU-supervised fund managers and large companies to disclose physical climate risk at the asset level. As of 2026, the SFDR is being actively enforced, with mandatory annual Principal Adverse Impact disclosures. CSRD's phased approach is in effect for Wave 1 large listed companies reporting on 2024 data, with Wave 2 companies — following the December 2025 Omnibus changes — now expected to begin reporting in 2028. When revised flood zone maps become the document your auditor reaches for, every Valencia-adjacent asset in a European institutional portfolio will carry a documented physical risk profile that did not exist before October 2024.

STAKEHOLDER TAKEAWAY

Here are four questions to carry into your next portfolio review.

One: Where are your Mediterranean and coastal European assets on the revised EU flood zone mapping process? If they are in Spain, Portugal, southern France, or coastal Italy, the current flood zone classification may not reflect post-2024 hydrological data. Ask your asset manager when the last risk certification was issued — and under what baseline.

Two: What is the commercial insurance coverage structure for your flash-flood and extraordinary-event exposure in southern Europe? Many commercial policies in EU member states have force majeure carve-outs for extraordinary meteorological events. Understand exactly where your coverage stops and where state backstops begin — and verify the specific deductible and coverage trigger language in your policy.

Three: What portion of your residential or hospitality asset performance depends on international buyer or tenant inflows from northern Europe? If it is significant, model a two-year pause in that inflow for your most-exposed communities. You do not need to model a reversal. A pause is enough to see where the cash-on-cash sensitivity lies.

Four: What is your timeline for physical risk certification at the asset level under SFDR or CSRD reporting obligations? If you are a European fund manager and you do not have a timeline, your auditor will set one for you.

I ask the same question at the end of every show, because if you could look ten years into the future, see what's happened, and bring that "advance hindsight" back to your desk today to evaluate your Mediterranean portfolio before deciding to hold, hedge, or exit, what would you do differently based on that clarity?

Valencia was not a failure of intelligence. It was a failure of the frame. The frame said, "The Mediterranean is safe." The climate said, "The baseline is gone." In our next brief, we're going to look at how the lenders are beginning to respond — not in policy statements, but in underwriting. The changes are real, they're accelerating, and most borrowers don't know they're coming so quickly. That brief is titled "Lender Climate Overlays: What's Actually Changing." Don't miss it.

That wraps it up for today. Be sure to subscribe to Climate-Ready Real Estate Investing to receive free downloads for our Market Intelligence and Strategy & Underwriting briefs. Listen to the podcast and find us on Twitter and LinkedIn. If you'd like to be a guest on the show, you can register at www.climatereadyre.com, the place where resilient returns and resilient communities meet. Until next time, I'm your host, Jamie Wolf — be good and do better for today, tomorrow, for you, and for all. **KNOW YOUR SIGNALS AND BE CLIMATE-READY!**