



**TASK FORCE ON  
CLIMATE RELATED  
FINANCIAL  
DISCLOSURE**  
2021

Pebblebrook Hotels Trust (PEB) is committed to addressing climate change and making sure that we are aware of and prepared to mitigate the risks associated with a changing climate so that we can communicate them effectively to our stakeholders.

This, our first report to the Task Force on Climate related Financial Disclosure (TCFD), sets out our approach to climate risk management against the four sections identified in the framework: governance, strategy, risk management, and metrics and targets.

# GOVERNANCE

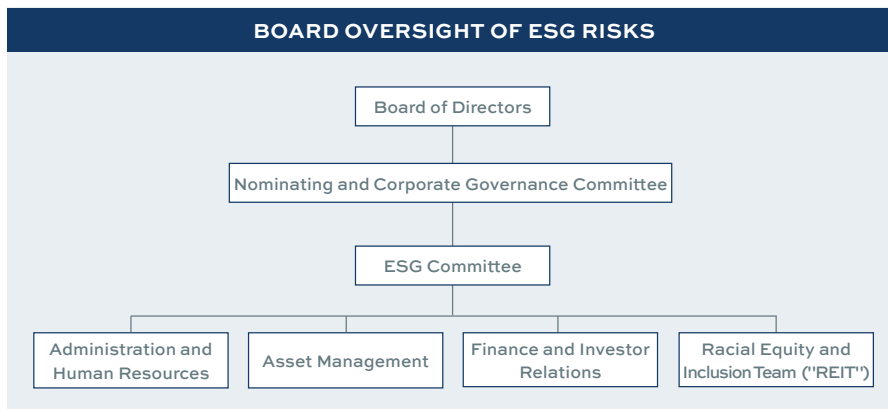
*Disclose the organization's governance around climate related risks and opportunities*

## Board oversight of climate related risks and opportunities

The Pebblebrook ESG Committee was established in 2019 and oversees its ESG strategy and delivery, including climate risk. Three of our seven Board Members are on our ESG Committee, including our Lead Independent Trustee. The ESG Committee reports to the entire Board of Trustees semi-annually.

## Management's role in assessing and managing climate-related risks and opportunities

The ESG Committee oversees the assessment and management of climate related risks and opportunities. The Committee consists of senior executives from across the business, including the Chief Financial Officer and three board members. The committee's purpose is to add a sustainability lens to decision-making at all levels of our company. Accordingly, the ESG committee acts as a cross-departmental link for all climate-related risks and opportunities. The committee acts as a liaison between upper management and asset managers during semi-annual planning sessions and monthly operations meetings.



# STRATEGY

Disclose the actual and potential impacts of climate related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material

## Climate related risks and opportunities identified over the short, medium, and long term

Climate related risks are identified similarly to other business risks as part of our annual enterprise risk management process, using a combination of probability and magnitude of each risk. **Short-term** is identified as 1-2 years; **medium-term** is identified as 3-6 years, and **long-term** is identified as 7-10 years. It should be noted that some risks may span all 10 years, others come into play after some time. As such, some short- and medium-term risks are treated as being present continually.

Category	Timeframe	Risk	Level
Physical	Short, Medium, and Long-Term	Extreme weather events (hurricanes, fires, mudslides, droughts)	High
Physical	Short and Medium-Term	Increased cost or lack of supply of raw materials	Medium
Physical	Long-Term	Rising sea levels	High
Physical	Long-Term	Increase in global temperatures	High
Transition	Short and Medium-Term	Increased Stakeholder (investors, business partners) concerns	Medium
Transition	Short and Medium-Term	Increased guest preferences for ESG-friendly hotel products (sustainability certified hotels, green programs, plastic-free hotels, etc.)	High
Transition	Short and Medium-Term	Regulatory change (carbon taxes, construction limitations, ESG disclosure requirements, etc.) leading to increased costs	High
Transition	Short and Medium-Term	Increased insurance costs	Medium
Transition	Short, Medium, and Long-Term	Uncertainty in market signals (uncertainty around travel)	Medium
Transition	Long-Term	Maintaining an equitable and safe work environment (increasing the risk of hiring talented and qualified hotel-level and corporate employees)	Medium

We undertake climate risk assessments at the portfolio and property level to inform the climate risk analysis with an ongoing process to review and update risks and actions. In 2020, a complete portfolio sustainability risk assessment was undertaken. The assessment highlighted the portfolio's exposure to climate, water and biodiversity risk. Going forward, this assessment will guide our initiatives in water-stressed areas, such as California, and how we respond to predicted temperature and precipitation changes, which the majority of our properties across the US will experience.

## **Impact of climate-related risks and opportunities on businesses, strategy, and financial planning**

As well as the portfolio risk assessment mentioned above, we undertake property level sustainability risk assessments as part of the due diligence process for acquisitions. These assessments highlight exposure to climate risks such as drought, flooding, cyclones, precipitation, and temperature changes. Issues are flagged when identified, and necessary actions are taken to remediate.

### ***Impact on business***

#### **Physical risks**

In the short term, extreme weather events such as hurricanes, fires, mudslides, and droughts pose the most severe risks to our business as they may result in significant damage to properties, business interruption and risks to the wellbeing of our guests and employees.

In the long term, the most severe risks include rising sea levels which risk causing physical erosion and lack of available freshwater supply for operation and consumption. Additionally, an increase in global temperatures may cause certain investment markets to be less desirable and thus lead to overall increased operating costs.

#### **Transition risks:**

In the short term the most important transitional risks are regulatory change such as carbon taxes, construction limitations and increased ESG disclosure requirements, all of which would result in the requirement for increased resources, both financial and human, and may impact our ability to do business.

In addition, we are seeing an increased guest preference for ESG-friendly hotel products, such as sustainability certified hotels, green programs and plastic-free hotels, as well as a preference for hotels that are low-carbon and powered by renewable electricity from the business travel community as part of their scope 3 business travel. A lack of response to this demand poses a direct risk to our profitability as consumers choose products that align with their values. Pebblebrook continues to address these preferences through capital investments, shifts in operation, and overall management of its assets.

### ***Impact on strategy and planning***

Our understanding of climate risks has a direct impact on our strategy and planning. Below are some examples of how climate risk influences our strategy and some tangible examples of it in action.

- The majority of our capital investment projects are purchased through the lens of investing in resiliency and long-term sustainability.
- Since 2016 we have invested nearly \$13 million in energy efficiency projects and nearly \$7 million in water efficiency projects and we will grow this in the future.
- To mitigate risks from extreme weather events we invest heavily in adequate property and business interruption insurance programs.
- Many of our on-site hotel operators, asset managers, or executive team members are actively involved in the local communities and work with local governments to ensure we remain up to speed on evolving regulations and legislation related to climate change.
- We continue to purchase hotels in drive-to locations, close to nearby metropolitan areas, to mitigate impacts on-demand due to climate-related hesitancy towards producing flight emissions.
- In 2020, we evaluated a new rooftop solar installation at Hotel Monaco, Washington, DC; and installed additional Electric Vehicle car chargers at our San Diego properties.

- In 2020, we signed a majority green power supply agreement at the Hilton Gaslamp Quarter, Solamar Hotel and San Diego Mission Bay Resort, all located in San Diego, California.
- In 2020, we installed shower and faucet flow limiters at Union Station Hotel Nashville following successful installations in other hotels.
- During annual budget meetings, our entire executive team meets all 50+ property teams to review the upcoming annual plan. The CEO and CFO review all capital investments and sustainability/climate strategies in place and planned for the future.

### **Resilience of strategy, taking into account different scenarios, including a 2°C or lower scenario**

As the impacts of climate change on our world continue to become more apparent and the global movement towards zero carbon picks up pace, we recognize that we will see significant shifts in how business is done and how society exists. This may include introducing new environmental and carbon reduction policies, the phasing out of fossil fuels and decarbonization of electricity grids, carbon being priced and embedded into assets, and physical impacts such as sea-level rise making some places uninhabitable. We will continue to review our risk assessments and plans to ensure the future resilience of our strategy and our business.

# RISK MANAGEMENT

*Disclose how the organization identifies, assesses and manages climate-related risks*

## Processes for identifying and assessing climate-related risks

Our ESG Approach ensures that climate-related risks are addressed throughout the different phases of the investment cycle as set out in our business strategy.

We ensure that our whole company is aware of climate-related risks through annual training which is compulsory for all staff.

At the individual property level, Pebblebrook's experienced asset management team collaborates regularly with its management companies, on-site professionals and environmental consultants to review energy costs and identify investment projects, operational changes and other routes to better manage the efficiency of each asset.

	Business strategy	Climate risk identification
Transact	Acquire an underperforming, underinvested or incorrectly positioned hotel	Undertake climate risk assessment as part of the due diligence process
Vision	Find the soul and the personality of the hotel and create the narrative	Assess how climate risks identified will impact the vision and narrative for the hotel
Assess	Examine all aspects of the hotel's offering to create a unique, inviting guest experience while also improving the hotel's profitability	Assess how climate risks might impact market forces, the guest experience and profitability
Reposition	Renovate and re-launch the hotel with a unique experiential proposition	Ensure that climate risks are addressed throughout the renovation and re-launch process with appropriate investments made to ensure mitigation and adaptation where necessary
Operate	Relentlessly pursue increased efficiency and opportunities to enhance the hotel's profitability and utilization	Work with operators to ensure efficiency in operations, including energy and water efficiency, waste reduction and emissions reduction
Re-evaluate	Determine if hotel has optimized market position and if not, determine additional operating changes or capital reinvestment to further improve the hotel's value	Track climate risks and identify where further action needs to be taken

## How processes for identifying, assessing and managing climate related risks are integrated into overall risk management

Managing climate-related risks is embedded within our enterprise risk management process, ultimately overseen by the Board. This includes assessing risks based on their potential likelihood of materializing combined with the magnitude of their impact on our business.

Our ESG Committee reviews the portfolio climate risk assessments and the individual property climate risk assessments and reports them to the Board, which reviews and opines on the annual capital investment budget and must approve all acquisitions and dispositions.

### PROCESSES FOR MANAGING CLIMATE-RELATED RISKS

Category	Risk	Processes
Physical	<ul style="list-style-type: none"> <li>Extreme weather events</li> <li>Increased cost or lack of supply of raw materials</li> <li>Rising sea levels</li> <li>Increase in global temperatures</li> </ul>	<ul style="list-style-type: none"> <li>➤ Efficiency investments</li> <li>➤ Investments in infrastructure</li> <li>➤ Onsite energy generation (solar)</li> <li>➤ Preventative maintenance</li> <li>➤ Establishment of goals and targets</li> </ul>
Transitional	<ul style="list-style-type: none"> <li>Increased Stakeholder (investors, business partners) concerns and activism</li> <li>Increased guest preferences for ESG-friendly hotel products</li> <li>Regulatory change leading to increased costs</li> <li>Increased insurance costs</li> <li>Uncertainty in market signals</li> <li>Maintaining an equitable and safe work environment</li> </ul>	<ul style="list-style-type: none"> <li>➤ Portfolio wide communication of climate actions</li> <li>➤ Elimination of single-use plastics from the majority of hotels</li> <li>➤ Participation in local community and government initiatives</li> <li>➤ Participation in ESG disclosure frameworks and benchmarking</li> <li>➤ Responsible purchasing program</li> <li>➤ Skills development and training</li> </ul>

# METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

## Metrics used to assess climate-related risks and opportunities in line with strategy and risk management process

The following metrics are used in relation to climate-related risks and opportunities:

### Energy:

- Total Energy Consumption (megawatt hours)
- Total Direct Energy Consumption (megawatt hours)
- Total Indirect Energy Consumption (megawatt hours)
- Total Energy Consumption of Electric Power (kilowatt-hours)
- Energy Consumption per square foot (kilowatt hours)
- % Energy from Renewables

### Greenhouse Gas Emissions

- Total Greenhouse Gas Emissions (metric tons CO<sub>2</sub>e)
- Total Scope 1 Emissions (metric tons CO<sub>2</sub>e)
- Total Scope 2 Emissions (metric tons CO<sub>2</sub>e)
- Greenhouse Gas Emissions per square foot (kgCO<sub>2</sub>e)

### Water

- Total Water Consumption (kilo-gallons)
- Water Consumption per occupied room (gallons)

### Waste

- Waste Generated per occupied room (pounds)
- Non-diverted waste per occupied room (pounds)
- Waste Diversion Rate (%)

In addition, we monitor the proportion of our properties located in 100-year flood zones, the percentage of the eligible portfolio that has an energy rating, and the percentage of the eligible portfolio that is certified to ENERGY STAR.

Greenhouse Gas Emissions	2017	2018	2019	2020
Total Greenhouse Gas Emissions (metric tons CO <sub>2</sub> e)	84,477.07	88,498.13	84,140.20	52,042.62
Total Scope 1 Emissions (metric tons CO <sub>2</sub> e)	28,885.89	32,375.99	29,725.68	17,678.52
Total Scope 2 Emissions (metric tons CO <sub>2</sub> e)	55,591.19	56,122.13	54,414.53	34,364.10
Greenhouse Gas Emissions per square foot (kgCO <sub>2</sub> e)	6.89	7.22	7.10	4.56

## Targets used by the organization to manage climate-related risks and opportunities and performance against targets

Over the coming year we will work to establish specific goals and targets related to climate risks, including energy, water and greenhouse gas intensity.

We are making progress towards our target of eliminating single-use plastics from 60% of our portfolio. By the end of 2020, this had been achieved by 41.5% of properties.