



## **CRE Tech Talks**

Episode 15: The Scope of Sustainability in Commercial Real Estate

### **6 Facts About CRE Sustainability**

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#### **1. Energy is one small slice of sustainability**

The word “sustainability” is very broad. Energy is only one small slice. While the industry has been focused on regulating energy because it’s a day-to-day piece of the operating expense, we must also be concerned with projects, audits, regulations, certifications, investor disclosure, and the social and governance implications of owning a portfolio. That’s true sustainability.

#### **2. Sustainability has become status quo for Commercial Real Estate**

Any institutional owner of real estate who’s taken outside capital (\$1B or more) knows that sustainability is increasingly core to that organization. These assets likely have fully staffed individuals who take the matter of sustainability very seriously. This was not the case 10 years ago, where a handful of professionals thought about it or worried about it. Then, it was focused on building certifications but nothing much more coherent.

#### **3. Sustainability is evolving to investment-grade**

Today, assets not only have professional staff, they have portfolio-level consistency around sustainability. Organizations have end-to-end, from meter to investor, data chains of custody that are being reported on and captured.

As more companies begin to worry about the non-financial performance of assets, such as their environmental implications and the governance and social issues around assets, we ask “can we quantify that?”

Ultimately, that is indicative of overall financial performance because it helps to lower risk. If we want higher risk-adjusted returns for investors, then we need to quantify sustainability and care about it.

#### **4. Organizations use sustainability data to compete**

If CRE building owners want to be competitive in getting tenants, then they need to have sustainability be top of mind, and be able to present that to that tenant as an amenity, and as a mark of quality.

Building owners want to create net operating income – transacting an asset at a higher sale price, or getting a better cash flow off that asset. They want to be OPEX-focused, driving down the controllable expense – energy, water, waste. They focus on the tenant experience, and sustainability is increasingly a part of that experience.

The GSA, for example will only lease LEED Silver or above, with few exceptions. If you're in the business of leasing to the government, you have to prioritize sustainability. This is comparable to what insurance providers are doing. There are programs now that offer a discount on a premium if you're green. The common denominator is having the data in place to measure your sustainability and prove it.

#### **5. The right data for you is variable**

Having consistency matters in terms of what you measure. But, a big challenge (and a big opportunity) is that what matters is different per organization.

Some companies may care a lot about energy, and not at all about policy around corporate executive compensation tied to sustainability. Others, such as long-term investors, are very interested in how executives are aligned to sustainability outcomes. As organizations become more sophisticated, understanding what metrics matter to them, they need tools that allow them to get the data they care about, and rank that data.

Benchmarking tools can help to understand not only how you're specifically doing, but how you're doing relative to a generally accepted standard.

#### **6. The relationship between sustainability and green certification**

Certification is the ability to use some methodology. For example, here in the US, LEED certification is popular.

Sustainability is the people and the policies and procedures that govern that portfolio of assets, and the actions that occur or don't occur, or shouldn't occur on a day-to-day basis. It's much bigger. It's your environmental, inputs/outputs of assets, wrapped with policies and procedures, plus the governance to enforce those systems.

In the middle of all this is the social implications, tenants, and communities in which we build and how they're impacted (positively or negatively.) This whole process has to be thought of as a chain working together.

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