Matt Slepin:

Hi, this is Matt Slepin. And welcome to Leading Voices in Real Estate. Recorded on August 2nd, this is a conversation with Marta Schantz who leaves the Greenprint Center for Building Performance at the Urban Land Institute, and Elena Alschuler who leads Sustainability for Global Real Estate Investor at LaSalle Investment Management. This is the second installment of our two-part series on sustainability. And the carbon footprint of the real estate industry began earlier this month with Greg Smithies, partner in the Climate Tech Business at Fifth Wall.

We are dedicating both episodes this month to the climate issue because, well, climate change is the existential and I mean existential issue of our time. And in the hot month of August where the evidence of the problem is right in our faces, with fires not just on our west coast in mountain states, but now across the globe. And heat waves in northern latitudes like the Pacific Northwest and tundra melting in Russia, and on and on.

And this past week, the IPCC, the United Nations international panel on climate change released its report using its strongest language ever, that the effects are coming quicker and more brutally than previously estimated. And our industry can do something about it since actually the built environment is the largest block of the carbon emissions problem at 40% of global emissions versus, say, only 20% for transportation.

I don't know about you, but for me, the headlines have always been about the car I drive, the amount of flights I take and how long I shower. But the discussions in our two-part series are about how our industry can actually make a big difference against that 40% of the problem number. We are not powerless folks. Our industry has both responsibility and opportunity to help turn this around. And as I said before, it is existential and personal for all of us.

I believe that any way you look at it, a major part of the future spend behaviors and expertise that will be needed for the foreseeable future in the real estate industry will be about climate. So, for senior leaders in the business, please make this a major part of your legacy. And for younger people, please jump on this in your careers. This is both opportunity and obligation. Thank you as always to our sponsor, Terra Search Partners for support for the podcast.

This series of conversations whether discussions with senior leaders in the business about the role their business plays in the real estate ecosystem and their career paths or discussions like today around the impact of our industry on the major issues facing our times represents the way our team dives into our work with our clients to help build better teams in a stronger industry.

I hope that you're joining leading voices. Please subscribe. Visit us on terrasearchpartners.com/voices where you can now download transcripts of these conversations. I'd recommend downloading both of these August episodes on real estate and climate change and sharing the information with your colleagues. On the website, we will also post in the show notes resources referred to in the episode, which for this conversation with Marta and Elena will be more extensive than usual, including several links to articles about the new IPCC report.

Finally, please subscribe to us on your favorite podcast app and feel free to email me at matt@terrasearchpartners.com. I hope that you find this month series on real estate and climate change providing good perspective and a sense that there are solutions out there and pathways for industry to make a real difference. I hope you enjoy the episode.

First of all, Elena, Marta, welcome to Leading Voices in Real Estate. And thank you for joining me on today's show. I am thrilled to have both of you on the conversation today. Today's conversation differs from most in Leading Voices for a bunch of reasons. First of all, this is the second two in a row subject we've ever done on Leading Voices, both in the hot month of August, in a month where we keep reading the headlines that maybe climate change is not fake. Maybe it's finally real for us.

But the podcast that was released actually this morning was with Greg Smithies from Fifth Wall Ventures, and he's with the Climate Tech Fund. And we're going to continue that conversation with each of you today. The second difference is that Leading Voices from the inception has been leaders talking to leaders. Listening to leaders talk about their real estate experiences. So you're building your careers. There are very few CEOs in Climate Tech or in climate change around real estate, maybe one day there will be. But it really matters to have your voices involved with this exciting conversation.

So I want to thank you both for being here today.

Marta Schantz:

Well, thank you for having us. I'm very happy to be a part of the conversation.

Elena Alschuler:

It's a pleasure, Matt.

Matt Slepin:

Thank you. So first Marta, why each of you introduce yourself and talk about what you do on the position that you come from and how you attack this issue in the world of real estate?

Marta Schantz:

Absolutely. So, my name is Marta Schantz. So I work for the Urban Land Institute or ULI for short. And for those who aren't familiar, ULI is a real estate industry group, global, with over 45,000 individual members. And we have the mission to shape the future of the built environment for transformative impact in communities worldwide.

And one thing that's a little different about ULI as an industry group is that we don't lobby. That's not one of our value ads for our members. Instead, we focus a lot more on thought leadership and content creation as a driver there. And so, we have quite a large research center and initiative team. And of that, the Greenprint Center for Building Performance which I lead focuses on climate mitigation. So, making the business case for green buildings by tying reductions in carbon emissions to increases in asset value. Simple as that.

And we cover topics ranging from city climate policies to sustainable tenant fitouts to net zero and everything in between. And in addition to our research work, ULI Greenprint includes a community of practice of leading real estate owners and developers from across the globe who are committed to improving the environmental performance of the real estate industry, LaSalle included. And this vanguard comes together with shared best practices, shared goals and shared commitments to drive sustainability across the board.

And then, what's especially unique about this setup with part research group, part community of practice is that we, as staff, are able to take their members' best practices and successes and share them with the broader ULI membership in the real estate market. And so, we're just making the business case for green buildings day in and day out to the real estate sector.

Matt Slepin:

That's wonderful. And ULI, of course, was the founder of this podcast. So Season 1 was a joint venture between me and ULI. So, the community of practice and you have a bit of a bully pulpit, but you come at this from the standpoint of the overall industry. And maybe you could see the best of what we are, maybe some of the worst of what we are, I'm not sure.

Marta Schantz:

Yes, that is a very accurate way to say it. Across the real estate industry, there are some companies who are early on their ESG, environmental, social, governance journey. And there are other folks who are so far along that they're already net zero carbon and completely leading the pack. And because we have a range of content and a range of sophistication of our members, we're able to tailor our talking points in our educational materials in the best way that resonates with everyone.

Matt Slepin:

Cool. Well, we'll keep coming back to that through the conversation. And Elena, you come from a very different perspective which is the perspective of one of the largest and longest-standing global investment managers.

Elena Alschuler:

Sure. So I'm the head of Sustainability for the Americas. And LaSalle is a wholly-owned, operationally-independent subsidiary of Jones Lang LaSalle, JLL, who many of you know. We are solely focused on real estate investment management, though. So we have $73 billion of assets under management and over 500 investors and offices in 15 countries.

And that covers direct and indirect private real estate equity, core, core plus value-add, private real estate debt and public real estate securities. So, my job really is to look across all of that and figure out the strategy and program design at the corporate and fund level, as well as acquisitions, due diligence, and then through the operational performance implementation of projects at the properties, both capital projects and certifications, as well as looking at climate risk and being external facing to our investors participating in industry partnerships, and things like that.

It's a really wide-ranging job. And that's what makes it really fun. And we also have a team of ESG leaders in each region and a Global Head of ESG.

Matt Slepin:

Right. So you're in the E part of ESG. And we're not going be talking today much about S and G. I'm a little curious of how, in context, the company looks at E within the context of S and G. How does that get prioritized?

Elena Alschuler:

They're all critically important and they are all interrelated. I primarily focus on sustainability. It often has social impacts, so improved indoor occupant health, job creation, from installing the improvements in the buildings, things like that, new technology opportunities, also job creation. Sustainability is really interrelated to everything we do.

On the S and G side at LaSalle, the legal and compliance teams are looking at corporate governance including our sustainability governance. And then we have a DEI board that looks at the social elements, both internally in terms of our culture of care and DEI goals, partnering with HR. As well as externally, we do a lot of community service on our properties.

Matt Slepin:

Cool. Well, thank you for that.

Marta Schantz:

And Matt, if I could chime in, it's not just LaSalle that is seeing ESG comprehensively driving a sustainability program. This is across all of our Greenprint member companies. Maybe 10 years ago, it really was just focused on the E, that business case for energy efficiency and driving building optimization.

But the definition has ballooned over the past decade to include that social piece which looks at healthy buildings and resilience to include that governance piece to ensure that there's reporting and accountability. And so, it's truly a collective holistic look at things now.

Matt Slepin:

So, it's interesting because you have concurrent issues, but they do unite, particularly when you talk about things like reporting. And there's ripple effect impacts across the board, of course. But they are concurrent issues at the moment that are our headlines.

So let's talk about that and let's put in context for our listeners how you look at the issue of carbon, I guess, if that's the right word to use, and where real estate fits within that. And in the podcast that was released this morning with Greg Smithies, his comment was 40% of global emissions is in the built environment, three quarters of which are in existing buildings, and one quarter of which are in new construction and deconstruction.

So maybe, each of you take a turn to think about that place in context, maybe our industries' responsibility to be addressing these issues.

Marta Schantz:

Absolutely. And so, those numbers from Greg are spot on. There's an organization called Architecture 2030 that has released a pretty well-known pie chart now across the sustainability nerds of our real estate industry that shows global carbon emissions by sector.

And it shows that breakout where building operations or existing buildings are about 28% of total global carbon emissions. And then, building materials and construction, so that construction and deconstruction piece, is 11% of global. And so that three quarters, one quarter breakout is spot on. And at the same time, that's today.

If we think about how more and more efficient buildings are becoming as they're getting built because of building codes and incentives from governments and other climate goals, over time, buildings are going to become even more of a percentage of that embodied carbon, that construction and deconstruction of the building materials and less a percent because of building operations. Over time, that will change.

Now, when we think about that total 40% of carbon emissions coming from buildings, we can think about how real estate really does have an opportunity to show leadership on this front. And it's not only because real estate has an opportunity, I mean, sustainability absolutely benefits the bottom line. It's also because the institutional business of the real estate sector is better positioned to do it well. There's a real outsized impact and an outsize capability compared to say mom-and-pop owners often of these Class B and C buildings.

Those folks are just so incredibly constrained. They don't have time to think about sustainability. They don't have funding to invest in improvements. And they don't have expertise to even know what to do. And so, these institutional businesses are the ones who have the time. They can hire folks like Elena and her team to run sustainability for a firm. They have the budgets. And they have the skillsets to achieve these deep carbon emissions reductions. So there's a real opportunity from the real estate sector to take advantage of this situation.

Matt Slepin:

Let me ask a question about that and drill down on part of itself. 38% of total global emissions comes from the existing built environment, how much of that is non-institutional owners like mom-and-pops as owners because is single family homes half of this, particularly in energy inefficient places?

Marta Schantz:

It really depends on where you're at. Because if you look, for example, in New York City where you've got a dense urban environment, you've got an incredibly impressive economy of scale opportunity where the top largest, just 2%, the top 2% of the largest city buildings by count, consumed 45% of total New York City energy. I mean, these are the largest buildings, over 50,000 square feet in size. And this primarily consisted of a mixture of luxury apartments, commercial buildings and multifamily housing developments.

And so, even if the count isn't necessarily the most dominant for these institutional real estate businesses and those owners, the impact is very significant.

Matt Slepin:

Elena, talk about this from the standpoint of what you guys get to do because ... so the leverage point and the tipping point for an institutional owner to create best practices and find the pathways for others to then follow, you can afford to do it.

Elena Alschuler:

Well, we use sustainability as a material driver of investment performance. And we think it will continue to increase in importance. So, we're doing this in the interest of long-term and short-term returns and meeting our investor's financial goals. And then what we've seen is that by taking active steps to improve a property sustainability performance, we can also improve the financial performance.

And to that end, we've adopted a bunch of commitments that I can talk about. But at the asset level, there's really three main areas where there's levers. One is the occupant demand or the NOI at the asset level. So there's energy savings. We've all been proving out the energy savings. But there's also more desirable spaces, higher rent, increase occupancy, higher tenant retention, faster lease up, lower concessions. I mean, it can play out differently depending on the asset in the market, but it's pretty well established that having a green building, in many cases, depending on the asset and the market can really help you get a premium.

The second lever that we really look at is investor demand. So, we see an increasing number of our investors who are asking us questions about what we're doing on sustainability and climate risk. And it really helps us access additional investors and a greater pool of investors that are interested in this. And then finally, we're starting to look at it more and more in a risk context, as we see this legislation coming into play at the city level, primarily in the United States.

But we're also looking at the risk element of these properties, including things like carbon taxes and building performance requirements that we're seeing at the city level, as well as physical climate risk and functional obsolescence risk. So really, one of the conversations we have internally a lot is, what is our next buyers exit? What does the world look like 20 years from now? And how do we think about that in the context of sustainability and what the goals are for this particular fund or account.

Matt Slepin:

I want to come back to the investment side of this. And I want to stick for a few minutes with this global context in which we're attacking this problem. Maybe let's talk about the regulatory environment that you mentioned, Elena, as one of the risks, but it's the environments that is changing. And there's going to be opportunity because of dollars coming in. And there's going to be risk from legislation to constrain how we all behave and require certain things.

So we think about the context that we're in for a few minutes. And I'll let either of you take maybe the government side of this thing. But where are we at with that and how quickly is this indeed changing?

Marta Schantz:

So, I'll start. And, Elena, maybe you can chime in. For the past five or 10 years, more and more cities in the United States have started to push the private sector with mostly sticks, but some carrots, to drive building performance in energy efficient buildings.

And that has been through building energy benchmarking ordinances. So far, there are over 30 localities and rising across the US who have set mandatory energy benchmarking requirements to publicly report performance every year. And now, those are acting like stepping stones where the next level of government regulations are coming in to affect more change. So they say, "Okay, well, now, you're benchmarking your data. It's important. You can't manage what you don't measure. But now, we do want you to manage that."

And so, cities like Philadelphia and Seattle are requiring building tune-ups and energy audits every number of years to show that not only are you looking at your data, but you're acting on it and you're improving your building's performance. And then from there, cities and localities have started to take another step-up for building performance standards. So New York City is well known for its Local Law 97 that was passed around carbon emissions thresholds. But also St. Louis, Washington, DC, and a number of other cities and counties are starting to set building performance standards.

Matt Slepin:

It's interesting. On the conversation with Greg, though, he talked about the stimulus program, we don't know what's going to be in it yet, but he said the global spend coming are from that directly, and that's not global spend but that's the subsidies for that.

Marta Schantz:

We're certainly hopeful for a green recovery. I mean, I think I can speak for most folks when they say they would like to see some heavy incentives from the government to drive that action and accelerate decarbonisation even faster. I look forward to seeing what comes out.

Matt Slepin:

And is there a backlash? You know how some localities fight each other for bigger tax breaks to attract companies. I'm wondering, are any localities fighting to have the lowest bar? "Hey, come to our state, we have no bar in emissions." You must see that somewhere.

Marta Schantz:

Not so directly. I haven't seen that. Man, I would say that the states that are bragging about being pro-business or business-friendly are probably the ones that are lowest in terms of setting the bar on emissions reductions and requirements.

Matt Slepin:

Yeah. I mean, the government red tape scares people and it's a good thing and it's a bad thing. And at the end of the day, each of these things climb on top of each other, almost like CEQA in California which came from the environmental purpose and then was hijacked for other purposes that really stopped any development and gave an excuse to do that.

So, when you add these on top of each other, then not necessarily a good thing.

Marta Schantz:

It's also tricky, though. And ULI doesn't lobby. I won't say that we're for or against any of these policies. But I will say that when we educate our members about upcoming climate policies, it's really helpful because these actions that the government is requesting of its private building owners, none of them hurt the bottom line. They help improve efficiency. They help you save energy. They help improve asset value. And so, it's easy to talk about it in that sense. I don't think they would get past if they were that negatively impactful to the real estate business.

Matt Slepin:

Yup. So then, let's talk a little bit also about global and global from two standpoints, global requirements and government intervention, maybe particularly in Europe, but then also global investors, and they're two different subjects. So, investors who care about this in the S and G and therefore one who invest in, Elena, you mentioned that before.

And then the other is how is the states lagging? Is it ahead of the curve? Who's the most ahead of the curve?

Elena Alschuler:

Maybe I'll take the first crack at this, Marta. So, whether you see this as a challenge or as an opportunity, it really depends where you are on the adoption curve because there's a lot of value to be gained for the early movers here.

So, for us, the big drivers have really been and continue to be our occupants and our investors. So, we've seen that 30% of the Fortune Top 500 have committed to carbon targets, and that's up from 6% in 2015. That's five times in five years. And there are tenants across all of our asset classes, not just office. And we're seeing congruent numbers in our RFPs and DDQs where sustainability used to just be an afterthought like, "Do you report to GRESB?" Now, they're really asking very detailed questions about it.

And we really like to see that and we're looking forward to deepening our partnerships with all of our investors and corporate occupants because sustainability is really a team sport. We got to all work together to solve this problem.

So, in the international space, Europe is definitely ahead on investor demand and regulatory activity. We're watching very closely the sustainable finance disclosure regulations which are going to require investors to share how much of their assets are invested in green assets and creates a much more strict definition of what is a green asset.

The thing I will say about Europe, though, is they're behind on data. So actually, the United States has much better data coverage compared to the rest of the world. And that's really our unfair advantage that we have the DOE data tools and the EPA Portfolio Manager. We track all of our data in that. And having these broadly-use standardized-performance tracking and methodologies is really unique in the world. And you wouldn't even realize that other countries don't have it.

And then, on the Asia side, they actually have no problems with data in a lot of cases just because of how their metering and buildings are constructed. But they have been behind in coming up quickly on the commitments. So, we're seeing Japan, China, Singapore, really pushing on the regulatory side. And then, Australia has really been more driven by the market and state and local regs similar to the US. And they've really been a leader in certifications.

So if you're interested in this topic, actually LaSalle just came out with a white paper on this called ESG Takes Center Stage. And it's a great little couple paragraphs on each of the markets where we do business and what we see going on around ESG in each country.

Matt Slepin:

Cool. Marta, any comments to that, particularly on where we are and how globally the regulations are changing, and where are we in the adoption curve?

Marta Schantz:

Sure. So, when we think about US versus the rest of the world, it is safe to say that Australia is very far ahead. They've got just ... Matt, it's so impressive. They have such interesting innovations. They have such technology adoption. They have such commitment to data. They have a system called NABERS which is similar to the US's ENERGY STAR System.

So they have a lot of the foundations in place. And they're constantly three to five years ahead of anyone. Europe is next. They're incredibly far ahead. And I will say, though, that the US is catching up quickly like Elena was saying. And so, we know that we are in a time crunch. And we know that even though the US doesn't necessarily have a national strategy in place, locally, a lot of cities and governments are pushing.

Hundreds of cities are committed to the Paris Climate accords and we're still in agreement. And they are taking action on this and folks are paying attention. And then when it comes to Asia Pacific, more broadly, because they're doing so much new construction and development, Asia Pacific has the potential to leapfrog a lot of the midlevel strategies that have been taking place around sustainability and jump to the highest efficiency of low-carbon choices. And I think that's really exciting.

One thing, lastly, to say about regulations and that is in Europe, there's this piece called EPC, the Energy Performance Certificates across the EU. And that's where every building gets rated, a letter grade based on its design or energy design there. And depending on what letter it gets, what grade it gets on its EPC, eventually, in some countries and localities, you can't lease the building. You can't occupy the building. You may have to kick out your tenants. It gets very aggressive in terms of the repercussions for getting a poor environmental performance certificate rating.

And so, that came before New York City's Local Law 97. And I would say that these two regulations are coming at climate change and decarbonisation from slightly different perspectives, but are both getting real estate to pay attention and start to proactively address decarbonisation before regulations and fines hit their books.

Matt Slepin:

And how much of this happens at the point at which you have to upgrade a system and the only choice of upgrading the system will be a green system versus, "Sorry, you need to upgrade all your systems even though you put an air conditioner a boiler in last week?" Elena.

Elena Alschuler:

Yeah. So this, I think is a really key topic for us to spend time on is how the energy is actually used in the property versus who controls what, when. This is the real juice of it in sustainability. And so that becomes what's really important is catching those moments of interaction and the right people at the right time to make these changes.

Marta Schantz:

There's so much risk. And especially, we can go on this renewable energy tangent for a bit. When you think about solar panels on a building, especially if you're in a market that has high cost of energy and a lot of incentives for solar panels, you think it's a win-win. Easy.

However, then you start thinking about the externalities and variables that real estate, in specific, needs to deal with. How long are you going to own this building? Are the solar panels incorporated into your building appraisal? Are the risks of maintaining those solar panels incorporated? How do you handle those long-term contracts at the point of sale? And will the tenant take that date and take that power? What if the tenant's lease is only five years? How do you assure that those solar panels power will still be used by the next tenant?

And all of those risks and uncertainties, legal departments get very nervous. So it can be really tricky to have the right situation where you have a long-term tenant and a long-term hold, and the financials are lined up.

Matt Slepin:

And let's keep playing with this one for a minute because I'm assuming, Elena, we're going to put you in the hot seat here for this one. So, you how do you get this done on the ground in those complexities situations without it just taking forever and ever and ever and kick the can, because that's what big organizations might be easier to do it?

Elena Alschuler:

It's that multi-stakeholder problem of getting everyone on the same page and getting the money lined up. They're turning around and asking us. So, is this [inaudible 00:27:54] that question, to me, is a false dichotomy. Do we have the technology or do we need new technology? The answer is yes.

And we have to figure out how to scale what we have. And the new technologies are going to be facing these same structural issues in trying to reach scale. So, we can get 30 to 40% energy savings in a 10 to 20-year payback which by the way, we should all stop saying payback and say ROI instead, because that's a 5 to 10% annual ROI. Why are we not doing that all day long? And it's because of these market barriers.

I think there's also a big transaction cost. So making it really easy to identify opportunities and buildings, figure out what needs to get done, all the different steps along the way. There's a huge opportunity to streamline that to unlock the market. And then the one that Marta knows I'm a little bit obsessed with is the data element. So, making sure we actually get that consumption information. Monthly utility data is actually more challenging to get than you would think. And there's no requirement that anyone shares it in a standard format.

And so, even though we have this great tool in EPA Portfolio Manager, we actually spend a ton of time just chasing down monthly utility bills. And then, the other thing is the market is so fast. We see such a high volume of deals and they're moving so quickly that we really need to get that sustainability information at that moment in the offering memorandum. So we love to see sustainability information in OMs.

Matt Slepin:

Let's talk about a couple of things you just said because it's really interesting, so payback versus ROI. And has that number of years decreased, diminished over time as we're getting more efficient at these things? And how much can you take bureaucracy out of it to make the flow, decrease the cost because a lot of the cost is the complexity of it?

Marta Schantz:

Though a lot of the challenge isn't necessarily the complexity, it's having the upfront capital to pay for these things. And so, there are a lot of interesting green financial tools these days that are starting to open up markets for those mom-and-pops or those midlevel players who maybe don't have the capital in-house to invest in these projects, no matter their payback or ROI.

And so this is products like Fannie and Freddie, they have green mortgage programs that reduce basis points for ensuring an energy efficient improvement. CPACE is another interesting financing mechanism that works really well as in this loan in certain cases. And then, there are also just energy service performance contracts where the vendor or the provider will pay the upfront cost and get repaid through utility savings from the utility bill.

So, I think that it's not necessarily the complexity of the process that's the biggest or the only challenge when it comes to scaling these solutions across the built environment. It's also just paying for them. And we need to make sure that folks are aware of all these options.

Matt Slepin:

And Elena, come back at us on this topic including talking about data, getting consistent data across the industry for something, really hard.

Elena Alschuler:

Yes. We're very lucky in this aspect, actually, because we have the Green Button format that was developed by the US Federal Government. We have the EPA's Portfolio Manager Tool which allows you to enter all of your monthly energy and water data into a central place where it gets tracked. They can normalize for occupancy and weather. They can do your greenhouse gas calculations. And you can also transfer the information when you transfer the property.

So sometimes when we purchase properties, we can get 10 or 15 years of energy data along with it which is incredibly helpful to understand the performance of the property over time. So that's the first tier is the performance information. And then the second tier or the other side of the coin is the physical condition of the asset. So being able to go in and quickly assess the physical condition of the major systems that determine the energy consumption.

So that's HVAC, envelope, lighting, plug load, and being able to quickly understand what's the condition of all those pieces of equipment or the asset. And then, you have to layer that into your investment underwriting or your capital plan for the property. Go out and find all the utility incentives that are available. Check out the financing mechanisms that might help tip the scale.

And then, the final thing is really taking a close look at the potential upside of it. So we always want to take a look at how will this help position the property in the market or could it help with the exit on the property. And, of course, again, it totally depends by the property. But if you can get off of zero, you'd be surprised how much that actually influences your cash flow.

Matt Slepin:

It's interesting. It's a focus group of one. But as a homeowner, I came across the Green Button data problem and conundrum because I bought two Tesla batteries for my house and solar panels. But to get the tax break, I have to get the Green Button data. And the Green Button data has to be daily, not weekly, or weekly, hourly, not daily, and they don't have that data.

So, it's one of those catch 22s of, "We love you. And you have to have this data but we're not going to give it to you." And then you give up. And that's why people don't do this stuff because they want to pull their hair out as, Marta, I can see you're doing it right now.

Marta Schantz:

You know, Matt, utilities are playing a big game of catch up right now. For the longest time, all utilities had to do was sending monthly utility bill. No one was asking them for interval data. No one was asking them to integrate with grid-interactive efficient buildings. No one was asking them to figure out distributed renewable energy resources like batteries or solar on people's homes, as opposed to on the utility credit itself that they own.

And no cities were asking utilities to provide whole building energy benchmarking data. So, all of this is coming at breakneck speed at utilities. You may not have the technical IT capacity to do this, may not have the staff bandwidth or the budgets or anything to handle that. And so, they're playing catch up. It's not that they don't want folks to make this work, it's that they're just not all capable yet. And so they're working on it, but it doesn't make it easy on anyone.

Matt Slepin:

Well, this is a wholesale change happening really quickly and better. We're going to get back to timing in a little bit. So a couple more topics before we totally change the subject. So, the next one is for Elena. Talk a little bit about how do you envision your buyer's exit strategy?

And how well into the investment management world and sales of properties and buying properties with the fear of what that question is going to be. So how's that happening? And I'll put a related one on top of it which is, will there be insurance there when they want to buy the property or exit the property. So, kind of play with each of those a little bit.

Elena Alschuler:

I don't think anyone can predict the future.

Matt Slepin:

That's true.

Elena Alschuler:

And I think one of your previous guests said, "Real estate is expert at pricing risk forward." And I love that. And that's exactly the game that we're all playing right now. What are the assets? What are the markets? How is demand going to change? How is regulation going to change?

And I'm not a psychic, and either any of my peers that are heads of Sustainability or anyone in this world, so I'm not going to try to predict that. But we are spending a lot of time and are very engaged at a senior level, C-suite level within LaSalle.

On the insurance side, we really recognize the important role of the insurance industry. And we're also looking really closely on that one. We've talked to a whole bunch of insurance companies on this topic to understand how they view this risk and the potential impact on pricing and insurance availability.

One thing I'll note is that we did do an agreement with Munich Re to do a thought-exchange on these points. So you can expect more on that in the future.

Matt Slepin:

Yeah, it's interesting because you assume, look, in real estate, we have different kinds of investments. And we have value-add investments that may sit on the books for three to five years. We have core plus that's going to sit there for a long time. We have core that's going to sit there for a really long time.

I might think and I like to pick on Florida over the podcast history. But I might think that Florida office buildings might move from our floodplain office buildings, and houses and fire zones might move from long-term hold, "Don't worry about it for 20 years," into now, "It's a value-add kind of thing, because if I don't get it off in three or four years, I just don't know what I'm betting on."

Marta, you're responding to this, so maybe, Elena, we'll take you off the hot seat to Marta's comment on it.

Marta Schantz:

Matt, I can't tell you how frustrating it is that insurance is generally a backward-looking industry, literally. When they only look backward to assess the coming years' pricing and risks, how can you expect significant progress or change? It really is limited.

And so, we're seeing construction in Miami. We're seeing the threats of climate change and sea level rise and all sorts of stranded assets. I'm looking forward to the insurance industry taking a stronger position on this over time.

Matt Slepin:

Wait, is your comment about insurance or your comment is on investment appetite and underwriting to think about assets over a lifecycle and the exit of the buyer?

Marta Schantz:

I think it's related because eventually, a building will be so risky that the insurers won't insure it or the insurance costs will be so high because of the deal. And so, I would like to see insurance and insurance insurers playing a bigger role in looking at climate risk of an asset.

Matt Slepin:

So, the things you stay away from, maybe the places where the most money is going to be made in the real estate business over the next 15 years given these issues.

Elena Alschuler:

And other opportunities, new markets that become more in demand, green buildings that become more in demand.

Marta Schantz:

I mean, this leads in really nicely to that whole concept of stranded assets that have come up a couple of times where it's not just stranded because it's flooded, it's stranded because of the climate policy risk. And the risk that a building won't have buyers who are interested in buying it, won't be able to meet climate regulations that localities have set, won't have any tenants interested in occupying it, because it's not green enough.

And so this, this is an important consideration when it comes to these assets, that climate risk.

Matt Slepin:

Got it. So let's change the subject a little bit. And Marta, talk about Greenprint and what your members, participants are doing, and what the leaders are doing and how do the leaders pull the laggards along in the industry?

Marta Schantz:

Sure. So, our Greenprint Real Estate members, there 45 or so global owners and developers who collaborate together to push the industry forward. They're still like the vanguard of real estate industry. And they are continuously innovating to decarbonize better, faster and cheaper.

And many of them have started setting net zero goals, which is a huge step for a real estate company to look out to 2050 and say, "Yes, we commit to net zero carbon operations by 2050 for our entire portfolio under operational control." That is a significant commitment. And it takes a lot of planning and process and steps to achieve that.

So we look at on-site energy efficiency and deep energy retrofits. We look at renewable energy in both on-site and off-site for buildings and portfolios. We look at building electrification, the idea of getting natural gas and propane out of buildings. So it's only electric-powered so that it can be a hundred percent renewable-powered. We look at utility green power coming in to provide power to the asset.

And then, we also look at all of the other tools in the toolbox when it comes to achieving net zero carbon, and that is renewable energy credits and carbon offsets to fully account for all of the emissions of a portfolio.

Matt Slepin:

Yeah. And how do you use the leaders and Kilroy ... not a small company. So, we're in the world of mom-and-pops, too.

Marta Schantz:

True.

Matt Slepin:

So, how do you use the example of these companies to create neural pathways for not just the other institutional real estate companies, but also then the products and scalability for mom-and-pops to be able to afford to do this because I think that's where the rubber is going to meet the road?

Marta Schantz:

So, we take the examples of our Greenprint Real Estate members and translate them from the wonkiest of examples to a much more approachable example with a real estate lens to all of our ULI members and real estate industry across the globe. So, we look at topics like embodied carbon, topics about pending climate regulations, topics like net zero buildings.

All while threading that needle with the business case behind it because that's how we reach folks. We remind them that there truly is a financial case for this. We're not like hippies telling you to save every tree. We're the business colleagues who explain that ESG is a core part of real estate business and helps the bottom line.

And when we make sure to keep framing things in that business perspective, it resonates a lot better.

Matt Slepin:

Play with that for a minute. So, are your members, are your stakeholders tree-huggers? Are they people trying to make money? And how do you balance the meaning of those two questions?

Elena Alschuler:

I think that in order to be successful in these sustainability pursuits, you have to be a little bit cynical. You do have to recognize that a lot of people are out there to make money. And we have fiduciary duty.

Matt Slepin:

Fiduciary says, "You got to make money." That's the goal.

Elena Alschuler:

Yeah. It would be unethical for us to not meet the financial goals of our investors which are, by the way, pension funds, sovereign wealth funds. So, we need to make sure that people can also pay for their retirement. But what I'll say in addition to that is that we really do believe that strong investment performance and sustainability performance are fundamentally linked.

When we acquire an asset, we assess the sustainability of the acquisition through a due diligence checklist and adjust our underwriting appropriately. As we talked about, we have a big focus on data tracking. And then, we just proactively invest in financially accretive projects as a matter of business.

Marta, you gave an example when solar was really challenging, but we've actually also seen plenty of examples where solar just throws off revenue for a building. So, you could do take a bite out of the energy consumption of the building, replace it with renewables, and also generate some revenue from the property in some circumstances.

As we talked about before, it's really about incorporating it into the capital upgrade planning. So a lot of times, if you know you have major work coming up on the property, if you think about it upfront, then you can actually bring the cost premium down pretty significantly. And then, the last piece of it is the property manager and tenant engagement. So, operations and how people behave in a building can change energy consumption 10, 20% or more. So you can actually do a lot just with engagement and good operations of properties.

Matt Slepin:

So, Do you think there's been a tipping point? And maybe it's political, too, but has there been a tipping point from tree-hugger, question, one, two, calamitous, someone who believes in calamity coming ... I'm that kind of guy and a tree hugger ... to just good business, and just good got-to-do business at this point? It feels like it has changed.

Elena Alschuler:

Well, going back to those three levers that we've been talking about which is tenant demand, investor demand and regulation, all three of those have been ramping up. And together, they're really reaching a tipping point. And so, it is building the financial case and making it stronger and stronger as each of those levers keep pushing.

Marta Schantz:

Yeah. We're not yelling that the sky is falling, but we are paying attention to the risks. And we're appropriately educating our members about that so that they can make strategic choices that benefit not only their own portfolios and companies but also the climate.

Matt Slepin:

Cool. Let's totally change subject. I want to hear about careers. So, we have young people listening to us. For the young peoples, the young folks listening, planning their career, who are looking for careers of meaning in real estate, I'm going to bet the next 20 years of real estate, this has a lot to do with what careers are going to be about.

So, I want to hear each of your stories. This is going to be the elevator pitch story of your careers. But talk to me about how you got here and what backgrounds brought you to this. And Elena, you start.

Elena Alschuler:

Sure. So, I graduated undergrad with a degree in Sociology and Anthropology, which is not what I do now, but I use those frameworks all the time. And I spent a lot of questions at Bard asking why and doing that critical thinking and quantitative analysis and writing. And then, I wanted to figure out the how of you actually make a difference in the world. And I was very aware that it plays out in space.

I got a job right out of college at HR&A Advisors which is a boutique, real estate and economic development consulting firm in New York City. And it was a great sort of boot camp for my professional career. They set such a high bar for all of the work that comes out. And it allowed me to taste a little bit of everything, like parks and affordable housing and neighborhood revitalization, and all those different things.

We were often involved sort of when there was a public and private component. So, one of the projects I worked on was the rezoning of the High Line. I also worked on the rezoning and redevelopment of Hudson Square. And I really got hooked on sustainability as the big question for our generation. And that's a problem that hadn't been solved.

And so, I decided to go back to grad school because I really felt I had hit a wall where there were specific skills that I needed to keep going. And one of the best pieces of advice I got going into grad school was to come up with a mission statement for myself. I knew you were going to ask me this, so I pulled it out. And it was, "I want to be an expert in the economics, finance and policy of implementing efficiency in existing buildings."

And I've actually changed it a lot over the years. I did some work in new construction and health and other things. But it really helped me have a lens to pick the classes I took. And it helped me stand out coming out of grad school as having a specific interest. I think a lot of people, they're like, "I'm a generalist. I can do anything." And that makes you not the standout candidate for every job. You know what I mean?

Matt Slepin:

Where and what grad school?

Elena Alschuler:

I went to MIT. I have a master's in City Planning at MIT. And so, while I was there, I took a whole range of courses. I really took real estate finance, economic development finance, environmental policy, utility markets and policy. Please, don't ask me to draw anything. I'm not a physical designer.

But coming out of MIT, I was already thinking about that question of the three levers. And I decided I want to do each of them. And I didn't really care which one I did first. I did probably 30 informational interviews and found an opportunity. And I found this great opportunity at Department of Energy. It was really about the job itself which was deep dive on data tools, and helping a lot of the cities with benchmarking laws get up and running.

And it was also an opportunity to be a public servant. And there's some real pride in that, in contributing back to your country. That really was very meaningful to me. And the things I didn't realize taking in the job was I was going to get such great exposure to the whole network of real estate sustainability people and really also understand how government works beyond just regulation, all the other tools that housing its toolkits, such as research and technical assistance and standards and recognition.

So I really understood that whole breath. Then towards the end of Obama's second term, everyone is sort of thinking about what they want to do next. And I get this cold call from a company called View. And they said, "We have a new technology called Smart Windows. And it has energy efficiency and health benefits. And we're trying to figure out how to take it to scale on the market and prove the value." And I said, "Well, that's really interesting to take a look at the market side of it."

Windows and envelope are the hardest thing to do. And can this, as an amenity, the amenity value, help change the equation to get people to do more efficient windows when they wouldn't have otherwise? Can that fundamentally change the business case? I was at View for almost five years working on market segmentation and targeting, marketing and sales approach by geography, as well as individual account qualification tactics.

And the other thing I did was really work on co-marketing. So, going in with the properties and helping them get the most out of the tenant and market differentiation element of having smart glass in their building. And then going in and doing a broker style cons analysis to see if we can actually quantify whether it helped the building lease up.

And then, the LaSalle job came open. And it was the big thing left on my list to get my hands on a big portfolio of buildings and make a big difference. And it means that I can both have an impact on the big portfolio and hopefully, potentially help make some tools and resources or pathways that others can use.

Matt Slepin:

That's wonderful. It's interesting. So, couple of things I heard in there. One was you had a mission statement and you had a goal. And then the career choices, the job choices could be within the context of that place you were trying to go. And government, so many people would want it being a full career. But for most people, it winds up being a pathway towards and to use that strategically.

Okay, Marta, tell us your story and how you got where you got.

Marta Schantz:

So, similar to Elena, well, I started with MIT. MIT was my undergraduate degree. Bioengineering was my choice. I got a minor in Science Policy. And I went to get some experience around the hill. So I interned with MIT's Washington office. And it was around the time of the Waxman-Markey Climate Bill, it was a cap-and-trade bill.

Maybe it's on your radar, maybe it wasn't. But for me, it was a pivotal point in my deciding to go into sustainability and the energy space. So, I enjoyed that internship, realized that I can still enjoy and be a part of the science world without having to pipette cells in a lab. And I got my foot in the door at the US Department of Energy.

So I started working in the CFO shop there during financial analysis, budget analysis. I learned about everything the US Department of Energy does. And after a little while, I moved over to Booz Allen Hamilton on their energy team. And so, I consulted with them on the federal side of things for looking at nuclear finance, looking at energy efficiency of buildings, looking at the Marine Corps' sustainability plan, a whole range of topics.

And after a few years, I really enjoyed it. But the one I liked best was around buildings. I just thought buildings were the place to be. Not literally, figuratively, but I suppose literally as well. And so, one of my contacts through working at Booz Allen had moved over to a boutique consulting firm called Waypoint Energy. And they specifically work on utility and real estate consulting around energy efficiency.

They brought this business case perspective and unique programs to drive energy efficiency program adoption, specifically in the real estate sector because it's traditionally very hard industry to reach. I mean, how many property managers take up a phone call from the utility? Very few.

So, I spent a number of years there. I ran our East Coast programs across a number of different utilities, just driving that real estate interaction to encourage more adoption of energy efficiency. And it was really fun. And some of the real estate folks that I was engaging with through that introduced me to ULI. And so, they said, "You know, Marta, ULI has this Greenprint Center position open, we think you could be a great fit." So I looked into it.

And I agree that this would be really interesting to take my science background, my policy experience, my consulting expertise both from the federal side and the utility real estate piece, and then come at it from a different angle, from the real estate angle. And it worked out. I applied. I got the position. I've been here for three years now making the business case for green buildings to the real estate sector.

And one thing that I think is especially neat about ULI is its reach. I mean, we've got 45,000 members across the globe. That number is enormous. And so, for the potential of impact that we have, it's just incredible.

Matt Slepin:

It's interesting. So, Greg Smithies, when we spoke to him, he came from outside of the real estate space because he came to the belief that Climate Tech would be a humongous business. If he's going to be in the VC world, what's the next frontier that no one's really exploring? And he jumped in and he said, "This is going to be a huge market. I'm putting that business-like cynical hat on."

Now, he's passionate about climate. But that was the place that he chose to spend his time. Marta, you came to real estate from among looking at all the different factors in climate. You think this one is the place for impact. I'm thinking of the industry having the reputation of being the ostrich industry. We're not thinking about this stuff. Our heads are under the sand. We don't want to know about it.

But I don't think that's true because I think the leaders in the industry actually really do want to make a difference. They just didn't see a pathway to do it. And it didn't, before now, make economic sense all the time. And now, I think it does. Comments on that?

Marta Schantz:

Absolutely. I think the ostrich heads are coming out of the sand across the real estate industry, starting in the major markets and slowly domino-effecting through the rest of the country in the globe as well. And I would say that a lot of it is not only because of the benefits that that companies stand to earn from advancing sustainability and decarbonizing their buildings, but also just because of that rising pressure.

I think Elena talked about this a number of times, investor pressure, tenant and resident pressure, city regulation pressure. Those voices are loud. And those voices are not to be ignored. And so that combination of the benefit and the pressure is making a lot of moves.

And let's be real. We're all cynical at this point. Climate change sucks. We are royally screwing our planet. And so, in general, folks aren't moving fast enough. They don't have the urgency we need to affect change by 2030. At this point, we're not reversing climate change, we're slowing it.

And at the same time if we do nothing, we're done for. So, we're all a little cynical but we're also just trying our hardest because not only is sustainability really cool, it's also as important. It's our future. So, that's why I'm out there.

Elena Alschuler:

Can I just add?

Matt Slepin:

Yeah.

Elena Alschuler:

Sorry. We're talking about the downside and feeling scared. Let's also talk about the upside which is huge job creation, huge economic growth, new technologies, new business models. I would venture to say some of the organizational challenges between stakeholder groups. If we can solve them for sustainability, it will help in other areas as well.

So, you can focus on the downside or you can see this as the opportunity of our generation that's going to set the stage for the next phase of growth in our world.

Matt Slepin:

Totally true. You guys are answering the next question I was going to ask, how do you balance the headspace around "I have this mission. I'm going to do everything I can do in this space" and then the sense of foreboding doom. And so, how do you balance those?

Marta Schantz:

So, one thing that inspires me is the small victories. It's the companies who were doing nothing on sustainability or ESG, and all of a sudden see the light and start benchmarking their energy data, even the smallest of things. Seeing that change and realizing that folks are getting it and that the market is swiftly adopting an understanding that climate change is a critical piece of our motivation. That is huge for me.

Having those small victories, interesting case studies, decision makers changing their minds, those moments really add up for me, and that keeps me going. That's one of the big ones.

Matt Slepin:

In the same way that you have a tipping point of climate getting worse more quickly and more obviously, you may also have the same tipping point of people to saying, "Let's do what we can." Elena, comment. How do you keep your head together about this?

Elena Alschuler:

Yeah, you're both exactly right. It's seeing it happen every day at the properties. That's so inspiring. And seeing individual people take charge and something specific happen at their property or work on a specific project or change something about their individual behavior. I don't really think about whether, I think about how. And that's how I stay focused.

Matt Slepin:

So, do either of you have books to recommend for our listeners to read or listen to, however they take this stuff, that may help understand both the opportunities and the challenges of this crisis in our industry?

Elena Alschuler:

Yeah. I really like the Energy Gang podcast. Actually, you can pick whatever piece of the industry you're interested in and get a deep dive on it. It's a little bit self-service there. And then, if you're really trying to figure out how to get going on sustainability in real estate, I would actually start with the ULI Blueprint for Green Real Estate which is a great beginner 101.

And then, from there, I would actually read the GRESB Reference Guide. If you want to see what a best in class comprehensive sustainability program looks like, it's one that scores really high on GRESB. And that's not an accident.

Matt Slepin:

What's GRESB?

Elena Alschuler:

The Global Real Estate Sustainability Benchmark is the number one framework that real estate owners use to evaluate and report on their sustainability performance. And many, many, many investors ask for it. And so, it is set up to evaluate both your programmatic structure and the activities you're doing, as well as the actual performance of your portfolio.

And it's going to be shifting its weight more heavily towards portfolio performance over time now that we have better data. But it really does lay out the key elements of what you need to do. You can almost use it like a roadmap.

Marta Schantz:

And a lot of the portfolios that are submitting their annual ESG data and performance information to GRESB is because it's investor driven. So many investors are requiring of the funds that they manage and invest in. So, one podcast that I've been enjoying recently is called Design the Future podcast. And it's a podcast about the future of the built environment as told from the perspectives of women leading the way.

And so, it's hosted by Lindsay Baker and Kira Gould. And it's a fresh perspective because you've got folks from all aspects of the built environment whether it's city planners, architects, real estate leaders, and everything in between. And it gives a very in-the-now perspective on what's going on around sustainability in the built environment. I like that one a lot.

Matt Slepin:

Great. Okay. Last question at Leading Voices is always what is your advice to young person getting into the real estate industry? In this case, of course, it will be, be involved with climate tech and climate change and carbonization issues. But what would be your advice and how can people make the most difference through their careers?

Marta Schantz:

ESG a very hot market right now. It is growing. Many companies are looking for the next top-tier staff to lead their ESG program. And it's important to differentiate yourself. You need to make sure that you're smart on both real estate and financial jargon, as well as smart on sustainability. And so, that can be getting some sort of finance or business or economic type of finance degree that can be getting your LEED Green Associate accreditation. If you can speak both languages, you're golden.

Elena Alschuler:

Yeah, totally agree. The transition to a low-carbon economy is by 2050. Pick your year, 2040, 2060. And think about how old you will be. If you are early or midcareer, it completely aligns with your professional lifespan. This is the call of our generation. As Marta said, there's a ton of jobs right now. I think a good mission statement has two pieces. It has a skillset and a topic area.

And you can revise it over time. You don't have to be an expert in it now. But I think it's helpful to think about what you're good at and what you'd like to apply that to. And then, I would like to say also to women out there, if you decide to have kids, find a partner who really values your career and values themselves as a parent. And make sure you have a shared vision on how you're going to do it.

There's a lot of ways to do it. It changes over time. But having that strong partnership has been really huge for me being able to do what I want to do with my career and my home life.

Matt Slepin:

Totally true. Thank you. Any other comments from either of you before we say goodbye and thank you?

Marta Schantz:

I have a twilight CEO advice.

Elena Alschuler:

Yeah, me too.

Matt Slepin:

Okay, go ahead. Go for it. So, for people like me because we're talking ... so, the two subjects here would be leaders talking to leaders, and then leaders talking to young people. Leaders talking to leaders, what's your advice? Please go for it.

Marta Schantz:

My advice would be that it's not too late. If you think your pastime to start an ESG program or focus on sustainability, it is never too late. Start now. Put together a green team. Hire ahead of ESG. Dedicate funds to address this. It will help your company be more competitive and more successful both in the near term and the long term.

Matt Slepin:

Boom. Elena.

Elena Alschuler:

Ask the question, "What are the sustainability considerations here," in as many meetings and projects as possible to be an advocate and get people thinking about it. And the second thing is to really think about how you can mentor and empower the next generation. I think a lot of leaders feel stuck, but it's actually really basic in a way.

If you know a smart young person who has a good idea, encourage them to speak up in a meeting or credit them for their work in front of other people or echo, "So-and-so had a good point." Be available. Offer to get coffee with them because they might not ask you without you offering. Bring them along to a meeting that they don't need to be in so that they can chat with you. That's how you cultivate that talent for the next generation.

Matt Slepin:

It's interesting. I'm happy you guys asked the question at the end of the conversation here about those CEOs who are my generation of leaders here who may or may not be taking this seriously. And it needs to be their legacy in the business. And if they don't set their own mission and vision about this and say, "Well, we got to do it. Who has ideas," that's not going to work.

So, I think the excitement of their vision about this is a really big deal for their legacy. Thank you both very much. It's been wonderful having you each on Leading Voices.

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