



In April 2019, the New York City Council passed Local Law 97, requiring large buildings in the city's five boroughs to reduce their carbon emissions by 2024 or face potentially large fines or mitigation costs. Billed as the most stringent decarbonization mandate for buildings in the country, the policy sparked controversy. But it was also part of a broadening trend. Washington, D.C. and St. Louis have passed climate laws focused on making buildings greener, and Boston is on the verge of enacting a similar policy. At the state level, Washington has passed aggressive carbon-pricing legislation, and many believe that a federal carbon tax in the U.S. is very likely on the horizon.

Increased government regulation to stem the environmental impact of the real estate sector is hardly surprising. Buildings account for almost 40% of the world's carbon emissions, according to a 2020 study by the United Nations.<sup>1</sup> That estimate might be on the low side. With world governments scrambling to meet the carbon-neutral goals of the Paris Agreement, a legally binding international treaty, policymakers are increasingly seeking to use financial penalties to cajole building owners into meeting emissions and efficiency targets.

*“Institutional investors are increasing their focus on environmental aspects of a property.”*  
— Jim Landau, Head of Environmental, Social & Governance, Real Estate and Agricultural Finance, MetLife Investment Management

“You can't just wave a wand and reduce your carbon,” says Jim Landau, head of Environmental, Social & Governance, Real Estate and Agricultural Finance, at MetLife Investment Management (MIM), whose large

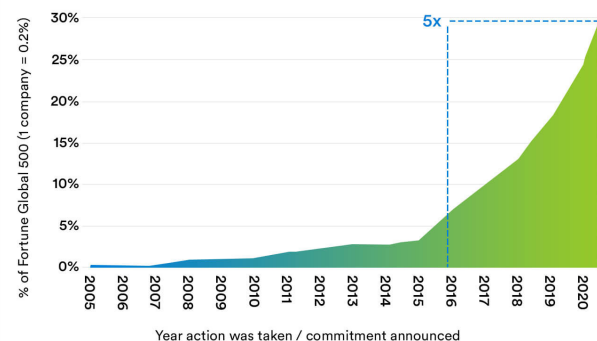
## Building a Carbon-Free Future

*Improving the sustainability of commercial and multi-family buildings is not only the right thing to do, but it will also reduce risk and boost real estate values long term.*

global investment portfolio of commercial and residential buildings has a goal to reach 100% renewable electricity for managed and controlled assets by 2030. Switching to renewable electricity is one of the means to reduce carbon, he says. “It takes years to improve how a building operates in order to make an impact in that way. Owners who aren't proactively thinking about this today are going to incur a financial impact tomorrow,” Landau says, harming their investment.

Many in the real estate industry are striving to get ahead of existing and anticipated regulations and avoiding transitional risk. These regulations include the European Union's Sustainability Finance Disclosure Regulation (SFDR) as well as anticipated new regulations to be announced by the Securities and Exchange Commission before the end of the year “Institutional investors are increasing their focus on environmental aspects of a property,” Landau says.

Percentage of Fortune Global 500 Companies That Are, or Will Be by 2030: Carbon Neutral, Meeting an RE100, SBT or Net Zero Target



Source: Natural Capital Partners, <https://www.naturalcapitalpartners.com/insights/response-required>

The process should begin with a vigorous dose of green due diligence, adds Jen Jaclin, a Director in MIM's Real Estate Debt Strategies Group. That means engaging with internal and third-party teams of architectural and engineering experts who scrutinize properties for their ESG performance and choosing to invest in buildings that already have high efficiency ratings, for example, or that are located in geographies where large portions of the power grid are linked to renewable sources.

When it comes to new developments, a focus on cutting-edge building materials and energy-efficient construction techniques, and investment in on-site renewable energy sources is now a must. For existing buildings, efforts now go beyond simply meeting the standards of certification programs such as the U.S. Green Building Council's LEED ratings system, the Building Research Establishment's BREEAM rating system or the Environmental Protection Agency's Energy Star benchmarking and certification program. In the Bay Area, for example, an existing MIM-owned office complex is in the midst of constructing a 300-kW rooftop solar array, Landau says.

It's not realistic for some large commercial or residential buildings to be totally emission-free. In addition to carbon-reduction measures, such as energy efficiency and on-site and off-site renewables, purchasing carbon offsets and renewable energy certificates will be necessary. But, Landau says, it's essential for individual properties to strive to achieve year-over-year improvements in reducing energy, water consumption and waste. The reasons go beyond simply making buildings greener. Such moves can result in lower costs and higher profitability.

The biggest strides toward carbon neutrality will have to come from tenant-landlord partnerships. Based on MIM's experience, up to 85% of a property's energy demand is consumed by its tenants. Common areas, the landlord's responsibility, account for the rest. "Creating value in commercial real estate has almost always been intertwined with strong tenant relations," Landau says. Green clauses in leases are a traditional vehicle for encouraging alignment between owners and tenants. So is the robust and transparent collection of energy-consumption and sustainability data from tenants. Proactive management also must play a role, Landau says. "Aligning owner's and tenant's ESG goals will help to achieve carbon neutrality at a faster pace."

A kind of virtuous circle has been set up to take hold. In office real estate, more and more tenants are organizations with their own internal mandates to curtail environmental impact. These tenants are actively seeking green, energy-efficient spaces to occupy, creating demand and increasing the value and profit of the most sustainable buildings. "Or it could be individuals who want to live in green apartments or stay in a sustainable hotel," Jaclin says. "This is where the industry is going. It's about responsible real estate lending and equity investment, which can improve communities, improve environmental impact and increase financial performance."

Read more at [investments.metlife.com](https://investments.metlife.com).

#### Sources:

1. Landau, James, "Laying the Foundation: Carbon Neutrality in Real Estate Investment," MetLife Investment Management, June 15, 2021.

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