

Cortex Sustainability Intelligence presents:

# 4 CRE Sustainability Predictions for 2022

Upcoming Costly Carbon Fines, Pressure From Investors, the Growing Demand for Data, and More

Detailed predictions that will impact the way you do business in 2022 - plus, recommendations for how you can prepare to make strategic strides in sustainability for your organization.

[www.cortexintel.com](http://www.cortexintel.com) | [info@cortexintel.com](mailto:info@cortexintel.com)



# Introduction

As we forge ahead into 2022, it is clearer than ever that the global impact of carbon emissions attributed to the commercial real estate industry needs to be treated with both urgency and attention. With buildings responsible for 28% of all annual carbon emissions (even more than the auto industry), we are now in a critical position in which the decisions we make for our businesses could, ultimately, lead to two outcomes: either the industry makes major changes that will aid the planet as a whole, or we could make the problem worse, bringing an already dire crisis closer to the point of no return.

Because of this, the CRE industry is facing growing internal and external pressure from investors, legislators, tenants, and stakeholders alike to devise smart business strategies to reach substantial sustainability goals that, historically, have been incredibly costly, disruptive, and challenging to achieve.

The scale of this challenge and this opportunity is unlike anything the industry has seen. A recent McKinsey study estimates that it will cost 1.7 trillion dollars per year for buildings to meet a global Net Zero 2050. As Michael Beckerman, CEO of CREtech and CREtech Climate—the largest global content and conference company devoted to technology and sustainability in the real estate industry—shared with us, “The climate crisis poses the single greatest threat, and opportunity, that has ever confronted the real estate industry.”

“The climate crisis poses the single greatest threat, and opportunity.”

— **Michael Beckerman**,  
CEO of CREtech and  
CREtech Climate

## 2022: The Year of Decarbonization Strategies That Also Make Good Business Sense

As CRE decarbonization experts and entrepreneurs building a fast-growing climate tech business, we’ve seen this coming for a long time: 2022 is officially the year of developing and implementing ESG strategies that also benefit your bottom line.

The industry’s largest and most influential organizations are already making moves. Take Hines, for example. In 2021, Hines established a ESG Leadership Council and a dedicated new global ESG team, staffed by some of the most senior leaders from across the Hines organization. Hines has pulled in Senior Managing Director Peter Epping, who served as fund manager for Hines’ European Core Fund, as Global Head of ESG to lead the team. According to Epping, “We have a long-term commitment to ensure ESG



leadership and innovation are at the heart of our entire business. We believe that will have a significant positive impact on spaces, people, communities and climate while making good business sense too.”

To help you make the smartest decisions for your decarbonization initiatives this year, too, we gathered insight from industry experts, including leaders from Savanna, Vanbarton Group, Kastle Systems, Raith Capital Partners, The Ad Hoc Group, and more to bring you this report of the four most pressing predictions for what’s to come this year in the world of CRE sustainability.

Continue reading to find each prediction, along with insight and recommendations for how you can prepare to make strategic strides in sustainability for your organization in 2022.



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# Prediction 1

## Major Cities Will Continue Adopting Penalty-Based Net-Zero Goals

If you're in the CRE industry, you undoubtedly know what Local Law 97 is – New York's aggressive, penalty-based regulatory framework set to bring the city to 80% emissions reduction by 2050. With Boston recently following suit with hefty financial penalties for buildings that don't hit carbon reduction targets in coming years, it's predicted that other major cities across the U.S. will also introduce legislation to fast-track the introduction of their own penalty-based Net Zero goals.

If paying up to \$1 million per year for noncompliance doesn't fit in your budget, you need to start preparing now—even if these regulations haven't hit your city yet.

### Decarbonize Now... Or Else

New York City's Local Law 97 and Boston's BERDO guidelines have proven to be deeply complicated for CRE groups to navigate. With lofty decarbonization goals looming over the heads of every building owner in NYC and Boston, it's left those responsible for reducing CO2 in a scramble. After all, decarbonizing has historically been put on the backburner—not because the climate crisis isn't important, but because reaching Net Zero has typically been a convoluted process that has been both disruptive to business operations and destructive to bottom lines.



*“The regulatory climate of private equity real estate is changing at a brisk pace, which includes balancing an increasingly complex ESG landscape. It is important more than ever that firms keep pace with this shifting ESG landscape to ensure they remain compliant and sustainable.”*

— **Bill Landis**, Co-Founder and Managing Partner at Raith Capital Partners

There's a problem with delaying the start of decarbonization: Decarbonization takes time. The requirements set for buildings aren't always set by those who have an in-depth understanding of what it takes to actually reach Net Zero for a large building, meaning that the goals can often seem unrealistic. Because of this, for those who choose to wait, even in cities where there aren't penalty-based regulations quite yet, decarbonization will become unnecessarily expensive and time-consuming.

Nevertheless, the penalties facing those who don't comply with these regulations will destroy bottom lines all the same. In the case of Boston's BERDO regulations, portfolios that do not comply could risk financial penalties up to \$1 million annually.

## Prediction 1 Continued:

### Major Cities Will Continue Adopting Penalty-Based Net-Zero Goals

To make matters even more challenging, while more cities are aiming towards achieving Net Zero by 2050, they are also requiring near-term action. While New York's goal is to reduce carbon by 80% and Boston's goal is to reach 100% reduction by 2050, both cities have strict compliance requirements for commercial buildings starting in 2025—a mere three years away. This leaves building owners faced with an urgent challenge: Begin decarbonizing now, or else.

#### The First Splash of a Tidal Wave Aimed at Your City

To put it simply, Local Law 97 in New York City and Boston's BERDO guidelines should be considered an omen of what's to come. As Cortex's founder and CEO, Bryan Bennett, stated: "NYC and Boston's legislation are not isolated cases – they're just the first splash in a massive tidal wave that's aimed directly for every major city in the country."

Think about this: Boston's "Carbon Free Boston" initiative vaguely stated in 2019 that tighter regulations for buildings would come "soon." Fast forward to 2021, and buildings are given the extreme choice to decarbonize or face budget-busting fines.

Yet, while Boston quickly rolled out this decision, this is a storm that has been brewing for years. Take the U.K.'s Climate Change Act, adopted in 2008, as an example. As the original framework for setting incremental carbon reduction goals on a governmental level, the most recent development includes the goal to cut emissions by 78% by 2035. Europe has been lightyears ahead of the U.S. when comparing commitments to reducing carbon emissions, and Local Law 97 and the BERDO guidelines show that we're finally catching up – and it's not slowing down anytime soon.

To summarize, Bill Landis, Co-Founder and Managing Partner at Raith Capital Partners, said it best: "The regulatory climate of private equity real estate is changing at a brisk pace, which includes balancing an increasingly complex ESG landscape. It is important more than ever that firms keep pace with this shifting ESG landscape to ensure they remain compliant and sustainable."

# Prediction 2

## Investors Will Prioritize ESG as a Stipulation to Receive Capital

Long gone are the days of decarbonization efforts played with the intention to score PR points. Now, there's external pressure; the cost of that pressure is high, and it's coming directly from investors.

In fact, according to a recent study from PwC, "49% of investors are willing to divest from companies that aren't taking sufficient action on ESG issues." If that number doesn't have you shaking in your boots yet, you're not paying attention.

### Looking for Capital? Start Decarbonizing.

Getting capital from investors will be a challenge, if not impossible, for businesses that do not prioritize ESG goals. How do we know this? Well, let's look at Europe.

European countries have remained global leaders in the fight against climate change. For example, the U.K. set their economies' Net Zero goals, then U.S. cities continued to do so shortly after. Globally, CRE professionals should pay attention to the ongoing progress of ESG initiatives in Europe and its impact on the industry.

Last year, European investors and pension companies placed sustainability efforts as the top factor in where they decide to invest. For example, one of Denmark's largest pension companies, PKA, has recently caught press attention after announcing an internal goal to reduce the carbon footprint of their properties by half by 2025.

We started to see this trend move its way into the U.S. last year, with industry leaders —such as BlackRock CEO, Larry Fink—becoming more vocal about this prioritization of sustainability. Fink stated in his 2021 Letter to CEOs: "No issue ranks higher than climate change on our clients' lists of priorities. They ask us about it nearly every day...the tectonic shift we are seeing will accelerate further."

Or, take it directly from Richard Coles, founder and managing partner of Vanbarton Group, who told us this year that: "We continuously see the expectations of European pensions shape the priorities of the CRE industry. Right now, and for the foreseeable future, sustainability will be in focus."

**"Right now, and for the foreseeable future, sustainability will be in focus."**

— **Richard Coles**,  
Founder and Managing  
Partner of Vanbarton Group



## Prediction 2 Continued:

### Investors Will Prioritize ESG as a Stipulation to Receive Capital

While prioritizing sustainability can be a great way to build brand equity, investors also know that stricter carbon emission goals and regulations are quickly approaching. As Net Zero goals spread across the country this year, investors are looking ahead to make sure their investments are going to meet ESG goals and avoid heavy penalties.

Not only that, but they also now recognize that a sustainable building is a more valuable building. It's no longer a trade-secret that reducing your carbon footprint also leads to a reduction of operating expenses and an increase in NOI and, subsequently, asset value. Investors recognize that if they're investing in portfolios that have sustainable buildings, they're investing in buildings that can provide them with a greater return.



*“Most large institutional investors are focused on partnering with real estate managers that implement sustainable initiatives across their investment program and make ESG a priority throughout their business.”*

— **Nick Bienstock**, Managing Partner at Savanna

### How Companies Are Reacting

Creating a comprehensive ESG plan for your business will be an absolute necessity this upcoming year. For example, Savanna Fund created their ESG policy in 2020 to help promote sustainability across its portfolio assets. “Most large institutional investors are focused on partnering with real estate managers that implement sustainable initiatives across their investment program and make ESG a priority throughout their business,” said Nick Bienstock, Managing Partner at Savanna.

If receiving capital is a significant part of your business strategy in 2022, here's our recommendation: Create and implement a decarbonization plan as soon as possible, and be prepared to show proof of your efforts through reporting from your sustainability intelligence platform or highly-regarded third party reporting, such as GRESB, to your investors when they ask for it.

# Prediction 3

## COVID Profoundly Changed Building Operations & It's Only Becoming More Complex

When COVID hit in 2020, building operations unprecedentedly and fundamentally changed as occupancy fluctuated and tenants suddenly demanded what was once more of an afterthought: healthier buildings.

With highly unpredictable waves of COVID-19 strains continuing to impact the way businesses operate, including varying occupancy rates, this new standard of complexity and volatility in building operations has the potential to continuously and seriously impact the bottom line for those who are not responding strategically.

### New Demands of the New World

Already shown in the early months of 2022, not only are occupancy rates still unpredictable, but tenants are continuing to rethink how much space they need to house their employees. The growing demand of flexible and remote-work options that workers have placed upon their employers has brought a new

demand, and systemic pressure, to the CRE industry, too – tenants are rethinking their need for the large spaces they have long occupied.

With a lost or downsized lease resulting in a major hit to the bottom line and a newfound unpredictability in future revenue, it's become more important than ever to more tightly control asset-specific operating expenses. However, in 2022, that's going to be easier said than done.

Why? To start, occupancy patterns are no longer as predictable as they were in the past. According to Haniel Lynn, CEO of Kastle Systems, "Based on access patterns of Kastle clients in over 2000 buildings nationwide tracked since the beginning of the pandemic, it seems likely that occupancy will continue to vary by region, generally [. . .] climbing more slowly in denser cities, like New York or San Francisco "

Adding yet another layer of complexity, when tenants are returning to the office, they're bringing new demands along with them. A "healthy" building with fresher air quality is now seen as a dealbreaker for tenants; however, to obtain healthier, fresher



## Prediction 3 Continued:

### COVID Changed Building Operations & It's Only Becoming More Complex

air requires a building to circulate the air from the outside more often. This also becomes increasingly more difficult to do when unpredictable occupancy rates are factored in – for a building engineer to meet tenant demands when they don't know when or where those tenants will be in the building can often prove to be a losing game.

However, there's more at risk here than tenant comfort and healthier air quality. To accomplish all of this places a significantly higher demand of energy on the building, resulting in spikes in utility costs, greater risk of hitting costly new energy peaks, and setbacks to progress for initiatives to reduce carbon emissions.

Without access to data insights that will effectively aid engineers in navigating these changes, managing ongoing operating costs, tenant comfort, and carbon emissions will only become increasingly complex, challenging, and costly.



*"It seems likely that occupancy will continue to vary by region [. . .] the overall trend has generally proven to be one of small steady incremental gains week over week, which is likely to continue throughout 2022."*

— **Haniel Lynn**, CEO of Kastle Systems

### Protecting Your ESG Goals and Your Bottom Line

This next year will call for CRE leaders to rely on machine learning and other data-driven technology to help minimize the impact of fluctuations in occupancy rates and growing demands of tenants. Unexpected energy peaks that can cost tens of thousands of dollars each month, overextended HVAC usage when it is not needed, and compromised tenant comfort are all consequences of a building that cannot keep up with these ongoing changes.

Costs aside, toeing the line of increasing building health while remaining laser-focused on meeting decarbonization goals is nearly impossible without the aid of sustainability-focused data tools that can identify opportunities for energy reduction without compromising on the demands of your tenants at the same time.

Buildings that are using data-driven software to predict and protect the health of your buildings will navigate these changes with minimal impact, ensuring that your portfolio can adapt to volatile occupancy and avoid the costly effects of being behind the times.

# Prediction 4

## Data Will Become the Backbone of Building Decarbonization

While there are many methods that help reduce the carbon impact of commercial buildings, some methods have proven more effective than others when it comes to making decarbonization a smart business decision for your bottom line, too.

What's leading to some methods coming out on top, while others fall to the wayside? One word: Data.

### Decarbonization's New Backbone

Buildings process thousands of data every single minute – yet 90% of data isn't even stored. And, until recently, the operations of buildings have typically been managed simply by human judgment and pieces of paper, leaving crucial data points that could make significant strides in energy and cost reduction behind.

Without putting this data to work, reaching reduction goals in carbon emissions is like swimming upstream. You'll still likely be able to make progress, but it'll be slow, expensive, and, eventually, you'll drown when those inefficient methods stop working.

"As the commercial real estate industry carves a path towards decarbonization, data is proving to be a valuable asset to better understand how buildings perform and where investments in infrastructure need to be made to expedite decarbonization goals," said Don Kasper, VP of Customer Success at Cortex. "Data is a rich resource of insights that is allowing innovation and progress at scale in commercial buildings."

By using the data buildings are already collecting and combining it with additional data points that impact your building's operations, such as weather data, you're optimizing your current assets, creating a leverageable carbon-saving system, and saving money along the way. Data is already the backbone of your buildings. Software just flips the switch that puts that data to work.



*"Data is proving to be a valuable asset to better understand how buildings perform and where investments in infrastructure need to be made to expedite decarbonization goals."*

—**Don Kasper**, VP of Customer Success at Cortex Sustainability Intelligence

## Prediction 4 Continued: Data Will Become the Backbone of Building Decarbonization

### The New Key to Unlocking Asset Value

“CRE owners and operators will increasingly need sustainability intelligence platforms to help them squeeze carbon emissions out of their asset base,” said Jim Kapsis, Founder of The Ad Hoc Group, Inc. “These companies will give them the tools to [reduce emissions], while also saving money on energy and compliance costs. [It’s] a win-win-win for their tenants, their balance sheets, and the climate.”

It’s a win for asset value, too. Savanna Fund is an excellent example of an organization putting data to work. After implementing our sustainability intelligence machine learning platform in just one building, they were able to save a whopping \$250,000 in operating costs, resulting in an increase of \$5 million in value for that particular asset.

While equipment upgrades are inevitable, utilizing data allows you to get the most out of what you already have, leading to quicker carbon reductions and the ability to recognize payback for your investments faster without any disruptions to your business operations. As Kapsis says, win-win-win.

***“[It’s] a win-win-win for their tenants, their balance sheets, and the climate.”***

***— Jim Kapsis,  
Founder of The Ad Hoc Group, Inc***



# *Are You Prepared for What's Coming in 2022?*

Now that you know what to expect of the sustainability in commercial real estate in 2022, do you feel prepared?

Our sustainability tech team is here to help commercial real estate leaders prepare for the ESG goals of this year and beyond.

Learn more about the fastest and lowest-cost path towards the decarbonization of your office buildings through a custom decarbonization plan for your portfolio from the CRE sustainability experts at Cortex Sustainability Intelligence today.



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