June 23, 2015

Jean Rogers, PhD, PE
CEO
Sustainability Accounting Standards Board (SASB)
75 Broadway
Suite 202
San Francisco, CA 94111

Dear Dr. Rogers:

The undersigned organizations and companies are involved in every aspect of real estate ownership, development, management, services, and brokerage, spanning all asset types of income-producing properties. In the United States and abroad, we represent billions of square feet of health care, industrial, office, retail, storage, and mixed-use properties; millions of residential and apartment units; and millions of hotel rooms.

Our industry has been the subject of numerous third-party efforts to define and direct sustainability-related investments and practices. We have created our own successes in developing and implementing replicable, cost-feasible corporate programs to meet the demands of building tenants, occupants, and investors. We have taken very seriously the opportunity to provide input to SASB, and many of our members and organizations have registered for the Infrastructure Working Group ("IWG") to develop sustainability standards for Real Estate Owners, Developers, and Investment Trusts, and Real Estate Services (the "Standards"). To this end, we engaged early with SASB. We are disappointed that our early engagement has not meaningfully shaped the direction of the "Research Briefs" and "Surveys" provided to IWG registrants.

Many of the respondents represented below will complete the current Surveys – but must do so with strong reservations. We thus write to express our collective and significant concerns regarding the Research Briefs and Surveys. While your staff has stated it is still early in the process to develop the Standards at issue, our companies and organizations are highly concerned that SASB's starting point fails to understand fully and accurately the ESG programs to which our industry is accustomed and in which many of us have participated, why companies may choose to implement certain sustainability projects and programs over others, and the direction in which our industry is headed on the subject.

In our continued spirit of dialogue, we appreciate this opportunity to provide high-level comments regarding the Industry Briefs and Surveys, as follows:

- **SASB's research and surveys do not track the direction in which the real estate industry is headed.**

SASB's research and questioning are selective. The bibliography of the Research Briefs is filled with cites from specific perspectives, and fails to meaningfully reflect more recent trends and developments in sustainability platforms of importance to the U.S. real estate industry. For example, while the Research Briefs make only passing reference to the "Tenant Star" bill that passed Congress this spring, they are devoid of substantive analysis on the programs that real estate ownership and services companies increasingly implement to engage with their tenants. And, the Surveys fail to include any questions to gather basic information on tenant engagement programs. Tenants consume more than 50% of all energy in office buildings, and a greater majority in retail and residential properties. As a result, the "Tenant Star" legislation addresses a gap in the current ENERGY STAR building labeling program – which currently places the entire performance burden on ownership – and would instead recognize tenants as they design, construct, and operate within their leased spaces. The importance of tenant engagement is driving sustainability programs in the real estate sector (and policy in Congress and the Administration), so we are disappointed this issue did not receive significant attention in SASB's research to date.

Rather, SASB appears preoccupied with select ratings, LEED ratings in particular. SASB's particular research focus on LEED would unwittingly emphasize labels for new construction (LEED's primary market) versus existing building operations. New construction, however, is virtually always more expensive than existing building retrofits, generally commands the highest rents, and consumes the most raw materials. Thus, the data utilized by SASB to state in its Briefs that LEED-rated assets achieve higher revenues and sale prices is necessarily skewed because new buildings – that is, LEED's primary market – inherently rent and sell for more than older buildings in any event. Secondly, the vast majority of all buildings which will be in place in 2050 in the developed world already exist. Thus, we are highly concerned that SASB is de-emphasizing those assets where strides in sustainability can be the greatest – namely, the existing buildings stock.

Data (not cited by SASB) released by the 2012 Commercial Building Energy Consumption Survey bear out this salient point. Of the U.S. commercial building stock, 82 percent was built before the year 2000. Only 5.45 percent of buildings were constructed during the recessionary years of 2008 – 2012.[1] By over emphasizing research on LEED – which has primarily seen uptake in new construction – SASB is on a course to develop sustainability principles for real estate that give short shrift to the vast market of existing buildings.

The real estate industry is interested in an investment and return orientation to

[1] See http://www.eia.gov/consumption/commercial/data/2012/#b3.

sustainability. No longer is the focus simply on collecting "points," but also considers the nature of the investment we are making, the return we are getting, how much of that return is economic and quantifiable, and how much is less-tangible impact reduction. The metrics on which SASB has focused thus far are short on measuring and quantifying investment and return on economics, environmental performance, and impact reduction.

- **The decision to obtain a building sustainability rating based on the most cited metrics in SASB's brief – assuming one may even be obtained for a given asset – is complex and nuanced.**

The Research Briefs and Surveys convey (to us) an impression that simply counting the number of real estate assets "labeled" under a rating system – such as LEED or ENERGY STAR – fully and fairly measures a company's commitment to ESG principles. This is misleading for a variety of reasons.

While many companies strive to recognize their buildings under labeling programs, a variety of factors may render such ratings infeasible or cost ineffective. For example, highly energy intensive tenant uses (like data centers, television studios, or trading floors) may make it impossible for a building to obtain an ENERGY STAR rating – even though the owner has taken significant steps to manage the asset for optimal energy performance. Similarly, an existing building awarded an ENERGY STAR label automatically achieves prerequisites under many LEED rating systems – but an owner may forego LEED recognition because the significant added costs of certification do not make sense from a marketing perspective, or because available "points" are not based on quantifiable metrics to objectively indicate improved energy performance.

Also, the fragmented and localized nature of U.S. real estate markets causes wide geographic variations in demands for labels like ENERGY STAR and LEED. Prime locations in urban "gateway" markets – among the first to lead our industry out of the recession and where demand for "Class A" office space by high-quality tenants is high – have greater concentrations of labeled buildings. Owners of buildings in secondary and tertiary markets (where unemployment is higher, rents are lower, and leases have shorter terms) may not absorb the extra costs associated with building certifications, because tenants seeking "Class B" or "Class C" office space do not demand such ratings. Moreover, real estate markets with regulations that impose ENERGY STAR or LEED requirements (or that offer tax and other incentives to encourage them) will logically have a higher number of rated buildings. Yet, the Surveys simply ask questions based on the "number" of labeled assets and their square footage. SASB does not inquire into the underlying reasons as to why owners and asset managers may decide to pursue – or not pursue – building ratings.

As introduced earlier, insofar as LEED and commercial real estate are concerned, the U.S. Green Building Council's statistics reveal that the vast majority of its rated buildings enter the market with New Construction ("NC") certification. A LEED NC certification is no guarantee to ensure sustainable operations going forward. Only a tiny percentage of NC buildings subsequently obtain a rating under the Existing Buildings: Operations and Maintenance ("EBOM") system. In fact, USGBC has convened a commercial real estate "user group" to consider issues such as improving the number of NC buildings that may proceed to existing building recognition; extending the LEED brand through a "plaque" that some of us fear may diminish the considerable efforts and expenses to obtain a full-blown LEED EBOM rating; improving LEED's penetration into second tier markets; and developing system "adaptations" because certain building types have been unable to gain significant footing to date under LEED's various rating platforms. SASB's Issues Briefs and Surveys do not contemplate the impediments – recognized by USGBC itself – that might render LEED certification impractical for certain buildings.

Rather than driving respondents to count the number of rated buildings in their portfolios, we recommend Surveys geared to gather information on the underlying sustainability criteria that are hallmarks for responsible real estate management. For instance, the Surveys could appropriately ask the following:

- Does your company have a sustainability policy? What components are included in any such policy? Does your company produce a report on your corporate sustainability programs and initiatives? If yes, please send us a copy.
- What aspects of your corporate sustainability policies are driven by government regulation? Which are voluntary? What aspects are supported by government incentives, such as tax, financing, and similar monetary incentives?
- Do you have any programs to engage tenants on sustainability matters? If yes, please describe them and send appropriate materials. What percentage of your tenants pay for electricity and water usage, as opposed to including these costs in rent payments?
- For commercial landlords and brokers, do you negotiate "green lease" clauses with your tenants? Do tenants resist them? Describe some of the sustainability-related clauses that you have successfully negotiated in lease agreements with tenants. Are you recognized as a U.S. Department of Energy "Green Lease Leader"?
- Does your company have assets labeled under a sustainability rating program? Which ones? How do you decide which labeling programs to pursue or not? Do you obtain ratings for new construction, existing buildings, or both? For which types or categories of buildings in your portfolios do you obtain ratings? Are ratings unavailable or infeasible for certain asset types?
- Describe how energy efficiency is integrated into property operating policies and procedures. Does your company benchmark using EPA's Portfolio

Manager tool? Across your entire, or only a portion of, your portfolio? What impediments do you confront in implementing your company's energy usage benchmarking policies?

- Does your company engage in any programs to offset or otherwise mitigate greenhouse gas emissions?
- Does your company have a waste management policy? Do you recycle tenant waste, tenant construction debris, and/or electronics? Do you work with your vendors to benchmark and track wastes? What kinds of wastes? Does your company utilize recycled content for paper products, carpeting, and/or building materials? Do you specify low off-gassing paints, wall coverings, and/or adhesives for tenant work? Do you use green cleaning and pest control products?
- Does your company measure water use in buildings? For indoor use, outdoor use, or both? Do you landscape with native plants?
- If your company develops property, what sustainable site management techniques are implemented? How does your company mitigate impacts to natural resources affected by the land development and entitlement process? What amenities may your company provide to the community attendant to the project development approval process?

The list above is offered as illustrative, not exhaustive. We submit that our industry would more enthusiastically greet research briefs and survey instruments from SASB that addressed issues and included questioning along these lines.

- **SASB's background research and surveys fail to consider barriers beyond the control of real estate owners, developers, and service providers that frequently inhibit greater uptake in corporate sustainability projects.**

Real estate owners, developers, and service providers play a significant role in shaping the sustainability profiles of individual assets, portfolios, and corporate reputations. But the complex, multi-use structures in our nation's growth centers are dynamic environments in their own right that react to and engage with a variety of audiences. Behaviors of tenants, policies of utilities and public service commissions, and overall market forces vastly shape the environmental footprint of commercial and residential assets – and are frequently outside of the control of real estate companies and their sustainability teams.

Going forward, SASB's standards development process should thoroughly consider the barriers that make it difficult for the real estate sector to institute ESG projects – because they have not been addressed to date in the Research Briefs or Surveys. For example:

- A commercial or multifamily asset can be built with state-of-the-art central systems, or retrofitted with the latest efficiency technologies, but still not achieve optimal energy savings as originally anticipated from the building design phase. One reason for this mismatch is that spaces leased by tenants may be "over built" at the time of new "fit-outs" to provide more power capacity than a business needs, or because the operational behaviors of building occupants may unnecessarily waste energy. Indeed, this is the foundation of the movement to the new legislation authorizing "Tenant Star" and the tracking of energy consumption by tenants. Also, because of state law privacy and related concerns, owners and managers of multi-tenant buildings frequently face major obstacles in gathering energy usage data to enable "whole-building" benchmarking. Varying policies of utilities and public service commissions may – or may not – assist in capturing such data. Without the full picture of tenant energy consumption, owners and managers are unable to completely identify performance issues in buildings, undertake management actions and cost effective improvements, track energy use over time, and set performance goals. SASB's Research Briefs and Surveys fail to acknowledge the difficulties faced by owners of multi-tenant assets to collect and aggregate consumption data throughout their entire structures. SASB should inquire about this significant barrier and explore how respondents may develop measures to overcome it.

- The Research Briefs and Surveys endeavor to collect information on the use of renewable and on-site energy generation applications in buildings. We agree this is a fruitful area for SASB's consideration. However, documents provided thus far to IWG participants fail to consider that real estate companies typically have tight margins to make renewable energy projects economically viable. In this regard, utility "standby" tariff rates can be the "make or break" factor as to the implementation of on-site generation. Appropriate areas of study and inquiry from SASB should better gauge our industry's perspectives on the economic benefits of onsite generation, and the need for utility policies regarding rate design to better monetize the value that distributed generation customers can bring to the centralized power grid.

- SASB extols land development in urban and infill areas that promote transit-oriented development (TOD); references trends in "micro-apartments" by citing projects in Boston and New York City; assumes that employees spend growing amounts of time at work requiring smaller living spaces at home; while a burgeoning workforce of freelancers and independent contractors with flexible schedules telecommute from home and diminish demands for centralized office spaces. With respect, we believe SASB's treatment of how real estate firms manage "environmental and socioeconomic impacts of properties" is overly simple. It ignores key considerations as follows:
  - ✓ The challenges posed by redeveloping and financing infill properties that may have prior contamination and require remediation pursuant to complex brownfields laws and state voluntary clean-up programs;

- ✓ The costs and availability of urban land sites, especially in areas with designated urban growth boundaries, and difficulties in assembling parcels for infill development in light of eminent domain requirements and constitutional interpretations under Supreme Court case law;
- ✓ Whether state and local laws have systems in place to encourage higher density developments appropriate in urban environments (such as transferrable development rights programs), and the costs to participate in such programs;
- ✓ Trends of middle class families that seek suburban lifestyles in light of higher housing and education costs in cities;
- ✓ Trends of single professionals, families without children, and "empty nesters" that have higher incomes to support city living;
- ✓ The dire status of infrastructure financing in the United States, where the federal fund to support surface transportation programs – including mass transit – is perpetually on the brink of insolvency due to political infighting in Congress; and
- ✓ Tensions between encouraging development in cities and parcels falling within low-lying flood zones – especially where floodplain maps administered by FEMA have a troubling history of inaccuracy.

None of the items listed above are addressed by SASB in the materials provided to IWG participants, under its sections considering the "environmental and socioeconomic impacts of properties." For a thorough examination of how real estate owners, service provides, and developers navigate this critical issue, we urge SASB to conduct further research along the lines listed above.

- **SASB should consult other sustainability reporting platforms and surveys already on the market and implemented by many IWG participants.**

SASB should carefully consider other survey instruments that are already completed by IWG participants at regular intervals. Many of the real estate companies listed below have committed substantial time and resources to improve and respond to questionnaires offered by other third party groups to "measure" and "rate" the ESG performance of our assets and corporations. Considering our efforts to improve related sustainability surveys, we hope you understand that there is considerable fatigue in the marketplace as we confront yet another round of questions from SASB.

Accordingly, we urge SASB to carefully consider the questionnaires, surveys, and other information-gathering efforts administered by platforms such as the Global Real Estate Sustainability Benchmark (GRESB); the G4 Sustainability Reporting guidelines of the Global Reporting Initiative (GRI); the Commercial Building Energy Consumption Survey (CBECS) of the U.S. Energy Information Administration; the Carbon Disclosure Project (CDP); the Investor Confidence Project (ICP) of the

Environmental Defense Fund (EDF); and the Urban Land Institute (ULI)/Greenprint Center for Building Performance. These programs already cover much of the same ground as SASB's Research Briefs and Surveys. At varying levels, they are all designed to encourage transparency and promote standards for real estate companies to take action to protect their investors from risks associated with energy and environmental externalities. As SASB now seeks to carve out its own space in this already crowded arena, we would greatly appreciate assurances that SASB is coordinating with these other groups in conducting your own research and developing your own questionnaires.

SASB must consider the costs of all these programs and recognize that many of them inherently deal only with the highest economic tranche of property owner and tenant. If SASB truly wishes to understand the potential for sustainability reporting in real estate, it needs to consult these and other reporting mechanisms. With respect, we believe SASB should have done a better job to coordinate with our organizations in their initial preparation of the Research Briefs and Surveys to gain a better understanding of the reporting platforms we already use in the sustainability arena.

- **The "business case" must be made to justify cost-effective sustainability programs.**

Finally, nothing in the Issues Brief discusses the need for sustainability professionals in our sector to make "the business case" for ESG platforms. No questions in either Survey ask about costs, cost-effectiveness, or cost payback relevant to the disclosure topics assessed by SASB. Nowhere does SASB inquire about the processes and calculations that corporate sustainability officers routinely undertake to prioritize projects among competing demands on limited budgets.

We submit these are glaring omissions in SASB's materials to date. The "total mix" of information that is "material" to a real estate investor (in the ambit of the *TSC Industries* case) must contemplate the cost of ESG projects. Our investors and shareholders do not demand ESG projects at any cost, or without regard to cost. Sustainability programs in the real estate sector can be expensive and difficult to finance. They must be undertaken in a manner that avoids disrupting the lives and livelihoods of the businesses and customers who own and occupy buildings. They must be grounded in business fundamentals that assess returns on investment, net present value, and internal rates of return. We must use these metrics to evaluate the cost effectiveness and profitability of any capital expenditures – including sustainability projects – to serve the market demands of tenants, investors, and other customers. We must marshal a compelling economic justification for investments in system sophistication, controls, data analytics, and human resources to warrant implementation of our companies' myriad sustainability measures.

In short, we believe it is critical that SASB's Research Briefs and Surveys should be revised to consider the "business case" that real estate companies must make to their boards and investors to justify ESG commitments.

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In conclusion, we have appreciated the accessibility you have afforded to us in explaining SASB's mission and objectives via meetings, conference calls, and other communications over these past months. We look forward to continuing the process to increase your understanding of the real estate ownership and services sector. As SASB continues to develop sustainability reporting principles relevant to our industry, we strongly encourage and would greatly appreciate your careful consideration of these comments – as we believe they must factor into the "total mix" of information that our investors consider "material" information.

Duane J. Desiderio, Senior Vice President and Counsel of The Real Estate Roundtable (ddesiderio@rer.org) is the point of contact for this letter. Please do not hesitate to connect with him if you have further questions.

Cc: Ms. Elizabeth Singleton
Director, Advisory Groups
SASB

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