How to get UTILITY DATA from tenants

As the real estate industry searches for solutions to meet net zero goals, greater participation needs to come from a key player — the tenant. A significant amount of energy consumption in buildings — 65% to 70% — is driven by tenants. Landlords and owners need greater partnership and engagement with tenants for carbon emission reduction strategies to succeed.

NAREIM speaks with **Michael Daschle** *of Brookfield Properties and* **Lisa Stanley** *of OSCRE International about how collecting utilities data from tenants can be a benefit for them and for the greater good, and why the industry needs to come together in the sharing of data to better inform decision-making.*

Michael Daschle is SVP of Sustainability for Brookfield Properties, running the ESG strategy for the New York City office and national renewable energy procurement strategy for the US.

Lisa Stanley is the CEO of OSCRE International, a nonprofit corporate member organization focused on development and implementation of real estate data standards.

What are the key goals for Brookfield when you look to ESG when it comes to utilities?

Michael Daschle, Brookfield Properties: On the 'E' front, we think of it as mitigating our impact on the environment from the operations of our buildings and achieving our decarbonization goals. We joined the Net Zero Asset Managers Initiative in 2021 and, by joining, Brookfield Asset Management committed to achieving net zero carbon by 2050 or sooner, in alignment with the Paris Climate Accord targets of reducing temperature increase below 1.5 degrees Celsius.

Within Brookfield Properties specifically, we are targeting, by 2030, a 50% absolute reduction in emissions relative to a 2019 baseline. That covers Scopes 1, 2 and 3. We are making sure that every property has a decarbonization path aligned with that goal.

Getting to a 50% net zero reduction by 2030, especially for Scope 1 and 2 in seven years, is challenging. What are the milestones to get to that 50%?

MD: We have a prioritized hierarchy of approaches throughout this strategy. First and foremost are energy conservation and efficiency measures at the properties themselves. The second part of the conservation and consumption side is partnering with tenants to make sure that they are also working on that same effort. There is both an education and a data sharing component; so much of that is critically important, because tenants drive 65% to 70% of the energy consumption in our properties. If we want to reduce the amount we are consuming, we have to have their buy-in and participation.

Step two for the properties, wherever applicable, is to do onsite renewable energy installations. Some markets are easier than others. For example, our office properties in Washington, DC and many of our retail and logistics properties across the US have already started installing solar on rooftops.

It is more challenging to do onsite renewable installations in New York. Instead, we take advantage of a transaction method that is available in New York where you can directly contract with a renewable energy provider as a retail consumer. Our first deal to make use of this transaction structure was for One Manhattan West, one of our new flagship office properties in Manhattan. We signed a five-year agreement with Brookfield Renewable — an affiliate company within Brookfield Asset Management — to purchase 100% of the property's electricity requirements from in-state hydropower facilities. Because of the renewable power source, we reduced the building's carbon emissions associated with electricity to zero, and the whole building reduced its overall carbon emissions by over 80%.

We intend to replicate this strategy throughout the properties in our portfolio where we can do direct contracts. We prefer having contracts tied to specific generating facilities, and ideally we can have 24/7 coverage of renewable supply relative to our consumption at that particular property.

Lisa, 65% to 70% of an entire building's energy use is down to its tenants. We need to do better and get better at data sharing and data collection. What is OSCRE trying to do and solve for?

Lisa Stanley, OSCRE International: Coming out of the pandemic, the public had a growing awareness of ESG and real estate's impact on humans and the environment. There is a compelling need for building owners, occupiers and investors in real estate to more actively communicate with each other, to share data, and to get to the point where there is an increased awareness of the need for data standards in the industry that enables data exchange across platforms. We at OSCRE view ourselves as the convener not the controller of the conversation. Our Environmental Data Standards Project involves a variety of participants from the investment management side, as well as corporate owners, occupiers and external business partners to find common ground.

GETTING TENANT DATA

Do tenants understand how they are using energy or what energy they are using? And what challenge does that pose for an investment manager?

MD: The market is not consistent in terms of what is submetered and what the landlord is actually able to see. In New York, we are fortunate that the market standard is every floor within an office space is submetered.

Being able to see usage patterns across floors is great from a billing perspective, but where it gets more challenging is being able to communicate to a tenant and go beyond being able to say, "You use this much energy month over month." Can we attribute electricity consumption to specific building systems? Can we tie it to certain times of use and correlate with

occupancy, with seasonality? These types of insights come from a layer of intelligence on top of the raw data. That is one piece of it.

The other piece is from the grid side. We have outdated data from the grid in terms of the real-time energy mix of our electricity. In New York, for example, if you were to use two-year-old data, that data precedes the closure of Indian Point, which is one of the nuclear facilities in New York that provided a significant amount of emissions-free power to the New York grid. So already you are not relying on accurate data for your emissions calculations.

We like to partner with software companies that contract with service providers that are able to access the grid mix more accurately on a 24/7 basis, to inform our usage and our tenants' usage.

If you are able to get data from tenants, it adds depth to your analysis. What are the benefits for tenants, and, on the flip side, what is the pushback?

MD: There are two primary benefits. One is cost savings. For office, we built a tool where we can take tenant electricity consumption data and break it out by location, down to how much electricity is used on each floor. Using this data, we can benchmark any tenant's usage relative to other tenants in that property, and even to other similar tenants throughout our portfolio. We can rank the highest aggregate electricity users throughout each property and cross reference that with the highest intensity users at that property. And that allows us to target the top energy consumers at that property and start a discussion with them. We can show them the data and discuss ways of reducing usage and saving on costs.

The second side of it is we help our tenants achieve their own ESG and sustainability-related goals. Many of the sophisticated ones have known for a long time that their occupancy of these office buildings is driving their own emissions. In this case, those would be the tenant Scope 2 emissions which will filter through to their own ESG and SEC reporting, and their own greenhouse gas emissions reduction targets. We are able to help them achieve their targets through better data and better clarity of those usage patterns over time.

The resistance we are getting is from tenants who are less sensitive about the impact of the reductions they are able to achieve on the utilities line item within their office space budget. Relative to their overall corporate budget, a lease or occupancy expense may be a small percentage. The utilities line item of that occupancy cost is not necessarily going to swing the needle for their overall cost, so they may not be as motivated to potentially disrupt their space for a modest amount of savings.

On the emissions reporting and sustainability goals side, where we often run into resistance is one of varying degrees of sophistication on the tenant side. In some cases, tenants are so far ahead that they have actually already bought energy credits and have no interest in paying extra for renewable electricity we are going to buy.

Please define Scope 1, 2 and 3 carbon emissions. Why is it critical to get all of the data?

Michael Daschle: Scope 1 is onsite combustion of fossil fuels — natural gas boilers, fuel oil used for heating, etc. Some companies also have vehicle fleets that would be included within that category. Scope 2 is indirect emissions — emissions associated with purchased electricity and steam. From our perspective, that would be utility grid electricity, the energy we are buying directly from renewable providers and the district steam that we are using primarily for heating in our properties. Scope 3 is all indirect emissions that we do not have direct control over. We are categorizing tenant emissions as Scope 3 throughout our portfolio, and that includes emissions associated with supply chain as well, such as materials that we are purchasing and the indirect emissions associated with waste hauling and vehicle travel.

CHALLENGES IN COLLECTING TENANT DATA

What challenges are you facing in collecting data?

MD: We are giving our tenants data about consumption that is associated with their utility billing. What is missing, and what is continuing to be missing from that conversation, is how a tenant is using electricity within their space. One of the things we have done to study usage is setting up a digital twin, where we started mapping every single piece of equipment as a traceable asset within the digital twin. That is a very challenging thing to set up from the start, because you have to convince them to share information they previously have never been incentivized to do.

LS: It is a new level of data sharing and coordination that is needed. From OSCRE's perspective, we recognize that there is a need for tenant data to be able to be shared across the entire asset life cycle. As we look at this sharing of data, the tenants

need it because increasingly they have to include this information in their annual report, and SEC reporting requirements for public companies will be released soon.

The second part of it is the growing awareness of the impact that real estate has on the environment. Real estate is the leading economic indicator in most developed countries, from construction through real estate activity in the marketplace. Bringing people together in a platform-agnostic approach is compelling to exchange data and to then use it to inform decisions. It is not advocating on the part of any particular software platform or vendor, but rather, let us focus on the terms, definitions and interoperability that can enable organizations to become better corporate stewards of the environment.

The goal of OSCRE is to foster common ground between investment managers, building and property managers, and external vendors to exchange information needed to improve outcomes. As Michael said, data has been collected, but there has not been a significant attempt to improve accuracy, consistency and transparency of the data across platforms to inform decisions and achieve better outcomes.

How do we actually get the data?

MD: We have to have person-to-person engagement with the right people at the tenant level. We find from that level of engagement that we can learn how the space is actually used. One of the things that we have found is per the traditional lease, we owe during certain hours of business operations a specific amount of cooling and air to a space regardless of how many people are actually in it. We find out after some of these discussions that during that period where we are supposed to be providing heating or cooling and ventilation air, that there may be two people on the four floors that we are supposed to be providing this heat and air to. The tenant is paying for that.

Is there a way we can monitor in more real time who is actually using the space, and how they are using it? We are not going to get that usage insight unless we are engaging with the tenant and finding out how they are using it. The other piece is simple things like day lighting, automatic lighting, plug load management and energy-efficiency equipment.

The age of the tenant's build-out makes a huge difference. Updating older spaces can yield significant utility cost savings and the tenant can enhance the experience of every single person in the office. That is a win-win for both parties, because the landlord gets more efficient space and lease terms, and the tenant gets better quality and more energy-efficient space.

A PATHWAY TO ESG AND SUSTAINABILITY

Has there been a shift among tenants thinking about office space post-Covid-19?

MD: There is certainly a shift in how people are using their office space. We have seen many companies wanting to preserve the budgets that they have available for their space, but they are realizing that they are not using space as efficiently as they could be. So, they are trading up to a more energy efficient, higher class building to entice employees to come back to the office. Even though the space may be smaller, the tenants use it differently now that they may not need as much. It allows them to maintain the same budget and upgrade their experience.

Real estate owners are realizing that there is a huge benefit that can be gained by exceeding mandated reporting requirements. At Brookfield, we buy every property under the context of a net zero pathway. It is not required of us, but it is driving a massive impact — we are starting to get buy-in from other tenants and businesses who want to align with that. We have tenants who are selecting our properties because they are going to be renewably powered and so have a pathway within these properties to achieve their own ESG and sustainability goals.

LS: It is not an issue with easy answers. It involves a high level of corporate responsibility and the tone at the top of organizations is extremely important, whether you are talking about the tenant side, the owner side or the investment side. The commitment of resources is not just financial — it is the human capital and building the skill to match the will to become better stewards of the environment. That is where OSCRE can have a meaningful role going forward. ◆

The Environmental Data Standards Project as OSCRE continues to work collaboratively to design the digital future for real estate. We need leaders who will share perspectives on their challenges and cultivate solutions on one of the most critical challenges facing our industry today — better data to capture real estate's impact on the environment. Every real estate investment firm faces pressure to drive efficiency and environmental performance for all their stakeholders.