Insurance Industry Applying Most Pressure for CRE to Reduce Emissions

Climate change is a risk, and "companies are becoming concerned that large swaths of the US could be uninsurable in the future."

By Paul Bergeron

Technology, incentives and determination are key factors leading commercial real estate owners to reduce their carbon footprints, according to Eric Freed, a principal and director of sustainability for CannonDesign, one of the largest architecture firms in the world.

Freed's thoughts on the topic were captured in Monday's REITs Week report by BTIG.

Freed has spent more than 20 years in the sustainability industry, and in addition to being a practicing architect, he is an adjunct professor at the Boston Architectural College and esteemed book author.

His comments come the same month that KPMG released a survey that showed CEOs in the US are preparing for a recession that a majority believe will not be mild and short, and that in an uncertain economic environment, they are adjusting their business strategies around ESG.

According to a GlobeSt.com report, "They are committed to investing in transformational opportunities that will position their organizations for future growth. But in the case of ESG goals, while they said they are 'important,' 59% said they plan to pause or reconsider their organization's ESG efforts in the next six months as they adjust their strategy to prepare for a recession."

Five External Forces Pushing Sustainability

For landlords, Freed said the pressure to change comes primarily from five external forces including insurance companies, broader stakeholders/investors, government regulations, financial demands/regulations, and credit ratings agencies. In short, caring about sustainability is no longer a choice for owners.

He said there are four major areas for improvement. When thinking about existing buildings, technologies exist across the main energy pain points, including HVAC systems, water heating, lighting, and specialty. Importantly, the technologies to make meaningful improvements across all of these verticals already exist and are no longer experimental. Depending on the building and budget, existing tech can improve an energy footprint by up to 30%.

New legislation and regulations are going to provide meaningful incentives for owners to upgrade their portfolios, but also will lead to stricter penalties for landlords that cannot or will not make the new investment.

Insurance Companies Applying the Most Pressure

Freed said insurance companies are contributing the most pressure on companies to be more environmentally conscious. “In some cases, they provide pressure to move businesses away from fossil fuels due to added risk,” he said. “Several large European insurers have already come out and said if a business is ‘overextended’ in fossil fuels, they are uninsurable.

Domestically, insurance companies also provide an impetus to harden existing portfolios against extreme weather events, according to the report.

“Climate change is fundamentally a risk, and companies are becoming concerned that large swaths of the US could be uninsurable in the future,” according to Freed.

Freed said that shareholders and stakeholders, as a group, are “finally” demanding tangible action on steps and promises that companies have made in the past.

“They have started to file suit against companies that do not take climate risk/sustainability seriously enough, contending that the management teams are threatening their investments,” he said.

How Landlords Can Reduce Carbon Footprint

Freed said sustainability advances are happening due to technology enabling the measurement of the carbon footprint from “not just a building or portfolio, but specific actions within a building, is making it easier for owners to make improvements. Generally speaking, new technologies can reduce the energy footprint of a building by 30%.”

In real estate, Freed said that many tenants and landlords are interested in moving away from forced-air systems and that provides another impetus for upgrade.

“The good news is that all the new technologies to upgrade and make HVAC systems more efficient are no longer experimental,” he said. “They are tested, and in use in numerous types of properties around the country.”

Hot-water heating is another system ripe for improvement. It uses 10% to 20% of the building’s energy footprint.

“New technology and systems allow for efficiency beyond the systems that simply heat water and wait for it to be used,” Freed said.

Special Systems and Lighting as Opportunities

He also cited specialty systems such as elevators, escalators, and even vending machines as areas where landlords can improve their carbon footprint.

“Some of the biggest progress here has been through installing sensors to determine when the systems are in use,” he said. “Then they can install motors that lower energy consumption or shut during peak times.

New elevators that recapture energy through regenerative braking is another large savings.

Lighting (such as through LEDs) is another area where landlords can save tremendously in cost and reduce carbon emissions.