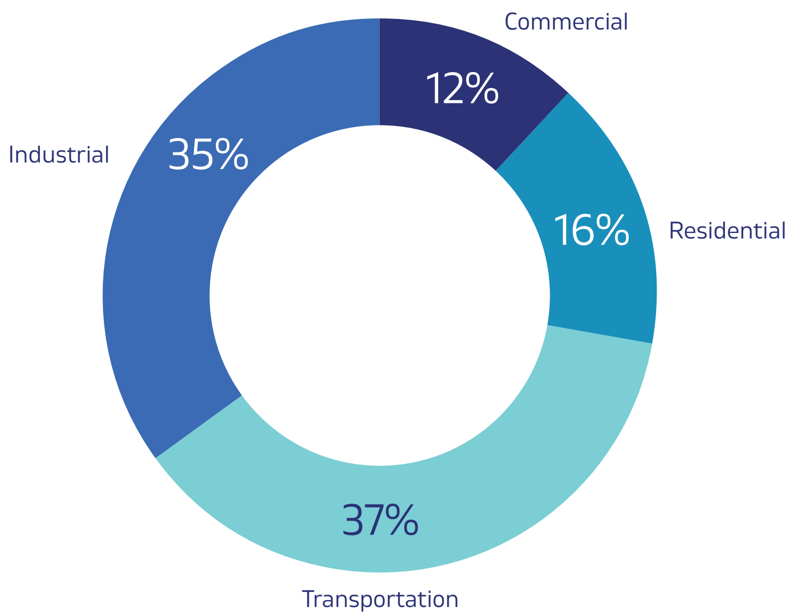
Energy & Climate

Reducing the built environment's carbon footprint is requisite to avoid, minimize, and mitigate the health, environmental, and economic risks posed by climate change. Federal data reports that the commercial and residential sectors account for 28% of all U.S. energy consumption, and are responsible for 13% of total direct U.S. GHG emissions.

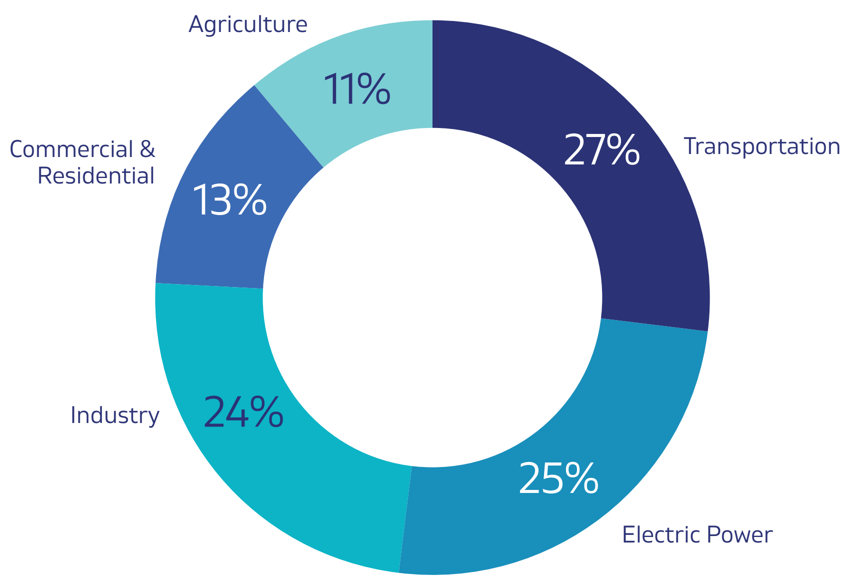
Thus, our industry plays a critical role in meeting climate goals that will secure a sustainable future.

Policies that promote cost-effective investments to optimize building energy efficiency, increase the nation's supply of renewables, and green the electric grid will help us achieve that vision.

U.S. Energy Consumption By Sector, 2021[21]



Total U.S. Greenhouse Gas Emissions By Economic Sector In 2020[22]



Clean Energy Tax Incentives

The *Inflation Reduction Act (IRA)*, signed into law by President Biden in August 2022, is a historic $370 billion investment to tackle the climate crisis. The legislation provides a suite of tax credits and deductions intended to leverage private sector capital in clean energy technologies—with overarching aims to reduce CO_2 emissions by roughly 40% by 2030 and achieve a net zero emissions economy by 2050.

The Roundtable has encouraged Congress for years to make clean energy tax incentives more usable for building owners, managers, and financiers—and more impactful to help meet national greenhouse gas (GHG) reduction goals. Congress included a number of our key recommendations in the *IRA*, reforming incentives relevant to U.S. real estate such as:

Section 179D
A deduction to help make commercial and multifamily buildings more energy efficient

Section 48
A credit to encourage investments in solar, power storage, dynamic glass, grid interconnections, and other "clean energy" technologies sited at buildings

Section 30C
A credit to incentivize the installation of EV charging stations

Section 45L
A credit to incentivize energy-efficient new residential construction, including multifamily

Notably, the *IRA* codified provisions supported by The Roundtable to create a market for companies to buy and sell some of these tax credits. Entities (such as REITs) that historically have lacked the appetite to benefit from credits for solar panels or EV charging stations now have the option to monetize these incentives by transferring them to non-related contractors, service providers, and tenants.

Since the *IRA*'s passage, The Roundtable has engaged in a deep analysis of the law and participated in numerous educational sessions to inform our industry on opportunities for tax incentives to defray the costs of expensive clean power projects. Our most up-to-date *IRA* fact sheets are found on our website www.rer.org/policy-issues/rer-policy-toolkits.

We have also engaged with federal agencies to encourage rapid and effective implementation of the *IRA*'s provisions. In November 2022, we submitted extensive comments to the IRS and Treasury urging them to clarify important questions to support real estate companies' compliance in claiming the various incentives. Further comments sent in December 2022 focused on the credit for EV charging stations, and a January 2023 letter to EPA urged the agency to implement IRA grant programs in a manner that creates consistent and harmonious GHG reduction rules on real estate. In addition, we have invited the Energy Department to educate our members on case studies explaining how the solar credit works with accelerated and bonus depreciation, and how to prepare "retrofit plans" to support claims for the 179D deduction in the context of existing building upgrades and conversions.

The Roundtable will continue to work with our members and partners in the public & private sectors to ensure that real estate businesses may take full advantage of *IRA* tax incentives and work towards a green, low-carbon future.

(L-R): RER SVP Duane Desiderio, RER Board Member and Sustainability Committee (SPAC) Chair Anthony Malkin (Empire State Realty Trust, Inc.), and RER SVP Ryan McCormick lead a discussion on how the IRA's "clean energy" tax incentives impact CRE investments.

Reporting on Climate Risks

In March 2022, the Securities and Exchange Commission (SEC) proposed a rule on climate-related disclosures that, if finalized, would merge financial reporting with environmental risk reporting in annual 10-Ks and other filings. The SEC's proposal would compel registered companies to measure and disclose their direct GHG emissions (Scope 1) and emissions attributable to electricity purchases (Scope 2). Most controversially, the SEC proposed that issuers must report on indirect Scope 3 emissions in their value chains "if material." The problem is that Scope 3 emissions sources are typically beyond the ability of a reporting company to control. For example, real estate companies frequently lack the data or ability to control "value chain" emissions attributable to their tenants in leased space operations, or emissions arising from the manufacture of products and materials they must procure to run their businesses and construct new projects.

Sen. Michael Bennet (D-CO) has played a key role in RER energy policy initiatives throughout the years, including the ENERGY STAR program.

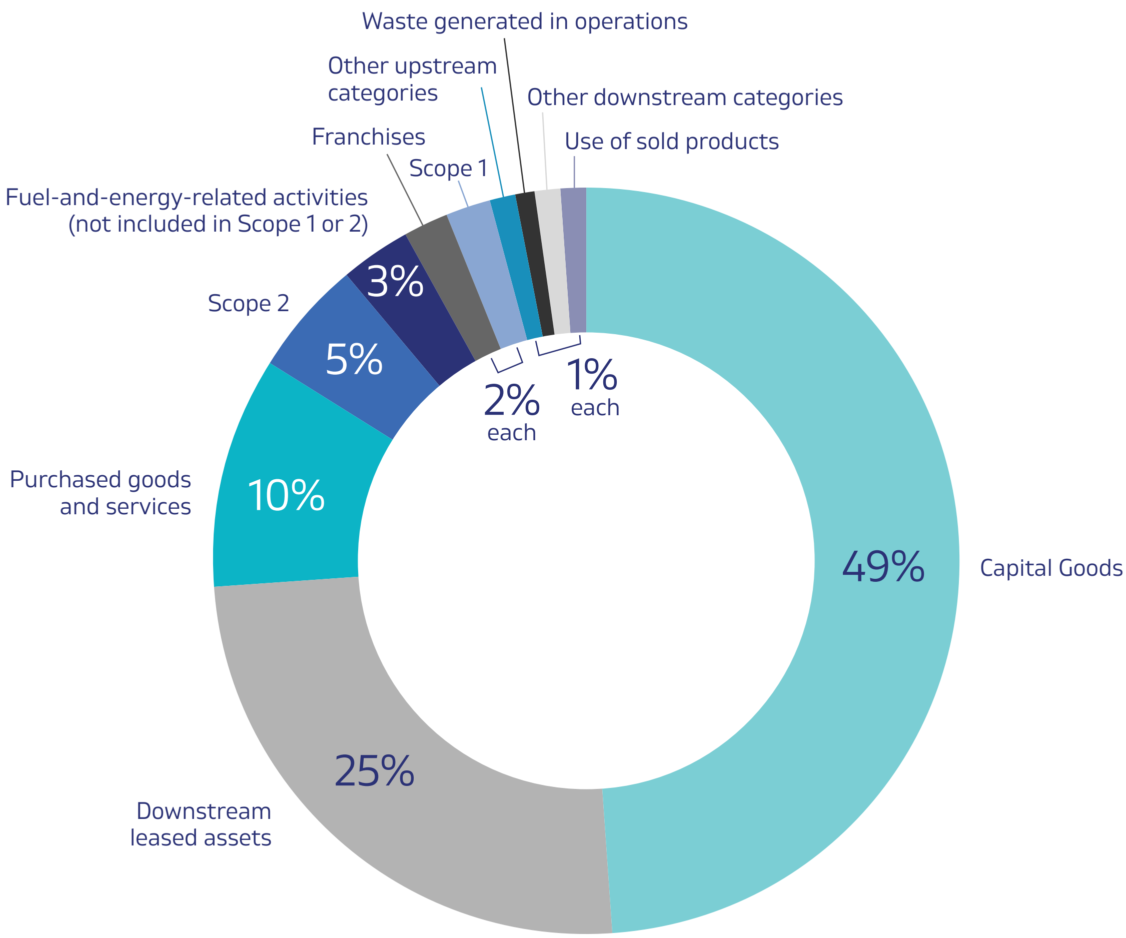
The overwhelming majority of real estate companies' emissions are from indirect Scope 3 sources in their supply chains—that they generally do not control.

In response, The Roundtable submitted comments to the SEC that highlighted the impracticalities and shortfalls of key aspects of the proposed rule.

Our comments stressed that:

- Registered companies should *not* be required to report on emissions from sources they do not own or control.
- There should be no Scope 3 reporting "mandate."
- The SEC should wait until a registrant has a full year of "actual" data before requiring emissions disclosures.
- The SEC should provide a "safe harbor," that insulates against liability for emissions calculated with U.S. government data and tools.
- Financial risks from severe weather events should be subject to "principles-based" reporting—as opposed to one-size-fits-all "prescriptive" rules.

Real Estate Sector Estimated Total Scope 1+2+3 Emissions[23]



The SEC received over 15,000 comments on the proposed rule from various stakeholders, including both Democratic and Republican Members of Congress. Earlier this year, Chair Gensler acknowledged that the "Scope 3" reporting rule practices are not "well-developed," and that "adjustments" to the proposed rule were likely. Several reports confirm Gensler's comments and explain the challenges real estate and other companies face to quantify indirect GHG emissions.

A final SEC rule is expected this year. The Roundtable will continue to advocate for fair and reasonable climate reporting on financial risks that real estate owners, managers, and developers can accurately quantify to benefit their investors.

Building Performance Standards

States, cities, and other localities are increasingly passing laws and ordinances that impose regulatory mandates known as Building Performance Standards (BPS) to reduce GHG emissions and energy consumption. BPS laws can require asset owners to pay for energy efficiency "retrofits," electrification projects, and install solar panels or other clean energy technologies. An owner could pay fines or penalties if they fail to meet mandated levels by a BPS's prescribed deadline.

More than 35 jurisdictions have joined the Biden administration's National BPS Coalition, committing to enact climate regulations on buildings by Earth Day 2024. Congress has never passed a federal-level BPS law on private buildings. As a result, a state and local patchwork of different regulations exists–complicating the compliance burden on real estate owners and managers with nationwide portfolios.

The Roundtable has consistently advocated for voluntary, standardized federal guidelines—like those released by the White House for federally-owned buildings—to harmonize the confusing system of local BPS laws.

Our Sustainability Policy Advisory Committee (SPAC) has collaborated with federal agencies for years to develop climate-related building standards that are attainable, cost-effective, and within a building owner's control to achieve. SPAC advocacy over the last year has:

- Informed and encouraged EPA's federal recommendations emphasizing on-site reductions of energy usage and direct GHG emissions in the context of BPS mandates;
- Advised EPA through January 2023 comments that IRA grant authorities should support technology solutions for utilities to provide aggregated "whole building" energy data to owners of multi-tenant assets;
- Served as an "ally" to support DOE's *Better Climate Challenge*—a voluntary "pledge" that includes Roundtable members as "partners" who have committed to reducing portfolio-wide scopes 1 and 2 emissions by at least 50% within 10 years.
- Urged U.S. EPA's ENERGY STAR program to provide federal-level tools for building owners to achieve state/local BPS compliance.

Voluntary EPA "NextGen" Label for Low-Carbon Buildings

2022 marked two decades of EPA's ENERGY STAR Commercial Buildings program.

30%

A retrospective report marking the anniversary of ENERGY STAR found that the overall stock of U.S. office buildings has become 30% more energy efficient since 2000.[24]

In February, the EPA opened a comment period for the proposed ENERGY STAR NextGen certification, a voluntary public-private partnership program that would recognize low-carbon buildings. ENERGY STAR NextGen will encourage the use of renewable energy, and the electrification of U.S. commercial and multifamily buildings by allowing companies to highlight buildings that go beyond top efficiency performance, and reduce their GHG emissions.

The Roundtable's SPAC formed a working group that delivered comments in March on EPA's NextGen. Our comments suggested refinements to NextGen, including:

- **Efficiency**
  Low-performing buildings that significantly and demonstrably reduce energy use should be eligible for the NextGen label.
- **Renewable Energy**
  Allow the proposed renewable energy use requirement to adjust over time to reflect the electric grid's progress toward decarbonization.
- **GHG Reductions**
  Include GHG "intensity targets" that reflect a building's unique weather conditions by a factor known as heating degree days.
- **Renewable Energy Certificates (RECs)**
  Use NextGen recognition to provide guidance on corporate accounting for REC purchases and enhance credible claims on the environmental benefits from offsite clean power procurement.

The Roundtable further advised EPA that it should conduct a pilot of the low-carbon label with private and public building owners before broad release to U.S. real estate markets. We will continue our efforts to help refine NextGen in the coming months.

Healthy Buildings

As the COVID pandemic officially nears its end, an estimated 72% of office workers worldwide worry about air quality in their buildings—emphasizing the importance of improved ventilation, filtration, and air cleaning.[25]

In October, the White House organized a Summit on Indoor Air Quality (IAQ) that unveiled a "challenge" for building owners to pledge to:

1. Enhance air filtration
2. Optimize fresh air ventilation
3. Create a clean indoor air "action plan
4. Communicate IAQ practices with building occupants

The Roundtable continued its role as a leader of the Healthy Workplaces Coalition, formed in May 2022. The group's goal is to promote and advocate for policies that assist businesses and organizations to implement health and safety improvements in the built environment.

In December, The Roundtable responded to an EPA request for information about IAQ measures. The Roundtable believes that a voluntary public-private partnership federal recognition program that commends leadership in IAQ design and management could be a key component of return-to-work efforts.

Chairman of the Senate Committee on Energy and Natural Resources Joe Manchin (D-WV) discussed the benefits of a bipartisan approach to legislation.

As a voice for the industry, The Roundtable will continue to advocate for national guidelines, standards, and data to aid the economy's transition toward decarbonization.