The Real Estate Roundtable

Fact Sheet: Science-Based Targets Initiative (SBTi)

August 9, 2023

Executive Summary

Leading real estate companies have used protocols and guidance of the Science-Based Targets Initiative ("SBTi") to set emissions reduction levels for their portfolios. In May 2023, SBTi — comprised of non-governmental organizations with global influence — released extensive draft guidance specifically on how the buildings sector should develop science-based targets. The draft has proved to be controversial. It was developed by an advisory group comprised largely of academia and environmental groups — with minimal representation from real estate companies that actually make the investments to improve energy efficiency and lower emissions.

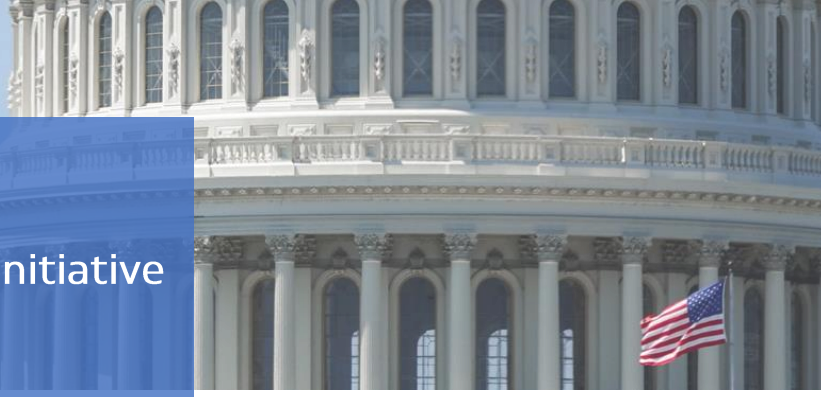
SBTi asked for comments on its draft guidance, prompting a July 14, 2023 letter from The Real Estate Roundtable (RER) and Nareit. The RER/Nareit letter states that SBTi's proposal would create "unworkable and unattainable" standards. SBTi would require building stakeholders to set emissions targets for sources and operations they do not control, based too heavily on estimates and speculation as opposed to actual, verifiable, and actionable data.

SBTi plans to release a final standard in the fall of 2023. Outlined below are key elements of the RER/Nareit letter critiquing SBTi's proposed buildings sector guidance.

SBTI's Proposal: Key Insights and Challenges

Location-Based vs. Market-Based GHG Accounting

- SBTi proposes to abandon the "market-based" greenhouse gas (GHG) accounting method and solely require the "location-based" method to calculate emissions.
- However, the standard practice is for companies to rely on ***both*** "location-based" ***and*** " market-based" GHG accounting.
- "Market-based" reporting incentivizes the economy's low-carbon transition, permits off-site green power procurement, and enables companies to reduce the electric grid's carbon intensity through renewable energy investments.
- SBTi's rejection of the "market-based" approach is counter-productive and would:
    - Slow the pace of grid decarbonization
    - Dissuade building stakeholders from clean power procurements
    - Inhibit the building sector's ability to influence the production of renewable offsite energy supply



  - Single-out building owners from other sectors
  - Set a different standard for landlords and tenants
  - Render economy-wide net-zero ambitions more theoretical than reachable
  - Create market confusion about a real estate company's "Paris alignment"
- Final building sector guidance should support the standard practice to allow target-setting using ***either*** the "location-based" ***or*** the "market-based" approach.

Fossil Fuel Ban in 2025

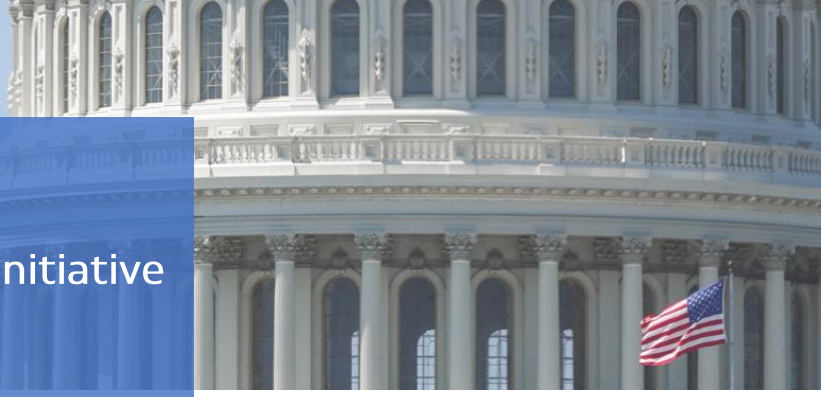
- SBTi's proposal includes a complete ban on new fossil fuel installations for heating and cooking starting in 2025.
- This proposal is not feasible for all buildings, considering all climate zones, use types, sizes, and other variables.
- It fails to consider the different energy needs of building occupants, how energy is used in certain high-intensity building types, varying climate zones that necessitate high heating demands, and concerns to address grid resilience.
- SBTi should encourage electrification but allow for exceptions based on market availability and cost-effectiveness of technologies.

"Whole-Building" Approach and Tenant-Based Scope 3 Emissions

- SBTi proposes a one-size-fits-all mandatory requirement for target-setting purposes that a building's operational emissions must include energy consumption from both landlord and tenant-controlled spaces.
- Building owners do not emit carbon or control energy in leased spaces. Rather, building occupants are responsible for leased-space emissions.
- Mandating the "whole-building method" and requiring owners to set Scope 3 emissions targets for tenant energy use is impractical due to limited operational control and access to tenant energy data.

Embodied Emissions Mandate

- SBTi proposes developers, "first owners/purchasers," and financiers "shall set a Scope 3 target covering the upfront embodied emissions of new buildings."
- This is impractical because building sector stakeholders do not typically have information on embodied emissions in construction materials. This information is held by product manufacturers.



- SBTi should establish no mandate on "new construction" to set Scope 3 targets for embodied emissions because the building sector needs sufficient access to standardized data on embodied carbon, and sufficient choices to purchase low-carbon materials to meet market demand.

Foster Standardized GHG Resources

- SBTi should prioritize the need to support standardized emissions measurement and tracking tools to yield consistent science-based compliance pathways for the building sector.
- Across the United States and internationally, there are conflicting energy and climate standards imposed on buildings by varying jurisdictions.
- SBTi's efforts should not create an additional set of standards that do not consider the body of work that already exists.
- SBTi should "approve" climate policy tools already widely adopted in the building sector.
- This means SBTi should engage with US-EPA on existing standard tools and data that:
    - Track buildings' energy consumption
    - Measure GHG emissions
    - Convert fuels and electricity using published and updated emissions factors
    - Set local energy and emission reduction targets
    - Provide widely used classifications of standard building typologies and geographic units keyed to electric grid subregions
- Any final SBTi Guidance for buildings should allow companies to use US-EPA's resources as much as possible when they set science-based targets.

Issues with CRREM Pathways

- It is widely accepted that the Carbon Risk Real Estate Monitor (CRREM) pathways in North America do not accurately reflect energy efficiency, renewable energy, or carbon emission regulations and policy at the local, state, and federal levels.
- SBTi should acknowledge the known limitations of the CRREM pathways and coordinate with the "CRREM North America Project," led by CRREM, ULI, and Lawrence Berkeley National Lab ("NA Project"), to ensure accuracy and inclusivity.
- The NA Project aims to align science-based "curves" for U.S. assets by utilizing data available on regional-level grid carbon intensities, and appropriate building energy use intensities by asset type.
- SBTi must align its efforts with the CRREM-ULI-Berkeley Lab partnership to provide consistency for owners in North America seeking to measure Paris alignment for real estate portfolios.

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SBTi's Stakeholder Process

- The advisory group that produced the draft guidance significantly under-represents the companies that own, develop, and finance real estate who commit to science-based targets — and underwrite the investments to achieve them.
- SBTi's process should consider the feedback from building owners with experience and an understanding of what is feasible for the building sector.
- More inclusive representation is needed to ensure practical and effective science-based targets for the building sector.