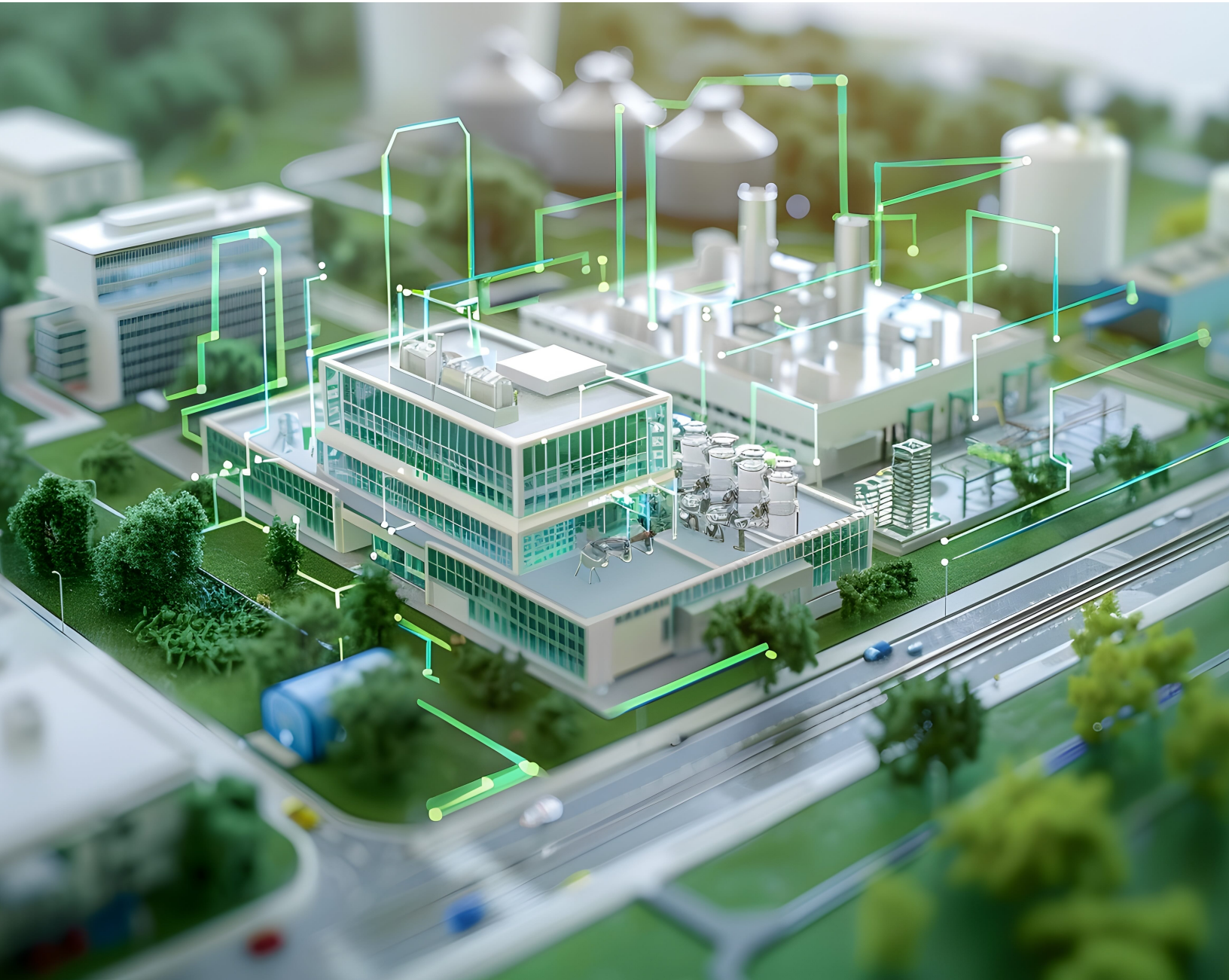


GROUND

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Three Real Estate Sustainability Risks to Manage in 2025

by John Mandyck

Shifting political priorities from Washington, D.C. have curtailed sustainability initiatives across most federal agencies in short order. At the same time, the ravages of extreme weather arrive almost daily. These conflicting factors leave commercial real estate leaders wondering, “should I stand down or double down?” To answer that question, three risks must be factored for the calculus:

1. The cost of short-term avoidance
2. More complex disclosure requirements
3. Increasing climate disruption

“Can I Drop Sustainability for Now?”

Commercial real estate decisions span decades over the life of buildings. Pausing for one political cycle risks falling behind for the next, with assets needing to stand the test of time throughout. And while cycles come and go, the long-term policy trend to reduce carbon emissions at the local, national and international level remains strong.

Case in Point: New York City

In New York City, buildings represent 70% of climate emissions, spurring a range of world-leading sustainability laws for the building sector. In fact, Local Law 97 (LL97) was passed in 2019 as a direct countermeasure to the first U.S. withdrawal from the Paris Climate Accords. This law places carbon caps on buildings 25,000 square feet as of 2024, increasing through 2050 to achieve net zero emissions.

Early estimates show about 8 percent of covered properties were required to take action for the 2024 compliance period, rising to about 50 percent in 2030. For the largest covered class, multifamily buildings, our analysis shows about one quarter can reach their 2030 limits with less than a 20 percent site energy reduction. This reduction can be achieved through well-established energy efficiency projects like weatherization and improving the operational efficiency of their current building systems. This type of work has been going on in NYC buildings for decades and saves energy costs.

An additional quarter of multifamily properties must reduce their carbon emissions by 20 to 40 percent to comply with their 2030 limits. This level of reduction will likely require a package of retrofit projects spread out over multiple years. In some cases, this may include installing heat pumps to produce some or all their hot water.

Less than 15 percent of multifamily properties must reduce their carbon emissions by more than 40 percent. Half of these properties use fuel oil as their primary heating fuel, which is carbon intensive, expensive, and a major source of air pollution. The most effective path for these buildings is to leapfrog fossil fuels altogether and invest in a future-proofing retrofit project like space-heating electrification, which will not only get them in compliance with the 2030 limits but likely 2040 and beyond. Installing heat pumps will also improve the comfort and value of their tenant spaces, substantially benefitting all stakeholders.

The risk of non-compliance is high with LL97 fines at \$268 per ton of CO₂e over a building’s cap, representing perhaps the highest price of carbon in the world. For large commercial properties significantly above the cap, this could represent millions of dollars in fines each year.

LL97 is ambitious, but the trend line is positive.

Since 2010 from benchmarking data. All buildings 25,000 square feet and above have been required to file their annual energy and water use with the city since 2010. Over that period, emissions from this sector have already dropped by 26 percent. About half of that progress is the result of greening the grid, while the other half came from building energy efficiency measures and/or eliminating oil-based heating.

New York City went even further in 2021 with Local Law 154, becoming the largest city in the world to require all-electric new buildings. Most recently, the New York State Energy Code revised this summer adopts the same approach for buildings statewide, the first in the country to do so.

But it's not just New York City and New York State. Fourteen other jurisdictions across the country have enacted building performance standards that mandate greater efficiency and carbon reduction. Notably, Boston's new law starts this year. Beyond emission standards, fifty jurisdictions have enacted building energy disclosure laws. And with 24 governors still in support of the Paris Climate Accords, we can expect continued climate policies focused on real estate.

Beyond managing building energy compliance requirements, real estate leaders will need to monitor the federal pullback from climate policy. Building owners also will be impacted by the early expiration of heat pump tax credits.

“Who Wants to Know My Emissions?”

It turns out, many entities do. Disclosure laws bring a new dimension to the regulatory landscape and are intended to address both investor and stakeholder concerns. On the investor side, the lack of uniform climate data reporting has led to confusion in the marketplace. Not all companies measure climate emissions the same, nor include all scopes of emissions. This has left investors unable to weigh investment decisions between companies, including real estate. Pension funds are keenly aware. The Office of the New York City Comptroller (with \$274B assets under management) found 80 percent of its pension investments are in companies that have net-zero climate goals, yet only 9 percent are considered sufficiently robust. This prompted the Comptroller to release more stringent investment criteria earlier this year.

For stakeholders and policy makers, disclosure brings data into the public arena for discussion and decision-making. Just like you can't manage what you don't measure, you can't regulate what you don't count. California is out front with a nation-leading law requiring the uniform disclosure of climate emissions. Based on annual revenue thresholds, large companies doing business in California (including real estate) will be required to report all scopes of emissions in 2026 and 2027, including those emissions that occur outside of California. Europe has similar laws, and some states like New York have legislation under consideration.

These initiatives will have follow-on effects even for real estate companies not doing business in California or the EU. For example, large national or multinational tenants will be asking their landlords for the emissions associated with their leases to fulfill reporting requirements. All this has prompted The Science Based Targets Initiative, an international framework for declaring and reporting net-zero climate emissions, to recently release specific guidance for real estate.

Measuring all scopes of real estate climate emissions can be time-consuming, requiring new platforms, tools and skills. Playing catch-up can be costly in a growing regulatory environment.

“What Does Climate Disruption Mean to Me?”

Hardly a day goes by when we don't read about extreme weather causing substantial safety, economic and social disruption at home and across the globe. Real estate is invariably in the crosshairs climate events; buildings are

damaged, tenants are displaced, income is reduced, and insurance premiums increase. And the picture will not improve anytime soon.

The National Oceanic and Atmosphere Administration has tracked weather disasters causing \$1 billion in damage or more. Between 1980-2024, there were nine billion-dollar events on average per year (normalized for inflation). But for the last five years, the pace accelerated to an incredible 23 billion-dollar events per year. Far-reaching economic consequences are unfolding for insurance and capital providers – all of which have market-wide implications regardless of whether a building has been directly impacted. Cities and affected industries are left to wrestle with the aftereffects, like the estimated \$30 billion insured loss from the Los Angeles fires earlier this year. Against this backdrop, private markets will remain keenly focused on actual and projected climate change impacts regardless of federal government policy.

The Tide is in Your Favor

Climate-smart investments in real estate increasingly reduce risk and provide a competitive edge, both to manage climate disruption and to increase asset value. Green mortgages – and the preferential terms they carry – now represent 15 percent of the UK mortgage market, and a small but growing share here in the U.S. Building sustainability ratings such as LEED drive better ventilation systems that provide cleaner indoor air, a growing priority post-Covid and for commercial tenants and multifamily residents in areas grappling with wildfire smoke

Many decarbonization measures bring health, comfort and resiliency benefits too. A better building envelope saves money on energy bills, but it also makes for a quieter and more comfortable place to live or work – and one that is habitable for longer when weather events cause power outages. Energy storage systems save carbon, but they also provide backup power if the grid goes down. And induction stoves reduce gas use and bring better indoor air quality and a safer, more-precise cooking experience that is increasingly preferred by professional and home chefs alike. The rise of AI is likely to turbocharge the proptech industry, with energy- and carbon-saving technologies to optimize building operations, find and fix refrigerant leaks, and much more.

While policy priorities from Washington D.C. have changed, the fundamentals of climate risk continue unabated. Real estate companies must remain engaged to fully manage these risks and to position their businesses for maximum value creation in the long term.

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Profile

- [John Mandyck](#) joined Urban Green Council in 2018 as its first-ever CEO. He capped a 25-year career as Chief Sustainability Officer for United Technologies Corporation having done business in 53 countries.
- He's an Adjunct Professor at the University of Connecticut School of Business and also served as a Visiting Scientist at the Harvard University T.H. Chan School of Public Health.
- John is the founding chair of the Corporate Advisory Board for the World Green Building Council and a former board chair of Urban Green.
- He is co-author of the book *Food Foolish* and has published about sustainability in Harvard Business Review.

Notable & Quotable

- [Why Global Sustainability Efforts Will Continue Despite Trump](#) Harvard Business Review (2024)
- [Cities are now climate's best hope](#), Economist Impact (2025)

Urban Green Council

- [Urban Green Council](#) is a nonprofit dedicated to decarbonizing buildings for healthy and resilient communities

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Converging to Sustainability

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