CRE Tech Talks

Episode #15: The Scope of Sustainability in Commercial Real Estate

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Matt Ellis, Founder & CEO at Measurabl

Presenter: Welcome to "CRE Tech Talks." This podcast series is brought to you by Building Engines, providing web and mobile property management software to innovative commercial real estate owners, managers, and the clients they serve for over 14 years.

Now, a man who just realized he's got a lot of growing up to do, as he's broadcasting this podcast from inside his bedroom fort, Building Engines' Senior Vice President, Scott Sidman.

Scott Sidman: Great. Thank you for that warm introduction, and welcome to this episode of the CRE Tech Talks podcast. I'm your host, Scott Sidman. We haven't talked sustainability in a while, and we thought it would be a good time to revisit the topic, see what kinds of things are happening at this stage, both the solution set life cycle as well as what's important for the industry.

To help us do that, we have a terrific guest today, Matt Ellis, the founder and CEO of Measurabl. I had the chance to hear Matt speak earlier this year at an industry conference, and was really impressed with both his grasp of the sustainability space and how Measurabl looks to help their clients.

I've also had the chance to see a little bit of the product at some of the conferences, and have been thoroughly impressed with what I saw, both from a user experience and value perspective. I'm really looking forward to the conversation, and with that, welcome to the podcast, Matt.

Matt Ellis: Cool, Scott. Thanks very much.

Scott: As you may or may not know, if you'd had the chance to listen to CRE Tech Talks, we have a little bit of a right of passage where we ask our guests to tell us a little bit about their background and share one unique or unusual fact about themselves.

Matt: [laughs] I'm going to borrow from local San Diego culture for the unique fact, so it's not really about me, but I have lived here for going on almost 20 years. Everyone loves fish tacos. It is a little-known fact that, yes, the fish taco is imported from Mexico, but it was first served in America, about a stone's throw, one mile from here, by a chain of people often now called Rubio's.

I have visited that fish taco stand, in my 17-odd years, probably no less than 100 times. That's my unique fact, I am loyal to the fish taco history and culture of San Diego, and if you need to have it for yourself, I can show you where to find it.

Scott: That's great to know. I think I will absolutely add that to the show notes, and a link.

Matt: [laughs] It comes with a Corona, Scott, so you'd be doubly interested.

Scott: Oh, that's perfect, even better. [laughs] Absolutely. We don't even know each other that well, but you knew that about me. That's great. Let's add to that a little bit. Tell me about Measurabl, what Measurabl does, what led you to start the company, and how you help your clients.

Matt: I'm a real estate broker by training, came out of CBRE, and now I'm a reformed broker who turned into a sustainability and technology professional. What Measurabl does is it ties back to, I think the famous quote that people have heard many times, "You cannot manage what you do not measure." Measurabl says, "Let's make it simple to measure what matters."

When we talk about what matters in the build environment and real estate, we use a framework called sustainability, or ESG, environmental, social, and governance data. It turns out that in the real estate industry that this is a big deal.

I first noticed this when I was at CB doing brokerage deals. I remember walking through the door of a couple of my client's buildings, and I saw the Energy Star label. Sometimes I would see a LEED certification. I thought, "What does that mean, and where does that come from? How do they know that this building is good or bad? How did that score get there?"

That rabbit hole, it turns out, goes quite deep. It is an issue that we care about in real estate because energy costs are the largest controlled expense in an asset. If we can manage those downwards, we can improve NOI. While we're at it, we get the benefit of reducing carbon.

There is that logic around all the resources that are going into a building, materials to water, certainly energy. We needed to have a system to manage this. I kind of had that aha moment at CBRE. CB wasn't really a tech firm, at least not as tech forward as they have, I think, turned into today.

I left the company to build that. We called that Measurabl, and it was an end-to-end enterprise sustainably software package for measuring, managing, reporting, and acting on sustainability for real estate.

Scott: That's great. How long ago did you start the company?

Matt: We are a bright, shiny, almost five years old. Been commercial, as a product, for about two and a half of that. Previous to that, we were building it out, you know, mock ups.

Scott: Could you share a little bit about what your typical client looks like, who they are, and the problems they're trying to solve?

Matt: Sure. We were discussing when we first chatted, there's quite a diverse range of folks here. We've got 4.5 billion square feet in 67 countries. That comes with everything from traditional office, institutional office owner and industrial ownerships, RETs, private or public, asset managers, also corporations. They own some amount of real estate, but they occupy a long tail of it.

It's a diverse cohort. The use case, however, is very consistent. Measurabl has one product, and everybody runs that same product as a SaaS solution. What is it going to do for you? It fundamentally collects environmental, social, or governance data on your portfolio of real estate.

That might mean utility automation, so grabbing the bills off of the utility counter on an automated basis, quality assuring that, so you have good water data, energy data, field data, waste data, providing analytics and reporting around that. That's sort of the table stakes base case.

We're also going to make sure that you track and have awareness around all your regulatory reporting requirements. The big issue in real estate these days, particularly in the United States, is cities and states are regulating the disclosure of energy. Where did that data come from? How do we know it's good? How do we make sure we get it out on time so the building is not fined or a transaction gets held up?

We're going to manage all your regulation, alert you to that, detect it automatically, and help you file the paperwork. There's also things like green building certification. Is this building LEED certified or Energy Star certified? How do we know?

We're going to automatically collect those using our APIs, track the status, and then we grab all this stuff to kind of round it out, and we make it available to your investors, helpers or [inaudible 6:17] , or a sovereign wealth fund of some type. They want to know your sustainability performance, you can generate those reports on demand through Measurabl.

Scott: Before we jump into our primary topic for the audience, in a marketplace where there seems to be a lot of different providers around the energy space, what do you think would be the one thing you'd want people to know about Measurabl or remember about Measurabl that makes you guys unique?

Matt: The word sustainability is very big. Energy is one small slice. That's the key thing here. We've been focused on energy because it's a day-to-day piece of the operating expense, but what about projects? What about audits? What about regulations? What about certifications? What about investor disclosure? What about social and governance implications of owning a portfolio?

That's sustainability. You've got to have all that in one place.

Scott: That's a really good segue and transition into the focus of the discussion today, which is, what's sustainability look like and mean for the built environment today? I'm thinking back to, I remember the green build movement starting, and when the topic first started coming up, maybe 10 years ago. That seems about right to me.

How has that changed from then? What's changed today? What does sustainability look like and mean for the built environment today?

Matt: Great question. It certainly has evolved in good ways. One, it's become fairly status quo. Any institutional owner of real estate who's taken outside capital, maybe a billion dollars or more, which as you know, not a lot, right? Anybody above a billion dollars in assets, sustainability is, if not on the radar, it's increasingly core to that organization.

If you are at all a leader or a large public RET, you have fully staffed individuals who take this matter of sustainability very seriously. 10 years ago, this was just not the case, of course, right? You had maybe a handful of folks who thought about it, worried about it, and had some program.

Typically, it was overweight marketing or focused just on building certifications, but there wasn't anything much more coherent. This has really changed. We've got professional staff. We've got portfolio-level consistency around sustainability. We have end-to-end, from meter to investor, an entire data chain of custody that's being reported on and captured.

You would expect to see that type of infrastructure in place for certainly anybody with 10 billion in AUM, large organizations, your guys in the middle, down to 5 billion. You're going to see something about sustainability at 1 billion and up. That's a really different world.

Scott: Yeah, that's a big change, certainly, and I've heard you mention the phrase in a talk, I think, called investment-grade sustainability. I'm assuming that's what that means. Is there anything else you'd add to that?

Matt: That might be a little bit of what's next, I think. You talk about where we are today, and I think what's next is investment-grade. For a few thousand years, really, we've been a global economy, and worried about financial performance widgets, in/out dollars, cogs, these types of things. We have recently, as you pointed out, begun to worry about the non-financial performance of assets.

What are their environmental implications and the governance and social issues around that? Can we quantify that? That is indicative of overall financial performance because that helps lower risk. If we want higher risk-adjusted returns for investors, then we need to quantify sustainability and care about it.

For that to work, it has to investment-grade. The current state of the market is just not there. The current state is different data captured at different times with different methods reported to different entities who score you using different methodologies, investors, and this include real estate owners themselves, are confused. They're frustrated, and they're not sure what and whom to trust.

We need something called investment-grade that establishes a new paradigm of consistency and so that we have financial and non-financial data to be held in equal esteem. That's what's next.

Scott: Providing investors with data they can trust, consistency. How do you get there? That seems like a tough road, given, as we talked about in the beginning, different systems, different methodologies. What's the vision for getting folks there?

Matt: That's what we started the company for, right? It's a big list. As you guys know, extremely complicated, highly networked industry. We have LPs and GPs, JV partners, property managers, and they're third-party, maybe, or they're internal. The list goes on of how complicated our ecosystem is. Then, by the way, there's all these tags, right?

I think the answer to how do we get there, one is it has to be fast. There has to be a scalable way to bring those stakeholders together and align value across them. Two, you have to focus on the quality and timeliness of the data.

We need to know sustainability performance within the last 30 days on the asset or portfolio. Otherwise, the market's too dynamic, and it's not representative of where we're at this moment and what you might be investing in or buying.

That goes back to the issue of SaaS. It's really only feasible to have the granularity, the alignment, and the timeliness of data being in SaaS. That's what I think the use case and the requirements are.

Scott: That makes perfect sense. You get people the data they can trust. You get them the right kind of data. What do you see them doing with that information? I think you mentioned it a little bit in the statement before, in terms of risk adjustment and financial decisions. Is that what you're talking about?

Matt: It is. There's different groups that will use the data in different ways, so let's focus on the building owner. That building owner wants to create net operating income. We can transact that asset in a higher sale price, or get a better cash flow off that asset.

What are they going to be thinking about when they talk about sustainability? They're going to be OPEX-focused. They want to drive down the controllable expense -- energy, water, waste, and [inaudible 12:02] drives. They're going to focus on the tenant experience. These tenants that we saw at CBRE, large and medium-sized businesses, are putting into their RFPs sustainability clauses.

"Is it LEED certified? Is it Energy Star rated?" That can be a disqualifier if they're going to out to the market for space. If you want to be competitive in getting tenants, then you need to have sustainability be top of mind, and be able to present that to that tenant as an amenity, as a mark of quality.

The GSA, I think it's now the second or third-largest tenant. That's the General Services Administration, a branch of the Federal government. This is just a requirement. If they go to market, they will only lease LEED Silver or above, with few exceptions, so if you're in the business of leasing to the government, you have to do this. I think that that's sustainability as the owner is thinking about it.

If I'm a lender, however, I'm going to offer maybe a discount like Fannie Mae does on their Green Loan program, the multi-family housing. You can get a discount on your debt if you qualify as a green building under that program. The lender's doing that because they think that path, that's less risky.

This is comparable to what the insurance providers are doing. There are programs now where you get a discount on your premium if you're green. Both of those groups, lenders and insurers, are going to be, "Well, how do we know you're green? Is that a [inaudible 13:25] or a LEED certification, an Energy Star label, all of the above? When? What score? What type?" That's all just data to create that outcome.

I think the answer to your question is it's different to different folks, but we're all aligned on shared value here, and the data is the common denominator.

Scott: Got it. You just mentioned a whole bunch of different organizational names. That's one of the things from my perspective, which is a bit of an outsider in terms of direct relationships with energy-related companies. There seems to be this maze of oversight groups and reporting standards that people have to figure out and work their way and navigate through.

Is there anything going on with those groups that's consolidating the effort that you see?

Matt: Yeah, there is, a little bit, Scott, on the reporting side. There has been a push by a group called SASB, the Sustainability Accounting Standards Board. This is Michael Bloomberg, the former mayor, and the former chairman of the SEC. They've gotten together to say, "Look, depending on what industry you participate in, right in your 10-K, there is material disclosures around sustainability."

The market's really looking at that, because that can make it really crisp and clean on what we report, what's material. That means what we'll worry about measuring, and essentially, what we stop measuring, which may be in some ways on overabundance of measurement and confusion around that. There's a little something going on there.

I think it's only going to affect publicly traded entities, so what about the rest? That's a big question. [laughs] I hate to characterize it as a war, but there is certainly a lot of jockeying out there in the market to be the arbitrar of sustainability performance.

Candidly, I would say Measurabl is in that mix. We're doing it, though, through data science. When you think of data, it's objective, it's real. Let's measure it and let's report it. Let's make that transparent. We have a unique view that it should be SaaS and data, but there are a lot of groups out there that, I think, understand that this is an important thing to quantify.

Time will tell what the market finds to be the most convenient and appropriate.

Scott: Yeah, but it seems like you're making progress. It seems like there's two different challenges. Establishing what matters, like you just talked about, getting some consistency in standards around that, and measuring what matters. You guys are clearly helping with the latter, measuring and reporting on that. Any other challenges there that we're closer to solving today?

Matt: I really like what you said up front, which is determining what matters and then measuring that. What we've found, and I think this is a big challenge which could be a big opportunity, is that what matters also changes.

Let's pick Black Rock. They have a specific world view about what matters in real estate and investing. Compare and contrast that to a pension fund. They have a different and specific world view on what matters.

An example of that might be if you're Black Rock, you may care a lot about energy and not at all about some policy around corporate executive compensation tied to sustainability, this is just a hypothetical. Perhaps as a pension fund, a very, very long-term investor, you're very interested in how are the executives aligned to sustainability outcomes.

That's going to be very heavily weighted in your methodology. I think that there is a big opportunity to provide to the market, frankly, customizable scoring. What matters to you? Here's the criteria that I have data on. You choose. You pick. You weight those criteria to determine what you think matters.

I think that that's a huge challenge, because not everyone's sophisticated enough to know what matters to them, but as they get there, they're going to want a tool that allows them to get the data they care about and rank that.

Scott: That makes a lot of sense. Are there core KPIs or benchmarks that you guys help people look at?

Matt: Definitely. We have a proprietary one, I think it would be analogous to a FICO score. It's on energy, it's on water, it's on waste, it's on carbon underneath. We're scoring these on a peer-relative basis.

We'll look at your asset or portfolio of assets, and we draw from the 4.5 billion square feet comparable assets based on size, height, weather, all sort of building metadata that you might expect here, and we see where you stand relative to that.

We're able to score you 0-100, 70 being you're in the 70th percentile relative to peers. It's a fairly traditional approach to benchmarking. It's just that it's done on an automated basis by a machine learning algorithm. That's our value add.

That's what's going on in benchmarking. I think there's quite a bit more that's happening, and it depends on what you're curious about. The EPA Energy Star is the gold standard, I think, when it comes to energy. They're updating their baselines, but they're very focused on energy, and just introduced water.

If you go around the world, you'll see analogs, neighbors in Australia, also a benchmarking authority, with a different twist on how they do that. I think there's a lot of places to look for what you might want. The question is which one's going to be the right one for you?

Scott: I think you'll find we find the same thing with our customers. Everybody wants to know not only how they're doing, but how they do relative to some standard.

That's what matters. That's what's important to them as they concern to that, how well you can slice and define that, and filter it down to them so it might be even meaningful to them to find out how they compare within their sub-market or their cluster market, right?

Matt: Exactly. The multi-family owner in Southern California, a 50,000 square feet asset, maybe that's all they care about. They don't care about being compared against publicly traded RETs like Avalon Bay, for example.

It really is what matters to you, is an extremely personal decision, [laughs] if you will. We have a benchmarked database of our few billion square feet. EPA Energy Star uses its feedback survey to set a benchmark. There's lots of different ways to go about that.

Scott: That's true, I think. I wanted to ask you to clear up a question that I always have. It's interesting. A lot of our folks here asked the same question, the difference and the relationship between sustainability and something like green certification.

I think there's always been a certain measure of misunderstanding there. Can you help clear that up? I think you've done a little bit of it, but maybe specifically address that?

Matt: Sure. Certification is the ability to use some methodology. One widely known here in the US is LEED. You'll see LEED certification on assets. That could be a kindergarten. It could be an office building in Manhattan.

Commonly, not always, but commonly, that certification was assigned based on certain factors at a certain period of time, and then it goes on the building's door and life ensues. Is that building still sustainable? Is that building still performing to the elite standards that we believed it was at that time of certification?

There are ways to fix this, but that, I think, is the concept of certification, the notion that at a point in time, this asset was good, or met that criteria. Then it's up to the issuer of those criteria, how much do you trust them, that they have a good opinion on that concept of sustainability.

Sustainability, however, [inaudible 21:25] . Really, you have to think about it, I think, as a, to use the wonky concept of systems thinking. Systems thinking is this notion that not just one building, but all buildings together form what is or is not sustainable, either aggregate outputs or aggregate inputs.

The people and the policies and procedures that govern that portfolio of assets, and the actions that occur or don't occur, or shouldn't occur on a day-to-day basis, that's sustainability, so it's much bigger. It's your environmental, inputs/outputs of assets in and out of your [inaudible 22:10] basis, wrapped with policies and procedures. That's governance to enforce those systems.

Then you've got in the middle, the social implications, the tenants, the communities in which we build and how they're impacted, positively, negatively. That whole thing has to be thought of as a chain together.

Scott: That's great. That's a great explanation. That's probably the most clear explanation I've heard, and I think makes a lot more sense, so that's great. Thanks for that. Maybe as we head towards wrapping things up here, I think given all the changes that have taken place.

We've talked about that have happened over the past 10 years, and this transition both from just kind of simple certification to the larger concept of sustainability, and now moving towards investment-grade sustainability, which seems to be the Holy Grail or the ultimate output there, where do you think we are in the life cycle? How early are we? What do you see the future looking like?

Matt: That's a tricky question. Here's maybe something a little, potentially provocative here. We have been incrementally moving the market forward thanks to extremely hard work by pioneering guys, [inaudible 23:21] who founded [inaudible 23:22] , the team at EPA Energy Star back in the '80s. SASB and the hard work of nameless and faceless directors of sustainability all across the industry.

It's been a team effort, but it's been, at risk of being provocative, somewhat incremental. We don't have deep adoption past the institutional market into the mom and pop owned assets, the vast majority of these buildings out there. I think in some ways, it's clear to see that we have a lot more work to be done.

Now, the interesting thing is, I see that pace accelerating and potentially so much so that we could have orders of magnitude improvement in terms of sustainability adoption and management practices in the next three and five years.

Why do I say that? I say that because technology. I think that we are seeing in all industries, and particularly real estate technology, a massive influx of venture capital and new technologies. They're affordable. They're easy to deploy. They solve specific use cases. They're highly integrated. These tools are new and just did not exist 5 and 10 years ago.

When you bring that level of disruption, you're going to see not just the property management business or the commercial construction business, but also the sustainability business take huge leaps forward. Things that we'll accomplish in 1 and 2 years used to take 3, 5, and 10. I'm very, very bullish on the space. I think we're going to see mass uptick in adoption, but I think it'll be driven by tech fundamentally.

Scott: That's great. That's certainly optimistic, but I think rationally so. You've given everything I see as well, so that's great to hear. This has certainly been insightful and informative for me.

We learned a lot, which is always great. Really good to hear and see what you guys are doing. I think you've made incredible progress for a five-year old company. That's really impressive.

Maybe in summary, if you leave the audience, listeners, with a few things they should think about, what would you advise a commercial real estate organization or any other type of client to think about today as they want to get on the path to investment-grade sustainability?

Matt: To begin the journey. [laughs] That's always, right?

Scott: Yeah.

Matt: Here's the funny thing about us as an industry. We've always cared about running our buildings efficiently. We've always cared about providing a good tenant experience. We've always cared about delivering a superior return on investment.

Sustainability now is a new tool for you to do those same things that you always have done, and that, I think, is the main takeaway. This is not a foreign concept. It shouldn't be an alien one. It shouldn't be treated as this other thing, or a marketing obligation. It should be considered a core technique of delivering superior outcomes in an organization. The tools are at your fingertips these days.

Scott: That's great. I want to thank you again, Matt, for the great insights. It was really a pleasure speaking with you.

Matt: Scott, likewise. Thank you.

Scott: I'll remind our audience that contact information for Matt and for Measurabl will be available on the podcast page and the show notes...

Presenter: Thank you again, for listening to this broadcast of CRE Tech Talks. We hope you found today's session valuable. Remember to visit our podcast page at www.buildingengines.com/cretechtalks to download today's transcript and key takeaways as well as listen to other sessions and share with colleagues. We'll see you next time on CRE Tech Talks.

QUESTIONS FOR THE HOSTS?

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