Sustainable Investments with Berkshire

Duration	00:45:05
Speakers	Corey Aber, Vice President of Mission, Policy & Strategy, Freddie Mac Multifamily
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Luba Kim-Reynolds [00:00:00] Incorporating sustainable practices at properties can vary from company to company, but they all have one important thing in common. Corey, do you want to know what it is?

Corey Aber [00:00:09] I think you want to tell me, and I have no objection to hearing it.

Luba Kim-Reynolds [00:00:12] Okay, so, I'm thinking of the people. At the end of the day, adding greener features to providing social services is to build communities and housing that's supportive and sustainable for the people living there. And with today's guest, we are going to explore how another organization is thinking about making difference with their ESG strategy.

Corey Aber [00:00:38] Hello and welcome to this episode of the Freddie Mac Multifamily podcast. I'm Corey Aber.

Luba Kim-Reynolds [00:00:43] And I'm Luba Kim-Reynolds. We have with us Hannah Tillmann from Berkshire Residential Investments. So, Hannah Tillmann [is] vice president of Sustainability at Berkshire Residential Investments. In this role, she's responsible for implementing and expanding the impact of Berkshire's ESG initiatives for the BerkshireTHRIVE program. Hannah also manages the development of projects, campaigns and educational programs for Berkshire's equity, debt and corporate strategy. Thank you, Hannah, for being with us. To start off the podcast, actually, Hannah would love to get to know Berkshire Residential Investments a little bit more. Do you want to give us a little bit overview of what your company is all about?

Hannah Tillmann [00:01:24] Definitely. And thank you, Luba and Corey, for having me on the show today. So, Berkshire Residential Investments is a privately held multifamily investment firm. We've got about 57 years of experience, nearly a thousand employees. And within our investments, we have about 28 billion in assets under management. About 11 billion of that is equity focused, which we'll talk about today, and another, you know, 17 billion or so is focused on debt, which I also do help assist with on the sustainability side.

But as it relates to our multifamily equity investments, we have around 36,000 multifamily units, mostly spanning across the U.S. and then a very small senior housing portfolio on the side. But I do very much specialize in the multifamily component and focus my traditional efforts on a day-to-day basis on the, on the residential side. And I will say one other thing that makes Berkshire special is we are a vertically integrated management firm. So that means not only are we the owner, right, we are also the property manager, and that allows us to have some really nice efficiencies as it relates to implementation of sustainability across our investment, but also property management practices. And I'm really excited to share that with you all today.

Luba Kim-Reynolds [00:02:50] BerkshireTHRIVE program is a big part of Berkshire's sustainability strategy. Can you give us a little bit more about the program and its pillars and what it's all about?

Hannah Tillmann [00:03:00] So BerkshireTHRIVE is our branded sustainability and also environmental social governance program here at Berkshire. We tend to use those objectives or words rather interchangeably. We really created BerkshireTHRIVE to focus on two primary responsibilities: driving value and reducing risk across our investments as well as our corporate operations. And so, the way that we do that is we focus on a set of strategies where we're monitoring and tracking and enhancing our firm's performance as well as our investments' performance.

And we have four pillars that kind of break the program out and help us to visualize each piece. So, we've got the first pillar, which is Our Communities, and that's really encompassing our focus to enhance residents' satisfaction and attraction and then retention, right? So, we want to bring them in, and we want to keep them. The next pillar is Impact, right? And I think that one is rather obvious, right? It's driving impact from operational efficiencies, risk mitigation and reducing our environmental impact. We then have kind of Our Commitment, which is really to sharing and improving our sustainability performance. And then finally we have Our Team, which is curating, you know, a passionate and positive environment for our team members and frankly, our residents. So, while my focus is very much sustainability — I come from a background in environmental science and corporate environmental management — I will say that the broader applicability of BerkshireTHRIVE is totally a team effort, right? It involves our compliance team members, legal, human resources, all of our team members from asset and portfolio and property management. And we work together to really make sure that our efforts are, you know, hitting all of those environmental and social and governance buckets, but also working as a team to make sure that we can increase the impact of those efforts together.

And for BerkshireTHRIVE, we do have two sets of primary goals that really help us, you know, motivate and frankly, monitor, right, our environmental and financial performance. So, the first one was created several years ago now, and we're actually going to be refreshing it in 2025. But this is a very standard utility efficiency goal, right? So, by 2025, our intention is for all of our wholly owned and managed multifamily equity properties to achieve a 10% reduction in energy use, associated greenhouse gas emissions and water use as compared to a 2015 baseline. And then we're also helping them work to achieve a 30% waste diversion rate as well, meaning, you know, 30% of the waste that we produce does not go to the landfill.

And then a newer emphasis for us is carbon. And this is really important for Berkshire as well as our investors and especially applies to our longer-term hold assets, meaning the properties that we're going to have in our funds for more than five years. And this is specifically a goal to reduce carbon intensity in our Scope 1 and 2 emissions categories. So, this means that we're working to reduce our electricity use and natural gas use that we buy and use as landlords by 50% by 2030 on an intensity basis. But we are not ignoring the fact that nearly 70% of our environmental impact and greenhouse gas emissions and associated natural gas and electricity use comes from our, from our resident base or our Scope 3 emissions. So, we also have a commitment to track that over time and share that.

Corey Aber [00:06:56] Hannah, thanks for sharing all that. And you're one of the things that's been interesting on the podcast over the past couple of years is talking to different organizations who are kind of leaning into impact and sustainability. And I think, you know, really seeing more of a trend and in the market with a lot of different organizations focused on this and, you know, you all have a really comprehensive approach, it sounds like. But how do you think about what you're doing relative to some of the other programs that you're seeing in the market?

Hannah Tillmann [00:07:22] Yeah, no, that's a great question. I think one of the things that Berkshire benefits from is we created our ESG program in 2018, right? So, we were not necessarily the earliest movers here as a small-to-medium-sized company. We felt like we were taking intentional steps towards building a program over time. But we were very lucky in terms of being able to learn from other firms that had been leading the way in sustainability. We were able to kind of take what was working for them from our perspective and leave the rest, right? We're also very lucky because we are a multifamily-specific real estate owner-operator where we got to create our program to really cater to that nuance of challenges and opportunities specific to multifamily real estate, right? So as compared to a firm that may have a diversified asset base, we really got to craft our policies and the way that we implement opportunities specifically for our asset type, which is super fun and obviously perhaps a little bit easier and more targeted in nature than someone that has to think through a variety of different asset classes.

I think additionally, as we are the owner-operator of our real estate, this really enables us to have these strong integration opportunities that I mentioned earlier because we have that cohesive team of not only the corporate investment management staff, but also working directly, right, and for the same company as our property management staff, so we can really put our policies into practice and work immediately with the super important folks on the ground that are running our properties every day to actually make that change happen. And obviously we have a lot of opportunities for improvement that we're excited to make over time, but that has served us very nicely since we've had our program up and running over these last few years.

Luba Kim-Reynolds [00:09:27] Great. Well, let’s dive into how Berkshire makes impact a reality. Hannah, can you walk us through the process of implementing sustainable features?

Hannah Tillmann [00:09:37] So a very cool thing about Berkshire is the sustainability team sits on the operations team, meaning we report up through property management leadership. And so, I have a direct line to a lot of the folks that I need to work with on a day-to-day basis to make our objectives actually come to life, which is awesome. We also have a dotted reporting line to portfolio and asset management where obviously a lot of the, you know, investment and financial decisions come from the go/no-go decisions to actually do a thing at the property. So, we've got a very nice tight line of communication. And I will also say we do really benefit from top-down support, right?

So, our program is continually evolving. And when we want to make a change, like roll out a new initiative, try this new product, enter into a national agreement — you know, we did this recently for electric vehicle [EV] charging stations. We did a big market analysis, selected a partner. But then we brought all of the key decision-makers into the room that represent leadership across Berkshire. We made sure we answered everyone's questions, you know, made improvements as recommended. And then everyone in the room agrees to, you know, support the initiative from not only the corporate-investment level, but then down through the property levels. So, I do think that is a really special way that we can get things done here at Berkshire.

But when it actually comes to making change at the properties, the way that we tend to think of it is you have two main opportunities, right? You've got due diligence where you can really understand the asset and build the business plan and potentially underwrite improvements. And then you have operation, right, where you're driven by policies and you're collecting data and you're using that data to make impact. So, let's quickly start with due diligence, right? So, we do have a standard policy for due diligence. We do treat, you know, a longer-term hold asset a tiny bit different than we would a shorter-term hold asset. But in general, right, we are conducting a very thorough sustainability due diligence review on any new equity asset that will be wholly owned and operated by Berkshire. And so, some of the things that we're reviewing are opportunities and risks related to energy and water efficiency, carbon reduction, climate risk and compliance obligations. And a lot of those types of things are supported by an on-site review from vendor partners, right, including the standard property condition assessment. But also, more recently for longer-term holds that are not new construction, we're usually bringing in a utility audit, maybe an electrification feasibility assessment. And then on top of that, we traditionally do, we bring in a vendor that will help us identify especially LED lighting opportunities and create a proposal for us immediately, as well as electric vehicle charging station opportunities. And then also, if the location is appropriate, they will review the asset for on-site solar feasibility, too. And some of these are newer aspects that we've added to due diligence, but we're really excited to get that holistic and wide-ranging view, as well as a quantification of the financial and environmental benefits right off the bat. So, these findings are then put into a quick scorecard that is then shared in the traditional investment committee memo. And then we take the findings of that scorecard and also incorporate them into business plans, right, or underwriting if necessary. So that's what we do on the due diligence side.

Then it gets exciting, right, once we bring it into operations. And as I mentioned, the way we think about it and I think a lot of sustainability practitioners do, right, is you lay a foundation of sustainability implementation with standard policies, right? So, everybody knows what's expected of them. Then you're collecting data so you can identify low and high performers, track performance towards sustainability goals, share, right, performance with stakeholders, especially investors who who need this information. But most importantly, you're using that information to drive impact at the asset level to reduce energy or water use or greenhouse gas emissions or waste. So that's kind of how we think about operation at our assets.

I think, you know, the policy piece is rather explanatory. We outline a lot of things that we need to be thinking about on a regular basis as it relates to, you know, minimum standards for efficient equipment and appliances where it makes sense and there are not also other types of constraints. We outline, you know, carbon risk, climate risk and a variety of other mitigation strategies that we expect our assets to be upheld to. Then on the data side, right, we're benchmarking monthly in the EPA's [Environmental Protection Agency] Energy Star® Portfolio Manager tool. That means we're putting in, right, monthly energy use and cost data, water use and cost data and waste information as well. And we pull that information into reporting that helps us fix operational issues like a leak or a piece of equipment that was malfunctioning, or at least start a dialogue, right, with our property teams if we're noticing the property is trending in the wrong direction. This also helps us, as I mentioned, right, track performance towards our established efficiency goals. And then we also use that information to build into our carbon inventories when we're sharing that information over time with our investors and again, tracking towards carbon reduction goals.

Corey Aber [00:15:37] Hannah, it sounds like you're really capturing a lot of information, a lot of data, you know. How are you putting this to use?

Hannah Tillmann [00:15:41] The best thing about using this data, right, is identifying opportunities for impact. And so, in multifamily real estate, it's pretty interesting. And and I'm sure other folks have mentioned this before, but very specifically, we need to think through the tenant-landlord split incentive, right? And at a basic standpoint, that means when the resident is in their own space and they pay for their own utility bill, which is often the case for electricity, right? Or you've got, you know, the whole building using a common source of water and natural gas, oftentimes the landlord is billing back that resident for their use. So, it's very difficult from a financial standpoint to really get over the fact that if we make upgrades in resident spaces, oftentimes the resident is the one that benefits as opposed to the landlord, right? So as a result of that, Berkshire spends a lot of time obviously doing things that we want to do anyway, right? So, there is a portion of our business that is focused on renovations, upgrading the units, right? And we make sure in those renovations that we're sourcing things like Energy Star appliances when we're also doing the work to, right, make the countertops look really nice or upgrade the cabinets or the bathroom. So that's one aspect.

We will also bring in a utility audit if we're noticing a property is trending in the wrong direction to identify if there are any opportunities that make sense for us to implement at the property. The great thing is, very recently, we've seen an explosion of funding for things like free utility audits, a lot of rebates, a lot of direct installation efforts that are coming primarily from the property’s local energy utilities. So, we're very proud to share that since 2023, nearly 28% of our portfolio has actually received a free energy and/or water audit from their utility provider. And we've also been able to receive more than $1 million in incentives since 2023 that either directly fund completely, you know, an installation of things like LED lighting, smart thermostats, low-flow showerheads, faucet aerators, lower-flush-volume toilets. So, we're getting very creative when we do go into the resident unit about what we do.

We've also started to use a service called IncentiFind, which helps us scale the opportunity identification for rebates, direct installation efforts and free audits. And we've had about 41% of our portfolio, in some form or fashion, reviewed via the services that we receive through IncentiFind. And that's been very helpful in terms of, again, lowering that upfront cost for an investment and helping Berkshire take that step to improve efficiency in a resident unit when we would not have otherwise potentially, traditionally, done so. For other types of projects that traditionally just make sense for us, these tend to occur in common areas, right? So, things like LED lighting in hallways and garages, right? Low-flow fixtures in common-area bathrooms. Things that reduce outdoor water use like smart irrigation, and then obviously things like green amenities, like EV charging stations, right, that not only bring in residents but support alternative transportation. So that's kind of how we think, have traditionally thought about things at the property level.

With the onset of our carbon reduction goals, we've added to the responsibilities or what we look at at the property level to make improvements. So, our carbon strategy is efficiency first, right. So, we're doing all of the things we just talked about looking for efficiency opportunities and implementing them when it makes sense. The next thing that we tend to look at is on-site renewable opportunities like on-site solar. And then the third thing that we would do is look for off-site renewable opportunities like procuring renewable energy to support that property. We are also not looking at offsets at this time. So, our strategy is very much what can we do at the asset level or via energy procurement to reduce the carbon emissions associated with the operation of that asset.

Luba Kim-Reynolds [00:20:16] Hannah, I am completely blown away by how robust your strategy is, especially when you talked about due diligence and data collection. And I love the fact that you talked about the value, and the value oftentimes cannot be seen for the borrower because it might go to the residents for utility savings. But another side that I believe is so important is that it probably provides a better resident retention at the properties. So, what are the benefits you're seeing that come from making the property greener for the residents specifically?

Hannah Tillmann [00:20:47] Yes, definitely. And you know, we've been trying to learn more about specific value to sustainability for our residents just this year. And, you know, historically, right, in multifamily, the way that folks have thought about sustainability in the industry is that, you know, sustainability used to not be as big of a factor for residents. That was the prevailing ideology. And then it changed slightly to people care about this but they're not willing to pay. But what we're seeing now is that even within our markets, right, there is an increasing interest of residents and their willingness and interest in living a sustainable lifestyle. And frankly, that sustainable amenities, right, are becoming almost like a bare minimum for someone to walk through that door. And so, the way that we've tried to quantify this over time is obviously, you know, paying attention to industry surveys, looking at the data that others are collecting. But we found that this year we really wanted to understand data specific to our resident base and to build on that over time, right? So, we don't have all the answers yet, but we are really excited.

Our first resident sustainability survey launched this summer. We are still combing through the results, but what we are finding is that the vast majority of our residents that responded to this survey are concerned about the environment. In fact, 81% of those that responded reported that they were somewhat to very concerned about the environment. Additionally, we are learning that about 87% of our residents report they are either somewhat to very interested for living a sustainable lifestyle. So obviously that would incorporate trying to find a building that would suit their needs. And the way that we have traditionally brought our residents in the door, right, is through green certifications, that third-party stamp of approval, that the building is sustainable. And that's super nice, right? Because your leasing staff doesn't have to know every single intricacy of the property. The resident doesn't have to do a ton of research on every little thing. They can see this logo and know that someone else that knows a lot about this subject has basically said, here, resident, this property is sustainable. And one of the other questions that we actually asked our residents in our survey was basically asking them to rank their familiarity with various green building surveys. And unsurprising to us, the top certification was the Energy Star, right, which we know via EPA surveys, is recognized by about 90% of Americans, and the overwhelming majority of our residents of also shared that this certification was very important to them.

So, these are the ways that we're currently trying to share the value of a property with our residents. I will say another effort that we are undergoing is better collecting information on our sustainable amenities and putting them in a centralized location so that we can better educate our leasing teams, so that we can have, you know, even finer details on our website. We already have, you know, the basic sustainable amenities usually listed on the website, but fine-tuning those and really broadening the marketability of the things that we are already doing at the asset level to really get the resident to understand that the building they are walking into, you know, theoretically save them money on utility bills and then also support them in living a sustainable lifestyle if that's what they're interested in. So those are the main ways that we're, you know, engaging residents and trying to quantify the value of sustainability for them at this time.

Corey Aber [00:24:51] So it sounds like, you know, you're collecting a lot of information that, that sort of gets to the question of how you think about impact that you're having, how you measure that impact, you know, with all this information. What are you looking at and what are you reporting out on?

Hannah Tillman [00:25:02] Sure. Yeah. So, I think it really does come back to, right, especially benchmarking that data in Energy Star Portfolio Manager, right. It comes down to the asset level, looking at that monthly, which can translate to annual, which can translate to multiyear trends, right? And energy and water and waste use and cost. And then also the translation of energy use into greenhouse gas emissions, which is, you know, becoming increasingly important for us as it relates to regulations, but also understanding our own impact. We're using that data to identify the properties that might need a little bit of a boost in terms of identifying an operational issue or perhaps bringing in even a deeper expertise in the form of a third-party audit to identify additional opportunities not only for environmental but financial performance. We also have an increasing amount of investors, right, not only in the U.S. but all over the world that are requiring this information as a baseline for their own reporting and investment decision-making.

So, when we first started the sustainability program here at Berkshire, we had very few investors asking for this. We now have very detailed requests requiring asset level wrapped up to portfolio-level information on all of these environmental and also financial inputs, right. And I would say another aspect in the way that we're using this is to support local regulation requirements, right? So, at the building level in the United States, we are seeing an increasing number of building performance standards. But even prior to the performance standards is just the data-sharing requirement, right? So, there's a good number of cities and counties and now states that not only require properties to share their energy, maybe their water data with the local jurisdiction, but then also to improve that performance over time. And so, this data is absolutely crucial for complying with those various requirements.

I will say, you know, two other ways that we use the data are, you know, we do participate in investor reporting frameworks. We are lucky as a private investment advisor that we are not subjugated to a variety of reporting. We can really select the best ways that we want to share information. And so, we primarily participate in GRESB, which used to be known as the Global Real Estate Sustainability Benchmark. It's a way that our fund can report environmental and social and governance data and be compared to against peers. And again, our investors like to see that when they come in the door with dollars. It's kind of like a building certification where it's that third-party stamp of approval on the environmental, social and governance performance of the real estate fund they're looking at.

The information that goes into GRESB and comes from benchmarking also supplements our annual sustainability report that we produce as a firm. So that's one other way, you know, we're using that information. And again, that's increasingly requested of us from existing and potential investment clients.

And then finally, you know, as it relates to our residents, we've always conducted traditional resident satisfaction surveys making sure they're happy with their property. Looking for opportunities, you know, to make sure that they are able to live in a lifestyle or a way that is conducive to their needs. But we now have this edition of the sustainability survey, which we're hoping to further refine over time to really try and get into the value proposition of some of the other things that we're looking at on the sustainability side. So, we're excited to make some movement there.

Corey Aber [00:28:57] So Hannah in obtaining all this data, right, you mentioned sort of the disclosure benefits of it and needs for it, and also the information you're gathering from it. But there must be some challenges in getting all of this and making sense of it. How have you worked through that and what are those challenges?

Hannah Tillmann [00:29:11] Sure. I think there are two primary challenges. One, in multifamily, you know, as we've discussed, we do not pay all of the utility bills so, it's hard for us to get kind of the whole-building perspective on the data, which is required from oftentimes a compliance standpoint as well as for, you know, reporting to our investors and various needs that we have across the organization. So, the data coverage piece is a constant challenge. Sometimes we only have the data that we pay as landlords and we have to estimate, right, to fill in the gaps. And then sometimes — and we're seeing this happening more and more often — the utilities are able to provide that whole-building data so that we can get that big view.

However, when you just have only the big view, you can sometimes lose the nuance in understanding, you know, did this thing I conducted at my property like new boilers for a centrally heated property, what is my ROI [return on investment] on that project when I don't necessarily have the right scope of the meter configuration? So that's the second challenge, right? It's being able to scale and understand the exact value from a financial standpoint and frankly, an environmental standpoint, gained from a specific initiative over time. We have a loose understanding of it. You know, if something was done in the common area and we have the landlord bill, we can still do it. It's a little bit manual. And so obviously our aim with BerkshireTHRIVE is to bring as much as we can back to the financial proposition, acknowledging that the environmental proposition is right there next to it, right.

So, I would love better insight and being able to scale and understand the value of those sustainability initiatives over time. And we're looking at software opportunities and various metering things that you can do at the property to gain better insight. We haven't found a perfect solution yet, but I'm confident that this will become easier over time to really explicitly share that business case, which then goes hand in hand with the environmental improvement as well.

Corey Aber [00:31:29] You talked a lot about how you think about on-site energy and renewables, but off-site energy is a, is a big contributor for the property. So how do you think about that?

Hannah Tillmann [00:31:37] As part of our carbon strategy as I mentioned, we go efficiency first, then on-site renewables and then off-site renewables. And frankly, off-site renewables are sometimes the only way a property can source renewable energy, especially if they don't have a location that's feasible to solar, right, or their rooftop isn't big enough. So, we are really excited to be expanding our off-site renewable energy purchasing program. We think about it in broadly by in the way that we would basically buy renewable energy credits in concert with our utility agreement for the property. So again, this would just be landlord-paid bills because that's what we have the ability to change, right? And so, when we are going out to bid out energy, there are two types of markets, right? There's regulated where you do not have the choice of a utility provider and there's deregulated where there is choice, right? So, in deregulated markets, we have worked with our energy procurement consultants who have traditionally sourced bids for us in those locations. And we have specifically asked them to not only give us the standard rate for electricity for each supplier, but also if they offer a green energy procurement option to tell us what the standard rate is. And so, any time we go to bid out to contract now, they have to give us the standard rate and the green rate. And we created a little tool that helps us calculate the difference in the percent change. And we worked with Berkshire leadership a couple of years back to really develop some financial criteria about when does it make sense to procure renewable energy? And we've set some guidelines in place so that all of our procurement strategies are in alignment with financial expectations. And frankly, in many of our deregulated markets, the price for a completely, you know, 100% renewable contract is not materially different and sometimes cheaper actually than the standard agreement. So that's worked out quite nicely.

In locations where you do not have the choice of a provider or you're in a regulated market, we've gone through and done some research on does that one provider for your given area offer an alternative way to buy energy where you can have, you know, 100% renewably sourced electricity? And in many cases, this is the case. And again, though, we have come down and created the financial criteria for when would we make that decision. So, our asset and portfolio managers are notified in the case of regulated markets when those opportunities come up. We're slowly working through the portfolio right now. They're provided with the financial criteria, and they can make a yes or no decision as to whether or not to procure renewable energy that way. So, it's been a really nice way to objectively share that information.

And I will say two more, you know, aspects that we're thinking about as it relates to off-site renewable energy are one, community solar, which is a little bit different, right? It's where Berkshire would support local solar developers but not get to claim credit for procuring that renewable energy. The reason we're looking at this in states that have supported it is because oftentimes you can get a 5 to 10% credit on your utility bill. So, this comes as purely financial benefit, very little that Berkshire has to do, and then also we can support those local solar generators in their, you know, endeavors to create more solar on the grid, which we're happy to do, and save money at the same time.

Luba Kim-Reynolds [00:35:28] How big is this market? How many projects you have right now with community solar?

Hannah Tillmann [00:35:33] Yes. So, we have just started looking into this. As of right now, we have at least a, you know, 10 to 15% of our portfolio that is eligible. And usually because these programs are in very high demand, there is a waitlist to get on. So, we're working through those opportunities right now for the properties that are eligible. We have received approval to join or, you know, sign up as an official subscriber to these community solar programs. And now in most cases with a — you know, we've got one or two meters that have gotten through — we're waiting in that waitlist to basically become official subscribers. But from my understanding, this is a state-by-state regulation. More states are signing on to support this type of agreement each year. So as time passes, opportunities will only increase.

Corey Aber [00:36:32] Thanks. It sounds like there's really a lot of lessons in everything you just talked about. And you know, you talked a lot about the the energy side of it, but there's also a resident component. So how do you engage residents on some of this?

Hannah Tillmann [00:36:42] Sure. So, we are really excited to support our residents in procuring sustainable energy as they want to or if they want to. And so, the way that we can currently do this at scale is we have created some green energy procurement guidance and a resident sustainability guide that we actually just released earlier this week. And it's got a full page on how to talk to your utility provider and where to go if you're interested in switching your existing electricity agreement with your utility provider over to, you know, a certain percentage of renewable. So, we basically are able to provide them with resources kind of from a distance, right? Because we're operating in a number of states with a number of utilities, that's the most efficient way for us to get to them. However, when we have properties that have a resident base that's very active or we have some compliance reasons to do so, we will also work with our on-site teams and create property-specific fliers that are either emailed to residents or posted in the lobby where they can actually look at their exact steps one through three of how they can sign up for renewable energy, specifically at their property. So, there's kind of two approaches that we're taking. One is that national approach via our sustainability guide, which has some other great tips and resources to save on energy, water and waste in their apartment homes. And then also a very targeted approach for assets that have that active resident base or other motivations to really try and get through that communication to the residents.

Luba Kim-Reynolds [00:38:30] There's one question about the on-site solar, Hannah, that I have for you. What are some typical structures that you have for your solar projects?

Hannah Tillmann [00:38:39] Berkshire primarily operates in the form of real estate investment trusts for the majority of our investment entities. So historically, it's been really hard for us to take advantage of that federal investment tax credit in the past, right. And obviously, the federal investment tax credit is a huge benefit to someone looking to install or purchase solar. So, as a result of that, traditionally we've opted for something called a rooftop rental and power purchase agreement. And in this business model, basically Berkshire would rent out our rooftop for an annual amount to an entity that not only develops but then owns and also maintains the solar array. And then what we do is sign an agreement by which we would purchase all of the electricity generated as well as the renewable energy credits from that system. So, in that way, we're not owning the solar panels, there's no upfront capital expenditure, and it's relatively low risk because we're not in the business of developing or bidding out or maintaining, you know, anything to do with those solar panels. And we can obviously receive lower-cost electricity over time.

So, we do have an asset in California right now that is in the 60% design phase. We're going to be leasing out our rooftop for a certain amount each year and then offsetting about 90% of the energy that we need for the common area of that property. And then we're also achieving, right, energy-cost savings over the 20-year term of that agreement by procuring energy at a lower rate than we would be by paying the local utility. So, it has a very positive financial benefit as well as environmental benefit for us.

There is an evolving way that we are now looking at bringing solar to our properties, and this is primarily helped by the passage of the Inflation Reduction Act and associated policies, right? Where the Inflation Reduction Act basically allowed for transferability of that investment tax credit, meaning that Berkshire, even as a real estate investment trust entity, could be able to outright purchase the solar panels and sell the credit that we would receive on the open market to make the financial models for that investment come out more positively. So, as a result of that new transferability of the investment tax credit, we are now looking at projects from an outright ownership perspective. Obviously, it would still need to be a good fit for the property as well as the fund's business plan as well. But those are the two primary ways that we look at approaching solar on our properties.

Corey Aber [00:41:39] Well, thank you for sharing that. And there's just so much that goes into this. It’s really fascinating.

Luba Kim-Reynolds [00:41:44] Hannah it's been fantastic conversation, learned so much, loved how you talk about the efficiency improvements, renewable energy, and actually was very impressed that you guys have waste management in place. But looking forward, what do you think one of the biggest opportunities that will come in the future in sustainable finance and sustainable property management?

Hannah Tillmann [00:42:10] Sure. So, I mean, as it relates to sustainable finance, right, that's the cherry on top to the business case around sustainability. It adds to this growing value proposition of rising utility costs, changing investor preferences, changing resident preferences, increasing climate risk, growing utility risk, you name it, right? It's all adding to the business case. But you know, continual lender encouragement or preferential pricing for sustainable real estate is obviously huge and it is just, you know, further motivating all of the work that we're doing at the property level.

So obviously, you know, innovations or solutions related to sustainable finance, I would just say, you know, for the lenders to continue encouraging the uptake of new or best-in-class opportunities to reduce environmental impact, right, via preferential loan products, which make our lives easier to to drive that value proposition, right. And then in general for, you know, multifamily property management, I'm very excited about proptech [property technology], right. There are so many cool and lower cost, you know, ways that we can do things now, whether it's EV charging or smart thermostats or, you know, understanding the nuances of metering within a building. And I am incredibly optimistic that these things will continue to get cooler and be able to do more and provide better insight in how to actually, you know, manage your property to optimize financial and environmental performance over time. And I also see those costs going down. And I think that paired with really exciting, you know, multifamily-specific software opportunities where we can actually better visualize, right, our performance over time or produce reports that are very difficult for us right now with the click of a button. Obviously, I'm very much looking forward to so that we can free up more of our time to actually drive that impact and make that change that we all love to do. So that's kind of what I'm really excited about.

Corey Aber [00:44:17] This has been such a great conversation. Such a deep topic and you've been, you all have been really thoughtful about everything that you're doing. So many lessons that that we across the industry can take from this. So really grateful that you were able to join us today. Thank you so much.

Hannah Tillmann [00:44:31] Yes. Thanks, Corey. Thanks, Luba.

Luba Kim-Reynolds [00:44:33] Thank you.

Corey Aber [00:44:37] Freddie Mac Multifamily podcast is produced and supported by a team of our Freddie Mac colleagues, including our production lead, Jenny Nguyen and our audio producers, Jackson Carmichael and Matt Greenland. To listen to more and keep up with the latest episodes, be sure to subscribe wherever you get your podcasts and check out our website mf.freddiemac.com/research for the full catalog of podcast episodes and original Freddie Mac research.