

'The Market Is Demanding It': Boston Developers Face Growing Pressure To Decarbonize Buildings

Taylor Driscoll,

While Boston developers still have more than two years before the city's carbon emissions caps **become mandatory**, they are already facing powerful market forces pushing them to show results now.

The investors that finance new projects and the tenants that provide their income are increasingly pressuring real estate firms to lower the carbon footprints of their buildings, developers said last week at *Bisnow's* Building For The Future: Smart Buildings & Sustainability event.

"We will react very quickly to either what the government makes us do or the market," **MP Boston** principal Kathleen MacNeil said at the event, hosted at **the Seaport's Omni Hotel**. "The market is saying we want a healthy building, we want a building that speaks to the climate, so therefore, it's going to happen or you're going to have a product that's obsolete."

This year, MP Boston has **landed** three major office tenants at **Winthrop Center**, its 53-story, 1.4M SF mixed-use project in downtown Boston. McKinsey & Co., Cambridge Consultants and IR+M all signed leases that MacNeil said wouldn't have been possible without the sustainable design that Winthrop Center boasts.

The project is **on track** to be the world's largest office building with Passive House Institute certification, **using** 60% less energy than Boston's LEED Platinum buildings.



MP Boston's Kathleen MacNeil and Shawmut Design and Construction's Tom Perry

"If the market demands it, it'll happen," MacNeil said. "The market is demanding it."

In addition to demands from tenants, developers are also seeing investors place much greater importance on the carbon emissions of their projects.

"We have investors that are really begging for decarbonized products because all the institutional funds have mandates to reduce carbon, and that's driving the capital," **RENU Communities** Chief Technology Officer Chris Gray said. "If you don't have a decarbonization strategy or a decarbonization plan, the money will dry up."

Embue CEO Robert Cooper, whose company helps property owners reduce their carbon emissions, said sustainability is now playing a much bigger role in the financing of projects.



MP Boston's Kathleen MacNeil, Shawmut Design and Construction's Tom Perry, Harvard University's Heather Henriksen, CREF's Ryan Hayden, Dyer Brown's Laurel Christensen and NFP's Dustin Smith

“What we are seeing most recently is very much a sea change in the importance of carbon equally with the economics and finances for projects already out there,” Cooper said. “For those of us that have been in this business for a long time, that’s a very welcomed change that we are seeing. When leadership makes that change, there are a ton of people that are in these companies that are primed and are waiting for that signal.”

The push for sustainable development has been a top focus of Boston's city government, which enacted landmark climate regulations one year ago.

In October 2021, **acting Mayor Kim Janey** signed the **BERDO 2.0** law, which requires all commercial and residential buildings that are at least 35K SF or have at least 35 units to **report** their energy and water usage and sets mandatory carbon emissions caps starting in 2025. It then lowers the emissions caps every five years until 2050, when it requires buildings to become fully carbon-neutral.

Buildings account for 70% of the greenhouse gas emissions in Boston, according to the city's website. Although just 4% of the city's buildings will be affected by BERDO 2.0, those larger properties are producing 60% of overall building emissions, [according to Boston.com](#).

Open-air mixed-use spaces like [Assembly Row](#) are also facing pressure from investors to transition to more sustainable practices. Emily McLachlan, director of sustainability at [Federal Realty](#), said tenant requests have doubled in the past year, yet another indicator of a shift in the market.

"Investors are knocking at our door more and more every single day," McLachlan said. "Of course, we are being regulated on it as well, so we are feeling it from every single angle. In some regards, it's great because now I have a bigger hammer when I need to push things through, but other times it presents a challenge for decision-making."

In August, Mayor [Michelle Wu](#) filed a [home rule petition](#) that would allow the city to establish fossil-fuel-free building standards. This would allow the city to take advantage of a state law [Gov. Charlie Baker](#) signed, [An Act Driving Clean Energy And Offshore Winds](#), allowing jurisdictions to create local ordinances to restrict the use of fossil fuels in the withholding and conditioning of building permits.

BERDO's emissions caps aren't yet mandatory, but when they are, those who refuse to comply with the ordinance will [face fines](#) of \$150 to \$300 a day, depending on their size. Failure to report emissions data can also lead to fines ranging from \$1K to \$5K.

Zach Livingston, head of customer growth at ClearTrace, said the fines act as a "stick" approach to get building owners to comply. However, he said the city should also provide more "carrot" approaches like carbon credits and other monetary incentives for owners who go under the BERDO threshold.

"The best way to influence behavior is money," he said. "What we see is typically a lot of stick approaches through regulatory drivers: 'If you don't hit certain emissions targets, we are going to fine you.' But I think incorporating more carrot approaches as well is going to be a great driver to influence behavior."



Stantec's Blake Jackson, WSP's Joelle Jahn, BXP's Ben Myers, Northeastern University's Leah Bamberger, ClearTrace's Zach Livingston and AEI Consultants' Karla King

Last week, the Boston Planning & Development Agency **put forward a plan** that would require new large buildings under construction in the city to achieve net-zero greenhouse gas emissions immediately.

“That’s really scary for a lot of owners,” **WSP** technical principal Joelle Jahn said of carbon penalties.

Not only would the **BPDA’s** net-zero regulation affect multifamily and industrial assets but all types of buildings, including life sciences labs and hospitals.

For Ryan Hayden, chief digital and strategy officer at CREF, the healthcare sector faces challenges in shifting priorities to make its real estate assets more sustainable.

“It really is this uphill battle to convince people that there’s only one dollar to go around and how you have that paradigm shift for people who associate clinical care with spending more on doctors and nurses and things instead of buildings and systems,” Hayden said.

Moving forward, developers also expect to focus more on making sustainability improvements to their existing buildings, especially as macroeconomic pressures continue to slow the construction pipeline.

“We know that new developments will slow down because of inflation, cost of construction, interest rates,” MacNeil said. “To me, what’s really going to be exciting in the next wave is our existing stock and what we are going to do and how we are going to have these buildings come up to what’s expected.”



Boston University's Dennis Calberg, RENU Communities' Chris Gray, Federal Realty's Emily McLachlan, Lendlease's Holley Chant, Embue's Robert Cooper and Evolution Sustainability Group's Chuck Hurchalla