Brad Dockser:

People want to work for companies that they're proud to say they work for. They want to work for companies that align with their values, that align with the things that are important to them. And they don't want to work for companies who they believe their objectives or culture is misaligned with them.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate. Today's episode kicks off our third annual month of August focus on climate change in the built environment. Today's interview recorded on June 29th is a conversation with Brad Dockser, who with his wife, Debbie, lead a company called GreenGen. In two weeks, I'll be interviewing together two heads of sustainability in ESG, both at global investment firms, Caroline Johns from Pembroke and Jess Bissey from AEW. As a recruiter, I think all the time about what combination of experience and attributes makes a special person special and built for what they do. For me, Brad's story combines three themes, which together make him an important person for our industry's engagement in climate.

First, Brad's a no nonsense real estate investor with investment discipline drilled into him at JMB, which was arguably the most important progenitor company in the institutional real estate business. His dad's firm, Criimi Mae, and then Starwood, Barry and Brad had worked together at JMB, and then McFarland. He comes by the real estate investment discipline with dog years at those firms. Second, Brad's a pretty amazing people connector, something I understand deeply in my business. If you listen to the tail end of this episode, you'll hear the story of never underestimate the value of saying hello to a stranger, which got me and Brad connected years ago. I also recommend that you listen to the podcast interview that Brad did a few months ago with our friend, John Coe, on his Icons of DC Area Real Estate Podcast, where he drills much deeper into Brad's background, and you'll get an even deeper sense of Brad's connectivity gene.

And third, and most important to the story, Brad and Debbie saw the opportunity, the thesis that you can make a return on this stuff and the imperative to jump into the climate challenge for real estate. I love this conversation with Brad because as I suggested with the three themes, particularly as a recruiter, I think that impactful people are all about their whole self. As a recruiter, the second question I ask in every interview after, "Please give me context for why we're talking," is, "Where did you grow up and what did your parents do?" That question might not be PC these days, but it's so often the keys to the kingdom because people will start telling their truths from these questions. Many interviewers go right to the present job and responsibilities, but I want to know their journey, their drivers.

I want to understand their context to understand the person they've become. Brad found his life's work mid-career, as did I, and became an important leader in our industry by pulling these things together. I love that part of this story. The other part of the story, which we're telling in this subseries on Leading Voices started two years ago is the societal and business imperative over our industries jumping into climate change. So this is episode five in the series, and we will keep going. And we're hoping at ZRG to play our role in the climate and real estate mandate by helping companies build out their leadership and sustainability. What we know will be an increasingly staffed role within the real estate space.

Leadership capability and embedding carbon thinking across the real estate organization is our industry's mandate, which again, we know will be a big part of what we're all going to be doing going forward. And as you'll hear on this in the next episode, as an industry, we're still early days on this journey on climate responsibility. As always, I hope that you're enjoying leading voices and that you find value and wisdom from this week's episode. If so, please recommend the show and your favorite episodes to your friends and colleagues. If you have comments, questions, or guest suggestions, or want to get in touch about how ZRG can help your company grow, expand, or think through your human capital needs, please email me at mslepin@zrgpartners.com. I hope you enjoy the conversation with Brad.

Brad Dockser, welcome to Leading Voices in Real Estate, and thanks so much for being on the show. You and I have talked about this for three or four years now, and we're finally doing it. As we've discussed every August, we have two episodes on climate change and real estate. And it's August primarily because I live in Sonoma County where we have heat, we have the need for air conditioning, and we have fire. So climate change comes right into my face as a risk and something I really care about, but we do across the board in the real estate business. We have a lot to talk about today, a lot of windows through which to enter the discussion. So we're going to try to hit all of them in a little bit more than an hour, so we have a lot to talk about.

Brad Dockser:

Terrific. No, super happy to be here, Matt. And as you said, we've talked about this for a long time in the past. I've given you ideas of people who'd be on the show, and I was happy to have you turn it around this year and say, "How about having you on the show?"

Matt Slepin:

Perfect. Well, here we go. So Brad, why don't you introduce yourself briefly and GreenGen, and what it is that you do, and what the business is just as an overview. And then, we'll talk about all the subjects.

Brad Dockser:

Sure. I'm Brad Dockser, and I'm the Co-founder and CEO of Green Generation. We're a Washington, DC based global sustainability firm that helps the world's leading investors and governments transition to a low carbon future. And what that means is we're really working with people to both develop strategies, but particularly execute those strategies at the portfolio enterprise and asset level to help people basically get ready for this tidal wave of change that's coming from climate, from sustainability, ESG, if we want to use that term. But really help them advance to what the world is going to be tomorrow and not what the world is today.

Matt Slepin:

Fair deal. And you do that with a focus on the built environment, not a focus on many of the subjects that we read about in the newspaper relating to climate change. It's focused on what I'll call our business.

Brad Dockser:

Yeah. And I think we have a fairly broad view of what the built environment means. The majority of our work is with commercial real estate, so the leading global investors and REITs around the world. We also work with leading private equity investors as well as governments. I think we have a fairly broad idea or definition of the built environment.

We've done projects that have ranged from office buildings, and hotels, and all the way to manufacturing and industrial. We've even done projects for the US government that look like the US-Mexico border. So no physical space, but lighting. We've worked for the forest service in California, Oregon, and

Washington, who used the term structures loosely because it could be a 20,000 square foot building, it could be a 500 square foot shed that is holding or storing equipment.

Matt Slepin:

And your role is one of consultant and advisor to help them think through their strategy approach to the problem. Kind of talk a little bit about that. You're not manufacturing stuff.

Brad Dockser:

We're not. We are primarily operating as an integrator of technologies. The interesting thing about the business that we've built is if you think about the journey to net-zero low carbon future, there's both the need for a strategy. And then, there's a need to execute the strategy. Historically, the focus has been on developing the strategy. And the vast majority of, I think, market or industry participants operate in the strategic side. So they're developing strategy people. They're telling them what to do. They're telling them what to articulate to people.

There's a much smaller set of people, including Green Generation that live on the other side, which is the execution side. Many of our clients, we actually are developing a strategy for them around climate and sustainability. Many of them come with a strategy that either somebody else has developed or that they have developed themselves. But in all cases, we're actually executing. And the interesting thing about that and the important point to make is that, five years ago, the focus is on, do you have a strategy? Investors wanted to know, stakeholders wanted to know, tenants wanted to know, boards wanted to know.

Today, that has shifted from a conversation around you have a strategy to a conversation around actually executing. Have you executed the strategy? What are you doing? You say you're going to reduce your carbon by 50% by 2030. What do you do in 2022? What have you done in the last six months? What does the next six months look like? We've moved from a world of what to do to one of, did you do it? And I think that's a really important shift because now it's really about action and execution and not talk.

Matt Slepin:

It's interesting. I'm guessing before they did strategy, they said, "Oh, let's get someone to kind of help us with this. We'll put some solar roofs on." So it might have actually started with low level tactics, but not a broad strategy. Just, hey, let's get some data points to say we're doing something, then strategy. Now, it's all about, okay, let's get it together.

Brad Dockser:

And I think within the tactical piece, there's been sort of an evolution. A lot of the groups that we work with have done something or they've done a lot of things in different places. They've done solar over here. They've done lighting somewhere else. They've done controls. They've done building envelope. What they haven't done is they have not embedded sustainability into the enterprise. They have not embedded it organizationally, so that it becomes just a fundamental part of what they do from when they're buying a building to when they're designing it, when they're building it, when they're financing it, when they're owning it, and when they're selling it.

And a lot of this is about taking these ad hoc measures and basically institutionalizing them, if you will, so that there's a playbook, so that every time they buy something, they do X. Every time they own it, they do Y. Every time they build out a tenant space, they do something else. And that's the difference between a tactical program and a strategic program, making sure that all these elements are considered every single time. And that's really hard because that's not only about the technology, but it's also about changing human behavior.

There's a cognitive element too. How do we get people to change fundamentally what they do and how they think about things? People historically has not been around sustainability, or ESG, or climate, because that's not what asset managers did. That's not what leasing people did. That's not what the people who finance buildings did, or finance construction, or the construction firms. But we sit in a much different world than the one that we were in just a few years ago.

Matt Slepin:

And does that mean in organizations, the concept of a chief sustainability officer or a role like that, someone who owns it across the enterprise is a critical element to getting there?

Brad Dockser:

We think so. And I think the other part of it is, when we first start talking to any company, one of the first questions we ask the counterparty, if you will, whether it's a chief sustainability officer or a head of asset management, we want to know where they sit. Who do they report to? Do they report to the board, to the CEO? Some organizations, the people report directly to the CEO. Others are part of an asset management team.

Some of them have multiple hats. They are on the development team one day. They do ESG on Wednesdays. That tells us a lot about the priorities of a company and where they see sustainability fit. We do have an abiding sort of belief that climate is profitable. And so, we prefer when we see groups having ESG or climate sustainability embedded into a financial part of the firm, because we truly believe that if you do this right, it drives a financial outcome, but it also drives the climate outcome.

Matt Slepin:

Yeah. Look, real estate is very transactionally oriented and operationally oriented at the same time. We love the transactions. They're fun, they're sexy. It's what moves the needle, but the needle stays up high because we're operating well. And on both sides of that equation, this needs to be embedded within an organization. But the person better be conversant in those drivers of transaction, or else they won't be taken seriously.

Brad Dockser:

It's a really good point because I think when we came to this 13 years ago, I'd love to tell you that we had a vision of how the world would change, and it would be focused on net-zero, and carbon, and greenhouse gases. We didn't have that. Came to it out of the great financial crisis around the idea that top lines and revenues were collapsing. And we basically, like many people, rediscovered the bottom half of the income statement where the expenses live. And when we did that, we had this aha moment that energy was much bigger than we realized. It was controllable, which today, sitting in 2023, that seems very obvious to people.

13, 14 years ago, the idea that the utilities were controlled was not an obvious thing. We generally just took them as a given. We just paid the bill. We didn't think much about reducing them. And technology become much more powerful. There was an opportunity to integrate technology in the built environment, drive your OP EX down, your EBITDA would go up. And if you did it right, you'd also get this co-benefit of sustainability, resiliency. But there was nobody really doing it the way we thought. And I think what we've come to understand with hindsight is that the energy piece is not the unique piece.

It's that we integrate the energy expertise, including engineers of all sorts of different disciplines and architects with a keen understanding of real estate, capital markets, and technology. So it's not just that we can save you a hundred thousand dollars in you're building, but it's then, what's the lease structure look like? How do the expenses get reimbursed? What's your cap rate? What's your capital stack look like? What's your whole period? And to your point, the ability, not just have the energy conversation, but contextualize it in a real estate or an investment sort of approach is quite unusual, partly because I don't think many people would ever consider leaving real estate private equity to start a firm like this, but I did.

Matt Slepin:

But you did.

Brad Dockser:

And Debbie. And so, that's where we are.

Matt Slepin:

Okay. We're going to come back to your origin story. And one other question about your introductory comment, which was, let's plan for what's inevitable five or 10 years out. And I love to look at, okay, what do I know is 90% likely to be true in five or 10 years? And then, how can I behave, invest, recruit, live the life so that when that happens, it'll turn out well. And I think there's little question about the inevitability that climate is going to be a headline and something that has to be solved. But there's still people questioning this or thinking it's purely political, which it isn't. Any comment about that kind of long-term and future thinking perspective?

Brad Dockser:

A couple thoughts. One, while I don't particularly think that the question of why the climate is changing is unknown. I think there's a consensus around why it's changing. Human activity is changing. I can't imagine there's any dispute that the climate is changing. There's a small sort of disagreement about why, but why doesn't really matter. If we know the problem is happening, then there's a profitability, there's a return on it associated with actually mitigating that change. The why may steer you toward in one direction or another as to what you do. But there ought not to be any question that the climate is changing at this point.

We see that every day with the levels of lakes, of rivers, temperatures. Just this week, we're seeing extreme temperatures in the Southwest and in Mexico with deaths associated with that. We're seeing the smoke surrounding the East Coast, particularly where I'm sitting today. I have the smell of smoke coming from Canada from wildfires. So there should be no question that's happening. It's a shame I think at some basic level that it's become politicized. That really, as far as I can tell, has very little to do with the actual issue and has a lot to do with sort of the political climate in the US and just the latest issue that is getting dragged into that.

Matt Slepin:

I think you're right. And anyone in the mainstream of business is dealing with it because they know it's the truth and they have to, and they look ahead 20 years, and investments need to go that way. So let's kind of... Go on.

Brad Dockser:

I'll make one interesting point. We often have a sense that real estate investors, opportunistic investors are going to own something for three or four years, and this is not their problem. But they're still underwriting a five, six, seven-year hold period. They are underwriting the idea that they're going to sell to presumably a core, core plus buyer, because no opportunistic investor wants to sell to another opportunistic investor. So when they sell to the core, core plus investor or a REIT, they're doing at least a 10-year discount cash flow on the asset.

So we're talking at least 15 or 20 years of performance of an asset that are going to be inside the valuation of it, that are part of this process, this underwriting. And while that may sound like a relatively short period of time in the scale of humanity, an awful lot can change. We look at the changes that we've had just in the last couple of years around water, rainfall, volatility of storms, extreme heat. And imagine now, we're talking 15 or 20 years. 15 or 20 years, we'll see significant change in the climate. The change in climate is accelerating rapidly. And our ability to do anything about it in the short term is quite limited.

Matt Slepin:

Absolutely. Unquestionable. So let's talk about our industry. I'll mash up two concepts. One is 40% of global emissions come from the built environment. I don't exactly know what that means. I don't know how much of that is addressable by "our industry." Is it all people's single family homes? Is it hovels in Yugoslavia? There's no Yugoslavia.

But in Kosovo, my daughter worked. And she was dealing with climate change because people live in cinder block houses with no insulation. What's solvable around it? How big is the problem? If we attack the problem against our "40%," maybe it's 20%, can we move the needle? Kind of unpack that a little bit for us. And then, we're going to dive into all kinds of subjects around that.

Brad Dockser:

Yeah, I think this is a problem. There's no silver bullet. There's no one asset type. There's no one geography. There's no one industry that if we solve that, or if it were to disappear or improve, would make this problem go away. So this is an all of the above solution kind of problem. We talk a lot about commercial real estate and the investment side. They have the ability to impact. But we talk about the occupier side. The occupier side is public sector, it's government, it's firms that own their space like Google, Facebook, Meta, all manufacturing firms that own their factories.

And all of them need to be doing something. Is there a perfect solution for the cinder block building that has no insulation? No. Are there things that that building can do, or the owners, or occupiers that building can do to reduce their impact on climate? Yes. Do we have to do it at scale over millions of smaller homes and residential units? Ye. It's a really challenging issue. But the fact that it's challenging and hard doesn't mean it's one that we should ignore.

Matt Slepin:

So I want to think about our industry, but maybe we can come back to the places in our industry that you play as examples to make a difference. But let's stick with psychology for a minute. The word solvability.

You got to feel solvable or else you're just not going to bother. And we have the tragedy, the commons, which is why should I bother if the guy next to me is not bothering.

But I'm going to be one not to bother, let them bother, because I'll make the marginal dollar and be happier, because I'm not spending the money on this stuff. Think about solvability, think about psychology, and then maybe we can also bring in the ESG thing that's now, I don't want to stay it, but away from politics. But that's now like a dirty word all of a sudden. Hopefully, that's a short-term dirty word. But think about solvability, think about psychology.

Brad Dockser:

The psychology plays a big part. And historically, five years ago, there were relatively few people doing it. Some of them were, I wouldn't say hostile, but they were absolutely uninterested. And the problem with the commons is a really significant one. Our abiding belief is that climate is profitable. And even if your neighbor isn't doing it, you're doing it, you're mitigating the impact of climate, you're integrating technology and best practices simply makes your asset more valuable. It's more resilient. It will use less energy, electric, water, gas, and steam. It may see its insurance costs lower because the risk profile drops as the asset becomes more resilient to certain types of risks. We don't see any reason for people not to do this.

There's some friction involved in actually the execution. It is simply harder to do it for a home, certainly for a commercial firm to go, and solve it one house at a time when you could do a 300 room hotel. The impact of the 300 room hotel, the single intervention, the single contract, the single sort of engagement is simply much more impactful. But it doesn't mean that the other ones don't make sense because it all makes sense. And eventually, whether your view is five or 10 or 15 years, everybody will be doing this. The question is simply, do you have a first mover advantage? Can you do something today that will give you an advantage vis-a-vis your neighbor or your competitor that otherwise wouldn't exist?

Matt Slepin:

It's interesting. I think businesses have an efficiency of scale, and they can afford to hire a person who knows their stuff on the subject that you can't have as a homeowner. We talked about this on one of the podcasts about single family SFR. Being an SFR owner allows you to replace a kitchen for $12,000 instead of for $50,000. Same kitchen for the homeowner. The amount of inefficiency in getting a contractor to come in and make those decisions is crazy, but not for institutions. So we could do it effectively and pave the way.

Brad Dockser:

Yeah. And when institutions and larger organizations do it, they bring down the cost. They're bigger buyers.

Matt Slepin:

Right.

Brad Dockser:

The materials and labor they help create. One of the exciting things about, as an example, that IRA Bill and the US government, it's the US government committed to be a big buyer of both green concrete and green steel, which meant that people in that industry now could build factories and could build capacity knowing there was a market on the other side that would be their offtaker. That's the idea behind the Department of Energy's loan program.

Just what are the catalysts or what are the impediments early on to scaling? And can we take them away, either provide capital, reduce the cost of capital. Can we provide the demand? Can we provide an offtaker from materials? And that's really where I think the commercial real estate industry and the larger occupiers have a real role to play to catalyze these industry and to catalyze these services and new approaches.

Matt Slepin:

Yeah, it makes total sense. So sticking with big picture stuff, one of the things I'm hearing lately is because we're in a "real estate recession." And I was at a board meeting last week, and they said, "Well, investors don't really care right now. They cared last year when we were rolling in the-"

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Matt Slepin:

Investors don't really care right now. They cared last year when we were rolling in the dough, but now everything's tight, so they really don't care about that environmental thing. Maybe they will in three years, but let's just go do deals.

And I raised my hand and said, sorry, I don't buy that either from an economic standpoint or a reality standpoint. But has the conversation kind of died down a little bit because of the economy right now?

Brad Dockser:

It's a really interesting question, Matt. I've been involved in a gentle back and forth with a reporter who recently wrote an article that commercial real estate was deprioritizing ESG. And she started the article by citing a panel back in February that I happened to be on. And so yeah, I'm quite familiar with the content of the panel.

And her thesis was that people are more focused on refinancing and leasing and ergo ESG has been deprioritized. That's really not our experience. And to some extent, this got into the semantics of what the word deprioritize means. Are there things that are more on people's mind at this very moment? Yes, because they need to refinance a building or they've got a loan coming due, tenants are leaving. And it's not so much that ESGs, they've lowered the priority. There's just something else that's moved above it temporarily.

And so it really becomes down to the idea if something moves down the list just on a ranked list, does that mean it's been deprioritized or simply something else in the moment is, you need to do it today. We're seeing in every one of our firms that we work with hiring more people, having more discussion at investment committee around energy, transitional risk, climate risk. We're seeing more discussion of climate and sustainability when they go to finance something, when they go to sell it, when they're talking to LPs.

There will always be an ebb and flow. We often find on any given day, we are the second most important thing that people want to talk about, but any given day, the number one thing is different. I need to hire somebody. I'm trying to refinance a building. I'm closing. I'm interviewing interns. It doesn't mean that we've been deprioritized. It just means that right now there's something else in that moment that they're more focused on.

Matt Slepin:

That's a wonderful way to put it, because when you're facing a loan default, that's your priority. When you haven't had lunch, that's your priority. But this doesn't go away. So I think that's a really strong way to put this subject.

Let me ask another question like this. If I think, again, we're staying big picture because I'm trying to get context around this. When I think of ESG as three initials, I'm always confused about how they got married. And they're all important. E is important, S is important, and G is important. But seems to me that the marriage almost denigrates the long-term nature of the E components that can't disappear and might be embodied in a different human being in an organization to think about that stuff. So combining them actually is noise to me. Any thoughts on that?

Brad Dockser:

I can't tell you myself exactly where ESG came from. I wonder if this isn't sort of the acronym equivalent of when you move houses a box marked other and that just all the things that got left over that don't go into a specific box, they go into the other box, and the other box just happened along the way to have E, S, and G.

The people that execute E, S, and G are all different. The different parts of the organization are different. Some are cost, some are best practice, some explicitly drive ROI. And I think S and G drive ROI, as well, but they're more implicit. It's more implied. It's softer in terms of where the return comes from.

The E, the ROI is explicit from that point of view. It feels like a marriage of convenience and I think most of us, if we had the ability to go back in time, we would talk about these differently. We would sort of group them and aggregate them in a different manner.

Matt Slepin:

Yeah, I get the sense of E, S, and G together mean do good and window washing stuff, and I think of E as throughout the entire investment process, as you said before, and I think that's a great way to look at it. So again, to me the combination's confusing, and maybe why a little bit it got politicized.

Brad Dockser:

Yeah. Listen, it's clearly unfortunate what's happened. I think what you find more than anything else, the firms are addressing E, S, and G in different manners. E has the most attention because the E has the ability to create or detract more value than anything else. The S I think creates organizational value, but the E creates asset value, and it's asset value which is what people are really trading off of, whether it drives the fees or the carried interest in promote. It drives leasing. It engages all the stakeholders. And I'm sure we'll talk about this, but the stakeholders today number probably more than a dozen where in a world five years ago perhaps were only a couple of stakeholders as we generally think about it.

Matt Slepin:

And that was my next question. So talk about the range of stakeholders and how they care. The headline would be that the big stakeholders are the European Union and the state of California, but I don't think that's the headline. There's lots of people around the table, all of whom care about it from a different perspective.

Brad Dockser:

I'll address the question a little bit differently. Five years ago, if you owned an office building, you're one stakeholder, and generally the other stakeholder is the person you signed a lease with, and it was generally a two stakeholder kind of world. Today I think it's a very different world. It's still the person you signed the lease with, but it's also their employees, it's their customers, it's their investors, either LPs on the private side, sovereign wealth funds, insurance companies, pension funds, high net worth family offices, or the public mutual funds on the public company on a REIT side, a Wellington, a Fidelity, T. Rowe Price.

Then you've got the debt capital markets, the lender. The lenders care more and more today. But now you've also got local officials. You've got the planning people. If you need to pull a permit or get a variance, the planning people matter. The elected officials matter. The local advisory neighborhood committee that typically sit as a sub-level below the city council. We need to align with them or you're often not going to get the planning office to even consider your application if you don't have the community support. You are seeing the neighbors have a say. It is a much more complicated world than the one we left five years ago, and it's a world where any one of these stakeholders, if you don't align with their values and address them, can put your project on hold.

You also asked a question about the nature of the equity capital markets, and I think those are quite different. E, S, and G, I think you would say it has its birth in Europe, but I no longer think Europe is the only place that cares. In Europe, most of the action is either at the national level or a little bit of the EU supernational level. In Asia, it's primarily the national level. In the United States and North America, it largely exists not at the federal level, not at the state level. Most states do care, but the action is at the city level. That's where you see the regulation. That's where you see transitional risk being created. That's where you see benchmarking. You're seeing green banks at both the city and state level.

I live in Montgomery County, Maryland, just outside Washington, DC. We are the first county in the country to have both benchmarking but also a green bank, and our green bank is among the most active and progressive in the United States. And so all of these groups care. They care about utilities. They care about commodities. They care about greenhouse gases. They also are making a distinction between operating carbon and embodied carbon. In Europe, the conversation around operating carbon was finished five years ago. That's been very clear. They're now very much on embodied carbon, the carbon associated with building buildings, with the building materials, with the transportation associated with bringing them to a construction site, with reusing materials that are onsite. That conversation is beginning in the US, but we're still mostly having a conversation around operating carbon, the carbon that goes into a building, decarbonizing the utilities and the grid so that the electricity that goes into operating a building has been decarbonized. And Asia is somewhere in between.

Matt Slepin:

It's a lot of threads there. Well, one is, let's pick this one up later, but we'll put a pin on obsolete office buildings. Do you tear them down? Do you rebuild them? What's the carbon dynamic of that as well as the neighborhood dynamic about that. That's really interesting conversation. We may get into that today.

But also something else that cuts across the real estate business that used to cut across the real estate business episodically, but now is 100%, which is the role of the investors. Everyone has investors. No one does anything alone anymore. And more of those investors are institutional, and the demands on those institutional investors from their investors are really, really high in this regard. Plus they're thinking more strategically about the exit from those buildings and not having a building that's stalled and can't be sold 10 years out, five years out. Thoughts about the investment managers and their role in this and then how that ripples down into the whole business?

Brad Dockser:

Yeah, there's days of conversation, I think, around that. I'm going to lump investors and consultants together because they work in tandem, and in recent years, the number of funds that are in the market has proliferated, so it's an enormous amount of funds that are being considered by consultants or LPs.

What we see happening is that LPs... A couple things have happened. One, LPs have started to realize their impact and the important role they can play in transitioning the economy to a low carbon future, and so they're simply demanding more. They're telling their operating partners, or GPs, if you will, that they need to do better. They're not always articulating precisely what that means or the metrics that they have to meet, but they're simply saying you need to have not only an ESG strategy, but a robust ESG strategy. And if there are 50 funds in the market and 10 of them don't have a robust ESG strategy, the consultants and LPs are not going to be upset if they don't have to consider 10 funds. They're getting that time back.

We are seeing a lot of groups coming to us right now. They come with three things. We want to do more. Basically, we want to get ahead of this. Or, hey, we're going to the market in the next quarter and we know we don't have a very good ESG strategy. We want to basically make sure that we're articulating to investors or potential investors what we're doing, how we do it, how we integrate it into everything we do from buying it, building it, owning it, selling it.

So that's the big driver, and it's really wonderful to sort of see the capital market playing this role because they didn't have to do a lot of work other than to say, if you want our money, don't even think about coming to us without a robust ESG strategy. And so a lot of investors are trying to figure out what exactly that means, and they're going very aggressively to make sure they don't get disintermediated from the capital markets.

Because, I've said a number of times, in the next five years, 5% or more of the investors that exist today will be out of business because they did not transition into this new world of ESG and low carbon. They ignored it or didn't do it properly, and they will be out of business because they can no longer attract capital.

Matt Slepin:

And who is ahead of that curve more? Is it the institutional investors or the insurance companies?

Brad Dockser:

I think their paths are each quite different. I think the investors, the large investors, by and large, well, they may not have fully settled as to what exactly they're doing or how they're doing it or who they're doing it with. They recognize as we do that climate is profitable, that this idea of how much will this cost is really not the right question. If done correctly, the question should be how much value will this create? If I have to spend $5 to get a dollar of OpEx reduction, but based on my lease structure, I get the entire impact of that at a six cap, that dollar becomes $17 of equity. So I spent five, I got 17. I decarbonized, I reduced risk in some form, perhaps a more resilient asset. Yes, somebody paid the five, but I ended up getting 17. Did it cost me five or did I get paid the net 12? And I think it's a philosophical point, but it's a very important one.

The insurance companies are really quite different. They've been taking all their premiums that basically securing guarantee against various risks, including climate related risk, and they've been putting that into real estate to secure the counterparty to that risk. Now, imagine you're taking premiums from a whole bunch of people in Florida and you're investing in real estate in Florida. So at the time there's a claim, there's this commensurate impact on the collateral value that's securing that claim. So they're really sensitive to this.

I sat next to a woman a number of years ago on a flight that led Allianz's entertainment industry insurance. What was she insuring? She was primarily insuring music festivals, multi-day festivals, who not only potentially have to give the money back to the ticket buyers. I bought 100, I get 100 back. But they've already gone out and spent millions of dollars on stages and crews and labor and moving talent into a location and they may have to eat that. And that's 100% climate related. The number of storms, the violence in the storms, the danger of storms has changed dramatically in the last 20 years. So that may look like an entertainment division, but that risk is entirely climate related.

Matt Slepin:

How bad was climate change back when the Woodstock movie, when Woodstock happened and the movie came out? Because I'm remembering the guys on the gantry. I can almost do a fake voice from the Woodstock album. I'm totally dating myself, but you may be there, too. "The rain, the rain!"

Brad Dockser:

This is the first time I realized that perhaps you and I are not exactly the same age, because I wasn't- [inaudible 00:40:48]

Matt Slepin:

You're a kid. I didn't go there. I wasn't there. Okay, Woodstock is fun, but it's interesting because there was a huge rainstorm and they had to shut the thing down and that was the risk there.

Brad Dockser:

And I think at that time, people, they just kind of played through it. They didn't perceive the risk as the same. But also the storms were, the volatility of the storms, the danger of storms, the embedded water and power, the winds, the storms and hurricanes and typhoons, they're simply getting stronger because the oceans are getting warmer, and that directly correlates to the danger. And that's where we are right now. It's not just they're increasing in frequency, but the intensity is changing, which means the danger and the cost of storms.

Matt Slepin:

Right. My question about insurance, and mashing up with private equity was probably ill stated, because the real question was of the many stakeholders around the table, one of them's the insurance companies who may not insure your property going forward. And I know that's in California with fire right now. We can't get insured.

Brad Dockser:

Yeah, you just [inaudible 00:41:50] two large insurers leave the market. So here's the interesting thing. Five years ago we used to talk about the cost of insurance. That's no longer the case.

Matt Slepin:

That's right.

Brad Dockser:

We're now talking about the availability of insurance, whether insurers will leave the market in Florida, whether they'll leave the market in California. The minute you can't get insurance is the minute you can't finance a property. The minute you can't finance a property is the minute that the commercial real estate industry as we know it no longer exists.

Matt Slepin:

Boom.

Brad Dockser:

And [inaudible 00:42:23] no longer exists because leverage essentially is everything to our industry.

Matt Slepin:

Boom, it's all there. Okay, more threads of questions that have come up. Quick one here. One of the things I say on leading voices all the time is two of the dirtiest words in the English language are words associated with our industry. One is landlord and one is developer. And as you think about regulatory risk increasing in the business, and you think of NIMBYism in the business, to the degree that those landlords and those developers are green. Don't look green, they are green. I think some of the NIMBYism and some of the regulatory stuff that's coming down goes away or is softened, because we're players and behaving around the table in a way that's aligned with these requirements.

Brad Dockser:

I think what you're seeing is a bifurcation of the market. Those investors and developers who align with the community's values, align with their climate goals and expectations are much more likely to see NIMBYism fall, to get their permits faster, to see the resistance from the community at a lower level. Those who do not align or get a bad reputation as it relates to construction methods, reuse of materials will find it harder, if not impossible, to get their buildings approved and their permits in place on a go forward basis.

Matt Slepin:

And so reputation management in the real estate business actually really matters. It matters to investors, which we've talked about a lot. It may also matter to the local planning board and the local neighbors who are going to say yea or nay to stuff. So it's, again, critically important in more ways than... Has more resonance than we think.

Brad Dockser:

Reputation always mattered. I think we're finding that it matters even more now. Because again, it's not just the neighbors to let you build the building, but now let's assume that building is now built. It's about tenants wanting to go into your building. It's about employees wanting to work for a company that is in your building. It has a much larger impact than it used to.

And in a time where labor markets are very tight, people increasingly want to work for... And this is one of the things that came out of COVID. People want to work for companies that they're proud to say they work for. They want to work for companies that align with their values, that align with the things that are important to them, and they don't want to work for companies who they believe their objectives or culture is misaligned with them.

Matt Slepin:

Yeah. And we hear with millennials that values matter. There's article after article after article as millennials and younger people get into the workforce, values is on their list, which it wasn't when I was a kid. It wasn't for me, believe me. That's why I'm here.

Brad Dockser:

Now you see people who, when looking at a company, are looking at the company's values. They're looking at the political leanings and contributions of their founders and leadership and board, and they're making decisions about whether that's a company they want to be associated with or not.

Matt Slepin:

Yeah, totally. Okay, so you've said a number of times that sustainability is profitable, and I want... We're going to talk about your background in a few minutes, so we're going to get to that because you come from a place that understands this. But let's use some examples of... And you used one a few minutes ago, but make it real on a specific project so we get a sense, okay, we hire you. You help us make this profitable. And you've talked to us in the language of numbers.

Brad Dockser:

I love that question, because I think at the end of the day, we bring everything down to the ROI. If we ask you to spend an extra dollar, we're going to tell you what the ROI is on that dollar. Otherwise, we're not going to ask you to spend that dollar.

So the example that I've used that I think is really good and illustrative is one from a number of years ago, and it was a project that actually we did for Rubicon America. Rubicon America was a Australian REIT that had been acquired by JP Morgan and Starwood Capital, and one of the assets they owned was the Baltimore FBI field office. So this is essentially the FBI has about 50 something field offices around the country that basically do all their operations and investigations. This was a building that had been special built, purpose built to lease specifications for the government, for the FBI in Baltimore, Maryland.

And this came up because the owners had a sense they could reduce the operating costs. They had a gross lease structure so that if they reduced the operating costs, they would get the benefits of it. The US government and the FBI through GSA, the US government's real estate arm, said that in order for us to even consider the renewal that's coming up, we need to have an energy plan. We need to see you start moving toward that. And we'd have a strong preference for an asset that has an Energy Star certification, meaning it is in the top quartile of all buildings in the US based on the dataset. So a 75 or more.

This began as a discussion as to how much will it cost us to get a 75? So it began as a cost question. What do we have to spend just leasing commissions and tenant improvements? What do we have to spend to get the tenant to stay? It ended up being a project that created more than $15 per square foot in value without impacting any other initiatives in the building.

So this building was about 100,000 square feet. We did the assessment. We did the engineering. We came up with a project that could be implemented that would save about 100,000 US dollars. The local utility, BG&E, Baltimore Gas and Electric, we worked with their rebate and incentive program and were able to secure and identify $100,000 dollars of rebates that would come to the project. In other words, this is money that the building would get, wouldn't have to repay. It was part of the proffers and commitment the utility made to the state of Maryland Public Service Commission.

So there remained $200,000. Now, this project, if it was to go forward, it would create $100,000 of reduction in operating costs, $1 a square foot. At a six cap, it would create nearly $17 of value, and it would cost about a third, so about $12, $13 of net value. But the question remained, where did that $200,000 of net cost come from?

And one of the ideas that we identified, and we worked with the lender, is that potentially the CapEx reserves inside the mortgage would be a source of payment. Now, as you know, lenders, the last thing they want to give up ever is a CapEx reserve. That is sacrosanct. They hold onto that for dear life. But what we helped them understand is even though they didn't want to give up the $200,000, if they did it, they would have an asset whose gross value went up $1.7 million. And so by releasing 200, it went up 1.7, $17 a square foot. Their collateral value increased. Their loan to value dropped, and so you had a better quality loan as a regulated entity.

And so yes, CapEx reserve release bad, but increase in asset value good. And they realized that this was a great opportunity for them to actually-

PART 2 OF 4 ENDS [00:50:04]

Brad Dockser:

And they realized that this was a great opportunity for them to actually improve the quality of the loan and invest in the building. So the ownership entity ended up putting a net $0 in and ended up with a value of an asset, essentially $1.7 million higher than it was before. The tenant was more comfortable, the building operated better, a lower energy intensity. It got to a 75 energy star score. GSA and FBI committed to the renewal, and so this is, to us, a really good example of a project where climate was profitable. They reduced their greenhouse gases. They renewed. They got the energy star. They had a building that was worth more and a tenant that added term to their [inaudible 00:50:47].

Matt Slepin:

Across the board, is this a common story, an uncommon story? Are most situations, when you drill down and bring your expertise to it, do you get towards that kind of outcome? Maybe not as profitable, but still a positive outcome?

Brad Dockser:

That is a very common story, and I think what people sort of fail to understand is, people get so consumed by the idea how much will something cost. They don't necessarily take the next step and say, "Well, and how much value will it create?" It is like they're stuck at the semicolon. They don't finish the sentence. How much will this cost; and how much value will it create? They just stop mid sentence, and they can't get themselves to do the next part.

We had a group cost a number of years ago, again, US government lease in a multi-tenant building. It was clear they were ... the leasing agent negotiating the lease and they said, how much will energy star cost? And it wasn't just the cost of certification and the work, but we said this. The way we think about it, nothing. Because yes, it will cost something to get the energy start to make the investment, but when you're done, your building will have a net asset value of $2 million higher than the cost.

It'll cost about a million to do the work. It'll be worth 3 million based on the EBITDA impact. They struggled to get their heads around that. They kept coming back to, but it's going to cost a million, but your assets were three, so net two. So did you get paid to do it or did it cost you something? That's more philosophical than anything else. But we've been doing this a long time and we're very good at, think of the architectural principle of integrated design. If you designed for both a financial outcome and a climate outcome at the same time at the outset, you're able to generate both. But you do it by understanding that you're trying to solve for both at the beginning and you design the solution from the beginning to achieve both.

Matt Slepin:

Every way we know this in anything we do, the cost to build something in versus the cost of retrofit something, or when you're going to replace the boiler, the cost to incrementally get the better boiler that's going to work for the outcome is something you kind of got to do versus, oh, let's just replace all of our boilers today, even if we bought one last year, that's outmoded.

Brad Dockser:

Yeah, and I think that also points out we're doing more and more work around this idea of minimizing first cost versus maximizing lifecycle. Your example is really good one because many times it'll cost you a million dollars to replace a system, like kind one for one, no economic impact. But you could spend say a million and a half dollars, have a high performance, say a centrifugal chiller, magnetic chiller, and that will save a hundred thousand dollars. The traditional way, we think the dumb way of thinking about it is, well, that's a 15-year payback. They spent a million and a half dollars and it saved me a hundred. That's not how we think about it. We think about the incremental cost. You had to spend a million. You spent an extra half million, so you spend an extra half million to get a hundred thousand of savings. So it's a five-year payback. And again, most groups we work with are sophisticated, they're enlightened. They get that. What they really want to know is, are you sure of your numbers and how fast can you get it done? Because they're on the clock. They have a finite period of time to deliver this economic savings, get it into the trailing 12 months before they have a capital event, a sale, a refire, a merger in order to get the benefit of it.

Matt Slepin:

Got it. So let's change subjects. I want to think about either examples or companies that are doing this well, and I want to think of how far we're doing as an industry at the same time. So I want to think about, okay, look. These companies, we don't have to name companies, but maybe we can, are leaders in what leadership means, and then that's only a third of the companies. So the other two thirds have a long way to go, but we can get there. Again, back to the solvability, but how are we doing in a report card towards that solvability. If I'm mashing up the concepts well.

Brad Dockser:

Yeah, if I understand your question, as I think about companies, I'm thinking about the real estate company who's doing it.

Matt Slepin:

Right. Yes.

Brad Dockser:

I think almost at this point, nearly everybody is aspirational. Some have been doing it a long time and they're well down the road on their journey. Some are relatively new to it, but recognize that they need to do something. Most companies today have a chief sustainability officer or someone who's the head of ESG, someone who's sitting in that seat. I would say the majority of firms are not trying to do it themselves, but are relying on industry partners. They are setting the direction, they are determining what success looks like and what the KPIs was striving toward. But certainly if you look at the larger firms, they're all deeply committed to this because they do recognize it's both next existential threat to their business model. But if they do it right, it will also drive their fees to promote. They simply have a more valuable business. That would include a lot of the larger firms, Blackstone, KKR, Starwood, Bental, Green Oak, for example, all committed to it, all hiring, all adding to their teams, all recognizing that this is very important.

Matt Slepin:

Okay, so let's drill on that a little bit. Again, we have to be on concepts here because there's so much. For those firms, if those are leaders, how far through their journey of attention are they? Are they at 20? Is Blackstone and Bental 20% of the way towards the journey they have to follow? And then I'll have a question and I'll think about the industry. But the leaders, how much open areas for them to make a difference still?

Brad Dockser:

The leaders have a lot to do, and it's not because they're lagging or they're not committed to it. It's simply the scale.

Matt Slepin:

Right.

Brad Dockser:

Blackstone strategy's among the simpler ones. It's a 15% reduction in greenhouse gases within three years of acquisition where they control the operations, 35, 36, 37 words. That is not technically a really difficult thing to do for a single asset. It is extraordinarily difficult to do at scale when you're talking about portfolios of hundreds and thousands of assets, perhaps in a single operating platform. [inaudible 00:57:20] in Europe is thousands of industrial or logistics assets. Their challenge is one of scale, not one of technology. Smaller firms are still trying to figure out perhaps the technology, but all these firms have resources internally. All of them have outside partners that are firms that are helping them do it. All of them are generally a pretty sophisticated program and they're thinking about it from the minute they're considering acquisition.

So they've now embedded sustainability ESG at the acquisition level, and the deal teams are thinking about when they actually buy it doing ESG or climate related due diligence of which we do a tremendous amount. They're thinking about it when they actually now own the assets. So that the energy plan gets integrated in the business plan right from the start. If there's capital required, it's in the capital stack right from the start. No time is lost. That's particularly important today because now you have this extra layer of transitional risk. You've got the regulation at the governmental level, mostly at cities, but some countries, and this is new. So the deal teams don't necessarily know all this. They don't know what local

I97 requires of a building in New York, but there's a cost to it. If they do not address it up front, then there's a defacto carbon tax. For some of the larger buildings, it could be more than a million dollars a year.

Now you take that million dollars, you cap it four or five for a New York asset, you're talking about a reduction of $20 to 25 million of equity overnight. That's a big deal. So understanding what this risk looks like in the beginning and addressing it from the beginning becomes really important. It also comes into play when you're talking about financing it. Generally speaking, you are now seeing either a lower cost of capital or higher proceeds or better reserves from assets that have a transition plan or a transitioning to a low carbon future because lenders simply want to align their assets and their investments with these types of assets. They also recognize that on a risk adjusted basis, assets that have an energy plan that are integrating an energy plan simply are lower risk. So they don't think they're taking the lower risk. They're simply getting the same risk adjusted return because the risk is lower.

Matt Slepin:

So if I think of a company with a huge portfolio, we always think of Blackstone because they're the easiest to think about, and you use the example, but they may be 20% through their journey to get this done in the existing portfolio and the getting it done is not done yet. So they're 20% of the way through thinking through everything that's going to have to happen, both the level of hiring, and in the podcast here, I think about young people getting into the real estate business. I think this may be a place to get into in terms of expertise you better have, but that journey has just begun. Some companies are barely started though.

Brad Dockser:

Yeah. So I'm sitting in Washington DC, so my first tendency is to restate the questions to one I want to ask.

Matt Slepin:

That's a fair deal.

Brad Dockser:

So I don't think they're 20% through their journey from the point of view of 20% knowing what they're going to do. I think you need to bifurcate new acquisitions from existing. So the first thing you want to do is put in place a program so that everything new, particularly when we're sitting in a moment of slight pause. So everything coming into a portfolio today will have an energy plan, will have transitional risk assess, will have climate risk assessed, and that makes sure that everything you're doing right from the start looks like that. The question on your existing portfolio is where to start. Something that will be sold or have a capital event inside the next 12 months, it probably only gets a light touch because it's too soon to have a big impact. So then you start to think about, we think about markets from what we call a 3D perspective, cost of power, rebate potential, and the size of the asset.

So we think about buildings that are in cities that have tremendous transitional risk. Boston, New York, Washington, Denver, California, Chicago, places like that. If you don't do something, not only do you run the risk of a diminution in your EBITDA from fines or penalties, but you are also elected to see reduced demand for your space because the tendencies and the tenants and the occupiers are much more sophisticated in those markets because they know the assets need to do something and they have their pick. And it takes time. It takes several years to work through a portfolio, but it doesn't mean that it's not worth starting the journey.

The fact that it will take a while and the fact that it's hard doesn't mean you don't do it. As I said at the outset, this isn't an all the above problem. Everything needs to be on the table. Every asset needs to be considered and looked at from a variety of perspectives. And the fact there may be a better technology tomorrow doesn't mean you should wait, doesn't mean you should do nothing today. We have the business models to affect change. We have the technologies to affect change. We'll have better technologies, but that doesn't mean that we should wait.

Matt Slepin:

Yeah. One of the themes of the podcast is that institutional real estate, real estate's increasingly institutional. It does seem to me that the public companies, the REITs or the large or institutional managers, have the benefit on this subject to afford to have the in-house expertise to embed it through their business. Also, to have you there. Small companies are going to have a harder time climbing that learning curve. So size and scale matters, size, scale, business platform matters here.

Brad Dockser:

I think size and scale makes it easier, but I don't necessarily think it's determinative. There are a lot of smaller developers that are deeply committed to this, and this has been part of what they do for a long period of time. They're in London, they're in the Bay Area, they're in Eastern Europe, they're in parts of Asia. What they have in common is that they basically recognize this was a good business model and they came to it sooner. I look forward to a day, perhaps in five or 10 years, when we don't have ESG conferences. We don't have ESG panels. It's simply integrated into every single panel we do. So it's integrated into the capital markets panel. It's integrated into the multi-family panel. It's integrated into everything on the hospitality conferences. We don't have a special conference. It's just a part of every discussion on every topic within the industry.

Matt Slepin:

And last question before we turn to you. I want to hear your story because it's relevant, because you're one of our gladiators working towards this happening, and so your skillset and your experience really matters to help make this case, to have this happen. You're a leader at the Urban Land Institute, as am I. We care about our industry. We care about the ripple effects that our leadership can have. Both what kind of seeing from ULI a little bit, does it give you hope more optimism? And then second thing is how are we doing as an industry? I talked about that 20% of a journey. How does that journey feel to you in terms of the industry saying, okay, here we are?

Brad Dockser:

Well, first I'll make a comment about ULI. I'm a global governing trustee of ULI. I'm one of 12 members of their global sustainability board. It would be unimaginable a decade ago that somebody who was focused on climate and ESG and sustainability in the industry would be a global governing trustee. I was the first global governing trustee to have this sort of background. And it was a sea change in many respects because the people started to recognize the importance of this. You now see more and more ESG experts and leaders on the board. They're in Asia now, they're in Europe, they're in the US. But when I first went on, I was the only one in the first. I think most people saw me more as someone who used to run Starwoods International business than a sustainability person because that that was their orientation.

The fastest growing part of ULI today is the sustainability and climate related services and activities. That is true in the US. That is true in Europe. It is true in Asia. I was at the ULI meeting in Madrid a few weeks ago. Significant amount of the programming, nearly 50% was specifically on ESG and climate. ULI Europe has created a new program called Sea Change. They will have a conference in October of 2023 in Copenhagen. They're expecting more than 500 people to be at this conference. This is a critical issue. There's a difference between creating profit and not creating profit, having tenants and not having tenants. It gives me a lot of optimism.

As an industry, we have a long way to go, but I often say it's about direction first, velocity second, and I think the direction now is quite clear. What we're trying to do is essentially get the velocity up. We're trying to get acceleration toward the goal, but we are pointed in the right direction as an industry. I don't think there's anybody who doesn't see this as a critical issue. Some are adopting it faster than others, but there's nobody who is not sensitive to this as an issue of great importance somewhere in their business, whether they're an investor, they're a developer, a financier, they're an architect, they're a builder. Everybody understands that this is important.

Matt Slepin:

They got it. So I have a barometer of how the industry is changing. You have a party at ULI full meeting every year? Maybe you have one in the spring meeting. I don't know, but-

Brad Dockser:

Just the fall meeting.

Matt Slepin:

Okay. I went to your party seven years ago in Dallas. I think it was seven, eight years ago, nine years ago. I don't know when it was. It was a lonely room. I'll tell you, we got to hang out. I think we had a drink. We may have had two drinks together because there was no one at your party. Then I went to your party six months ago in Dallas and the room ... It was in the same room, so it was easy to do this side-by-side longitudinal comparison. It was the most crowded room at ULI, and it was all young people, and they were all really, really excited. I said, "I'm a headhunter." They said, "Please join us. We need your help. We can't find enough people for our firms."

Brad Dockser:

It's become the largest party at the ULI fall meeting. I don't say it's the most coveted invitation, but it's a coveted invitation. We had five ULI staff members this year whose job was to keep people out who were not invited, and people were trying to find all kinds of different ways to get in, and the room was completely full. We had people waiting in line. We've never had that before. We've been doing this since the Chicago meeting 10 years ago. We'll continue to do it. It's a tremendous opportunity to bring people together. But I think it does act as an interesting proxy for what this is. Just the ULI staff associated with climate numbers is probably close to 50 people in the United States today. 10 years ago, that was probably one or two.

Matt Slepin:

Cool. Okay, so we have attention on our subject. Now, we're going to change the subject totally. Leading voices started as discussions about people's backgrounds and career history and how they got to where they got to. We save 10 minutes to do this with you and we're not going to make it through 10 minutes. And for our listeners, they should listen to John Co's podcast of icons of real estate with you. He did like a three hour interview. We got a lot about childhood. We got a lot about soccer. So listeners, go for it. But I did listen to all of it in preparation for this conversation with Brad. Let's start at the beginning briefly, because it's really interesting. You're the childhood of a real estate family. So talk about your dad a little bit and what it was like with the business he had growing up.

Brad Dockser:

My father was a mission aligned developer before mission aligned was a word. We moved from Boston to DC. My dad was the house and commissioner at HUD, revitalized the Section eight program ,at one point was the largest developer of affordable housing in the United States. From the very beginning, I started to understand both the importance of real estate and home, and it provided a sense of security. There was nothing more fundamental than your home, than your resident to raise your family. In college, I actually wrote my thesis around Section eight housing and affordable housing policy, looking at the differences between specifically Boston and Dallas and how they organized their affordable housing programs, what types of amenities they were developing, what types of aspects or amenities for the homes were valued by people and how that impacted different populations.

Matt Slepin:

Your dad founded CRI, which was then one of the largest syndicators in the company. It turned into [inaudible 01:10:31]. I knew your dad a little bit, and I know those businesses well because I competed with them. Kind of headlines on that.

Brad Dockser:

At one point CRI was, again, the largest developer of affordable housing in the country. They were doing equity. [inaudible 01:10:46] was primarily on the debt side, but still very focused on catalyzing affordable housing and multi-family housing more broadly. It is really what sparked my initial interest in real estate in the first place.

Matt Slepin:

Unfortunately, [inaudible 01:11:00] was one of the victims of the Russian ruble crisis, but they were an early B piece player and special servicer and crash with the Russian ruble crisis, I believe.

Brad Dockser:

Other than a couple of currency traders, they were probably the first large publicly listed ... I don't want to say beneficiary. They were the first one impacted by the Russian ruble crisis. You were absolutely right.

Matt Slepin:

So you came from that background. So real estate was an interest, affordable housing was an interest, and you also had a Ted Lasso moment. So just kind of hit this one for 30 seconds before college because it's just interesting given that we're, we've all watched Ted Lasso.

Brad Dockser:

Yeah, it's funny, because I didn't originally see Ted Lasso. I was watching actually another podcast sort of webinar that Ken Kaplan from Blackstone made a comment about Ted Lasso. I turned to it and I realized that was my life. So I grew up playing soccer in the Washington area, was a pretty good goalkeeper, and was able to defer my admission to college, but had the opportunity to go to Europe and play in the English League where I played for Bristol Rovers, which was then a second division team. But I experienced relegation. So this glamorized sort of version of Ted Lasso that made relegation look like sort of fun and song and dance, that was not my experience. I was playing in a place where a third of the team was Welsh and some were playing for Wales at the international level, the U21 level. Going from the second to the third was a big deal, and some of these guys didn't sign contracts and they ended up back in the coal mines because Wales still had coal mines next to their fathers, their brothers and their cousins.

Matt Slepin:

Wow. Okay. So we're going to keep moving. We're going to skip over Harvard phase one, and we're going to go to JMB. Most of our listeners don't have context for JMB. I'll let you give the context of the headlines of what JMB was at the time you were there, the training you got, the colleagues you had, and then the ripples of where JMB went after it left the business.

Brad Dockser:

Yeah. So I joined JMB in 1985 when I graduated from college. At the time, JMB was the largest real estate firm in North America. It was the most influential. It was initially raising almost all of its money on a syndicated basis. The Carlisle funds, it transitioned to JMB Institutional and was raising money primarily from US based institutions, pension funds, insurance companies, but it was the largest, most prolific deal shop in the country by a mile. It was also influential because it was the place where people left to start some of the most iconic firms in the industry.

So John Schreiber and John Cooper left to start Blackstone. Barry Sternick was at JMB before he started Starwood Capital. Everyone over the age of 50 at [inaudible 01:13:47] primarily came from JMB because [inaudible 01:13:49] acquired JMB's institutional business. Neil Bloom went from JMB to found Walton Street and Rush Street Gaming. Barry Malkin left JMB to found Jem Realty. There's a myriad of firms that are either directly off of JMB or in turn off of Blackstone or [inaudible 01:14:09], for instance, for Starward and Gene Gorab or Bob Faith from Graystar. It is the mothership of the real estate industry. And the relationships that we created there were invaluable.

Matt Slepin:

It's interesting, I thought of the word mothership, but it really is, and tracking all of those folks and then the relationships that you gained in the crucible of that experience as a very young person is a huge part of who you are today and what you bring to the table as our goalkeeper because you're keeping our goals towards climate here.

Brad Dockser:

I like that. I've never really thought of it that way, but I just want to go back. The goalkeeper was really interesting because the best goalkeepers actually do the least work because they organize everything from the back. They set the strategy to get people in the right place. Every time someone scores a goal and the goalkeeper does or doesn't do something, it got past 10 people before it got to the goalkeeper.

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Brad Dockser:

And do something that got past 10 people before it got to the goalkeeper. And so if you organize your business, your strategy, your execution properly, what you do is relatively boring and looks very pedantic.

Matt Slepin:

Interesting. We'll come back to that on the next round of the podcast. And then you got another benefit from JMB because you met your wife Debbie there. And so she worked there too. And also maybe she shares a last name with one of the initials of JMB. So how does that fit?

Brad Dockser:

Yeah, so Debbie and I met on the 39th floor of the Hancock. She was riding up an elevator, they walked out, they introduced us. She went back to her office and said, "I think I just met the guy I'm going to marry."

Matt Slepin:

Ah, I love that.

Brad Dockser:

And we both joined out of college. He had graduated from Michigan the same year as I graduated from college. And yeah, JMB was formative in so many ways. Debbie is the niece of Judd Makin who is one of the founders. He's the M in JMB. Neil Bloom is the B in JMB, who went on to found Walton Street. Both remain involved in the business that we've created here today at JMB. But Green Gen.

And it was very formative, as you said. I met my wife there. I learned how real estate worked there. I understood whole dollar profits are a lot more important than IRRs. I understood how deals work, I learned how to work hard, I learned to work fast. I learned that time matters. What I learned at JMB and in the years I was in Chicago are invaluable to the business we have today and to who I am today.

Matt Slepin:

And I think the business you have could not have come from consultants around environmental and climate issues. It had to come from someone who understands investments. So we're going to skip over Harvard Business School, which always makes me happy. And then let's talk about Starwood, because you had a number of years there, including international. So talk about that briefly, and then we're going to come to the founding of your company.

Brad Dockser:

So I met Barry Stern in the gym in Harvard when I was in college and he was in business school. And then I went to JMB and a year later he showed up and I'm like, "You're the guy from the gym." And we've remained friends for a long time. He's one of the investors in the business we have today. My younger son worked for him for five years.

I joined Barry to start their international business, and we've settled on Asia first because with the crisis in the currencies, it looks a lot like the RTC days with lots of non-performing debt. We built up over a four-year period joint ventures and investments in a team in Asia. I went and did the same thing in Europe. But I honed and learned how real estate works. Probably the more important thing for the business we have today is we took something basic like real estate and we took it to a lot of different places.

And so we took it to different countries with different cultures and norms and currencies and tax, different rules, but we found a way to do it. And that's really the business that we've built up today. We work in different places. Each one is quite different, but what the commonality is that we're taking global best practices and we're localizing them each and contextualizing them into different markets with different types of investors. But most of our work is for global investors who basically have assets in lots of places. And so they don't want to figure this out. They want us to figure it out.

Matt Slepin:

It's interesting, I wanted to start globally because when the leaders do it, it can trickle down much easier than just coming up from the grassroots up, going up the other way.

Brad Dockser:

Absolutely.

Matt Slepin:

Absolutely. And you were briefly at McFarland, but then the GFC got in your way. So talk about that for 30 seconds. And then I want to hear about the founding of your company and what the intention was and then the surprises in how you've built the business.

Brad Dockser:

Yeah, I'd known Victor McFarland for nearly two decades and joined him after I left Starwood. And it was nice because instead of traveling around the world almost every day, it gave me a chance to really learn about the real estate community back here in Washington. So everything I was doing was in the mid-Atlantic. And Victor was doing projects of not only great community impact, but great social impact. And it was a tremendous time to make a difference in my community.

Matt Slepin:

Wonderful. Okay. So then the GFC comes and you start this business, and you start it with three of you. So you and Debbie and Rick. Talk about the founding concept of it, the founding it as a trio. And then we've talked so much about your business, but I want to know what kind of team you have to deliver this stuff that's so important.

Brad Dockser:

Yeah. So financial crisis comes along. The business that historically we've operated in, which was almost completely focused on top line and revenue or rents lease up market occupancy, collapses. And we start to pivot to the bottom half of the income statement where we frankly had never spent any time, and we recognize energy's much bigger than we ever thought. We recognize that it's controllable, which seems so obvious to us today, sitting in 2023, but 15 years ago was not an obvious thing. And technology become much more powerful. So there's an opportunity to integrate technology into the built environment, drive your cost down, your EBITDA goes up, financial outcome, climate outcome at the same time. It's a pretty good thing. But when we went to look for someone to do it, we weren't looking to start a business. We're looking to hire someone. We primarily found a lot of consultants who wanted to get paid to tell us what to do, but nobody wanted to implement or execute.

A lot of people wanted to sell us their technology, buy my light, my window, my motor, buy my thing. But they couldn't articulate the business case, they didn't understand who they were selling to. And our friends at other real estate and PE shops didn't have a go-to firm. And so we hired... This rule's really out of necessity. We wanted to hire somebody. Didn't see it, saw an opportunity. So we created it in 2011, about 12 and a half years ago.

And from the beginning, there was a view that when people said invest in climate, there was no price in carbon in the United States. The response was, "Eh, no." When you sort of said, "Hey, we're going to invest in the asset, we're going to reduce your costs, it'll increase in value and you'll have these co-benefits of sustainability or resiliency." The answer was like, "We're value add investors. That's what we're supposed to be doing. Of course we're going to do that."

And so that was really how we sold it. What we recognized from the beginning, if we were going to be focused on not only developing a strategy but actually executing it, then the team needed business people. It needed people who understood real estate. It needed engineers. But it also needed project managers. So the first hires were engineers. One of the first hires was out of the traits who came from a HVAC subcontractor, but understood how buildings worked, had been a member of the union, got a lot of support from the building engineers that were on site and could actually get projects done, whether it was installing or rigging or estimating. These things were really critical. But our special sauce was contextualizing it to understand who the decision makers were and what they wanted. They wanted more fees. They wanted the assets to be worth more, so their promoting carried interest was worth more. They wanted to articulate this so that they could raise more money from various stakeholders.

Matt Slepin:

It's interesting, the marriage, you're uniquely... This business has been created in your image, and you're uniquely qualified from two perspectives, and there's the obvious one and the less obvious one. The obvious one is you're able to contextualize around investment thesis. So you could take the techies and you could tell people how they can make money and do real estate better doing this. The other thing is through your whole career, and I know you this way, this is how we got to know each other, but you're well networked starting from the beginning at JMB. And in the gym at Harvard. You're a guy who likes people. So you have both a credibility with them because you're an investor who knows the business, but you love to make connections and you love to talk to them and to find out what's going to work for them. And it's that combination of those two skill sets that's really special about your story.

Brad Dockser:

I think you're right. When we started this business, there were plenty of people who came from a softer side of sustainability, a policy side or a certification side. I was probably the first to come from the private equity real estate side. Everything has been done with people we know or introductions or client evangelists. We grow because our clients introduce us to other firms and other groups that need help. We don't cold call. We don't do anything like that.

So that part of it been quite interesting in terms of the journey. And I can't imagine, I'm probably not sure I knew how hard this would be when I left the world of Starwood and McFarland to set this up. We had a time where we thought we were really smart. We had a period of time where we're like, "Oh my gosh, what have we done?" And now we do something, we do it very well, that the world really needs. I don't know that we've changed. I think the world has changed. I think the world has come to us. We haven't gone to them. We're doing the same thing we've been doing for a long time. There are a lot of stakeholders, whether capital markets, cities, and governments that are really driving this today.

Matt Slepin:

Yeah, no. This is your important work and you're our goalkeeper, so we're going to keep going there.

So we have three quick questions to end this. Question one, is there a surprise on the technology front? Tell us one surprise thing that says, "Oh my God, that's really cool. We can implement that quickly." Anything really interesting out there?

Brad Dockser:

I'll restate it. I think there's something really important that maybe is not the thing perhaps as people think. And to me that's controls. It's about getting buildings to understand when there's physical occupancy to correlate energy consumption with physical occupancy. So light's not on HVAC setting back when there's no students in the classroom, when you're not in your hotel room, when the office building or conference room are not occupied, they go back when it is occupied. The first move for ROI is always going to be controls before we even get to efficient equipment.

Matt Slepin:

And not saying this, but I see this question. So there's a bonus question. Measurability.

Brad Dockser:

Measurability is really important. I think that data in and of itself perhaps is overstated. I think owning or acquiring data is really important. I think the more important thing about data is making it actionable. Data in and of itself is not the critical piece. It's what data tells you. It's the insights that the data gives you that become actionable. That's the critical piece.

Matt Slepin:

Fair deal. Last question on the Ezra Klein show is always three books that you've read. I'm going to tell you the book that I want you to mention, which is the book that I have bought for more people in the last two years than any book I bought people, which is the Ministry of the Future, which changed the lens through which I looked at stuff. So maybe you could plug that book a little bit, too.

Brad Dockser:

Yeah. I mean, Ministry of the Future was written by a science fiction writer who basically looked at climate a little bit differently, clearly a fictionalized view. The premise of it is a heat wave in India that kills, I think 15 or 20 million people in a matter of days. And then the United Nations ultimately creates a new organization that is based in Switzerland to represent the interest of future generations.

And the premise of it, I think, is quite clear. Those who are most impacted have the least voice. There's an irony that the person who is say 95, who may pass away in six months is able to vote for her leaders.

But the 17-year olds who will hopefully live for another 60 or 70 years doesn't get a say in who's the leader? There's an irony in that, and I think we should all remember that.

But what it really does is it highlights both how hard this question is and how hard it is to galvanize public support for really tough things. But it also recognizes that no matter how hard something is, you need to just get started. The best time to plant a tree, as my friend Martin O'Malley, the former governor of Maryland, used to say, best time to plant a tree was 20 years ago. The next best time is today.

Matt Slepin:

It's also where you put your lens. We had this conversation with Mark Preston from Grovner, and he's the only 350-year-old real estate company I know. But he says, "We're going to be here in 350 years." So if you move the lens from a value add fund that might be a three or five year investment, you'd probably get away with doing anything you want. But if you're going to look at the lens of we're going to be here in a hundred years, 50 years, 200 years, then all of a sudden there is no escaping having to address these issues.

Brad Dockser:

Yeah. Matt, I'm glad you brought up Mark and Grovner. Grovner taught me one of the most important lessons, which is in fact, to take the long-term view. When I ran Starwood Capital in Europe, I was sitting with Mark's predecessor, Jeremy Newsom, and Jeremy was the former CEO of Grovner. He was also a long-term ULI leader and the global chair of ULI at one point. And I remember sitting in his office many, many years ago, and as we're doing introductions that say, Starwood Capital is a long-term investor, we have a 10-year fund and we have two one year extensions. And he just turns to me with a little bit of a smile. He goes, "Brad, that's very interesting. We're also a long-term investor. The space we're in right now, we've owned this building for 300 years."

Matt Slepin:

Boom.

Brad Dockser:

And I just looked and I said, "Can we start over?" He goes, "I think we should." And so, there's always a longer term perspective, but perspective does matter. And I think one of the challenges historically with climate has been this idea that, well, it's not my problem. I'm not going to own this building forever or it won't happen as quickly. And I think we're realizing it is happening quicker than we realized. We are also recognizing that along the way buyers will care, so it is our problem. It used to be people selling buildings didn't want to talk about ESG because they saw it as something that would slow down the process. Now they see it basically, if they don't address it up front in the OM or when they're positioning it or marketing, it will actually be detrimental to getting a sale or to getting the price. And so there's been a mind shift, I think.

Matt Slepin:

Well, let me say something. If you're doing a value add, don't put obsolete cheap shit in the walls, because we're going to own that for a long time as a society. So that obsolete cheap crap is not worth spending money on. You get away with it, but that's, ugh, scary. I interrupted you. I'm sorry.

Brad Dockser:

Yeah, no, it is scary. And I think people are very focused now on what goes into a building. That's also an increased focus on should we be preserving existing buildings and should we be carrying down a building that exists to build a new building? Because the vast majority of carbon is actually in this notion of embodied carbon in the materials. And we're sitting in 2023, most of this year and some of last year, there's been a big debate in the City of London on whether or not to give a permit to basically take down and destroy one of the region street department stores to build a new building, and a lot of discussion about embodied carbon and should you add the density to the existing building and the claim that the floor, the spacing and the layout of the site isn't conducive to it. But they're a real issue in the City of London as to whether or not new buildings should be allowed when there's a perfectly good existing building on the site.

Matt Slepin:

The last question on Leading Voices is always your advice for a young person getting into the real estate business.

Brad Dockser:

I think there's a couple, and I'll take a step back, and I think these are just general things, whether it's real estate or not. One is to be passionate about something. I think it's really important to understand how passion feels like, whether it's for sports or dance or music or culture or art, reading. Because once you know what it feels like, then you can sort of understand how to direct it to something different. The other thing is to build knowledge. And perhaps most important, I do a call, I do an interview and sit down with every new hire on their first day, and that includes interns. So I've done a couple interns this week and I had one of them ask me yesterday, what advice would I give? And I simply said, "Be curious, ask questions, learn. I want to be learning every day, and I learned from everybody here."

The idea that I would know everything is to me just completely absurd. So it's be passionate, it's be curious, and to some extent, be expert in something. Mentors matter. The nature of the people you work with early on who will be prepared to teach you and let you learn. Everyone here, we make huge investments in our team. I've said a number of times, I will invest in everybody here in terms of certifications, courses, memberships. I want a team that everybody industry wants to hire. I just want, at the end of the day, for them to say, "Thank you, I'm very flattered, but I'm very happy at Green Generation." I certainly don't want a team that nobody else would want to hire. That seems to me a dumb strategy to have bad people that nobody would want to hire, so therefore nobody leaves. We want the best team. We want people here that everybody wants. We just want them to stay. And that's really incumbent on us.

Matt Slepin:

Huge. Two comments, all great wisdom. I've never heard anyone say, know what passion looks like. Everyone says, go find your passion. And it might not start at Green Gen, it might start being a goalie, right? Because you learned passion in an early year, at an early age, doing the things that you were great at, and then you took the knowledge of passion to this things that you've made your life about. So there's really great wisdom in that.

Brad Dockser:

Thank you. Yeah, and I'm not sure it was the goalkeeping that was the passion part. I think it was maybe the organizing to a goal.

Matt Slepin:

Right. Wow, interesting. But you knew what passion was. So I had it early in my life, because I was both a guitar player and a tennis player, and those were my middle names as I was a kid. I wasn't that good at either of them, but I attacked them hugely. And then I attack what I do now all the time.

The other thing you said, "I'll invest in everybody here." I totally believe in that, and it's a rare comment from a leader, but if you treat your team that way, it's a whole different ballgame. So thank you for that.

Brad Dockser:

Yeah, absolutely. Passion is basically... You know what passion looks like when basically it's time to go to sleep and you stay up in your room reading a book or playing your guitar or writing code or drawing. That's what passion looks like. It's when you make these choices that you know are not necessarily in your short term interest, but it's what you want to do and you basically forsake something else for it.

Matt Slepin:

Totally true.

Hey, Brad, thank you for being on the show. Thank you for what you're doing. It's really important work. I want to check in five years and see how our report card for the industry is progressing. And so I'm going to be doing this then you're going to be doing this, and so we'll talk later on.

Brad Dockser:

Matt, thank you very much. There's one question we didn't cover, and it's a question I have for you. You didn't say once how you and I or where we met.

Matt Slepin:

It's been in the back of my mind. Well, we know this, but what I find interesting is the route we felt followed to know that we knew each other. So this is embarrassing, but we were in a hot tub together at the Post Ranch Inn, right on the coast of Big Sur. And so that's a privileged place to be, and it was a privileged conversation because we did what we call Jewish geography, and we found that we went to similar camps as kids.

Brad Dockser:

We did.

Matt Slepin:

I think it was camps to real estate in DC to we know each other. Wasn't that the trend of the track of the conversation?

Brad Dockser:

Remember more than anything else, we met in a hot tub.

Matt Slepin:

Okay. We remembered it. We met in a hot tub then. But I find it fascinating to figure out how you know each other. Hey, I don't usually talk to the people in the hot tub because it's a bit awkward, but we did. And then establishing the connection's really interesting. Gets back to what we talked about before.

Brad Dockser:

We're interviewing a potential hire right now, and one of my team asked me yesterday, "How did I meet her?" And I said, "Oh, I met her grandfather in a hot tub." He's connecting with his granddaughter. He goes, "I'm a climate denier. I don't believe in anything you're doing, but my granddaughter, she's an environmental scientist in college and I think she should know you." So I said, yeah, I met her grandfather in a hot tub.

Matt Slepin:

Okay, well, you have a lot of hot tub stories. This was my only one, but thank you for asking. It's going to be on the show.

Brad Dockser:

This was great.

Matt Slepin:

Thank you.

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