SEC Passes Gentler Climate-Risk Rules

A softened climate-change disclosure rule approved by the **SEC** on March 6 poses less of a threat to commercial real estate owners and lenders than the original proposal, market players said.

The rule is aimed at helping investors digest a barrage of green pitches. As passed, the directive requires major banks, REITs and other large public owners of real estate — starting in 2025 — to disclose climate risks to their businesses as well as their efforts to mitigate those risks, and to detail their own effects on the environment such as greenhouse emissions.

However, the SEC removed the controversial Scope 3 provisions, which would have required reporting of downstream impacts, such as emissions produced by tenants' businesses. As for direct Scope 1 and 2 repercussions, the SEC limited reporting to "material" impacts and excluded smaller public companies and securitization vehicles from the requirements.

Industry groups, including the **CRE Finance Council** and the **Mortgage Bankers Association,** which had considered Scope 3 to be unworkable, applauded the changes.

"They reined in the rule a bit and clarified its scope, which is important whenever you are doing something completely new," said **David McCarthy,** CREFC's chief lobbyist. "We still have to digest the [866-page] rule, but these key changes are a positive."

Stephanie Milner, an associate vice president of multifamily policy at the MBA, said many large companies already meet the standards voluntarily, so the industry impact will be muted.

"Scope 3 was going to be hard for all our members under the proposal," she said. "It is so complex, and there is no data out there to help companies figure it out."

Michael Ruder, a securitization attorney at **Cadwalader** who has focused on the issue, noted that legal challenges likely will manifest and could take years to sort through.

Meanwhile, California has rolled out its own rules that include Scope 3 reporting by 2026. Those laws are being challenged in court.

Acknowledging that many companies voluntarily report climate risks, Ruder nonetheless noted that "some investors and even some reporting companies may applaud that the new rule will harmonize reporting on climate data. But the rule will elicit a wide array of reactions from those who think it is regulatory overreach or that it did not go far enough."

Jason Rozes, a real estate finance partner at **Dechert** and co-head of the firm's sustainability practice, said many firms will walk a tightrope as the rule rolls out. He noted that Dechert is taking a pragmatic approach to helping clients comply with the directive.

"The SEC listened to the thousands of comment letters they received and tried their best to respond," Rozes said. "They recognized this is expensive to put into place for companies and that some of the reliability and availability of data [for Scope 3 reporting] posed a challenge. When you are trying to inform investors, clearly they recognized there could be challenges, both practical and legal." ❖

GreenLake Adds Banker, Eyes Growth

GreenLake Asset Management has hired a veteran banker as it builds out its origination team and helps borrowers through an uptick in distress.

Last month, the South Pasadena, Calif.-based firm brought aboard **Phil Soh** as a managing director focused on originations and credit. He works alongside managing principal **Peter Chang,** senior advisor **Tom McConnell** and chief operating officer **Paul Diamond.**

Chang said that Soh already is helping the firm identify potential deals quickly, particularly as rising interest rates have put pressure on borrowers. The firm is on pace to originate $400 million of debt this year, up from $320 million in 2023.

With business picking up, Chang plans to hire more originators, preferably in the Los Angeles area, over the coming months. Candidates can email Diamond at info@greenlakefund.com. Chang also expects that the total capital raised in its GreenLake Real Estate Fund and related offshore feeder funds soon will surpass $1 billion.

Soh, who arrived from **Banc of California,** is helping fill gaps left by the recent departures of originations chief **Kamau Coleman** and two of his lieutenants, **Adam Frank** and **Renee Volaric.** Those staffers subsequently formed a new lending shop, **Offset Capital.**

At GreenLake, Soh's responsibilities include scouring the financials of borrowers and advising them if assets need help.

"Many loan originators do not possess deep expertise in credit," Chang said. "However, it's increasingly becoming a critical component to successfully originating new loans."

GreenLake, which launched during the financial crisis in 2008, typically writes fixed-rate senior loans of $10 million to $65 million across major property sectors. It also caters to asset types that other lenders tend to avoid, such as car dealerships, concert venues, convenience stores, drug-rehabilitation facilities, gas stations, private schools and timeshare properties.

Part of the firm's pitch is that it's willing to provide flexible financing to borrowers in special situations, such as loans tied to debt restructurings, pending foreclosures, property repositionings, partnership disputes and environmental issues.

"We view ourselves as incredibly adaptable," Diamond said. "From the moment we begin looking at a potential loan, we have our asset management team participating. We analyze how the real estate functions, what is going on with it, and we closely track the financials."

Soh had worked at Banc of California since 2019, serving as a deputy chief credit officer and helping oversee the company's integration of **Pacific Western Bank.** His resume also includes stints at **Citizens Business Bank** and **Wells Fargo.** ❖

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