Putting Green Leases into Action

SWEEP
SOUTHWEST ENERGY EFFICIENCY PROJECT

IMT
INSTITUTE FOR MARKET TRANSFORMATION

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TODAY'S WEBINAR TOPIC
Putting Green Leases into Action

Green leases make it easier for commercial building owners, operators, and tenants to reduce energy use in buildings. By outlining a clear process for operations and maintenance, energy measurement and reporting, and energy efficiency upgrades, building owners and operators can more effectively achieve energy and cost savings.

SPEAKERS:

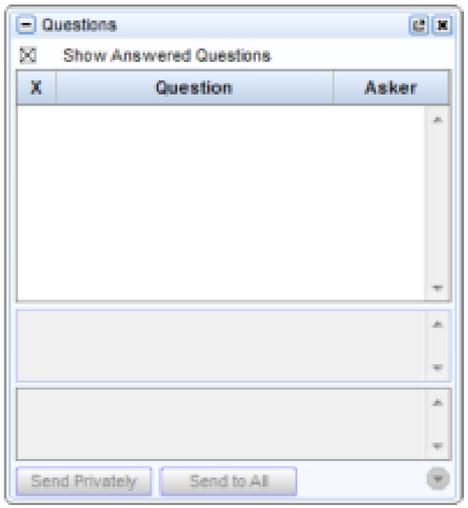
Lauren Smith
Southwest Energy Efficiency Project

Andrew Feierman
Institute for Market Transformation

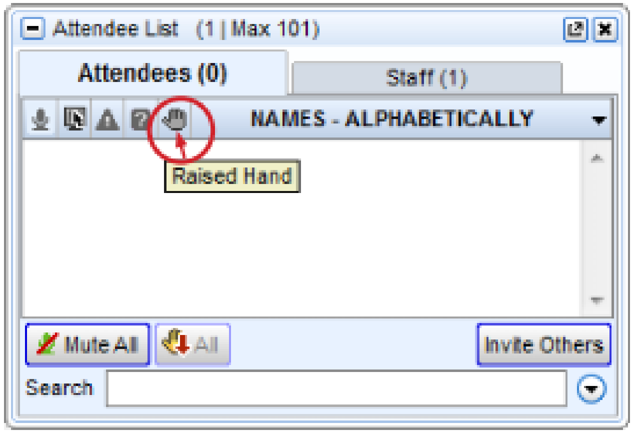
Adam Knoff
Unico Properties

QUESTIONS OR COMMENTS

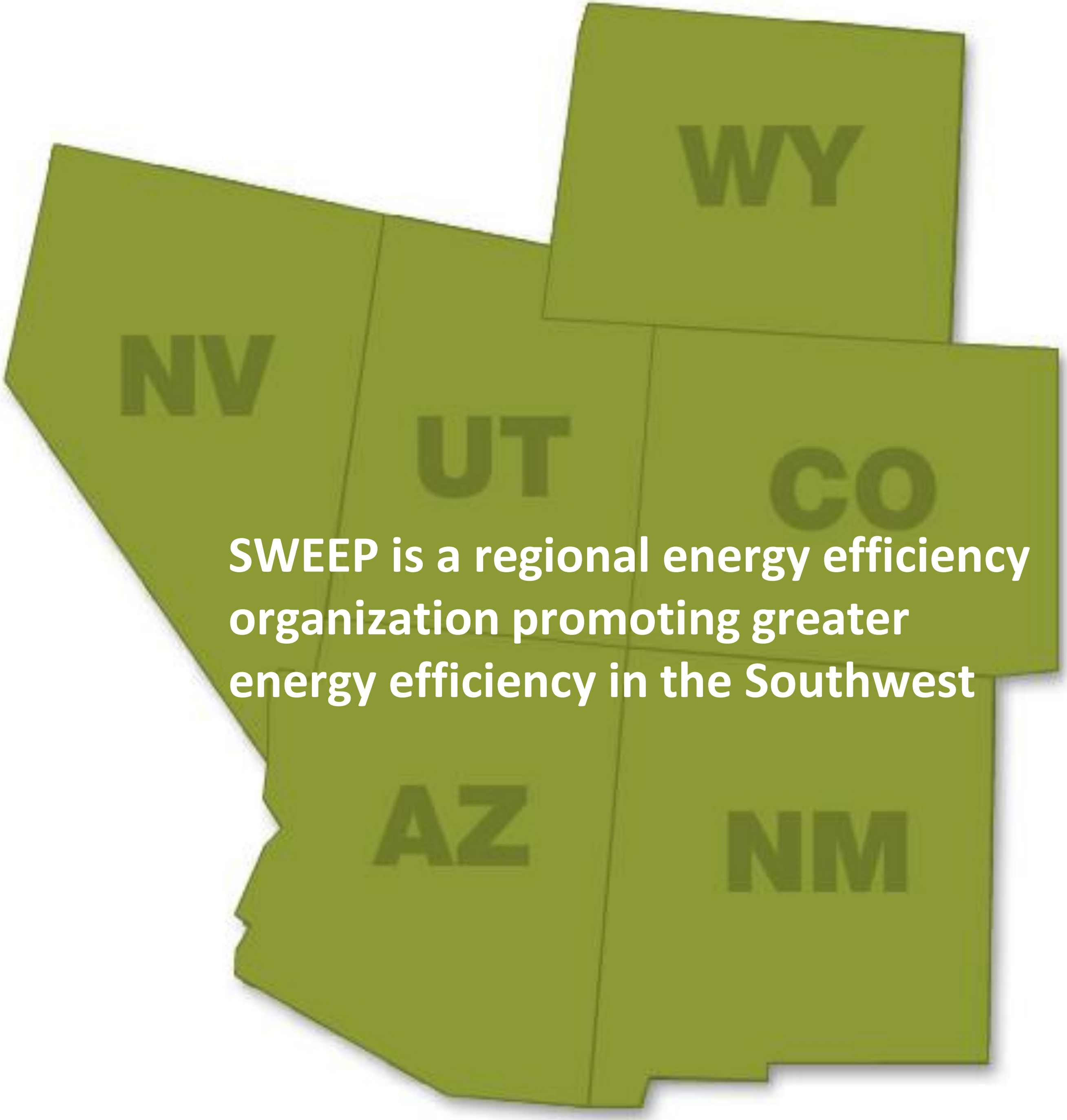
There are two ways to ask a question:



Write your question in the comment box during the session or after the presentation.



“Raise hand.” If you have inserted your ID number you can be un-muted and can ask a question.



SWEEP is a regional energy efficiency organization promoting greater energy efficiency in the Southwest

SWEEP Program Areas

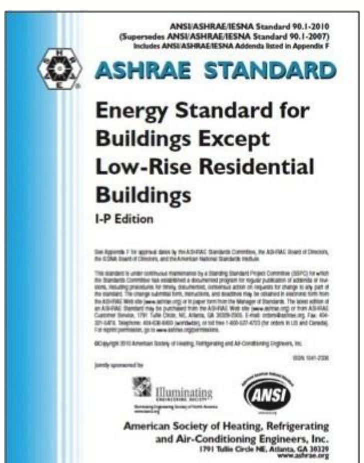
- State and Local Government
- **Buildings and Energy Codes**
- Combined Heat and Power
- Transportation
- Industrial Efficiency
- Utilities

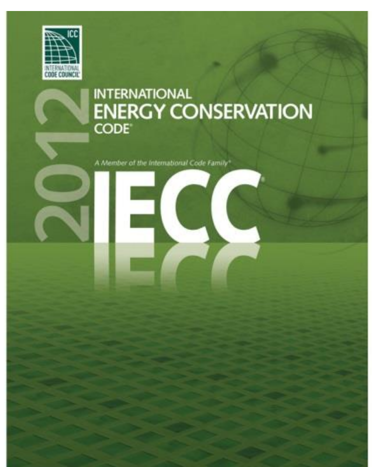
Commercial Buildings

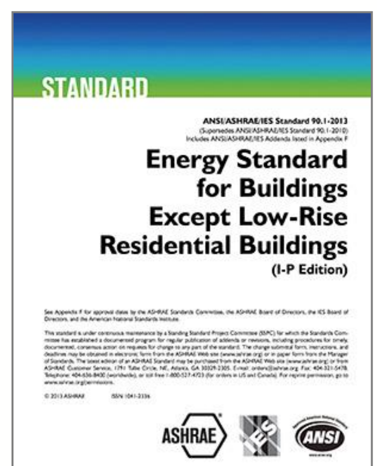
- **Support energy code adoptions and compliance**
- **Support local governments with benchmarking programs**
- **Assist utilities with implementation of ENERGY STAR Portfolio Manager Web Services and similar programs**
- **Provide building owners and tenants with energy management resources, including materials from DOE’s Green Lease Library**
- **Provide information on DOE’s SEED Platform**

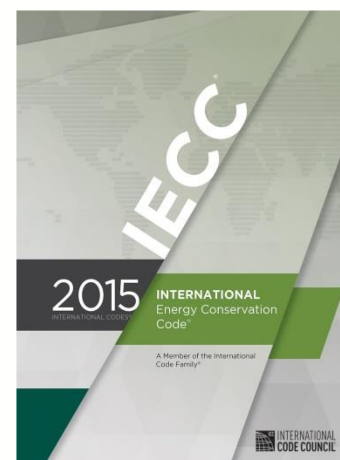
Building Energy Codes

- Energy code adoptions
- Energy code compliance collaboratives
- Regional codes leadership group
- Strategic studies on commercial compliance
- SWEEP energy codes workshop









CITY ENERGY

A JOINT PROJECT of NRDC + IMT

SWEEP

SOUTHWEST ENERGY EFFICIENCY PROJECT

DENVER

City Energy Project

A program of the City & County of Denver

Project Skyline

DENVER
City Energy Project
A program of the City & County of Denver

Lease for Efficiency:

- Businesses renting space in Denver
- Commitment to ask about ENERGY STAR score when leasing space
- Recognition on website and energy efficiency resources







Other Benchmarking Programs

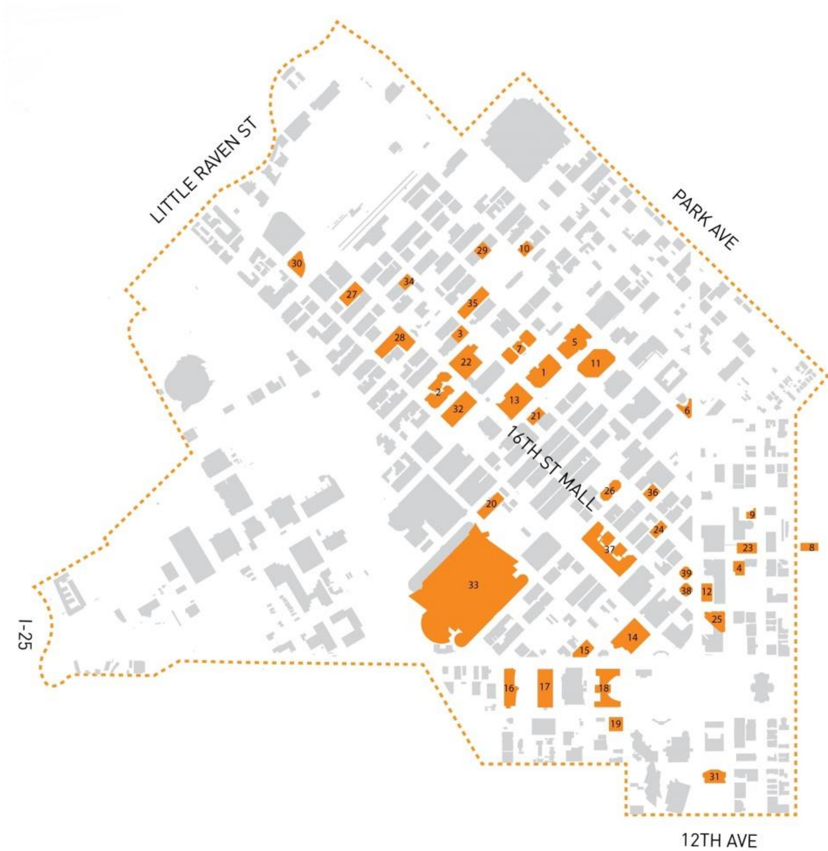
- Public buildings
- City ordinances
- BOMA Kilowatt Crackdowns

KILOWATT CRACKDOWN 2015

WATTS TO WATER

TAP THE POWER

2030 DISTRICTS®



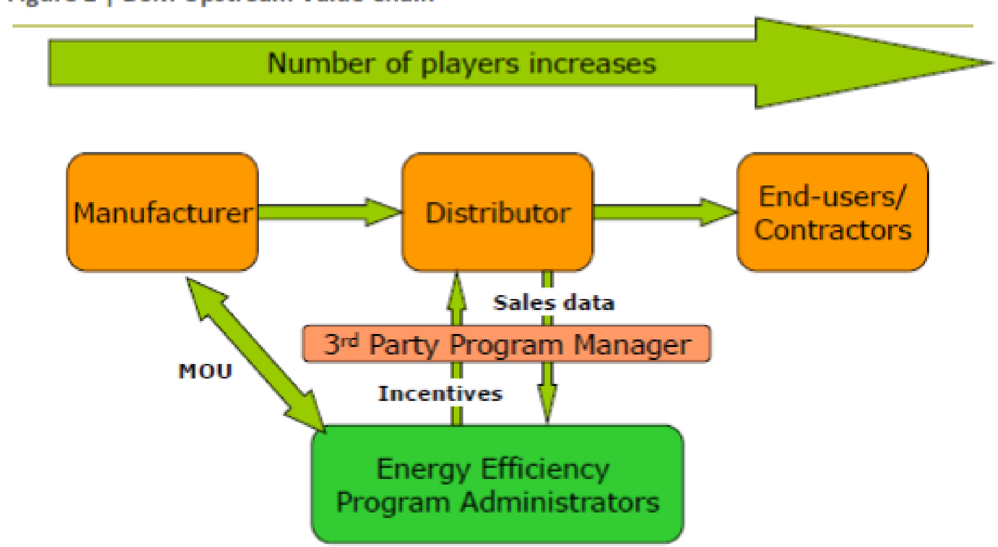
DENVER 2030 DISTRICT®

ALBUQUERQUE 2030 DISTRICT®

Commercial Utility Programs

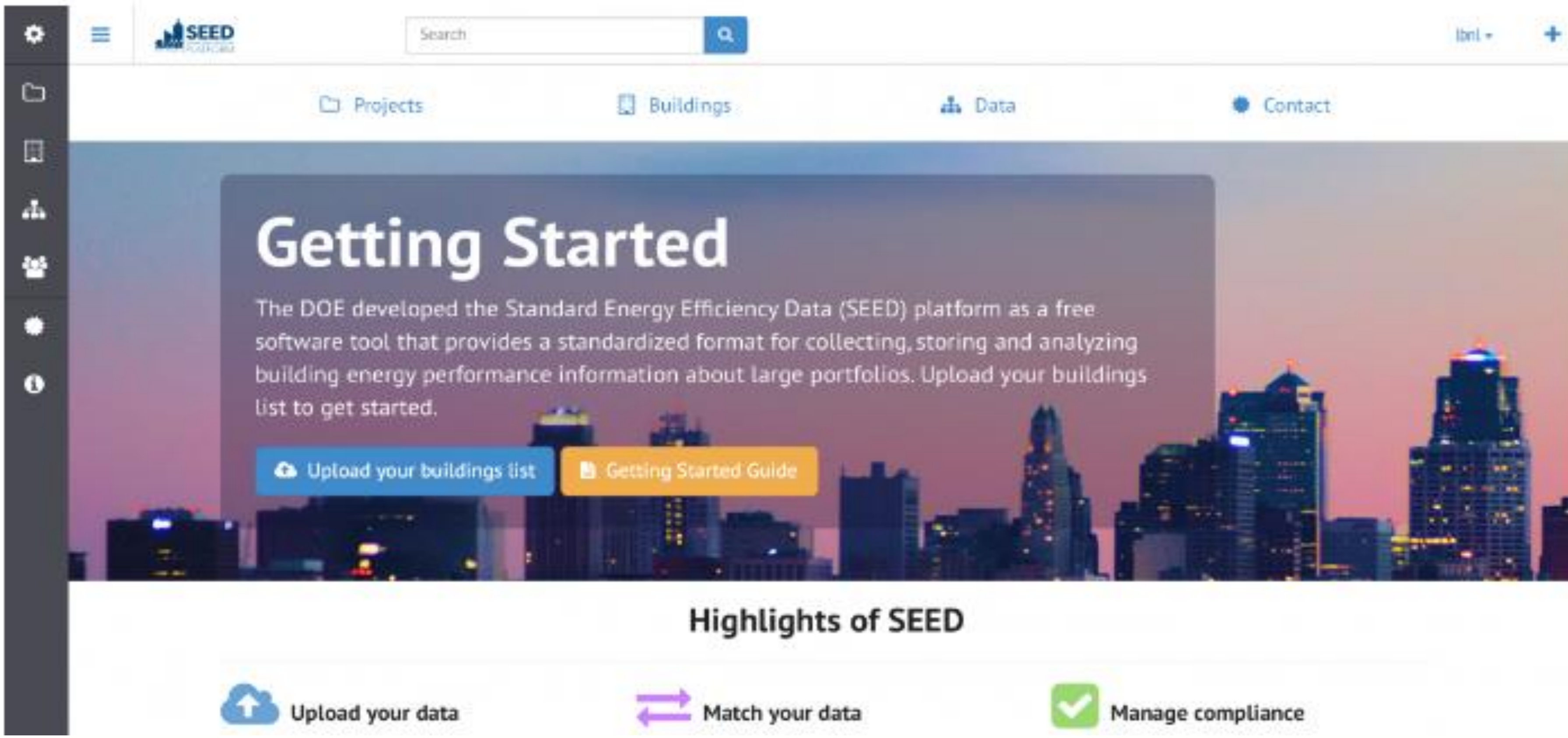
- Design assistance programs
- Net zero energy
- Energy Design Assistance Program Tracker (EDAPT)
- Upstream incentives
- Advanced technologies

Figure 1 | DSM Upstream Value Chain

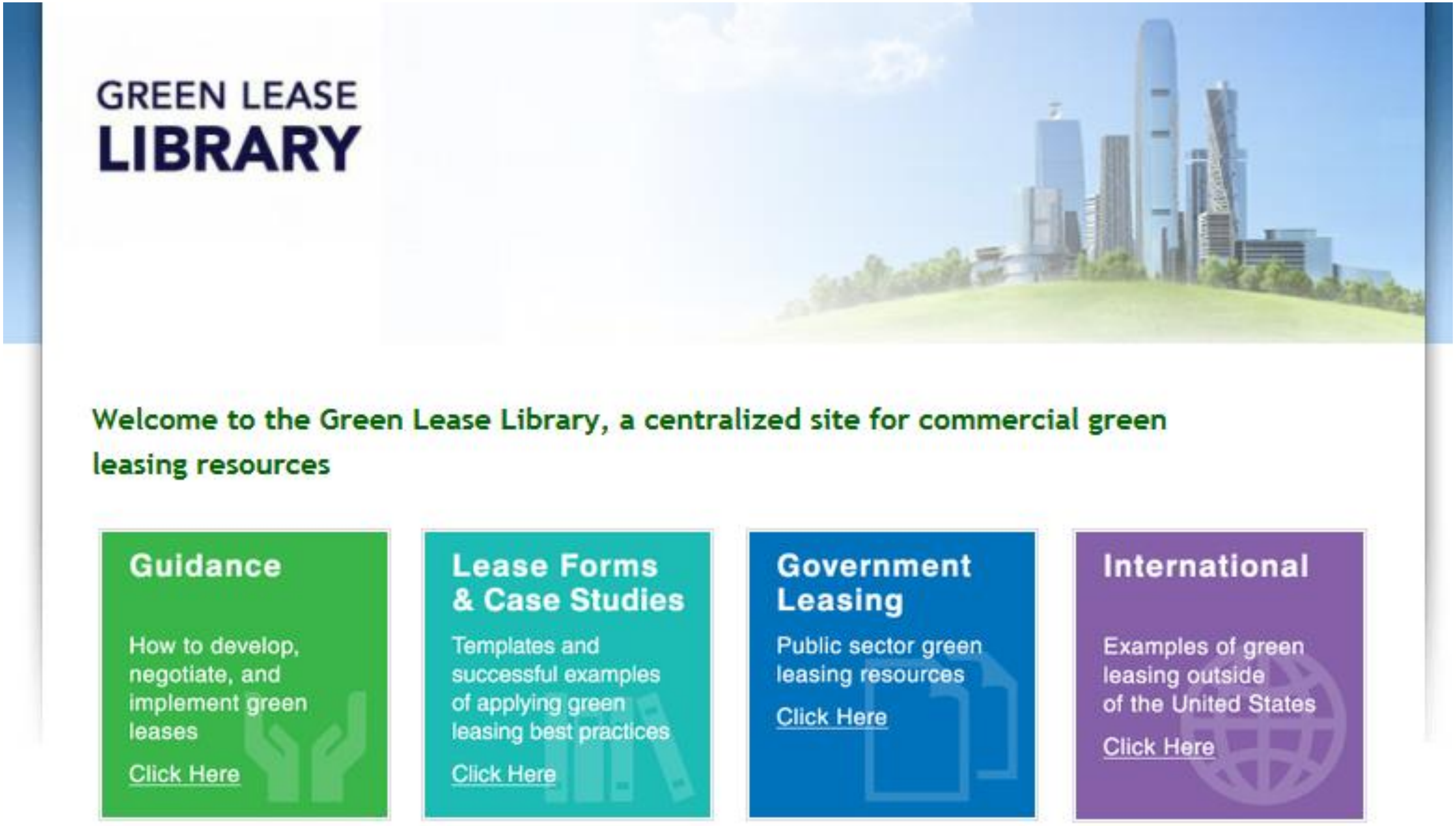


Standard Energy Efficiency Data (SEED) Platform

Designed to help organizations manage and share large datasets about building performance



http://energy.gov/eere/buildings/standard-energy-efficiency-data-platform



http://www.greenleaselibrary.com/

Contact Information

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Green Leasing

Why we need it and how it changes the market

Andrew Feierman
Commercial Real Estate Engagement

IMT
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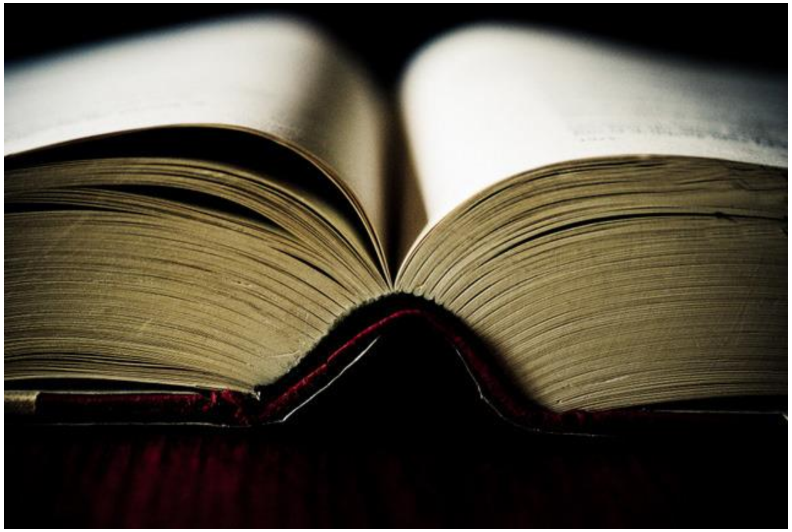
Green Leasing

A lease in which landlord and tenant agree to include sustainability concepts, and assign costs and benefits of sustainability improvements.

The goal is to align "split incentive".



Courtesy of Flickr user: Bob AuBuchon

Why “Green” the Lease?

1. Standard commercial leases contain no language regarding sustainability issues.

2. Modified gross and net leases often divide who pays for efficiency improvement and who benefits.

3. 3rd party certification systems (LEED, Energy Star) contain requirements such as energy data reporting that should be addressed in the lease.

4. Federal, state, and local regulations increasingly require sustainability/efficiency measures and energy consumption reporting.

Existing Leases: What's the Problem?

- Myth of the Zero Sum Lease: A Lack of Trust

Leasing Basics: Lease Structures

Full service gross

Owner pays for all core building operating and capital expenses.

Modified gross

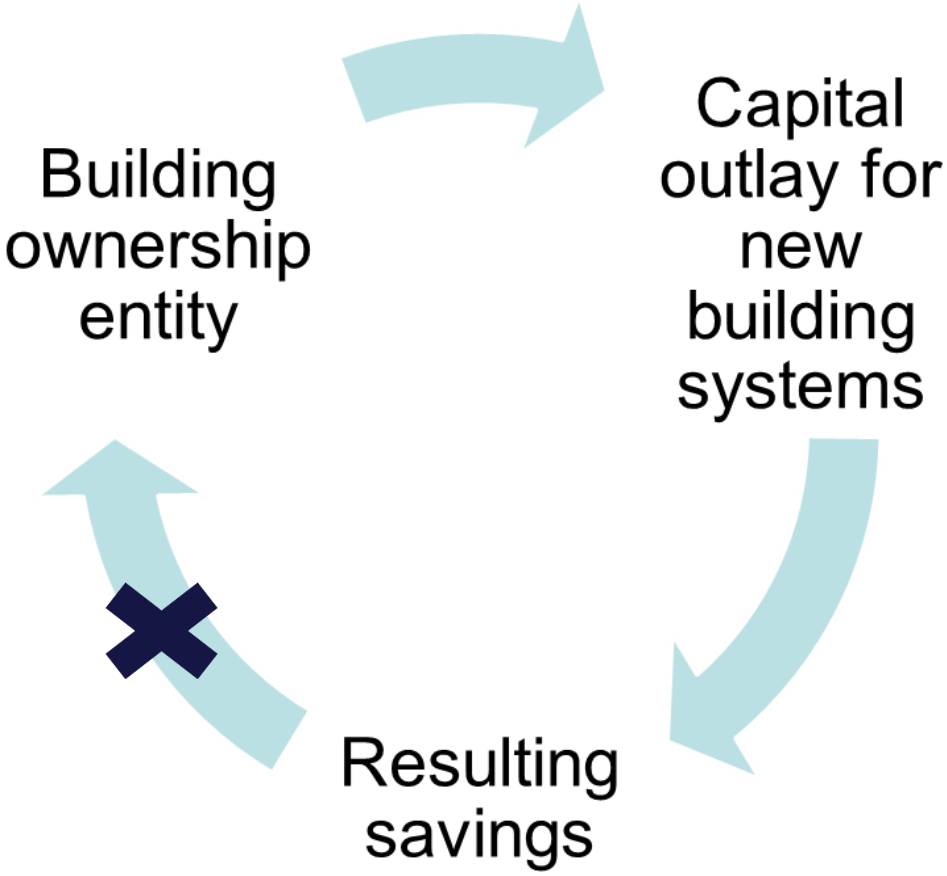
Owner pays for capital and a “pool” of operating expenses.

Tenant pays all increases in the pool after the first year of the lease.

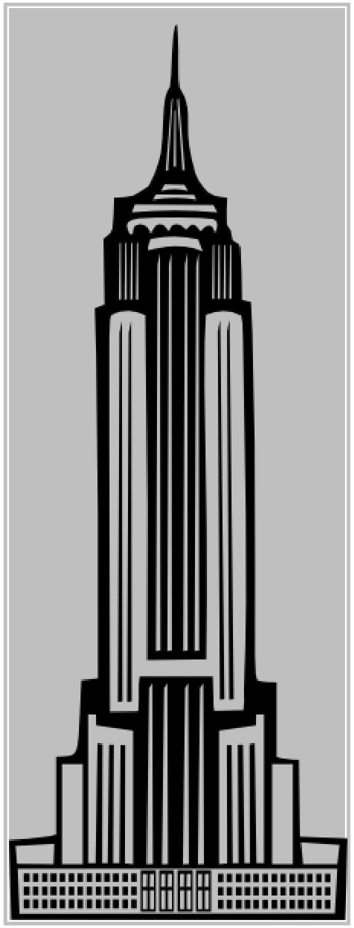
Triple Net (NNN) Lease

Tenant pays base rent and all operating costs defined in the lease, and may or may not pay for capital improvements.

Eliminate the Split Incentive



What can you do?



- Set up meetings between leasing teams and energy managers
- Talk to energy managers – find out their barriers
- Leverage internal sustainability or CSR goals
- Abstract existing leases

Example Green Clauses

- **Building Rules and Regulations**
  - Change building operating hours to limit building-wide HVAC use
- **Energy Data Disclosure**
  - Require landlord to benchmark building in ENERGY STAR Portfolio Manager, and report score to tenant annually
- **Energy and Data Issues**
  - Submeter or separately meter utilities where possible
- **Build Out Requirements**
  - Require a build-out above existing code or to LEED C.I. standards

Start Somewhere

Tenant	Landlord

Tenant

- Meet with your Landlord
- Add a Submeter

- Align lease terms with CSR
- Mention sustainability in site selection & RFPs

Landlord

- Begin Benchmarking
  - No Cost
  - Regulatory Advantage
- Conduct Tenant Survey

Small Changes, Big Impacts

- Energy management controlled by green leases can reduce energy consumption by 11-22% in US office buildings.
- Potential for annual cost savings of $1.7 - $3.3 billion within the leased US Office Market.

Source: http://www.imt.org/resources/detail/green-lease-impact-report

Value Increase

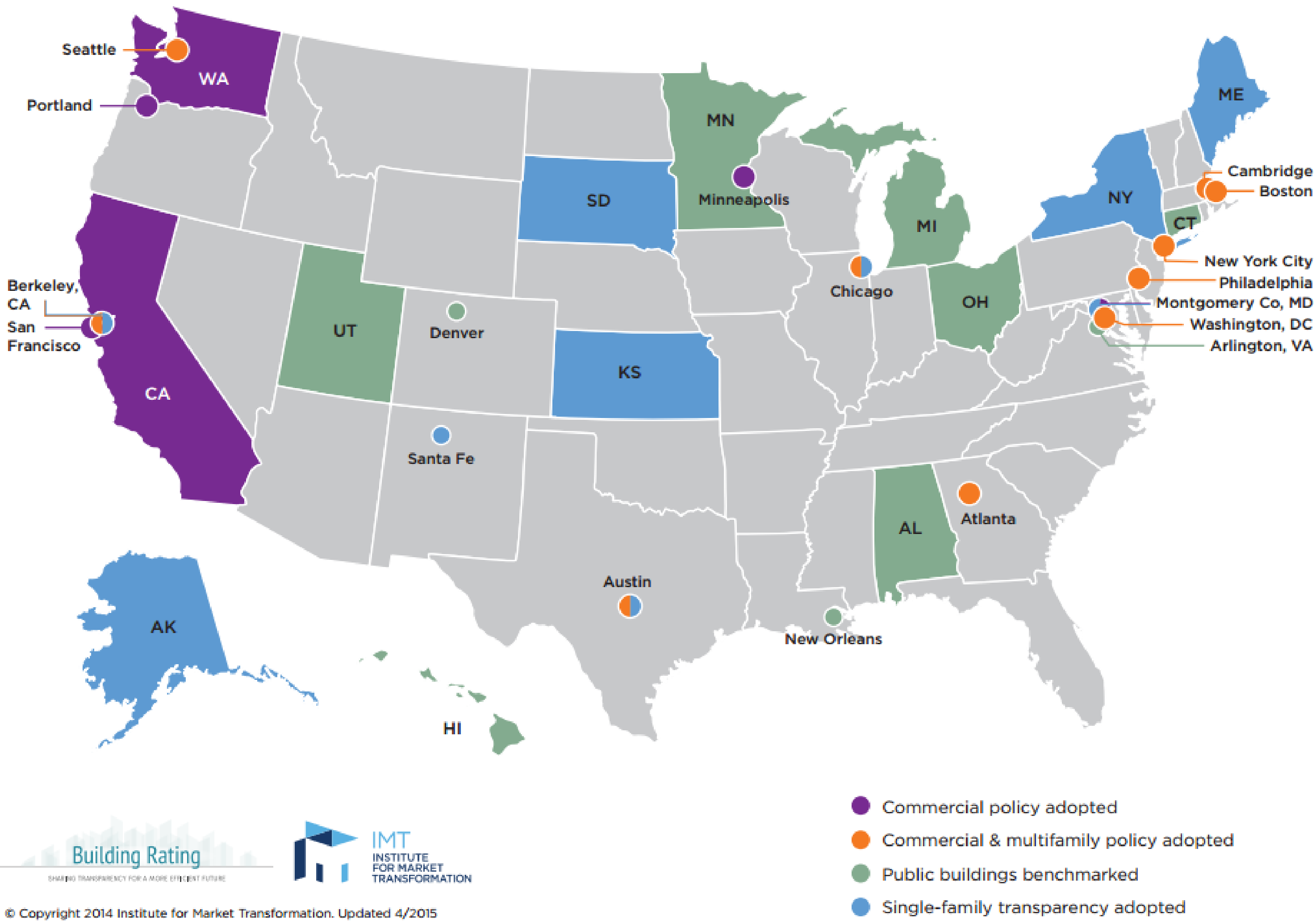
ENERGY SAVINGS CREATE VALUE BY INCREASING NOI: COMMERCIAL BUILDINGS		
Energy Saved (%)	Savings per Square Foot	Value per Square Foot
Baseline	–	–
5%	$0.13	$1.56
10%	$0.25	$3.13
15%	$0.38	$4.69
25%	$0.63	$7.81

*Income Capitalization Approach to Value. Assumes owner is responsible for utilities, energy baseline $2.50/SF/YR, cap rate 8%

Source: http://www.imt.org/resources/detail/green-building-and-property-value

The Local And National Regulatory Environment Is Changing

U.S. Building Benchmarking and Transparency Policies



Building Rating
SHARING TRANSPARENCY FOR A MORE EFFICIENT FUTURE

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Green Lease Leaders

- Overcome the ‘Split Incentive’
- Redefine the role leasing plays in contributing to the Triple Bottom Line
- Contractual arrangement in place for the duration of the tenant-landlord engagement

www.GreenLeaseLibrary.com

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Better Buildings®
U.S. DEPARTMENT OF ENERGY

BOMA INTERNATIONAL

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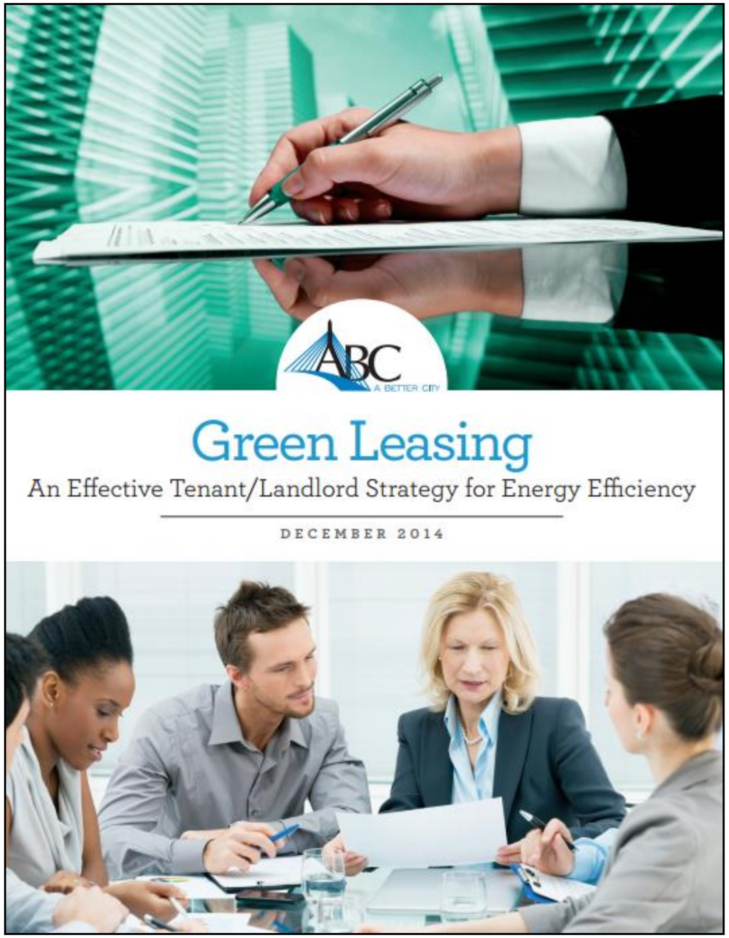
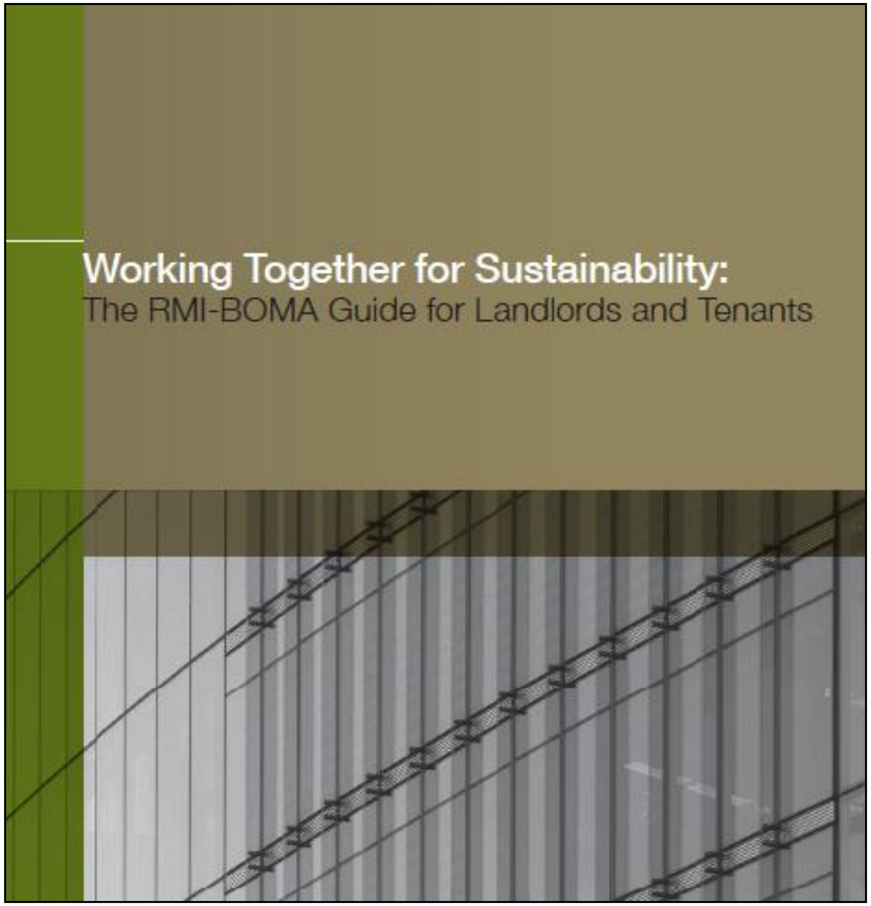
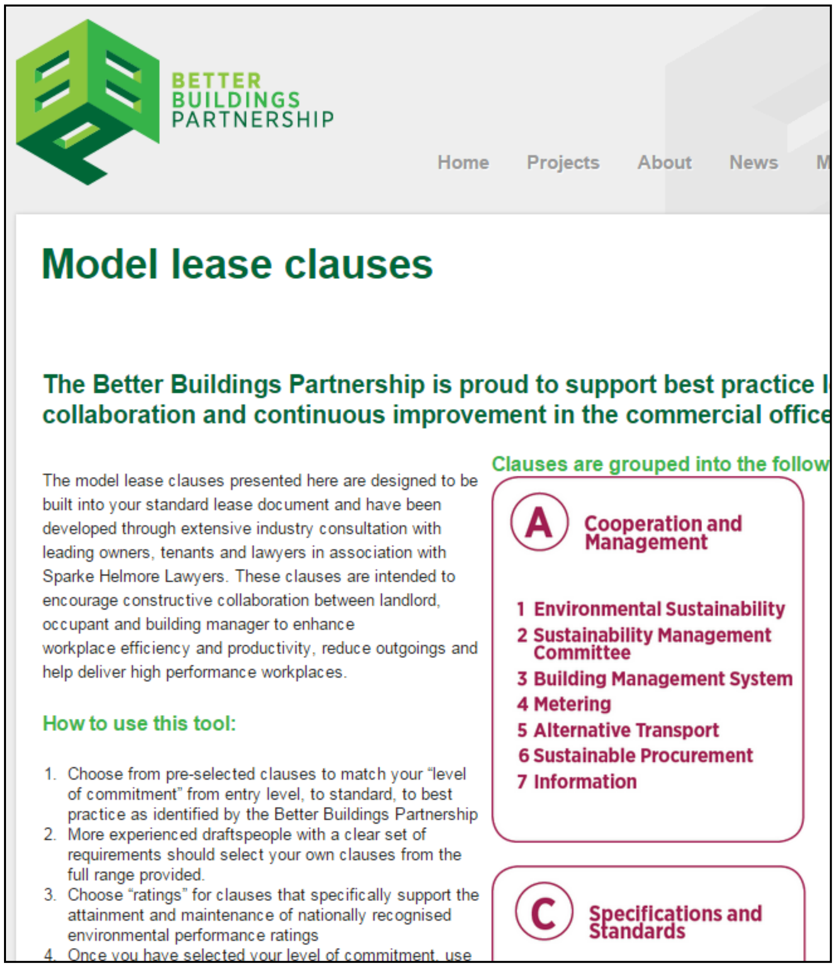
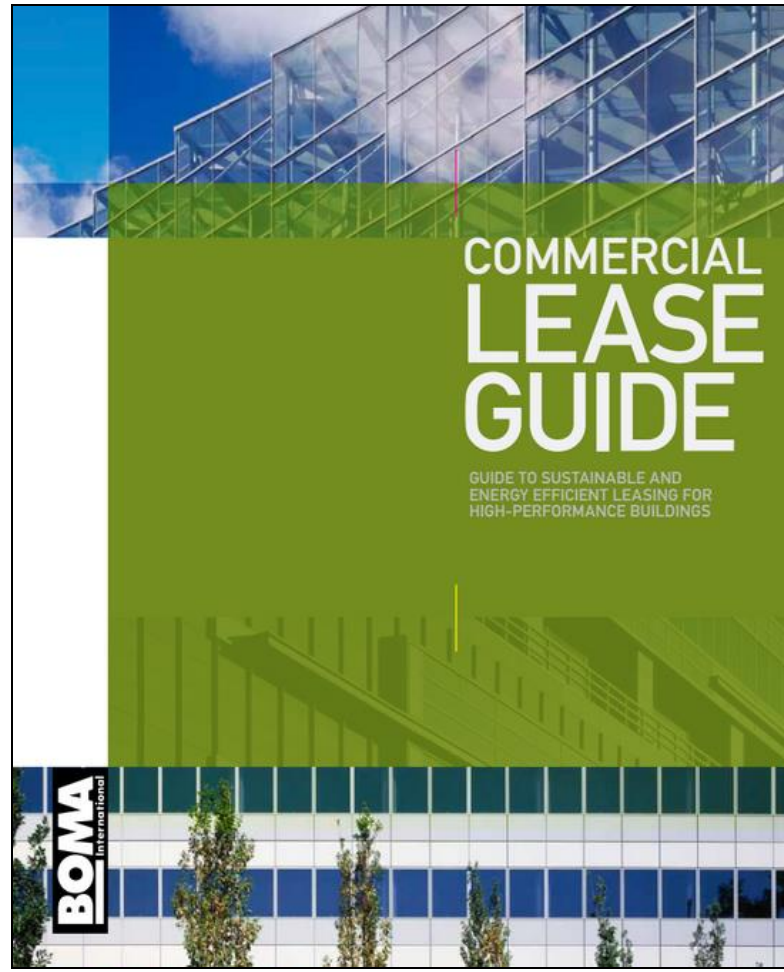
Green Lease Library





Green Lease Library





Green Leasing in Action

June 3, 2015

Adam Knoff, LEED AP O+M, Senior Sustainability Manager

UNICO
SUSTAINABILITY

Intros

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Unico Overview

Investor and Manager

Unico is a commercial real estate investor and full-service operator

- 3 primary markets: Seattle, Denver/Boulder, and Portland, OR
- 3 submarkets: Spokane, Salt Lake City, and Austin
- Currently 13.5M SF – primarily commercial office

Unico is an investment company

- Allows for a longer-term view
- Ownership position opens the door for more sophisticated projects

U.S. GREEN BUILDING COUNCIL MEMBER

2014 GREEN LEASE LEADER

ENERGY STAR PARTNER

2030 DISTRICTS NETWORK

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Unico Sustainability

Nearly a decade of sustainability commitment

- Primary services:
  - Energy efficiency project identification and development
  - LEED certification
  - Renewables development
  - ENERGY STAR and ongoing performance analytics
  - All services provided to Unico and non-Unico clients
- Over 11M SF of LEED certified square footage
- Nearly 1 MW of installed solar
- More than $2.1M in efficiency-related savings annually

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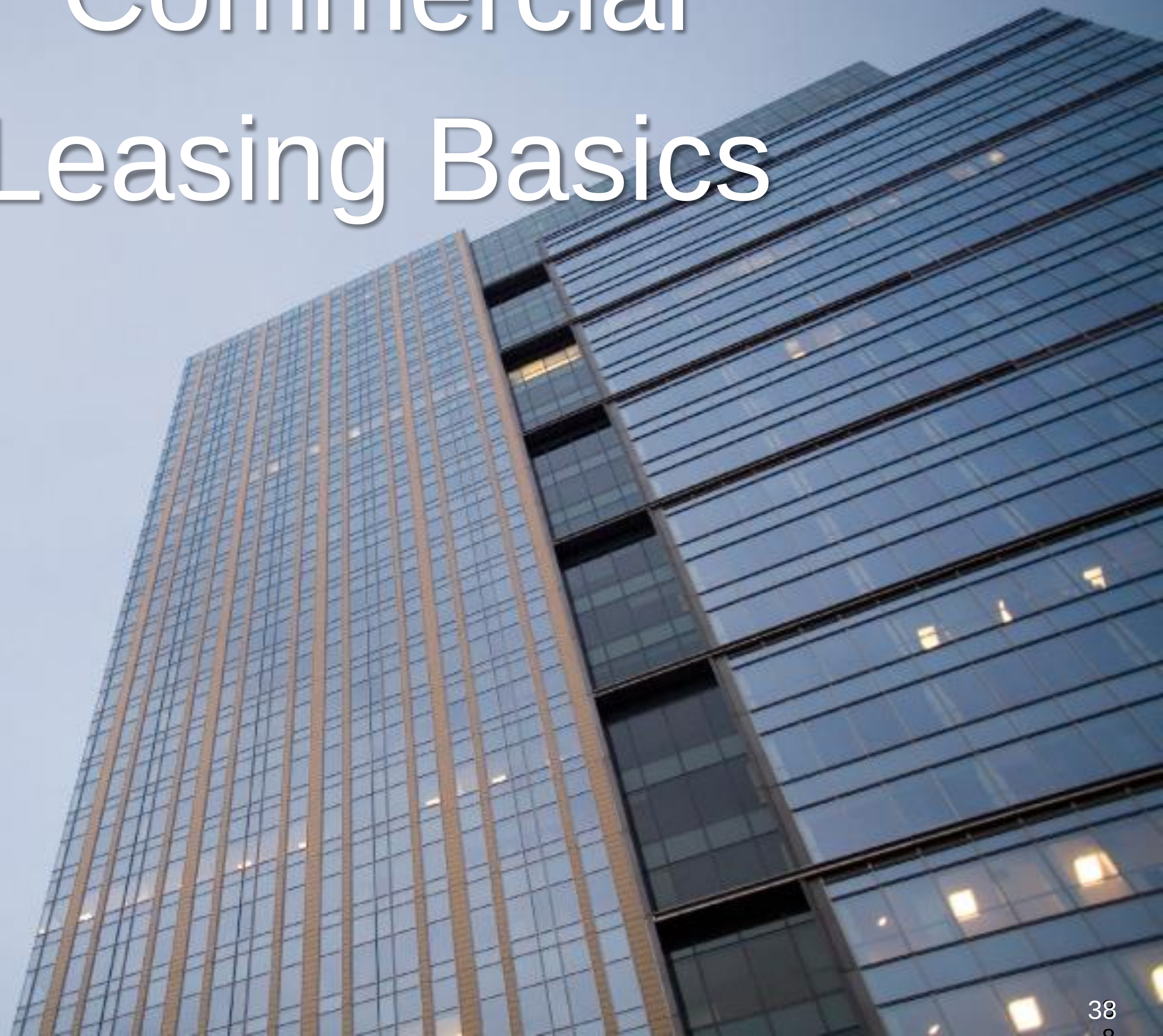
Commercial Leasing Basics



Lease Types

Gross Leases

- Tenants monthly rent includes rent plus pre-determined cost for building operating expenses
- Regardless of savings, tenants pay the same amount

Triple-Net and Modified Gross Leases

- Tenants pay set monthly rent and estimated share of building operating expenses
- At year’s end, tenants pay additional adjustment for true cost of operational expenses

The Market Dictates the Lease Type

- Markets tend to be ingrained with one type or the other
- It is typically *not* landlord’s discretion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Operational vs. Capital Expenses

Capital Expenses

- Expenses that are typically considered imperative to the building or big enough projects that asset managers will attempt to capitalize the project
- Capital expenses generally include roof replacement, HVAC replacement, and life & health safety systems
- Capital expenses are not always easily passed through to tenants

Operational Expenses

- Expenses that are the result of ongoing occupancy and typical wear and tear
- Operational expenses include utility expense, basic ongoing repairs and maintenance, etc.
- Operational expenses are always passed through to tenants (assuming triple-net leases)

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Implication: The Split Incentive

Gross leases often render the split incentive moot

- Because tenants' costs do not change, any savings goes to the landlord

Triple-net and modified gross leases create the split incentive

- Landlord may not be able to pass the cost of a high-efficiency HVAC replacement (capital cost) to the tenants, but tenants receive the cost saving benefit
- Although some capital expenses can be passed through, this is subject to the lease language
- The split incentive is often an insurmountable barrier to high-performance


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Green Leasing

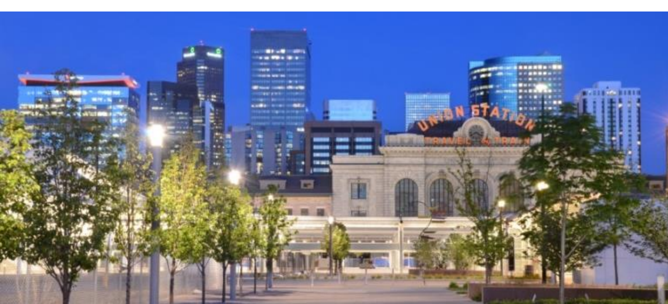
What is Green Leasing?

Many things to many people

- Green leasing can serve multiple purposes
- It is important to decide what you are trying to accomplish with your green lease
  - Overcome the split incentive
  - Fund the cost of green building certifications
  - Gain access to ongoing energy and water consumption data
  - Require waste diversion

Unico's green lease rider addresses all of the above

- Focusing right now on overcoming the split incentive

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A Multi-Step Approach

Overcoming the split incentive is not as simple as a green lease addendum

- The entire lease and green lease rider need to work together
- Step 1: Clearly define that any cost saving project's costs can be passed through to tenants *in the lease*

"Capital costs included in Expenses [including 'the cost of any capital improvements or modifications made to the Building by Landlord that are intended to reduce Expenses'] shall be amortized over such reasonable period as Landlord shall determine…"

- Step 2: Bolster this with green rider language

"Building Expenses shall also include: (i) all costs of maintaining, managing, reporting, commissioning, and recommissioning the Building or any part thereof that was designed and/or upgraded to be sustainable…"

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Use the Logic

A true green leasing strategy is a sequence of documents and clauses

- Define which type of expenses are the responsibility of the tenant
- Stipulate that costs associated with sustainability improvements are determined to fall into the same category of costs
- Therefore, sustainability costs are the responsibility of the tenant

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Thank You

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Questions?

Visit www.GreenLeaseLibrary.com

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