

NAREIT 2017 Leader In The Light

Sustainable Real Estate Practices

Working Forum



real foundations

Overview

Intro

Overview of Green Leasing

Key Lease Provisions

Green Lease Leaders

Real Life Example



Green Leasing Defined

A lease in which Landlord and Tenant agree to include sustainability concepts and assign costs and benefits of sustainability improvements.

The primary goal is to align the “split incentive.”



High Performance vs. Green Definition

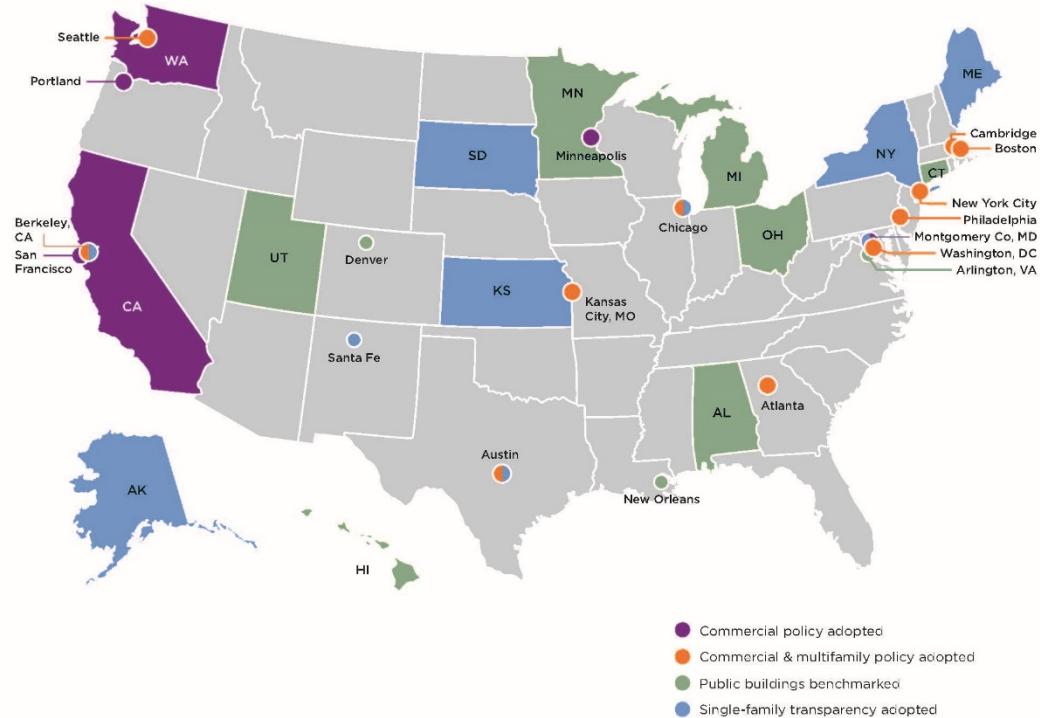
- ◆ A **high performance building** is a building that integrates people, process and technology in an efficient and sustainable manner through the use of high levels of integrated technology, including but not limited to HVAC, plumbing, electrical, renewable energy systems and sources, information technology, control systems and management software to provide a safe, healthy and productive environment for building occupants that adapts quickly to change at the lowest possible lifecycle cost.
- ◆ A **green building** is a building that is designed, constructed and operated to minimize environmental impacts and maximize resource efficiency while also balancing cultural and community sensitivity.
- ◆ CABA, LEED Guide, USGBC

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.

The Local And National Regulatory Environment Is Changing

U.S. Building Benchmarking and Transparency Policies

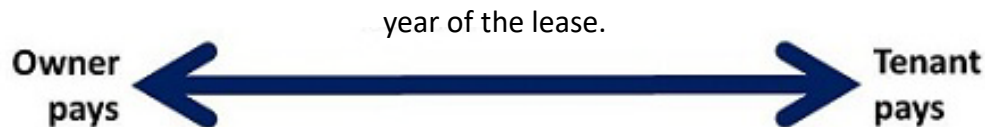


Leasing Basics: Lease Structures

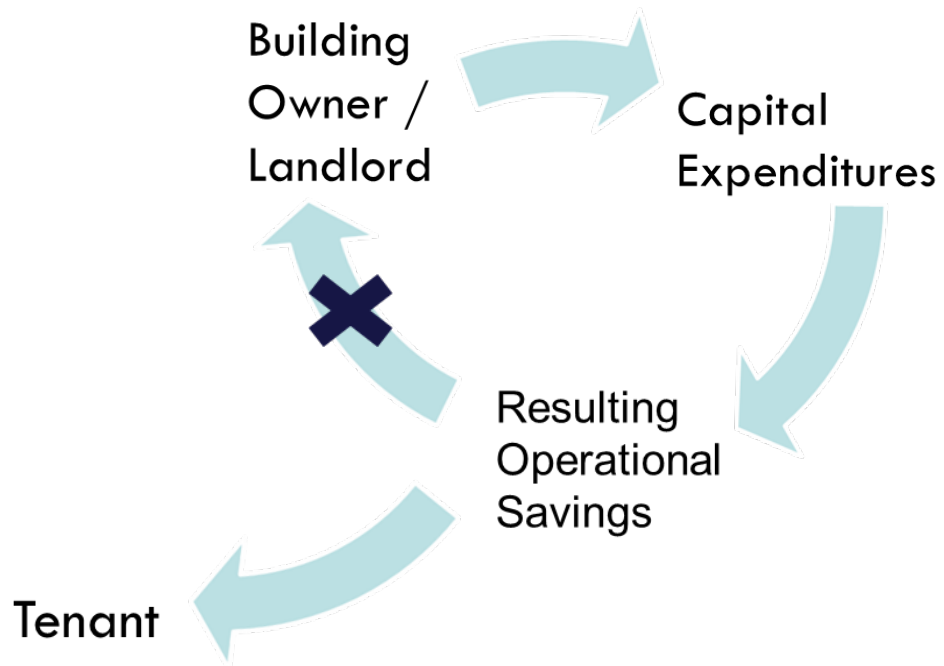
**Full service
gross**

**Modified
gross**

**Triple Net
(NNN)
Lease**



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

Examples of Key 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**
 - ◆ Sub-meter or separately meter utilities where possible

- ◆ **Build Out Requirements**
 - ◆ Require a build-out above existing code or to LEED C.I. standards



Examples of Key Green Clauses

- ◆ Construction – who is doing construction; is there a green T/I package; what type of materials are covered – paint, carpet, ceiling tiles, fasteners, furniture, etc. – mandate or suggested?; off gassing; WELL air quality measuring?
- ◆ LEED/Energy Star/BREEM – reasonable efforts, good faith efforts or must deliver risk; who pays for annual measuring and verification; dynamic plaque – wanted or hated?
- ◆ Rules and Regulations – recycling, green cleaning, supplies, bikes, ride share, water bottles, cups/mugs, procurement
- ◆ Renewables – who pays for install, maintenance, repair – must cost be net neutral to building; should power to the building be all green, some green, do tenants know or care?

Start Somewhere

- ◆ Meet with your Landlord
- ◆ Add a Submeter



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

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

Small Changes, Big Impacts



What's in a Green Lease?

Measuring the Potential Impact of Green
Leases in the U.S. Office Sector

Andrew Feierman, Institute for Market Transformation
May 2015

- ◆ 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 Proposition

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>

Green Lease Leaders:

◆ Green Leasing Leaders – what is it, who is involved, how can you get involved?

- **Landlord Requirements:** The following requirements must be met in order to be eligible for recognition:

- 1) A narrative description of the applicant's internal green leasing initiative must be included as part of the application. The narrative portion will be scored based on the number of green leasing-related accomplishments achieved.
- 2) **At least two signed and executed green leases must be included along with the application***, to show that companies or broker teams applying for Green Lease Leader recognition have leases that meet the Green Lease Standards. Information on basic lease requirements can be found below, while requirements are fully defined on pages 2-4 of the Green Lease Leaders application.

***Prerequisite:* Tenant cost recovery clause that can be used for energy efficiency-related capital improvements.**

This typically means that the list of operating expenses is expanded to include capital expenses intended to save energy, with the annual pass-through amount most often determined either by an amortization schedule or projected savings.

Green Lease Leaders - continued

- ◆ Minimum Additional Criteria (*provisions must contain at least **three** of the following*):
- ◆ Provision requiring tenant disclosure of monthly utility data to facilitate whole-building energy benchmarking.
- ◆ Minimum standards and/or tenant improvement specifications for energy efficiency. (For example, “*Tenant improvements will conform to LEED C.I. standard or better.*” “*Tenants will install ENERGY STAR appliances only.*” *This may also cover items like lighting specification or available plug load watts per square foot.*)
- ◆ Sustainable operations and maintenance rules and regulations. (*Language should cover restricted HVAC weekend operating hours, janitorial services provided during daytime hours, tenants not allowed to bring in space heaters.*)
- ◆ Sub-metering of tenant spaces or separate metering of tenant plug load and equipment, including data centers. Ideally tenants are billed according to actual use rather than on a pro-rata basis.
- ◆ Landlord agrees to incorporate energy management best practices into building operations, such as regular benchmarking, energy audits, or commissioning of building systems.

GREEN LEASE LIBRARY



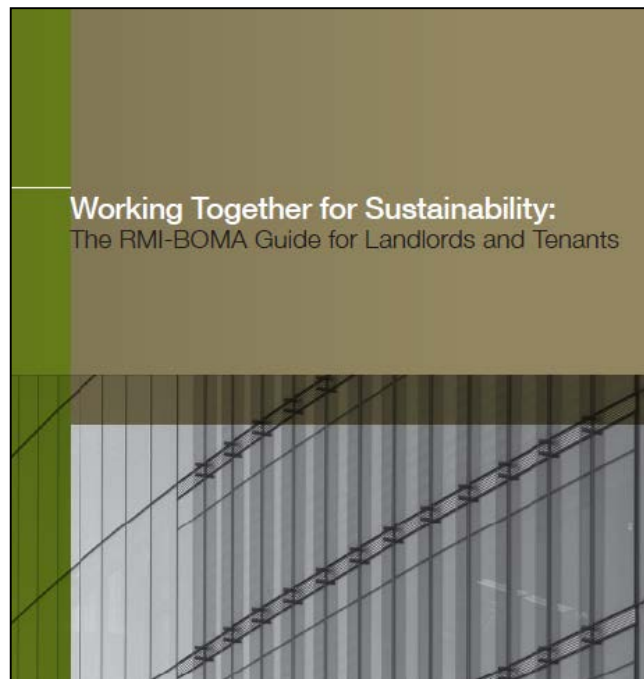
www.GreenLeaseLibrary.com



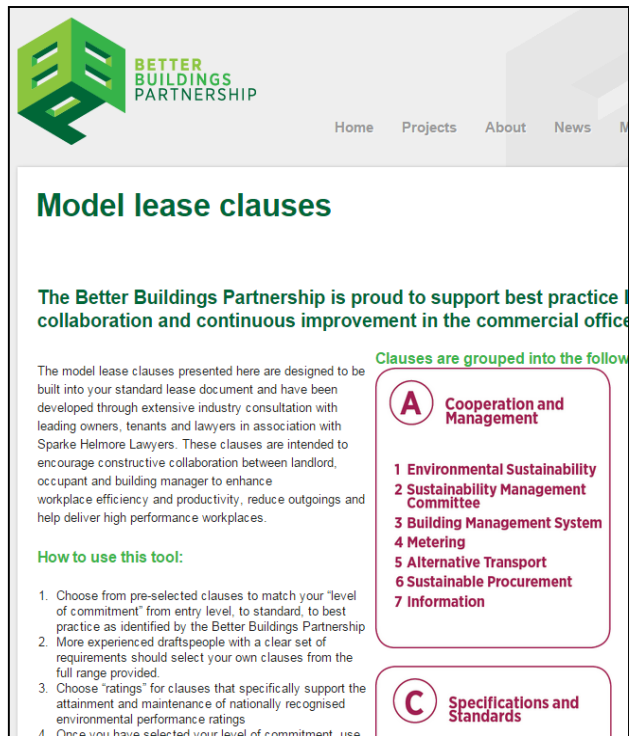
NYUSCHACK
Institute of Real Estate



Green Lease Library



Green Lease Library



BETTER BUILDINGS PARTNERSHIP

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Model lease clauses

The Better Buildings Partnership is proud to support best practice collaboration and continuous improvement in the commercial office sector.

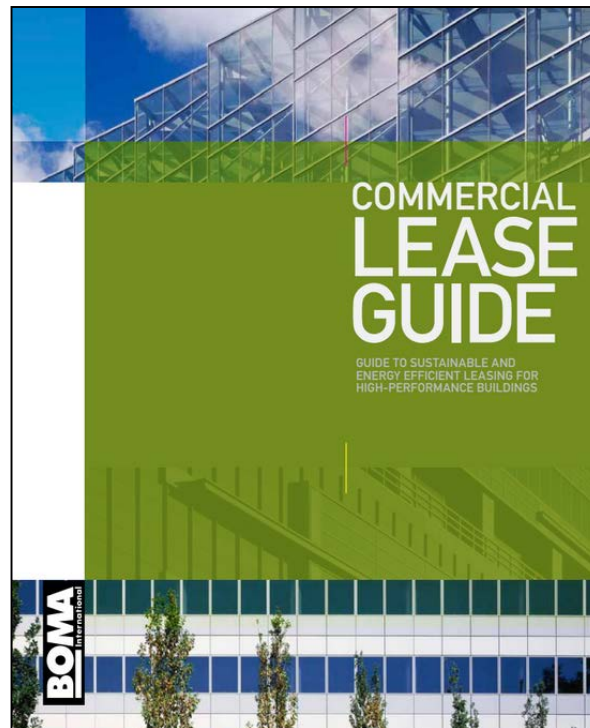
The model lease clauses presented here are designed to be built into your standard lease document and have been developed through extensive industry consultation with leading owners, tenants and lawyers in association with Sparke Helmore Lawyers. These clauses are intended to encourage constructive collaboration between landlord, occupant and building manager to enhance workplace efficiency and productivity, reduce outgoings and help deliver high performance workplaces.

How to use this tool:

1. Choose from pre-selected clauses to match your "level of commitment" from entry level, to standard, to best practice as identified by the Better Buildings Partnership
2. More experienced draftspeople with a clear set of requirements should select your own clauses from the full range provided.
3. Choose "ratings" for clauses that specifically support the attainment and maintenance of nationally recognised environmental performance ratings
4. Once you have selected your level of commitment, use

Clauses are grouped into the following categories:

- A Cooperation and Management**
 - 1 Environmental Sustainability
 - 2 Sustainability Management Committee
 - 3 Building Management System
 - 4 Metering
 - 5 Alternative Transport
 - 6 Sustainable Procurement
 - 7 Information
- C Specifications and Standards**



Questions?

**GREEN LEASE
LIBRARY**



Visit

www.GreenLeaseLibrary.com

Andrew.feierman@imt.org

Real Life Example -

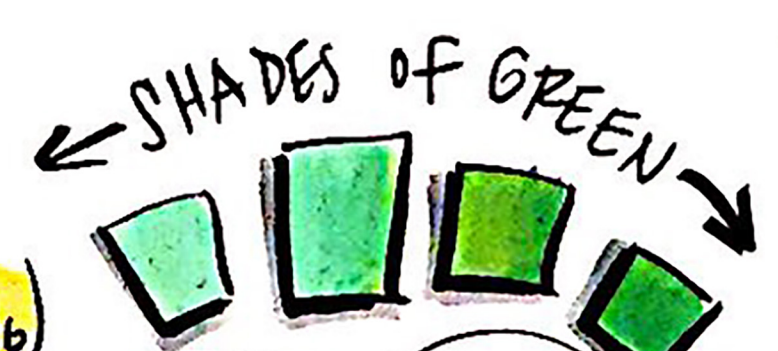
- ◆ How does one get Legal, Accounting, Property Management on Board to do this at Kimco? What is in our lease at this point? Are tenants aware? Do they care?

WHY?

REGULATORY EXPECTATIONS



- CLAUSES (DISCLOSURE, DATA SHARING)
- ENERGY EXPOSURE
- SUB METERING
- BUILD-OUT EXPECTATIONS
- RECYCLING



or at least MAKING THEM GREENER!

TAILORED LEASES to CLIENT SOPHISTICATION, MARKET, TENANT MIX, ...

FORM LEASES for SOME...

CONSTANTLY RE-ADJUSTED to MINIMIZE EXPOSURE



"GREEN BUILDINGS" MINIMIZING ENVIRONMENTAL IMPACT; OPTIMIZING EFFICIENCIES

3 PARTIES or MORE: PROCESS IS GETTING COMPLICATED!

the "SPLIT INCENTIVE"

How a LANDLORD and TENANT ALIGN around WHAT it MEANS - and WHO IS GOING to PAY for it!

ALIGNING BENEFITS w. CAPITAL EXPENDITURES ... WHO BENEFITS? ... WHO PAID?

INITIAL MAINTENANCE

GREEN LEASE - CASE STUDY

- ~ WILL TEICHMAN KIMCO
- ~ BRAD MOLOTSKY DUANE MORRIS

the GREEN LEASE LIBRARY ~ LOADS OF INFO on CLAUSES, ETC.