



GREEN LEASE LEADERS: USING THE LEASE TO GALVANIZE LANDLORD- TENANT ENGAGEMENT AND HIGHER PERFORMING BUILDINGS





COMMERCIAL BUILDINGS ACCOUNT FOR APPROXIMATELY 20 PERCENT OF ENERGY USE IN THE U.S., WITH LEASED SPACES REPRESENTING 50 PERCENT OF CONSUMPTION.

Conventional leases typically result in the creation of a split-incentive where owners are responsible for capital costs for energy efficiency and tenants reap all the benefits through reduced operating expenses, or vice versa. Green leases, also known as high-performance or energy-aligned leases break down pervasive barriers in the commercial, industrial, and retail sector by equitably aligning the costs and benefits of energy and other sustainability investments of building owners and tenants so they can work together to save money, conserve resources, and ensure smarter, more efficient operation of buildings.

A study by IMT shows that green leases have the potential to reduce energy consumption in U.S. office buildings by as much as 22 percent, yielding reductions in utility expenditures in commercial buildings up to \$0.51 per square foot (sq ft.). This research shows that when executed, green leases have the potential to provide the leased U.S. office market alone \$3.3 billion in annual cost savings.

Since its inception in 2014, [Green Lease Leaders](#), a well-regarded industry recognition program created and managed by the [Institute for Market Transformation \(IMT\)](#) and the U.S. Department of Energy's (DOE) [Better Buildings Alliance](#), has grown to represent over 1.8 billion sq ft. of building space – a clear indication that energy-aligned leasing is no longer considered an exception, rather it is becoming best practice across real estate markets. As building efficiency efforts have progressed to more advanced holistic approaches, green leases have evolved as well. The 2018 cohort of Green Lease Leaders are using the lease to not only overcome split incentives but also increase tenant engagement in a variety of ways, resulting in greener, higher-performing buildings that go above and beyond the critical goal of reducing energy consumption.

In the following case study vignettes, IMT and DOE's Better Buildings Alliance highlight 2018's Green Lease Leader

designees that have successfully implemented effective tenant engagement strategies into their green leases and overall operations. In each vignette, leading sustainability professionals share their organization's best practices that every real estate or sustainability practitioner should consider when leasing property.

This resource is part of a series of three case studies showcasing exciting green lease trends. visit greenleaseleaders.com/case-studies for more on how Green Lease Leaders are revolutionizing the lease to drive high performance in buildings.

[Commonwealth Partners](#) utilizes a sustainability calendar and environmental signage to engage tenants and build awareness, excitement, and a sense of achievement for energy efficiency and sustainability efforts.

[Forest City Realty Trust](#) leads on multifamily green leasing and trains leasing agents to help them speak about a building's energy efficiency and sustainability features and communicate value to prospective tenants.

[JBG SMITH Properties](#) creates a green leasing task force and leasing playbook for communicating the sustainability of the company and the benefits of renting space in a green, high-performing building.

[Kimco Realty Corporation](#) uses lease clauses that allow the company to submeter most of its tenant spaces and provide tenants with information that encourages them to pursue more efficient operations.

[Prologis](#) uses its green lease to strengthen business relationships with tenants and help align sustainability and operational efficiency goals between landlord and tenant.

→ THIS RESOURCE IS PART OF A SERIES TO SHOWCASE EXCITING GREEN LEASE TRENDS AND STORIES ABOUT THE GREEN LEASE LEADERS THAT ARE DRIVING THEM. VISIT GREENLEASELEADERS.COM/RESOURCES FOR MORE ON HOW GREEN LEASE LEADERS ARE USING THE LEASE TO CATALYZE HIGH PERFORMANCE IN BUILDINGS.



COMMONWEALTH PARTNERS

Communication Drives Engagement

CommonWealth Partners (CWP) owns and manages premier institutional-quality office properties across the U.S. Founded in 1995, the Los Angeles-based company began incorporating green lease language into all of its new lease agreements and renewed contracts in 2011. Currently, 60–80 percent of CWP’s 10 million square-foot (sq. ft.) portfolio operates under a green lease and 85 percent of the properties it manages achieved an ENERGY STAR label in 2017.

Optimized HVAC hours, plug load management, periodic energy audits, and retro-commissioning to optimize energy consuming systems/equipment are among the terms in CWP’s lease clauses that drive high performance and savings across its portfolio. In addition to these requirements for new tenants, CWP’s comprehensive tenant engagement initiatives help promote the adoption of energy efficiency and sustainability best practices among older tenants not currently bound by a green lease. These initiatives also help build excitement and a sense of achievement among newer tenants.

At the center of CWP’s communications strategy for its green initiatives is a sustainability calendar, which the company distributes to all of its properties at the end of the year, outlining the plan for the next 12 months. The calendar serves as an important tool to remove the element of surprise, allowing tenants to plan sustainability-minded employee events, prepare

entry packages for green award programs, and submit content to the newsletter team. CWP’s bi-annual sustainability newsletters also inform tenants and stakeholders about green resources, new ideas, and progress updates from other assets in CWP’s portfolio. The company notes that newsletters have been effective for maintaining momentum and creating tenant awareness and action on common sustainability goals.

Another tenant engagement tactic CWP deploys is posting environmental signage where applicable to communicate green initiatives in tenant spaces. The signage is located on the captive screens within all applicable elevators in addition to the front lobby where screens are located with the idea that during that brief time, the tenant’s attention is captured until they reach their floor. The signage will rotate depending on the time of year whether its focus is on energy usage, water usage, waste diversion and the associated stats based on that category. The firm also participates in annual events such as Earth Hour, Earth Day with e-waste drives, National bike to work day, U.S. Environmental Protection Agency’s (EPA) ENERGY STAR Battle of the Buildings, and an inter-departmental green office challenge. All of these actions bolster CWP’s engagement with its tenants and illuminate its commitment toward reducing energy and water use, emissions, and overall waste—goals that are shared by many prospective tenant companies and institutional investors.

Above: The Russell Investments Center property located in Seattle, WA. For CommonWealth Partners, educating tenants is the first step towards addressing tenants’ large percentage of energy use and ensuring a mutually beneficial agreement that address split incentive dilemmas to advance its sustainability programs. These sustainability goals that CommonWealth Partners follow influence the properties’ capital and operating budgets and ultimately provide an overall efficient portfolio.



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FOREST CITY

On the Front Line of Green Leasing

Founded in 1920 and headquartered in Cleveland, Ohio, Forest City Realty Trust (Forest City) boasts a diverse mix of assets including offices, multifamily apartments, and other mixed use properties. 20–40 percent of its 32 million square-foot (sq ft.) portfolio is currently operating under a green lease. “As a sustainability leader in the real estate industry, Forest City uses green leases as part of its holistic approach to managing environmental, social and governance issues and as a tool to achieve its forward-thinking objectives, including its greenhouse gas reduction goals, which were recently approved by the Science Based Targets initiative,” said Jill Ziegler, director of Sustainability and Corporate Responsibility for Forest City. “Green leases help drive efficiency throughout our properties and foster strong relationships with our tenants, empowering us to create place-making real estate where people, businesses, and communities thrive.”

Leaders in Multifamily Green Leasing

Green apartment leases are being rolled out gradually as renewals come up or newly constructed buildings and spaces become available. As a leader in multifamily green leasing, the company provides trainings to its leasing agents to help them speak about a building’s sustainability features and communicate value to prospective tenants. As Forest City’s agents show prospective tenants a property, they are equipped to highlight sustainable features in the building, including recycling practices, ENERGY STAR appliances, energy and water conservation features, LED lighting, and

thermostat controls. Leasing agents also point out how the requirements for LEED certification have been integrated into a building.

“At our Blossom Plaza apartment building in Los Angeles, where we integrated sustainability information into leasing training and other materials, the property received ENERGY STAR certification in 2018—a testament to lower energy use,” said Jill Ziegler, LEED AP BD + C, Director of Sustainability and Corporate Responsibility for Forest City. “In 2017, residents at Blossom Plaza rated the property within the top ten of all our apartment communities across various dimensions of customer satisfaction, well above industry averages.”

Implementing a green lease has been highly successful by Forest City standards. Residents are frequently surveyed about all aspects of their living space and the property, and this continuous feedback is one way the success of our leasing practices is measured. Another measure of success is occupancy rates and Forest City properties typically boasts 100 percent occupancy or very close to it.

Forest City has found a solution to the split incentive issue by incorporating an energy-aligned clause for leased commercial property in New York, which creates a pass-through structure that allows both tenant and landlord to share the costs and benefits of energy retrofits. This particular green lease clause creates shared agreement on a predicted amount of annual savings in which the tenant pays the owner recovery costs based on the predicted savings.

Above: Forest City’s LEED and ENERGY STAR-certified Blossom Plaza, a multifamily building in Los Angeles, includes information about the property’s energy and water-saving features in leasing agent training, which ensures the sustainability benefits are conveyed to current and potential residents as leases are signed and renewed.



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a market where the expectation of high-performing green buildings is increasingly becoming the norm.

As a regional developer, JBG SMITH's sustainability efforts have focused on tenant engagement and local priorities, however as a public REIT, its investors come from all over the world. Therefore, the company has crafted a carefully balanced approach to sustainability that meets the demands of local communities, markets, and tenants while also providing the global strategy around sustainability valued by investors. "Institutional and global investors are looking for details on how we manage the environmental and social impacts of our assets," said Jessica Long, Director of Sustainability for JBG SMITH. "As the level of detail that investors require increases we have expanded our program beyond green certifications, such as LEED or ENERGY STAR, to include carbon emission targets and internal risk management."

Investors associate sustainability and green buildings with good management. The green lease is a tool that JBG SMITH uses to reduce operating costs and improve the tenant experience. By tackling the split incentive, which occurs when a landlord invests in energy efficiency but the tenant benefits from the lower utility bills, JBG SMITH can implement sustainability strategies and pass the costs back to the tenant to the extent that they reduce operating expenses. Additionally, the ability for a building to obtain green certification is largely tied to occupant behavior. By inserting clauses in the lease that require the tenant to cooperate with the landlord's pursuit of LEED and ENERGY STAR certification, JBG SMITH can work with tenants to achieve success.

With an effective green lease program in place, JBG SMITH is focusing on engaging tenants when they first tour a building. A green leasing task force comprised of members from the leasing team, asset management team, and property management team collaborate to create a leasing playbook for communicating sustainability performance and the benefits of renting space in a high-performing green building. Green Lease Leaders provides JBG SMITH a process and framework to ensure the program is in line with current market trends.

Above: CEB Tower at Central Place was designed with efficiency in mind and JBG SMITH engaged tenants early in the leasing process to consider sustainability impacts of design decisions. Office and retail leases include LEED Tenant Guidelines and require tenants to disclose relevant occupancy information and participate in landlord efforts to achieve green certifications.

Cultivating Investor Interest

From its Chevy Chase, MD headquarters, JBG SMITH Properties owns, operates and develops a portfolio of nearly 20 million square feet concentrated in downtown Washington, D.C. and its submarkets. The local jurisdictions have green codes and sustainability requirements, and the company has differentiated itself in



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Championing Green Construction

Kimco Realty Corp. (Kimco), a REIT headquartered in New Hyde Park, NY, is one of North America's largest owners and operators of open-air shopping centers. Kimco has over 8,500 leasable tenant spaces in its 81 million square foot portfolio. The lease document sets the stage and governs what is typically a multi-year—and in some cases multi-decade—relationship between Kimco and an individual tenant. By agreeing upfront on mutual objectives, Kimco can ensure that a tenant's space is constructed in a way that will improve environmental and financial performance, and also that Kimco has the incentive to make similar improvements to the common areas of the shopping center.

“Green leasing is valuable to Kimco and its retail tenants because it serves to align the company's interests and goals around improving the sustainability of retail shopping centers,” said Will Teichman, Senior Director of Strategic Operations for Kimco Realty and founding member of the Green Lease Leaders Industry Advisory Group. “The green lease is here and it's here to stay. Ten years from now most commercial leases will have green elements in them.”

Kimco's green lease includes clauses that allow the company to submeter most of its tenant spaces while saving millions of

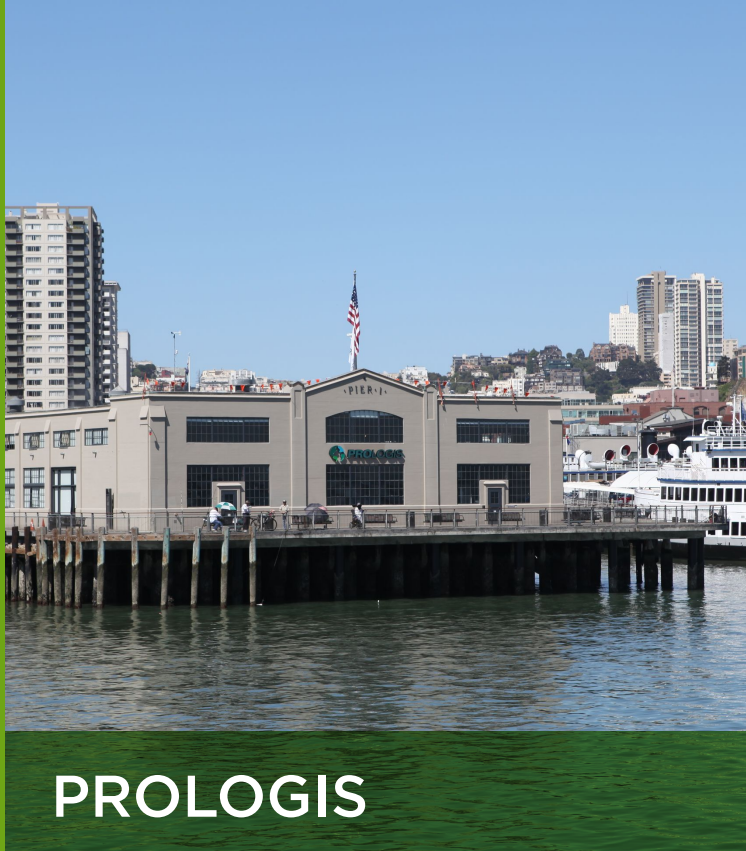
gallons of water and achieving millions of dollars in improved cost recovery as a landlord. Aligning the tenant incentive, the customer is only billed on what they actually use. Submeters typically cost \$1,500-\$2,000 per meter, including installation. Submeter costs are passed through to existing tenants or included as a tenant improvement for new tenants. Using actual figures for submetered consumption provides the empirical stimulus tenants' sometimes need to pursue more efficient operations. “Anecdotally we've had very positive feedback from tenants in terms of that change. It's a tangible example of how the combination of a green lease with some proactive retrofit programs—in this case adding submeters—has really been able to align in the interest of all parties landlord and tenants and result in improved outcome for everybody,” said Teichman.

Institutional investors are especially supportive of Kimco's sustainability efforts, which they view as a litmus test for effective management teams. Investors incorporate sustainability into models, and Kimco's green lease program is creating value and demonstrating favorable returns and investment results.

Above: By incorporating green clauses into its form leases, Kimco has increased its ability to undertake larger-scale sustainable improvements to the common areas of its shopping centers. This lease language has allowed Kimco to recover costs associated with its Illumi-Nation LED lighting retrofit program, which has led to a 30–40 percent reduction in same-site energy consumption along with increased lighting quality, improved curb appeal, and enhanced safety and security at centers such as Kimco's flagship Westlake Shopping Center in Daly City, Calif



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PROLOGIS

Using the Lease to Drive Environmental, Social and Governance Priorities

San Francisco-based Prologis is a global provider of logistics real estate, offering customers approximately 771 million square feet of distribution space in markets across the Americas, Europe and Asia. The company leases modern distribution facilities to a diverse base of approximately 5,500 customers across two major categories: business-to-business and retail/online fulfillment. Making sure all tenants are knowledgeable about Prologis' Environmental, Social and Governance (ESG) is a key ingredient to enjoying a long and successful business relationship.

Prologis adopted a green lease to facilitate engagement on sustainability issues and help tenants meet their own goals. Its green lease is rolled out to new tenants via conversations with the property management team and a welcome package that describes the company's sustainability objectives. Compliance with the lease is monitored during annual property inspections, and the annual

environmental survey of the property. The company's green lease also enables data sharing and compliance with building performance benchmarking ordinances. The success of Prologis' green lease program is gauged by feedback from its tenant survey, and the response from tenants on questions around sustainability to date has been positive.

Sustainability and Green Leasing are Good for Business

Prologis has found that sustainability is good business and its green lease fits neatly into its larger business and ESG objectives. "We are honored to be the first industrial real estate company to receive the Green Lease Leader recognition at the Gold level," said Jeannie Renne-Malone, Prologis' vice president of sustainability. "As the global leader in logistics real estate, we recognize that solid, proven ESG practices are good business. Not only do our sustainability strategies benefit our customers, investors, communities and employees, they also advance our longstanding focus on exemplary customer service. This is evident in our green lease program, which engages customers in our environmental initiatives and in the resilient and efficient buildings that enable them to operate cost effectively and without disruption." The company's focus on customer retention through its ESG and green leasing program is meant to improve returns over time—repeat customers are critical as they represented 89 percent of leasing operations business in 2017.

Prologis' comprehensive ESG business strategy covers priorities such as investor interest in portfolio energy performance. The company also provides tenants an explanation about why it responds to surveys such as the Global Environmental, Social and Governance Benchmark (GRESB)—the investor-driven benchmark that assesses the sustainability performance of portfolios and assets; as well as a list of environmentally-friendly maintenance products and recommendations to minimize impacts from energy, water, waste, transportation, procurement, and meetings. The company's GRESB investor members are focused on all aspects of ESG, and they often ask specific questions regarding its green lease clauses. A question in the annual GRESB survey specifically asks about green lease clauses. Moving forward, Prologis will use its Green Lease Leader recognition as an additional engagement tool with customers around sustainability practices and initiatives, and the business benefits of a strong ESG program.



Above: Prologis' headquarters at Pier 1, San Francisco. Prologis owns, manages, and develops high-quality properties in the world's most vibrant centers of commerce. The company's energy-efficient buildings lower customers' operating costs and its engagement strategies strengthen the landlord-tenant relationship.

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BECOME A GREEN LEASE LEADER

If you are a tenant encouraging your landlord to collaborate on sustainability goals, or if you're a landlord working closely with tenants to make their space more efficient and healthy, you might be a candidate for IMT and DOE's Green Lease Leaders recognition. A first step is to assess your lease and corporate documentation in comparison to the standards specified by the Green Lease Leaders recognition program.

Even if you are not currently including energy efficiency and sustainability in your lease, but practice sustainability in building operations and management, the Green Lease Leaders criteria can serve as a guide for enhancing a lease to account for sustainability. For more information on applying for Green Lease Leaders, or for help in building your own green lease, contact IMT at imtweb@imt.org or visit the Green Lease Leaders website to learn more about the program and how to apply for recognition: <https://www.greenleaseleaders.com/apply/>

