



# **GREEN LEASE LEADERS:** HOW INDUSTRIAL BUILDING OWNERS USE THE LEASE TO OPTIMIZE SUSTAINABLE BUSINESS PRACTICES



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

Whether it is triple net, gross, or another standard lease structure, conventional leases often create a split-incentive issue where building owners are responsible for the capital costs of energy efficiency and sustainability investments and tenants reap all the benefits through reduced operating expenses and better building performance, or vice versa. Green leases, also known as high-performance or energy-aligned leases, include effective lease clauses to break down pervasive barriers in commercial, industrial, and retail properties by equitably aligning the costs and benefits of sustainability investments. Whether it is a commercial office, a warehouse, or a data center, a green lease enables landlords and tenants to better work together to save money, conserve resources, and ensure smarter, more efficient operation of buildings.

A [study](#) by the Institute for Market Transformation (IMT) found 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. 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.

Launched by IMT and the DOE Better Buildings Alliance in 2014, [Green Lease Leaders](#) is the premiere industry recognition program that shines a light on forward-thinking real estate companies and practitioners each year who effectively modernize their leases to spur collaborative action on energy efficiency and sustainability in buildings. As of 2019, Green Lease Leaders cumulatively represent more than 2 billion square feet of building space—a clear indication that green 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 2019 cohort of Green Lease Leaders span multiple property types, including industrial buildings and data centers that are using the lease to overcome split incentives and advance win-win energy action plans and sustainability goals.

In the following case study vignettes, IMT and DOE's Better Buildings Alliance highlight three of the 2019s Green Lease Leaders implementing effective strategies into their leasing practices and overall building operations in industrial spaces. Their actions set strong examples for every real estate or sustainability practitioner to consider when leasing property.

[Rexford Industrial](#) uses green leasing to sharpen its focus on sustainability as a business model for its company while increasing the value of properties and bringing environmental and social benefits to its tenants.

[Sabey Data Centers](#) ensures its multi-tenant customers, no matter their requirements, can save energy while continuously powering servers and cooling airflow for the optimal performance of complex systems and technologies.

[STAG Industrial](#) finances efficiency projects at no up-front cost to its tenants, while using its lease to ensure access to energy performance data so it can track and identify future capital improvement projects across its entire portfolio of buildings.



## How Rexford Uses the Lease to Step up Energy Efficiency in Industrial Properties

In many ways, green lease transactions in the industrial sector present unique energy efficiency and sustainability challenges not commonly found in traditional commercial real estate spaces. In addition to the diverse energy needs of a tenant base spanning many industries, property management and access to utility data is different from that in a Class A multi-use property. For Rexford Industrial (Rexford)—a Real Estate Investment Trust (REIT) that owns, operates, and improves 176 properties totaling approximately 24 million square feet of space throughout Southern California—its industrial tenants work directly with utility companies, so gathering and tracking energy usage to target potential improvements for its leased space was a major hurdle.

Despite the challenges, the opportunities were clear. Rexford's properties that were built prior to 1980 frequently suffer from a lack of modern functionality and poor energy efficiency. This created a unique market opportunity for the REIT to strategically reinvent and reposition these buildings for more efficient and sustainable operations. As Laura Mask, Vice President and Assistant General Counsel for Rexford,

explored leasing changes, she recognized that improving existing lease language and standardizing a green lease across Rexford's portfolio would help not only remove energy data access barriers, it would also help revitalize its building stock and increase cash flow and value, while allowing the company to secure greater environmental and social benefits.

### Aligning with Tenants to Drive Higher-Performing Buildings

In order to get tenants on board with sharing utility data and other green lease clauses, Mask used the lease negotiation process as an opportunity to talk to tenants about the benefits of energy efficiency and sustainability in their spaces. Mask began including her contact information in the standard lease form, giving tenants a direct contact for energy concerns and ideas. "Knowing that we have a wide variety of tenant needs and uses throughout our diverse portfolio, we formed a sustainability committee with representatives from all the different departments and companies," said Mask. "It provided an opportunity for creative problem solving, and that's the thing that I like to do most."

**Above:** 14748-14750 Nelson Avenue, City of Industry, CA; **Right:** Conejo Spectrum, Thousand Oaks, CA

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To continue expanding the company's sustainability platform, Mask began connecting with industry leaders to explore new strategies. She was introduced to the [Green Lease Leaders](#) program by Sara Neff, the Senior Vice President of Sustainability at Kilroy Realty Corporation. Under Neff's leadership, Kilroy has been a long-time trailblazer in green leasing and was an inaugural Green Lease Leader. "I was excited about the program," said Mask. "Rexford is committed to finding ways to increase our commitment to sustainability in all aspects of our business, and green leasing immediately made sense to us."

Sustainability is prioritized in Rexford's business model at every step. In fact, it's a core value: "We value community and the environment." In 2018, the company released its first [Environmental, Social and Corporate Governance Report](#), demonstrating its executive team's commitment to sustainability. In addition to improving the energy efficiency of its buildings, the company uses a location-based strategy to reduce carbon and environmental impacts. Its buildings are strategically located near consumers, ports, and freight terminals to minimize negative impacts of truck usage and highway congestion from goods flowing through its distribution system.

### Embedding Sustainability in the Standard Lease Form

To solidify future tenant commitments to improving sustainability practices, Mask incorporated more energy efficiency and sustainability provisions into Rexford's standard lease form. This standard form, in conjunction with the REIT's official Code of Conduct in Sustainability Policies and Initiatives, lays out a guideline for tenants to optimize sustainable business practices. The lease and code of conduct help ensure sustainable energy management, including; prohibiting the use of space heaters, using programmable thermostats and lighting controls, diligently maintaining HVAC systems, restricting janitorial work to tenants' regular business hours, and submetering units at multi-tenant properties. Finally, the standard lease form includes a provision to allow the company access to the leased premises' roof space.

In 2018, Rexford executed roof leases on eight sites with a solar developer. Once completed, these projects are projected to generate enough energy to power more than 1,200 California homes annually. Rexford is now incorporating green lease language into all new leases, with a goal that 50% of the company's portfolio operating under a green lease by the end of 2020.

### Looking Ahead

This year, Rexford earned the Green Lease Leader Silver-level recognition for the first time. In the coming years, Mask plans to expand the REIT's solar program and continue to capitalize upon the leasing cycle to improve lease agreements to contain sustainability provisions whenever possible. She will also use green leasing practices as a marketing tool to develop relationships with prospective tenants who include sustainability in their business models. "We hope that within the next 18 months, the vast majority of our executed leases will contain all of the green leasing provisions set forth in our current lease form," Mask added. "The practices and procedures set forth in our lease form reflect our pledge to optimize sustainable business practices. It's a part of our identity. We want to be a leader in the sustainability field and in the industrial world."





## How Sabey Data Centers Uses the Lease to Make Big Strides on Energy Efficiency for its Multi-Tenant Buildings

While most people don't spend their days thinking about data centers, they represent two percent of total U.S. energy use annually and often play a critical, unseen role in our day-to-day digital lives. Filled with complex equipment that has demanding energy needs, data centers present unique challenges to property managers and building owners. Due to the equipment in their spaces, for instance, data center customers often require greater attention to the maintenance of building infrastructures, as well as the monitoring of heat-intensive technologies and their associated cooling systems. They also often require continuous powering of servers and building conditioning systems.

Sabey Data Centers (SDC) is one of the largest privately-owned multi-tenant data center developers and operators in the world. At its locations in New York, Washington state, and Virginia, its data centers span 3 million square feet. SDC's customers often have varied requirements for server enclosures and non-standard IT equipment, especially when compared to a typical commercial office, but the company has been successful in implementing facility-wide energy-efficient designs and technologies in spite of these differences. Most recently, SDC incorporated green leasing provisions into its standard leasing template for its multi-tenant data center customers.

**Above:** Intergate.Quincy, Quincy, WA.

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“WHILE SOME NEGOTIATIONS ARE ALWAYS EXPECTED, WE THINK THAT OUR CUSTOMERS WILL SHARE OUR INTEREST IN GREEN LEASING AND WILL BE EXCITED WE’RE HELPING THEM REACH THEIR OWN SUSTAINABILITY OBJECTIVES,” SAID JOHN SASSER, SR. VICE PRESIDENT DATA CENTER OPERATIONS, SABEY DATA CENTERS.

“Data centers are infrastructure-intensive and require an immense amount of energy. This means that the great majority of our sustainability programs are focused on how best to use energy more efficiently,” said John Sasser, Sr. Vice President Data Center Operations at SDC. “If we can use a green lease to help us collaborate with our tenants to make strides on efficiency, then we’re all working together to play our part in bettering the environment.”

### Green Leasing Advances Sustainability Goals for SDC and its Tenants

When it became a [Better Buildings Challenge partner](#) in 2014, SDC set a public goal to reduce its energy use by 20%. As of 2018, the company had exceeded this goal by achieving an impressive 42% total energy reduction. By incorporating energy efficiency and sustainability provisions into SDC’s lease, Sasser is building on this strong foundation. “While Sabey is new to the Green Lease Leaders program, we have long been passionate about smart green practices. Our data centers are much more efficient than most, with multiple data centers scoring 91–100 on ENERGY STAR,” said Sasser. “We have implemented green practices such as economizer cooling and hot aisle containment since 2008. We are appreciative of the Green Lease Leaders guidance and plan to incorporate these clauses in our standard template for all new data center agreements.”

To gain buy-in, the company first engaged its leasing and legal teams and provided them with background on the green lease provisions it planned to add to the existing leasing template. This allowed each team to easily evaluate and understand the role the new lease language would play in advancing SDC’s climate, sustainability, and business goals.

### Signing the First Green Lease and Beyond

SDC’s multi-tenant data center campus in Ashburn, Virginia has already successfully adopted the new leasing template. At

Intergate.Quincy, a site under construction in Washington, spanning 420,000 square feet across three buildings, SDC offers modular spaces for users of virtually any size and is ENERGY STAR-certified. This site will also be taking advantage of green leasing.

Sasser expects continued tenant support as more companies are striving to meet their own sustainability goals through energy efficiency and renewable energy. “As more of our customers have sustainability requirements, they want to be in efficient facilities and adopt renewable energy when it makes sense,” said Sasser. “While some negotiations are always expected, we think that our customers will share our interest in green leasing and will be excited we’re helping them reach their own sustainability objectives.”

### Looking Ahead

Having earned the Green Lease Leader designation, Sasser can now confidently introduce more efficient and sustainable practices in contract discussions with tenants by having green leasing provisions ready and available. Looking ahead, SDC’s green leasing provisions will ensure customers in wholesale colocation facilities will control information technology equipment (ITE) exhaust air (typically hot aisle containment) and install blanking plates on server cabinets to reduce bypass air. Those measures will complement SDC’s economizer cooling and controls which modulate fan speeds to reflect demand by tenant ITE, thus reducing fan energy usage. Additionally, the company’s green lease provisions will enable Sasser to accelerate progress on ambitious energy efficiency goals and implementation of renewable energy across SDC’s data centers.



## How STAG Industrial Uses the Lease and Internal Financing to Boost Performance of its Single-Tenant, Industrial Buildings

Industrial is one of the best performing real estate investment categories available in the market. Industrial real estate also represents another view—in addition to retail strip centers—on how to overcome the barrier in triple-net leases that limit investments in energy efficiency and sustainability between landlord and tenant. As the industrial building market increasingly values strong energy performance, STAG Industrial (NYSE: STAG), a real estate investment trust (REIT) headquartered in Boston, Mass., is working to stay slightly ahead of the curve by advancing its efforts on both energy efficiency and on-site renewables.

STAG operates a diverse portfolio of single-tenant industrial properties including 410 warehouse, distribution, and light manufacturing buildings that span a total of 84 million square feet across 38 states. In a collaborative move that is not often demonstrated in the triple-net leased space environment, STAG is partnering with its tenants to improve asset value and lower total building energy

consumption, providing an example of what can be accomplished if the lease is used creatively and not just as a tool to enforce the minimum standards.

In its pursuits, STAG is actively demonstrating how green leasing can enable an ambitious win-win sustainability strategy that tackles the split incentive within a building, not just in the landlord-controlled common areas. “We know the opportunity to lead on sustainability is right now. The work we are doing today is positioning us to be ahead of our competitors and regulations. Adopting green leasing that further advances our sustainability goals is not an overnight process and as an organization, we want to be proactive, thoughtful, and purposeful in the steps we take,” said Brian LaMont, Senior Vice President Capital and Construction Management, who is in a unique position to lead STAG’s sustainability efforts in addition to managing its overall capital budget.

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“WE KNOW THE OPPORTUNITY TO LEAD ON SUSTAINABILITY IS RIGHT NOW. THE WORK WE ARE DOING TODAY IS POSITIONING US TO BE AHEAD OF OUR COMPETITORS AND REGULATIONS. ADOPTING GREEN LEASING THAT FURTHER ADVANCES OUR SUSTAINABILITY GOALS IS NOT AN OVERNIGHT PROCESS AND AS AN ORGANIZATION, WE WANT TO BE PROACTIVE, THOUGHTFUL, AND PURPOSEFUL IN THE STEPS WE TAKE.” —BRIAN LAMONT, SENIOR VICE PRESIDENT, CAPITAL AND CONSTRUCTION MANAGEMENT, STAG INDUSTRIAL

### **Green Leasing Plus Innovative Financing Delivers No-Cost Efficiency Upgrades to Tenants and Ensures Long-Term Savings**

Green leasing is a key tool for STAG to engage all levels of the company on sustainable practices and achieving gains in energy efficiency. “Through green leasing, STAG can better manage the upkeep of its properties, while gathering important information on the energy performance of its entire portfolio of buildings,” said LaMont. “With permission from tenants to use data from utilities to capture energy use and the support from our CEO to make efficiency improvements a priority, STAG looks to study the energy outliers, and identify the major energy savings opportunities based on actual energy use.”

Energy data helps LaMont analyze where investment in energy efficiency will make the highest impact in terms of energy and cost savings, identifying the low-hanging fruit for tenants such as upgrading to more efficient lighting. To expedite energy projects, STAG offers tenants an internal financing program, a smart business-enhancing effort that few (maybe none) other landlords are executing. Through this internal program, tenants can borrow money at zero cost, with repayment based on a percentage of earned savings. For example, LaMont set a five percent annual goal to convert older lighting to LED across STAG’s portfolio, which has been achieved thanks mostly to the financing program. To date, in 2019 3.2 million square feet of warehouse lighting has been retrofitted from metal halides to high-efficiency LEDs. Since its internal financing program was launched in 2016, STAG has taken on several major efficiency upgrade projects, making its buildings more competitive and attractive to potential tenants in future lease negotiations.

Working with a tenant in Stoughton, Massachusetts, LaMont helped the company pursue efficiency improvements that included mechanical upgrades and conversion of the heating

system. Older units installed on the floor of the warehouse did not lead to a healthy and productive workplace, contributing to a noisy environment, and taking up 3–4 bays. New units installed on the roof are more efficient and quieter, and open up significant space in the warehouse. The payback of this simple energy renovation, after incentives and a \$180,000 investment, will return estimated savings of \$25,000 per month, recouping the investment in less than a year.

This project along with other successes aid LaMont in making the case for energy efficiency throughout the leasing renewal process with STAG’s tenants and allow him to provide first-hand examples to educate tenants on possible improvement projects.

### **Earning the Green Lease Leader Recognition and Looking Ahead**

As standard practice, LaMont includes himself as a point of contact for sustainability in the lease, as well as requirements for minimum efficiency build-out standards, annual reporting of ENERGY STAR scores, and a cost-recovery clause for energy efficiency upgrades that benefit the tenant—all attributes that earned STAG Silver-level Green Lease Leader recognition. Utility data on energy consumption also helps LaMont to capture anomalies across STAG’s entire portfolio, and together with tenants he is able to identify and execute unexpected energy efficiency projects. As efficiency savings are incremental, green leasing ensures that new upgrades move forward when the savings from easier improvements plateau. Moving forward, STAG will integrate green leasing in all of its negotiations with new and existing tenants, and also plans to use energy efficiency as a lever to boost building performance across its portfolio.



# 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 healthier, 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](mailto: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/>

