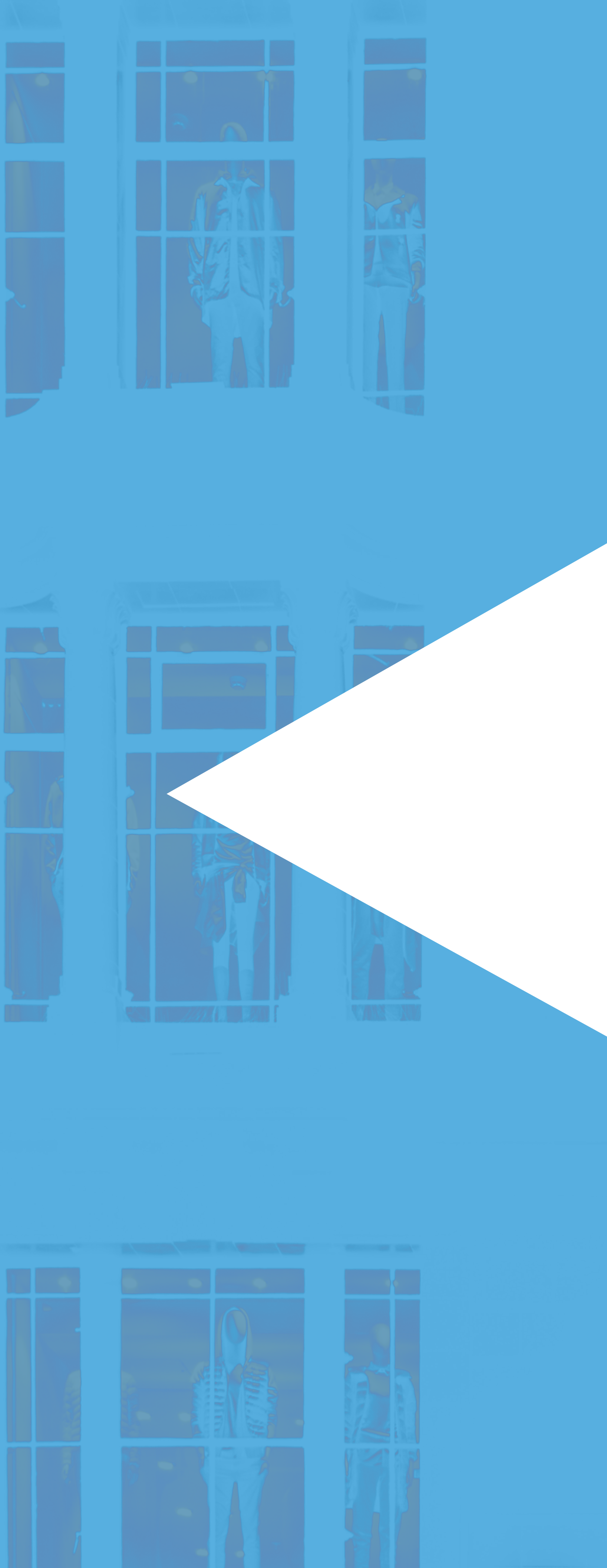
# Overcoming the Six Biggest Hurdles to Better Energy and Sustainability Performance in Leased Retail Spaces

Audi Banny

IMT
INSTITUTE FOR MARKET TRANSFORMATION

LANDLORD-TENANT ENERGY PARTNERSHIP



## Introduction

More efficient, sustainable, and healthy retail spaces are possible through improved landlord-tenant collaboration and smarter leasing practices.

The retail industry has endured years of bumps and bruises from store closures, shrinking capital, and operational budgets. Added pressures from investors, consumers, and watchdogs who call out bad actors on regulatory and environmental misdeeds are leading retail companies large and small to change the way they do business.

Forward-thinking companies are navigating this turbulent market by setting and implementing environmental and socially responsible practices that are open to investors and the public. A recent Sustainable Brands survey showed that Environmental Social Governance (ESG) goal-setting is now widespread among Fortune 250 companies, with goals that span from reducing building carbon emissions to deploying responsible and sustainable procurement of materials. Many large national retail property developers in the U.S. are now integrating their own ESG initiatives into portfolio-wide investments through innovative ground-up design and construction, energy and water efficiency renovations, operations improvements, and on-site renewable installations such as rooftop solar panels.

By prioritizing transparent and purpose-driven initiatives around sustainability, community outreach, and employee wellbeing, retailers are finding they are able to "do well by doing good."

## Moving the Industry Forward by Focusing on Leased Space

One important area retailers are turning their attention to is the energy efficiency and sustainability of leased buildings, where there are significant opportunities for landlords and tenant companies to take collaborative action and drive win-win outcomes in both gross lease and net lease agreements. However, retailers occupying a location shared by a mix of varying businesses with different use types have been discouraged by long-standing hurdles to implement strategies to reduce energy use, carbon emissions, and waste. Winning strategies that are deployed in owner-occupied buildings have traditionally been difficult or impossible to execute in sites with multiple tenants—until now.

To help more retail companies take action, the Landlord-Tenant Energy Partnership's founding partners the Institute for Market Transformation (IMT), the Retail Industry Leaders Association (RILA), and the International Council of Shopping Centers (ICSC), launched a multi-year effort starting in 2018 to host a series of guided discussions in collaboration with Connex (formerly PRSM) to educate and engage prominent retail landlords and tenants from across the United States.

These in-depth discussions allowed us to gather critical insights from property owners, facility managers, as well as energy and sustainability professionals representing 34 companies. As a result, IMT has produced the following report that identifies the six biggest hurdles these companies frequently encountered during efforts to plan and execute projects, and identified tangible solutions to enable a cascade of high-impact energy efficiency and sustainability actions to take in leased buildings that align with ESG or corporate social responsibility goals in brick and mortar locations.

## The Six Most Common Hurdles to Sustainability Success

The following section explains the six most common hurdles retail landlords and tenants must overcome to achieve their energy efficiency and sustainability goals in leased buildings. Each section offers related recommended actions that both parties can take at the beginning of a gross or net lease, and strategic steps to take post-occupancy.

## Hurdle 1

# Landlord-Tenant Communication Breakdown

One of the biggest hurdles for retailers to achieve sustainability success can be overcome by improving communications between landlords and tenants and setting parameters from the very beginning of any lease agreement. Communicating sustainability priorities at the beginning of a negotiation establishes a collaborative relationship, aligns costs and benefits, and helps secure win-win investments that meet each other's' goals over a designated time.

### Common challenge

Lack of active communications channels and outdated or missing contact information.

### How tenants can take action

**Gross lease or net lease:**
At lease signing, request directory of landlord contacts for:

1. Facilities repair and maintenance
2. Energy management
3. Sustainability
4. Leasing

**Signed lease/post occupancy:**
Review landlord webpage's sustainability section to stay informed of new initiatives that can become collaboration opportunities at landlord-owned properties.

Check in with the energy/sustainability manager at least once a year to share tenant initiatives and potential collaboration opportunities to improve tenant and facility efficiency.

Train staff to check landlord website for site-specific sustainability initiatives on a regular basis (monthly, quarterly, semi-annually).

### How landlords can take action

**Gross lease or net lease:**
At lease signing, request directory of tenant contacts for:

1. Facilities repair and maintenance
2. Energy management
3. Sustainability
4. Leasing

Provide contact information in a formal welcome packet for:

1. Facilities repair and maintenance
2. Energy management
3. Sustainability
4. Leasing

**Signed lease/post occupancy:**
Establish relationship with tenant's corporate office energy and sustainability team and share communications (I.E. newsletters, announcements) about efficiency or sustainability achievements, projects, etc.)

When sustainability programs are piloted or implemented at specific sites, communicate programs with tenant occupants as well as tenant corporate office energy or sustainability and operations teams.

## Hurdle 2

# Inability to Access Utility Data

Accelerated by demands for transparency and accountability, retail tenants and landlords are increasingly addressing their climate impacts, making it more important to be able to monitor consumption data, propose changes, and report results. Without access to this data on a continuous basis, it creates hurdles for both parties to be able to accurately report environmental impact to investors and stakeholders, deliver business value for capital planning, or make targeted improvements.

### Common challenge

A lack of submetered spaces and access to data on how individual retailers use energy and water, preventing identification of where the biggest improvements can be made.

### How tenants can take action

**Gross lease:**

At lease signing, request the landlord to install a submeter for your tenant space(s) to gain access to energy and water usage data.

Require the landlord to provide you with your space's consumption data on a reoccurring basis (I.E. monthly or quarterly).

**Net lease:**

At lease signing, communicate to the landlord your interests in opportunities to align on sustainability goals and actions.

Commit to sharing energy and water use with landlord on a regular frequency (monthly, quarterly, etc.)

**Signed lease, post occupancy:**

Regularly share tenant energy and water consumption data with the landlord.

Maintain regular check-ins with the property manager to explore energy efficiency and sustainability opportunities.

### How landlords can take action

**Gross lease or net lease:**

At site selection and/or the lease signing, set expectations with the tenant for continuous improvements in energy and water efficiency.

Explain how regular reviews of tenant utility consumption will be carried out.

Explain how the property manager will assist in making operational improvements.

Share capital improvement plans and value/ROI provided to the tenant as a result of the improvements.

**Signed lease, post occupancy:**

Establish a schedule to review reports on submetered tenant spaces.

Invest in technology that provides tenants with the most actionable insights for energy and water usage.

Educate tenants on ways to reduce their energy and water consumption.

Provide recommendations on how to access internal or external financing to help pay for improvements.

## Why Landlords Should Take the Lead on Installing Submeter Technology

A recent analysis by the Landlord-Tenant Energy Partnership found that while advances continue to be made in submeter technology's quality and affordability, the ability to invest in the technology is still beyond the grasp of typical commercial and retail tenants. In most cases, landlords remain best positioned to lead the way on building energy management. This resource looks at the top five reasons for landlords to install submeters, as well as successful submetering programs being implemented by companies, and viewpoints from leading energy solution providers.

## Hurdle 3

# Difficulty Tracking Recycling and Waste

Many retail brands have publically stated Zero Waste goals. In a retail location, it can be challenging for a tenant to track progress against this type of goal. In scenarios where the owner manages waste and recycling for the entire center, waste and recyclables may only provide one collection area, as opposed to each tenant having their own receptacles. This can make it almost impossible to know the volume of waste and recyclables generated per company.

### Common challenge

Lack of access to data on retail store waste & recyclables generated, landfill diversion rates, and information on local best practices.

### How tenants can take action

**Gross lease:**
At site selection and lease signing, communicate waste stream mix and recycling goals to the landlord and propose collaborative actions.

Request the contact information of the landlord's local recycling hauler and ask if they offer training or education on how to optimize recycling in stores.

**Net lease:**
At lease signing, communicate waste recycling goals to the landlord.

**Signed lease, post occupancy:**
Educate staff regularly on how to reduce waste and use landlord-provided or local recycling programs to meet goals.

### How landlords can take action

**Gross lease:**
Communicate to tenant corporate energy or sustainability and operations teams the types of recycling programs offered on site and how to participate.

Track the types of recycling initiatives tenants are working to implement. For items not currently recycled by existing haulers (e. g. polybags, printed marketing material), review opportunities to connect initiatives with other tenants, as well as storage logistics. Evaluate how to accommodate collection with existing haulers or other recyclers.

**Net lease:**
Track the types of recycling initiatives tenants are working to implement. Connect tenants recycling similar items not currently collected by recycling haulers (polybags, printed marketing material) and encourage volume recycling.

**Signed lease, post occupancy:**
Partner with waste/recycling haulers to develop education and outreach programs to tenants.

Perform annual waste and recycling audits to:

1. Inform tenants on volume of waste and recycling produced. (weekly/monthly) vs. diverted
2. Inform tenants how to participate in existing recycling programs
3. Explore needs for establishing new recycling streams

Provide recommendations on how to access internal or external financing to help pay for improvements.

Hurdle 4

# Access to Flexible Financing for Sustainability Projects

Identifying capital for energy efficiency and sustainability projects continues to be a major hurdle for retail tenants and landlords. However, with the help of existing utility incentives, innovative financing tools (both internal and external), and green lease language, energy efficiency, renewables, and other sustainability projects that deliver good business outcomes have a higher chance of gaining internal approval.

### Common challenge

Many competing priorities for capital can prevent high-impact energy efficiency and sustainability projects from getting off the ground.

### How tenants can take action

**Gross lease:**
At lease signing, include language that allows the landlord to pass through utility rebate incentives for improving the performance of the tenant space(s).

**Net lease:**
Contact local utility to learn about incentive rebate programs available to help fund energy and water reduction projects.

**Signed lease, post occupancy:**
Together with the landlord, annually reconcile the reduction in operating expenses that resulted from tenant building upgrades.

### How landlords can take action

**Gross lease:**
At lease signing for master-metered locations, offer a process that allows tenants to access utility program incentives to partially or completely fund energy efficiency and sustainability upgrades.

**Net lease:**
At lease signing, offer tenant improvement dollars earmarked for energy efficiency and sustainability improvements.

**Signed lease, post occupancy:**
Verify energy or water use reductions and associated dollar savings resulting from investing tenant improvement dollars in the upgrades.

## RILA's Finance Workshop Materials

Based in part on internal and external financing guides created by RILA and IMT with support from the Department of Energy, the free online Financial Literacy for Retail Curriculum teaches you how sustainability and energy projects are often well aligned with business objectives, how to think like a finance professional, and how to best team with the finance organization. Apply these learnings to case studies on project analysis and portfolio planning. Both courses in the curriculum are approved for BOMI and GBCI continuing education requirements and eligible for others.

## Hurdle 5

# Perceived Lack of Interest in Sustainability

Looking to 2020 and beyond, leading retail brands are setting ambitious climate and sustainability goals. But for many retailers, these goals are not regularly integrated into negotiated lease terms due to a perceived lack of interest from the other party in efficiency or sustainability investments. If the parties responsible for setting the terms of a lease were to appropriately factor these goals into lease negotiations, they would be taking advantage of a prime window to achieve them—establishing cross-industry collaboration to improve building performance, reduce operating expenses, and align priorities.

### Common challenge

There is a widespread perceived lack of interest by both landlords and tenants about the desire to pursue projects related to energy efficiency, sustainability, ESG, and corporate social responsibility.

### How tenants can take action

**Gross lease and net lease:**
During site selection and lease signing, ask landlord for projected 2-5 year capital investment on energy efficiency and sustainability projects.

Establish in lease regular check-ins with landlord, facilities, energy, or sustainability contacts.

**Net lease:**
Establish regular check-ins with landlord, facilities, energy, or sustainability contacts. There may be site and common area efficiency projects that align with retailer initiatives and reporting needs.

**Signed lease, post occupancy:**
Maintain regular check-ins to stay informed of building improvements that will help achieve your energy efficiency and sustainability goals.

### How landlords can take action

**Gross lease:**
At lease signing, ask the tenant real estate team to provide a sustainability, operations, and facilities contacts to ensure efficiency considerations are factored into the build-out of the space(s).

Communicate directly with the energy and sustainability leads at the tenant's headquarters to ensure property-specific initiatives are operationalized by the companies and communicated to their stores.

**Net lease:**
At lease signing, ask the tenant real estate team to provide a sustainability, operations, and facilities contacts to stay abreast of retailer initiatives. By knowing the full inventory of tenant environmental and social programs, this information can be shared with shoppers and elevate the facility's reputation and positive impact in its surrounding community.

**Signed lease, post occupancy:**
Communicate directly with the energy and sustainability leads at the tenant's headquarters to ensure property-specific initiatives are operationalized by the tenant companies and communicated to their store employees.

Coordinate with retailers current environmental and social initiatives and develop a communication plan that shares these initiatives with shoppers. Promote retailer initiatives on property website and explore new ways to expand facility and tenant programs.

## Hurdle 6

# Slow Growth of Renewable Installation and Distribution among Tenants

A growing number of landlords have made the strategic decision to install on-site solar. However, in doing so, some landlords are having difficulties finding tenants that are willing to purchase their power directly from that energy source. As more national brands continue to strive to reduce their carbon emissions, it will create more desire to purchase on-site renewables if available. For now, this still remains a hurdle in today's market.

### Common challenge

Integrating renewable energy in leased space is not currently common practice due in part to difficulties encouraging tenants to purchase on-site renewable power.

### How tenants can take action

**Gross and net lease:**
During site selection and lease signing, ask the landlord about renewable projects currently installed or plans for future installation projects.

Set preference for locations that offer to sell energy from on-site renewables to tenants.

**Signed lease, post occupancy:**
Stay connected with owner's energy department to stay informed of planned renewable projects.

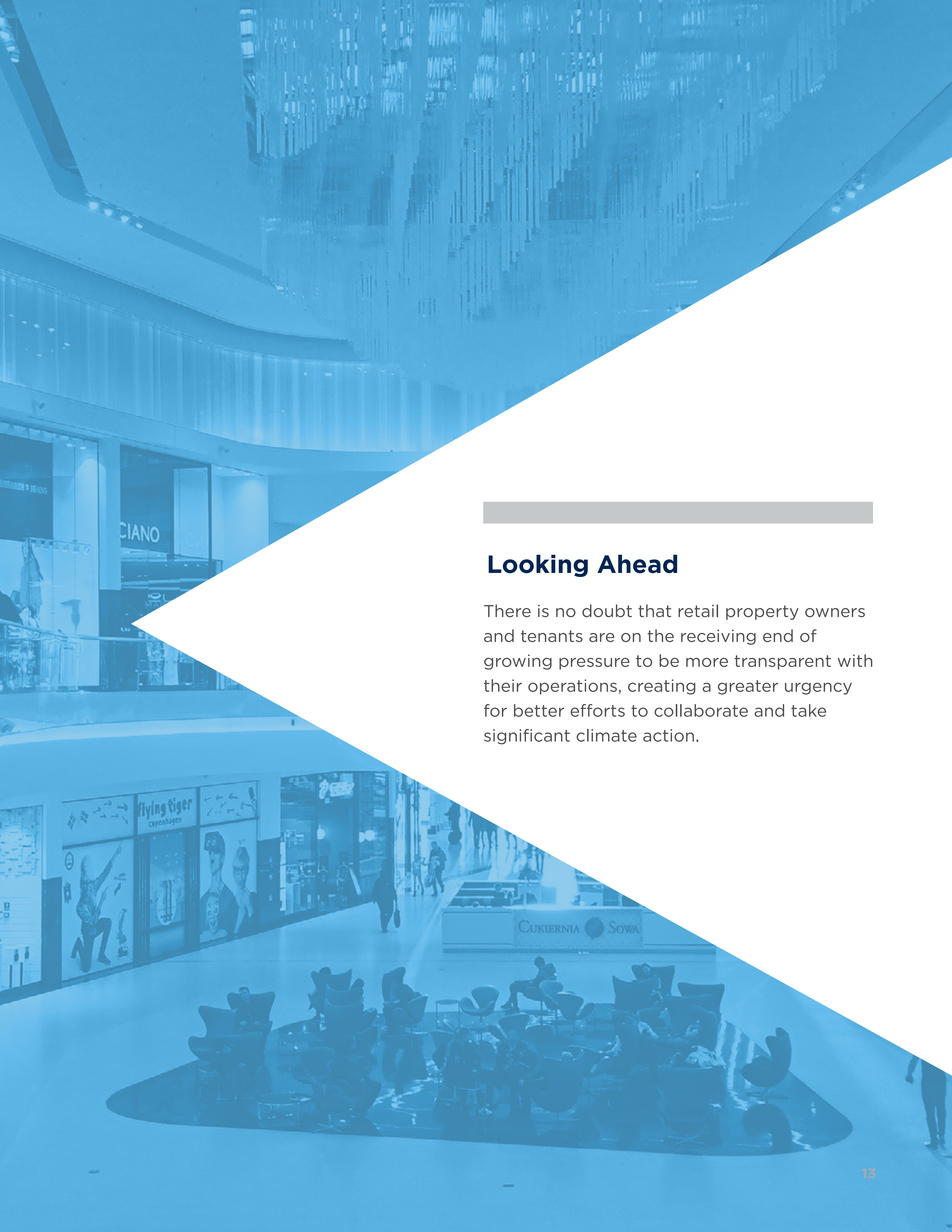
### How landlords can take action

**Gross and net lease:**
During site selection, inform retailer of locations that offer to sell energy from on-site renewables, and future plans to invest in renewables.

During lease signing, include lease language that allows you to sell on-site renewable energy to your tenant at or below market rate.

**Signed lease, post occupancy:**
Communicate directly with the energy and sustainability leads at the tenant's headquarters to ensure property-specific initiatives are operationalized by the companies and communicated to their store employees.

Communicate with retailer energy or sustainability contact about planned renewable projects.




## Looking Ahead

There is no doubt that retail property owners and tenants are on the receiving end of growing pressure to be more transparent with their operations, creating a greater urgency for better efforts to collaborate and take significant climate action.

As we see from the six major hurdles identified by U.S. retailers, change starts at the lease with both sides working together, utilizing the agreement to establish parameters upfront on how to equitably partner to improve and track performance in stores.

From day one, both tenants and landlords have the chance to integrate a smart communication strategy that aligns both parties and provides a clear pathway to achieve positive win-win business and environmental outcomes throughout the length of the lease. We hope that you will use this resource to outline your preferred forms of communications while creating spaces that are efficient, healthy, comfortable, and are of benefit to communities as well as the bottom line.

**To learn more about how improve landlord-tenant collaboration to yield powerful results, join the Landlord Tenant Energy Partnership.**

# Resources to Get Started

IMT, RILA, and Connex have a suite of existing resources available below to help landlords and tenants overcome hurdles to high-performance retail spaces.

| | |
|---|---|
| **The Landlord-Tenant Energy Partnership Efficiency Toolkit** | Six strategies for landlords and tenants to internalize energy efficiency and maximize savings. |
| **How to Choose the Right Energy Management Information System** | Energy Management Information Systems (EMIS) consist of a broad set of tools and services that give building owners, facility managers, energy managers, and commercial property management companies the information required to measure, manage, and enhance building performance. |
| **Retail Green Lease Primer** | This resource educates real estate and leasing agents on the specific retail lease provisions necessary for achieving reductions in energy, waste, and water use—and cost. |
| **Green Lease Leaders: Using the Lease to Galvanize Landlord-Tenant Engagement and Higher Performing Buildings** | This case study series includes Kimco Realty Corporation's use of lease clauses that 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. |
| **Green Lease Leaders: Using the Lease to Drive Innovation and Clean Energy** | This case study series includes Brixmor Property Group's expansion of green lease terms to include onsite renewable energy generation purchase requirements. |
| **Advancing Energy and Sustainability Projects Through Landlord Tenant Partnerships Webinar** | This webinar shares tips to enhance energy efficiency programs at shopping centers, and describes tools and step-by-step strategies that can be applied today. |
| **Guide to a Successful Energy Project Proposal in Retail** | While proposal and budgeting processes vary by company, this guide by RILA and IMT outlines a general framework that streamlines the proposal process by focusing on the expectations of finance and other departments. It includes a case study of how Food Lion applies many of these practices. |
| **Energy System Value-Proposition Workbook ($ Promo Code: LTEP)** | Connex's Energy System Value-Proposition workbook includes a cost-benefit analysis worksheet to provide facility managers guidance and support as they evaluate the value-proposition of energy projects. This tool can help calculate and verify numbers that will bolster the proposal's credibility. |

Institute for Market Transformation | imt.org