



GREEN LEASE LEADERS

CREATING SUSTAINABLE LANDLORD-TENANT RELATIONSHIPS

LEVERAGING
SUSTAINABILITY IN
TENANT-CONTROLLED
HEALTHCARE BUILDINGS

➔ THIS RESOURCE IS PART OF A SERIES OF CASE STUDIES SHOWCASING EXCITING GREEN LEASE TRENDS AND BEST PRACTICES. VISIT [GREENLEASELEADERS.COM/RESOURCES](https://www.greenleaseleaders.com/resources) TO DOWNLOAD MORE CASE STUDIES AND LEARN HOW LEASE-BY-LEASE, GREEN LEASE LEADERS ARE IMPROVING LANDLORD-TENANT COLLABORATION TO DRIVE HIGHER PERFORMING BUILDINGS THAT HELP PUSH THE COMMERCIAL REAL ESTATE INDUSTRY FORWARD.



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

Typical leases often create a split incentive between building owners and tenants. Historically, the cost of investing in energy and water efficiency improvements has been borne by one party while the other experiences the benefit of reduced utility costs resulting from those improvements. A means for overcoming this imbalance is implementing green leasing language, which creates a win-win strategy for building owners and tenants by equitably aligning the costs and benefits of energy and water efficiency investments.

While this split incentive can serve as an obstacle to improving energy efficiency in leased space, the ability to utilize green leasing presents a tremendous opportunity. 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. With up to \$3.6 billion in potential energy savings available, the need to dramatically transform the way leases are structured is increasingly essential, particularly as cities unveil more stringent building codes and performance standards in pursuit of climate mitigation targets.

Launched by IMT and the U.S. Department of Energy's (DOE) Better Buildings Alliance in 2014, [Green Lease Leaders](#) is the industry's premier leasing recognition program. The program 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. The 2020 Green Lease Leaders represent portfolios totaling nearly 1 billion square feet and comprise a diverse range of properties from large and small commercial offices to industrial buildings and data centers. Together, Green Lease Leaders manage nearly 3 billion square feet of commercial and government space across North America, representing a considerable potential for green lease growth. In the commercial sector alone, green leasing has the potential to impact 8 percent of leased space nationwide.

In the following case study, IMT and DOE's Better Buildings Alliance highlight one of the 2020 Green Lease Leaders that has received the Gold designation for implementing effective strategies in their leasing practices and overall building operations. This year's class covers multiple sectors and consists of the largest cohort of tenants since the program's inception, a clear indication that tenant demand for high-performing buildings is growing. Their actions set strong examples for every real estate or sustainability practitioner to consider when leasing property.

[Physicians Realty Trust:](#) With numerous three-year goals, including reducing energy use, emissions, and water consumption by 10 percent, while increasing waste diversion by 10 percent, Physicians Realty Trust is leveraging green lease language to achieve its environmental goals and further integrate sustainability standards into its everyday business practices.



Physicians Realty Trust

Physicians Realty Trust (NYSE: DOC) is a healthcare real estate investment trust (REIT) that owns and manages 268 healthcare properties totaling 14.3 million square feet of leased space. DOC's portfolio consists primarily of multi- and single-tenant medical office outpatient facilities. The company strives to be industry leaders in sustainability by incorporating its unique [G2 Sustainability](#) philosophy into its overall business strategy. This phrase represents a practical approach in which being “green” through environmentally-focused capital initiatives equates to a “green” cash return via cost savings over time, allowing DOC to create an economically viable and operationally efficient portfolio. With 2021 goals of reducing energy use, emissions, and water consumption by 10 percent, while increasing waste diversion by 10 percent, DOC shows a strong commitment to creating sustainable healthcare facilities to better serve their tenant partners, their patients, and the broader community.

Foundations of ESG & Pathway to Green Leasing

Before introducing green leasing language into its standard lease documents, DOC already had a multi-faceted framework of environmental, social, and governance (ESG) programs. These

strategies included annual assessments for low- and no-cost efficiency opportunities, optimizing existing systems, and an environmental management system (EMS). The EMS provides the company with an internal sustainability roadmap, all powered by a cross-department ESG team that integrates these objectives at all levels of decision making.

With this foundation in place, DOC pursued the Green Lease Leaders certification to provide a platform to both refine and showcase the company's ESG efforts. The initial exploration into the Green Lease Leaders application process and requirements coincided with DOC's pursuit of another additional environmental certification: the Institute of Real Estate Management (IREM®) Certified Sustainable Property (CSP) program. Several IREM® CSP requirements go hand-in-hand with the Green Lease Leader prerequisites, making pursuing both benchmarks simultaneously a natural fit.

After establishing commonalities between Green Lease Leaders and IREM® CSP, DOC began focusing on requirements that would create the most value. One of these areas included benchmarking energy and water use at the property level. As part of DOC's broader

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ESG strategy, the company's capital projects team imported every property's electric, gas, and water utility data into two ESG tracking platforms, ENERGY STAR® Portfolio Manager® and Measurabl®. Then, the DOC team translated this building-level utility tracking into "credits" towards the Green Lease Leader application.

Where IREM® is primarily focused on green initiatives implemented by the landlord, Green Lease Leaders engages the tenant by setting clear expectations for how they play a part in meeting energy, water, and waste reduction goals. One of the most significant and easily quantifiable results from Green Lease Leaders was DOC's now-standard inclusion of a cost recovery clause for energy efficiency upgrades benefitting the tenant.

Green Leasing is a Long-Term Strategy

Green leasing is a valuable component of DOC's data management program, helping DOC meet its reduction goals while creating opportunities for ESG-related tenant engagement. The green leases at DOC include a disclosure clause that requires tenants to share their annual utility data. By increasing access to data, DOC gains critical consumption insights and trends, leading to the pursuit of future upgrades to positively impact the company's environmental goals.

For example, DOC's capital projects team is currently retrofitting buildings across their portfolio with LED lighting, with priority given to properties with the highest usage intensities, combined with in-place green leases. The green leasing clauses state that the property owner can recover capital costs for energy improvement projects that benefit tenants, and all parties realize savings. At the same time, DOC can more quickly recoup its investment to pursue further efficiency projects.



Expanding the Green Leasing Program

As DOC implements green leasing language going forward, the company plans to expand on provisions related to energy, water, and waste efficiency, especially as it relates to environmentally appropriate tenant build-out standards and requirements. These opportunities include the deployment of ENERGY STAR® rated appliances; low flush/low flow fixtures; installation of Building Automation systems; occupancy sensors; upgraded LED lighting; certified sustainable flooring, paint, and cabinetry; and recycling of construction-related materials through an improved waste management plan.

As the industry continues to evaluate how COVID-19 will impact healthcare real estate's long-term future, DOC is proactively seeking immediate and lasting ways to positively impact their tenants' financial health through green leasing.



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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.

The 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/>

