

LEVERAGE LEASING PRACTICES TO REDUCE ENERGY AND UTILITY COSTS

A growing number of commercial real estate companies, tenants, and brokers are using innovative lease language to increase building performance, save money, and bolster sustainability. In conventional commercial lease structures, the party expending capital for an energy efficiency upgrade does not benefit from the savings created by that upgrade. Property owners and tenants cite this “spilt incentive” problem as a key barrier to implementing energy efficiency measures in their buildings. Green leases, or energy-aligned leases, address the split incentive problem directly. By aligning the financial and environmental goals of landlords and tenants, green leases make it possible for all stakeholders to benefit from the energy and monetary savings of energy efficiency project, while also improving the operating performance of their building.

Nationally, the commercial real estate community is exploring how green leases can address its sustainability and energy efficiency needs. The Institute for Market Transformation ([IMT](#)) has estimated that green leases have the potential to [reduce utility bills by up to \\$0.51 per square foot](#) and reduce energy consumption in an office building by 11-22%. If all leased office buildings executed green leases, the U.S. office market could save \$3.3 billion in annual cost savings.

Green leases are more than just agreements on paper—these lease clauses can drive a diverse range of tangible energy efficiency improvements. For example, property owners can use a green lease to ensure energy efficient build-outs. Such clauses can include requirements for LED lighting or specifications for efficient HVAC equipment. Green leases can also address how landlords and tenants pay for energy efficient upgrades. Cost recovery or pass-through clauses are used to address capital expenses, whereby, the improvement’s cost is amortized to the tenant over the useful life of the energy improvement, so that both parties capture the improvement’s savings. Green leases can also cover utility data sharing, which can aid with benchmarking goals. In these clauses, both landlords and tenants agree to share utility data with each other to increase transparency and encourage both parties toward deeper energy-saving strategies.

This toolkit is designed to outline actionable steps for landlords and tenants alike to learn about the benefits of green leasing, explore the opportunities for green leasing at their building, and begin the process to create a green lease.

- 1. See what is possible with a successful green lease.**
Learn from this case study how NEEA collaborated with its landlord, Unico, to create an energy-aligned lease that ensured a green build-out at its offices in the Commonwealth Building in downtown Portland, OR.
- 2. Learn the basics of how green lease is structured.**
Read up at the Green Lease Library. This is a collection of case studies, lease clauses and guidance on green leasing and is maintained by IMT.
- 3. Assess the building’s current operating practices.**
Take note of the age of the building and corresponding building systems. Evaluate all stakeholders’ experience with sustainability. Use California Sustainability Alliance’s Green Request for Proposal as a guide for these conversations.
- 4. Get energy efficiency buy-in from internal and external stakeholders.**
Use NEEA’s tips and strategies for communicating energy efficiency goals internally with executive staff and externally with design team, brokers, and building management.
- 5. Optimize the timing of your green lease.**
Find out how to green an existing lease. This IMT blog outlines more strategies on how to green your lease during a renewal or mid-cycle.
- 6. Define green leasing goals.**
Identify what the green lease should accomplish. Outline what the limitations of your space or building are and see how a green lease can mitigate those limitations.
- 7. Begin exploring options to green your lease.**
Consider emulating BOMA’s Model Green Lease. Building Owners and Managers Association (BOMA) developed a sample form green lease to help owners and

tenants modify lease terms to maintain energy efficient and sustainable building operations.

8. Apply for a green lease certification.

Become a Green Lease Leader. If you have successfully executed a green lease, consider applying for Green Lease Leaders. Developed by IMT with support for the Department of Energy's Better Buildings Alliance, the Green Lease Leaders designation was created to recognize landlords, tenants and brokers that have executed energy-aligned leases. Since its launch in 2014, the program has recognized a total of 31 Green Lease Leaders.

ADDITIONAL RESOURCES

[Better Buildings Alliance: Leasing and Split Incentive](#)

The U.S. Department of Energy's Better Buildings Alliance provides guidance and step-by-step tips on how to green you lease.

[City of Portland: Sample Green Lease Language](#)

Portland, OR has developed sample lease language that covers indoor air pollutants.

[Putting Green Leases into Action](#)

Listen to local owner, Unico Properties, discuss how they implemented energy-aligned leasing terms throughout their real estate portfolio.