



NEO REALTY GROUP GREEN LEASE CASE STUDY

PROVING A SMALL BUSINESS CAN BE A LEADER IN GREEN LEASING



A vertically integrated real estate company, NEO Realty Group views itself as an owner and stakeholder, rather than just a landlord in the communities where it owns or manages properties in Northeast Ohio.

Like many businesses, NEO Realty Group recognizes that marrying real estate operations with energy efficiency tactics makes economic sense, with tenants and owners both desiring solutions for reducing their utility expenses, overall operating costs, and their carbon footprints.

By directly identifying areas of opportunity to reduce tenants' operating costs, the company seeks to build trust with tenants, which in turn becomes the foundation for energy-aligned projects that it owns or manages in the local communities.



NEO REALTY GROUP LLC

NEO Realty Group is one of eleven companies to be named a 2015 Green Lease Leader—a designation created by the Institute for Market Transformation (IMT) and the U.S. Department of Energy's Better Buildings Alliance to recognize commercial real estate brokers, landlords, and tenants who are successfully introducing energy efficiency practices and sustainability-focused clauses into their leases.

Based in Northeastern Ohio, NEO Realty Group is a vertically-integrated real estate company that manages or owns properties in four counties in the Cleveland metropolitan area. The company also provides third-party property management and offers traditional owner and tenant representation. The company earned Green Lease Leader recognition by developing an integrated approach to sustainable real estate management (SRM) and embedding clauses in its leases that leverage energy audits and other tools to improve the energy performance across its portfolio. To date, approximately 15 percent of its portfolio operates under a green lease, creating more sustainable tenant-landlord relationships, preserving community staples, saving energy, and increasing profits.

NEO REALTY GROUP OWNS AND MANAGES

COMMERCIAL OFFICE AND RETAIL PROPERTIES THROUGHOUT NORTHEAST OHIO WITH TYPICAL BUILDINGS RANGING FROM 10,000-60,000 SQUARE FEET.

NEO REALTY GROUP SPECIALIZES IN

PROPERTY MANAGEMENT WITH A FULL LINE OF SERVICES THAT FOCUS ON SUSTAINABLE REAL ESTATE MANAGEMENT (SRM)

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THE ACS DISCOVERY SHOP RECEIVES ENERGY UPDATES

THE PROPERTY:

Cherry Street Plaza

Located in the rural-suburban Cleveland metropolitan area, Cherry Street Plaza in Chardon, Ohio, is a 15,000-square-foot mixed-use office and retail center. The center includes a collection of regional franchises, an office tenant, and the American Cancer Society's Discovery Shop. The property recently shifted from a C-Store gas station into a mixed-use community plaza, and typical leases include requirements for installing ENERGY STAR-labeled equipment and limiting the use of volatile organic chemicals—measures that ensure Cherry Street Plaza operates efficiently and protects the health and wellbeing of its occupants.

THE TENANT:

The American Cancer Society

The American Cancer Society's (ACS) Discovery Shop is a 5,500-square-foot retail store. At the time of its lease renewal in 2013, ACS, which paid its utilities directly to the utility provider, desired to lower its rising energy and water costs, balance potential rental increases, and minimize cash outlays. ACS reasoned that by controlling these expenses, it could increase employee comfort

and redirect crucial funds to its mission of supporting those living with cancer.

"I think that energy efficiency is important for several reasons," said Lisa Swift, ACS' Regional Facilities Manager "Having equipment that operates efficiently is going to save us money and improve the bottom line. Any money saved allows us to allocate more money to our mission...It also benefits the environment. When we use less energy, we save our natural resources and cut down on pollution. This change will also enhance the quality of life for our staff and volunteers at our Discovery Shop."

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ACS also requested improvements to the Discovery Shop's exterior and mechanical and lighting systems. However, the building owner realized that meeting the nonprofit's requirements posed a significant hurdle to a future lease renewal under the owner's desired rental rates. To resolve this issue and avoid lowering rental rates, NEO Realty decided the best solution was to reduce ACS' utility expenses ahead of time.



Partnership and Collaboration is Key

NEO Realty Group developed its energy management expertise through a business partnership with New Ecologix, an integrated sustainable services company. In combination with New Ecologix's Professional Engineer and LEED Accredited Professional energy expert, NEO Realty Group developed its sustainable real estate management (SRM) services to include energy audits and sustainability consulting.

Since 2011 New Ecologix has conducted complimentary energy audits for NEO Realty Group's tenants. These energy audits become the basis for retaining local tenants, lowering operating expenses, and increasing NEO Realty Group's net operating income.

Typical audits conducted include the analysis of heating, ventilation, and air conditioning (HVAC) system studies, benefits of lighting retrofits and roof installations such as reflective roofs or adding insulation, and analysis of plug-load control and demand control.

From these audits NEO Realty Group identifies key areas of opportunity, verifies project baselines, and creates additional revenue streams. The results of the audits also become the basis for NEO Realty Group's green lease language, including the specification of equipment and tenant improvement requirements in the lease.

To overcome the common split-incentive problem, in which a typical lease is structured so that neither a building owner nor a tenant are incentivized to improve building performance, the upfront costs of energy conservation measures are commonly funded by property ownership. Ownership then recaptures a portion of the initial savings to repay their capital costs and passes the remaining savings to the tenant.

As a result both parties obtain a reasonable return on investment, and the reduced operating expenses for tenants help owners negotiate more favorable rental terms in general.

PROVIDING WIN-WIN SOLUTIONS THROUGH ENERGY EFFICIENCY



To overcome these split-incentive barriers, NEO Realty Group aligned the owner and ACS's goals in an energy-aligned lease mid-cycle. This green lease transaction demonstrates that anyone in any location can achieve energy efficiency goals by aligning people, planet, and profit objectives for both landlord and tenant stakeholders.

ACS viewed energy efficiency as a strategy to lower operating costs to fund research to save lives. The owner viewed energy efficiency as a way to obtain a healthy return on investment from the upgrades and to incentivize the tenant to renew at the end of the existing lease term. As a result of negotiations, NEO Realty Group agreed to cover all of the Discovery Shop's upgrade costs with an

expected return on investment of 15 percent at the end term of the lease, in addition to an overall reduction in energy expenses.

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Under this arrangement, NEO Realty Group renovated the shop's exterior entrances, lighting, and lighting controls, agreed to install new ENERGY STAR air conditioning, through-wall supplemental units with 16.5 seasonal energy efficiency ratio (SEER) ratings, and additional supply ducts.

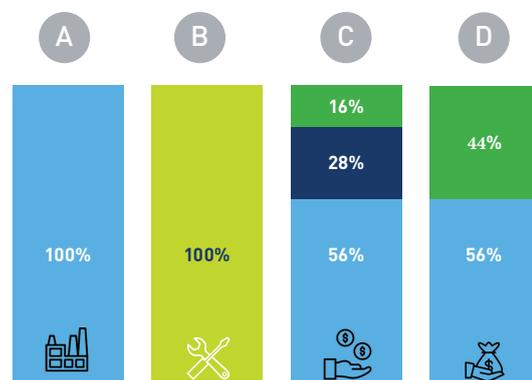
As a result of these updates the Discovery Shop reduced its lighting load by 70 percent, and the store's

repair expenses will be reduced due to the new longer-lasting equipment. Per the lease, ACS is required to submit energy use data to the owner, allowing both parties to track savings and ROI. For the first 24 months post-upgrade ACS will pay 65 percent of the energy savings to the owner in the form of a quarterly rebate. After the first 24 months, ACS will retain all savings from the upgrades in the form of lower energy bills, creating an extra incentive to renew at the end of the lease term.

To learn more about green leases, including sample clauses and additional case studies, visit greenleaselibrary.org.

ACS Discovery Shop's Energy Upgrade

- A PRE-UPGRADE AVERAGE ANNUAL UTILITIES COST**
Per the lease, ACS paid 100% of its utility expenses directly to the utility provider.
- B UPGRADE COST**
NEO Realty Group paid 100% of the lighting and HVAC upgrade costs.
- C POST-UPGRADE ANNUAL UTILITIES COST (FIRST 24 MOS.)**
In the first two years post-upgrade, ACS's annual utility bills will be reduced by 43% according to the results of the energy audit. NEO Realty Group will capture 65% of the 43% (28%) in total savings in the form of a rebate, while ACS will capture the remainder or 16%.
- D POST-UPGRADE ANNUAL UTILITIES COST (AFTER 24 MOS.)**
After two years and for the remainder of the lease term, ACS will capture all of the savings from the upgrade.



■ NEO Realty Group cost recovery
 ■ ACS Discovery Shop expenses
 ■ NEO Realty Expenses paid to utility
 ■ ACS Shop utility savings