

Pyramid Companies Implements Green Leasing to Promote Energy Efficiency in Tenant Retail Space

Pyramid Companies, based in upstate New York, is the largest privately owned developer of shopping centers in the Northeast. The company owns and operates more than 17 million square feet of retail, entertainment, and restaurant property across New York and Massachusetts. Pyramid recently expanded its Carousel Center retail complex to include Destiny USA, a 1.3-million-square-foot addition recognized as the largest Leadership in Energy and Environmental Design (LEED) Gold certified project for Core & Shell Development in the United States.

Pyramid's top-level commitment to sustainability is reflected in many of Destiny USA's features, which include a two year green power purchase agreement, a rainwater harvest system, energy efficient lighting systems that include daylight harvesting and sensors, and a commitment to maintain a 75% or higher recycling rate. However, Pyramid recognized that despite its commitment to sustainability, its ability to influence how tenants build their spaces and use energy was limited under standard leasing agreements. To overcome this challenge, the company wrote and implemented green leasing language, and worked with tenants to provide tools and guidance to improve their spaces' energy efficiency.

To implement this green leasing strategy, Pyramid first worked internally to modify its standard lease to require that all 100 tenant spaces achieve LEED for Commercial Interiors (LEED-CI) certification. Pyramid recognized the diversity of energy use profiles for businesses in the shopping center, and the LEED criteria provided flexibility for different business types. This flexibility was especially important because a shopping center the size of Destiny USA has tenants with a variety of uses spanning entertainment, retail, and dining.

LEED-CI was an appropriate choice because Pyramid had laid much of the groundwork for tenants by already achieving Core and Shell certification for the center. With many credits already in place, tenants can decide which green building strategies best fit their plans while achieving the remaining necessary credits. For example, several of the large retailers in Destiny USA have improved lighting efficiency by installing systems similar to those in their California stores with more stringent lighting power density requirements. One restaurant installed variable speed drives on its exhaust fans, and estimates that this innovation will result in a 3-4 year payback period from energy savings.



Address:	9090 Destiny USA Drive, Syracuse, NY
Owner:	Pyramid Companies
Tenant:	100+ retailers, restaurants, and entertainment venues
Lease type:	Mixed (both gross and net)
Size:	2.4 million square feet

What is green leasing?

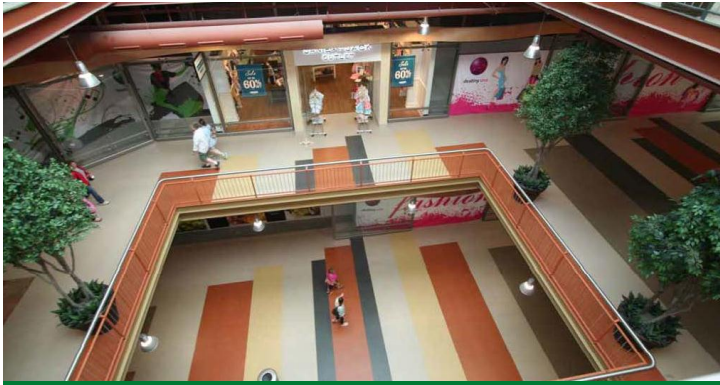
Green leasing is a general term that refers to any strategy that uses a lease to formalize the responsibilities between tenants and landlords with respect to a building's "green" measures and practices. Also known as energy-aligned leases, high-performance leases, or energy-efficient leases, these leases align the financial and energy incentives of building owners and tenants so they can work together to save money, conserve resources, and ensure the efficient operation of buildings. Green leasing is one tool that can be used to overcome the "split incentive" barrier to energy efficiency in commercial buildings.

What is the split incentive?

The "split incentive" barrier occurs when the party who pays the upfront costs of an efficiency improvement is different from the one who benefits from future energy savings. This is oftentimes the case in standard commercial leases, which lay out how energy costs are divided between tenants and owners in ways that discourage energy savings:

- Under a *gross lease*, for example, utilities are typically included in the rent. As a result, tenants usually have little incentive to save energy in their leased premises because energy costs are paid by the landlord.
- Under a *net lease*, the opposite situation occurs: tenants are responsible for paying their utility bills each month. As a result, building owners have little incentive to invest in efficiency upgrades because tenants are paying the bills. Tenants may not be willing to invest in efficiency upgrades either if their lease term is shorter than the life of the efficiency investment.

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Pyramid’s leasing team works closely with tenants to explain the green lease requirements, providing assistance during the design and LEED certification process

Strategy for Success: Collaborate with Tenants from Start to Finish

Pyramid found that the most common barrier to green lease adoption was tenant concern about the cost of energy efficient designs and LEED registration and review. Energy efficient building concepts and LEED certification were not always traditional design considerations for many of their prospective tenants, and the associated costs were sometimes a concern too. These challenges were amplified by the fact that many key actors in the leasing process – lawyers, brokers, architects, and contractors – were new to either the LEED process or sustainability. Addressing these concerns required a high level of communication and education between Pyramid’s project management team and each of the tenants’ teams. Ultimately, Pyramid was able to successfully work with tenants to comply with the lease and to implement energy-saving measures by using the following strategies:

Strategy 1: Invite all parties to the table

Pyramid found that it was important to involve all relevant parties – including tenants, architects, and other design stakeholders – in leasing discussions. That way, they could proactively address questions, help tenants brainstorm design options, and provide them with examples of energy-saving measures that other tenants were implementing.

Strategy 2: Assist tenants every step of the way

Pyramid’s seasoned leasing team provides in-house expertise on the LEED certification and pro-actively works with tenants to help them understand the process. For tenants who have less experience with sustainable design, Pyramid also negotiates to provide a package of assistance, including a list of financial incentives, an allowance to spend on LEED certification, and assistance navigating the certification process.

Strategy 3: Borrow from the most efficient designs

Pyramid’s leasing team instructs tenants with national portfolios to model their spaces after stores in states with more stringent environmental and energy standards. For example, tenants with stores in California are encouraged to use these designs as starting points to implement energy efficiency measures and comply with the Destiny USA lease.

Example Lease Language

The company worked with lawyers to rework tenant build out requirements in both the lease and the work letter. They added language to require tenants to achieve LEED-CI certification as well as clarify timelines for project submission. The lease language evolved over time as Pyramid worked with lawyers to clarify the responsibility of the tenant. The text below is the exhibit in Pyramid’s lease that addresses tenant build-out:

“Tenant agrees that Tenant shall design and construct the Premises so that the Premises achieves the minimum level of certification that is issued by the Green Building Certification Institute (GBCI) as set forth in the LEED Green Building Rating System – LEED for Commercial Interiors (or LEED for Retail Commercial Interiors, if applicable).”

CBEA partnered with the Institute for Market Transformation (IMT) to write and develop this case study. IMT is a non-profit Organization promoting energy efficiency, green building, and environmental protection in the United States.

