Green Lease Leaders: Using the Lease to Drive Clean Energy Innovation, Health & Wellness, and Better Tenant Engagement

Alexandra Harry
Program Manager, IMT

November 29, 2018
Today’s Hosts

Alexandra Harry, Program Manager, Private Sector Engagement, Institute for Market Transformation

Cindy Zhu, Fellow, Building Technologies Office, U.S. Department of Energy
Today’s Guest Speakers

Jessica Long, Director of Sustainability, JBG SMITH

Sara Neff, Senior Vice President, Sustainability, Kilroy Realty Corporation
How to Become a Green Lease Leader: The Latest in High-Performance Leasing Practices and Recognition

November 29, 2018
Better Buildings Partners Are

30
of the Fortune 100 Companies

13%
of all U.S. Commercial Building Space

8
National Laboratories

93
Local Governments

28
State Governments

12
of the Top 25 U.S. Employers

12%
of the U.S. Manufacturing Energy Footprint
Green Lease Guiding Principles

Tenants and Landlords should:

1. Know how much energy their buildings use.

2. Pay for energy upgrades commensurate to the financial benefits they receive.

3. Realize savings from cost-effective maintenance and behavioral energy best practices they undertake.
What is a green lease?

Energy-aligned “Green” leases **equitably align** the costs and benefits of energy and water efficiency investments between building owners and tenants.

**Landlord** installs new high efficiency RTU.  
**Tenant** pays incremental upcharge.  
**Tenant** uses less energy, pays lower bills over life of lease.  
**Landlord** installs solar on rooftop.  
**Tenant** purchases onsite power.  
**Tenant** pays lower utility bill, reduces GHG emissions.
Benefits of green leasing

- Reduce utility bills up to $0.51 per square foot*
- Increase NOI
- Reduce occupancy costs
- Increase building occupant satisfaction
- Improve landlord-tenant communication and relationship

Better Buildings Solution Center

Proven Solutions for:
- Large and small buildings
- All sectors
- Specific building types

Search by:
- Your energy efficiency barrier
- A technology or topic
- Your sector
- Your city or state

betterbuildingssolutioncenter.energy.gov
How Green Lease Leaders Drive Sustainability Success Through High-Performance Leasing

Alexandra Harry
Institute for Market Transformation
November 29, 2018
About the Institute for Market Transformation (IMT)

Mission

Catalyze widespread and sustained demand for high-performing buildings

Vision

A world in which buildings are efficiently and positively transforming our physical, social, and economic well-being
Since 2014, Green Lease Leaders has:

- Defined best practices in green leasing and addressed the “split incentive” barrier

- Recognized tenants, property owners, and brokers that represent 1.8 billion square feet of commercial, industrial, and retail space who meet the Green Lease Leaders standard
Recognizing Leaders in the Field Since 2014

✓ AEW Capital
✓ Akridge
✓ Allen Matkins
✓ Bentall Kennedy
✓ Boston Properties
✓ Brandywine Realty Trust
✓ Brixmor Property Group
✓ Bullitt Foundation
✓ Cadillac Fairview
✓ CommonWealth Partners
✓ California Department of General Services
✓ County of Cuyahoga, Ohio
✓ Capital One
✓ Deutsche Asset & Wealth Management
✓ Digital Realty
✓ Dropbox
✓ DTX
✓ Empire Realty Trust
✓ Federal Realty Investment Trust
✓ Forest City
✓ Government Properties Income Trust
✓ GSA
✓ GNP Realty Partners
✓ Green Coast Enterprises
✓ IREM
✓ Ivanhoe Cambridge
✓ Jamestown
✓ JGB Smith
✓ Kilroy Realty Corporation
✓ Kimco Realty
✓ LaSalle Investment Trust
✓ Liberty Property Trust
✓ Manulife | John Hancock
✓ Morgan Creek Ventures
✓ Natural Resources Defense Council
✓ NEO Realty Group LLC
✓ NIKAT
✓ NGKF
✓ OPTrust
✓ Oxford Properties
✓ Prologis
✓ PGIM
✓ Principal
✓ PwC
✓ Regency Centers
✓ Rocky Mountain Institute
✓ Shorenstein Properties
✓ Sprint
✓ TD Bank
✓ TH Real Estate
✓ The Tower Companies
✓ Triovest
✓ Ulta Beauty
✓ Unico
✓ USAA Real Estate Company
✓ Washington REIT
✓ Weingarten Realty
✓ Welltower
✓ YuMe
2018’s Green Lease Leaders

GREEN LEASE LEADERS
CREATING SUSTAINABLE LANDLORD-TENANT RELATIONSHIPS

[Logos of various companies]
Green Lease Leaders Enhancements

- Alignment with ENERGY STAR Tenant Space
- Two levels of recognition:
  - Silver (foundation)
  - Gold (implementation)
- More flexibility with larger menu of credits
- Updated website, reference guides, and online lease assessment tool and applications
What are the Requirements?

- **Silver** (Foundation level)
  - Earn both prerequisites and at least 5 of 9 credits
  - Document standard (form), corporate policies, etc. meet credit requirements
  - Executed leases not required

- **Gold** (Implementation level)
  - Silver documentation PLUS
  - At least 1 executed lease
  - Brief case study
### Prerequisites
- Provide sustainability/energy contact to landlord
- Require minimum energy efficient fit-out:
  - Estimate energy use
  - Meter tenant energy use
  - Light efficiently
  - Share utility data with landlord
  - Purchase efficient equipment

### Credits
(Choose at least 5)
- Track tenant space energy use
- Track tenant space water use
- Request building ES score from landlord
- Ensure transaction management team receives energy training
- Implement tenant energy management best practices
- Purchase on-site renewables if offered by landlord and competitively priced
- Accept cost recovery for EE upgrades that benefit tenant
- Request building energy performance in Site Selection Questionnaire
- Demonstrate innovation in leasing
# What are the Requirements for Landlords?

## Prerequisites
- Provide/sustainability contact to tenants
- Implement cost recovery clause for energy efficiency upgrades benefiting tenant

## Credits
(Choose at least 5)
- Track common area energy use
- Track common area water use
- Disclose whole-building ENERGY STAR annually
- Ensure brokers have energy training
- Implement landlord energy management best practices
- Require tenants to purchase on-site renewables Meter tenant spaces that are greater than 5,000 square feet
- Request annual tenant energy disclosure
- Require minimum energy efficiency fit-out for tenants
- Demonstrate innovation in leasing
Case Studies from Green Lease Leaders

- The Tower Companies – Achieved the first ever Fitwel certification for a multifamily building
- Morgan Creek Ventures & Rocky Mountain Institute – Used the lease to maintain successful net-zero building operations
- Kimco Realty Corporation’s used clauses that allow the company to submeter tenant spaces to drive efficient operations.

www.greenleaseleaders.com/resources
Learn More About the Requirements

- Overview of requirements
- Prerequisites
- Credits
- FAQs
- Helpful resources
- Example lease clauses and corporate guidelines

www.greenleaseleaders.com/resources
Learn More

www.greenleaselibrary.com
Green Lease Library

www.greenleaseleaders.com
Green Lease Leaders
What’s Next?

• Go the extra mile – apply for Green Lease Leaders!
  • Applications Deadline by March 31, 2019
  • 2019 Leaders will be announced at the June BOMA convention in Salt Lake City
• Contact IMT for hands-on guidance at imtweb@imt.org
Thank You!

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We own, operate, develop, and/or invest in a portfolio of nearly 19 million square feet—with another 19 million square feet in our development pipeline—all concentrated in attractive submarkets in the Washington, DC region. Our creativity and scale enable us to be more than owners—we are placemakers who shape inspiring and engaging places, which we believe create value and have a positive impact in every community we touch.
Environmental, social, and governance (ESG) issues are a priority for our stakeholders and can affect long-term performance of investment portfolios. All local jurisdictions have set aggressive carbon reduction and climate adaptation goals and require ESG data to track performance.

Incorporating ESG factors into the investment process can enhance risk-adjusted financial performance. Business-relevant sustainability issues can contribute to a company’s sustainable long-term financial performance.

Our tenants are responding to ESG trends and are looking to for support in achieving their goals and reporting standards.

By focusing on ESG issues that are important to the next generation of our workforce we can continue to attract top talent to our organization.

“In your company’s strategy must articulate a path to achieve financial performance. To sustain that performance, however, you must also understand the societal impact of your business as well as the ways that broad, structural trends—from slow wage growth to rising automation to climate change—affect your potential for growth.”

- Larry Fink, BlackRock, Annual Letter to CEOs, January 2018
Local jurisdictions have long-term plans for carbon reduction and climate adaptation and want to partner with building owners and developers to meet climate goals.

Arlington County is the first community in the country to win a top award for its environmentally-friendly policies from the U.S. Green Building Council.
Institutional investors have made commitments to consider ESG data in their investment process and interest in ESG growing steadily over the past decade.

PRI signatories, which represent over $80 trillion assets under management, have committed to incorporating ESG in their investment decisions.

GRESB Investor Members represent $17 trillion in institutional capital, with 94% stating that they use results in their investment decisions.
The results of our first year submission to the GRESB assessment demonstrates strong management and performance in ESG factors.
Investors are looking for clearly communicated, standard ESG data disclosures.

The Sustainability Accounting Standards Board (SASB) is the continuation of a natural evolution of corporate disclosure—the history of which is rooted in the U.S. Securities Acts of the 1930s, establishment of the SEC in 1934 and the formation of the Financial Accounting Standards Board (FASB) in 1973.

SASB has developed industry-specific standards that help public corporations disclose material, decision-useful sustainability information to investors.

**Real Estate Industry Sustainability Topics**
- Energy Management
- Water Management
  - Management of Tenant Sustainability Impacts
- Climate Change Adaptation

**Sustainability Disclosure Topics & Accounting Metrics**
- Percentage of new leases that contain a cost recovery clause for resource efficiency related capital improvements
- Percentage of tenants that are separately metered or submetered for (1) grid electricity consumption and (2) water
- Discussion of approach to measuring, incentivizing, and improving sustainability impacts of tenants
A key aspect of strong ESG Management is top-down leadership and integration of ESG considerations into our standard investment process.

**JBG SMITH**  
**ESG Management Structure**

- The structure demonstrates ESG oversight at the top levels of the organization.
- Members of the Steering Committees include Investment & Design Review Committee as well as corporate leadership.
- Asset teams are ultimately responsible for integration of ESG issues asset business plans and standard business practices.
- The Sustainability team is responsible for:
  - monitoring industry trends
  - recommending strategy
  - working with asset teams to implement approved strategies
  - monitoring and reporting on performance
Certifications & Energy Ratings

LEED New Construction
1.7MM Square Feet Certified

LEED for Existing Buildings: Operations & Maintenance
7.5MM Square Feet Certified

ENERGY STAR
10.7MM Square Feet Certified

Green Certified
72% of portfolio has either LEED or ENERGY STAR (many with both!)
Green Leasing Playbook

The leasing and tenant improvement process offer an opportunity to impact the performance of the asset. By engaging tenants early in the leasing process about sustainable business practices to incorporate in their space aligns landlord and tenant economic, environmental, and social goals.

The Green Leasing Playbook provides guidance on green leasing objectives aligned with the existing leasing process:

- **Online Data**
  CoStar data and property websites should include sustainability features, programs and certifications.

- **Early Discussions & Tour**
  Marketing materials should include sustainable building features, programs and certifications.

- **Test Fit**
  Prior to conducting a test-fit provide tenant with Sustainable Fit-out Guidelines. TI allowance should consider LL & TT efficiency goals.

- **Letter of Intent**
  Identify key building attributes and green certification goals. If tenant intends to pursue certification, discuss requirements with sustainability and Property Management team prior to signing the lease to understand associated costs.

- **Lease Negotiations**
  JBG SMITH standard lease includes key green-leasing clauses. Ensure tenants understand these mutually beneficial lease clauses. Included in the lease are JBG SMITH building rules and regulations include requirements for sustainable building materials and construction practices.

- **TI Design & Construction**
  JBG SMITH or 3rd party construction management teams should meet with engineering staff to review lease requirements, approve space design, and discuss opportunities to improve building performance. (Additional costs may be funded by efficiency capital).

- **Occupancy**
  Property Management and Engineering teams begin engaging tenant during the buildout. During initial meetings review building sustainability programs.
# Green Leasing Resources

## Sustainable Building Key Features
- LEED & ENERGY STAR Certification status
- Transit, Walk, Bike Score
- Amenities & Services (recycling, green cleaning, bike storage)

Used during early discussions/tours

## Tenant Fit-Out & Leasing Guide
- Provides recommendations to encourage our tenants to incorporate sustainability strategies.
- Used during Test Fit, LOI, Lease Negotiations and Tenant Improvement Design and Construction

## Tenant Fitwel Guide
- Provides information on health and wellness strategies.

## JBGSGreen.com
- Tenant engagement site focused on providing tools and resources to tenants wishing to incorporate sustainability in the design and operations of their space.
Targeting LEED Gold Certification (currently under review)

ENERGY STAR certified with a score of 84.

THE BENEFITS OF A SUSTAINABLE BUILDING:

- LOWER EXPENSES
- IMPROVED PRODUCTIVITY
- BETTER RECRUITMENT AND RETENTION

WALK SCORE

88

Very walkable
Most errands can be accomplished on foot

TRANSLAT SCORE

88

Excellent transit
Transit is convenient for most trips.

BIKE SCORE

88

Very bikeable
Flat as a pancake, excellent bike lanes.

State of the art tenant service center, monitoring building equipment operations round the clock.

Green cleaning program designed to protect health without hurting the environment.

Comprehensive waste management program tracking diversion metrics.

Tenant engagement programs providing tools and resources for sustainable operations.

Access to electric vehicle charging stations in the parking garage.

JBG SMITH has committed to reducing energy use intensity (EUI) by 20% by 2024 as part of the DOE Better Buildings Challenge.

JBG SMITH employees hold green accreditations providing expertise in sustainable real estate practices.

JBG SMITH is a Green Lease Leader
PLANNING TIMELINE
As you move toward key milestones during the completion of your fit-out, keep the design considerations listed below in mind. Create a checklist for these sustainability strategies as early on as possible and revisit them periodically during the process. Increase transparency by sharing the design strategies you want to execute with all stakeholders, which include; landlord, architect, general contractor, and employees, to yield the best results.

ENERGY MANAGEMENT
As a tenant, you have the ability to control energy end uses through effective energy efficiency tactics.

ENERGY MANAGEMENT STRATEGIES
HVAC & EQUIPMENT

SPACE SELECTION/LEASE NEGOTIATIONS
- Plumbing fixtures
- Air filtration
- Sub-metering

DESIGN PHASE/TEST-FITS
- Server Optimization and Cloud Computing
- Supplemental Lighting
- Lighting Controls
- Daylighting
- Materials Selection
- ENERGY STAR Equipment
- Water Filtration
- Thermal Controls
- Office Layout
- Acoustical Design
- Construction Waste Management
- Furniture Re-Use

CONSTRUCTION
- Construction Indoor Air Quality
- Best Practices
- MERV 13 Filters

POST-CONSTRUCTION/MOVE-IN
- Commissioning

SPACE SELECTION/LEASE NEGOTIATION
Develop an energy-aligned lease that encourages your landlord to charge you based in part or in whole on your space’s electrical usage versus a pro-rata share. Work with your landlord to install a sub-metering system to verify your billing rate.

DESIGN PHASE/TEST-FITS
Avoid the use of chlorofluorocarbons (CFCs) and hydro-chlorofluorocarbons (HCFCs)-based refrigerants in your supplemental AC units with your contractor. These refrigerants are major contributors to ozone depletion.

Specify the use of ENERGY STAR products to efficiently meet your office space’s needs for IT equipment, lighting, appliances, and supplemental HVAC equipment. These products are designed to limit energy use. DCSEU rebates are available for some appliances and equipment.

Consider moving your company’s server to the cloud. Server rooms and IT closets, which often require an uninterrupted power supply and dedicated cooling, are major energy users. Discuss this opportunity with your IT professional.

POST-CONSTRUCTION/MOVE-IN
Engage a commissioning agent to verify that newly-installed mechanical, electrical, and plumbing systems will meet the design’s energy goals. By properly commissioning systems from the onset, you can prevent repair fees over the system’s lifetime.
Join the Healthy Building Movement

JBG SMITH will support tenants achieve Fitwel Workplace: Commercial Interior Space certification under the Fitwel rating systems. JBG SMITH is committed to evaluating full-building certification in buildings with tenants pursuing the Commercial Interior Office Space certification. By incorporating these wellness focused design and operations strategies our tenants will experience all the benefits of operating in a healthier buildings.

Wellness Design Considerations

- Provide workstations that have natural daylight in a majority of the workplace.
- Provide views of nature or a direct lines of sight to greenery inside of the building from a majority of workstations.
- Provide employees with access to active workstations and provide educational material outlining the workplace health benefits of active workstations (provided by JBG SMITH).
- Provide a break area(s) featuring: seating, refrigerator, microwave, and sink.
- Provide one dedicated lactation room or station for every 200 regular occupants, up to a maximum of four and a minimum of one.
- Specify non-emitting or low-VOC materials.
STRONG ENVIRONMENT.
STRONG NEIGHBORHOODS.
STRONG BUSINESS.

THAT'S WHAT WE BELIEVE.
Why Care?

Why should our tenants care about Sustainability?

**Happier Occupants** - Green buildings are designed to have healthier, cleaner indoor environmental quality, which means health benefits for occupants and increased employee productivity.

**Community Benefits** - Creating economically and environmentally resilient places, where people live, work and play promotes strong neighborhood connections, that not just for building users, but for the larger community.

**Lower Operating Costs** - Green buildings cost less to operate and maintain. By benchmarking and proactively managing energy and water use we save money for our tenants and residents.

**Environmental Responsibility** - Reducing energy consumption is not just for operating cost impacts, but also offers a direct reduction in an organization’s "carbon footprint."

Office

- Going Green @ the Office
- Energy
- Materials
- Water
- Waste
- Health & Wellness
- Sustainable Leasing & Tenant Fit
- Out Guide
- Tenant Service Center

Going Green @ the Office

JBG SMITH is committed to reducing the consumption of natural resources and raising awareness of conservation strategies that building occupants can employ in day to day activities. By focusing on operational efficiency and responsible management we can protect the environment while providing vibrant, healthy workplaces that produce engaged and productive employees.
WE ARE A 2018 GREEN LEASE LEADER

#GREENLEASELEADERS

SAVING ENERGY AND IMPROVING BUILDING PERFORMANCE, ONE LEASE AT A TIME.

LEARN MORE AT GREENLEASELEADERS.COM
Capital Investment
Recoverability
Design Standard & Building Standard Tenant Improvement Specifications

Introduction
Kilroy Realty Corporation has had a strong commitment to sustainability over the past six decades. These building standards, designed to maintain the level of quality and sustainability expected of our Class A properties, and to help our tenants achieve their own environmental goals.

Many of the requirements and suggestions in these standards are based on the LEED for Commercial Interiors v2009 rating system; tenants are encouraged to pursue LEED for Commercial Interiors certification in either LEED v2009 or LEED v4 for their improvements.

Design Criteria
This section addresses aspects of a project that are not expressly addressed in the Standards section that follows it. The purpose of these design criteria is to maximize the energy efficiency, materials use, and indoor environmental quality of the completed Class A tenant improvements.

Energy Efficiency
Projects must implement the required prescriptive energy efficiency measures found throughout this document. If the tenant chooses, they may instead produce an energy model demonstrating that the project achieves an overall energy reduction of 10% or more below the requirements of Title 24-2014.

Metering and Submetering
1. Tenant is required to install submetering equipment to measure and record energy use within the tenant space.
2. Tenant is encouraged to develop and implement a measurement and verification (M&V) plan that incorporates the monitoring information from the above and uses is consistent with Option B, C, or D of the 2007 International Performance Measurement & Verification Protocol (IPMVP) Volume 1: Concepts and Options for Determining Energy and Water Savings.
3. Tenant is encouraged to provide a process for corrective action if the results of the M&V plan indicate that energy savings are not being achieved.

Water Sensors
Tenant shall install web-enabled wireless water leak sensor devices designed to alert the Tenant on a twenty-four (24) hour seven (7) day per week basis if a water leak is occurring in the Premises. The Water Sensors shall be installed in any areas in the Premises where water is utilized (such as sinks, pipes, faucets, water heaters, coffee machines, ice machines, water dispensers and water fountains), and in locations that may be designated from time to time by the Landlord.

Equipment
1. Tenant shall install ENERGY STAR® qualified equipment for ENERGY STAR® eligible equipment installed as part of the tenant’s scope of work. Includes appliances, office equipment, electronics, and commercial food service equipment.
KILROY CORP. IDF METERS

SHOPZILLA METERS

BODIES IN MOTION EAST ELECTRIC RM.

BODIES IN MOTION WEST ELECTRIC RM

CLEAR WIRE METERS

AVC-2 PHASE-3

AVC-3 PHASE-3
Green Cleaning and Recycling
Utility Consumption Disclosure

2017 SUSTAINABILITY REPORT

ENERGY STAR

Dow Jones Sustainability Indexes

CDP

SASB
Brokers for Better Buildings: Marc Spellman & @daltonsaber31 @CBRE helped us sign 6 green leasing deals totaling approximately 26,000 RSF at #LEED Gold & @ENERGYSTAR certified Calabasas Park Centre so far this year. @cbregreen @IMT_speaks
Advice on Green Leasing

- Benchmarking ordinances help engage legal
- Don’t reinvent the wheel
- Get a green lease template
- Add a few softballs
- Green up your Building Standards
- Proactively engage brokers
- Prepare for pushback
- Apply for recognition!