



GREEN LEASE LEADERS: USING THE LEASE TO CREATE MORE SUSTAINABLE COWORKING SPACES



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

From the street level, office buildings may not appear to have changed drastically in recent years. However, significant transformation is happening inside and between floors. One large and growing trend is existing office buildings that are being adapted for coworking spaces. In this development, tenants searching for modern, flexible, and modular offices are finding green leases that account for energy efficiency and sustainability offer a platform to ensure their own corporate goals are met.

In 2019, coworking spaces dominated leasing activity and encompassed more than 521 million square feet (sq. ft.) of commercial space globally, spanning from large firms with international footprints such as Impact Hub and WeWork to smaller independent companies including Aurelius Coworks, which develops workspaces in middle markets and downtowns undergoing revitalization. At the forefront of those successfully forging ahead with green leases in this growing and innovative industry is Kilroy Realty Corporation.

Kilroy, a publicly-traded real estate investment trust (REIT), has more than 70 years of experience owning, developing, acquiring, and managing real estate assets and a growing portfolio of 13 million sq. ft. of commercial office space across the United States. As a green leasing pioneer and one of the inaugural Green Lease Leaders recognized in 2014, Kilroy exemplifies how portfolio-wide green leasing is attainable through standardization of lease clauses, adaptability to market trends, and a strong commitment to sustainability. All Kilroy leases executed since 2014 have met the Green Lease Leaders criteria. This includes a recent green lease at a LEED Silver-certified, multi-tenant building and coworking space,

for which Kilroy earned Green Lease Leader Team Transaction recognition in 2019.

A 284,000-square-foot office building, the facility is one of an estimated 35,000 flexible workspaces in the world. Through lease negotiations and ultimate leasing of the coworking facility, Kilroy maintained energy efficiency and sustainability language that is standard in Kilroy's existing leases, which allowed for the recovery of costs for investments in energy and water efficiency upgrades over the payback period. The language also covers areas such as tenant operations and improvement requirements related to sustainability, green cleaning, recycling, and utility cost disclosure. The U.S. Energy Information Administration's most recent data showed that large commercial buildings alone used about 359 billion gallons of water in 2012. As more places experience drought conditions, preventing and fixing water leaks should be a priority for landlords and tenants. With this in mind, Kilroy prevents leaks across its portfolio through wide deployment of water sensors, and by requiring tenants to put similar sensors in their spaces.

Green Leasing for Coworking Tenants

What made Kilroy's award-winning team transaction different from other office space leases was the inclusion of green lease language that stipulated requirements for coworking tenants. The transaction team successfully modified Kilroy's existing green lease, with help from the legal firm Allen Matkins, and brokers from Cushman & Wakefield and CBRE, to adapt it for the tenant. It was crucial that all parties involved had strong alignment on green leasing.

KILROY





“These days, selecting an office space goes way beyond just bricks and mortar. Sustainability practices are becoming more of a corporate standard for tenants, and an important requirement among today’s workforce and company culture,” said Ali Anderson, Director of Commercial Office Brokerage at Cushman & Wakefield. “The ability to attract strong-credit, high-caliber tenants is much more competitive. To cater to the new demands of today’s workforce, more landlords will need to convert to green leasing practices.”

COWORKING OPERATORS MUST BE RESPONSIVE TO CORPORATE STANDARDS, AND PERHAPS AN EVEN BROADER APPEAL IS NEEDED TO CAPTIVATE THE THOUSANDS OF SMALLER BUSINESS AND INDIVIDUALS THAT ARE ABLE TO DECIDE WHERE TO LOCATE BASED ON THEIR INDIVIDUAL NEEDS AND VALUES. COWORKING IS KNOWN FOR ITS CHOICE AMENITIES AND HEALTH AND WELLNESS FEATURES, SO IT STANDS TO REASON THAT A TENANT-FOCUSED APPROACH SHOULD ALWAYS INCLUDE ENERGY-SAVING AND SUSTAINABILITY-FOCUSED IMPROVEMENTS THAT YIELD HEALTHIER AND MORE COMFORTABLE INDOOR SPACES. AS GREEN LEASE LEADERS, KILROY, CBRE, CUSHMAN & WAKEFIELD AND ALLAN MATKINS MADE SURE TO NOT OVERLOOK THIS.

On top of the lease customization to address coworking considerations, the deal also benefited from standard practices Kilroy

brings to all leases. Using the U.S. Green Building Council’s LEED for Commercial Interiors system as a framework, Kilroy developed green building standards which apply to all tenant fit-outs and hold tenants to high standards of sustainability. Provisions include banning the use of low-VOC paint and requiring new equipment purchases be ENERGY STAR-certified; as well as restricted HVAC operating hours, the use of occupancy sensors, tenant trainings on sustainable practices, and regular HVAC maintenance requirements.

Looking Ahead

Kilroy’s approach to green leasing is continually evolving as building standards naturally advance, and the commercial real estate market extends into new and innovative directions. “Green leasing is one of the foundational elements of Kilroy’s sustainability commitment,” said Sara Neff, Senior Vice President of Sustainability at Kilroy. “Standardization has been really important. It says, ‘this is where the market is heading, and this is where we want to be as a company. Every lease is a green lease, no matter what.’”

Kilroy is further committed to ongoing energy management and commissioning of its buildings, systematically optimizing buildings, and enhancing its ancillary systems. In addition to reducing the environmental impact of new developments and the operations of existing buildings, the company discloses its carbon emissions information to stakeholders through the Global Real Estate Sustainability Benchmark, also known asGRESB. With a commitment to establishing carbon neutral operations by year-end 2020, it is important for Kilroy to partner with tenants that share the company’s values. Neff added, “We are looking forward to collaborating with all kinds of tenants to maintain the high sustainability performance of our buildings over the coming years.”



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BECOME A GREEN LEASE LEADER

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.

A 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/>

