

Green Lease Leaders and How the Lease is Used as a Critical Tool for Decarbonization

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ABSTRACT

Green leases have evolved from basic landlord and tenant collaboration on energy efficiency to “performance-based” leases. Today’s green leases can include broader sustainability and social equity commitments, and accountability for shared action on net zero energy goals or legislative requirements. These leases are now a powerful tool for scaling decarbonization of the built environment and addressing social equity through real estate.

Using real world examples from the Green Lease Leaders program, the standard for green leasing, this paper will examine a) the evolution from green to performance-based leasing, b) how lease language is being used currently by companies to drive energy performance and carbon reductions across their building portfolios and c) leasing-related strategies to meet landlord and tenant goals, and comply with building performance standards and other policies. We will analyze the most effective clauses by lease-type scenarios and explore how performance-based leasing is structured to go deeper than the previous “green” leasing paradigm. To underscore the value of these leases for policy compliance, we will analyze and review potential economic consequences of not using performance-based leasing in scenarios such as New York City’s Local Law 97 and Boston’s Building Emissions Reduction and Disclosure Act. We will also share early findings from the Green Lease Leaders program’s new Platinum tier that recognizes both decarbonization and social impact.

Background

Green leasing, also known as energy-aligned, energy-efficient, or high-performance leasing, is the practice of aligning the interests of landlords/owners and tenants to achieve environmental, social, and governance (ESG) goals, whether these are voluntary or mandatory (Feierman 2015). Traditional lease language often creates split incentives. Split incentives are where the owner or tenant is not financially incentivized – or has an actual disincentive – to take actions which could provide mutual benefits. The classic example is a lease in which tenants are required to pay utility bills but the owner is wholly responsible for capital improvements. In this case, the tenant has an incentive to lower their utility bills but the owner has no incentive to invest in efficiency, because they bear the costs but do not share in the resulting energy savings.

The need for alignment has grown enormously in the past 10 years as buildings are increasingly recognized as both a major contributor to ESG problems and a potential solution. On the energy front, the operations of buildings in the U.S. account for 35 percent of greenhouse gas emissions, which is split almost evenly between commercial and residential buildings (Institute for Market Transformation 2021). Given that tenants control up to 80% of the energy use depending on building type, the need for alignment becomes glaringly clear (U.S. Department of Energy n.d.). On social issues, governments and companies are increasingly adopting policies to reverse decades of policy and business practices that have resulted in a cycle where some have benefited greatly and others have been harmed. Siobhan Cross of Pinsent

Masons remarked in Taking Green Leases Mainstream, a 2023 webinar hosted by JLL, that while she has not seen a huge number of social clauses within leases in the U.K., where there are social clauses, they have encompassed topics like human trafficking, modern slavery and fair wages. Alignment in this context allows for more informed site selection process, minimization of harm to communities who must relocate due to construction, and fair labor practices.

Major societal shifts in response to the climate crisis are driving the need for more alignment on leases that will allow buildings to achieve specific ESG goals. Financial markets are increasingly demanding ESG. More than 95% of investors now use ESG data in their decision making (GRESB n.d.). According to ERM Rate the Raters 2023 report, “Finding investors who don’t use ESG rating products is increasingly difficult. Close to 100 percent of investor respondents representing a variety of investor types and strategies rely on ESG ratings in no small part due to booming demand for ESG investments”. GRESB, which is the leading ESG benchmark for real assets, now represents \$8.8 trillion of gross asset value. From 2022 to 2023, GRESB participation increased by 15 percent.

Tenants themselves are pushing changes as they adopt internal ESG goals. As of 2023:

- About two thirds of Fortune Global 500 companies have significant climate commitments (Climate Impact Partners 2023).
- Over 4,000 companies now have adopted science-based targets (SBTi), double the number from 2021 (Science Based Targets n.d.).
- 165 organizations representing one billion square feet of buildings and 1,500 industrial plants have become partners in the Department of Energy’s Better Climate Challenge, committing them to reduce portfolio-wide GHG emissions (Scopes 1 &2) by at least 50% within 10 years without the use of offsets. Partners have reported an average of 21% reduction in GHG emissions from their base year (Department of Energy 2023).

Federal government tenants are also part of this shift. The General Services Administration (GSA), which owns or leases over 8,000 assets, is working to comply with Executive Order 14057 Sustainable Leasing Requirements: “New lease solicitations issued after 9/30/2030 that are greater than 25,000 RSF and where the Federal Govt. leases at least 75% of the total building square footage, must be in NZE¹ buildings (consistent with the green lease requirement).”

Perhaps the largest, ultimate driver toward green leasing will be mandatory requirements through local and state adoption of Building Performance Standards (BPS) which can require owners to meet a variety of energy, emissions, and social targets. As of early 2024, these policies cover about 25 percent of all buildings in the U.S (Institute for Market Transformation 2021). The National Building Performance Standards Coalition is a group of state and local governments committed to implementing BPS in their jurisdictions. They now represent about 25 percent of all U.S. buildings. Some of the BPS which have already been adopted, including Local Law 97 in New York City, have substantial fines for non-compliance. This is a potent motivator for owners to work together with their tenants.

Basics of Green Leasing

¹ NZE stands for Net Zero Energy

Green leasing has existed for almost 15 years. Originally developed to overcome the split incentive by including clauses where the landlord and tenant agree to share the cost and benefit of energy efficiency improvements to the building, the concept became part of the national dialogue over time as proponents presented their successes in industry forums. The first major step towards formalizing the approach came in 2014, when the Institute for Market Transformation (IMT), in coordination with the U.S. Department of Energy's Better Buildings Alliance, launched Green Lease Leaders. Green Lease Leaders is a national recognition program that created an initial framework for what constitutes an energy-aligned lease, and developed clauses and operational procedures that advance efficient and carbon neutral buildings. Since its inception, the program has recognized landlords, tenants, and their partners for industry-leading leasing efforts across over 8.1 billion square feet of building space (Green Lease Leaders 2024).

Gaining recognition as a Green Lease Leader requires in part that:

- Sustainability priorities are presented by one or both parties before lease is signed
- Both parties identify a sustainability contact
- Both parties must share in the cost of capital improvements which benefit both parties
- Sustainability priorities are integrated in a legally binding contract and in operations
- Progress towards agreed-upon sustainability goals can be tracked and reported

Applicants can also get credit for including a plan to engage the other lease party in sustainability education or other sustainability matters, sustainability training for the transaction management team, and an agreement to purchase renewable energy if available to the building at a competitive price.

In support of these and other components, IMT and the U.S Department of Energy through the GLL program, have developed dozens of freely available resources including sample language, standardized forms, guidelines, case studies, tool kits, and workbooks. The sample language is particularly valuable to users, especially for items that arise frequently, such as cost sharing. Traditional clauses typically only allow landlords to pass common area maintenance expenses to the tenant. Updating this to define utility efficiency upgrades that benefit the tenant as part of operating expenses provides landlords the opportunity to invest in energy and water efficiency measures and share the investment cost with the tenant, while the tenant can benefit from lower utility bills. Here are two example clauses:

“All costs of any capital improvements made to the building that reduce the building’s energy expenses, shall be cost capitalized and hereafter amortized as an annual Operating Expense under generally accepted accounting principles, only the yearly amortized portion of which shall be included in Operating Expenses. In no event shall the charge for yearly amortization be more than the actual reduction in Operating Expenses.” – IMT

“Landlord may include the costs of certain capital improvements [intended to] [that] improve energy efficiency in operating expenses. The amount passed through by Landlord to Tenant in any one year shall not exceed the prorated capital cost of that improvement over the expected life cycle term of that improvement [and shall not exceed in any year the amount of operating expenses actually saved by that improvement]. Interest/the cost of capital can be included.” – GSA

Including such language can have dramatic, concrete impacts. As one industrial landlord stated:

I didn't realize how challenging it was to actually implement anything at our properties [without having a cost recovery clause]. For instance, as we go through older leases that don't have this, it becomes a lot more challenging to make any changes to have an impact on greenhouse gas emissions unless we get full buy in from the tenant which also creates a lot more work for us when it comes to planning. Then we'd have to go out to each tenant individually to ask if they approve it, versus doing it upfront at the leasing stage....Now that we're standardizing to green leasing standard template, we're also more easily able to roll out larger projects. That's definitely a win from our planning side.

The Green Lease Leaders program has grown consistently over time. From program inception to 2024, Green Lease Leaders' square footage has grown over 392 times.² Each year, companies new to the Green Lease Leaders program comprise at least 28 percent of winners, with most years exceeding that number, see Table 1 below.

Table 1. Percent of new Green Lease Leaders

Year	Total winners	New winners	Percent of new winners
2014	14	14	100%
2015	15	15	100%
2016	15	13	87%
2017	12	10	83%
2018	27	14	52%
2019	24	17	71%
2020	29	8	28%
2021	45	23	51%
2022	61	31	51%
2023	71	30	42%
2024	66	32	48%

Green lease adoption is also occurring internationally: nearly 26 percent of 2024 Green Lease Leaders were international organizations, as compared to 14 percent in 2014. Despite this growth and the clear benefits, when we use Green Lease Leaders as a proxy, about 27 percent of commercial spaces in the U.S. have green leases, as shown in Table 2 below, demonstrating significant opportunity for continued green lease expansion. Even the most minimal efforts can still be difficult to put in place for typical building owners. For those who are practicing green leasing, however, there are a wide variety of elements that are being included.

Table 2. Commercial space in the U.S. with a green lease

Space leased to tenants (sq ft)	28,382,000,000
All Green Lease Leaders (sq ft)	7,670,000,000
Percent of Green Lease Leaders as of all leased space in the U.S.	27%

² In 2014, Green Lease Leaders covered about 20.7 million square feet. As of 2024, this number rose to 8.1 billion square feet.

Space leased to tenants is from 2018 CBECS Survey Data. Duplicate square footage was removed from All Green Lease Leaders square footage figure, as many Green Lease Leaders achieved recognition across multiple years. International Green Lease Leaders square footage was also removed. This number represents all square footage currently covered by U.S. Green Lease Leaders winners as of the 2024 recognition year.

Most Common Green Lease Clauses & Leasing Strategies

IMT analyzed the most utilized clauses from 2014 to the 2024 Green Lease Leaders application years in Table 3. Both landlord and tenant applications most frequently utilized the same three clauses over the past decade – water tracking, energy tracking, and disclosing or requesting building energy performance. The fact that both parties utilized the same clauses demonstrates shared values, further supporting the concept of a green lease as a tool for landlord-tenant collaboration.

Table 3. Most utilized lease clauses

Clause	Percent of landlord applications	Percent of tenant applications
Energy tracking	60%	49%
Water tracking	71%	41%
Disclosing (landlord) or requesting (tenant) building energy performance	45%	33%

Both landlords and tenants want energy and water data, so data sharing clauses are becoming standard in green leases. They serve multiple purposes: tracking the amount of utility bills, meeting voluntary program requirements (e.g. ENERGY STAR), providing reporting information required by investors, and to help set and track data-based targets for water, energy, and carbon reduction goals. Here is an example of data sharing lease language for water from the GSA:

Landlord shall provide regular [annual] [quarterly] reports for the amount of water consumed at the building and cost per month for the duration of this lease. If such data is not available or is confidential, estimated water use per tenant may be provided along with the basis for the estimate. Where applicable (i.e., ENERGY STAR certified buildings), Landlord shall enter water use and cost data into ENERGY STAR Portfolio Manager and provide read-only access to tenant of the building's Portfolio Manager account. Where applicable, the Tenant shall provide read-only access to Landlord of the building's Portfolio Manager account.

And for energy:

Upon receipt of Tenant's written request (no more than once per calendar year), Landlord shall provide Tenant with the whole building ENERGY STAR score if the Building is in a market where Landlord reports such information. For any separately metered utilities, Landlord is hereby authorized to request and obtain,

on behalf of Tenant, Tenant’s utility consumption data from the applicable utility provider for informational purposes and to enable Landlord to obtain full building Energy Star scoring for the Building.

Ulta Beauty, the largest beauty retailer in the U.S., always requests the ENERGY STAR score from their landlords as it allows their energy team to understand opportunities for energy savings (Green Lease Leaders 2020). In some jurisdictions, sharing energy data is a necessity to comply with government statutes. New York City’s building energy efficiency ratings laws (Local Law 33 and Local Law 95) require owners of buildings 25,000 square feet or larger to post prominently (usually in the entrance or lobby of the building) a letter grade based on the building’s whole building energy performance.

Data sharing can also enable services that could not otherwise be provided. An industrial landlord, referring to green leases creating the ability to deliver sustainability as a service, remarked, “For instance, we collect all the data [and generate a dashboard with this information]. For some of our less sophisticated tenants [that might] not have access to dashboards or tools for analyzing their data, we can use our tools and provide reports to help them understand their footprint and reduce emissions.”

From Green Leasing to Performance-Based Leasing

Green leasing practices have demonstrated that landlords and tenants can overcome the split-incentive hurdle, allowing landlords to make investments that will benefit both landlord and tenant. However, with the rise of BPS policies and greater ESG goals, there is a need to be more specific in defining goals and holding parties accountable.

To address this, the concept of green leasing is evolving to be more precise about tenant and landlord responsibilities to meet specific building performance targets. These new ‘performance-based’ leases (also sometimes referred to as Green Leasing 2.0) are still fairly new and early in adoption but they have significant potential for reducing the risk of missing performance goals and incurring compliance fees in locations where those exist. The leases do this by including the following:

- Specific building performance targets
- Equitable distribution of responsibilities by defining the roles a landlord and tenant must comply with to benchmark and meet building performance goals
- Landlord and tenant accountability by tracking performance towards agreed-upon goals and, where necessary, establishing a mitigation plan
- Failure-to-comply language should either party fail to meet building performance goals

The organizational and financial value of performance-based leases should not be underestimated. Becca Timms, Director of ESG at Jamestown LP says, “We were on board with green leasing before these BPS policies were passed, and in a much better starting point for complying with BPS. For us, green leasing was a way to create opportunities and manage risk. We were better prepared to manage the transition risk associated with BPS compliance.”

Updated research from 2024 found that green leases now have the potential to unlock over 17 percent in energy consumption savings. If the U.S. office sector adopted green leases across all offices, the sector could realize over \$2.2 billion in energy savings, see Table 4 below (Lee 2024).

Table 4. Potential energy and cost savings from green lease implementation

	Savings potential – U.S. office buildings (USD, nominal)
USD, nominal	\$2,273,204,678
Savings (\$/sf)	\$0.34
Energy savings (MMBTU)	94,345,784
Savings (MMBTU/sf)	0.014

Source: Lee 2024

This potential savings from green leases may also be a conservative estimate. The calculation utilized data from the 2018 Commercial Buildings Energy Consumption Survey, so it does not account for the recent volatility in energy prices. According to the Bureau of Labor Statistics, the average price of electricity increased by 30 percent from 2020 to 2024, as shown in Figure 1.

While each building has a different energy reduction target or carbon emissions target to meet depending on the building’s baseline and the applicable BPS, the potential savings from a green lease can help a building get on a pathway to achieve BPS compliance.

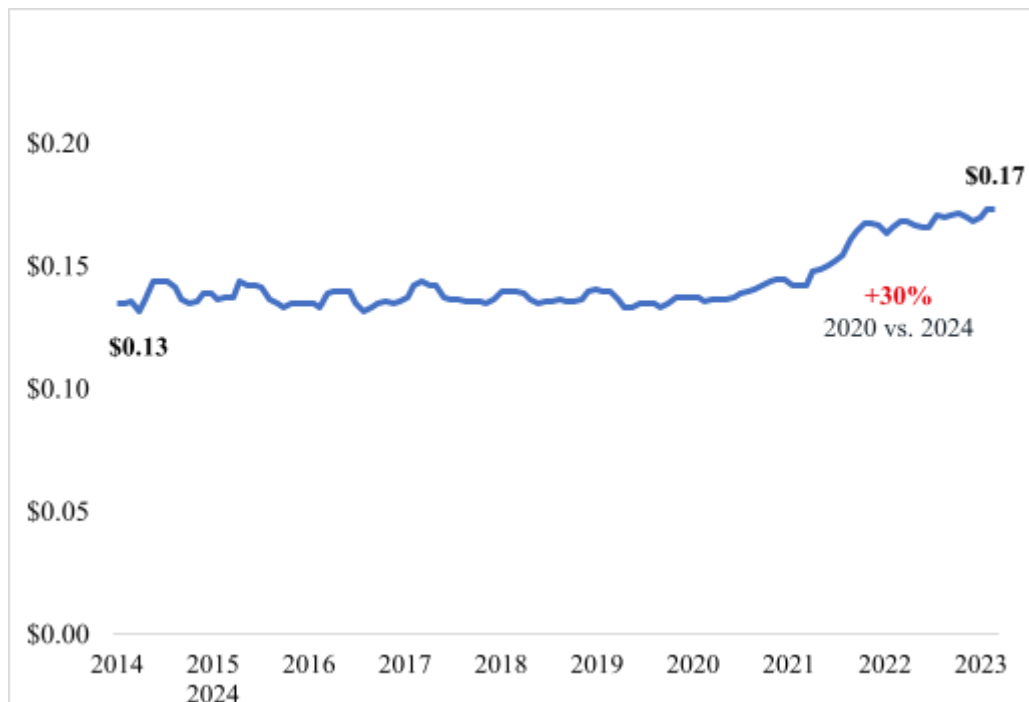


Figure 1. Electricity price per kWh in the U.S., city average. Source: Bureau of Labor Statistics

JLL Case Study: The Scale of Impact and the Cost of Inaction

Globally, buildings account for 40 percent of total emissions but within cities, they are typically responsible for 60 percent (JLL 2022). To advance on the net zero targets that most major cities have set, local governments must target emissions from the buildings sector and BPS policy is emerging as the go-to approach for addressing existing buildings. While for most existing policies, the number of buildings that are estimated to be above the first round of limits are relatively low, they quickly ratchet up come the second round. In New York City, for example, only 9 percent of office buildings are estimated to be above LL97’s 2024 limit while 55 percent of office buildings are estimated to be noncompliant with the law’s second round of limits in 2030.

Table 5. The scale of impact of BPS on covered office buildings in NYC, Seattle, and Boston

City	First round of limits				Second round of limits			
	Percent share of buildings above limits	Penalty/Cost of compliance ⁴	Median annual building penalty/cost psf	Median annual building penalty/cost	Percent share of buildings above limits	Penalty/Cost of compliance ⁴	Median annual building penalty/cost psf	Median annual building penalty/cost
New York City, NY ³	9%	\$268 (tCO ₂ e/year)	\$0.43 psf	\$37,665	55%	\$268 (tCO ₂ e/year)	\$0.55 psf	\$62,487
Boston, MA ⁴	14%	\$234 (tCO ₂ e/year) ⁴	\$0.27 psf	\$33,011	46%	\$234 (tCO ₂ e/year) ⁴	\$0.29 psf	\$25,984
Seattle, WA ⁵	24%	\$190 (tCO ₂ e/year) ⁵	\$0.12 psf	\$9,085	36%	\$10.00 (psf/interval)	\$2.00 psf	\$139,558

Source: JLL Research (Torres and del Alamo 2024), NYC Department of Buildings, City of Boston, Seattle Office of Sustainability & Environment

For investors, the feasibility of costs and the estimated return on investment associated with decarbonizing their buildings play a crucial role – and often present a roadblock – when considering retrofitting their owned assets. BPS policy are designed to help make the cost of action more feasible by making the cost of *inaction* significantly greater. When attempting to


















³ New York City’s first round of limits: 2024-2029; penalties apply to buildings 25,000sqft and greater; second round of limits is 2030-2034

⁴ Boston’s first round of limits: 2025-2029; penalties initially apply to buildings 35,000sqft and greater, limits from 2030 onwards apply to buildings 20,000 sq ft and greater; second round of limits is 2030-2034. The City of Boston’s BERDO policy offers an Alternate Compliance Payment (ACP) scheme of \$234 for every metric ton of CO₂e over the emissions limit. ACPs go into the new Equitable Emissions Investment Fund, which will fund future decarbonization projects in Boston’s environmental justice communities.

⁵ Seattle’s first round of limits begin in 2031; penalties apply to buildings greater than 220,000sf beginning in 2031 and phase in over the following years for smaller size tranches. Seattle’s BEPS policy also offers an Alternate Compliance Payment (ACP) based on the total metric tons of CO₂e exceeding the target and the social cost of carbon for the five years of the compliance interval, currently set at \$190. Limited to the 2031-35 compliance window to allow flexibility but ensure future action. Revenue will be prioritized to assist building owners to reduce emissions in under-resourced buildings.

undergo a cost-benefit analysis for a building, putting penalties against the cost the retrofit needed to comply provides a seemingly viable assessment of feasibility - but it is important to consider a broader ecosystem of factors.

Table 6. Beyond fines – NYC building potential direct and indirect risks of non-compliance⁶

Direct impact				Indirect impact				
Pathway	Total cost (average)	Penalties faced 2024-2050	Energy savings	Lease renewal probability	Future market rents	IRR	Exit cap rate	Exit price
No action	\$0.7M	\$2.6M	0%					 
Moderate retrofit	\$7.5M	\$1.2M	20%					
Max retrofit	\$14.6M	\$0.1M	35%	 				

Source: JLL

Taking a typical prime office building in New York City - 500,000 square feet in size and powered by natural gas and electricity, JLL consultants mapped out possible decarbonization pathways, as shown above. A maximum Net Zero Carbon (NZC) retrofit would cost the owner \$14.6 million while allowing them to avoid \$2.5 million in penalties from 2024 to 2050. If the owner opts for a lighter and easier retrofit, the cost goes down to \$7.5 million but they avoid fines for only ten years.

If an investor looks at these two factors in isolation, it might lead them to swallow the cost of penalties. However, it is important to consider a broader perspective as improving a building’s energy performance brings about a wider set of implications, such as improvement of the Net Operating Income through energy savings and potential rent premiums, which would lead to a higher exit price.

Owners must also consider how their decision to improve their building’s energy and emissions performance might indirectly impact other factors. For example, as more tenants make publicly-stated emissions reduction targets and seek buildings that are aligned to their commitments, taking action to improve a building’s performance will help increase factors like lease renewal probability and rents. Overall, as the world focuses on the net zero transition, decarbonizing assets is quickly becoming a critical lever to de-risking assets.

If the owner is responsible for utilities, they could directly reap the benefits of this reduced operational spend but if the tenant is responsible, the two parties would need to come to an agreement to ensure the benefit is equitably shared in proportion to who makes it happen.

⁶ Estimates model a standard 500,000sqft office building in the CBD, with natural gas and grid electricity fuel types as a baseline. Modeled Cooling System, Heating System and HW System are specified per decarbonization pathway. Utility prices are held constant over time.

Green lease structures are a critical tool to achieving these sorts of agreements. On the other hand, many owners will look to pass the cost of penalties to the tenant through operational pass-through costs. Tenants can also leverage green lease language to ensure they are not responsible for a disproportionate share of the costs.

Creation of Platinum Tier for Green Lease Leaders

In 2022, the Green Lease Leaders program launched the Platinum tier to highlight the emergence of performance-based leases, give them credibility, and encourage their adoption. This also served to emphasize that the commercial real estate industry is capable of greater green leasing innovation. While the Silver and Gold tiers recognized the implementation of standard green leases and executed green leases, they did not address the adoption of specific building performance goals and targets in the lease or the enhanced accountability and partnership between landlords and tenants, which define a performance-based lease.

The inaugural class of Platinum awardees consisted of eight landlords, one tenant, and two landlord and tenant teams. In 2024, Green Lease Leaders recognized three additional awardees. All of these included industry-leading language in their leases that the program hopes will become standard practice over time. The following example lease language, which was updated for use in a transaction by Lennard Commercial Realty, gives an idea of the potential of performance-based leasing applicable to the landlord:

Tenant acknowledges Landlord's intention to develop, and maintain, specific environmental targets for the Building in several key areas. Landlord shall advise Tenant of Landlord's targets, and any amendments thereto, from time to time, including the effect of Tenant's permitted use of the Premises (as set out in section X of this Lease) on Building services. Key areas are as follows:

- (i) electricity use
- (ii) natural gas consumption
- (iii) water consumption
- (iv) waste diversion rate
- (v) indoor carbon dioxide

Landlord will develop and revise the above-noted targets from time to time

Another landlord in the office sector whose portfolio is subject to BPS includes language in their leases that each tenant will have their own carbon emissions limit and the landlord will also have a carbon emissions limit covering the common areas of the building. The tenant is responsible for 1) monitoring their carbon emissions using the measurement methodology both parties agreed upon in the lease and 2) sharing this measurement with the Landlord.

Landlords are not the only party including performance goals in their lease language. The following is an example of lease language applicable to the tenant:

The specific targets that have been set for the Building ("Building Targets") in order to meet the Sustainability Objectives are set out below. The Landlord and Tenant agree to operate in a manner that is consistent with the following targets, which may be amended from time to time, upon consent of the parties:

- i) An ENERGY STAR rating of 75 or higher for corporate offices or an overall EUI of X kBtu per square foot for retail branches/stores;
- ii) A maximum indoor and outdoor water consumption rate of X gallons per square foot for corporate offices and a maximum indoor and outdoor water consumption rate of X gallons per square foot for retail branches/stores;
- iii) A waste diversion rate of no less than X% in support of the Tenant targeting a zero waste goal; and
- iv) Pursuing, achieving and maintaining building certifications for the base building.

Challenges

Despite the uptake and proven success of green leases, it is still difficult to determine exactly how many leases include green lease clauses, as not all organizations with green leases apply for recognition through Green Lease Leaders. Long-held attitudes regarding the adversarial nature of tenant-landlord relations are still the norm and create a major impediment to widespread adoption of green leases. Even among the Green Lease Leaders winners, landlords and tenants often relate that the other party is unwilling to share data. This is even true for companies that have robust companywide ESG goals and sustainability programs, meaning the data gap is in direct conflict with their own goals. Resolving such fundamental problems requires taking action within an organization. Internal discussions between the leasing team and ESG are essential, and should take place before beginning negotiations with either the tenant or the landlord. Lori Hipwell, Director of Energy and Sustainability at Pure Industrial, described the value of engaging everyone involved in the leasing process together.

From the onset, we involved all stakeholders, bringing our property management, legal, leasing and sustainability teams together. Based on the feedback, we selected the clauses that would best support our sustainability goals. Within this same working group, we developed the processes and tools to support the requirements of the new lease. Once our green lease was finalized, we provided training for our leasing team to ensure that they could communicate the benefits and potential impacts of a green lease to our tenants. As a result of our collaborative approach, green leasing was well received through the company, and we were able to effectively launch our standardized green lease for all new leases moving forward.

Another challenge is leasing structure, which varies widely depending on the property type and the type of business that is using it. Industrial facilities have very different requirements than retail spaces which are different than office spaces, etc. This means that green and performance-based leasing clauses cannot be a one size fits all solution, and even generic clauses in traditional leases may need to be modified to be effective to meet ESG goals. For example, national and chain retailers often have brand and design guidelines, which includes lighting requirements, that they must adhere to for their stores. The tenant needs control in designing their space, which may negatively impact the sustainability performance of the area, but the

design requirements will take priority. However, motivated teams may find a way to make things work. Ame Igharo of Ulta Beauty says, “We have had great success working with our energy and leasing teams to request minimum energy efficiency standards in leased spaced fit-outs, partnering with our legal and construction teams, and advising our landlords on specifications including setting our own utility meters and submetering. All of these actions help us to maintain visibility and control of energy consumption and account for our annual greenhouse gas emissions.”

Triple net leases, where the tenant pays the net cost of utilities, taxes, and insurance, are both widespread and particularly problematic for collaboration. A potential solution is to include a data transparency clause within the lease where both the landlord and tenant agree to share utility data. For triple net situations, the landlord can encourage the tenant to share their utility data by providing data that gives the tenant additional value. This may include sharing the building’s whole building performance, such as the building’s ENERGY STAR score or other whole building performance metric, so that the tenant can then understand their efficiency level within the context of the whole building. The landlord can also consider sharing the building’s historical utility consumption, which would give the tenant a baseline to compare their current utility consumption at the building.

Visions for the Future

To date, green and performance-based leases have largely been used to address quantitative goals such as reducing energy, water or carbon emissions. They have the potential, however, to be used for social issues as well, both within the building and beyond. Some industry leaders in green leasing are beginning to incorporate social equity into their leases using clauses to require specific levels of indoor air quality, green cleaning, or pursuing health and wellness-related green building certifications like WELL and Fitwel. Incorporating these social goals into a lease can have significant positive impacts to building occupants and asset value. Research has shown that improved air quality increases employee performance by 8% (MacNaughton, et al. 2015). According to MIT Center for Real Estate Research, certified healthy buildings command 7.7% higher rents per square foot and 92% of real estate investors expect demand for healthy buildings to continue to grow over the next three years (Sadlkin, Turan and Chegut 2020) (Fitwel 2024).

A much broader vision of leasing can also be imagined. Policies such as building performance standards, if widely adopted, will create new, good-paying jobs for energy managers, facilities managers, mechanical engineers, controls manufacturers, and more, creating a new generation of building stewards to ensure that our buildings use energy resources wisely over time (Fact Sheet: Biden-Harris Administration Launches Coalition of States and Local Governments to Strengthen Building Performance Standards 2022). The industry makes decisions every day about the products it uses to build and operate buildings, and those decisions can be infused with criteria around diversifying business relationships, both internally and externally, to boost racial diversity and expand power and economic inclusion across a community. Research shows that diverse teams consistently outperform more homogenous teams, so this is a business opportunity as well (Dixon-Fyle, et al. 2020).

Conclusion

Green leasing has evolved over time and continues to be a relevant tool that we can use to address current decarbonization challenges. Since the inception of the Green Lease Leaders program 10 years ago, over 8.1 billion square feet utilize green leases both domestically and internationally. The growth of the Green Lease Leaders program demonstrates the continued adoption of green leases and value that green leases bring to a building. Incorporating green lease clauses can save over 17 percent in energy consumption savings. Green leasing can benefit all organizations. Specific clauses may need to be tweaked based on a specific company's situation.

Green leasing is entering the next stage – performance-based leasing – which is a critical tool for tackling decarbonization. Without it, owners don't have the authority necessary to make changes at the building level to reduce GHG emissions and neither owners nor tenants have the support and buy in of the other party to achieve decarbonization. Instead of paying for noncompliance with BPS, this money can be invested into assets that need to be upgraded. The value of a performance-based lease will continue to grow as more mandatory building performance policies are adopted. Organizations who utilize performance-based leases will be in a strong position to protect their buildings from the risk of non-compliance with emerging regulations and will also have the ability to satisfy growing market demand for ESG.

“Looking ahead, we will see continued evolution as physical and transitional climate risks impact insurance, property values, and financing. We already receive credit for our leadership and the risk avoidance we deliver as part of our standard set of services. We have protected our tenants from risk for well over a decade. Green leases are good, responsible business.” Dana Schneider, Senior Vice President Director of Energy, Sustainability and ESG, Empire State Realty Trust.

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