

Green Leasing: 2017 Update

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The California Sustainability Alliance (the Alliance) is an innovative market transformation program funded by California utility customers under the auspices of the California Public Utilities Commission. The Alliance leverages action on environmental initiatives such as climate, smart land use and growth, renewable energy, waste management, water use efficiency and transportation planning to help the State of California achieve its aggressive energy efficiency goals more effectively and economically. In partnership with public and private organizations throughout California, the Alliance precipitates widespread market transformation by tackling major barriers to sustainability.

For information about the California Sustainability Alliance, go to:

www.sustainca.org

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GLOSSARY

Green Leasing – The integration of energy and water efficiency, emissions reduction, waste minimization, and other sustainability objectives throughout the entire commercial leasing process.

Gross Lease – Under a gross lease, the landlord pays for operating expenses of the building and the tenant pays one lump-sum for rent.

Mixed-use – The combination of multiple property uses within a single building or development, such as residential, office, retail, industrial, and hotel.

Tenant Improvement – Changes made to the interior of a building to accommodate the needs of the tenant, including flooring, ceilings, air conditioning, specialized equipment installations, and security.

Triple Net (NNN) Lease – Under a triple net lease, the landlord is responsible for capital expenses, but passes utility and other operating costs (taxes, insurance, and maintenance) onto the tenant.

EXECUTIVE SUMMARY

Background

In 2007, the California Sustainability Alliance (the Alliance) developed a *Green Leases Toolkit* that focused on strategies and tools designed to overcome the barriers to “greening” (or integrating resource-efficient design, equipment, materials, and operations into) the 90% of California’s office space that is leased. The Alliance published a comprehensive report in 2009, *Greening California’s Leased Office Space: Challenges and Opportunities*.

This document serves as an addendum to the 2009 report and an update to the *Green Leases Toolkit*, with special focus on the mixed-use sector and recommendations for achieving natural gas savings via green leasing.

Green Leasing Updates

This addendum contains a discussion of several important topics in 2017, including the rise of corporate sustainability policies driving green leases, the prevalence of green building certifications and standards, examples of tenant engagement strategies, the impact of new reporting standards such as the Global Real Estate Sustainability Benchmark (GRESB), and the increase in energy disclosure laws, among other topics. Although this addendum focuses on buildings in Southern California Gas service territory, many of these trends are relevant on a national (and in some cases international) level.

This addendum also continues the ongoing conversation on the split incentives challenge. Split incentives arise in many commercial buildings because building owners are responsible for the costs of energy efficiency upgrades but tenants benefit from reduced energy bills—or alternatively, owners are responsible for energy costs and tenants therefore have no incentive to use less energy.¹ In particular, one of the key solutions discussed here is the inclusion of “energy-aligned” lease clauses, which provide a financing mechanism for retrofits. Energy-aligned lease agreements (sometimes simply called green leases) provide building owners and landlords with an incentive to make their buildings more efficient because they can share the costs and the benefits of the improvements with their tenants—helping to overcome split incentives.

Other important guidance included in this report relates to the time frame for cost recovery of building improvements. Specifically, we recommend that green leases should account for savings over the length of a projected payback period of an improvement instead of the useful life of the improvement. This reduces the amount of time that it takes to recoup the initial investment. Green leases are truly a win-win

¹ “Green Leasing: Aligning Energy Efficiency Incentives for Tenants and Building Owners,” ICLEI and IMT (http://www.imt.org/uploads/resources/files/Commercial_Energy_Policy_Fact_Sheet_-_Green_Leasing.pdf).

scenario for tenants and landlords; however, the benefits to investors will be limited by the leases, holding periods, and the ability to have tenants pay for the benefits that they receive. These constraints depend on the provisions in the lease.

Based on interviews with landlords and tenants in Los Angeles, this addendum also summarizes some of the key considerations for green leasing as it relates to mixed-use buildings and natural gas savings. Landlords reported that green lease policies with standard green lease language—including guidance for incorporating green lease amendments into standard master leases—have been an effective way to incorporate green leasing criteria for mixed-use buildings.

Natural gas usage has not historically been a top green leasing priority in Los Angeles. Gas bills are negligible many months of the year, with little demand for building heating. However, green leases typically have clauses to address utility savings that are not specific to electricity or natural gas. Hence, standard green lease language can be customized as needed to address specific natural gas savings goals.

SECTION 1: INTRODUCTION

The California Sustainability Alliance's Green Leasing Initiative

In 2007, the California Sustainability Alliance (the Alliance) embarked on a “green leasing” initiative to develop and implement strategies and tools designed to overcome the barriers to “greening” (or integrating resource-efficient design, equipment, materials, and operations into) the 90% of California’s office space that is leased. The Alliance defines green leasing as the integration of energy and water efficiency, emissions reduction, waste minimization, and other sustainability objectives throughout the entire commercial leasing process. Beginning in 2007, the Alliance developed a set of resources to support the green leasing initiative, which are described in the following sub-sections.

The Green Leases Toolkit

The Alliance published the original *Green Leases Toolkit* (Toolkit) as a framework for landlords and tenants to develop strategies and protocols for green leasing. The first version of the Toolkit was released in 2008; it was then beta-tested by state agencies and updated in 2009. Green leasing is the integration of both the tenant’s and landlord’s sustainability objectives throughout the entire leasing process, and so the resources and templates contained in the Toolkit are designed to support these parties through the process of drafting a mutually-agreeable green lease. The Toolkit includes the following major components:

- 1. Green Policy Statement** – A green policy statement defines an organization’s intended sustainability goals as they relate to its facilities. Green policies for building owners are typically used to incorporate green leasing language on master leases, new leases, and lease amendments. Sample leasing provisions can be incorporated in the policy statement to provide guidance that helps both parties to implement sustainable business practices, save money, conserve resources, and ensure the efficient operation of the buildings.
- 2. Green Options** – Based on the tenant’s specific leasing profile, there are different characteristics that lead to more (or less) attainable green leasing options. These depend on the tenant’s size and financial commitment, the landlord’s tenant improvement (TI) allowance, the lease structure, control over operations and maintenance (O&M) of the facility, and other factors. The Green Options tool helps the tenant assess its portfolio’s characteristics and target achievable green lease options.
- 3. Green Request for Proposal (RFP)** – A prospective tenant may issue an RFP to solicit, evaluate, and select proposals from landlords. The Green RFP tool is a template for the tenant’s requirements relating to green practices and how they will be structured in the lease document. Landlord responses to the Green RFP – usually in the form of a Letter of Intent (LOI) – will assist the tenant with site selection.

4. **Due Diligence Scorecard** – After the tenant has received LOIs from the landlords, the tenant must compare the proposals. This analysis usually considers financial, legal, and operational terms, including green practices. The Due Diligence Scorecard tool was designed to assist in this comparison process.
5. **Green Lease Provision Database** – The Green Lease Provision Database provides examples of lease language and concepts that may pertain to a user’s occupancy situation and sustainability objectives. These lease provisions are not intended to be used without the input of a qualified attorney who is experienced in commercial leasing matters.

The 2009 version of the Toolkit (version 2) also includes real-world examples of green lease criteria and a building environmental scorecard from ENERGY STAR, and refers landlords to the ENERGY STAR Portfolio Manager. These tools and examples may still be found on the Alliance [website](#).

Greening California’s Leased Office Space

The Alliance published the *Greening California’s Leased Office Space: Challenges and Opportunities* report in 2009 along with version 2 of the Toolkit. This in-depth report focuses on overcoming barriers to green leases for office buildings identified in 2009, addressing the primary barriers of split incentives and the many evolving standards and practices for green leasing. The original report may be found on the Alliance [website](#).

Split incentives arise under gross leases when a tenant has no economic incentive to invest in energy efficiency measures because the utility costs are allocated on a pro rata share among tenants.² Unless all tenants in the building implement the same energy efficiency measures, a portion of the benefits of the energy-conscious tenant’s investment may accrue to other tenants. On the other hand, in a net lease, the landlord has no economic incentive to invest in upgrades because the tenant is paying the utility bills directly and thus will receive the energy savings benefits. Split incentives are still a challenge for many tenants and landlords today.

Non-economic barriers have also limited the implementation of green leases, notably (at the time) a lack of standardization of green leases. Significant progress has been made in this area, as described further in this addendum.

2017 Updates

Green leasing has made major strides forward in the real estate industry since 2009. Maturing green building standards, increasing adoption of LEED and other green building certifications, a stronger focus on reporting tools such as the Global Real Estate Sustainability Benchmark (GRESB) and green leasing education and awards, and

² Under a standard gross lease, the tenant pays a fixed amount of rent per month or year, regardless of the landlord’s operating costs.

sustained support for green leasing by industry and government agencies have all resulted in greater awareness and implementation of green leases.

In this addendum to the 2009 report, the Alliance summarizes many of these advancements and provides additional guidance on several new focus areas, including green leasing for the mixed-use building sector and achieving natural gas savings. These updates are based on the following information:

- A review of publicly-available green leasing literature, primarily those resources published in the last 5 years
- Four in-depth interviews with building owners and managers in the Los Angeles area with leading green practices (in most cases, the same company owns and manages the building and are referred to simply as “landlords” in this report)
- Four in-depth interviews with tenants of leased space in the Los Angeles area
- One in-depth interview with the Institute for Market Transformation (IMT)
- Navigant and Verdani Partners’ industry experience

In addition to this report addendum, the Alliance updated the five primary tools in the Toolkit (listed above) and consolidated them into a single file. This updated Toolkit also contains links to many useful green leasing reports and guides from other organizations, from the green leasing literature review. Numerous green leasing programs and initiatives began after the Alliance published its green leasing materials in 2009, resulting in a robust set of publicly-available resources today. **Error! Reference source not found.** describes the complete updates made to the Toolkit.

SECTION 2: GREEN LEASING IN 2017

This section of the report addendum provides high-level updates on several of the major green leasing topics today.

Green Leasing Policies & Standards

Corporate sustainability policies are becoming more common, driving green requirements for leased space. This is particularly true for major building owners and management companies and large corporate tenants in the Los Angeles area. All four of the landlords interviewed had a strong focus on green practices, including energy, water, waste, and other sustainability policies (in some cases, 15 or 20 specific policies) across their portfolio of buildings. These landlords are leading in the building efficiency space and provide good examples of sustainability initiatives and green leasing approaches.

“We have implemented over 15 sustainability policies portfolio-wide that impact employees, property teams, and tenants.”

In addition to the broad categories of energy, water, and waste, there are policies targeting reductions in greenhouse gas emissions, improvements in indoor air quality, green recycling practices (and occasionally composting), the use of green cleaning and construction materials (such as low-VOC paint), and more. In some cases, these policies apply only to the common areas controlled by the building rather than individual tenant spaces. Notably, one landlord is further considering a renewable energy or on-site generation policy. Based on its sustainability policies, another building owner makes sure to provide property managers (in all property types) with a sustainability budget “cheat sheet” that lists top efficiency strategies and their associated costs.

The landlords interviewed have also all incorporated green lease language into their leases, primarily focusing on new leases. One model for this is a sustainability section in the lease. Another model is a master lease template that includes a green lease addendum. The green lease sections and addendums include items such as the following: methods to capture whole building utility data, language regarding using no/low-VOC paints, supporting or requiring green building certifications (commonly, ENERGY STAR and LEED), and clauses to educate tenants on how they use energy and water.³ One landlord is considering additional green lease language for both new and existing leases, specifically to maintain a recycling program, engage third-party energy monitoring and reporting, complete shell and core work to achieve LEED certification, use TI’s to encourage tenants to employ sustainable practices, set green cleaning objectives, and promote the use of green materials and eliminate chemicals.

The four tenants interviewed do not have as consistent of an approach to sustainability policies as the landlords and do not have green leases; however, they all consider

³ A database of sample green lease clauses may be found in the Toolkit.

sustainability and energy efficiency to be important factors in choosing leased space. One tenant is a large company with an overarching corporate sustainability policy and regional sustainability management plans that govern facility requirements. This tenant also certifies its environmental management system annually through ISO-14001.⁴ In this case, although the landlord does not have a building sustainability policy or a green lease, the tenant has stringent requirements for its own space. Another tenant's policy specifies certain green building certifications (a minimum of LEED Silver for any TI, when applicable). The other two tenants simply consider energy efficiency, green building certifications, and other sustainability and wellness initiatives when applicable, without formal policies.

Certifications

The popularity of [LEED](#) has helped move the real estate industry towards green leases. Generally, green building certifications are an important focus area for both landlords and tenants, whether they are specified in a formal sustainability policy or not.

All the landlords interviewed have LEED-certified buildings in their portfolios. For owners of mixed-use buildings, there are several LEED certifications to consider; for example, one landlord has pursued LEED for New Construction (NC) for multi-family and office buildings, LEED for Existing Buildings (EB) for existing office space, and LEED for Commercial Interiors (CI) for retail space.

"All multi-family properties are LEED-certified with ENERGY STAR rated appliances, placards to explain water faucets, and no VOC paint."

[ENERGY STAR](#) is also a common certification used for office spaces. Several landlords are looking at other green building certifications including [Fitwel](#) and [WELL](#), building performance tools such as [Arc](#), and Environmental Social Governance (ESG) portfolio performance assessment frameworks such as [GRESB](#). One challenge for landlords is still data access and the cost of certifications, especially for residential building projects which are often part of the mixed-use sector. Landlords must weigh the cost of certification against its potential for driving higher occupancy.⁵ The tenants interviewed are just as interested in LEED and other green building certifications. Two tenants also track greenhouse gas emissions, with one reporting to the [Carbon Disclosure Project](#).

⁴ ISO-14001 is a standard specifying the requirements for an environmental management system that an organization can use to enhance its environmental performance (<https://www.iso.org/iso-14001-environmental-management.html>).

⁵ Numerous studies have found that LEED-certified projects command higher rent and occupancy rates, although this may be difficult to observe for a landlord's specific building or portfolio (<https://www.constructiondive.com/news/green-buildings-deliver-higher-rents-and-occupancies/423043/>).

California Building Standards

The California Title 24 Building Standards Code (CBSC) has a supplemental chapter (Part 11) called the California Green Building Standards Code, also known as the CALGreen Code. This is the first statewide green building standards code in the nation. The CALGreen Code is now published and available through the International Code Council [website](#) and on the CBSC website.; and is posted online on the CBSC [website](#).

Essentially, the CALGreen Code utilizes a similar level of requirements as what is utilized in LEED for New Construction certifications. Therefore, buildings constructed in California have a higher standard in construction requirements than other states. This relates to green leasing in that it may be easier to establish green leasing language in California. CALGreen mandatory requirements are equivalent to the basic LEED certification level. The next step is CALGreen Tier 1, which is between LEED Silver and Gold certification levels. Finally, CALGreen Tier 2 is equivalent to LEED Platinum certification level.⁶

Tenant Engagement

As building sustainability policies have spread, so has landlord-tenant engagement on these topics. This trend is important for green leases, as an ongoing dialogue about sustainability will help landlords and tenants establish comprehensive goals that are aligned with their leases, and ideally pave the way for new green lease language.

Landlords focused on sustainability typically create and distribute Green Tenant/Resident Guides for building occupants. They also implement programs related to their primary sustainability policies (e.g., an energy, water, and waste awareness program) to educate tenants and help them find energy and/or water-saving opportunities. Another feature that some of the more sophisticated landlords have implemented is a “Green Tenant Challenge” – a voluntary tenant competition to encourage sustainable behavior. Other events include participation in Earth Day and hosting e-waste drives. These guides, programs, challenges, and events are useful for all types of tenants, including residential tenants. For landlords in the mixed-use sector with residential tenants, educational initiatives can be particularly important.

“We are currently rolling out an energy, water, and waste awareness program which will help residential tenants (residents) identify energy saving opportunities in their apartments.”

⁶ California Building Standards Commission (<http://www.bsc.ca.gov/Home/CALGreen.aspx>) and the US Green Building Council (<https://www.usgbc.org/articles/streamlined-leed-documentation-path-now-available-california-projects>).

Overcoming Split Incentives

Split incentive issues can still be a challenge for landlords and tenants. However, leases can help align interests between landlords and tenants by including standard cost recovery clauses. This language can effectively overcome misalignment issues between landlords and tenants, regardless of the lease type. Several of the lease provisions and outside resources included in the Toolkit also deal with this topic and demonstrate how to create energy-aligned leases.

A Triple Net Lease (NNN Lease) is the most popular type of net lease for commercial free-standing buildings and retail space. However, most of the interviewees in Los Angeles have gross leases, which is common among large mixed-use properties. In typical gross leases, tenants may also pay for utilities on a pro-rated basis proportional to their square footage. Over-standard equipment is sub-metered in most cases, so tenants can pay for additional above standard energy usage. According to the Institute for Market Transformation (IMT), a gross lease can be a very efficient model, but it is important to have the right language in place to achieve the common goals of the landlord and the tenant. Notably, pass-through cost recovery language has been key in moving the real estate industry toward green leases because it allows landlords and tenants to share the cost and benefits of efficiency improvements.

“We have a master lease template that includes a green lease addendum...The lease language recovers different cost savings. If we do a capital project, there is language that we can recover that back through operating expenses on a useful life or payback basis.”

Three of the four landlords interviewed have cost recovery clauses in their leases with pass-through language for costs related to capital improvements. The leases specify cost recovery on the basis of either the useful life of the equipment or the payback period (or the lesser of the two). Beyond green lease language for capital improvement cost recovery, the landlords demonstrate a variety of different approaches for other expenses. One landlord recovers the fees for making investments in efficiency upgrades as operating expenses such as lighting retrofits but also includes the ability to include costs for certain capital improvements that are intended to improve energy efficiency if they meet certain qualifications. Some operating expenses can include costs for making the building more efficient in support of green building certifications like ENERGY STAR and LEED but exclude corporate level sustainability expenses and capital improvements that do not directly benefit the tenants. Some landlords will agree to finance TIs as part of the lease negotiation, whereas others do not share TI costs. For the mixed-use sector, landlords that have residential tenants tend to pay for efficiency upgrades before the units turn over, which helps reduce building maintenance expenses (e.g., LED light fixtures have a longer useful life).

As mentioned, the Los Angeles tenants interviewed generally do not have green lease language or are not familiar with any green lease language that might be included in

their leases. Only one of the four has cost recovery language for efficiency-related capital improvements. For the tenants with strong sustainability policies, this has not stopped them from sub-metering their own space to track energy use internally, or from investing in a variety of green initiatives on their own. However, they are still interested in adding green lease language that would incentivize and align interests of both the landlord and tenant to pursue energy efficiency measures. This shows that split incentives are still an issue, especially when it comes to tenants whose landlords have not implemented green lease language. And even with green lease clauses under a gross lease, tenants must still work with the landlord to track and report energy usage for internal corporate reporting purposes when their spaces are not sub metered.

Remaining Challenges

Despite the real estate industry maturing significantly in regard to green leases, there are still a number of challenges mentioned by Los Angeles landlords and tenants in interviews:

- **Cost Recovery Language:** Leases should allow landlords to recoup their investments over the length of a projected payback period instead of the useful life of the improvements (or whichever is lower), to reduce the amount of time that it takes for landlords to recoup the initial investment and make the project more financially appealing. Although payback language is becoming more common, most existing and older leases typically have cost recovery clauses based on the useful life of the improvement. Most tenants have been amenable to adding payback language, but some tenants favor recouping the investment over the life of the improvement and may not agree with the payback language which is more favorable to landlords.
- **NNN Leases:** NNN leases tend to be more difficult for implementing energy efficiency than gross leases because the tenants pay for utilities and the landlord has less control. As summarized by commercial energy management company Aquicore, “A net lease reverses the advantages and disadvantages of a gross lease. Tenants are motivated to reduce their utility consumption, but landlords have no immediate incentive to make energy efficiency retrofits beyond the long-term value of their property, and no easy way to recoup their expenses.”⁷ This can slow progress with efficiency improvements because landlords typically have more resources and incentives to make these improvements.

To solve this issue, some landlords are incorporating cost-recovery language into NNN leases. In one of the interviews, the landlord of a large retail complex mentioned switching the lease structure from triple net to gross leases to establish a better structure for completing energy efficiency upgrades. The retail tenants in return will have a more efficient building with lower operating

⁷ Alex Richardson, “What is the Difference between Gross and Net Leases?” Aquicore, February 1, 2017, (<https://aquicore.com/blog/difference-gross-net-leases/>).

expenses. The landlord is making investments that add value to the property – making it a win-win scenario for both parties. Another landlord interviewed is interested in amending their NNN leases to include language to ensure efficiency measures are identified and implemented by the tenants, which has a direct benefit to the tenant’s operating expenses.

- **Data Access (Tenants):** Energy-conscious tenants want sub-meters and access to their energy usage data, even under a gross lease. Research shows that when tenants pay for their own energy consumption they are more likely to conserve energy because the savings will directly benefit them versus being shared on a prorated basis to all tenants. In places like New York, where sub-metering regulations are in place, tenant behavioral programs are more effective. California does not currently have sub-metering requirements, and most large high-rise facilities are not sub-metered beyond over-standard equipment. This creates a larger challenge for engaging occupants on sustainable behavior programs. It is important to support regulations and programs that support sub-metering so that more tenants have access to their energy consumption data. Sub-metering energy consumption and making it more transparent is an effective way to reduce tenant energy consumption.
- **Data Access (Landlords):** Many building owners cannot access all the energy meters within their building without the consent of individual tenants, limiting the landlord’s ability to benchmark the building’s total energy consumption to comply with Energy Benchmarking Laws. Lack of access to whole building data also make it harder for landlords evaluate building performance and implement efficiency improvements. Convenient access to whole-building consumption data empowers more building owners and managers to comply with energy benchmarking regulations in states and cities that require it and make it easier to track whole building data and identify opportunities for efficiency improvements. To solve this challenge landlords are encouraged to include data sharing requirements in their lease languages. Cities and states that have benchmarking laws in place have also been providing whole building data access to landlords to make it easier for them to comply with benchmarking laws when they lack access to tenant data.
- **Legacy Leases:** Green lease language is only a few years old, whereas some tenants have 10+ year leases that cannot be changed until they are up for renewal. For landlords with multiple tenants, it may take a long time for every tenant in the building to have the same lease language. Some landlords have incorporated lease amendments before leases expire so critical language such as data sharing requirements and cost recovery clauses can be added to existing leases.
- **Gaining Momentum:** Even though a landlord may have green lease language to use, they often do not know which next steps to take. Engaging a sustainability professional can help landlords navigate through the process.

- **Enforcing Green Leases Building-Wide:** Tenants with sustainability policies want to occupy space with other green companies. They would like clean air, recycling, and green materials used in the vicinity (for example), and may want protection against others that may have poor construction practices.
- **Evolving Market:** National market standards are ever evolving, and it can be challenging for landlords to keep their building’s green lease language up to date with new market requirements and changes that should be incorporated into green leases.

Green Leasing Resources

In addition to the California Sustainability Alliance, there are numerous organizations with valuable resources for landlords and tenants interested in green leasing that have been published since 2009. These organizations include:

- US Department of Energy (DOE)
 - Better Buildings Alliance
 - Office of Energy Efficiency & Renewable Energy
- The Institute for Market Transformation (IMT)
- Rocky Mountain Institute (RMI)
- The Building Owners and Managers Association (BOMA) International
- US Green Building Council (USGBC)
- Natural Resources Defense Council (NRDC)
- Northwest Energy Efficiency Alliance (NEEA)
- A Better City (ABC)

Many of these organizations collaborate on green leasing resources; for example, the [Green Lease Library](#) is a centralized site for commercial green leasing resources from the BOE Better Buildings Alliance, IMT, RMI, BOMA, and NRDC, among others. They have also formed partnerships such as the [Landlord-Tenant Energy Partnership](#), which is sponsored by IMT, the Retail Industry Leaders Association (RILA), and the International Council of Shopping Centers (ICSC).

Notably, the [Green Lease Leaders™](#) program from the DOE Better Buildings Alliance, IMT, and the Landlord-Tenant Energy Partnership has provided many case studies over the past several years, recognizing leaders, sharing strategies, and helping drive the adoption of green leases.

The complete list of resources compiled for this addendum, with links, may be found in the 2017 Toolkit ‘Resources’ tab.

SECTION 3: RECOMMENDATIONS FOR MIXED-USE BUILDINGS

Green leases are feasible for most building types, including mixed-use, office, retail, multifamily, and other building types. Interviews with landlords covered the following mixed-use building types:

- Office and retail
- Office, multi-family residential, and retail
- Multi-family residential and retail

Below are some additional considerations that landlords of mixed use buildings should evaluate, based on experiences shared by interviewees.

One characteristic of mixed-use buildings is that different tenant types have different occupancy terms. Office and retail customers typically occupy a space for 3-10 years, and very large tenants may occupy a space for 10+ years. On the other end of the spectrum, residential leases are often 1 year. Additionally, different tenant types often have different lease structures. For example, large mixed-use office spaces typically have gross leases, while standalone office, industrial, and retail buildings typically use triple net leases. Multi-family residential may have a gross or triple net lease. Leases also vary by the market they are in, so there is no one-size-fits-all solution when it comes to leases. Landlords that manage properties with gross leases typically implement more energy efficiency measures than landlords managing buildings with triple net leases.

Another common characteristic of mixed-use buildings is nearly 24/7 hours of variable operations; for example, small “mom and pop” retail stores may close at 3:00 PM, while a gym or other retail location may stay open until 1:00 AM. For office space, large financial and law firms often request off-hours too. From a leasing perspective, the landlord can outline the standard operating hours of the building, and beyond those hours the tenant must install its own supplemental systems and sub-meters, or the landlord can monitor additional energy usage and bill the tenant for it.

Landlords of mixed-use buildings reported that green lease policies with standard green lease language work well for them. This includes guidance for incorporating green lease amendments into standard master leases, which has been an effective way to incorporate green leasing criteria into new leases. This model accommodates lease language that meets individual property and tenant needs without updating the entire master lease. For both residential and non-residential tenants, the language should include key clauses such as sharing of utility data and cost recovery language.

SECTION 4: RECOMMENDATIONS FOR NATURAL GAS SAVINGS

Natural gas usage has not historically been a top green leasing priority in Los Angeles. Gas bills are negligible many months of the year, with little demand for building heating. For energy-conscious landlords, building engineers generally make sure that gas heating is minimized, and that boilers and water heaters are retrofitted or replaced with more efficient models as needed. This is ongoing internal maintenance work that generally does not involve tenants. For example, in 2017 one landlord upgraded the building's domestic hot water boiler system to a high-efficiency condensing system, which is expected to be 16-18% more efficient than the old system.⁸ Utility rebate programs have also been instrumental in making some of these upgrades more financially viable.

“Our engineers do a very good job at minimizing the gas heating. The boilers have been retrofitted to be more efficient – we constantly look at them from an efficiency standpoint.”

Mixed-use buildings often have restaurant tenants (e.g., ground floor retail with restaurants and office or multi-family residential space above), which have higher natural gas usage due to kitchen equipment. The landlords interviewed do not currently have control over or provide recommendations for specific equipment for restaurant tenants. This may be an opportunity for additional green lease language and sustainability guidance related to natural gas usage and kitchens. This is an emerging area; for example, the WELL Building Standard® is piloting a Commercial Kitchen standard, although it is not focused on natural gas savings.⁹

There are also several innovative technologies for landlords to explore. For example, for mixed-use buildings with pools (typically multi-family residential or hotel tenants), one landlord is investigating a gel film technology on the surface of the pool to reduce evaporation and heat loss. Although the landlord is not yet using this technology in California, it is piloting the gel film for outdoor pools at residential buildings and may expand to other locations.

Tenants in Los Angeles primarily minimize natural gas usage through water conservation measures; for example, low-flow fixtures and efficient gas water heaters (when they have control over any water heating equipment). They also typically try to minimize their space heating needs.

⁸ The landlord referred to one of the manufacturers listed on the ENERGY STAR “Most Efficient 2017 – Boilers” list (https://www.energystar.gov/products/most_efficient/boilers).

⁹ WELL Kitchen Building Standard – Commercial Kitchen Pilot Addendum (<https://www.wellcertified.com/node/183>).

In terms of green lease language, there are typically clauses to address utility savings that are not specific to electricity or natural gas. Hence, standard green lease language can be customized as needed to address specific natural gas savings goals.

APPENDIX A: 2017 GREEN LEASING TOOLKIT

The Toolkit has been revised most notably to include all tools in one spreadsheet separated by five workable tabs. This upgrade is intended to streamline and improve the clarity of the toolkit for greater usage among various building types.

The sections for the leasing guidelines have been revised to follow the GRESB criteria language throughout.

What to expect from each tab:

1. **Policy Statement** – The new policy statement is intended as a starting point for a building owner’s green lease policy. It also includes several basic lease provisions, with many more found in the ‘4. Lease Provision Database’ tab.
2. **Lease Options Matrix** – The green building categories in the options matrix have been revised to reflect the GRESB criteria. The options matrix shows which GRESB criteria apply to the specific building type (i.e., office, mixed-use, industrial, retail, multifamily, and residential).
3. **Scorecard** – The scorecard outlines applicable questions to ask when evaluating potential building spaces, according to GRESB criteria.
4. **Lease Provision Database** – The lease provision database was also redesigned to identify sample lease provisions utilizing GRESB criteria.
5. **Resource Database** – The database has been revised with more recent materials and links to online documents and websites.