



**Better
Buildings®**
U.S. DEPARTMENT OF ENERGY

Accelerating Energy Efficiency Through the Commercial Lease

Better Buildings Summit

May 27th, 2015

1:30 to 3:00pm ET

Agenda

- **Welcome and Introductions**
- **Energy Efficiency Improvement Act**
 - Special Guest, Duane Desiderio, Real Estate Roundtable
- **Commercial Leasing Primer**
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- **Becca Rushin, Jamestown**
- **Brant Smith, NEO Realty Group**
- **Jeff Lesk, Nixon Peabody**
- **Moderated Q&A**

Today's Presenters

Deborah Cloutier



**Principal,
JDM Associates**

Becca Rushin



**Associate Manager -
Sustainability,
Jamestown**

Duane Desiderio



**Senior Vice President &
Counsel,
Real Estate Roundtable**

Brant Smith



**Managing Broker,
NEO Realty Group**

Jeffrey Lesk



**Managing Partner,
Nixon Peabody**

Agenda

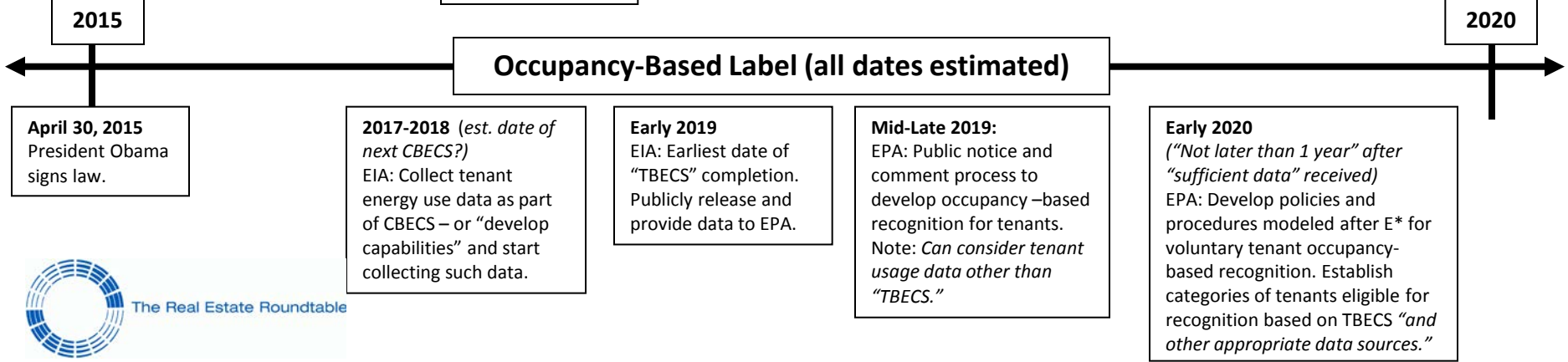
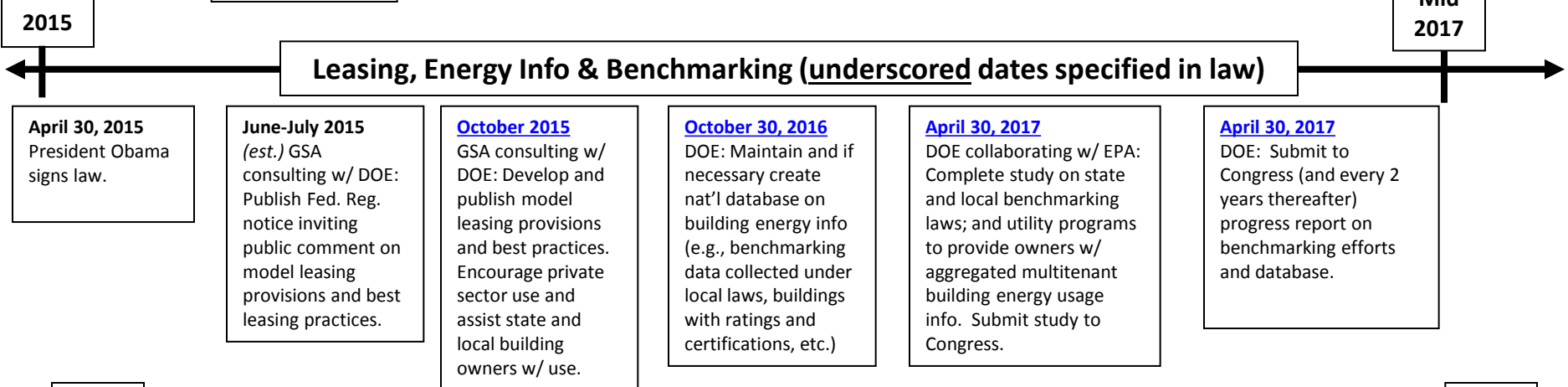
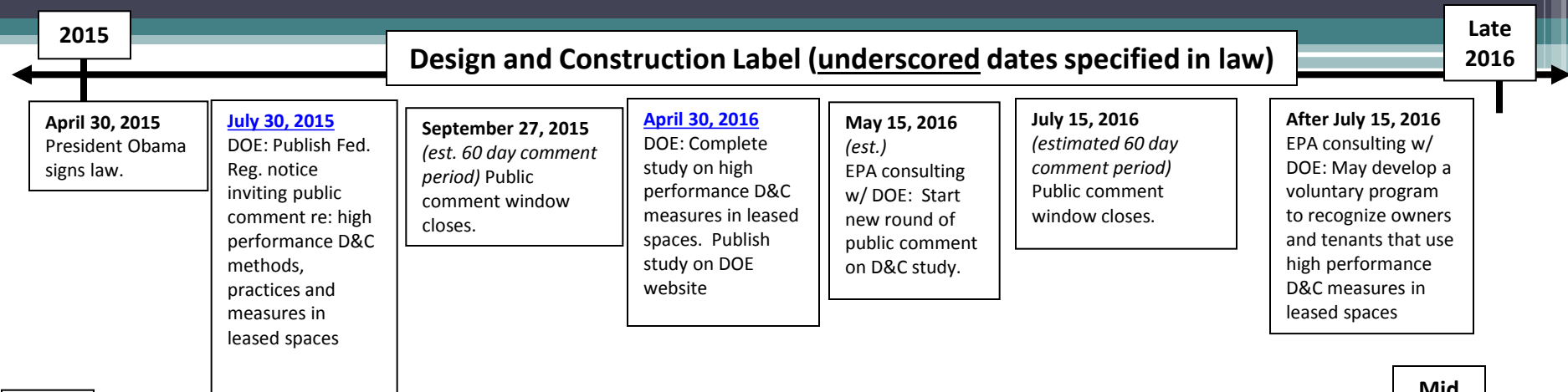
- Welcome and Introductions
- Energy Efficiency Improvement Act
 - Special Guest, Duane Desiderio, Real Estate Roundtable
- Commercial Leasing Primer
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- Becca Rushin, Jamestown
- Brant Smith, NEO Realty Group
- Jeff Lesk, Nixon Peabody
- Moderated Q&A

Energy Efficiency Improvement Act of 2015 “Tenant Star” Legislation

Timeline
Agency Responsibilities



The Real Estate Roundtable





Department of Energy

Design & Construction	Occupancy Based	Leasing, Energy Info & Benchmarking
<ul style="list-style-type: none">• Publish Fed. Reg. notice by July 30, 2015 requesting public comment on D&C methods and practices in tenant spaces. <i>See</i> § 424(b)(3).• Complete and publish a study by April 30, 2016 on D&C practices in tenant-spaces. <i>See</i> § 424(b).• After tenant D&C study completed, consult w/EPA to develop branding program to recognize commercial building owners and tenants that use high performance D&C practices in tenant spaces. <i>See</i> § 425(d)(2).	<ul style="list-style-type: none">• All actions through EIA: Collect data on tenant energy consumption through next CBECS (aka, "TBECS"). <i>See</i> § 425(c).• If CBECS/TBECS not feasible develop capability to, and start collecting, tenant energy use data. <i>See</i> § 425(c).• Provide tenant data results to EPA. <i>See</i> § 425(c).	<ul style="list-style-type: none">• By October 2015, support GSA in developing model leasing provisions for improved energy and water efficiency practices in buildings. <i>See</i> § 102(b)(1).• After public notice and comment, by October 30, 2016 DOE will maintain a database for storing and making available public energy-related information on commercial buildings. <i>See</i> § 301(c).• With EPA, complete study by April 30, 2017 of state/local benchmarking and disclosure policies. Study to identify costs, benefits and results from building benchmarking laws and practices. <i>See</i> § 301(b)(1).• Report to Congress by April 30, 2017 on results of benchmarking study and database maintenance efforts. <i>See</i> § 301(b)(2).



Environmental Protection Agency

Design & Construction

- After public notice and comment and consulting w/ DOE, EPA **“may develop” a voluntary program to recognize commercial building owners and tenants** for energy efficient design & construction in separate spaces. See § 425(d)(2).

Occupancy Based

- Not later than 1 year after receipt of “TBECS data” and after public notice and comment, EPA **“shall” establish an occupancy-based recognition program for tenant spaces modeled after ENERGY STAR for whole buildings.** See § 425(d)(1).
- “Other appropriate data sources” apart from “TBECS” can support occupancy-based recognition program. See § 425(d)(1)(C).

Leasing, Energy Info & Benchmarking

- With DOE in lead, by April 30, 2017 collaborate and complete **study of state/local benchmarking and disclosure policies.** Study to identify costs, benefits and results from building benchmarking laws and practices. See § 301(b)(1).



General Services Admin.

Design & Construction	Occupancy Based	Leasing & Data Gathering
<ul style="list-style-type: none">• By October 2015, consult w/ DOE to develop model commercial leasing provisions and best practices regarding energy and water efficiency. See § 102(b).	<ul style="list-style-type: none">• No action required.	<ul style="list-style-type: none">• No action required.



Energy Information Agency

Design & Construction

- No action required.

Occupancy Based

- “TBECS.” *See* § 425(c).

Leasing & Data Gathering

- No action required.

Agenda

- Welcome and Introductions
- Energy Efficiency Improvement Act
 - Special Guest, Duane Desiderio, Real Estate Roundtable
- Commercial Leasing Primer
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- Becca Rushin, Jamestown
- Brant Smith, NEO Realty Group
- Jeff Lesk, Nixon Peabody
- Moderated Q&A

The Commercial Lease

- A commercial lease governs the LL/TT relationship, defining roles and responsibilities for each party over the term of the agreement
- Although lease forms vary, common provisions include:
 - Term length and options to renew/extend
 - Base rent, additional rent, reimbursables, etc.
 - Use of leased premises and property rules/regulations
 - Maintenance of premises and common areas
 - Utility metering and billing
 - Leasehold improvements, including work specifications and tenant improvement allowance (TIA)

The Commercial Lease

- **Commercial leases are commonly characterized as either “gross” or “net”, which represent extremes on a continuum of lease forms:**

Gross Lease









- **Tenant pays a fixed all-inclusive rent amount covering use of premises, utilities, maintenance, etc.**
- **Landlord bears responsibility for most maintenance and building improvement activities**

Net Lease

- **Tenant pays a base rent, then pays most operational expenses either directly or as a “pass through” from the landlord**
- **Landlord only maintains common areas where tenant cannot self-perform**

Common lease types by sector

- Lease types can vary by market, tenant preference, and other factors. However – common lease types prevail within sectors:

	Gross	Net
Industrial		
Multi-Family		
Retail		
Office		
Health Care		
Hotel		

The challenge of creating greener leases

- Although “split incentive” issues arising within net leases are a major focus of discussion, green leasing challenges exist with all lease types
- Some of the traditional challenges greener leases are trying to solve:
 - Properly aligning incentives to achieve better environmental performance within existing buildings
 - Seizing opportunities for major upgrades at key inflection points during the life of a leased space (e.g. lease renewal)
 - Sharing of information to allow for planning and measurement of improvements

Components of a 'Green Lease'

- Site selection language that prioritizes green certifications
- Energy efficient build-out specifications
- Tenant cost recovery clause
- Disclose monthly utility data for purposes of whole-building energy benchmarking
- Request building energy consumption info and ENERGY STAR score
- Sustainable operations and maintenance rules & regulations
- Submetering of tenant space or separate metering of tenant plug load and equipment
- Energy management best practices for building operations
- Language encouraging energy efficient improvements to be implemented in the building

Green Lease Leaders

- Recognition program for brokers, tenants and landlords that highlights:
 - Those who implement green leasing
 - Growing adoption of green leasing
 - Critical components of a green lease
 - Available tools and resources
- Current Green Lease Leaders own or occupy more than 800 million square feet of commercial floor space



2015 Green Lease Leaders

■ Tenants/Landlords

- Bentall Kennedy
- Boston Properties
- Cadillac Fairview
- Capital One
- Deutsche Asset & Wealth Management
- Forest City Enterprises
- NEO Realty Group
- Shorenstein Properties
- TD Bank

- TIAA-CREF

- Weingarten Realty

■ Brokers

- Meade Boutwell, CBRE

- Greta Garner, Green Coast Realty

- Randy Harrell, CBRE

- Laurie McMahon, DTZ

- Brant Smith, NEO Realty Group

- Sally Wilson, Newmark Grubb Knight Frank

Agenda

- Welcome and Introductions
- Commercial Leasing Primer
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- Becca Rushin, Jamestown
- Brant Smith, NEO Realty Group
- Jeff Lesk, Nixon Peabody
- Moderated Q&A

Perspective: Implementing green leasing using a portfolio wide, top down approach

Becca Rushin, EMIT, LEED AP O+M
Associate Manager, Sustainability
Jamestown, LP

Topics covered:

- I. About Jamestown
- II. Jamestown Green
- III. Our Process
- IV. Our Challenges
- V. Our Strategies
- VI. Our Progress
- VII. Evolution



About Jamestown

- Vertically integrated real estate operator with approximately \$7.6 billion of assets under management
- Capabilities include: acquisitions, capital markets, property management, asset management, retail leasing, design, sustainability and risk management
- All real estate acquisition and asset management activities are coordinated out of the U.S. offices, as well as fundraising, marketing and investor relations for institutional investors.
- Headquarters in Atlanta, GA, and New York, NY
 - Additional offices in Washington, DC, Boston, MA and San Francisco, CA
- The related company, Jamestown US Immobilien, has approximately 40 employees based in Cologne, Germany, who are focused on investor relations, fundraising and marketing for European investors.



Jamestown Green

- Property, portfolio, and corporate program formalized in 2012
- Involved from the pre-acquisitions to disposition stage
- Program Drivers
 - Cost savings
 - Desire to lessen environmental impact
 - Investor expectations and reporting standards
 - Regulatory compliance
 - Tenant demands and expectations

ADVANCE GREEN

Pre-Acquisitions Analysis

GREEN GAUGE

Monitoring & Tracking

PLAN GREEN

Property Level Initiatives

GREEN WORKS

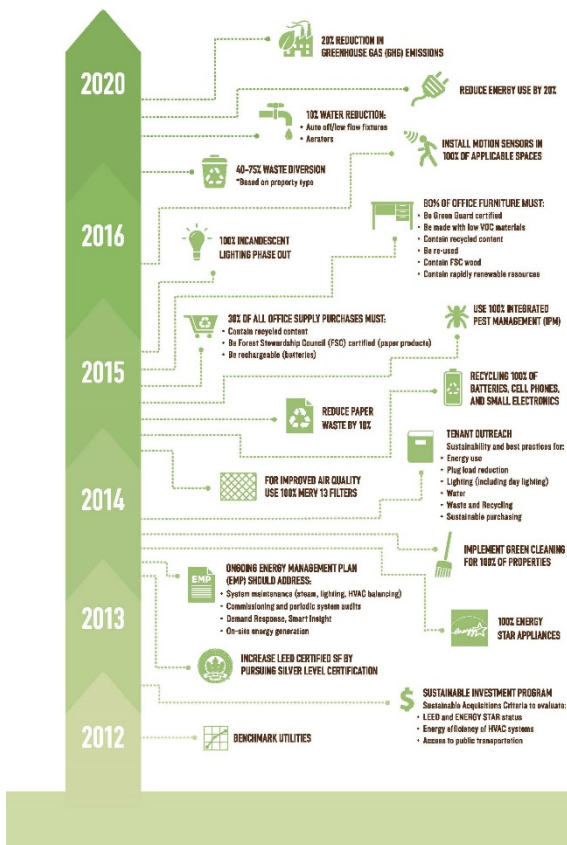
General & Corporate Program



Jamestown Green



ENVIRONMENTAL GOALS




- 35 assets currently overseen
 - Roughly 17.7 million sf
- 13.6 million sf benchmarked
 - 10 ENERGY STAR Certified Buildings
- 10 LEED Certified Buildings
 - 3 LEED Certifications Underway
 - 2 Recertification's Underway
- Recognized by GRESB as a Green Star
 - Top score in our peer group
 - Top 25% across all GRESB ranked portfolios



Our Process

How to drive improvement once past the “low hanging fruit”?

1. Identified lease language as a barrier to project implementation, and an opportunity to use as a tool to align incentives for sustainability initiatives
2. Worked with asset management and in house legal to prioritize types of provisions
3. Found internal examples already in place
4. In house legal issued a list of provisions to Asset Managers for incorporation into templates and for incorporation by outside counsel
5. Green Lease Leader recognition 
6. Education – internal communication at department meetings



Our Challenges

- Limited role as owners - brokers and asset managers are “boots on the ground”
 - Level of comfort of people at the table
- Types of assets – mixed use and industrial redevelopment
 - Not owner occupied, mix of lease types across portfolio
- Stage of development cycle
 - Changing uses and large infrastructure upgrades can complicate
- Level of engagement and control with outside vs in house counsel
- Tracking – strategies to collect internal data
- Timing – roll over is key opportunity to phase in updated language
 - Not all assets have heavy leasing activity



Our Strategies

- Not all language supporting sustainability needs to be part of main body of the lease
 - Work letters which typically contain more sustainability related and technical information
 - Rules and regulations which are easier to modify but not enforceable
- Integration throughout the lease
 - Less of a novelty that can be easily struck
- Make it easy, clarify priority clauses for your team
 - Is the desire for dialogue realistic?
 - Is the tenant's lawyer aware of the client's sustainability goals?
 - Are they comfortable discussing sustainability?
- In house architect reviews all tenant plans and enforces the provisions of the lease



Our Progress

- Energy efficiency cost pass-through clauses
 - Have not done a full NYC Energy Aligned Clause
- Operational clauses – maintain LEED or meet LEED standard
 - LEED can be a good driver, but not appropriate for all buildings
- Sustainable purchasing clauses
 - Have not done this unless you consider items work letters – specs for fixtures and lighting
- Reporting clauses, sharing of data
 - These have been implemented successfully, and are further supported in many markets by local laws
- Pushback? Not yet



Evolution

What are we focused on moving forward?

- Tracking clauses that support sustainability
 - Abstracts for new acquisitions, template approach, asset by asset approach
- Follow up on use of templates to ensure consistency
- Education
 - Continued emphasis at department meetings
 - Need to reach brokers and outside counsel
 - Consistent dialogue to identify gaps or challenges to be addressed
- Exploration of retail opportunities
- Recognition – it always helps
- Market Data to support the benefits



Agenda

- Welcome and Introductions
- Commercial Leasing Primer
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- Becca Rushin, Jamestown
- Brant Smith, NEO Realty Group
- Jeff Lesk, Nixon Peabody
- Moderated Q&A

“Accelerating Energy Efficiency Through the Commercial Lease”



Brant Smith, CPM, MBA
Managing Broker



The Leasing *Process* as a Central Tactic...

- **The Challenge:** merging a Green Lease concept into an wide array of types of leases and types of tenants. Our portfolio, tenant mix, lease type, and property type are diverse. Tenant expectations and objectives are diverse .

Building ages 1923 -
1995

1,000 to 10,000 sq ft.
tenancies

Modified
Gross Leases

Gross Leases

Full Service
Leases

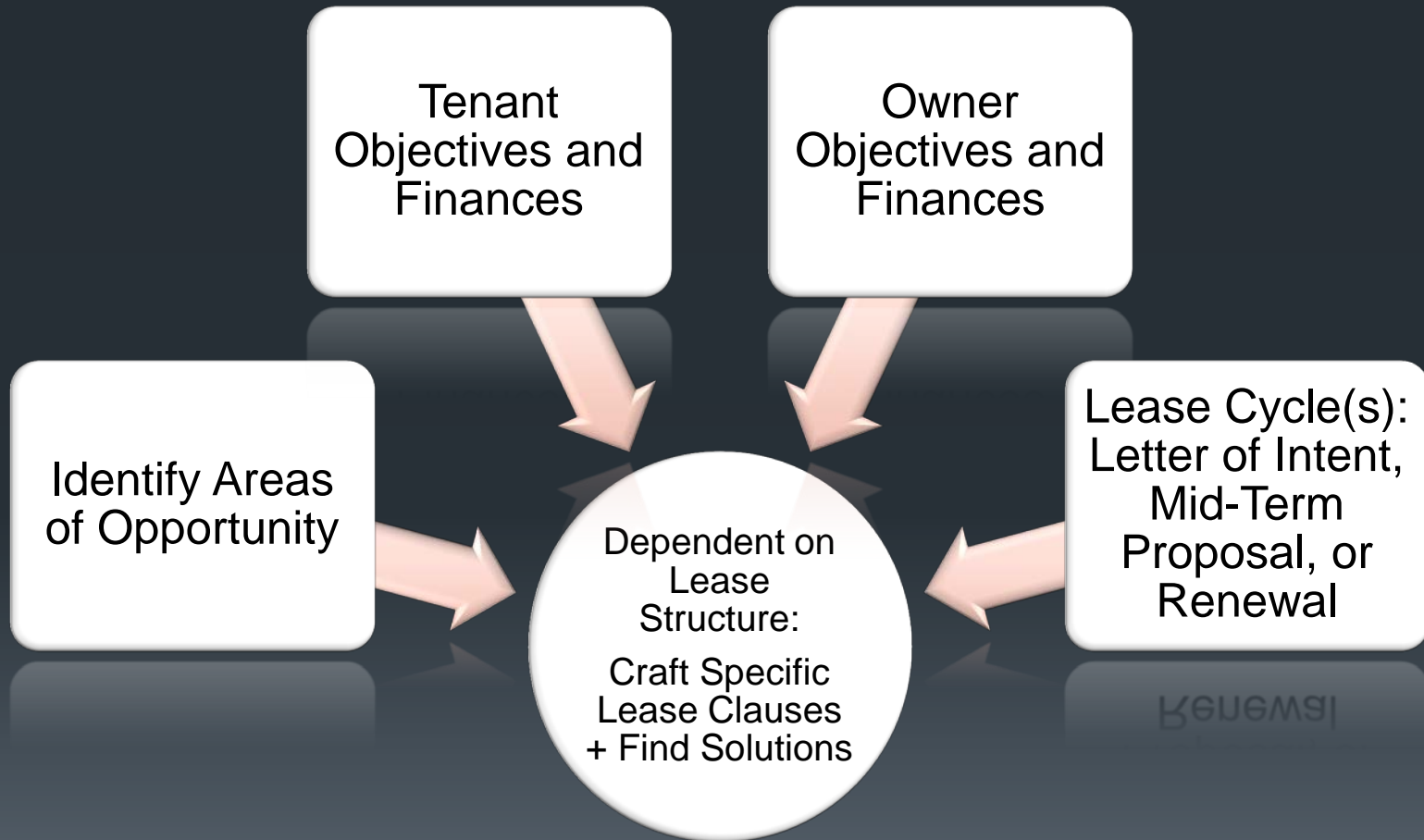
Tenant/occupant
controlled systems

The Leasing *Process* as a Central Tactic...



- **The Opportunity:** diverse situations allows for project depth and scope, deeper integration, further buy-in:
- Process begins at the very initial stages stating a broad concept. As the lease negotiation and preparation moves forward, the language and extent of green language is tailored and expanded;
- Many ideas and concepts did come from template green lease(s), but:
 - Our approach has been customizing and addressing specific-needs and situations, rather than fitting our diverse situations into a template.;
- Our emphasis has been on a green leasing process/green lease language focused on tenant suites and related to (a) engagement and concept outline in initial documents, (b) build out / work letter specifications, (c) recouping investment through (1) decreasing vacancy loss, (2) increased rents (actual or net), and (3) some shared-efficiency saving (d) tenant attraction and retention.
 - Medium to long-term relationship based approach.

The Leasing *Process* as a Central Tactic...



The Leasing *Process* as a Central Tactic...

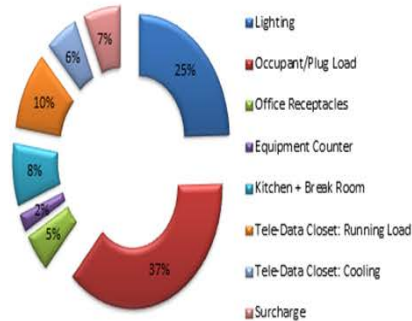
- Identify areas of opportunity through energy audits and analysis

For a typical consumption analysis, the primary sources of information and assumptions were derived from standard operating hours and typical power loads based on NEC. Reasonable and conservative assumptions were made to determine typical usage based on the following:

- Utility rate = \$0.11/kWh
- Surcharge assumption: Weekend or evening meeting lasting 5-hours x 4 times/year with fan-only

Based on the design drawings and using the above typical-use assumptions, the following percentage allocation and cost per square foot was calculated:

Distribution of Usage - TYPICAL



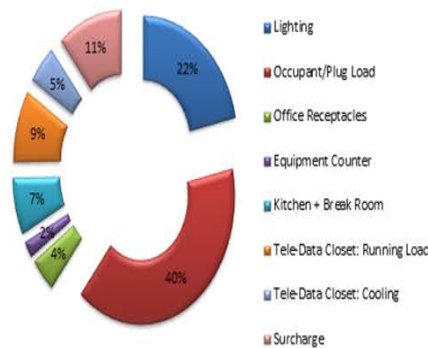
Usage Type	kwh	\$/sf
Lighting	84,399	\$0.26
Occupant/Plug Load	127,850	\$0.40
Office Receptacles	17,280	\$0.05
Equipment Counter	8,700	\$0.03
Kitchen + Break Room	27,800	\$0.09
Tele-Data Closet: Running Load	33,215	\$0.11
Tele-Data Closet: Cooling	19,491	\$0.06
Surcharge*		\$0.07
Annual Cost:		\$1.07

For a high consumption analysis, the primary sources of information and assumptions were derived from standard operating hours and typical power loads based on NEC. Reasonable assumptions were made on the following items to determine variances:

- Utility rate increase of \$0.01/kWh to \$0.12/kWh
- 12.5% increase in occupant load from NEC (Bh/Inv/Op)
- 2.5% increase of 50 hours per year (avg. 1 hr/week) from the standard 2,000 annual work hours (Bh/Op)
- Surcharge assumption: Weekend or evening meeting lasting 5-hours x 6 times/year with conditioned air (Op)

Based on the design drawings and using the above high-end assumptions, the following percentage allocation and cost per square foot was calculated:

Distribution of Usage - HIGH



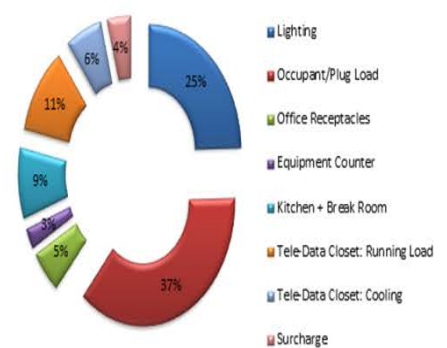
Usage Type	kwh	\$/sf
Lighting	84,399	\$0.29
Occupant/Plug Load	134,263	\$0.33
Office Receptacles	17,280	\$0.06
Equipment Counter	8,700	\$0.03
Kitchen + Break Room	27,800	\$0.09
Tele-Data Closet: Running Load	33,215	\$0.12
Tele-Data Closet: Cooling	19,491	\$0.07
Surcharge		\$0.15
Annual Cost:		\$1.33

For a low consumption analysis, the primary sources of information and assumptions were derived from standard operating hours, and typical power loads based on NEC. Reasonable assumptions were made on the following items to determine variances:

- Utility rate decrease of \$0.01/kWh to \$0.10/kWh
- 12.5% decrease in occupant load from NEC (Bh/Inv/Op)
- 10% additional gain in efficiency from occupancy & dimming on lighting to 25% overall reduction on base use (Bh/Inv/Op)
- Surcharge assumption: Weekend or evening meeting lasting 5-hours x 2 times/year with fan-only (Op)

Based on the design drawings and using the above low-end assumptions, the following percentage allocation and cost per square foot was calculated:

Distribution of Usage - LOW



Usage Type	kwh	\$/sf
Lighting	76,531	\$0.22
Occupant/Plug Load	113,715	\$0.32
Office Receptacles	17,280	\$0.05
Equipment Counter	8,700	\$0.02
Kitchen + Break Room	27,800	\$0.08
Tele-Data Closet: Running Load	33,215	\$0.10
Tele-Data Closet: Cooling	19,491	\$0.06
Surcharge		\$0.04
Annual Cost:		\$0.88

The Leasing *Process* as a Central Tactic...

- Make energy, build out specs, and incentivized energy efficiency the upfront conversation for new leases or renewals:

- To allow for deeper integration later:

Lease Type: Modified Gross Lease

Energy: Direct metering and tenant controlled systems.

Challenge/Opportunity: HVAC M&R Clause, Standard Vs Energy Star costs/performance, Owner Vs Tenant benefits. Relationship-based.

As the Plaza has been continuously improved over the past several years with both physical site improvements and the addition of high-draw regional franchises, and with ongoing plans for upgrades, we believe the Plaza will continue to provide the ACS with everything it needs at an overall outstanding value.

In addition to the requested premises improvements, we would like to take this opportunity to retrofit the lighting system throughout the suite. With a lighting retrofit, lighting load could drop from 160/watts per fixture to 50/watts per fixture: a reduction of nearly 70% in lighting energy cost. We offer this as part of our Sustainable Property Management Solutions, knowing that the energy savings lower tenant operating costs substantially day-in and day-out. These savings offset some of the increased costs of the tenant improvements and would make sense to complete at this time.

Again, on behalf of the ownership, we are looking forward to continuing our long term partnership.

- 1) EWS owns and ACS operates the Premises, and the Parties wish to acquire equipment and services to reduce energy costs and related expenses in the Premises.
- 2) EWS has identified and evaluated energy cost saving opportunities, installation, financing, maintenance and measurement of cost effective energy cost saving measures ("CSMs") as follows: the installation of an energy star rated heating cooling and ventilation (HVAC) system and removal of old inefficient systems described in Schedule A (Description of Pre-Existing Equipment Inventory and new HVAC system)
- 3) ACS desires to enter into an agreement with EWS for the design, installation, maintenance and measurement of the CSMs all as set forth herein.
- 4) The Parties all acknowledge and agree that the purpose of this Agreement is to achieve the Cost Saving Measures contemplated by this Agreement to the benefit of both Parties and all agree to cooperate to achieve the purpose of this agreement. ACS shall use best efforts to help meet the Property wide energy use reduction goals and minimize unnecessary use of electricity, water, heating, and air conditioning.

The Leasing *Process* as a Central Tactic...

- Accurate knowledge of utility costs and knowledge of energy calculations is needed;
 - Allows for direct and deep approach in any lease structure.
- Typical cycle for us to implement is 1 to 2 cycles of a lease, often times we don't directly benefit from the first series of conversations, but do benefit indirectly from retention, lower vacancy, and makes expanding engagement and cooperation down the road easier.



NEO REALTY GROUP LLC

Questions and Answers

Agenda

- Welcome and Introductions
- Commercial Leasing Primer
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- Becca Rushin, Jamestown
- Brant Smith, NEO Realty Group
- Jeff Lesk, Nixon Peabody
- Moderated Q&A

Nixon Peabody's New office 799 9th Street NW



Agenda

- Welcome and Introductions
- Commercial Leasing Primer
 - Introduction to Green Leasing
 - 2015 Green Lease Leaders
- Becca Rushin, Jamestown
- Brant Smith, NEO Realty Group
- Jeff Lesk, Nixon Peabody
- Moderated Q&A

Questions?

Thank You!

For more information on green leasing, visit www.greenleaselibrary.com, or the [Better Buildings Alliance Market Solutions webpage](#)