



## *How Reducing Greenhouse Gas Emissions Benefits Your Business*

# Green leases: how to achieve cost savings and sustainability goals

A few housekeeping notes...

Thank you for attending. It is helpful to know **how you heard about our webinar series**. Please provide some insight by adding a note in the chat please. Social Media, email, or referred by a friend.

Please put **questions** in the chat.

There will be a question periods after our presenters and at the end of the webinar.

We will be **recording** this session.

This is a valuable tool to support education to for

Tenants to build collaborative relationships with their Building Owners.

# Green leases: how to achieve cost savings and sustainability goals.



Presented by  
ClimateWise Building  
Challenge



# Our Presenters



**Michael Brooks**

*Chief Executive Officer of REALPAC*



**Emily Victoria Nield**

*M.Sc, MBA Manager,  
ESG & Sustainability,  
Epic Investment Services*



# Who are we



The ClimateWise Building Challenge is a York Region wide, friendly awards and recognition competition created to reduce energy consumption and greenhouse gas emissions (GHGs) in buildings through collaboration, education, and innovation.

The competition is free of cost and open to building owners, landlords, managers, and tenants who want to join the fight to combat climate change while improving your bottom line by implementing responsible energy operations and behavioural practices.

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# Share a Roadmap

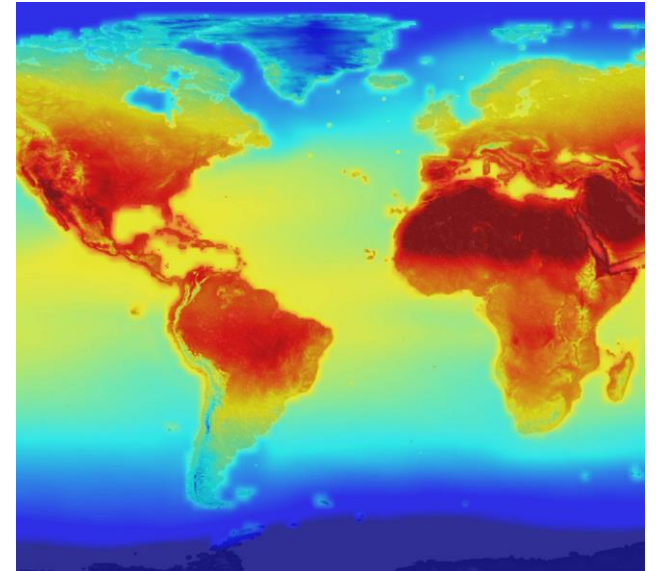


- How innovative Green Leases can create win-win agreements to drive environmentally friendly upgrades and behaviours.
- Green leases balance costs and benefits of investments in sustainability.

# What we want to accomplish today

Important topics that will be discussed include;

- The problems with gross and net leases
- How to negotiate a green lease with your landlord
- Assess if a green lease is right for your business



# Exploring Green Lease Benefits

**Merge of Tenant  
and Building  
Owner strategy  
ahead**

# Our Panelists



Michael Brooks is the Chief Executive Officer of REALPAC, the senior Canadian trade association for large public, private and institutional investment real estate companies. He has represented the Canadian Real Estate industry in all major policy initiatives with governments at all three levels, including property tax reform, securities legislation, income tax issues, sustainability and ESG, land use planning and regulation, and many other issues since 1997. Michael is also the Author and Editor of the Canadian textbook "Canadian Commercial Real Estate: Theory, Practice, Strategy."



Emily Victoria Nield is an integral member to the Sustainability Department at Epic Investment Services where she works as the manager of ESG & Sustainability. Emily started her career as a planetary geologist, where she studied the surface of planets and moons in our solar system. During her tenure with NASA, she could no longer ignore the problems on Earth. She made the decision to switch careers and focus on sustainability. She achieved her MBA from the Schulich School of Business where she specialized in sustainability and has been with Epic since 2019.



# Why do we need Green Leases?

**Better leasing practices are needed to move the needle on energy efficiency investments.**

For example - lease term requires landlord to hardwire lights to stay on all the time or to provide heating and cooling even if leased spaces are unoccupied.

The pandemic offered a stark illustration of these wasteful practices: while occupancy fell by as much as 95%, whole-building energy use only dropped by 10%-20%, according to a study conducted by Johnson Controls.



**How has COVID-19 impacted considerations for green leases, and if so, how?**



# Why is NOW the right time?

## There is a climate action **STORM** on the horizon. Set up for success **NOW**.

To remain vital in the face of coming climate change challenges, office buildings will need to be energy-efficient, healthy and have the technology that can maintain or improve lifespan expectations and core infrastructure.

It requires a shift in how we look at sharing the responsibilities for the capital costs to create more resilient and efficient places of work through collaborative action.



How does a Green Lease  
address the ability to shift to  
the new reality ?



# Executive Summary

## The Role of Green Leases

- Leases govern the relationship between a landlord and tenant.
- Greener leases enable improved tenant loyalty and reduced operating costs, driving value for Epic's clients.
- Leases should be structured to create compulsion, create incentive and ensure flexibility for both parties to improve environmental performance.



# Defining a green lease

**As the contractual arrangement** among owners, managers and users, the lease is the legal framework best suited to either encourage or impose behaviour to improve environmental performance.

## **A green lease:**

- **Removes disincentives** to the implementation of energy-efficiency measures and other efforts to reduce energy, water, and raw material consumption including the use of green technologies.
- **Encourages or obliges** sustainable or environmentally friendly practices by both the landlord and tenant.
- **Reflects the commitments of both parties** to attain their respective goals to reduce energy consumption, lower costs, improve energy efficiency, reuse materials, recycle, etc.





# A potential Green Lease Framework

Based on the findings of the research a flexible approach could be a three-tiered system of green leasing for all tenants.

**Main Lease vs. Appendix:** *The provision is easier to change if it is a schedule within the appendix.*

**Aspirational vs. Binding:** *Aspirational is a mutual intention whereas binding is a legal requirement.*

Type of Lease Provision		Base Level Green Lease	Mid Level Green Lease	Advanced Level Green Lease
	1. Set Sustainability Objective or Intent	√ Main Lease Aspirational	√ Main Lease Aspirational	√ Main Lease Aspirational/ Binding
	2. Recover Capital Costs For Sustainability Initiatives Through Operating Costs	√ Main Lease Binding	√ Main Lease Binding	√ Main Lease Binding
	3. Use Restrictions		√ Appendix Binding	√ Appendix Binding
	4. Monitoring And Reporting Requirements			√ Main Lease/Appendix Aspirational/ Binding

# What type of lease appeals to you?

## Gross Lease

All costs associated with use of the space are included as part of the base rent. Building Owner benefits from operations and maintenance savings.

## Net Lease

The Tenant takes the responsibility of costs such as:

- property taxes
- Insurance
- maintenance

More complex nuances than a Gross lease.

## Green Leases

### Cost sharing:

Allow shared cost of an energy-efficiency investment.

**Building Owners benefit** from an investment that increases the desirability and value of their asset.

**Tenants benefit** from monthly operating costs that are often significantly lower.

### Non-financial goals:

Agreements regarding Tenant behaviour that contributes to efficiencies.



Gross or Net?



# Solve the split incentive barrier?

**Tenants pay for  
energy  
usage**



**Building Owner is  
responsible for  
capital  
improvements**

**Green Leases = Collaboration  
Shared Objectives**



**What are your insights to achieving  
consensus?  
Carrot, stick or ?**

# Collaborative relationship building

**Performance-based leases incentivize building owners and tenants to voluntarily cut energy waste, save financial resources, and collaborate to future-proof their businesses against performance-related regulation.**

1. Both parties (Tenants and Building Owners) **make their sustainability goals clear**
2. Establish cost pass-through “green” language that will **define the finalized lease**
3. Tenant engagement programs are vital:
  - a. Sub-metering,
  - b. Utility data sharing
  - c. Green tenant build-outs



**What are the challenges of achieving effective green leases?**





# The creation of a Green Lease



## 1. Set Sustainability Objective or Intent

In a preamble or as a general clause, the common objectives of the parties are explicitly provided. These are either drafted as aspirational or binding clauses; they may be incorporated in the main lease agreement or attached as schedules; they may refer to third-party certification or be drawn from common objectives set out and agreed upon by the parties.



## 2. Recover Capital Costs Through Operating Costs

A net lease should provide provisions to recover the capital costs of any investment into sustainability and/or energy efficiency initiatives. A gross lease has a built in incentive for the Landlord to reduce operational costs which can be accomplished through sustainability efficiency measures.



## 3. Use Restrictions

A net lease should provide provisions to recover the capital costs of any investment into sustainability and/or energy efficiency initiatives. A gross lease has a built in incentive for the Landlord to reduce operational costs which can be accomplished through sustainability efficiency measures.



## 4. Monitoring And Reporting Requirements

As green leases are essentially intended to ensure that green buildings are continuously operated and maintained in a way that maintains their green features, monitoring and reporting provisions are key. Provisions are usually focused on authorization to install monitoring devices within leased spaces and the ability for both parties to share data while respecting and complementing confidentiality clauses.

# The creation of a Green Lease



Where do I find a resource to direct me?

[REALPAC Office Green Lease:](#)  
[National Standard Lease For Single-Building Projects](#)



# Benefits of a Green Lease:

## RECOGNITION AS A LEADER:

- Better green ranking for building
- Maximum rental returns and occupancy rates
- Public image is enhanced
- Tenants value sustainability when leasing

## REDUCTION STRATEGY:

- Minimized maintenance and operating costs
- Utility consumption is reduced
- Waste stream diversions lead to extra savings

## RELATIONSHIP BUILDING:

- Building Owner-Tenant relationship is strengthened
- Show leadership in energy and environmental design
- Contributing to the national target shows ambition and civic leadership.



**Who benefits? When?**



# Questions

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# ClimateWise Building Challenge



Our vision is to facilitate, support, and mentor York Region building owners and business to reach energy and greenhouse gas reduction targets.

We provide you with a plan of action with detailed resources and technical support throughout the competition. This includes energy saving tips, energy benchmarking tools, and advice from industry leaders.

# Benefits you can expect

## **Bottom-line Cost Savings**

Migrating to a sustainable business model is an opportunity for innovation, cost savings and increased profitability.

## **Stay on Top of Available Incentives**

More incentives and regulatory opportunities will be available to help your firm stay competitive.

## **Attracting and Retaining Top-tier Employees**

Research suggests that employees are more inclined to work and stay at a firm with a good reputation with respect to environmental sustainability.

## **Engaging Employees**

Build a culture of employee collaboration and enjoy the benefits of enhanced productivity.

## **Being Part of a Movement**

Consumers and investors turn towards organizations that show a commitment to achieving emission reductions.



# Get recognition for your Climate Action

## We're here to support you



Our Provincial partner





# The Journey's end - Recognition



The Tenant Space Program is recognition for sustainability efforts in leased office space.

**TENANT SPACE**  
RECOGNITION PROGRAM\*  
By ClimateWise Building Challenge



## Create a more energy-efficient/sustainable workplace

- Bottom line savings on business operations.

## Demonstrate corporate leadership

- Align with customer demands for more environmentally conscious products and services.

## Recognition for your business

- Tenant Space recognition at the fall York Region Sustainability Awards 2022 and 2023.

\* The ES Tenant Space program is being adapted by NRCan to the Canadian version of ESPM. In the interim, ClimateWise Building Challenge recognition is available.

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# Webinar series to learn more

**Wed, June 1 – 3-4pm:**

Better understand your energy consumption and what is driving your energy use

**Wed, Sept 7 – 3-4pm:**

Green retrofits that your Business can consider

**Wed, Oct 5 – 3-4pm:**

Recognizing how Tenants contribute to sustainability of their buildings

**Wed, Nov 2 – 3-4pm:**

Innovative Building solutions for your energy saving strategy



# Our Participants



## Commercial Leaders:



## Municipal Leaders:



# Join the Challenge!



If we all work together, we can meet this challenge...

So join the ClimateWise Challenge and let's get started !



[ClimateWise Building Challenge | Registration \(windfallcentre.ca\)](http://windfallcentre.ca)

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# Questions



Resource slides with more details



# 1. Set Sustainability Objective or Intent



In a preamble or as a general clause, the common objectives of the parties are explicitly provided. These are either drafted as aspirational or binding clauses; they may be incorporated in the main lease agreement or attached as schedules; they may refer to third-party certification or be drawn from common objectives set out and agreed upon by the parties.

## Example Green Lease Clause:

LEED® Certification/Equivalent: **The Landlord shall design renovate and operate the Building with the intent of encouraging and promoting the implementation of certain environmental objectives on the part of both the Landlord and Tenant through such programs as BOMA BEST (Building Environmental Standards) and targeting a LEED® Silver certification for the Building core and shell. Such objectives may include, but are not limited to: reduced**

energy consumption (electricity and natural gas) and reduced production (direct and indirect) of greenhouse gases, reduced use of potable water, effective diversion of landfill waste streams and recycling of Tenant waste streams, providing indoor bicycle parking and shower facilities for Tenant's employees, and the avoidance of... and within t

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**The Landlord and Tenant, acting reasonably and in good faith, shall use reasonable commercial efforts to achieve such environmental objectives and constructively consult with each other on issues, events and circumstances likely to detract from achieving such objectives.**

The Landlord shall use commercially reasonable efforts and will diligently pursue LEED® certification for the Building core and shell. The costs to pursue LEED® certification for the Building core shall be to Landlord's account.

# 2. Recover Capital Costs Through Operating Costs



A net lease should provide provisions to recover the capital costs of any investment into sustainability and/or energy efficiency initiatives. A gross lease has a built in incentive for the Landlord to reduce operational costs which can be accomplished through sustainability efficiency measures.

## Example Green Lease Clause:

**"Operating Costs"** means the total amounts incurred, paid or payable by the Landlord or by others on behalf of the Landlord in operating, administering, maintaining in good repair and operating condition the Shopping Centre including, without limiting the generality of the foregoing and without duplication, the aggregate of the following costs and expenses:

the cost of energy conservation equipment, and all other fixtures, equipment and facilities that are added for the greater comfort and convenience of the public or the tenants, and the cost of repairs (including major repairs) and replacements to, and maintenance and operation of the Shopping Centre, and the Common Area and Facilities, and the systems, facilities and equipment serving the Shopping Centre and the Common Area

the greater comfort and convenience of the public or the tenants, and the cost of repairs (including major repairs) and replacements to, and maintenance and operation of the Shopping Centre, and the Common Area and Facilities, and the systems, facilities and equipment serving the Shopping Centre and the Common Area and Facilities (including, but not limited to, escalators, elevators, and other transportation equipment and systems, but excluding the heating, ventilating and air-conditioning systems serving the Common Area and Facilities and Leasable Premises), except for the cost of repairing any inherent structural defects or weaknesses;

### 3. Use Restrictions



Use clauses need to be considered by the landlord in order to ensure that the lease prohibits any uses that may compromise environmental performance standards or the building's certification standard. For instance, certain uses may require greater consumption of energy and water than others or could jeopardize indoor air quality.

#### Example Green Lease Clause:

10.3 Nuisance, constitute waste, nuisance or unreasonable annoyance to Landlord or other tenants of the Building. Tenant shall not use or operate the Premises in any manner that will cause the Building or any part thereof not to conform with Landlord's sustainability practices or the certification of the Building issued pursuant to any Third Party Sustainability Standard applicable to the Building at any time as determined by Landlord.

Tenant shall not use or occupy the Premises for any unlawful purpose or in any manner that will constitute waste, nuisance or unreasonable annoyance to Landlord or other tenants of the Building. Tenant shall not use or operate the Premises in any manner that will cause the Building or any part thereof not to conform with Landlord's sustainability practices or the certification of the Building issued pursuant to any Third Party Sustainability Standard applicable to the Building at any time as determined by Landlord.



## 4. Monitoring And Reporting Requirements



As green leases are essentially intended to ensure that green buildings are continuously operated and maintained in a way that maintains their green features, monitoring and reporting provisions are key. Provisions are usually focused on authorization to install monitoring devices within leased spaces and the ability for both parties to share data while respecting and complementing confidentiality clauses.

### Example Green Lease Clause:

The Tenant will comply with all Applicable Laws pertaining to waste management and reduction in connection with the Premises and the Tenant's conduct of business. The Tenant will also co-operate with the Landlord by providing any documents and other information and doing whatever else is reasonably requested by the Landlord in order to reduce and manage waste. If responsibility for any waste related

#### Section 9.04 Waste Management

The Tenant will comply with all Applicable Laws pertaining to waste management and reduction in connection with the Premises and the Tenant's conduct of business. The Tenant will also co-operate with the Landlord by providing any documents and other information and doing whatever else is reasonably requested by the Landlord in order to reduce and manage waste. If responsibility for any waste related matters is imposed by Applicable Laws, on both parties to the Lease and/or third parties, the Landlord may give notice to the Tenant particularizing the responsibilities which the Tenant will assume.

# Additional Considerations

**Green lease provisions may interact with the lease clauses identified below.** The interactions need to be understood and considered during the lease negotiation.

- **Prescriptive Elements for Tenant Improvements, Alterations, and Repairs:** Applicable if Epic has a Tenant Design Criteria Manual which specifies green requirements around products, materials, water efficiency, energy efficiency, healthy interiors, and construction processes.
- **Assignment and Subletting Requirements:** It is important to ensure that the assignee's or sub-lessee's operations will not compromise the sustainability objectives set forth in the lease.
- **Default, Remedies and Dispute Resolution Mechanisms:** It is important to consider the extent and seriousness of commitments to sustainability objectives may vary, clauses addressing a failure to comply with these objectives should vary accordingly and reflect the proper level of commitment as set out in the lease.