



GREEN LEASE LEADERS: GREEN LEASING SPURS EFFICIENCY IMPROVEMENTS IN CLEVELAND BUSINESSES AND CITY BUILDINGS



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

Whether it is triple net, gross, or another standard lease structure, conventional leases often result in the creation of the split-incentive issue where building owners are responsible for the capital costs of energy efficiency and sustainability investments and tenants reap all the benefits through reduced operating expenses and better building performance, or vice versa. Green leases, also known as high-performance or energy-aligned leases include effective lease clauses to break down pervasive barriers in commercial, industrial, and retail properties by equitably aligning the costs and benefits of energy and other sustainability investments. With a green lease, landlords and tenants can better work together to save money, conserve resources, and ensure smarter, more efficient operation of buildings.

A [study](#) by the Institute for Market Transformation (IMT) found that green leases have the potential to reduce energy consumption in U.S. office buildings by as much as 22 percent, yielding reductions in utility expenditures in commercial buildings up to \$0.51 per square foot. This research shows that when executed, green leases have the potential to provide the leased U.S. office market alone \$3.3 billion in annual cost savings.

Launched by IMT and the DOE Better Buildings Alliance in 2014, [Green Lease Leaders](#) is the premiere industry recognition program that shines a light on forward-thinking real estate companies and practitioners each year who effectively modernize their leases to spur collaborative action on energy efficiency and sustainability in buildings. As of 2019, Green Lease Leaders cumulatively represent more than 2 billion

square feet of building space—a clear indication that green leasing is no longer considered an exception, rather it is becoming best practice across real estate markets. As building efficiency efforts have progressed to more advanced holistic approaches, green leases have evolved as well. The 2019 cohort of Green Lease Leaders are using the lease to overcome split incentives and create lasting public-private partnerships to advance energy action plans and sustainability goals.

In the following case study vignettes, IMT and DOE's Better Buildings Alliance highlight 2019's Green Lease Leaders who successfully implement effective strategies into their leasing practices and overall building operations. Their actions set strong examples for every real estate or sustainability practitioner to consider when leasing property.

The [City of Cleveland](#) leads by example as the first city government to be recognized as a Green Lease Leader, both on the municipal level and through strong partnerships with local chambers of commerce and businesses.

[MAN Holdings LLC](#), through its local subsidiary Yosemite Properties, exemplifies how the private sector is becoming an engaged proponent of green leasing in the Cleveland area, working with the local chamber of commerce to incorporate green lease language across its growing portfolio of Class B and C buildings.



Using the green lease to take city action plans from vision to implementation

From an energy efficiency perspective, green leasing is one of the most critical tools available to support city-wide climate action plans and help meet ambitious greenhouse gas emissions reductions goals. In the City of Cleveland, the city government is leading the charge, taking action on green leasing in their municipal properties and creating strong partnerships to meet small and medium businesses where they are to accelerate action. “Cleveland has big goals like a lot of cities, including 80% reduction of emission by 2050 and 40% by 2030. What it really is, is the transformation of the entire economy,” said Matt Gray, Chief of Sustainability for the City of Cleveland. “We need every building, every person, and every organization doing something to get to that reduction goal. This is why green leases are critical

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“Cleveland is leading by example as the first city government to be recognized as a Green Lease Leader,” said Chris Brown, Director of Private Sector Engagement at IMT. “As the first city to earn this designation, it is exciting to see impact locally through a simple and smart change in leasing practices,” he continued. “With cities

like Cleveland leading the way, more state and local governments can now see the advantages of making green leasing an integral part of their energy reduction strategies and climate action plans.” Cleveland began implementing green leases in 2013, when it developed its first Climate Action Plan. In parallel, the city launched a Municipal Action Plan to showcase its leadership in sustainability planning and implementation.

Above: The City of Cleveland recognized the importance of green leasing to help meet its city-wide climate goals and subsequently added green lease clauses to its Sustainable Municipal Building Policy. This allowed the City to incorporate green building and leasing practices into the design, construction, repair, and maintenance for all of its facilities.

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Most municipal buildings are city-owned and operated, and few are leased from or to an outside party. Despite that, both action planning processes led to recognizing the importance of green lease clauses, which were subsequently added to the city's [Sustainable Municipal Building Policy](#). This allowed Cleveland to incorporate green building and leasing practices into the design, construction, repair, and maintenance for all of its facilities. When undergoing a major retrofit at 55 Erieview Plaza (one of the city government's few leased buildings) for locating the future headquarters of the Mayor's Office of Sustainability along with the existing Department of Public Health, Department of Aging, and the Mayor's

Office of Quality Control and Performance Management in that building, Cleveland's city government used the opportunity to negotiate with its landlord the incorporation of green lease provisions. This included an innovative clause requiring its landlord to join the Cleveland 2030 District, a network of building owners committed to significant reductions in energy and water use as well as transportation emissions. When entering into or renegotiating leases for occupancy, the city also now indicates a preference for office space that is certified under ENERGY STAR, LEED, and/or an equivalent green building standard.

From City Hall to Main Street, partnerships make green leasing possible

In partnership with the city, the energy team of the Council of Small Enterprises (COSE)—the small business arm for the [Greater Cleveland Partnership \(GCP\)](#)—engaged in the stakeholder development of the City's climate action plan, which ultimately benefits the business community. "The city can't do this work in the community at the scale that it needs to without our partnership with GCP/COSE," said Gray. The chamber has direct connections to the people and organizations interested in acting on sustainability, but who might not always know what steps to take.

As Northeast Ohio's chamber of commerce, GCP/COSE began emphasizing energy efficiency for members ten years ago, soon after the 2008 adoption of Ohio's initial [clean energy standards](#). The chamber built a network of energy efficiency and renewable contractors that not only provides quality and

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reliable service, but is also comprised of all local businesses and GCP/COSE members. The GCP/COSE Energy Team provides technical assistance in review and implementation of green leases to make city-wide green lease adoption more attainable. The chamber has been demonstrating the value of green leases to its business community since 2014, when it discovered the split incentive challenge as it was administering energy audits for small businesses, many of them were tenants in someone else's building. The audit reports played a key role in providing the businesses with first-hand knowledge about how their buildings used energy, and helped these tenants and landlords initiate conversations about green leasing in their spaces.

Nicole Stika is the Vice President of Energy Services at GCP/COSE and also serves on the National Advisory Council for Chambers for Innovation and Clean Energy (CICE). Stika realized the split incentive was one of the leading issues facing GCP/COSE members. Small business tenants "don't necessarily want to invest in someone else's building, even if they are paying their own utility bill," she said. CICE introduced GCP/COSE to IMT, and together the two organizations began collaborating on this issue to create a proof of concept for putting green leasing into practice in Cleveland. "Internally and in the community, there is a perception that the split incentive problem is difficult or even impossible to overcome," Gray added. "Support from IMT and GCP/COSE has been incredibly valuable because it takes upfront education to make the solution happen."

The City of Cleveland worked with GCP/COSE and IMT to craft green leases that would be adopted citywide and develop guides for businesses and local chambers of commerce nationwide. By providing these resources to Cleveland's small business community, GCP/COSE and IMT demonstrated how all parties could work together to align tenant and landlord interests and create demand for high-performance buildings. "Green leases create a more open and transparent dialogue between landlord and tenant, shifting the relationship away from one that has historically been very transactional to create one that is more dynamic," said Stika. "It's not just another agreement, but an enhanced way of aligning goals for both of their bottom lines and the long-term success of their business relationship."



Leading the charge to demonstrate the competitive green lease advantage for small businesses

With efforts in green leasing starting to produce results for the GCP/COSE members, the chamber attracted a new member, MAN Holdings LLC, a privately-owned real estate investment firm focused on the rehabilitation, renovation, and tenant stabilization of existing Class B and C commercial offices and affordable multifamily housing. As only the second B and C Class commercial real estate owner to be recognized as a Green Lease Leader, MAN Holdings' leadership in implementation of green leasing demonstrates the ease and adaptability of green lease language in these commercial markets.

As MAN Holdings, through local subsidiary Yosemite Properties, sought to expand its reach in the Cleveland area real estate market, the firm began to make investments and purchase more buildings. The company knew it had to leverage local partnerships and access resources quickly to make their newly acquired buildings as

efficient as possible. Additionally, because most of the Cleveland area's building stock is older and/or historic, MAN Holdings knew that there would be ample opportunity for building retrofitting and revitalization in Class B and C buildings. One such example is the Shaker West Professional Building, acquired by MAN Holdings in 2018. Built in 1965, the Shaker West Professional Building faced challenges common to buildings of similar age and size in the Cleveland area, presenting major inefficiencies and the possibility of rising utility costs. With a shared interest in using energy efficiency to reinvest in older commercial buildings for the benefit of both property owners and small business tenants, MAN Holdings reached out to GCP/COSE to learn what assistance was available to make energy upgrades.

The building qualified for an energy audit facilitated by GCP/COSE, which uncovered several energy conservation measures. Based on audit suggestions, MAN Holdings replaced working but inefficient lighting panels with more energy-efficient ones. Upon discovery of a large amount of heating and air conditioning

Above: The Shaker West Professional Building in Cleveland, Ohio. Yosemite Properties' green lease terms combined with planned upgrades are expected to cut the building's energy expenses by 42%. The 50,000 sq. ft. building provides space for doctor offices, professional offices, and nonprofits.

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outflow through windows, the company took careful steps to seal and insulate the Shaker West Professional Building envelope. Special film was added to windows and windows were re-caulked to help the building stay warmer in the winter and cooler in the summer. The company also made plans to install solar panels to the building's roof in Summer 2019. The panels alone are projected to reduce electric consumption by 25%.

SOON AFTER INCORPORATING GREEN LEASE CLAUSES INTO ITS LEASING STRUCTURE, THE FIRM ATTRACTED A NONPROFIT THAT HAD A FUNDING REQUIREMENT TO LEASE IN AN ENERGY-EFFICIENT BUILDING.

Though the total costs for these improvements were over \$400,000, GCP/COSE connected MAN Holdings to its local contractor network and facilitated \$16,000 in utility rebates and incentives. [Greenworks Lending](#) also helped the firm finance the remaining amount with a Commercial Property Assessed Clean Energy (C-PACE) loan to provide long-term funding for the energy efficiency and renewable energy improvements and make the project financially viable.

To maximize energy savings in its tenant-occupied spaces MAN Holdings knew that it needed to modify tenant behavior by encouraging energy-saving practices, as reflected in green lease language. GCP/COSE and IMT provided the support to incorporate green lease language into MAN Holding's existing leasing structure. Working from model lease provisions shared by IMT, MAN Holdings set clear expectations about tenants' energy use, including details such as water use, periods for office air conditioning, and turning lights off at the end of the business day. With the new building acquisition and renovations underway, the firm was able to use the leasing cycle to their benefit for incorporation of this language. "When we tour potential tenants through the available space, one of the things that we highlight is our commitment to sustainable energy as exemplified via our capital investments and our green lease, representing a mutual commitment to green practices," said Amanda Mayan, MAN Holdings CEO, "There are many reasons that it makes sense, both for attracting tenants and from a business standpoint." The lease terms, plus the energy upgrades, are expected to cut energy expenses at the 50,000 square-foot office building by 42%.

Soon after incorporating green lease clauses into its leasing structure, the firm attracted a nonprofit that had a funding requirement to lease in an energy-efficient building. The nonprofit

organization had a need for this specific type of space, and due to MAN Holding's leasing structure, the firm had contract language ready-to-go, leading to a quick turnaround for all involved. Following the positive feedback from the new tenant, MAN Holdings plans to apply similar green lease language to its standard lease template throughout its growing Northeast Ohio portfolio. "Becoming a Green Lease Leader was a

natural progression from our sustainability efforts and projects that had already been implemented in the building," said Mayan. "Our goal is to be awarded Gold status, and this goal has pushed us to undertake water monitoring measures that were not involved in the initial scope of our project."

Harnessing the power of green leases for city buildings and businesses

As Cleveland's and MAN Holdings' leadership demonstrate, implementation of green leasing practices is a smart way to achieve a wide range of goals, from city climate action plans to business sustainability goals. As the first city to be recognized as a Green Lease Leader, Cleveland is a model for other cities seeking to use green leasing to catalyze efficiency improvements in municipal buildings, and advance city-wide energy and climate goals. Together with local and trusted partners, Cleveland empowers local businesses to adopt green leasing and take on efficiency upgrades that not only improve the quality and comfort of leased spaces, but also reduce operating costs and bring benefits to the built environment.

Green leasing is a key tool for cities and chambers of commerce across the country to inform businesses on city-wide action plans, helping them to participate in initiatives that benefit them directly and connect them to city services and resources. "The city's partnership with GCP/COSE and MAN Holdings' leadership is critical to get the city's transformation moving," said Gray. "Since green building is not yet standard practice here as it is in some bigger cities, we must rely on examples of collaboration to advance green leasing and other smart sustainability best practices and encourage more to get involved. GCP/COSE and companies like MAN Holdings are helping us lead the charge."



BECOME A GREEN LEASE LEADER

If you are a tenant encouraging your landlord to collaborate on sustainability goals, or if you're a landlord working closely with tenants to make their space more efficient and healthier, you might be a candidate for IMT and DOE's Green Lease Leaders recognition.

A first step is to assess your lease and corporate documentation in comparison to the standards specified by the Green Lease Leaders recognition program. Even if you are not currently including energy efficiency and sustainability in your lease, but practice sustainability in building operations and management, the Green Lease Leaders criteria can serve as a guide for enhancing a lease to account for sustainability.

➔ For more information on applying for Green Lease Leaders, or for help in building your own green lease, contact IMT at imtweb@imt.org or visit the Green Lease Leaders website to learn more about the program and how to apply for recognition: <https://www.greenleaseleaders.com/apply/>

