



# Green leases – tenant & owner collaboration

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## Green leases – tenant & owner collaboration

We recognise that sometimes owners and tenants may not always be on the same page with sustainability and decarbonisation. A strategy that may help with building collaboration is a 'green lease' which will support transparency and improved sharing of relevant data.

A green lease is a type of lease agreement between a landlord and tenant that includes provisions to encourage and promote environmentally friendly practices in the use and maintenance of the leased property. These provisions can cover a range of topics such as energy efficiency, water conservation, waste reduction, and the use of environmentally friendly products.

By including these provisions in the lease, both the landlord and tenant can work together to reduce the environmental impact of the leased property, save on costs, future proof the building, and create long term value. For example, the landlord may agree to install energy-efficient lighting or HVAC systems, while the tenant may agree to recycle or use non-toxic cleaning products. There is no common standard for a "green lease" as the applicable clauses for a property will largely rely on the lease's intention and the situation, necessitating a thorough evaluation of the circumstances.

Adopting green lease practices doesn't mean reinventing the wheel either. By including a handful of new or modified clauses in a traditional commercial lease, both owners and tenants can better realise the benefits of investing in energy efficiency measures. These measures contribute to higher-quality spaces for tenants who recoup their investment through lower utility bills and improved productivity and comfort. Green lease clauses drive the creation of more-valuable buildings for owners, who may enjoy greater rents and lower vacancy.

### Benefits of a green lease

1. **Reduced operating costs:** By incorporating sustainable practices, the landlord and tenant can target reducing utility costs, water usage, and waste, leading to lower operating costs for the property.
2. **Increased property value:** A green lease can increase the value of the property and make it more attractive to potential tenants, investors, and buyers.
3. **Compliance with regulations:** green leases can help ensure compliance with environmental regulations and standards, reducing the risk of fines or legal action.
4. **Enhanced reputation:** A green lease can improve the reputation of the landlord and tenant as environmentally responsible, leading to positive publicity and potentially attracting more customers or clients.

## Challenges when implementing a green lease:

1. Lack of knowledge or experience: Landlords and tenants may lack knowledge or experience when implementing a green lease. This can lead to challenges in understanding and agreeing on the best ways to incorporate sustainable practices into the lease agreement.
2. Cost: Implementing sustainable practices can require upfront costs, such as installing energy-efficient lighting or upgrading HVAC systems. Landlords and tenants may be hesitant to incur these costs, especially if they don't expect to be in the property for an extended period.
3. Limited control: Landlords may have limited control over tenants' behaviour and use of the property, which can make it challenging to ensure that the sustainable practices agreed upon in the green lease are followed.
4. Disagreements between parties: Landlords and tenants may have different priorities and values when it comes to sustainability. This can lead to disagreements when negotiating the terms of the green lease and implementing sustainable practices.

Overall, a green lease is a win-win situation for both the landlord and tenant, as it can result in a more efficient and healthier living or working space, while providing economic and reputational benefits.

## Examples of a green lease in New Zealand

[ASB North Wharf](#), CBD, Auckland: This commercial building has implemented a green lease agreement that includes provisions for energy efficiency, waste reduction, and water conservation. The building has achieved a 5-star Green Star rating.

[Geyser Building](#), Parnell, Auckland: The Geyser Building is a mixed-use development that includes commercial and residential units and operates using on average 25% of the energy of a standard commercial building. The building has achieved a 6 Green Star rating.

[33 Customhouse Quay](#), CBD, Wellington: This was the first building in New Zealand to have a green lease tied to its performance and set a new benchmark in commercial development with 104 performance objectives covering water use and energy efficiency, to a healthy working environment. It is said to use 60 per cent less energy and 70 per cent less water than comparable buildings with a Green Star rating of 5.

[1 Fanshawe Street](#), CBD, Auckland: The NZI centre is a prime example of a successfully implemented green lease for an office building and can be put down to strong collaboration and alignment with all parties involved. The building has achieved a 5.5 Green Star Rating.

## Complexities of the building and owner relationship

There are many benefits to energy-efficient buildings including lower energy bills, improved health and comfort levels for occupants, increasing market value, and the reduction of carbon emissions. However, although these benefits are well documented, the owner can struggle to see the need to invest more capital into a building when they don't live or work there so don't gain the savings.

Split incentives are a well-known problem when those who pay the energy bills are not from the same entity as those making capital investment decisions. However, these can often be addressed through direct engagement between the building owner and tenant to develop mutually beneficial solutions. Changing specific parts of the lease helps to align financial incentives so that the benefits of investing in energy efficiency are shared between owners and tenants. These efficient spaces can increase a property owner's net operating income while improving the quality of tenant spaces. In this way, green leases not only remove barriers to saving energy but also create additional opportunities for owners and tenants to derive value from their buildings.

A variety of solutions exist to overcome the split incentive dilemma, and many office owners already incorporate capital expense recovery at some capacity into their leases. The solution used depends on the market, sector, and the negotiation process of a particular lease but two common forms of repayment are Amortization and Passthrough clauses which you can read more about and see examples of [here](#) or below.

Getting the conversation started with your property manager and/or building owner is the first step to including clauses within your lease. Regular sustainability workshops between landlord and tenant, and sustainability guidelines for the property might be useful to maintain or improve the sustainability efforts for both landlords and tenants.

## What does a green lease look like?

If placed side by side, it would be difficult to notice the difference between a green lease and standard lease. The key elements of a green lease are:

- Binding promises & dispute resolution regimes for both parties;
- Environmental management plan & target performance standards
- Building management committee
- Incentives for both parties to improve environmental performance; and
- Ongoing requirements such as;
  - Reducing energy and water use
  - Obtaining Green Star NZ and/or NABERS NZ ratings
  - Recycling and cleaning with environmentally friendly products
  - Metering and data reporting

## Information guides

1. [Overcoming Split Incentives – Australian Government](#)
2. [Green Lease Leaders - Landlord Reference Guide – United States Government](#)
3. [Green Lease Leaders - Tenants Reference Guide - United States Government](#)
4. [The Green Lease Handbook - Australian Government](#)
5. [Green Leasing - An effective Tenant/Landlord Strategy for Energy Efficiency](#)
6. [Overcoming Seven Key Landlord/Tenant Hurdles to make Ambitious Carbon Reductions a Reality](#)
7. [Green Lease Toolkit - Better Building Partnership \(With Case Studies\)](#)

## Case studies & clauses

1. [Negotiating Green Leases - Case Studies - Australian Government](#)
2. [Green Lease Leaders - Creating Sustainable Landlord/Tenant Relationships \(IBM Example\)](#)
3. [Green Lease Leaders - Examples of successfully implemented Green Leases](#)
4. [Green Lease Leaders - Industrial Building](#)
5. [Performance Leasing Guide & Model Clauses - New Zealand Green Building Council](#)
6. [The Chancery Lane Project - All Climate Clauses](#)
7. [Green Lease Language Examples – Institute for Market Transformation](#)
8. [Green Leasing - An effective Tenant/Landlord Strategy for Energy Efficiency](#)
9. [Retail Rooftop Unit Lease Language - Institute of Market Transformation](#)
10. [Green Lease Guide - Whole Lease Agreement Examples](#)

For further guidance on embedding clauses into your lease please get in touch with - [contact@chancerylaneproject.org](mailto:contact@chancerylaneproject.org) or [business@eeca.govt.nz](mailto:business@eeca.govt.nz)