Global Research

March 2023

Green Leasing 2.0

Bridging the owner-occupier divide to deliver shared ESG value

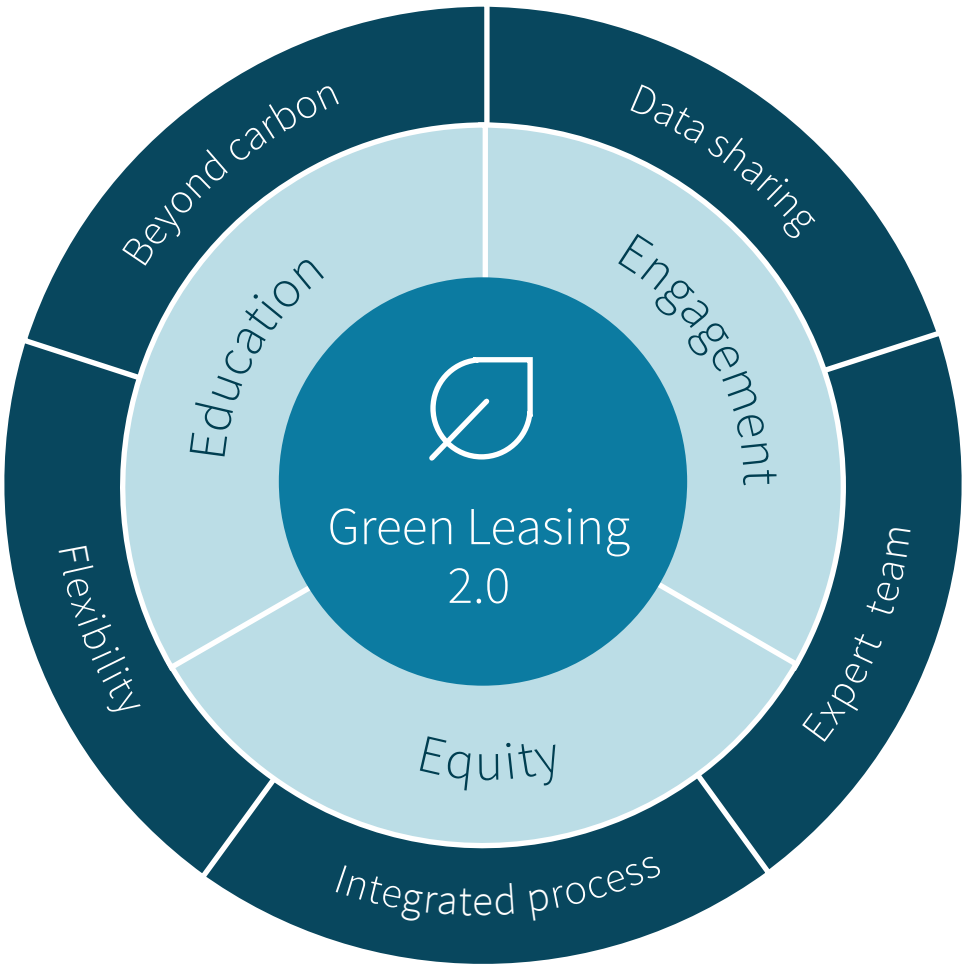
Contents

Executive Summary

We have seven years to halve emissions and the window for effective action is closing rapidly. If the real estate industry is to achieve this 2030 target, a complete shift in how we use and manage buildings is required.

Key to this is reforming the current leasing system and process, as existing lease structures that are compliance-based and centered around a single leasing event are no longer fit for purpose. The owner-occupier relationship requires a reset, a move to more collaborative relations which necessitate new forms of contract and engagement: **Green Leasing 2.0.**

The Green Leasing 2.0 model: A new way of working centered around Education, Engagement and shared Equity



Three vital ‘Enablers’ will help drive this change:

1 **Education:** Green Leasing 2.0 requires education, upskilling, multi-stakeholder collaboration and behavioral change to achieve a ‘leapfrog moment’ at scale.

It is no longer a check-box exercise, but an understanding of a shared set of values, actions and mutual benefits for both building owners and occupiers.

2 **Engagement:** Green Leasing 2.0 goes beyond contractual lease clauses – it centers around ongoing collaboration between owners, occupiers and third-party stakeholders to deliver on ESG goals throughout the life of the lease.

It should maintain a degree of flexibility as different organizations have unique objectives, opportunities and challenges that will change over time.

3 **Equity:** Green Leasing 2.0 represents a new business partnership on building management, operation and financing. This entails new levels of cooperation, cost-sharing and co-investment between building owners and occupiers, as well as transparency on goals, plans and risks.

Capital expenses that improve the operational efficiency or reduce harmful emissions, or other environmental factors, will provide benefit for both the owner and occupier. Green Leasing 2.0 will enable this value to be shared in proportion to who makes it happen.

Data and technology are core foundations of Green Leasing 2.0: Data capture and sharing can ensure that companies have the necessary information to comply with increasingly stringent disclosure requirements, as well as the right systems in place to work together on building improvements and clean energy procurement.

Beyond carbon: Circularity, climate resilience and social impact principles are also making their way into green leasing. Social value, in particular, is garnering more attention in the leasing process as corporations look to meet all their ESG objectives more holistically.

This report aims to help you understand and unlock the full potential of owner-occupier collaboration through Green Leasing 2.0. Leveraging subject-matter expertise and data from our property services, this report should serve as a resource for you to leapfrog into effective action and scale in this make-or-break decade for transformational change.

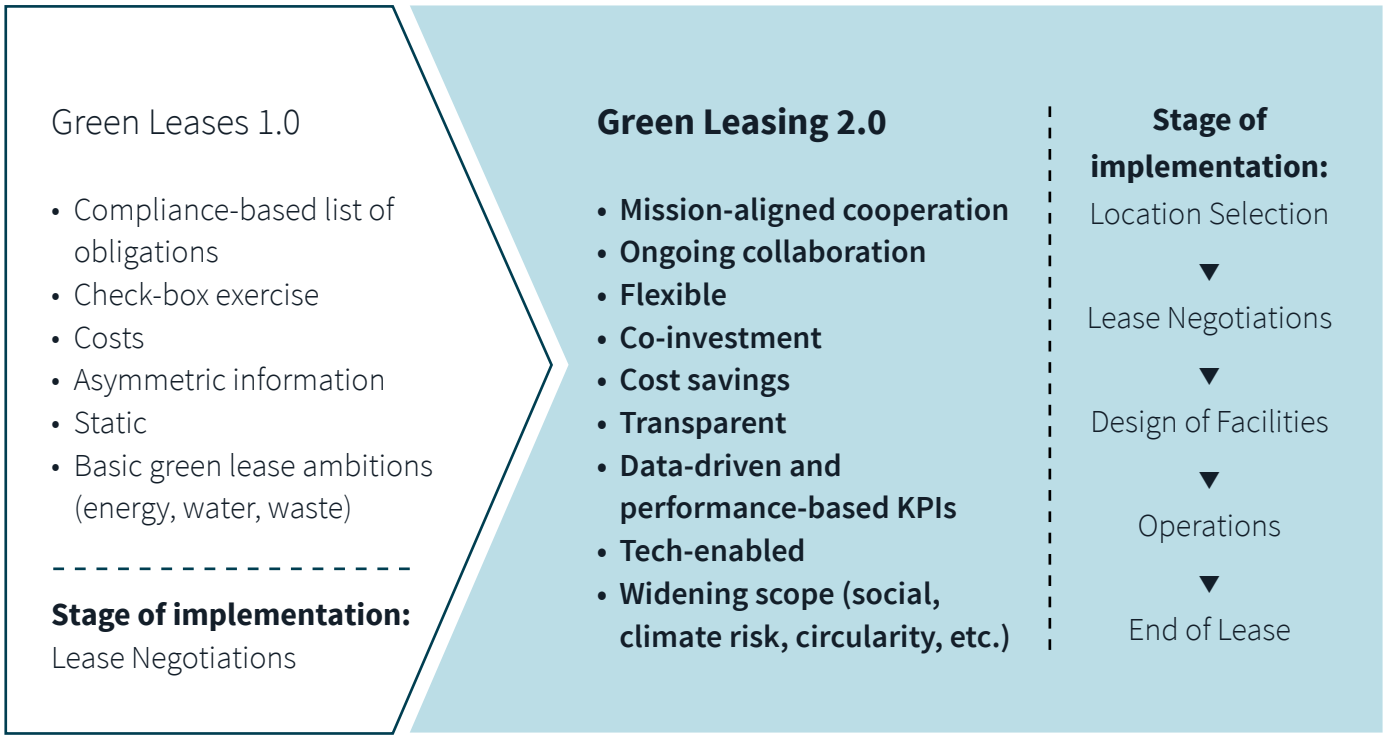
The need for a new approach

Systematic change to the leasing process is needed now

To meet ambitious decarbonization targets, building owners and occupiers will increasingly need to make complex choices together regarding the real estate they own or occupy. This will require a shift from the adversarial and at times contentious relationships that exist today.

In doing so, they will have to form new business models of building management which allow for increased collaboration and communication between both parties, with clearly defined responsibilities and benefits for each. This is the **Green Leasing 2.0** model.

Transitioning to Green Leasing 2.0



Source: JLL, 2023

Why haven't green leases reached widespread adoption?

Among the varying hurdles on the road to decarbonizing buildings, it is the leasing system itself that is one of our greatest challenges. This is because traditional lease structures create distance between occupiers and owners and make cooperation on building improvements and other sustainability initiatives a rare practice.

Green lease clauses first emerged over 15 years ago, yet they remain largely self-defined as there is still no industry-wide guidance on minimum standards.

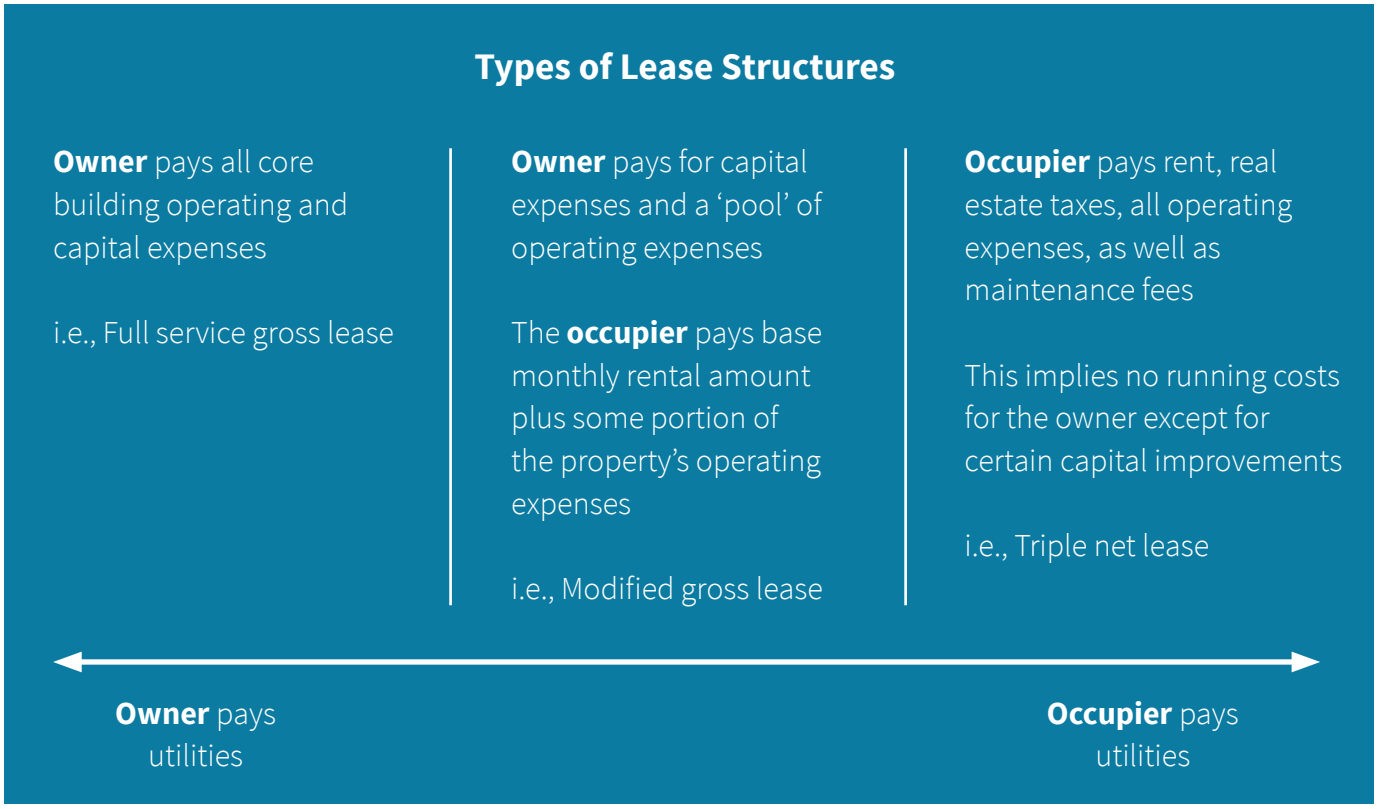
Lack of transparency and follow-through, legal complexities, split incentives and unrecognized value have remained persistent barriers to green lease adoption. Where green leases have been implemented, they have historically been owner-led, compliance-based contracts with boilerplate clauses around energy, water and waste, with obligations mainly imposed on the occupier to protect a building's green certification.

Moreover, legal teams and brokers are often reluctant to agree on green lease terms. This is because legal teams look to avoid risks as much as possible while brokers look to simplify and speed the negotiation process, both often resorting to redlining such clauses without much consideration. If signed, they are often check-box exercises and passive actions that center around a singular lease event.

Who pays?

Initially, green leases were proposed as a potential solution to navigating the split incentive problem whereby one party, usually the owner, incurs capital expenses for an energy retrofit, while the other, usually the occupier, receives the benefit, e.g., in reduced operating costs. On the other hand, occupiers are also reluctant to foot the bill as costly improvements often outweigh their operational savings.

Cost allocations also depend on geography as lease structures vary globally. For instance, in Australia, owners typically pay for both operational and capital expenses and are highly incentivized to perform building upgrades. In the UK, occupiers pay for operating costs through service charges, and in the U.S., occupiers in triple net leases are responsible for operating expenses.



Source: JLL, 2023

Green Leasing 2.0: Why now?

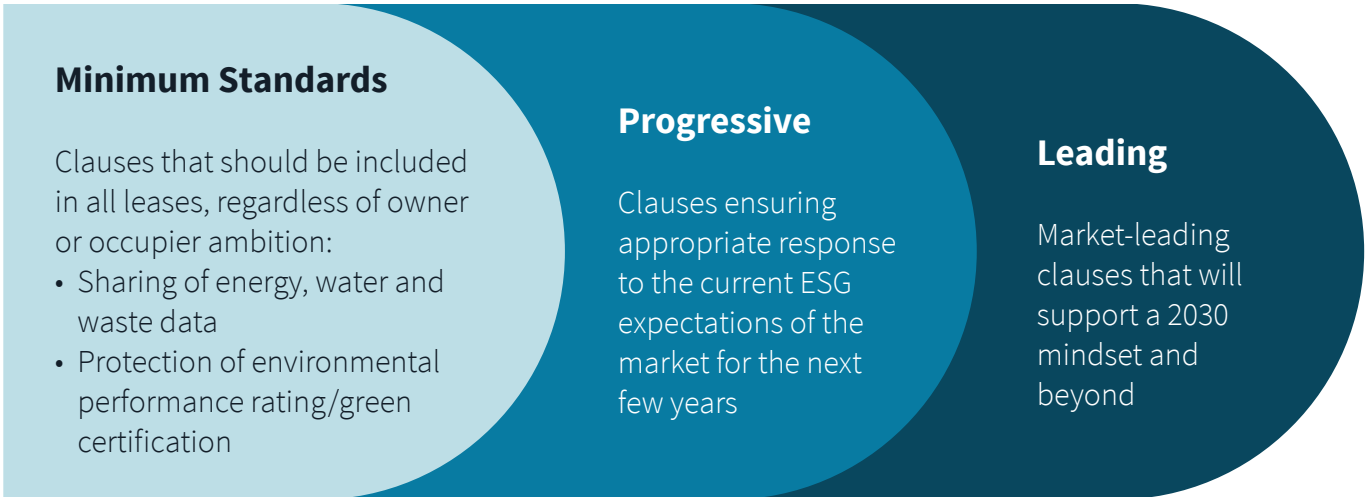
While the leasing process can be quite complicated, it is a very definable moment in time; a process that allows both parties to come together at the outset. It is a process that should be a key stage in both occupiers' and owners' pathways to achieving Net Zero Carbon (NZC) commitments.

In the coming years, the size of opportunity for occupiers and owners to partner on decarbonization through their leases cannot be understated. In the U.S. alone, **1.2 billion square feet** (111 million square meters) of office space and **2.5 billion square feet** (232 million square meters) of industrial space will be experiencing a lease expiration before 2030.[1]

The current energy crisis and general volatility in the energy market emphasize that collaboration on energy efficient upgrades through green leases should be a priority not only from a sustainability viewpoint, but also from operational stability and cost perspectives. If every leased office building implemented green leases, the U.S. market could reap **US$3.3 billion** in annual cost savings, as estimated by the IMT.[2]

Ambitious green lease structures will be unique to the parties and building in question but, at a basic level, JLL considers that all leases should have clauses requiring data sharing of energy, water and waste, and green certification or environmental performance rating protection.

JLL has defined three distinct groups of green leasing



Source: JLL, 2023

[1] JLL Research, covers leases 5,000 sf (~500 sqm) or greater for office and 10,000 sf (~1,000 sqm) for industrial
[2] IMT, Measuring the Potential Impact of Green Leases in the U.S. Office Sector, 2015

Momentum to achieve NZC is stronger than ever before

4,382
Companies committed to the Science Based Targets initiative (YE2022)

x6
Increase from just two years prior

1,820
GRESB participants
(+20% YoY)

US$6.9 trillion
Gross asset value

Source: Science Based Targets initiative, GRESB

Most companies have yet to align their real estate assets and operations with their NZC commitments. We see this changing as many of our occupier clients are integrating ESG as a priority into their site selection criteria. As they do, the lack of NZC buildings, in both ready supply and in the pipeline, will become increasingly evident.

We know that 90% of office stock is over 10 years old[3], and even buildings delivered just 5 years ago will likely require major efficiency improvements. The vast majority of existing buildings will need to be retrofitted and these decisions must be thought of and planned out in the long term.

[3] JLL Research, Retrofitting Buildings to be Future-Fit, November 2022 (across 10 major cities)

Impending supply-demand imbalance of NZC buildings

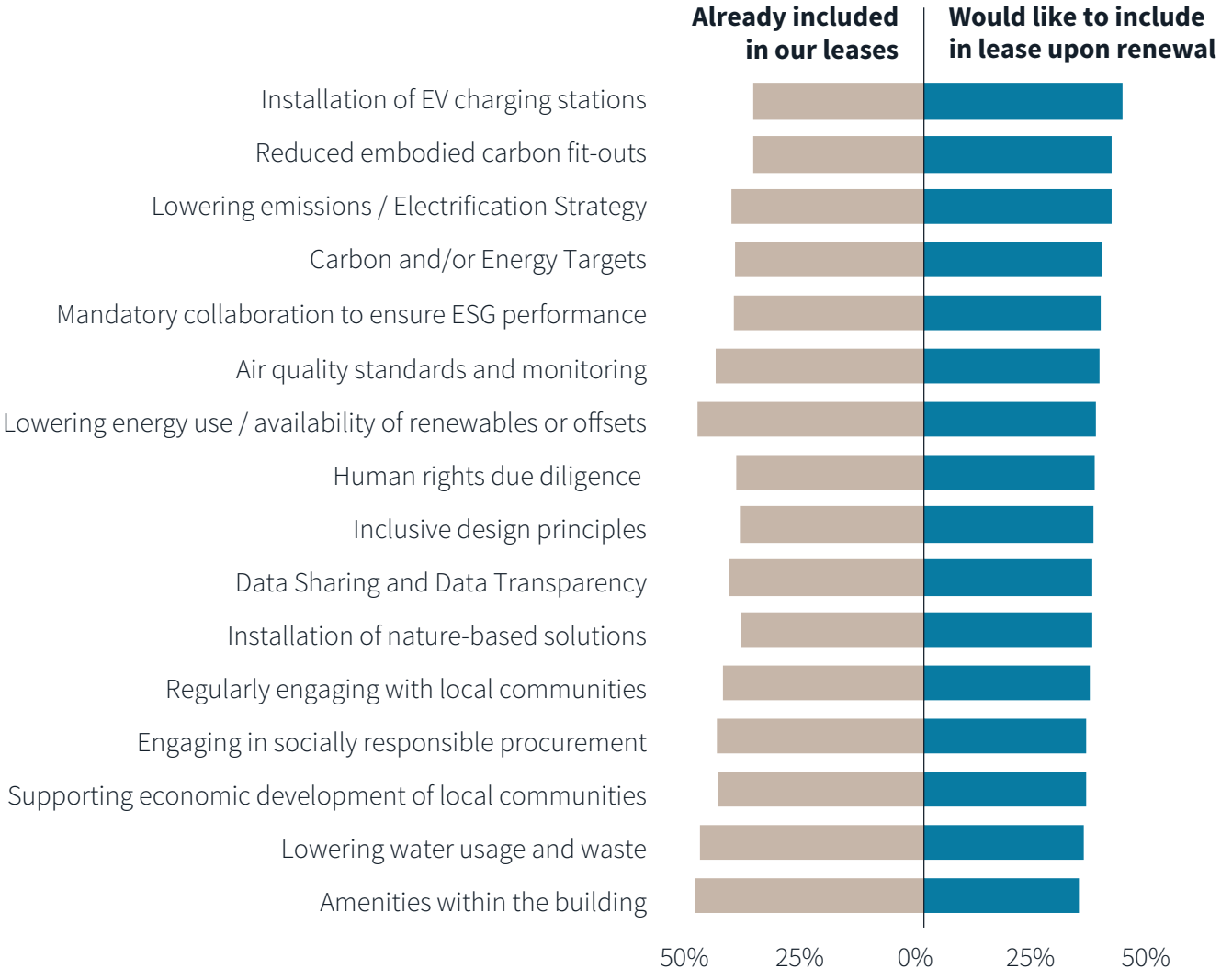
		Supply	Demand
United States		**2.1 million sqm** (23 million sf) Current space with LEED Zero certifications	**28.8 million sqm** (310 million sf) Current office space of top 20 office occupiers that have made commitments to net zero carbon by 2050
Europe	**London**	**740,000 sqm** (8 million sf) Current development pipeline of NZC buildings between now and 2026	**1.8 million sqm** (19.2 million sf) Office demand between now and 2030 from 693 office occupiers that have signed up to Science Based Targets
	Paris	**770,000 sqm** (8.3 million sf) Sustainable development in pipeline	**2.2 million sqm** (23.7 million sf) Future occupational NZC requirements*
	Berlin	**540,000 sqm** (5.8 million sf) Sustainable development in pipeline	**910,000 sqm** (9.8 million sf) Future occupational NZC requirements*

* based on SBTi company commitments and top 100 corporate occupiers by floorspace
Source: JLL, 2023

Green lease priorities are already expanding and reshuffling. Carbon is what organizations across sectors are increasingly focusing on, in part because it is being regulated sooner than other areas. JLL's 2023 Responsible Real Estate Survey found that corporate occupiers are already looking to prioritize carbon-centered criteria in their next lease.

Lease priorities among corporate occupiers

Which of the following areas are typically covered by leases with your landlord(s) today, or would you like to see included in future leases?



Source: JLL Responsible Real Estate Survey, 2023

The Value Proposition for **owners, investors and developers**

- Occupier activity is a major source of emissions. Outside of the office property sector, occupier activity typically accounts for 100% of emissions. If building owners do not have an occupier engagement strategy, they do not have a decarbonization strategy.
- Investors are faced with tricky decisions - pertaining to retrofit strategies and timing, electric vehicle (EV) charging stations, renewable energy procurement and so on - that all largely depend on how the building occupiers might engage.
- Energy Use Intensity (EUI) – the amount of energy used in a building divided by its area - is an asset owner's biggest challenge to reaching NZC.
- Green buildings are a driver of liquidity and value.
- As a building's value is increasingly interwoven with its energy performance, collaborative green lease structures are a clear business opportunity for forward-thinking owners and should form part of productive asset management and risk mitigation strategies.
- With rapidly changing legislation, green lease structures also provide the legal mechanisms to ensure a building's environmental performance is maintained or may be effectively improved.
- Green leases are a brand factor at the point of sale or when searching for new occupiers.
- For developers, green leases also provide a mechanism to engage with occupiers and secure keen occupants, potential cost-sharing structures, and funding that would soften the price tag of a NZC development.

The Value Proposition for **occupiers**

- We have seen more and more occupiers committing to NZC targets compared to building owners and investors. As corporations look to turn their NZC commitments into actions, they will be assessing their leased portfolio and making complex decisions around location strategies and operations that fit their targets.
- Options to reduce emissions from an occupier's leased space are limited and highly dependent on the ambitions of the building owner.
- Opportunity to exercise their greatest impact and influence over the property is restricted to a very small window in time: the leasing decision.
- Occupiers will not just be looking for space but also for partners who can help them achieve their sustainability targets. Occupiers should be leveraging green leases to effectively codify their NZC goals.
- Green leases also help occupiers protect their position if the building is sold.
- Carbon taxes and fines are surfacing in governments around the world and their burden will often land on the occupier through operational pass-through costs.
- Occupiers need to proactively pursue green lease arrangements that protect them from being responsible for a disproportionate share of those costs.
- Occupier spaces are a clear expression of their values, and sustainability-linked attributes of workplaces can lead to quality talent recruitment and retention.

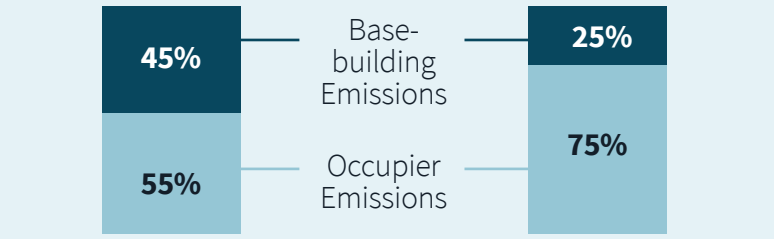
The carbon implications

The focus on NZC is subjecting both building owners and occupiers to an ever-increasing urgency to act, as well as increasing risk surrounding lack of transparency around emissions.

60%
Average share of CO_2 emissions from buildings in major cities

Source: JLL Research

Office Operational Carbon Emissions Breakdown



Source: JLL Project & Development Services

Moving a building away from fossil fuel sources and towards electrification is a necessary process, but the dialogue between occupiers and owners should encompass the **Whole Life Carbon (WLC) assessment**.

Embodied Carbon
Carbon from the construction process of a building, and the end-of-life stage (i.e., demolition)
11% of global emissions*

+

Operational Carbon
Carbon from operating the building
28% of global emissions*

=

Whole Life Carbon

* Globally, 39% of CO_2 emissions are generated by the built environment according to the GlobalABC

Building owners can go through the rigorous process of designing or improving a building to attain a green certification or meet other sustainability criteria, but they will end up with lackluster energy performance results if the building isn't operated efficiently. Occupier operations typically account for a majority of a building's emissions, making true NZC highly dependent on occupiers committing to using less energy and collaborating with owners on electrification strategies.

Green certifications are becoming a de facto requirement of premium offices, making up over 80% of class A office stock in cities like Singapore, Boston and Denver. Though they lay a great foundation for a sustainable building, they don't always equate to lower emissions, as discussed in JLL's Return on Sustainability research.

Carbon offsets have also made their way to the negotiating table, but their use generally remains under scrutiny. For the most part, many companies will ultimately need to use high-quality offsets (as defined by the Oxford Offsetting Principles) from a verified offset scheme to reach net zero goals, but they are a last resort. Read more on offsetting: Carbon offsets are not a quick fix for net zero.

Core Enablers of success
How to deliver the new approach?

New way of working centered around Education, Engagement and shared Equity

Green Leasing 2.0 transforms the traditional owner-occupier relationship into a new, more collaborative form of engagement that occurs throughout the life of a lease and creates alignment and shared value across both parties. At its core, it is an improved business model of building management and operation. The model acknowledges that there is no one-size-fits-all approach to successful green leasing, but three key enablers will drive the necessary step change: Education, Engagement and shared Equity.

Core Enabler #1: **Education**

Achieving the necessary step change to implementing Green Leasing 2.0 begins with establishing shared value among owners and occupiers. This requires multi-stakeholder education, upskilling and alignment of goals and priorities.

Education and communication are particularly critical when either side is less motivated. People are inherently opposed to change and are especially reluctant to accept legally binding terms and conditions if they do not understand their purpose or benefits.

Information sharing and communication, particularly around costs, can be a great way to nudge the party to agreement.

Stakeholders should also understand the cost implications of increasingly stringent regulations. Parties should look to future-proof their leases and ensure lease language allows for the future actions necessary to comply. Several cities are turning to carbon pricing and fines as mechanisms to drive down emissions in the built environment. Occupiers are especially vulnerable to such carbon fines as they are often passed through to them as operational expenses. Forward-thinking occupiers are well aware of this vulnerability and are anticipating such regulation and proactively pursing collaborative lease agreements that reduce these cost burdens.

Case Study
Navigating challenges through education

Location:
Washington, D.C.

Challenge 1:
Tower Companies is a commercial property owner, developer and manager in the Washington, D.C. metro area. They sought to promote sustainable practices throughout their buildings but, as is the case with most building owners, they do not have control over energy and water usage in occupier spaces

Solution:
Influence usage through requirements on the design of the occupier space

Challenge 2:
Perception that the costs of the occupier space build-out would be significantly higher

Solution:
Work with occupier leasing staff and brokers to educate them about the terms and conditions included in the lease. Review each requirement with them to explain that the energy-related requirements are low- or no-cost items

Areas covered in leases:
Energy use reduction, energy benchmarking, fundamental commissioning, above-code lighting power, motion and occupancy sensors requirement, water use reduction, prohibiting space heaters

Source: Better Buildings

Core Enabler #2: **Engagement**

Mission-aligned collaboration – to lease and manage a space in a sustainable way throughout the life of the lease – forms the core of the Green Leasing 2.0 model. Green leases, in and of themselves, should be treated as a step that outlines the governance structure to ensure that actions are taken and the targets are achieved.

Occupiers' and owners' green leasing strategies should tie into their entire real estate scheme. Occupier engagement is part of the value proposition for forward-thinking owners. For occupiers, engaging with their landlords early allows them greater leverage to execute stronger green lease terms and have more influence over improvements to the building throughout their lease.

Leading owners and occupiers are developing site or occupier selection checklists with criteria that puts sustainability at the forefront of the entire leasing process. In Canada, we have already seen both occupiers and owners select locations or occupants based on which site or party could contribute most to their own ESG ambitions. By contrast, we are just beginning to see these questions being asked in Asia.

Clauses that formalize regular points of contact – and enable productive engagement – are often the most useful and effective among all green lease clauses. Best practice is for stakeholders to meet at least annually.

Occupier Engagement Roadmap

Asset Life Cycle

Parties Involved	Site Selection	Lease Negotiations	Space Fit-Out	Operations	Mid-Lease Event	End-of-Lease
Leasing Teams	●	●	●		●	●
Legal		●			●	●
Sustainability Specialists	●	●	●	●	●	●
Project Development	●		●			●
Property Management			●	●		
Operations Teams	●		●	●	●	●
Procurement				●		

Source: JLL, 2023

Case Study
Integrated, ongoing engagement

JLL utilizes a multidisciplinary, full-service Workplace Dynamics team to ensure consistent standards for the operation and environmental management of all occupied space by JLL.

An integral mission of the team is delivering on a coordinated, portfolio-wide process that embeds sustainability expertise into the real estate life cycle.

Challenge: Incorporate sustainability across a huge portfolio spanning 52 countries

Solution: Create a program that integrates corresponding sustainability requirements into each stage of the life cycle. Program includes green lease clauses that are aligned with our ESG commitments and bring sustainability into our workplace experience.

52
countries

381
sites

4.6
million
sf of leased space

Commitments:

- Submeters installed for new sites >10,000 sf and long-term holds
- Net Zero carbon emissions across all offices by 2030
- Water management plans for sites in high water stress areas
- Reduce single-use plastics and 100% of sites have recycling
- Sustainability and wellness fit-out for sites >10,000 sf

Wins to date:

Our office fit-outs use **15% less energy** than a standard code minimum design:

- For a portfolio of our size, that's annual cost savings of over **US$2 million** to have Sustainable Operations ensure energy efficiency measures are incorporated into the fit-out design

Our office fit-outs have **25% less embodied carbon** than a typical design

Source: JLL, 2023

A flexible approach

Green Leasing 2.0 is not a 'plug and play' model and should maintain a degree of flexibility as different organizations have unique objectives, opportunities and challenges that will change over time. Stakeholders should encourage flexible language where applicable and be ready to lean into alternative forms of agreement when necessary. The key is to think practically about all possible intervention points and consider when the ideal moment is to engage.

Though the most effective form of agreement, occupiers and owners are not limited to a single lease event, and frequently agreement will have to occur outside of the contractual leasing process. Alternative documents include a Memorandum of Understanding (MoU) which is commonly used in the UK, an Environmental Management Plan, or collaboration deeds.

Because a contractual lease can only be amended if there is an expiry or break, alternative documents offer a faster route to collaboration until such an event occurs. These types of documents also allow both parties time to experiment with what is achievable before signing a legally binding lease document.

Non-contractual collaboration on decarbonization may become the norm faster in many Asian countries than the use of green lease contracts. Companies in the region are even more wary of legal complexities, and leases commonly have very quick turnarounds. Leading actors in Asia are still agreeing on submetering, waste monitoring, data sharing and so on, but are building that into the design and operation of the building and positioning them as features to drive competitiveness.

Flexibility should also accommodate advances in technology which are providing an ever-changing landscape of new ways to facilitate change. Because of this, it is important that neither party mandates the use of very specific types of technologies in their contract, e.g., the installation of LED lighting, as the most efficient option today might not be in the future.

Case Study
Working outside of a lease event

Location:
Hong Kong

Challenge:
Swire Properties is a prominent commercial property developer, owner and operator in Hong Kong and Mainland China. They sought to foster tenant-landlord collaboration in pursuit of sustainability objectives for both parties, outside of the lease contract

Solution:
Swire Properties' flagship "Green Performance Pledge" (GPP). Part of the company's Sustainable Development (SD) 2030 Strategy, the GPP is an action-oriented approach that builds on the basic premises of a green lease

- It covers the entire tenancy cycle, identifying two core areas of fit-out and operation
- A dedicated team from Swire Properties will work with tenants at various touch points throughout the lease term to guide companies on their SD journey, from goal setting to planning and results
- Includes a comprehensive set of 'SD Fit-out Technical Guidelines'
- Performance-based program focusing on creating significant impact in energy, water and waste reductions
- Provides users with a multitude of cutting-edge, data-driven tools and technologies, including free energy audits, to influence behavioral change while enhancing tenant-landlord collaboration

Win to date:
Since launching in August 2021, office tenants representing approximately 20% of the occupied lettable floor area from the company's Hong Kong office portfolio have signed up

Source: Swire Properties

Core Enabler #3: **Shared Equity**

For the full potential of the Green Leasing 2.0 model to be unlocked, green leases should exist as equitable forms of contract. This includes cooperation and cost-sharing clauses as well as fair distribution of benefits along with transparency, which all form the base of a well-founded, trustful partnership.

Quid pro quo approach to cooperation

Any capital expense that improves the operational efficiency or reduces harmful emissions or waste from the property will provide benefit for both the owner and occupier. The best way to entice the other party to agree to cooperate is by highlighting that benefit. Historically, owners have demanded the sharing of data in occupier-controlled spaces, but a more successful route would be if they were to provide reasons why that data is useful:

- If occupiers control utilities, they should collect and share data with owners so that owners can provide the right decarbonization solutions.

- If the owners control utilities, they should be collecting the data and sharing it with occupiers to influence energy conservation behavior. Owners can also offer more favorable lease terms if certain commitments are made to reduce energy usage or can even pair financial incentives with specific KPIs.

Leveraging cost-sharing and co-investment opportunities

Costs have been where most negotiations on building improvements stumble. JLL estimates that US$3 trillion[4] will be required to retrofit the office stock alone and building owners cannot take this on without help.

However, occupiers can work with owners and incentivize building upgrades. They can, for example, agree to sign a lease extension or agree to a higher rent if an owner covers the capital expenditure of a retrofit.

In addition, as we move closer to key emissions reduction targets, renewable energy will become a central focus. Both parties should look to collaborate on its procurement, whether by installing on-site energy or purchasing it off-site.

[4] JLL Research, Retrofitting Buildings to be Future-Fit, November 2022 (across 17 major countries)

Case Study
Cost-sharing and onsite renewable energy

Location:
Southampton, UK

Challenge:
Aviva Investors sought to develop a viable finance structure for a solar photovoltaic (PV) installation at Next Plc's distribution center

> “
> Efforts to decarbonise the real estate sector **must involve greater owner and occupier collaboration** to improve the sustainable occupancy and management of buildings. An effective tool gaining traction in the commercial property sector to address this problem is **sustainable real estate leasing**.

Solution:
Incorporate low-carbon technology into Aviva Investor's assets through 'rentalizing' the income

- Aviva Investor's Lime Property Fund financed the solar PV installation
- The solar project will facilitate renewable energy supply for Next Plc
- 2,900 kW system expected to generate over 1,980 MWh of clean energy per year
- The Lime Property Fund financed the cost of the solar project (£3 million) in return for an additional rent of £210,000 per annum

Source: Aviva Investors 2021 Progress Report

Building owners have also attracted efficiency investments in space fit-outs by rewarding occupiers who choose a more sustainable design. We have seen building owners formulate a decarbonization roadmap that entailed presenting new occupiers with a 'blank' space and outlining fit-out options that varied in cost and energy efficiency. The owner then manipulated lease structures and pricing, depending on which option was chosen, to help incentivize the more efficient fit-out.

These types of alternative funding structures are a smart move to make sustainability solutions more financially viable.

To protect the occupier from underperforming projects, some lease negotiations have included a 'performance buffer' that caps the owner's cost recovery to 80%, for example, of the predicted annual savings, while still guaranteeing the owner is paid back in full.[5] In another instance, a building owner and occupier have formulated such performance-based programs where the owner paid for the retrofit but the savings in the occupier's energy utility bills helped cover the costs.

Transparency is a form of equity

Transparency is a form of equity and a good way to build trust. This comes through not just data sharing but also in the owner's communication of capital projects and pipelines to ensure an occupier isn't blindsided. In doing so, this opens the door to new cost-sharing opportunities.

This transparency and communication should also involve both parties being able to accurately record and provide documentation of their share of emission reductions through any procurement of renewable energy - particularly as we're increasingly seeing companies procure real renewable energy through Renewable Energy Credits (RECs) instead of offsets.

[5] NYC's Energy Aligned Clause

Start and finish with the right team

Including sustainability experts as early in the process as possible is the most successful route to effective green leasing. These experts help draw the line between commitments to actionable plans and results. Best practice is to establish sustainability contacts or building environmental collaboration teams formed by members from both sides.

The inclusion of sustainability experts from both sides is key to facilitating understanding across stakeholder groups and party lines. Their level of expertise can help guarantee that the clauses are the best fit for the property, as well as for the goals and commitments of both owner and occupier. These experts can maximize any savings opportunities and identify potential tax incentives as well as other financial benefits.

The right team includes the involvement of property managers and operations teams as they are critical to the decarbonization value chain. Together with the sustainability experts, property managers are responsible for delivering on the lease objectives and will be the principal party engaging with occupiers during the lease term.

From an implementation and momentum driver perspective, brokers often hold the key, as they are always present in negotiations, so buy-in from this stakeholder group is critical. Through collaborating with sustainability experts, brokers are able to deliver their standard services more sustainably and to pursue clauses and initiatives that help achieve a base-level of environmental ambitions.

Assembling the right team

Source: JLL, 2023

Case Study
Sustainability expertise

Location:
Canada

Challenge:
Negotiate a NZC certification in an area with a fossil-fuel-heavy electricity grid

Solution and Value Add:
- A JLL specialist was able to negotiate a lease mandating a NZC certification, while leveraging their expert knowledge to take a holistic picture of the client's electrification strategies along with their renewable strategies
- This ensured that the targeted emissions reductions were realized for their client

Source: JLL, 2023

Case Study
Assembling the right team

Location:
Chicago

Challenge:
Property managers sought to promote high-performing and sustainable features of the Aon Center to occupiers and gain buy-in for future projects

Lease structure:
Triple net

Solution and Value Add:
- Capitalize on sustainability ambitions of occupiers as well as the important role that property managers can play in engaging both owners and occupiers on sustainability
- Create an owner-occupier committee that meets regularly so that occupiers may share ideas and form a more integral part of driving sustainability initiatives in the building
- Explore opportunities to match occupiers' broader ESG targets

Source: JLL, Energy Star

Data and technology are core foundations of Green Leasing 2.0

To know where we're going, we have to know where we are.

Data measurement and sharing is the critical first step to Green Leasing 2.0; to properly and efficiently measure data, you need technology. In 2022, many disclosure mandates like EFRAG, SEC and the newly formed ISSB all drafted varying proposals for disclosure standards on climate-related issues and sustainability-related accounting.[6] Final drafts of these standards are expected to be adopted in 2023, which will collectively put much greater pressure on companies and investors to respond and adapt. Like GRESB, such disclosure mandates will become more and more granular, making measurement and data sharing a necessary win-win.

In the U.S. and the UK there is still hesitancy to agree on data sharing, whereas in countries like Canada, France and the Netherlands it is standard practice.

Setting measurable goals with corresponding KPIs that provide both parties with clear targets, makes green leases not about clauses but about outcomes. Accurate performance measurement provides users with a speedometer to let them know how energy-intensive they are. Some owners are taking it a step further and providing their occupiers with specific recommendations and actions to decrease energy consumption.

In the case of a multi-let building, submetering is best practice to ensure proportionate distribution of costs; central meters are frequently used where the owner divides the costs of utilities among occupiers by their floor area. This raises issues if, for example, one user is running an energy-intensive data center while the other is a low energy demand law office.

In addition, submetering base-building equipment allows owners to better understand how their own equipment is using energy to make more informed decisions when planning improvements.

[6] European Financial Reporting Advisory Group (EFRAG); U.S. Securities and Exchange Commission (SEC); International Sustainability Standards Board (ISSB)

Case Study
Market-leading lease

What?

- JLL's signed lease for new UK flagship office at 1 Broadgate in London with British Land
- 132,000 sf
- 15-year term
- Pre-let 30% of the office space
- 2026 occupation

Ambition:

- JLL's new workplace will deliver a flexible, best-in-class office that showcases the company and what it does
- The new workplace will be inclusive, sustainable and driven by technology while promoting the wellbeing of JLL's people

How?

Applied the Green Leasing 2.0 model:

- Began search three years ahead of signing
- JLL, in collaboration with British Land, developed market-leading green lease clauses across all aspects of ESG which are now feeding into wider industry guidance
- These are mission-based clauses that embrace JLL's 2030 objectives
- Integrated smart building systems to maximize efficiency

Source: JLL, 2023

> "What became clear to us fairly early on in the process was that to find the right asset meant to find the right developer, with the right credentials, that matched our strategy, so it very much became about partnership.

Andrew O'Donnell, COO UK Agency, JLL

Looking ahead

Beyond Carbon

Addressing the challenge of climate change will require action across multiple fronts. While decarbonization of the built environment is a primary concern, owners and occupiers must also focus on other critical areas, such as electric vehicle (EV) charging, circularity and climate resilience, to fully address the impacts of climate change. As companies look to meet all their ESG goals, social value elements are also making their way into lease negotiations.

By taking a comprehensive approach, building owners and occupiers can help to create more sustainable and resilient communities for the future.

- **EV charging stations:** Investment in infrastructure to support the transportation sector's transition towards EVs is rapidly gaining traction. As revealed by JLL's latest Responsible Real Estate survey, clauses around EV charging stations are the least included in current leases but will be the top priority in future negotiations. While EV charging at buildings provides a net positive benefit to global emissions, until the energy grid is comprised of completely clean sources, it shifts emissions from transportation to buildings. This brings additional questions around costs that are even more nuanced. Capital expenses, operating expenses and use are all up for deliberation and should be discussed and agreed upon in the lease.

- **Circularity:** Adopting circular economy principles to reduce waste and embodied carbon emissions is an important part of addressing climate change. A leading industry thinker, The Chancery Lane Project, has created 'Aatmay's Clause' to drive sustainability and circularity in leasing arrangements. The clause contains provisions to reduce the unnecessary waste and purchase of new products by prompting occupiers and owners to follow circular economy principles.[7]

- **Climate resilience:** The impacts of climate change are already happening now, and both occupiers and owners face greater urgency to ensure that buildings and communities are prepared for the impacts of extreme weather events and other climate-related risks. They will need to collaborate to incorporate climate resilience into building development, design and operations. In one of the most notable changes to Canada's REALPAC Office Green Lease model, it has included climate resiliency under a specific clause.

- **Social value:** True responsibility goes beyond environmental ambitions. Leading companies are looking to drive positive social impact and good governance through their leasing decisions to more holistically meet their ESG objectives - **turning leases from green to responsible**.
  As JLL Research found in its recent occupier survey, 44% of respondents are already leveraging their lease arrangements to drive social initiatives across air quality standards, socially responsible procurement and economic development of local communities.

[7] The Chancery Lane Project, Sustainable and Circular Economy Principles in Leasing Arrangements for Repairs and Alterations

Final reflections

With the first major checkpoint in the race to NZC on the horizon, corporate focus is shifting from commitments to actions and results. In a leased site, neither the owner nor occupier can singularly dictate the environmental or social impact of the building. Both parties are accountable, and as such, are responsible to act.

Green Leasing 2.0 provides the blueprint for successful, results-driven use and management of buildings, present at each stage of the real estate life cycle. **It is founded on the premise that both owners and occupiers will benefit from such lease arrangements and, in doing so, it mobilizes both parties as partners - taking on the immense challenge to decarbonize the built environment together.**

Greening the lease: Example clauses

Ongoing engagement and collaboration

"Landlord and Tenant shall meet annually and review energy and water-use data, recommissioning outputs and recommendations and the effectiveness of efficiency programs, and mutually establish an energy optimization plan, including energy management and cost-effective savings opportunities for the building and the leased premises. Annual reports shall be produced summarizing both tenant and landlord efficiency efforts. Tenant and landlord shall work together to attain third-party green building certifications."

Source: GSA

Cost-sharing

"All costs of any capital improvements made to the building that reduce the building's energy expenses shall be cost capitalized and hereafter amortized as an annual Operating Expense under generally accepted accounting principles, only the yearly amortized portion of which shall be included in Operating Expenses. In no event shall the charge for yearly amortization be more than the actual reduction in Operating Expenses."

Source: IMT

Renewable energy procurement

"Tenants shall purchase energy from on-site renewables as provided by the landlord via a Power Purchase Agreement (PPA). Landlord shall install, own and maintain the on-site generation and sell power directly to the Tenants at a fixed rate that is at or below electricity rate offered by local utilities."

Source: Green Lease Leaders

Sustainability contact

"Landlord and tenant shall provide a point of contact to discuss issues related to sustainability and energy. Issues include, but are not limited to, retrofit projects, billing issues, energy efficiency upgrades, and data access."

Source: Green Lease Leaders

Data sharing

"Tenant shall be required to submit on a(n) [monthly, quarterly, annual] basis to Landlord energy and water consumption data, including total usage and total charges as they appear on Tenant's electric, gas, water, and other utility bills, in a format deemed reasonably acceptable by Landlord. Landlord agrees to provide, at Tenant's request, building level energy and water consumption, as well as (if applicable) the ENERGY STAR score of the building."

Source: IMT

Climate resilience

"The Tenant agrees to implement its own, or follow the Landlord's directive, to support, improve, and/or maintain the Project's Resilience. The Landlord and Tenant shall agree to which Natural Hazards are relevant to the Project and the adaptation measures that should be covered in the Building Resilience Plan. … Adaptation measures may include retrofits to the Premises where possible."

Source: REALPAC

Contacts

Research Authors

Paulina Torres
ESG and Sustainability Research Lead, Americas
paulina.torres@jll.com

Kamya Miglani
Head of ESG Research, Asia Pacific
kamya.miglani@jll.com

Steven Lewis
Global Head of Insight
steven.lewis@jll.com

Contact our sustainability experts

Americas

Karen Saarkoppel
Senior Manager, Sustainability, Project & Development Services
karen.saarkoppel@jll.com

Brenden McEneaney
Senior Vice President, Client Sustainability Solutions
brenden.mceneaney@jll.com

EMEA

Kirsty Draper
Head of Sustainability, UK Agency Leasing
kirsty.draper@jll.com

Paul Stepan
Head of Client Sustainability Solutions, EMEA
paul.stepan@jll.com

Quentin Drewell
Director, Sustainability Consulting
quentin.drewell@jll.com

Asia Pacific

Helen Amos
Head of Sustainability Consulting, Hong Kong
helen.amos@jll.com

Alex Tzikas
Sustainability Director, Work Dynamics, Australia
alex.tzikas@jll.com

About JLL

JLL (NYSE: JLL) is a leading professional services firm that specializes in real estate and investment management. JLL shapes the future of real estate for a better world by using the most advanced technology to create rewarding opportunities, amazing spaces and sustainable real estate solutions for our clients, our people and our communities. JLL is a Fortune 500 company with annual revenue of $20.9 billion, operations in over 80 countries and a global workforce of more than 103,000 as of December 31, 2022. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com.

About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 550 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

About JLL's Sustainability Services

Through our end-to-end suite of Sustainability Services, we support our clients at every stage of their sustainability journeys. We start by helping them to develop sustainability strategies and action plans, then execute on those action plans, and optimize for cost and performance. Our sustainability solutions are configured to help our clients achieve their desired outcomes – whether those outcomes be financial, environmental, social, or governance- or resiliency-related – no matter where they are on their sustainability journey. With our end-to-end suite of energy and sustainability solutions, we can meet our clients exactly where they are, help them achieve their desired outcomes, and to do so more effectively and efficiently over time.

JLL SEE A BRIGHTER WAY

jll.com

COPYRIGHT © JONES LANG LASALLE IP, INC. 2023
This report has been prepared solely for information purposes and does not necessarily purport to be a complete analysis of the topics discussed, which are inherently unpredictable. It has been based on sources we believe to be reliable, but we have not independently verified those sources and we do not guarantee that the information in the report is accurate or complete. Any views expressed in the report reflect our judgment at this date and are subject to change without notice. Statements that are forward-looking involve known and unknown risks and uncertainties that may cause future realities to be materially different from those implied by such forward-looking statements. Advice we give to clients in particular situations may differ from the views expressed in this report. No investment or other business decisions should be made based solely on the views expressed in this report.