



GREEN LEASE LEADERS

CREATING SUSTAINABLE LANDLORD-TENANT RELATIONSHIPS

ADVANCING FROM SILVER
TO GOLD RECOGNITION

➔ THIS RESOURCE IS PART OF A SERIES OF CASE STUDIES SHOWCASING EXCITING GREEN LEASE TRENDS AND BEST PRACTICES. VISIT [GREENLEASELEADERS.COM/RESOURCES](https://www.greenleaseleaders.com/resources) TO DOWNLOAD MORE CASE STUDIES AND LEARN HOW LEASE-BY-LEASE, GREEN LEASE LEADERS ARE IMPROVING LANDLORD-TENANT COLLABORATION TO DRIVE HIGHER PERFORMING BUILDINGS THAT HELP PUSH THE COMMERCIAL REAL ESTATE INDUSTRY FORWARD.



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

Typical leases often create a split incentive between building owners and tenants where the cost of investing in energy and water efficiency improvements is borne by one party while the other experiences the benefit of reduced utility costs resulting from those improvements. Green leases eliminate the split incentive by equitably aligning the costs and benefits of energy and water efficiency investments for both parties. A [study](#) by the Institute for Market Transformation (IMT) found that green leases could potentially 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. With up to \$3.6 billion in potential energy savings available, the need to dramatically transform the way leases are structured is increasingly important, particularly as cities unveil more stringent building codes and performance standards in pursuit of climate mitigation targets.

Launched by IMT and the U.S. Department of Energy's (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 overcome the split incentive and spur collaborative action on energy efficiency and sustainability in buildings. This year's Green Lease Leaders represent portfolios totaling nearly 1 billion square feet and comprise a diverse range of buildings from large and small commercial offices to industrial buildings and data centers. Together, Green Lease Leaders manage nearly 3 billion

square feet of commercial and government space across North America, representing a huge potential for growth in green leases. In the commercial sector alone, green leasing has the potential to affect 8 percent of leased space nationwide.

In the following case study vignettes, IMT and DOE's Better Buildings Alliance highlight two 2020 Green Lease Leaders who have received Gold designation for implementing effective strategies in their leasing practices and overall building operations. This year's class covers multiple sectors and consists of the largest cohort of tenants since the program's conception, a clear indication that tenant demand for high-performing buildings is growing. Their actions set strong examples for every real estate or sustainability practitioner to consider when leasing property.

[STAG Industrial:](#) By integrating lease language that facilitates two-way communication of utility data between the landlord and tenant, STAG builds a rapport with its tenants while gaining insight into property performance. STAG uses this insight to prioritize efficiency improvement projects that demonstrate significant value.

[Ultra Beauty:](#) Ultra Beauty is leading the way for sustainable tenant-led leasing with its robust energy management program and leasing approach. Ultra Beauty's legal and construction teams are instrumental in collaborating with landlords on efficient build-out standards.



For retailers and brands, focusing on sustainable practices is not only crucial to protecting the environment, but also a key way to attract younger generations of consumers and drive long-term brand loyalty. According to a [2018 survey](#) conducted by data platform Euclid, 52 percent of millennials and 48 percent of Gen-Xers feel it is important that their values align with the brands they like. As consumers are increasingly driven to choose brands that align with their ethics, the number of companies taking actions to reduce their environmental impact has grown rapidly. Companies are transforming facilities across their supply chains. However, investing in energy efficiency and sustainability can be a challenge in the retail and industrial distribution and warehouse sectors due to the commonplace triple net lease disincentivizing any action to be taken by either the landlord or tenant. STAG Industrial (NYSE: STAG) and Ulta Beauty, Inc. (Ulta Beauty) have overcome this barrier by implementing green leasing. Both companies began as Silver-level Green Lease Leaders and transitioned this year to Gold by enhancing and executing the leases they designed for their first award.

STAG Industrial

STAG is a real estate investment trust (REIT) headquartered in Boston, Massachusetts, that is working to stay ahead of its competitors and minimum energy code requirements by advancing its efforts on both energy efficiency and using its rooftops to host renewables. As of May 1, 2020, STAG operated a diverse portfolio of single-tenant industrial properties including over 450 warehouse, distribution, and light manufacturing buildings that span in excess of 91 million square feet across 38 states.

Strengthening Relationships Through Green Leasing

STAG's single-tenant portfolio and standard lease structure posed a challenge to evaluating and improving portfolio-level energy performance. To improve STAG's sustainability strategy, Brian LaMont, Senior Vice President of Capital and Construction Management, worked with the leasing team to adapt its standard lease. By integrating lease language that facilitates two-way communication of utility data between the landlord and tenant, STAG is now able to build a rapport with its tenants while

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gaining insight into property performance. STAG is now using this insight to prioritize efficiency improvement projects that demonstrate significant value. This is particularly useful due to the financing program STAG offers its tenants. Through this internal program, tenants can borrow money at zero cost, with monthly repayments tailored to be equal to the anticipated monthly energy savings generated by the project.

With a portfolio that spans across the U.S. and regulations on building performance on the rise, STAG is actively engaging with its tenants to pursue projects that reduce energy and greenhouse gas consumption. STAG targets environmental efficiency projects and equipment upgrades such as LED lighting,

installation of reflective roofing, and upgrading to higher efficiency HVAC systems. STAG Industrial is also hosting photovoltaic systems on its rooftops where there are state programs that make this a cost-saving option. Where green leasing has been implemented, STAG has produced a hierarchy of projects based on which will deliver the most significant energy savings.

Expanding Relationships

As STAG's tenants renew leases and new acquisitions become leased, STAG is introducing its modernized lease as a tool for collaboration in an effort to increase further adoption. STAG is actively pursuing photovoltaic opportunities nationwide and is scheduled to have more than 24 MW installed by the end of 2020. Currently the energy generated from these projects is being sold back to the grid, however STAG is exploring ways of integrating green lease language that would allow its tenant to benefit from the renewable energy produced onsite. As more tenants express interest, STAG is hopeful future iterations of its green lease will unlock new partnership opportunities.

“FOCUSING ON ENERGY EFFICIENCY AND SUSTAINABILITY IS IMPORTANT TO US, OUR INVESTORS, AND OUR TENANTS. IT'S AN OPPORTUNITY TO RUN OUR BUILDINGS MORE EFFICIENTLY, REMAIN COMPETITIVE IN THE INDUSTRIAL MARKET, AND DEMONSTRATE ADDED VALUE TO OUR INVESTORS.”

—BEN BUTCHER, CEO, PRESIDENT, AND CHAIRMAN OF STAG INDUSTRIAL



Above: STAG Industrial - Burlington NJ PV Array



Ulta Beauty, Inc.

With 1,200 leased locations, Ulta Beauty is the largest beauty retailer in the United States and now the company is also a leader in sustainability and energy management. Delivering operational excellence and driving efficiencies is a strategic imperative for Ulta Beauty. Utilizing the lease as a tool to drive energy efficiency and sustainability in their retail stores helps strengthen and evolve their approach to long-term sustainability growth and provide an exceptional guest experience.

Driving Operational Excellence and an Exceptional Guest Experience

Ulta Beauty's legal and construction teams are instrumental in collaborating with landlords on efficient build out standards. Within the lease, Ulta Beauty specifies submetering

utility usage to maintain visibility and control over its energy and water consumption. Ulta Beauty partners with energy management system (EMS) and water management vendors to implement and manage the day-to-day operations of its stores nationwide. The energy and water management program includes proactively analyzing the data to troubleshoot critical EMS/HVAC alarms, investigating stores with usage anomalies, and monitoring overnight electric usage at all stores to ensure there are no unnecessary lights or equipment left on. The Ulta Beauty Energy Team has benchmarked store energy consumption since 2016 using tools like the U.S. EPA's ENERGY STAR® Portfolio Manager® and weather-normalized utility bill comparisons to understand opportunities for energy savings.

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Since 2015, Ulta Beauty's Energy Team has worked with its lease team to require energy efficiency in all its HVAC build outs. Ulta Beauty communicates its roof top unit (RTU) guidelines to the landlord during negotiations advocating that the RTUs meet or exceed the Consortium of Energy efficiency Tier 2 equipment specifications. Based on each store's geographical location, the Energy Team customizes the feature set of the RTUs to ensure the unit works optimally within that climate. Depending on the age of the equipment and if new RTUs need to be installed, Ulta Beauty coordinates with the landlord on a mutually beneficial maintenance and repair strategy. Ultimately, the landlord is only obligated to provide maintenance for the first year the store is open. After the first year, Ulta Beauty is obligated to conduct maintenance and, in some cases, also replace and repair equipment. As a result, Ulta Beauty ensures a better guest experience through quality maintenance and operation of the RTUs and the landlord avoids labor costs over the rest of the lease term.

Overall, Ulta Beauty's energy management program and RTU standards have reduced comparable store electric

consumption by over 5 million kWh from 2016 to 2019, while maintaining a comfortable environment for guests and associates.

Expanding and Strengthening Relationships

Earning Green Lease Leaders Silver designation in 2018 has helped Ulta Beauty engage senior leaders on the green aspects of its existing leases. This engagement has allowed Ulta Beauty to expand on its lease language even further. Additions included adding a sustainability point of contact for landlords to direct inquiries to and a request for whole building energy usage through ENERGY STAR Portfolio Manager®. Having visibility into the ENERGY STAR score will provide Ulta Beauty with a better understanding of their energy performance in the context of the whole building. As more leases incorporate this new lease language, Ulta Beauty looks forward to having better communication with its landlords on matters of sustainability and making more informed decisions when leasing new space.





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.

The 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/>

