



GREEN LEASE LEADERS

CREATING SUSTAINABLE LANDLORD-TENANT RELATIONSHIPS

INTEGRATING HEALTH
AND SUSTAINABILITY
AT THE
EMPIRE STATE BUILDING
AND BEYOND

➞ THIS RESOURCE IS PART OF A SERIES OF CASE STUDIES SHOWCASING EXCITING GREEN LEASE TRENDS AND BEST PRACTICES. VISIT [**GREENLEASELEADERS.COM/RESOURCES**](https://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. Historically, the cost of investing in energy and water efficiency improvements has been borne by one party while the other experiences the benefit of reduced utility costs resulting from those improvements. A means for overcoming this imbalance is implementing green leasing language, which creates a win-win strategy for building owners and tenants by equitably aligning the costs and benefits of energy and water efficiency investments.

While this split incentive can serve as an obstacle to improving energy efficiency in leased space, the ability to utilize green leasing presents a tremendous opportunity. 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. With up to \$3.6 billion in potential energy savings available in leased office buildings alone, the need to dramatically transform the way leases are structured is increasingly essential, particularly as cities unveil more stringent building codes and performance standards in pursuit of climate mitigation targets. Furthermore, as the real estate market rebounds from the COVID-19 pandemic, green leasing is becoming the new standard as it supports flexibility and transparency for both parties.

Launched by IMT and the U.S. Department of Energy's (DOE) Better Buildings Alliance in 2014, [Green Lease Leaders](#) is the industry's premier leasing recognition program. The program 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. 2021's Green Lease Leaders represent portfolios totaling more than 2 billion square feet (sq. ft.) and comprise a diverse range of buildings from large and small commercial offices to industrial buildings to data centers. Altogether, Green Lease Leaders manage over 4 billion square feet of commercial and government space, representing a huge potential for growth in green leases. In the commercial sector alone, green leasing has the potential to impact eight percent of leased space nationwide.

In the following case study, IMT and DOE's Better Buildings Alliance highlight one of the 2021 Green Lease Leaders that received Gold designation for implementing effective strategies in their leasing practices and overall building operations. Empire State Realty Trust, the most efficient REIT in New York City, differentiates itself by making sustainability, and green leasing, a business advantage.



Empire State Realty Trust

Empire State Realty Trust (NYSE: ESRT) is a real estate investment trust (REIT) with an office and retail portfolio that covers 10.1 million rentable square feet, which consists of 9.4 million rentable square feet across 14 office properties and approximately 700,000 rentable square feet in its retail portfolio. Most notably, ESRT's nine office properties in midtown Manhattan include the Empire State Building. ESRT is committed to portfolio-wide strategies for environmental, social, and governance ("ESG") initiatives, a key tool to drive tenant efficiency and sustainability performance.

Foundations of ESG & Pathway to Green Leasing

ESRT's clearly-defined ESG goals require integrated strategies for energy efficiency and sustainability across their entire portfolio. Their sustainability program is structured around quantifiable improvement in key areas, including energy efficiency, water efficiency, recycling and waste diversion, and healthy work environments for tenants and employees. Goals include a 50 percent reduction in energy use intensity (EUI), a 100 percent reduction in greenhouse gas emissions intensity, a five percent average annual waste reduction, and a 30

percent reduction in water use by 2035, in each case from a 2018 baseline. Additionally, ESRT set a carbon-neutral operations goal for the Empire State Building by 2030 and its portfolio by 2035. These goals support New York City's carbon reduction goal, and the related local law 97 (LL97), to reduce greenhouse gas emissions 80 percent by 2050, with an interim target of 40 percent reduction by 2030.

Green leasing is a key strategy for meeting ESRT's goals. Since the Green Lease Leader program began in 2014, ESRT has achieved Gold-level recognition through written and implemented green leases across their portfolio. As a standard part of their operating procedures, the lease is a critical step to establish sustainability targets and to integrate them into deals. ESRT views green leasing as a way to drive action, compliance, and performance for the duration of the lease; to set a precedent for renewal and data sharing; and to provide a platform for critical landlord-tenant partnerships related to sustainability. On a larger scale, ESRT uses green lease principles for design, construction, continued performance, and indoor environmental quality (IEQ) measures.

Green Leasing is an Integrated Strategy

“Our leadership in green leases, which we initiated in 2008, is aligned with our groundbreaking efforts to reposition the Empire State Building and entire portfolio,” said Dana Robbins Schneider. “Our approach to balance technical and economic priorities to achieve maximum energy savings with an uncompromising approach to healthy buildings and IEQ. As we rolled our green lease clauses for sub-metered tenant spaces, we also developed rigorous High Performance Healthy Sustainable Design and Construction Guidelines. These are the most robust part of our green lease template, and they include advanced strategies for energy and emissions reduction, water reduction, waste diversion, and healthy buildings/IEQ. This leadership positioned us to be the first in the Americas to achieve the rigorous WELL Health-Safety Rating.”

ESRT builds green lease clauses into standard lease structures, called High Performance Design and Construction Guidelines. These include provisions for design and construction that are high-performing, sustainable, and healthy. The sustainability team at ESRT collaborates with the leasing and legal teams to include green lease clauses during lease development, negotiation, and review. Beyond the leasing and legal teams, they educate their project managers, brokers, architects, and engineers to ensure that the clauses and initiatives are implemented effectively. Green leases improve access to data, increase procurement of renewable energy, and drive tenant efficiency and sustainability performance. During COVID-19, ESRT’s green leases were useful in providing operational flexibility. Since the start of the COVID-19 pandemic, requests from tenants for ESG data have increased

significantly as they seek information on the performance and health of ESRT’s buildings. Recognizing this, ESRT integrated a new clause on ESG data- the information covers energy, water, waste, and wellness, and informs the ESRT sustainability team of how buildings are performing and provides an opportunity for collaboration between ESRT and tenants.

ESRT also developed proof-of-concept cases to determine the impact of green leasing and ensure that the changes deliver measurable results for their tenants and themselves. As part of these, ESRT performs intensive energy and financial modeling to make the case for advanced green lease measures, especially those focused on energy and emissions reduction. Through ESRT’s work in the development of the Tenant Energy Optimization Program with ULI and work to educate and engage project managers, brokers, architect, and engineers, ESRT is ensuring that the clauses and initiatives are implemented effectively and consistently across their full portfolio. ESRT has worked with ESG-focused tenants like LinkedIn, CookFox, Coty, Shutterstock and others who follow their High Performance Design and Construction Guidelines and green lease structure. As a result of ongoing collaboration, ESRT tenants have generated 20-57% in energy reduction with solid paybacks of under five years.

“ ***Empire State Realty Trust, the most efficient REIT in New York City, differentiates itself by making sustainability, and green leasing, a business advantage.*** ”





Green Leasing Benefits during COVID-19

ESRT used green leasing principles to navigate the COVID-19 pandemic and set a precedent for communication and expectations between landlord and tenant. For example, when the pandemic began, ESRT needed a way to enhance indoor air quality in their office buildings, but they did not want to sacrifice energy efficiency. Leveraging best practices in green leasing, ESRT coordinated with tenants to do walk-throughs of tenant spaces and completed energy audits in 4 million square feet of tenant space. Using this data, ESRT made energy efficiency improvements, saving the tenants energy and money during the pandemic. Simultaneously, ESRT addressed IEQ concerns both through a related leasing clause and through immediate actions to improve air quality. IEQ measures included MERV 13 filters, increased ventilation, active bi-polar ionization, no/low volatile organic compounds (VOCs), green cleaning (aligned with COVID disinfection in March 2020), and no “Red List” materials – which are worst in-class materials, chemicals, and elements known to pose serious risks to human health and the greater ecosystem. These actions built trust with tenants and created a clear path for returning to the office.



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Green Leasing into the Future

As ESRT works toward carbon neutrality and complying with LL97, green lease clauses will ensure both landlords and tenants take an active role. Upon request, tenants can engage with their Energy, Sustainability, and ESG team to conduct a sustainability walkthrough for their space and receive high-level recommendations to improve energy efficiency and healthy IEQ. This strong tenant-owner collaboration is aligned with the Green Lease Leader principles and crucial in the achievement of these ambitious goals. Through strong relationships, ESRT aims to show tenants how high-performance spaces benefit them. Over time, this may shift culture within their companies to further support efficiency, and health actions, and to drive greater demand for ESRT properties.



➔ VISIT [GREENLEASELEADERS.COM/RESOURCES](https://www.greenleaseleaders.com/resources)



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/>