



GREEN LEASE LEADERS

CREATING SUSTAINABLE LANDLORD-TENANT RELATIONSHIPS

IBM AND LENDLEASE
LEVERAGE GREEN LEASING
AS TENANTS TO ACHIEVE
NET-ZERO



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

Whether it is triple net, gross, or another standard lease structure, conventional leases often create a 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 sustainability investments. Whether it is a commercial office, a warehouse, or a data center, a green lease enables landlords and tenants to 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 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 spur collaborative action on energy efficiency and sustainability in buildings. As of 2022, Green Lease Leaders cumulatively represent more than 110 companies and 6.1 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 2022 cohort of Green Lease Leaders span multiple property types, including industrial buildings and data centers that are using the lease to overcome split incentives and advance win-win energy action plans and sustainability goals.

In the following case study, the Institute for Market Transformation (IMT) and the Department of Energy's (DOE) Better Buildings Alliance highlight IBM and Lendlease, who were recognized for their green leasing as tenants. Both companies excel at prioritizing sustainability commitments when negotiating with landlords. IBM's approach is anchored on integrating environmental considerations into its site selection and lease contracting processes. Lendlease views green leasing as a risk-management tool, and has set an ambitious adoption rate for both existing and new properties.

➡ THIS RESOURCE IS PART OF A SERIES OF CASE STUDY RESOURCES 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.



IBM (NYSE: IBM)

IBM recognizes that the built environment is a significant contributor to emissions and that all real estate transactions and lease contracts that IBM undertakes need to be evaluated through the lens of IBM’s sustainability goals. With this in mind and building on their Green Lease Leaders accreditation in 2022, they have established a program with a systematic approach to ensure that sustainability criteria are central to site selection decisions and lease contract negotiations.

Company Overview

- Mission: To be the catalyst that makes the world work better.
- Organization Classification: Information Technology.
- Notable Properties/Projects: One Madison Avenue, New York.
- GLL Level: Gold Tenant
- GLL Since: 2022
- Type of Buildings: Office, Lab, Manufacturing, Warehouse, Data Centers
- Portfolio Square Footage: ~36 million square feet of leased space globally

International Business Machines Corporation, better known as IBM, is one of the biggest technology companies in the world, with operations in more than 175 countries and over 282,000 employees worldwide. IBM integrates technology and expertise, providing infrastructure, software and consulting services for clients as they pursue the digital transformation of the world’s mission-critical businesses. It has a global workforce including developers, consultants, client delivery and services specialists, research scientists and others. Its employees are among the world’s leading experts in cloud, AI, quantum computing, cybersecurity and industry-specific solutions. The company has also served as a major research and development corporation over the years, with significant inventions like the floppy disk, the hard disk drive, and the UPC barcode. IBM researchers have been awarded Nobel Prizes, Turing Awards, and other top honors for their work throughout its history.

Like their business practice, IBM is also leading the way in climate commitments. IBM has 21 Sustainability Goals relating to energy conservation, use of renewable electricity and GHG emissions reductions, including reaching net-zero GHG emissions by 2030. Some examples include:

“WE’VE GOT WASTE DIVERSION RATES, ENERGY CONSERVATION TARGETS, AND RENEWABLE ELECTRICITY PROCUREMENT TARGETS THAT WE NEED TO ACHIEVE. BUT WE HAVE DEPENDENCIES ON LANDLORDS, SO WE NEED THE COOPERATION OF LANDLORDS TO HELP US MEET THOSE TARGETS.”

~ JIMMY MCDONOUGH, IBM EMEA (EUROPE, MIDDLE EAST, AFRICA) SUSTAINABILITY LEAD

- Procure 75 percent of the electricity IBM consumes worldwide from renewable sources by 2025, and 90 percent by 2030. This is IBM’s third successive renewable electricity goal.
- IBM includes renewable electricity (a) in the grid mix it receives from utilities, (b) for which IBM contracts over and above what’s contained in the grid mix, and (c) generated on site.
- IBM does not count the purchase of unbundled Renewable Energy Certificates to comprise any percent of its renewable goals if IBM cannot credibly consume the electricity those certificates represent.
- Reduce greenhouse gas (GHG) emissions 65 percent by 2025 against base year 2010, adjusted for acquisitions and divestitures. This is IBM’s fifth successive emissions goal.
 - This achieves a rate of reduction that equals or exceeds what scientific recommendations from the UN Intergovernmental Panel on Climate Change (IPCC) indicate is necessary to limit Earth’s warming to 1.5 degrees Celsius above pre-industrial levels.
 - IBM challenges itself by not including the purchase of nature-based carbon offsets to comprise any emissions reduction.
- Reach net zero greenhouse gas emissions by 2030 using feasible technologies to remove emissions in an amount which equals or exceeds IBM’s residual emissions. Aim for residual emissions of 350,000 metric tons of CO2 equivalent or less by 2030, with 90 percent of IBM’s electricity coming from renewable sources. This new goal is responsive to the global ambition of the UN IPCC. This covers IBM’s Scope 1 and Scope 2 emissions, as well as Scope 3 emissions associated with IBM’s electricity consumption at co-location data centers.

IBM’s Green Lease Leaders Credits

CREDIT 1

Track Tenant Space Energy Use

CREDIT 2

Track Tenant Space Water Use

CREDIT 3

Request Whole-Building ENERGY STAR Score from Landlord Annually

CREDIT 4

Ensure Transaction Management Team Receives Energy Training

CREDIT 5

Implement Tenant Energy-Management Best Practices

CREDIT 6

Purchase On-site Renewables if Offered by Landlord and Competitively Priced

CREDIT 7

Accept Cost Recovery Clause for Energy Efficiency Upgrades Benefiting Tenant

CREDIT 8

Include Requests for Energy Information in Site Selection Questionnaire

- IBM has set a numerical target for residual emissions.
- IBM anticipates new carbon removal solutions such as direct air capture and supports their development with research to accelerate the discovery of enabling materials.

- Implement a minimum of 3,000 energy conservation projects to avoid the consumption of 275,000 megawatt-hours (MWh) of energy from 2021 to 2025. This new goal builds upon IBM’s decades of rigorous energy conservation. From 1990 through 2020, IBM conserved 9.8 million MWh of energy, avoided 4.6 million metric tons of CO₂ emissions, and saved \$661 million. The energy with least environmental impact is the energy IBM does not need to consume.
- Improve average data center cooling efficiency 20 percent by 2025 against base year 2019. This new goal expands upon IBM’s continual innovation for energy-efficient data centers, originating with IBM Research’s Measurement and Management Technology invented in 2007.

IBM’s Site Selection and Green Lease Practices

As a major international company with a large footprint, IBM is one of several tenants influencing the leasing market, spurring building owners to make improvements in order to remain competitive. When seeking a new space, IBM’s global leasing program ensures sustainability is built into the “Request for Proposal” (RFP). For strategic locations and client centers, building owners are asked to complete a questionnaire across a range of environmental sustainability areas. These include questions about building certifications, HVAC arrangements, energy intensive equipment, metering etc. and questions about water infrastructure and waste management processes. Communicating their commitment to sustainability in building selection, operation and green lease contracts at the start of the site selection process re-enforces to landlords the importance of emissions reduction and sustainability to IBM and ensures viable properties are proposed. It encourages landlords to address and highlight their sustainability programs and performance. It also gives advance notice to the landlord of those contract clauses on sustainability that IBM will seek to include in a lease contract.

IBM based their desired clauses on sustainability on Green Lease Leader criteria and IBM’s own sustainability goals.



Clauses include renewable electricity procurement, the sharing of environmental performance data and building certificates, parameters for energy efficient building alterations, data center efficiency and the sharing of sustainability contact information.

A good example of another contract lease clause addressing sustainability is a cost reduction and recovery clause. IBM has successfully added such a clause into a standard lease, in line with Green Lease Leaders best practices. A cost reduction and recovery clause can enable a landlord to make capital investments in energy efficient high-performance equipment. The landlord can then allocate operating expenses associated with the investment to the tenant on a cost neutral basis, i.e., where the cost recovery does not exceed the delivered savings. This typically incentivizes building owners and managers, where they are responsible for building facility infrastructure, to invest in energy-efficient infrastructure, because they will not only be able to recover their costs, but also leverage the improvements to attract future tenants. In turn, while there is not an immediate financial benefit to IBM, such energy efficiency investments by the landlord support the attainment of IBM’s sustainability goals.

“ACCESS TO ENERGY AND ENVIRONMENTAL PERFORMANCE DATA IS BECOMING TABLE-STAKES BECAUSE WE HAVE TO BE ABLE TO ACCURATELY MEASURE OUR PERFORMANCE AGAINST OUR GOALS AND, IN A GROWING NUMBER OF JURISDICTIONS, IT IS A LEGAL REQUIREMENT TO REPORT SUCH DATA”

- JIMMY MCDONOUGH, IBM EMEA SUSTAINABILITY LEAD

Reporting and Regulatory Requirements

A global portfolio brings unique challenges when it comes to appropriate site selection and the implementation of leases with sustainability clauses. IBM must manage their leasing requirements while considering their sustainability goals and an evolving regulatory landscape. IBM must report accurately on progress against its sustainability goals and corporations and business are now subject to a growing body of sustainability reporting regulations across the globe. It is more important than ever to have accurate metrics and data about the buildings a company occupies. Across the real estate industry, accurate reporting of emissions is evolving from an aspiration to an obligation and there are clear and critical dependencies on landlords in this regard.

A Changing Landscape

To keep up with trends like digitalization and remote work, IBM also continually focuses on right-sizing their portfolio, which has direct sustainability and cost benefits. Their global real estate team view these societal shifts as opportunities to re-evaluate spacing needs to reflect changing business and client needs and employee work and interaction patterns. As leases end or come up for renewal, IBM runs an analysis to determine the location, size and type of building lease that will be appropriate for the business need and that will be optimally utilized. IBM measures anonymized building utilization throughout their global portfolio using wifi points and badge readers. Space requirements, using data analytics, can then be established to a high degree of accuracy. Even in advance of a lease event, space consolidation within a building or location may be considered to reflect utilization patterns, save energy and reduce emissions.

Case Study Conclusion

Market transformation is not possible without earnest collaboration and mutually beneficial goals. IBM and Lendlease demonstrate the impact that tenants can have when they take initiative in partnering with building owners. “Data drives everything,” IBM notes on their homepage; tenants need to have an accurate understanding of their energy use, operational costs, and portfolio goals in order to ensure an effective lease that lowers costs and improves the efficiency of their energy use. Equipped with that information, companies should leverage their power as tenants by committing to green leasing as the standard, like Lendlease, when entering new leases and negotiating existing leases. Tenants can even leave properties if building owners are not prioritizing sustainability. From sweeping, diversified global portfolios to local businesses—tenants of all sizes can spur high-performing, energy-efficient spaces through instituting green leases.

Pilot first tenants on 100% green lease

Lendlease encourages their customers and tenants to join them on the net zero journey by enabling their buildings to operate as ‘zero-ready.’ They do this by ensuring their lease agreements support the ongoing elimination of emissions throughout the tenant-landlord partnership. Their aim is to develop a new generation of green lease provisions which will ensure achievement of their target across all leasing tenures – commercial, retail, and residential.

Lakeshore East: Cirrus & Cascade:
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Lendlease (ASX: LLC)

Lendlease is a leading global real estate and investment management group that has more than 60 years of experience, operating in more than four regions, and employing over 7,700 people. Committed to partnering with like-minded organizations and governments to deliver the next generation of sustainable communities, Lendlease understands the importance of building communities that stand the test of time, enrich people’s lives, and foster economic growth.

Lendlease in the Americas manages over 19 million square feet (over 18,000 units) of multifamily properties and over 40,000 military homes in addition to providing other building services.

Company Overview

- Purpose: To create places where communities thrive
- Asset Level Awarded for Green Leasing: Corporate Offices
- Stabilized Portfolio Square Footage: 2,251,394
- Notable Properties/Projects: Clippership Wharf, Boston; The Cooper, Chicago; Cascade, Chicago (approximately 1.7 million square feet)
- GLL Level: Gold Tenant
- GLL Since: 2022

“YOU DON’T GET TO ZERO EMISSIONS WITHOUT GREEN LEASES. IT’S JUST THE WAY IT WORKS.”
- SARA NEFF, HEAD OF SUSTAINABILITY, AMERICAS

Lendlease’s Commitment to Green Leasing

To Lendlease, green leasing is a risk management tool, especially in jurisdictions with benchmarking or building performance standards. Within their holistic approach to their mission and climate change mitigation efforts, Lendlease prioritizes engaging their supply chain, sourcing green materials, and managing efficient spaces. To help this effort, Lendlease requires all of their leasing agents and brokers to go through The Business Case for High-Performance Buildings training through the Department of Energy. Lendlease’s standard practice is now green leasing for all new and existing spaces. This was achieved by adding green lease language into their standard lease template and amending existing leases with landlords.

Complementary to green leasing, they also work towards ENERGY STAR Tenant Space certification in all of their spaces, which includes metering, implementing efficient lighting and equipment, and sharing data with landlords. Lendlease achieved Green Lease Leaders Gold certification as tenant in 2022 through a lease amendment. The lease amendment specified ENERGY STAR Tenant Space requirements for all new fit-outs and added sustainability contact information to the notices section. The existing lease allowed for capital recovery for efficiency investments in the property and already contained other clauses around after-hours HVAC and utility data sharing. Lendlease has already established its commitment to green leasing where it is the landlord for their multifamily portfolio, and they hold their own landlords to the same high standards. Green leasing is a key piece of Lendlease’s net zero roadmap. By the end of 2022, Lendlease will finish developing green leases appropriate for office, retail, and residential spaces aligned with its net zero by 2025 target. To achieve its 2040 absolute zero goal, Lendlease will implement 100% performance-based leasing provisions covering fit-out and operational activities. These will include requirements around procuring 100% renewable power if available for separately metered tenants, all-electric requirements for commercial kitchens, and net zero requirements for office and life science spaces. For their extensive military housing portfolio, Lendlease works with the US Department of Defense to set goals in line with federal sustainability actions.

Lendlease’s Green Lease Leaders Credits

CREDIT 1 Track Tenant Space Energy Use	CREDIT 2 Track Tenant Space Water Use
CREDIT 3 Request Whole-Building ENERGY STAR Score from Landlord Annually	CREDIT 5 Implement Tenant Energy-Management Best Practices
CREDIT 7 Accept Cost Recovery Clause for Energy Efficiency Upgrades Benefiting Tenant	

Since these properties are not always submetered and military families do not pay for their own utilities directly, it can be challenging to track and incentivize energy efficiency. Lendlease is exploring new opportunities and recommendations with the Green Lease Leaders Program and Institute for Market Transformation team on how to construct green leases in this scenario. This will likely involve training for leasing agents, enhanced unit turn checklists, and increased tenant engagement around energy efficiency.

Clippership Wharf:
©Ed Wonsek Art Works, Inc.



Initiating Green Leasing as Tenants

Project Overview

(Lendlease New York and Chicago Offices)

- Type of Building(s): Office
- Square Footage: 100,935
- Certifications: ENERGY STAR, LEED-NC Silver, 3-Star Fitwel Certification
- Scope Emissions: 140.8 tCO₂e

Tenant-landlord collaboration is crucial when complying with performance-based/sustainability regulations and lowering operating expenses. As building-related climate policies are adopted across the globe, the real estate and building industry need all hands on deck to avoid fines for non-compliance. Green leases are a highly effective tool in assigning responsibilities between landlords and tenants on

“IF TENANTS DON’T ENGAGE WITH THEIR LANDLORDS ON GREEN LEASING AND SUSTAINABILITY, THEY’RE BASICALLY HANDING OVER CONTROL OF A MAJOR OPERATIONAL EXPENSE TO SOMEBODY WITH NO OVERSIGHT.”
- SARA NEFF, HEAD OF SUSTAINABILITY, AMERICAS

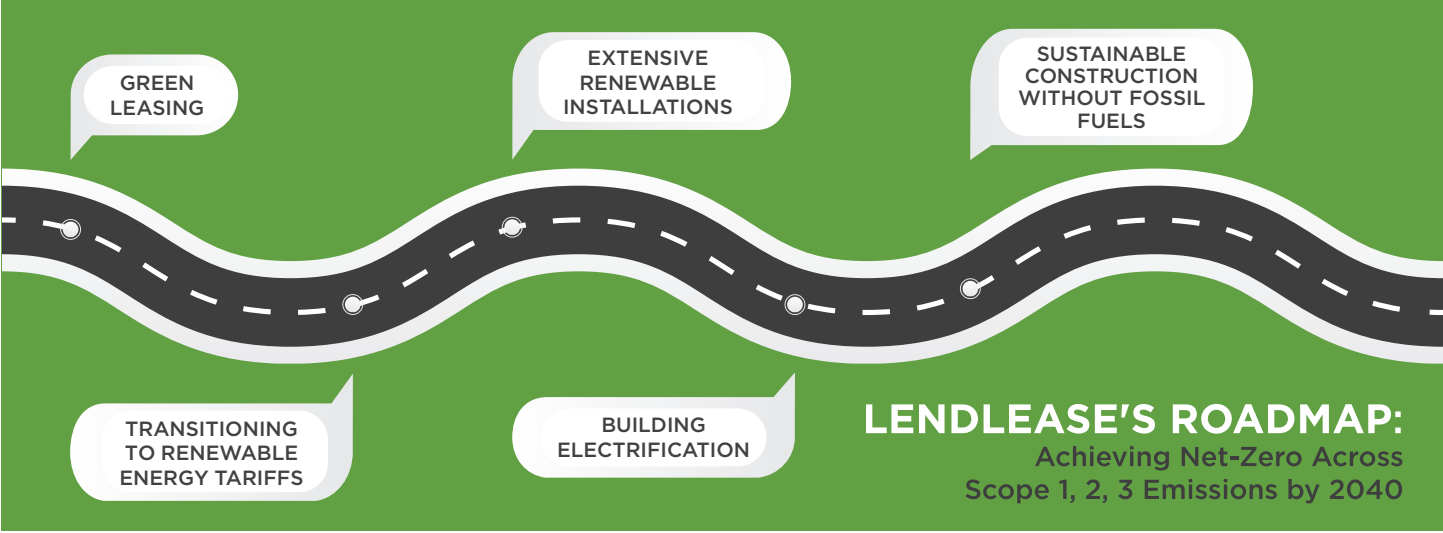


meeting their carbon and energy goals. Performance-based leasing also ensures that energy-efficient investments are financially beneficial for all parties. Lendlease deploys strategies like separate metering and cost recovery clauses so tenants benefit from lower utility bills based on their true usage, and landlords can share expenses associated with increased building performance. All parties are incentivized to co-create emissions reductions targets, for example, because of their significant impact on the bottom line.

Lendlease reports on the greenhouse gas and Scope 1 and 2 emissions of their corporate offices. Each of the offices’ environmental footprint (electricity, emissions, water, waste) are captured monthly in Lendlease’s sustainability data platform. Green leasing is a critical part of working towards greater operational efficiency in their assets. At home in their corporate office, Lendlease continues the green leasing practice

themselves and engages their building owners to reduce utility bills and environmental impact through energy efficiency projects. Otherwise, the owners are determining this major operational expense without consideration for them as tenants, which is a practice Lendlease takes to heart.

Lendlease America’s green leasing goals align with the company’s global green leasing practices, which involve the ability to recover capital for efficiency investments, efficient buildouts, and requirements around optimized building operations and unit turns. What makes the Americas unique is that in other global regions, data disclosure requirements are mandated by policy, whereas in the US green leasing is often needed to guarantee utility disclosure. Further, certifications like ENERGY STAR Tenant Space only exist in the US, so these requirements have to be modified in Lendlease’s other regions around the globe.





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 greenleaseleaders@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/>