

Recorded Voice: The broadcast is now starting. All attendees are in listen-only mode.

Hannah Debelius: Alright. Hello, and welcome to the November 12th edition of the Better Buildings webinar series where we profile the best practices of Better Buildings challenge and alliance partners and other organizations working to improve energy efficiency in buildings. I'm your moderator, Hannah Debelius. I'm a science, technology, and policy fellow in the Building Technologies Office of Department of Energy, and I'm supporting the Better Buildings program. Today we are gonna cover the Green Lease Leaders program and how it really shines a spotlight on innovative landlord and tenant companies that add energy efficiency and sustainability into their leases.

So the webinar is gonna recognize some of the 2019 Green Lease Leaders who are pushing the envelope on building performance and energy-aligned leasing. So without further ado, I'll introduce you to some of our presenters today. First we'll have Audi Banny, who's the Associate Director for Private Sector Engagement. As such, she leads IMT's work with national tenants, developing new programs such as a Landlord-Tenant Energy Partnership and continuing existing projects that help tenants, government agencies, property owners and other real estate stakeholders establish the business case for more efficient leased spaces. And before joining IMT in September of 2016, she was the Director of Corporate Sustainability Initiatives for Estee Lauder companies.

Next, we'll have Nicole Stika, who's the Vice President of Energy Services for the Greater Cleveland Partnership and the Council of Smaller Enterprises and she leads the chamber's energy portfolio. She oversees the electric and natural gas procurement programs and development implementation of the energy efficiency demand side management and sustainability programs on behalf of member businesses. So under her leadership, the individual services have rapidly grown into a robust program and she serves on the advisory council for Chambers for Innovation and Clean Energy, is chair of the Northeast Ohio Regional Leadership Team for USGBC Ohio, and a vice chair of the Cleveland 2030 district. Nicole has her Lead Green Associate and earned her master's in public administration, specializing in economic development at the Maxine Goodman Levin College of Urban Affairs at Cleveland State University.

Next, we'll have Sara Neff, who's the Senior Vice President of Sustainability at Kilroy Realty Corporation. Sara took Kilroy from having no sustainability program to being named the number one

publicly traded real estate company on sustainability in North America by GRESB, and under her leadership the company recently committed to becoming the first carbon neutral real estate company in North America by the end of 2020. At Kilroy, she oversees all sustainability initiatives and currently holds a BS from Stanford and an MBA from Columbia Business School.

Finally, as Senior Vice President of Operations for Sabey Data Centers, John Sasser is responsible for data center delivery and operations, focused on continuous availability for Sabey's customers. With a background in engineering and facilities, John ensures data center solutions meet customers' evolving needs. He's passionate about efficiency, with over \$5 million in awarded utility incentives along with multiple Energy Star certifications, including 100 rates at Intergate Quincy. Also, John received a patent for a mobile commissioning assistant, invented to improve commissioning of data center airflow. He's a registered engineer and past president of AFCOM Western Washington Chapter.

So clearly we are in for a treat today for all of these wonderful presenters. But before I go on, we'd actually like to know a little bit more about all of you on the phone, so we have two polls lined up today. If you could, yeah, go ahead and launch the first one. Excellent. So the first question is just what building sector do you represent? So you can go ahead and click right on your screen there to let us know. Excellent, thank you.

Alright. So actually we have a pretty diverse split here with local, state, or federal government and other, *[laughs]* of course, coming in the top, and then a fair amount of commercial real estate. Great. Well, our presenters represent almost all of these different sectors, so I think there'll be a lot to discuss today. Could you move on to the next poll as well? We just have one more for you. Great. So we would love to know if you are currently involved in a Green Lease as either a tenant or an owner.

And working towards it is broad. *[Laughs]* If you've thought about it, if you've taken any steps, we'll count you for working towards it. Alright. So we have some people currently involved in a Green Lease or in the pipeline. A lot of people here maybe looking to get some more information, so I'm hoping we can do that for you. Which brings me to a great point, which is that we are gonna hold questions until the very end. However, whenever the question comes to you go ahead and put it in the chat box, 'cause well just be collecting them in the chat box throughout the whole webinar and then at the end we'll go through those.

So any time you have a question just go ahead and put it there. Additionally, this session will be archived and posted to the Better Buildings Solution Center for your reference. So you'll be able to come back or share it with colleagues there. So just to kick things off, I'm gonna do – just speak briefly a little bit about Green Leases more generally. So Green Leases, of course, provide landlords and tenants a way to collaboratively save money, energy, and resources through the efficient operation of buildings, and these Green Lease clauses really overcome the challenge of the split incentive to encourage increased efficiency. Next slide.

And with this in mind, in 2014 the Institute for Market Transformation and the Better Buildings program at DOE launched the Green Lease Leaders program, and this program recognizes forward-thinking companies and real estate practitioners who break down barriers to high-performance buildings by really revolutionizing leases to incorporate this energy efficiency and sustainability aspects. The program offers recognition, technical support, and an array of free resources to owners and tenants that you'll be hearing more about with our next speak, Audi, and we'll also recap some of those resources at the end. So today, we'll be hearing from IMT and three participants in the Green Lease Leaders program, all from different building sectors. And with that, Audi Banny with IMT will talk to us a little bit more about Green Leasing trends. Take it away, Audi.

Audi Banny:

Great. Thank you, Hannah. Can you advance to the next slide? One more, please. Okay, so the Institute for Market Transformation is a national nonprofit organization that works to catalyze the widespread and sustained demand for high-performing buildings. Our mission is if you can imagine a world in which efficient buildings drastically lower greenhouse gas emissions and positively transform our physical, social, and economic wellbeing, and we definitely see a clear path to energy use reduction by 30 percent across the United States in industrial, multifamily buildings by 2030. Next slide. And one clear example of how to get there is integrating Green Lease.

You may also know it as high performance or Energy-Aligned Lease Language. This year we had 25 individual organizations managing roughly 495 million square feet, achieving Green Lease Leaders recognition, effectively modernized their leases to spur collaborative investment and action on cost effective energy efficiency solutions, renewable energy, health and wellness initiatives, and overall higher performance across buildings and

portfolios. And since IMT and Better Buildings Alliance launched a program in 2014, the cumulative floor area of all Green Lease Leaders has grown to more than 2 billion square feet of building space, which is a clear indication that green leasing is continuously expanding to become a best practice across real estate markets in North American and in Canada. Next slide please.

And so after a few years being tested by the real estate industry, we saw that it was time to launch Green Lease Leaders 2.0, and so in 2017 the program included three key rankings; silver, gold, and team transaction. Silver means a lease has been drafted with the requirements and prerequisites but has yet to be executed. The gold level includes all of the silver requirements and has been executed by a landlord and a tenant. And the last recognition component is the team transaction, which is a team-focused award to celebrate when a landlord, a tenant, broker, asset manager, lawyer, and other parties come together to pursue innovative green leasing solutions that improve building performance.

The credit requirements increased from three to five with an additional innovation solution which may not be covered under the current credit options. The result from the launch for 2.0, what we saw is that alumni from the previous years came back and applied for gold. We recognized our first team transaction, and had companies who applied for the very first time for silver the following year come back and apply for gold, which shows us that the silver is the first step to integrating the process of green leasing to future lease agreements. Next slide please.

So conventional lease practices often hinder both landlord and tenants from investing in energy efficiency as well as executing sustainability initiatives in a cost-effective manner. Green leasing, on the other hand, practices on – allows landlords and tenants to collaborate and save energy, reduce cost, and be able to actively integrate sustainability goals with Lease Language, and each year we are seeing the range of leasing practices incorporating a greater variety of efficiency solutions which we're seeing in renewables, tenant engagement strategies, building optimization, integration of health and wellness, as well as training for brokers and asset managers on what and how to apply Green Lease Language into the transaction between landlord and tenant. Who should apply? Well, if you have a lease, you own/operate retail class A commercial offices and governmental buildings, class B and C mixed use properties, industrial warehouse and multitenant datacenters, I think green leasing is really for you. I'm also really

excited to turn it over to the city of Cleveland who is the first city to earn Green Lease Leaders recognition. Thank you.

Nicole Stika: Next slide please. Next slide.

Hannah Debelius: Great. Thanks so much, Audi. Nicole, go for it.

Nicole Stika: Oh, great. Thank you. Good afternoon, everyone. And Audi, thank you for that great overview of the Green Lease Leaders program. Now we're gonna shift gears and get into a little bit more of the weeds of what a Green Lease entails, but first with more than 12,000 members the Greater Cleveland Partnership is the largest metro chamber of commerce in the United States, and one of the areas that we're focused on driving economic vitality in our region is helping our businesses of all sizes understand their energy consumption while mitigating utility costs through strategic procurement opportunities, and most importantly for today's conversation, heighten energy efficiency initiatives. Next slide please.

So in 2008, the state legislation for Ohio created energy efficiency and renewable energy standards which was the impetus for us to get into a more robust energy program. We expanded our services to begin offering ASHRAE Level 2 energy audits and found that many of the businesses that we were working with were in a leased space and didn't have the technical expertise to efficiently design and implement an energy efficiency program nor did they know how to have the conversation with their landlord or tenant about building upgrades that would benefit both or either of those parties. Next slide please. So you briefly heard about the challenge of a split incentive, and this is something that we were encountering very quickly as we were working with more landlords and tenants.

And in 2014, under a Department of Energy grant, we worked very closely with IMT to begin working closer with small and medium-sized buildings to leverage a Green Lease. And so when our team meets with a landlord or tenant we help them create a roadmap of their energy management strategies, and during this process we introduce the concept of a Green Lease and identify ways to incorporate the needed building improvements into that lease. If needed, we'll then engage the other party, the landlord or the tenant, in the process so that both parties fully understand the process, and more importantly, begin to develop transparency. So you see in the slide here, the right side is our energy checklist where we take them through a structured process from energy audit to implementation including that Green Lease.

Next slide please. So overcoming the split incentive is pretty critical, and Green Leases have the potential to reduce energy consumption in office buildings by 11 to 22 percent, yielding pretty good reductions in utility expenditures up to 51 cents per square foot. And so adopting Green Lease practices and realigning cost structures, the energy efficiency gap can be filled, low-risk solutions can be incorporated, and utility consumption can be reduced while giving the shared savings to both landlord and tenants to realize bigger gains. Next slide please. So by including a handful of new or modified clauses in a traditional commercial lease, both landlords and tenants can better realize the benefits of investing in efficiency measures.

Those clauses may include addressing capital improvement costs that are to be shared with the tenants in the rules and regulation section of a lease or adding sustainable purchasing of Energy Star products or construction materials with recycled content. Other sections may include allowing capital expense for energy efficiency to be treated as operating expenses or including an explicit energy efficiency clause as part of the cost passthrough and amortizing capital improvement as an annual operating expense. And with tenant buildouts – and we'll talk about this in just a moment – specifying energy efficient water fixtures, HVAC, waste management, building utility data sharing, and perhaps sharing a tenant's operation guide may include all these measures and more.

But at the end of the day this is really just a lease. There's no need to just call it a Green Lease. You can hand it over and just say, "Here is your lease." Next slide please. Here's a great example of an infographic that we had created under this Department of Energy grant to put this into practice of how to lower your building's energy usage while focusing on opportunities in the tenant's space; energy efficient tenant buildout, submetering to create transparency and savings, changing the building operating hours, and something unique is practicing daytime cleaning so that the building core systems can shut down earlier. This may seem like an inconvenience and would definitely have to be with the right cleaning crew and a tolerant workforce, but it does allow for a significant reduction in building operating hours.

Lastly, would also be regularly-commissioned building systems that operate more efficiently year-round. It's like giving your building a checkup where savings are always found. Next slide please. A 2019 Green Lease Leader that we've worked very closely

with is MAN Holdings. They also leverage Cleveland's first privately - commercial PACE Financing for a significant retrofit of their building. We first started with an energy audit, and through PACE Financing they were able to reduce their energy consumption by 42 percent. But more importantly, they were able to leverage our technical expertise by incorporating a Green Lease which ultimately helped them win a huge nonprofit tenant who had grant funding requirements to be in an energy efficient green-type of a space. So MAN Holdings can easily then demonstrate the overall operating savings such as lower utility expenses, the wellness, comfort, and productivity savings to that tenant and others within the building.

They use the rules and regulation section of the lease to revise sustainable operations language to reflect the upgrades to the building, and they ask tenants to comply with their initiatives like recycling and sharing of utility bills. Next slide please. Another example of a Green Lease, this is a really unique one. This is a small business, a coffee shop that is a tenant of a building on the campus of Case Western Reserve University, and we had conducted an energy audit, had put together a *[audio cuts out]*, and quickly realized that this business and building were not incorporated into the masterplan of the university's sustainability masterplan.

And so we made the introduction, and by doing so we were able to help restructure the lease in a way that created more transparency and utility data sharing. The university sprung for more improvements within the building because it was now part of that sustainability masterplan. There was a capital expense sharing on stormwater management and now there's ongoing alteration that anything that will be done to the building will be more energy efficient at a shared expense and shared benefit to both the university and the small business. And lastly, those landlord and tenant maintenance sustainability best efforts. So it was a great opportunity for a small business to realize the benefits of a Green Lease with a huge, large corporation such as the university.

Last slide. We'll share the link at the end, I believe, to the energy efficiency resource guide that was created that includes sample lease language, clauses, and other case studies. So I look forward to questions at the end. Thank you.

Hannah Debelius:

Great. Thanks so much, Nicole. So now we'll hear from Sara Neff from Kilroy Realty Corporation on leveraging brokers to promote energy efficiency. Sara.

Sara Neff:

Great. Thank you so much for having me. We can go to the next slide. So I'm gonna focus this talk on the broker piece of this since Kilroy has been one of the folks that you heard earlier who has applied for and won the team transaction Green Lease Leader award. So I just want to talk about sort of how we're engaging our teams. It's not just an internal effort. Next slide.

So this timeline – I know it's a lot of words [*laughs*] – but what this sort of shows is the evolution of Green Leasing. So I saw in the poll earlier that this is a path on which a lot of people are starting, so I wanted to sort of talk a little bit about what that evolution has been like at Kilroy, which is it started off with me making these like onesie-tvosie requests in leases around buildings that were applying for LEED certification and needed some sort of additional oomph around and kind of promises to only have this installed wattage lights or water efficiency kind of thing. Everybody got very annoyed with me for making all these onesie-tvosie changes, and so we were going to a lease standardization process and we worked with corporate-fed information, so it was all standard; so every week we did have that wattage-per-square-foot at that rate.

And then we started on our broker engagement, and right around that time it was great timing because the Green Lease Leaders program came out and we were part of the inaugural class. We were one of the first to win it, and at the time – this was back in 2014 – everybody flipped out, and I'll explain more about that in a second. But from there – and by everybody I mean like the wider community. I mean people were calling me saying, "Well, Sara was at a panel and somebody said that Green Leases weren't possible and then somebody else said there are these Green Lease Leader winners so clearly it is and what's happening?" And then from there we've just been building – we've been engaging our brokers a lot more, and then as IMT has enhanced the program we've been enhancing our leases in step.

Next slide. So this is what I mean by the market flipping out about Green Leases, which I think is just now business as usual here. I mean The Motley Fool was covering us of you can save the world by investing in Kilroy Realty, which is to me – I mean please feel free to invest, but I think it's a little bit of overkill given that what we're talking about is really just aligning the financial, if nothing else, interest of landlord and tenant around this large expenditure, which is energy, and to a lesser extent, water and waste in this space. So this just gives you a sense – this wasn't the only sort of

national coverage we got around the first time we earned Green Lease Leaders certification. Now this is much more normal. Next.

So I just want to talk about how we did green leasing, especially because what we won for this year was a lease that we worked with, a coworking lease. Next. So here's how this works. This is a breakdown of green leasing at Kilroy. The first thing is the recovery of capital investment. So like in this picture, if I want to do a lighting retrofit that meets certain requirements on ROI, I could just go ahead and do that retrofit. I don't have to get prior permission of the tenant, including rework. Next.

I should've stayed with that, but we were then able to recover that capital investment over a payback period. So that's really the heart of a Green Lease, is being able to do an energy efficiency upgrade that's beneficial to the building, beneficial to the operating expenses of the tenant; go ahead and execute it and then sort of recover the cost sort of automatically. The other thing that was more of a concern in a coworking lease was this conflict of after-hours consumption, because we're a typical office, you know, sort of maybe a 6:00 to 6:00 thing, but coworking folks are there for a long time. So how were we charging for the after-hours consumption? That's something that's also important in a Green Lease is that you don't just get your energy for free all the time.

Next. The next one is energy procurement. So our leases allow landlords broad ability to procure energy. I can't start overcharging my tenants if I negotiate a terrible deal or put us on some strange tariff, but I have broad ability to do things like install solar – this a recently installed array in a building in San Francisco, and that's linked to Adobe. I like this picture 'cause there's nice styling in the background. But we have that ability; and again, this is not something where we need to do. We do as needed but we don't have to do upfront coordination with the tenant when we find a really financial viable opportunity to save money through energy procurement. Next.

The next thing is in building standards. So this is sort of always an addendum to the lease, and this, for those of you who are starting out, is a very powerful place to start putting in Green Leasing Language, because the lease isn't – the lease document itself is not the appendices and addendum and whatever else at the end attachments, are not always the appropriate place to put in, oh, you can only put in Energy Star equipment. A lot of that goes into the building standards and those tend to be an easier to edit kind of document, so that's a great place to start. You know, just get the

building standards done and then it's codified and then whoever is moving into your space or if you're moving somewhere else, you know, here are the standards that we use, this is what we require. I mean that really sort of locks in energy efficiency from the beginning in a bit more of a passive way. Next.

The next thing is submetering, also a bit of a deal with coworking again because of that higher energy consumption because they're just there more often. So not all of our leases – it depends on sort of lease design – but allow us to submeter a tenant and then they're paying for their actual energy consumption, not a share. I don't want to give the impression that this is universal across Kilroy. It really depends on when the building was built. But it does – it is something that we're allowed to do when we're able to do this and get it done in the space. Next. And finally, green cleaning and recycling.

I don't need to explain this, but I will say it's often good if you're starting out with leasing – to put this in sort of a give me, like you'll have tenants that are like, "No, I don't want green cleaning or no, I refuse to recycle," and this is a way to get people sort of excited and on board with green leasing that is mutually beneficial. Next. And utility consumption exposure is all they need as a landlord; we really need it for all of these various reporting standards that we have to report to, so any Green Lease, including a coworking lease, if a tenant is procuring their own energy or water or waste, you know, no matter what the type of lease they need to give us their utility consumption data. Next. And lastly, is my contact information.

This is a new requirement from IMT that we have sustainability, our contact information somewhere in the lease. This sort of sets the right tone of the lease. I guess it's important who you reach out to. So literally my contact information is in every new lease that has been signed through all of 2019. Next. So this is a little bit of a _____. You'll get this later so I don't need to read this to you, but just make sure that you're – the important thing is that this needs to be automatic. We can't be fighting for every single lease every time.

Nobody has the time for that. The important thing is to get it into a template and make sure it's mutually beneficial. Next. And now I just want to talk about, you know, how we engage the broker, so I want to highlight how we did that. We did as a Twitter campaign. They're gonna be just really quick screenshots. So and I just want to – as a background, we have a history of doing Twitter

campaigns, so these are a couple that we've done for our own company. We did one for asset managers. We made baseball cards for all of our engineers.

So we really like using Twitter as a way to highlight the various teams that collaborate to make our buildings as green as possible. Next. So we launched the campaign – next – and here are some examples. So we have – we highlighted, you know, the brokers that did deals in our building, you know, what sustainable accolades those buildings got, and we highlighted them all as Green Leases. And the great thing about a lot of these is that a lot of the times with brokers – like, wait, I didn't I signed it. We did a Green Lease and it was like, "Well, don't you remember the Energy Star information in there and the stuff about the capital cover?"

Oh, yeah. All of our leases are green, so you did a great job. And so every broker was able to sort of participate who had signed a lease. The reason why I have this one on is 'cause a lot of these likes are from these guys' families. They were really excited about the Twitter campaign and shared it with family and friends, and so whatever they like about it is that it clearly was very meaningful to them. Next. Here's one. You know, different kinds of leases, different things going on. Next.

And I wanted to say that it's important across asset classes. So this was a retail lease, and I wanted to make sure that we were highlighting not just office brokers but retail brokers. True, retail spaces are small but they have a lot of consumption for their space, so it's really important to focus on a Green Lease there. Next. And then just a little bit on our Green Lease Leaders history. Next. So this is how we started doing team transactions.

So notice that we've made sure that both our brokers and our lawyers are part of this. This is the first time they won the team transaction back in D.C. Gosh, I think this was in 2016, so that was one of the first times there had ever been a team transaction winner and now there's lots. Next. And then this just was here. You saw this picture earlier. So we made sure – the improvement over this year is that we didn't just highlight our broker but also the tenant broker, agreed to collaborate on the application and they all worked together on it. Next.

And that's it. So the only thing I want to emphasize is that brokers want to be a part of green leasing. It's always been very positive as long as it's in the template and it's understood and it's not causing

any friction in the deal, which is never has to. People often want me to talk about, oh, can you talk about, you know, how hard it was for you to negotiate this coworking deal, and the answer was, "No, it wasn't hard to negotiate it." Both sides, when you work with Kilroy, know that green leasing terms, which are mutually beneficial, are in every lease.

People know not to take them out. There are times when you need, you know, modify because of some specificity with the tenant but it all stays in there and then everybody benefits. So keep it automatic, engage the brokers, apply for recognition, and it's a great way to really enhance the value of a building for both landlords and tenants. Thank you very much.

Hannah Debelius: Great. Thank you so much, Sara. Just a quick reminder to everybody to send in your questions that you have through the chat box on your screen. I know that we're – you all represent a whole array of where you might be in this process so, you know, getting some feedback, especially from the different sectors about how they were able to accomplish some of these things – Sara just touched on that a little bit – but that'd be great. Or we'd love to just hear, you know, what you're working on or what's also been successful to you to see if there are additional ideas that our panelists can provide for you. So with that, we'll now hear from Jahn Sasser with Sabey Data Centers on their experience with Green Lease Leaders. John.

John Sasser: Thank you, Hannah. Next slide. Next. Next slide. So I saw in the poll earlier that there's not a lot of people here from the data center community, which isn't entirely surprising. We tend to be a small part of the overall commercial real estate portfolio. So I'll take a little bit of time to talk about what data centers are and who specifically Sabey is. So multitenant data center providers provide facilities intended primarily for housing customer servers and other IT equipment, so these are very energy-intensive buildings, usually very large buildings, anywhere from call it 150,000 square feet to 500,000 square feet with lots of power, lots of cooling equipment, intended primarily to keep the servers up and running at all times.

Sabey Data Center is a company that provides these multitenant data centers. We're headquartered in Seattle. We have campuses in Seattle, two campuses in Central Washington State, Intergate Columbia and Intergate Quincy; a campus in Virginia, Intergate Ashburn; and a 32-story building in New York City, Intergate Manhattan. And so we lease data centers in two different models. One is what we call wholesale colocation. In that model we design,

build, commission and operate the data center cooling equipment and power equipment, and we actually charge for the capacity on a dollar-per-kilowatt basis – that's what rent is – and we pass through the electricity.

The other main model is what we call a powered shell. In that case the tenant is operating their own power and cooling equipment and we're typically charging on a dollar-per-square-foot basis in a triple net model. Next slide please. So Sabey decided to participate in the Green Lease Leaders program after being introduced through the Better Buildings Challenge program largely because of the opportunity as mentioned before to align the incentives and the costs of things such as energy efficiency projects and renewable energy. We also found in reviewing the landlord reference guide that a lot of the things that are required in there either we were already doing or we could do with a little bit of effort.

We're very passionate about energy efficiency and have a strong commitment to the environment, and we felt that the Green Lease Leaders program aligned very well with this. Next slide please. So we are a recent recipient of the Green Lease Leaders award. We received the gold award just this past summer, and so our experience is still fairly fresh. What I found was the landlord reference guide is very helpful and clear. As mentioned earlier on by Audi, there's a total of 10 optional credits of which you need to take at least 5. We took 8 of those credits, implemented all of them except for credit 2 and credit 7, and again, you know, not something that we felt in most cases was very difficult for us because we already had some of the things such as metering energy use.

That's really part of what we do as a business and how we charge for electricity, so many of the things were not very difficult for us to do, but it did require some coordination internally. We didn't get any pushback internally. It was really a matter of, you know, finding the time to make these revisions to our lease template, so we coordinated internally with our legal teams who maintain our lease templates and with our sales team who would be responsible for engaging tenants on this and also for some of the training that's required, and everyone was very supportive. It did take a little bit of time just because of how busy everyone is and the coordination required, but it was something that was well received internally throughout.

Next slide please. So we implemented our new template this past spring and have made that standard for future leases. So Sara

mentioned making it automatic; that's how it is for us. You know, this is not our Green Lease option. This is our regular lease that has these Green Lease components, and that was something I actually had to explain to our legal team because they didn't quite get it at first. They were like, "Well, when are we gonna use this?" I was like, "Well, we're gonna use it for all of our tenants."

And one of the things that I will mention is, you know, in order to get gold – there's an understanding certainly in the conversations I had with DOE and IMT that a lease is a negotiation process and that not all of the provisions of every lease, whether it's a Green Lease provision or some other lease provision, will make it through the negotiated process. So there's no expectation that all of the Green Lease provisions survive unscathed, if you will, to execution. I will say that the first one that we executed the tenant didn't negotiate any of the provisions out. There was a recent one that I looked at where I had to explain what this efficiency recover clause looked like, you know, how might that be amortized, how might that work, and once I did that explanation I think the tenant was fine with it.

And we're very excited about how the Green Lease template will help us move forward, especially with implementing some of our renewable energy goals. Next slide please. And with that, I look forward to any questions. Thank you.

Hannah Debelius: Great. Thank you so much, John. So we're gonna have Q&A in just a moment here, so if you have any last questions please go ahead and put them in the box. Even after we start Q&A you're welcome to continue to put those in. But before we dive into those questions, I'd like to highlight a few resources. So if you're interested in learning more or want to apply to be recognized for the Green Lease Leaders program, you can check out these links below, and all of the slides again will be made available to you online. You'll be able to click through these links, or again, share with a colleague.

So for now I'm gonna toggle over here to some questions and see if we can get those answered. So let's see here. A first question we'll put out to Sara. So Sara, you mentioned adding in contact information. So how often has someone reached out to you and how do you handle those or has it ever informed your decisions or Twitter campaigns?

Sara Neff: It has happened a couple of times this year. I was sort of hoping for this flood of inquiries but it's happened twice that somebody – and

basically what it is the sustainability person from that tenant somehow gets forwarded the lease and then they're able to just reach out to me, and it's basically been around mutual disclosure. So if somebody has a sustainability person they almost always have their own reporting requirements, and so we basically figure out the logistics of sharing back and forth, you know, you have the water data and I have the gas data and you have the this, so that's what we've been working on. It hasn't currently because it just happened this year and we did our tenant Twitter campaign last year so – two years ago – so it hasn't informed the Twitter campaign but it has helped us – once we have sort of the rapport of data we can start thinking about doing an energy project, especially in a triple net building where though I've had the ability to do a project it's a lot harder.

The bill isn't in my name and the tenant needs to be signing off on rebate forms and there's usually more security issues 'cause it's not my own security teams, and so having those contacts has been helpful. We haven't had a project yet but I'm hopeful we have one.

Hannah Debelius: Great. Thank you. So Sara, actually well just stick with you for a little bit, which is what sort of benefits or value do you think Green Lease Leaders can provide to brokers? Kilroy's obviously a high-value client, but how can other stakeholders that are smaller, less influential, articulate the potential of Green Lease Leaders to brokers?

Sara Neff: Right. So the real communication is around risk management. Cities and IMT does a lot of this work across the country, and states even are having requirements around utility disclosure, around – sometimes it's transactional, sometimes it's annual, and then in some cities now we're starting to see penalties for performance. You know, the lease has to sort of deal with all that. You know, you don't want to be in this position as a landlord where because a tenant doesn't feel like giving you their energy data all the sudden you have fines that you have to deal with and you have leases – you know, if an issue is caused by a tenant then you pass along the fine to them, but nobody wants to deal with that process. I mean these days there are penalties. Same thing with submetering. You don't want a high-using tenant in a – like a high-consumption tenant in a building, the other tenants are like, "Wait, why am I paying for half of their power basically?"

Hannah Debelius: Right, right.

- Sara Neff:* A lot of this language, I think the right way to talk about it is in terms of risk management and protection. Yes, there are energy efficiency benefits but that's often not the language that some people speak, but people do speak the language of risk management and I've found that that's particularly successful.
- Hannah Debelius:* Yeah, that's a great insight. So John, I'll pop over to you. So have you – you spoke a little bit about the legal work that it took internally. Have you found lawyers to be helpful or initially resistant when clients instruct them that they'd like a Green Lease?
- John Sasser:* Yeah, I'm sure it's going to vary depending on the attorney, but internally one of our attorneys, whom I was working with on this program, was actually not just helpful. I'd say he was a driver of our implementation. He went beyond just drafting the new language in the lease; also reaching out to the Department of Energy for clarification and working – helping actually push our sales team in taking some of the training. So I haven't worked with any external attorneys or tenant attorneys to this point, but internally if you find the right attorney with the right motivations, you know, I found him to be very helpful.
- Hannah Debelius:* Great. Thanks, John. So Nicole, are you able to go into a little bit more detail about what the capital investment clauses typically look like?
- Nicole Stika:* Yeah, sure. Great question. You know, the capital expenses that can be incurred from doing a lighting retrofit, a significant boiler, chiller overhaul can be considered as the operating expenses, the cost of providing, installing, modifying or upgrading any of those systems or equipment and improving the overall operations of that building. You can amortize it; all the costs of those capital improvements can be capitalized and amortized as an annual operating expense, which is generally accepted as an accounting principle, something we have seen how others have treated it within their leases. You know, there's various ways to incorporate those expensive projects.
- It needs to be a transparent approach and something that's obviously taken into account up front within the lease and not perhaps something you want to put into an amendment later on in terms of ongoing alteration. So, you know, it's within rules and regulations or within that cost passthrough area within the lease.
- Hannah Debelius:* Great. Thank you. We had another question which I think I can answer which do the leases require tenants renting AC and

refrigeration units to do preventative maintenance – coil cleaning, filter replacement, et cetera – to ensure those units are running most efficiently? And we have a response here that the lease can establish a maintenance plan to review or retune various types of equipment periodically through lease. Excellent. So John, I'm gonna come back to you. The question is how often are you seeing Green Leases that are the result of lease renewals in existing tenant/landlord relationships? This person says, "I interact with landlords who have spoken to the split incentive and I wonder what the incentive would be for a landlord to initiate new lease terms that would include the aspects of a Green Lease."

John Sasser:

So this goes back to that issue of split incentives, which is really one of the most useful things that Green Lease Leaders program addresses. So I haven't encountered this in a renewal yet but I can see how it would certainly be useful. Our older facilities tend to not be as efficient as our newer facilities, and given – certainly in the case of multitenant data centers in the wholesale colocation model, the customer is paying for the electricity cost while the landlord would be responsible for investments on energy efficiency, and so those – that's a good incentive. With the Green Lease provision there's the opportunity in that language for the landlord to recover some of those costs through the electricity savings, and of course that should be transparent.

It's one of the prerequisite credits in the Green Lease program and it's really one of the things that I think is best about the program because it benefits both parties and saves energy. The customer pays less for their electricity, the landlord is able to improve the building and get some of the costs back for *[audio cuts out]*, and less energy is used. So I could certainly see how this provision would be useful in a renewal. And one of the other things is a lot of the tenants and customers really do want to save energy and have their own sustainability goals, so I think these just align – these provisions align with that as well.

Hannah Debelius:

Great. Thanks, John. We have two other questions here that I'm just gonna combine a little bit and address, but Audi if you have additional things to jump in on this feel free to. Are Green Leases happening in single-family homes or also what are the multifamily applications for this type of a program? I would say that with Green Lease Leaders we have not seen Green Leases for single family homes yet; however, I think that there's definitely application for multifamily with this type of program, you know, especially speaking to the many different aspects that could be within green leasing that Sara actually touched on, including green

cleaning and waste and all of that. So we could potentially see it within single family as well but the Green Lease Leaders program has not seen that yet.

Alright, I'm gonna do just a scan here to see if we have any other questions. So if you've been sitting on one go ahead and put it in the chat box now before we move on. Great. We do have one more question here for Sara. Is it recommended to work with brokers or firms with LEED-credentialed personnel?

Sara Neff:

So I know very few brokers with LEED-credentialed personnel. If you can find a LEED-credentialed broker that's fantastic, but I don't think that should be considered a barrier. I think any broker can learn about what it is to do a Green Lease and figure out the basics. It's not rocket science. And so while this would be certainly preferred it's not remotely required; any broker could do this.

Hannah Debelius:

Great. Thanks for that insight. Another question for you Sara is how do we better encourage landlords to invest in energy efficiency through green leasing and split incentive scenarios or what successes have the panelists experienced and what worked well for them?

Sara Neff:

Great. Well, this first thing is really just asking a question. I mean the first thing that any landlord will say when you start talking about ESG is that, "Well, you know, the tenant has never asked for it." And so tenants can't expect the landlord to just – you know, or not all landlords I should say – to just proactively be concerned with energy efficiency at all times. I think one of the things that's really important is to be proactive. I think the other thing is to be flexible. I'll give an example. I had a building where it was a triple net building and the tenant had – because of some issues of some architectural lighting we were prohibited in the lease from changing lights in their space and it was driving us nuts because their lights, though pretty, were inefficient.

The apartment manager went to the tenant and said, "Hey, this is driving us nuts. You need to upgrade your lighting." They were like, "Oh, we would love to except we don't have any sort of upfront budget to do that," and this property manager said, "Well, how about I just buy your lights for you? You tell me what to buy and then I'll just charge you back in the common area maintenance later," 'cause they did have a budget to pay back the common area maintenance charge. So just moving things from one docket to another worked out.

So I think coming to landlord with flexibility and say, "Hey, we would like you to do this project and even if you don't want to – and we'd like to talk about how to make this mutually beneficial." So, for example, our capital investments are recovered over a payback period, so they're neutral to the tenant. You know, if my project is going to save you, you know, \$9.00 and has a three-year payback you're paying that extra \$3.00 after the retrofit until it's paid back and then you then have the reduction of \$9.00 on your bill. So the tenant doesn't experience any sort of increase in the capital cost as a result of our project.

And so telling a landlord, "Hey, we would like you to do this and here's how you can charge us for it," would make a lot of sense, but it's not gonna work just sitting around waiting for it to happen. It really takes somebody being proactive.

Hannah Debelius: Great. Thanks, and thanks for that example. And, you know, you speaking about how it just takes a conversation and initial ask, I'll also throw out there that through Green Lease Leaders IMT does provide a one-on-one guidance to get started or assist with applying for Green Lease Leaders, so a reminder on that. And again, you can also go back to that resource slide from the webinar. So I think actually for our last question we'll go back over to John, which is that if you needed to sell Green Lease Leaders internally, who would you talk to first and what would you say?

John Sasser: So I'm sure every organization's going to be a little bit different and you're gonna need to understand, you know, how you organization works. For us, given that I'm coming from the operations side, the main person that I need to have on my side for this sort of initiative is the head of our sales department, because obviously we are – within my purview I have control over a lot of things like how we build buildings and what we're metering and that sort of thing, and I need to have the head of our sales on board with respect to how we approach customers, you know, whether he feels like this is something that's going to be helpful or not helpful as it relates to attracting customers and getting them to sign up for our building, so for me that's the key person that I would need to get on board and I can say in my case he was very supportive of it.

Hannah Debelius: Great. Thank you so much. And with that, I actually think we'll move on to some additional Better Buildings reminder. If you go to the next slide. Excellent. So in the 2019/2020 Better Buildings webinar series we're gonna be taking on the most pressing topics facing energy professionals with new experts leading the conversations on proven best practices, cost effective strategies,

and innovative new ways to approach sustainability and energy performance. So the next webinar that you can tune into is on Tuesday, December 3rd from 3:00 to 4:00 PM Eastern titled How Buildings of All Shapes and Sizes Are Becoming Zero Energy Users.

So you can come hear about the financial, technological, and design process innovations that make projects – the big zero energy projects a reality through deep energy efficiency and renewable generation. Next slide. We are also very pleased to announce that the 2020 Better Buildings Summit, which is held in Arlington, Virginia, will be June 8th to 10th and that registration will open in January, and there will be an early bird special so keep an eye for more details on the summit coming up. And with that, I'd like to thank all our panelists for taking the time to be with us today. Feel free to contact our presenters directly with additional questions, or if we couldn't get to your question during the Q&A period today that's a great opportunity.

You're also welcome to reach out to myself *[laughs]*, Hannah Debelius from Department of Energy. And if you'd like to learn more about the Better Buildings Challenge Alliance or Green Lease Leaders program, you can check out our website or feel free to contact any of the emails shown. For any general inquiries or program support questions you can click on the green icons and they will direct you to the appropriate contact. And I also encourage you to follow the Better Buildings Initiative on Twitter for all of our latest news. You'll receive an email notice when the archive of this session is available on the Better Buildings Solution Center and we hope that you'll tune in back and share with others. So, thank you all so much for your participation today. Great. And one more thank you to our panelists. We hope to see you next time on the Better Buildings webinars.

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