Tenant Engagement

Tenant Engagement

A strong relationship with tenants is key for owners seeking to reduce carbon emissions, and avoid the potential financial penalties associated with local carbon limits, such as LL97 in New York City. Tenant engagement rooted in collaboration and communication is critical to creating efficient leased spaces that contribute to whole-building decarbonization goals. Engaging tenants throughout the leasing cycle, from lease negotiations, through space fit-out and the ongoing operations of the leased space, can lead to optimal energy efficiency and carbon reduction outcomes for both tenants and landlords.

Engagement begins with lease negotiations that incorporate green leasing provisions, followed with high performance design guidelines and build-outs. Owners should remain engaged as much as possible during this phase, and can provide tenants with valuable information about incentives and financing for energy efficiency projects. Finally, owners should educate tenants about best practices in energy management throughout the duration of their lease, so tenants can minimize their environmental footprints, reduce energy costs, and create comfortable, healthy spaces for their employees.

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Performance-Based Leasing

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Adding performance-based terms to a conventional lease is a win-win for building owners and tenants alike. It can improve the business deal, make it more responsive to current conditions, cont ribute to a cleaner environment, and produce cost savings for both parties. Performance-based leasing incorporates collaborative strategies found in green leases to clarify the landlord-tenant relationship with respect to building performance standards, or compliance with local regulatory mandates. Specifically, it:

- Sets energy performance targets to meet carbon reduction goals
- Equitably distributes landlord and tenant responsibilities to meet building performance standards
- Ensures landlord-tenant transparency and accountability by tracking energy use and implementing building performance goals

- Offers continuous monitoring via periodic recommissioning studies, and mitigating plans where necessary
- Presents remedies should either party fail to meet building performance goals

Read more about high performance leases here.

Download the Institute For Market Transformation's (IMT) high performance based leasing toolkit including model lease provisions.

Owners and tenants who have implemented performance-based leasing should consider obtaining recognition for their efforts through the Green Lease Leaders Program, a national recognition and education program that spotlights landlords, tenants, and partnering real estate practitioners that incorporate green leasing into their deals.

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High Performance Design and Construction Guidelines

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In many cases, there may be a discrepancy between base building efficiency standards and tenant fit-out spaces. Without tenants prioritizing sustainability, the building will fall short of its efficiency potential. Tenant design guidelines promote energy efficiency within tenant spaces. These guidelines outline the standards that every tenant must follow when designing and constructing the fit-out space. The team shall audit existing guidelines or develop new guidelines to push the potential for energy efficiency within the building. The high-performance guidelines shall include guidance on the following categories:

1. Energy Efficiency
2. Lighting
3. HVAC
4. Plug Loads
5. Water Efficiency
6. Materials and Resources
7. Contractor Guidelines
8. Commissioning
9. General

Within these guidelines, the building owner requires tenants to meet high performance design standards (i.e. ASHRAE, Energy Star, NYStretch Energy Code), utilize efficient equipment (such as Energy Star, and WaterSense Fixtures), and provide instrumentation for future analysis and optimization (metering and sub-metering). Download sample design and construction guidelines here.

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Ten Steps to Efficient Tenant Build-Outs

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Building owners, tenants, architects, engineers, and other service providers who are interested in integrating energy efficiency into tenant space design and construction can follow a proven ten-step process embodied in the Tenant Energy Optimization Program (TEOP), led by the Urban Land Institute. When implemented in ten (10) pilot fit-out projects, the process led to energy savings of 30 to 50 percent within a three-to-five-year payback period, and an average 25 percent internal rate of return over the life of a ten-to-15-year lease. The 10 steps in the TEOP are listed here:

Phase I: Pre-Lease

- **Step 1: Select a team**
  - Use a broker with experience in sustainability
  - Add other team members (architect, engineer, etc.) in subsequent steps
- **Step 2: Select an office space**
  - Choose an efficient base building
  - Negotiate lease terms that allow energy efficiency improvements

Phase II: Design and Construction

- **Step 3: Set energy performance goals**
  - Consider overall corporate sustainability commitments and investments
- **Step 4: Model energy reduction options**
  - Develop a menu of measures
  - Project performance of different combination and iterations of measures.
- **Step 5: Calculate projected financial returns**
  - Review incremental costs and available incentives
  - Use value analysis tool to determine annual and lease term cost impacts, taking into account potential incentives and tax deductions that may be available to offset green building and energy design and equipment costs.
- **Step 6: Make final decisions**
  - Determine the optimal packages that meets financial (NPV and IRR) and energy performance goals.
- **Step 7: Develop a post-occupancy plan**
  - Address needs for performance monitoring and occupant training.
- **Step 8: Build out the space**
  - Execute the planned energy efficiency projects.

PHASE III: Post-Occupancy

- **Step 9: Execute the post-occupancy plan**
  - Measures and verify performance and perform ongoing maintenance
- **Step 10: Communicate results**
  - Perform on-going reporting

Read more about case studies that illustrate the benefits of following the TEOP process.

Download the toolkit here.

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Financing Improvements in Commercial Tenant Leased Spaces

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On-Lease Financing for Commercial Tenant Energy Efficiency - Improving the energy efficiency of leased spaces in commercial buildings is key to supporting building-wide decarbonization efforts. The NY Green Bank offers an innovative financial product for commercial tenants to access financing to reduce their energy consumption, utility costs and environmental impacts. This may be achieved without upfront investment and with the potential to generate positive cash flow as soon as efficiency improvements are placed in service. Through this innovative financing option, NYGB provides funding to the commercial property owner, who can in turn offer commercial tenants financing to make energy efficiency improvements to their leased space. The tenant repays the building owner via an on-lease repayment mechanism. For more information about this financial product, contact NYGB.

For more information about financing decarbonization and building efficiency projects, click here.

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Tenant Energy Management and Optimization

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Once a tenant has moved in, building owners can remain engaged and work with tenants to explain the value and power of energy data. Building owners must help their tenants understand their energy consumption and how to make continuous improvements to reduce usage and optimize the performance of their leased space. Monitoring energy usage in real-time provides valuable feedback that allows both tenants and owners to realize cost and energy savings opportunities over time.

- The NYSERDA RTEM + Tenants program provides financial incentives for commercial real estate owners that wish to monitor tenant energy use and manage that consumption through novel strategies and initiatives. Recognizing that commercial office tenants play a critical role in achieving lasting reductions in a building's overall demand, energy intensity, and carbon footprint, the Program promotes the comprehensive monitoring and management of a commercial office buildings' energy, electricity demand and carbon footprint, inclusive of tenant spaces. Learn more about the RTEM+T Program.

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