

## BATF-06-32—Green Leases

<b>Project number:</b> <i>BATF-06-32</i>		<b>Date:</b> <i>31 August 2006</i>
<b>Title of project:</b> Green Leases		
<b>Leading member &amp; co-leading member:</b> Australia and the United States		
<b>Participants:</b> to be determined		
<b>Project Overseer:</b> Gene McGlynn, Assistant Secretary, Department of Environment and Heritage, Australia		
<b>Postal address (leading member):</b> GPO Box 787 Canberra ACT 2601 Australia		<b>Phone:</b> +61 2 6274 1773 <b>Fax:</b> <b>Email:</b> Gene.mcglynn@deh.gov.au
<b>Financial Information</b>	<b>Total cost of proposal</b> To be determined	
<b>Type of project:</b> <input checked="" type="checkbox"/> demonstration/pilot <input type="checkbox"/> national policy, law, regulation <input type="checkbox"/> appliance testing/labeling <input type="checkbox"/> seminar/symposium <input checked="" type="checkbox"/> training & technical assistance <input checked="" type="checkbox"/> public/consumer information <input type="checkbox"/> database/website <input type="checkbox"/> survey, analysis, research <input type="checkbox"/> others		
<b>Project start date:</b> <i>1 Nov 2006</i>		<b>Project end date:</b> [to be determined]
<b>Project summary:</b> Overcoming barriers that inhibit the wider uptake of otherwise commercial energy efficiency actions can be significantly achieved through promoting key underlying “smart” technologies and working to more effectively allocate incentives and responsibilities for improved energy management. Such enabling mechanisms increase demand for energy-efficient buildings and appliances as well as providing innovative market approaches to achieving energy efficiency, greenhouse gas reductions and broader sustainability. This project focuses on the following key mechanism: <ul style="list-style-type: none"> <li>• Commercial building “green leases” to help overcome the tenant-landlord split incentive barrier to improved energy management</li> </ul>		
<b>Signature of Project Overseer:</b> Gene McGlynn <b>Date:</b> 25 August 2006		
<b>Signature of Task Force Chair:</b> Hakdo Kim <b>Date:</b> 31 August 2006		
<b>Remark:</b>		

### *Green Leases*

This project will help to overcome the tenant–landlord split incentive barrier to energy efficiency in commercial building operations through increasing the use of green lease schedules in participating Partner countries. Nationally tailored green lease schedules and supporting tools will be developed and promoted through government demonstration, industry champions and investment sector involvement.

The Australian Government is currently in discussion with possible Industry partners for this project and the results of these discussions will alter the final project format, budget and timelines.

### ***Objectives***

This project assists to fulfill the objectives of the BAFT through providing an enabling mechanism to overcome market barriers, which will ultimately increase the uptake and effective management of energy-efficient buildings and appliances to assist with broader national efforts towards sustainable development.

The objectives of the green leases project are to:

- Increase the efficient energy management of commercial building operations through providing transparent legal options to overcome the market failure of the tenant–landlord split incentive problem.
- Increase the uptake of energy-efficient building designs and appliances in participating countries through stimulating additional market demand.

### ***Background***

Buildings designed to achieve high levels of efficiency often operate at far below their potential without effective management of performance, sometimes doubling the energy consumption and operating costs for the building. Under typical commercial building lease arrangements the tenant pays the building energy costs yet does not have control over equipment operation and cannot guarantee, or in some cases even measure, whether they are achieving the energy efficiency outcomes they desire or have contracted for. In contrast the owner has little incentive to properly maintain or upgrade plant and equipment or to strive to achieve high levels of building energy management performance.

Typical green leases consist of an additional set of standard clauses to a “normal” building lease contract. Green lease schedules provide for mutual contractual lease obligations for tenants and owners to achieve energy efficiency targets (or potentially other environmental obligations, such as water efficiency). This ensures that buildings operate at agreed levels through regular monitoring and the ability to address issues as they arise. Green lease schedules promote uniformity, consistency and market acceptance while minimizing the need for legal advice on individual lease agreements relating to energy efficiency. Standard clauses often deal with: specifying the agreed performance of the building (for example through use of a national rating tool performance or standard metrics); agreed energy management plans; metering and data elements; management committees; and dispute resolution clauses).

In addition to standard legal clauses, national policies to implement green leases often also include facilitation tools, such as explanatory guidance notes, example energy management plans and specific fact sheets to facilitate market understanding.

The increased use of green lease schedules provides a positive feedback loop for other infrastructure that supports energy efficiency, such as smart meters, energy service companies, energy-efficient appliances and energy-efficient building design. For example, green leases encourage the effective use of new advances in digital metering

technology that pinpoint energy consumption and provide more useful energy management information. Green leases also encourage market demand for the use of energy service companies and energy performance contracting in providing support services for landlords and tenants.

An essential element in the effectiveness of the green lease in the market place is to work with the finance and investment sectors to ensure stakeholders are well informed of the possible market transformation effects of the green lease and that they invest wisely for the future. This is especially relevant to long-term or “institutional” investors that often hold high levels of property or property trust investments, such as many superannuating funds.

### ***Methodology***

The project will increase the uptake of commercial building green lease schedules and supporting tools in participating Partner countries through:

- Developing nationally tailored green lease schedules and support tools .
- Using key players to demonstrate to the market the practical benefits of green lease schedules through implementation in key government buildings, industry “champion” portfolios and completing investment sector impact analyses.
- Encouraging the wider market adoption of green leases through active promotion and provision of green lease templates and key supporting tools.

Critical elements of this project include:

- Establishing a Green Lease Working Group, including key private sector stakeholders, to oversee project activities and focus ongoing dialogue.
- Reviewing international approaches to green lease schedules, including their common key elements, successful application examples and market operating contexts (e.g. relevant legal approaches).
- Targeted consultation with key private sector stakeholders within participating Partner countries to determine the commercial building sector operating environment including identifying key factors to consider in development and promotion of green leases.
- Drafting a “model” green lease schedule template to form the basis for later tailoring to Partner countries’ national circumstances.
- Collaborating between participating Partner countries to draft tailored green lease schedules and supporting tools to national circumstances for use in both the public and private sectors (including translation to relevant languages and incorporation of specific legal advice).
- Governments leading by example through demonstrating the use of green leases in key government buildings and promoting wider government adoption (driven by government property portfolio managers from participating Partner countries).

- Private sector “champions” within the commercial buildings industry implementing and promoting green lease arrangements within their portfolios.
- Working with the investment and finance sectors to raise awareness and create demand for green leases through performing and disseminating national level impact studies, highlighting the “future proofing” benefits of investing in property trusts which use green leases.

### ***Milestones***

- |           |   |
|-----------|---|
| 2007      | Green Lease Working Group established, including key industry partners identified.            |
|           | International experience summarized.  |
|           | Consultation completed of participating Partner national circumstances and report circulated. |
| 2008      | International “model” green lease schedule template developed.                                |
|           | Nationally tailored green lease schedules and supporting tools developed.                     |
| 2009-2010 | Demonstration within key government buildings.  |
|           | Demonstration within private sector champions portfolios.                                     |
|           | National level investment/finance sector impact studies completed and disseminated.           |

### ***Dissemination of project results***

A range of dissemination methods will be used for this project, including:

- International and Partner specific review reports widely disseminated through relevant government and industry partner websites.
- Workshops/conferences to discuss and promote nationally tailored green leases and supporting tools. Where possible these workshops will coincide with other related workshops under the BAFT program, such as that proposed within the Existing Buildings project’s workshops throughout India and China.
- Investment sector impact studies to be disseminated by private sector partners (e.g. through company websites and promotional speeches) and on relevant government websites.
- Industry champions to promote wider private sector take-up through marketing and promotional speeches.
- Possible Pilot GLS activities

### ***Assessment of project***

Initial pre-project statistics will be collected as part of the international review exercise and report. The participating Partner countries will collect further individual national statistics annually, with central compilation, review and dissemination by the Green Lease Working Group secretariat, for the duration of the project. Thereafter statistical collection will be the responsibility of each individual Partner.

### **Performance measures:**

- Publication of an International review report.
- Lowered energy use and conserving energy performance in demonstration projects.
- Investment/finance impact study completed in each participating Partner.

### **Possible metrics include:**

- Number of nationally tailored green lease schedules developed.
- Number of government buildings to implement green lease schedules (above baseline levels).
- Number of industry champions to implement green leases (above baseline levels).
- Percentage of industry champion operations where green leases have been implemented (above baseline levels).
- Promotion: number of events promoting the investment/finance impact study; number of events for the green lease schedule and supporting tools and number of participants at these promotional events

### ***Progress on Metrics***

The project is still in development phase, no progress to report.

### ***Participation and Management***

The management of this project will be coordinated through a “Green Lease Working Group” to be chaired and supported by the Australian Government. This Group will aim to involve key government officials and industry representatives from participating Partner countries. Where possible the costs of project participation will be managed by the individual Partner countries involved. However, where practical, cost-shared tasks will be managed by the Australian secretariat for the Working Group. The Secretariat will be funded by the Australian Government.

### ***Estimated Budget and Funding Sources***

Cost elements include:

- Secretariat costs (including website establishment and maintenance, statistical compilation).
- International and participating country review costs.
- Development of tailored GLS and supporting tools.
- Investment sector impact studies per country.
- Promotional activities.
- Other—to be determined.

<b>Project/Task</b>	<b>2006 Funding</b>	<b>2007 Funding</b>	<b>2008 Funding</b>	<b>2009 Funding</b>	<b>2010 Funding</b>
Green Leases Project total	Australia: 250,000	150,000	100,000		