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-Sustainability and Leasing- What Tenants and Building Owners Can Do to Increase Their Bottom Line

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IT'S A REVOLUTION!

GREEN vs. SUSTAINABLE

- **GREEN**
 - Environmentally friendly
- **SUSTAINABLE**
 - More encompassing than green

What is a “Green” Building?

- EPA definition – “The practice of creating structures and using practices that are environmentally responsible and resource-efficient throughout a building’s life cycle from siting to design, construction, operation, maintenance, renovation and deconstruction.”

Some common characteristics of a high performance building:

- Energy efficient
- Efficient water use
- Reduce waste
- Better indoor air quality
- Use and reuse of materials
- Sustainable building policy

What is a “Green Lease”?

- Lease for space in either a green or conventional building with terms that incorporate ecologically sustainable development principles.
- Elements include: energy efficiency, water conservation, environmentally friendly clean products

Why should you care?

Why a “Green” Building or Lease?

Triple bottom line

- Profit
- People
- Planet

Profit

- **Reduce operating costs**
 - Energy savings
 - Water savings
- **Reduced maintenance costs**
 - Reduction of waste and disposal – Deconstruction recycling
- **Increased value of building**
 - Higher ROI and Resale
 - Higher appraisal value?

– Marketing and Strategic

- Tenants require
- Customers
- Beware of “green washing”
 - FTC regulations

– Higher Tenant Demand

- Higher rents
- Lower vacancy

– Incentives

- Commercial - 2013

People

- Improved working conditions; improved indoor air quality**
- Higher productivity**
- Increased job satisfaction**
- Lower absenteeism and turnover**
- Improve standard of living of community**

Planet

- **Environmental stewardship**

Other

- **Lenders: requirements, incentives collateral value**
- **Government requirements and incentives**
 - **Federal Stimulus and Requirement – Federal Building**
 - **State: schools and others**
 - **Local Building Codes**

Third Party Certification Systems

LEED

- New Construction
- Core & Shell
- Commercial Interiors
- EBOM

GreenGlobes

Energy Star

Other (BREEAM, etc.)

Statutes and Ordinances

Types

- “LEED” by example
- “Carrot Approach”
- “Stick Approach”

Federal

State

Local

Many reference 3rd party certification system

- Distinguish certified v. certifiable

Building Codes / ASHRAE 189.1

What are the differences between a Green Lease and Conventional Lease?

Design, Build-out and Alterations

Operations and Maintenance

Operating Expenses

Damage and Destruction/Insurance

Enforcement of Green Lease

Provisions

Other Issues

Design, Build-Out and Major Alterations

What are the sustainable standards? (What makes the building “green”?)

How will the landlord’s and tenant’s construction comply with the sustainable standards?

Who is responsible for Third Party Certification?

Who gets the benefit of incentives, credits and deductions?

Design, Build-Out and Major Alterations

What are the sustainable standards? (What makes the building “green”?)

- What are the building, construction and repair standards?
- Is a 3rd party certification required?
- Certified v. certifiable
- If certified, who is responsible?
- Compliance with local law – effect of green building legislation
- Some suggest internal sustainable building policy or environmental performance plan attached to lease

Design, Build-Out and Major Alterations

How will the landlord's and tenant's construction comply with the sustainable standards?

- Contractor rules and regulations – attached to lease or work letter (i.e. certain materials, practices, etc.)
- Restrictions as to types or sources of fixtures/furnishings
- What about Landlord duties (common areas, exteriors, etc.)
- Removal of fixtures/furnishings/etc.

Benefits of incentives, credits and deductions

WHAT SHOULD YOU LOOK FOR?

Design and construction - Integrated Project Delivery (“IPD”)

Collaborative approach – owner, architect, contractor and others

Paradigm shift from design-bid-build

Multi-Party Agreements – Who is responsible when there is a problem?

Design, Build-out and Alterations

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Operations and Maintenance

- **What are the elements of operations and maintenance?**
 - **Who will make repairs?**
 - **Who will pay for repairs and replacement?**
 - **Performance alterations: can they be made and are there any limitations?**
 - **LEED EBOM – cooperation of all tenants**

Operations and Maintenance

HVAC – Annual commissioning

Cleaning/Janitorial

Water use

Common Areas / Landlord Duties

Landlord Rules

Design, Build-out and Alterations

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Operating Expenses

Metrics – sub-metering

Net v. gross v. modified gross

Cost of commissioning

Capital improvements to improve energy efficiency

Amortized costs

Baselines

Design, Build-out and Alterations

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Damage and Destruction

**Who is responsible for repair or restoration
/complete vs. partial?**

**To what standard is the building and/or
premises to be built?**

Hazard Insurance issues

**Does insurance cover costs of restoring
green building or upgraded to green
standards after a loss?**

Damage and Destruction (cont.)

Green Insurance

- Offered by: Zurich, Travelers, ACE USA, AIG and Liberty Mutual**
- Address to serve degree the additional costs associated with green building and ancillary costs**
- Cover changes in Building Codes/Laws and ordinance coverage**
- Drafting of section important**

Design, Build-out and Alterations

Operating Expenses

Maintenance and Operations

Damage and Destruction/Insurance

Enforcement of Green Lease

Provisions

Other Issues

Enforcement of Green Lease Provisions

How do you remedy default?

Consequence of default/loss of certification, loss of financial incentives, breach of loan covenants.

Terminate lease vs. Financial penalty.

Design, Build-out and Alterations

Operating Expenses

Maintenance and Operations

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Other Issues

Other Issues

Renewable Energy – solar, wind

- Ownership
- Right to install
- Who owns energy?
- Roof top issues
- Use Restrictions
- Behavior of tenants and their employers

Liability issues

Contact Us

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