

A lease of life

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Sarah Wilkinson reports on the increasing popularity of green leases in Australia and the lessons that other countries can learn

The city of Sydney's Lord Mayor Clover Moore announced in December 2015 that its top commercial landlords had cut 45% of their emissions since 2006, saving AUS\$30m a year. Sustainable Sydney 2030 is the city's vision for a green, global and connected city, with a target to cut greenhouse gas emissions by 70% from 2006 levels by the end of the next decade.

Better Buildings Partnerships

The [Better Buildings Partnership \(BBP\)](#) is one of several initiatives to help achieve this ambitious target. BBPs, which exist in Canada and the [UK](#) as well as Australia, represent a collaboration between property owners, managers and other influential parties, and they play a key role in improving the performance and sustainability of buildings.

The Sydney BBP was launched in 2011 with 14 founding members including AMP Capital Investors, the City of Sydney, Lend Lease, the University of Sydney and the University of Technology Sydney (UTS). They have since been joined by organisations engaged in building and property management and by key policy advocates and government departments such as the Green Building Council of Australia, the Property Council of Australia and the New South Wales Office of Environment and Heritage. Collectively, the BBP is responsible for over half the office floor space in Sydney's central business district.

BBPs...play a key role in improving the performance and sustainability of buildings

The BBP aims to increase owners' capacity to promote sustainability across their operations by developing skills and knowledge and harnessing interest. In the medium term, the BBP encourages members to participate in planning and decision making for projects contributing to [Sustainable Sydney 2030](#). The programme is intended to inspire the broader population and built environment sector to lead market transformation, with Sydney serving as a global exemplar of best practice in sustainability for buildings, precincts and urban development.

Commercial landlords have an important role to play in improving the energy, water and waste efficiency of Sydney's buildings. When working to enhance the sustainability of their buildings, landlords face the issue of the split incentive, whereby they pay for improvements to energy efficiency but it is tenants that benefit from lower energy bills.

Given this scenario, where is the incentive for the landlord to make any upgrades? The BBP seeks collaborative solutions and initiatives to overcome such barriers, and work to date has concentrated on issues ranging from green leasing and operational waste to green infrastructure and the waste from tenancy fit-out works.

Improving urban resilience

Is it possible to build urban resilience and mitigate climate change in commercial properties through the adoption of green leases while adding value to owners' assets? The answers seem to be yes. A UK/Australian study by the Universities of Oxford and Reading and UTS drew on information from the Sydney Better Buildings Partnership and found that more than 60% of all leases signed in Sydney's central business district contain green clauses ? a 4-fold increase since 2009.

Green leases explained

A green lease establishes a framework for landlords and tenants to achieve and sustain energy efficiency and other sustainability goals during the lease term, with the aim of improving buildings' economic and environmental performance. Green leases typically include information about:

- what environmental measures will be taken under the lease
- how the parties will collaborate to achieve these measures
- who will monitor fulfilment of the measures
- what ensues if the targets go unmet.

Green lease clauses address environmental issues to varying degrees: for example, the lease may make requirements in respect of energy efficiency. While leases have not conventionally included environmental issues, partly because of conflicting landlord and tenant objectives, the research shows how green leases are increasing cooperation on sharing environmental goals between landlords and tenants, acting as a local law that serves to increase environmental accountability and opportunities.

Lessons from the research

Researchers examined 5 case studies in Australia and the UK, where green leases were first introduced in 2006, to understand how such leases are applied in commercial offices and retail property. The study found that the leases are a valuable framework for improving cooperation between the parties, which can include the sharing of energy data, targets for improvement and ? in very rare cases ? costs for building upgrades. Green leases can be applied to both new and existing buildings to improve performance.

Office take-up in Sydney

These leases have a higher rate of take-up in the office sector compared to the retail sector in Australia and the UK. In both countries, the adoption of green leases is driven by landlords rather than tenants, although the Australian government and retailer Marks & Spencer are noteworthy exceptions.

The Sydney BBP published the [BBP Leasing Index](#) in December 2014 to cover office leasing in the central business district, and it shows that green leases made up 15% of all leases in 2009, rising to more than 60% in 2013.

Leases from the public register in New South Wales were analysed using the Sydney BBP's model lease clauses to define 'green' terms. Around 500 of 7,000 leases were sampled randomly depending on tenancy size and building quality. Leases were examined for the presence of 1 of 22 model clauses, and a model lease score was devised. This grading was based on the breadth and strength of the lease clauses, the former defined by how much is included in or covered by the clause, and the latter by how binding the clause is and whether the dispute resolution process would be triggered by breaching it.

Green leases are a valuable framework for improving cooperation between parties

BBP found a 4-fold increase in some forms of green leasing between 2008 and 2014, and 27% of standard leases included 1 or more of the 22 green clauses. Not surprisingly, the top tier of the market has seen higher take-up, with more than 80% of leases demonstrating best practice leasing in 2013/14 in prime stock, and 44% of leases including 1 or more model clauses. Popular clauses related to cooperation, recycling, waste and consumption. Despite this growth in the numbers of green clauses used, however, clause strength lags.

The study's lead author, Dr Kathryn Janda from the [Environmental Change Institute](#) at the University of Oxford, said:

"Green leasing is a promising tool that tenants and landlords can use to develop joint environmental actions, with little or no involvement from government. It can foster greater cooperation in shared premises, and help organisations achieve environmental goals. More research is needed to measure the outcomes of this approach."

The study concluded that clauses ranged from 'light green', which impose a general duty to work together on environmental matters, to 'dark green' ones, which are more ambitious and impose specific environmental rating targets. In Sydney, the numbers of green leases in office buildings has increased quickly; however, parties still hesitate to push for legally enforceable dark green clauses because of fears of heightening the risk of a dispute.

Given the influence of the BBP's members and Sydney's ambition in respect of meetings its 2030 goals, it is not surprising that take-up here has been good. However, while Australia is leading the adoption of green leases, it is paramount to increase adoption of enforceable dark green clauses to enable meaningful change.

The property markets in the UK and Australia support BBPs, and the study found that the organisations were key to fostering green lease activities in both countries. The study highlighted several areas for future research, noting there is as yet no international standard for what a green lease is and does.

Given the transnational reach of many businesses and organisations, a tiered rating of green leases could be developed that develops more nuanced processes and thresholds for environmental ambitions, outcomes and enforceability, much like BREEAM and NABERS have for green buildings. In this way, greener leases can be spread to other markets, inspiring others to adopt best practices.

Further information

Janda, KB, Bright, S, Patrick, J, Wilkinson, S, and Dixon, T. (2016) [The evolution of green leases: towards inter-organisational environmental governance?](#) , Building Research and Information 44.5?6.

Related competencies include:

- [Landlord and tenant](#)
- [Leasing/letting](#)
- [Sustainability](#)

This feature was taken from the RICS *Property journal* (November 2016)