

# Unlocking Hidden Value in Class B/C Office Buildings

Best practices for pursuing low-cost, high-impact energy efficiency and green leasing strategies

October 27, 2020

# Agenda

- Welcome & Introductions: *David Hewett, Olive Real Estate Group*
- Unlocking Hidden Value in Class B & C Office Buildings: *Monika Henn, ULI*
- Case Study: *Dan Meitus, Elevate Real Estate Services*
- Available Resources from Energize Denver, Denver Smart Leasing, and EPA ENERGY STAR: *Jake Dowling, RE Tech Advisors*
- Closing & Questions

# Featuring:

**David Hewett**

Executive Managing Director  
Olive Real Estate Group

**Dan Meitus**

President & CEO  
Elevate Real Estate Services

**Monika Henn**

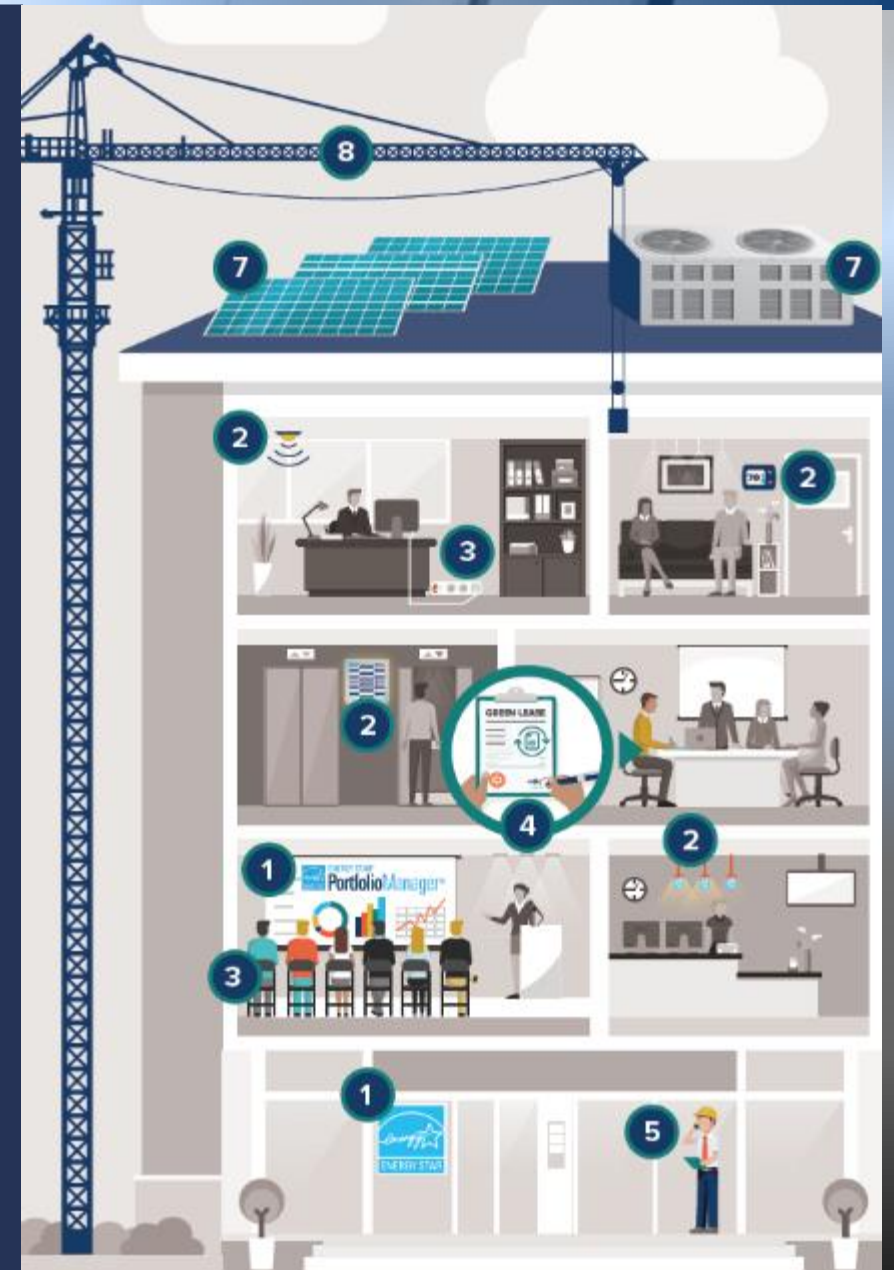
Senior Manager  
Urban Land Institute

**Jake Dowling**

Sustainability Program Manager  
RE Tech Advisors

# Opportunities for Energy Efficiency in Class B/C Offices

**Monika Henn**  
Senior Manager  
Urban Land Institute



# Market Challenges

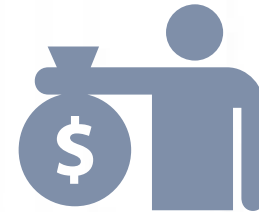
Barriers to integrating energy efficiency



**INFORMATION  
CONSTRAINTS**



**RESOURCE  
CONSTRAINTS**



**FUNDING  
CONSTRAINTS**

# Market Drivers

Motivating Class B/C Owners to Take Action

**COST  
SAVINGS**

**POLICY  
REQUIREMENTS**

**TENANTS**

**REPOSITIONING**

# Local Relevance

Increasing vacancy in Denver's Class B market provides an opportunity to differentiate your space and lower costs!

## DENVER METRO RENTAL RATE VS. VACANCY RATE



# Lay the foundation and engage stakeholders

## Overcoming information constraints

- Take advantage of local education opportunities
- Lean on the property manager
- Benchmark energy consumption
- Understand local energy efficiency regulations
- Pass information on successes along

*“Just because a building is Class B doesn’t mean things shouldn’t run as efficiently as possible. Everyone should benchmark their entire portfolio from the start. It is cheap and anyone and everyone can do it.”*

Tommy Russo, Akridge



# Optimize resources to maximize equipment efficiency and minimize costs and staff time

Overcoming resource constraints

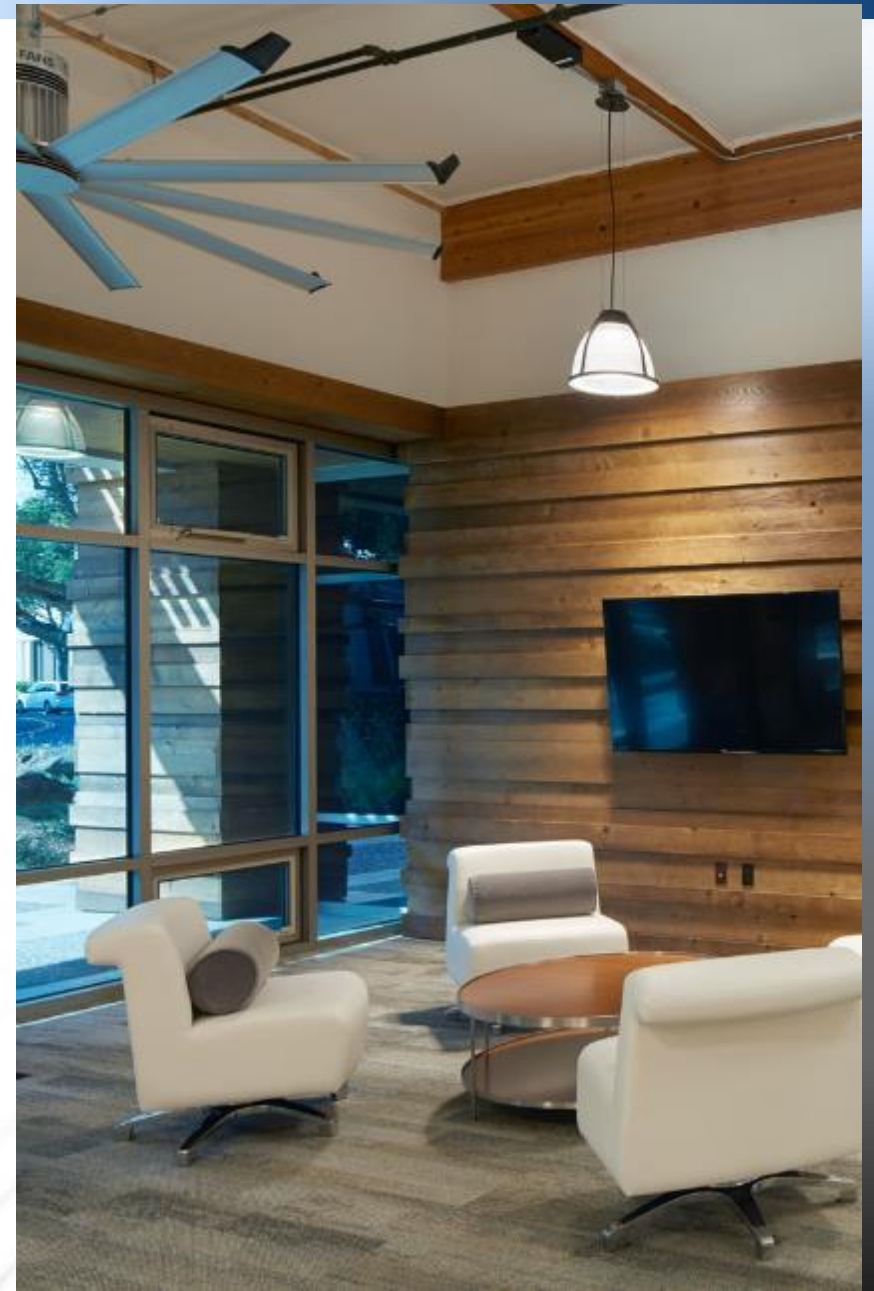
- Ensure current building equipment operates efficiently
- Conduct an audit to identify site-specific measures
- Retro-commission equipment to ensure everything functions properly



# Reduce capital costs and identify adequate funding

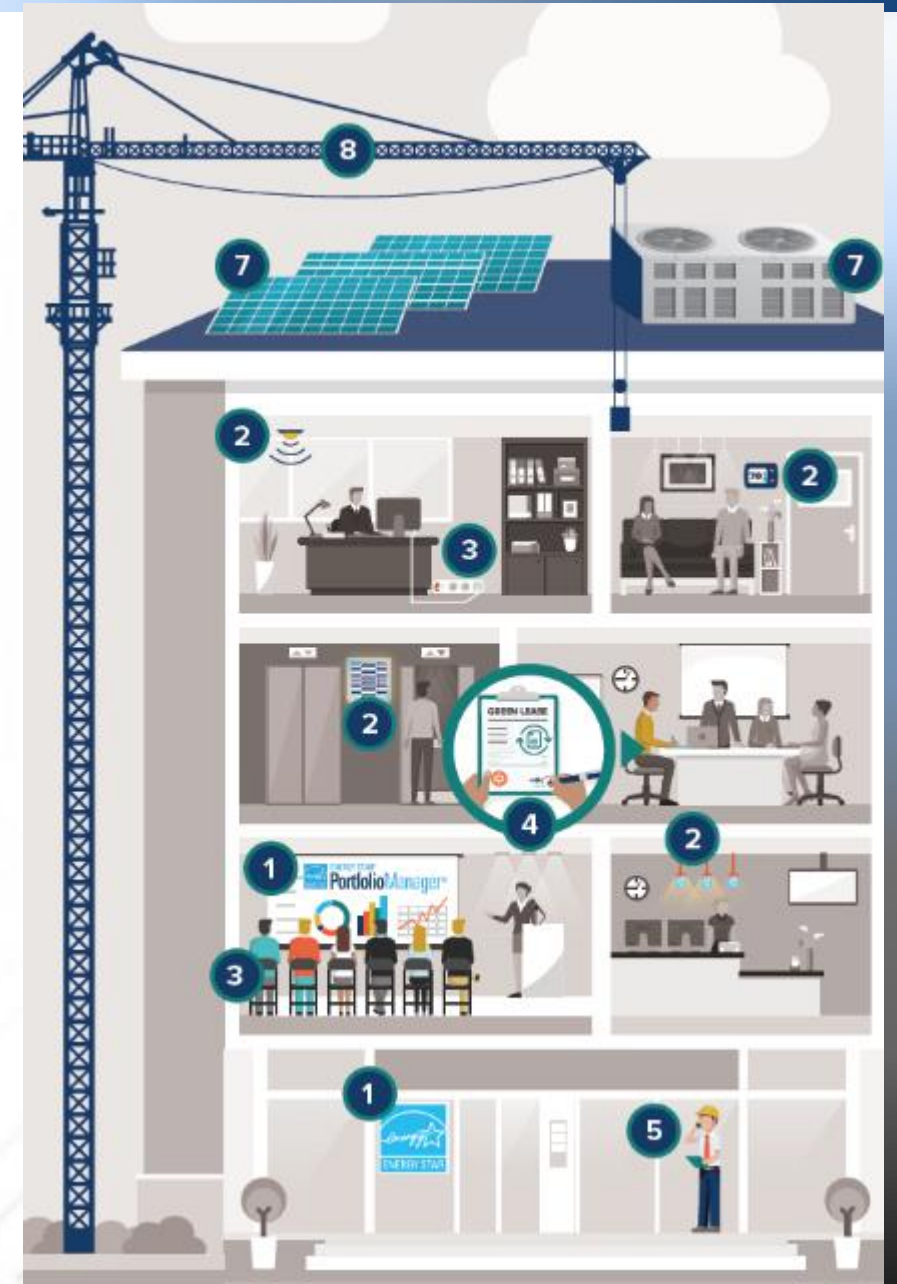
## Overcoming Funding Constraints

- Identify strategies for financing energy efficiency projects
- Bundle energy efficiency into broader renovations
- Consider energy efficiency in value-add repositioning opportunities



# Key Building-Level Strategies

1. Collect performance data
2. Implement low/no-cost measures
3. Engage tenants
4. Incorporate green lease clauses
5. Perform an energy audit
6. Perform retro-commissioning
7. Consider capital improvements
8. Bundle sustainability into planned repositioning projects



# Project Profile

- Energy audit reviewed current equipment and operations at a Class B office building constructed in 1978.
- Recommendations were technical (LED bulbs, VFDs) and operational (more efficient warm-up and cooldown process, programming building controls)
- Results:
  - 252,000 kWh reduction in energy use,
  - \$41,000 in annual cost savings
  - 50% decrease in tenant comfort complaints.



# Project Profile



- Real-time energy monitoring across a commercial portfolio including a multitenant Class B/C office building built in 1963
- Monitoring provided buildings operations teams with better information about energy use
- Without typical building controls in place at the property, the implemented measures were simple, including breaker-level controls for each floor, variable frequency drives (VFDs), and most savings came from reducing unnecessary night load (by over 50%)
- Results:
  - \$44,000 investment reduced energy use by almost 30%
  - \$50,000 in estimated annual energy savings
  - Operational changes removed need for construction, tenant disruption, or large capital investments.
  - Highly replicable recommendations across existing portfolio

# Green Leasing in Class B/C Offices

# What is a Green Lease?

- Green leases lay an important foundation to overcome split incentives and drive more investment into energy efficiency opportunities
- Not only do green leases help align the financial interests of building owners and tenants, they also improve transparency and signal to existing and prospective tenants a commitment to sustainability



*“Conventional leasing practices often hinder both landlords and tenants from investing in energy efficiency in a cost-effective manner.”*

Green Lease Leaders  
Reference Guide

# Existing Constraints to Green Lease Adoption in Class B/C Office Buildings

- **Information Constraints:** green leases are generally perceived as being too complex to integrate into normal-course business practices
- **Resource Constraints:** owners are unable to dedicate the time or staff capacity to implement green lease provisions
- **Funding Constraints:** added legal expenses that may come with involving legal counsel to change leases are generally seen as overly burdensome





# Easy, Cheap, and High Impact Provisions

- Documenting efficient operations practices
- Setting energy efficiency standards for tenant fit-outs
- Implementing efficiency project cost recovery provisions



# Optimal Timing to Integrate Green Lease Provisions

- **Timing:** The most opportune time to integrate green lease components is when signing on a new tenant via the standard form or when renewing an existing tenant
- **Renewals:** When renewing an existing tenant, green lease provisions can be added via a short lease amendment
- **MOUs:** For buildings with multiple tenants, implementing green lease language building-wide can be challenging given varying lease schedules



# Unlocking Value: A Case Study

**Dan Meitus**  
President & CEO  
Elevate Real Estate Services



**ELEVATE**

REAL ESTATE SERVICES

# Case Study: Arapahoe Court (30,000 SF Office)



# Building Overview

- Built in 1984 in Denver suburbs (DTC)
- Bought in 2017 at 33 years old
- 30,000 SF: 3 Floors about 10,000 SF each
- Recent new white, EPDM roof
- 1 Women's and 1 Men's Bathroom/ floor
- HVAC: **30 residential Package units** with in-suite furnace with A/C Condensers on roof
- 10-15 Tenants
- Ann'l CAM Expenses about \$6.80 psf

# “Low hanging fruit”: 2018 Lighting Upgrade

- Installed LED's in entire Bldg
- 2017 Utils: \$35,600 or \$1.19 psf
- 2019 Utils\*: \$29,400 or \$.98 psf
- \* Occupancy increased from 85% to 95%
- Estimated \$6,200+/ yr savings or 17+%
- About a 3 yr payback, after rebates
- Other benefits include brighter hallways, greatly reduced maintenance costs

# Additional Green Efforts

- Replacing HVAC packaged units systematically over 5 years for improved efficiencies
- Implemented consistent HVAC Preventative Maintenance plan (filters, etc)
- Installed Auto Flush valves on men's urinals
- Installed Window film
- Repaired broken windows that didn't open

# Future Energy Efficiency Opportunities

- Energy Star Audit (not mandated by **Energize Denver** requirement)
- Continue to benchmark annually
- *Engage & Educate* Tenants in opportunities
- Consider Green Leasing provisions
- Install Programmable thermostats
- Install Auto faucets and more auto flush valves
- Evaluate ROI of Solar Panels





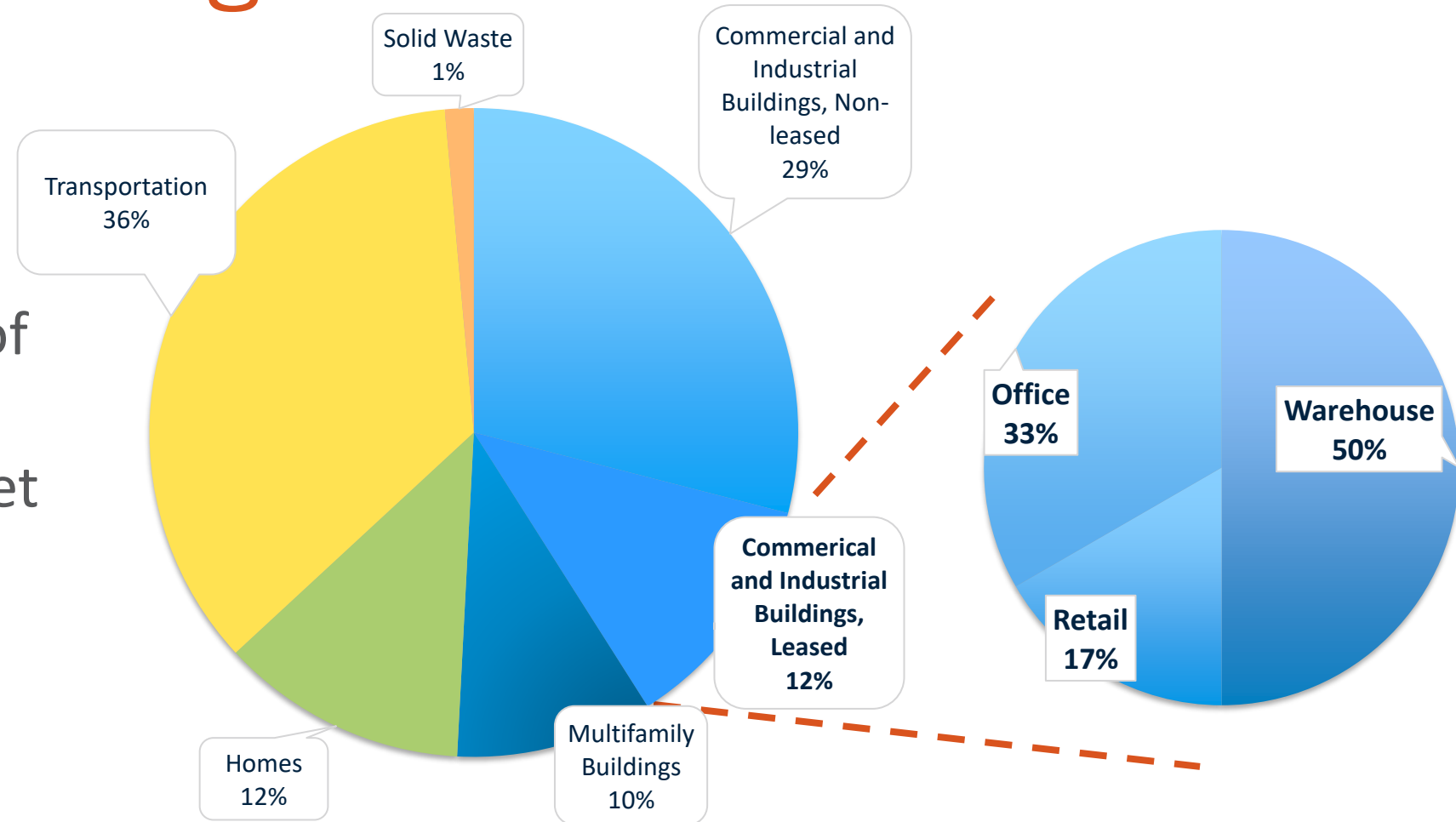
---

# Denver Smart Leasing Program

Jake Dowling  
October 27, 2020

# Why Smart Leasing

- Leased Commercial Space in Denver represents about 9% of total City emissions
- 103 Million Square Feet of Leased Space (449 Million sq.ft Total)
- 23% of Building Stock



# The Split Incentive

## SPLIT INCENTIVE CHALLENGE



### THE OWNER

Wants to make their building more energy-efficient. But if the owner pays for upgrades, why should tenants get all the benefits at no cost?



### THE TENANT

Wants to be more energy efficient, but pays a flat rate for utilities by the square foot. So they have no incentive to use less energy.

## ENTER THE GREEN LEASE

### THE TENANT NEGOTIATES

Make the space more energy efficient

Submetering their space's electricity, so they are paying for what they actually use—which will encourage more efficient operations

### THE OWNER NEGOTIATES

Passes some of the cost of the submeter installation onto the tenant

<http://www.greenleaselibrary.com/>



Provides tools, training, and resources to better align the interests of tenants and landlords to achieve healthy, high-performance, energy-efficient buildings.

## Stakeholder Groups



### TENANTS

Better health, comfort, productivity, and employee retention.



### LANDLORDS / PROPERTY MANAGERS

Increase tenant retention and NOI by lowering energy costs.



### BROKERS

Help clients lease healthy, high performance, energy efficient spaces.



### ATTORNEYS

Help clients meet their smart leasing goals in leasing documents.



### ARCHITECTS, DESIGNERS, AND SPACE PLANNERS

Demonstrate added value to clients by helping them find energy and cost-efficient options.

## Leasing Process

1

Pre-lease and site selection

2

Lease negotiation and build out

3

Occupancy and operation

## Denver's Impact

57%

Greenhouse gas emissions from commercial and multifamily buildings

20%

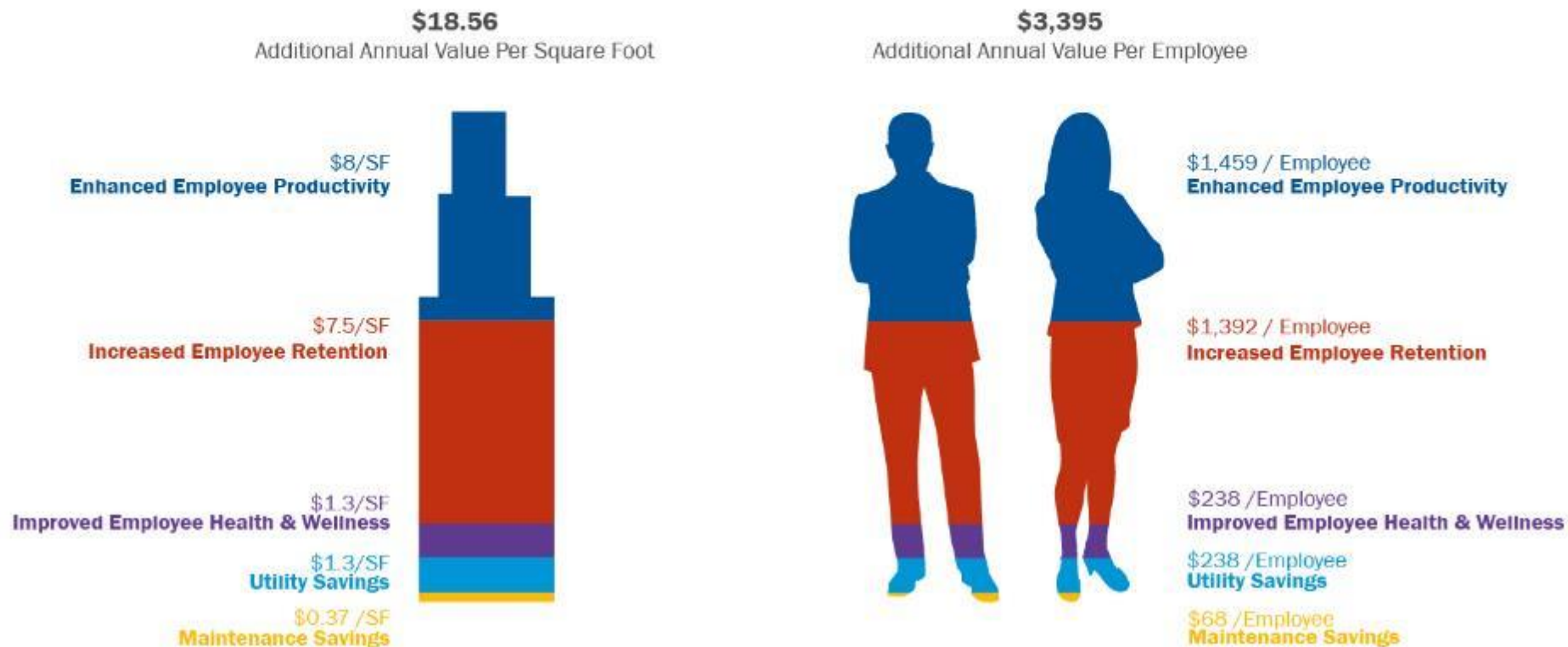
of this from leased space

# Why Smart Leasing?

Landlords/Property Managers

- Improve asset value through reduced operating costs and increase tenant retention.
- Increase NOI
- Align with employee green values

# Determining the Value of High Performance Buildings



# Smart Leasing Steps for Landlords/Property Managers



Promote the energy-efficient features of your property to the market, including the ENERGY STAR® score.



Set efficiency standards build out of leased spaces and communicate your criteria and its benefits to prospective tenants.



Submeter your tenant spaces to increase transparency and provide data that can help you target and pursue energy-efficiency improvements.



Implement, evaluate, and continuously improve energy management practices throughout building operations to establish consistency towards achieving efficiency goals.

# Take the Pledge!

When you take the smart leasing pledge, you simply commit to having conversations about **energy efficiency** and **sustainability** at each stage of the leasing process: pre-lease and site selection, lease negotiation and build out, and occupancy and operation.

Ready to start the conversation?

Visit [www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html](http://www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html)



Take the Smart Leasing Pledge



## Program Resources

- Access to expert advisors
- Case studies from peers
  - Have a story? Get in touch: [smartleasing@Denvergov.org](mailto:smartleasing@denvergov.org)
- Best practice documents



# Available Resources

## Webpage

[www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html](http://www.denvergov.org/content/denvergov/en/climate-sustainability/programs-services/smart-leasing-program.html)

**Stakeholder Groups:**

- TENANTS**: Better employee productivity and retention, lower utility costs.
- LANDLORDS / PROPERTY MANAGERS**: Improved NOI, tenant retention, and satisfaction.
- BROKERS**: We work by aligning with clients' desire to lease space in healthy, high performing buildings.
- ATTORNEYS**: We work and stay current by integrating clients' sustainability goals into leases.
- ARCHITECTS, DESIGNERS, AND SPACE PLANNERS**: We work by demonstrating the value of energy efficiency.

**Discuss Energy Efficiency in the Leasing Process:**

1. Pre-lease and site selection
2. Lease negotiation and build-out
3. Occupancy and operation

**Denver's Impact:** 51% Greenhouse gas emissions from commercial and residential buildings. 23% of the total greenhouse gas emissions.

**Text translation of infographic:**

[Take the Smart Leasing Pledge](#)

To learn more about smart leasing benefits and practices select the relevant drop down below:

- Tenants
- Landlords/Property Managers

**Subscribe to the Smart Leasing Newsletter**

Email Address\*

First Name

Last Name


\* indicates required

**Division Programs**

- Air, Water and Climate
- Business & Community Sustainability
- Environmental Risk Management
- Environmental Sustainability
- Regulations

# Available Resources

## Guidance Documents



SMART LEASING AND TENANTS

### Pre-Lease Guide

Leasing energy-efficient space can benefit employee productivity, retention, and sales through improved thermal comfort, natural daylight, and residing in a healthy building. Choosing the right building is the critical first step for any tenant looking to unlock these benefits. Before signing a lease, consider these best practices as you search for a space to increase the likelihood of success, and foster a sustainable relationship with potential landlords.

### Build a Team with Expertise

Select a leasing broker who understands the value of leasing energy-efficient space and is knowledgeable about the market for high-performance buildings. As the primary intermediary during lease negotiations, commercial brokers are in a unique position to align the corporate sustainability goals of tenants and landlords.

### Request energy performance information

Request energy performance information such as a building's ENERGY STAR® score from a potential landlord to understand potential energy costs during occupancy and determine if the site will assist or hinder corporate sustainability goals. The Institute for Market Transformation (IMT) and the Rocky Mountain Institute (RMI) created a [SmartLeasing questionnaire for commercial tenants](#) to assess and compare different sustainable features of commercial spaces.

### Communicate efficiency requirements in RFP

After narrowing down the initial options, the site selection team will need to issue a Request for Proposal (RFP). The RFP is submitted to the property manager or landlord through a broker. Sustainability priorities and energy efficiency goals should be embedded in the RFP to communicate an organization's goals and needs clearly to potential landlords.

### Letter of Intent

The Letter of Intent (LOI) is often a precursor to a signed lease so work with the landlord to ensure that the LOI covers your sustainability and energy efficiency goals in addition to initial lease terms and other typical lease features.

### Resources

- NRDC DMI Fact Sheet: [Selecting High-Performance Tenant Space: A Pre-Lease Guide](#)
- A Better City: [Sustainable Tenant Fit-Out and Improvement Guide](#)
- New York City Emerging 2030 District: [NYC Green Leasing & Smart Submetering](#)
- U.S. Department of Energy: [10 Green Leasing Tips for Building Owners](#)
- IMT and RMI: [Green Leasing Questionnaire](#)

DENVER SMART LEASING PROGRAM [HTTP://DIT.LY/DENVERSMARTLEASING](http://dit.ly/denversmartleasing)



SMART LEASING AND LANDLORDS

### Example Lease Clauses & Provisions

The Department of Energy, Institute of Market Transformation, and Berkeley National Lab developed the [Green Lease Landlord Relationship Guide for Landlords](#) that includes example clauses and provisions listed below that landlords can work with tenants to integrate into their leases to establish a collaborative and mutually beneficial landlord-tenant relationship that leads to energy savings.

### Provide Sustainability Contact

#### Example Lease Clause

Landlord and tenant shall provide a point of contact for issues related to sustainability and energy. Issues include, but not limited to retrofit projects, billing issues, energy efficiency upgrades, and data access. Tenant sustainability contact:

Email:  
Phone:  
Landlord sustainability contact:  
Email:  
Phone:

### Implement Cost Recovery Clause for Energy Efficiency Upgrades Benefitting Tenant

#### Example Lease Provision

Landlord may include the costs of certain capital improvements (intended to) [that] improve energy efficiency in operating expenses of tenant space. The amount passed through by Landlord to Tenant in any one year shall not exceed the prorated capital cost of that improvement over the expected life cycle term of that improvement (and shall not exceed in any year the amount of operating expenses actually saved by that improvement). Interest/the cost of capital can be included.

### Disclose Whole Building ENERGY STAR Score to Tenant Annually


#### Example Lease Provision

Landlord shall provide tenant with the building's ENERGY STAR score annually. To the extent Tenant obtains electricity independently of the building, Tenant shall give Landlord access to Tenant's data on energy use for inclusion in Landlord's annual reports, ENERGY STAR annual rating and similar purposes.

DENVER SMART LEASING PROGRAM [HTTP://DIT.LY/DENVERSMARTLEASING](http://dit.ly/denversmartleasing)

# Available Resources

## Stakeholder-Specific Best Practices

**SMART LEASING DENVER**

SMART LEASING AND LANDLORDS & PROPERTY MANAGERS

---

### Smart Leasing: Conversations about Energy Efficiency





Smart Leasing refers to any activity that better aligns the interests of tenants and landlords to achieve high performance, healthy, and energy-efficient buildings.

Smart Leasing encourages all stakeholders in the leasing process to have conversations about energy efficiency, sustainability, and building performance during the pre-lease and site selection process, lease negotiation and build-out, and occupancy and operations.

### Reduce Operating Costs

Landlords and Property Managers involved with leasing energy-efficient space has been proven to improve asset value through reduced operating costs and increase tenant retention. By integrating smart leasing into your business practices, you can unlock the value of leasing cost-efficient space that reduces utility costs, drives tenant satisfaction, and benefits your bottom line.

### Smart Leasing steps for Landlords and Property Managers:


-  Promote the energy-efficient features of your property to the market, including the ENERGY STAR® score.
-  Set efficiency standards build out of leased spaces and communicate your criteria and its benefits to prospective tenants.
-  Submeter your tenant spaces to increase transparency and provide data that can help you target and pursue energy-efficiency improvements.
-  Implement, evaluate, and continuously improve energy management practices throughout building operations to establish consistency towards achieving efficiency goals.

### Resources to learn more:

- Department of Energy's Better Buildings:
  - [Build Out to Save Money - Large Office](#)
  - [Build Out to Save Money - Small Office](#)
  - [10 Green Leasing Tips for Building Owners](#)
- Environmental Protection Agency's ENERGY STAR:
  - [Find Green Space](#)
  - [Upgrade Occupants](#)
- Green Lease Leaders: [Reference Guide for Landlords](#)
- Institute of Market Transformation: [Why Landlords Should Take the Lead on Installing Submeter Technology](#)

---

DENVER SMART LEASING PROGRAM [HTTP://BIT.LY/DENVERSMARTLEASING](http://bit.ly/denversmartleasing)

**SMART LEASING DENVER**

SMART LEASING AND TENANTS

---

### Smart Leasing: Conversations about Energy Efficiency





Smart Leasing refers to any activity that better aligns the interests of tenants and landlords to achieve high performance, healthy, and energy-efficient buildings.

Smart Leasing encourages all stakeholders in the leasing process to have conversations about energy efficiency, sustainability, and building performance during the pre-lease and site selection process, lease negotiation and build-out, and occupancy and operations.

### Unlock the Value

Tenants leasing energy-efficient space has been proven to improve employee productivity, retention, and sales due to improved thermal comfort, natural daylight, and residing in a healthy building. By integrating smart leasing into your business practices, you can unlock the value of leasing cost-efficient space that reduces utility costs, drives employee satisfaction, and benefits your bottom line. According to a feasibility study done by the U.S. Department of Energy, commercial tenants who invest in energy efficient technologies can save between 10 to 20 percent or even more in energy expenses over the lifetime of their lease.

### Smart Leasing steps for Tenants:

-  Work with your broker to create site selection criteria that prioritize efficiency and meet your needs.
-  Ask prospective landlords what the ENERGY STAR® score of the building is, and what energy efficient features are installed.
-  Submeter energy use in your leased space to the extent possible and ask that the landlord provide monthly updates on energy consumption.
-  Build out your space utilizing energy efficient strategies such as natural lighting, ENERGY STAR appliances, occupancy sensors and programmable thermostats.

### Resources to learn more:

- A Better City: [Green Leasing: An Effective Tenant/Landlord Strategy for Energy Efficiency](#)
- Environmental Protection Agency's ENERGY STAR: [Find Green Space](#) and [Upgrade Occupants](#)
- Green Lease Leaders: [Reference Guide for Tenants](#) and [Lease Audit Tool - Tenants](#)
- Institute of Market Transformation: [Green Leasing Questionnaire for Tenants](#)
- National Resources Defense Council: [Selecting High-Performance Tenant Space: A Pre-Lease Guide](#)
- Northeast Energy Efficiency Partnerships: [A Guide for Renting and Creating Lower Cost Energy Efficient Apartments and Homes](#)

---

DENVER SMART LEASING PROGRAM [HTTP://BIT.LY/DENVERSMARTLEASING](http://bit.ly/denversmartleasing)

# Additional Resources – EPA ENERGY STAR®

- [10 Recommended Low/No-Cost Guidelines to Improve Energy Efficiency](#)
- [Leveraging Experts and Incentives to Maximize Performance](#)
- [Marketing, Leasing, and Tenant Engagement Guidance](#)
- Rooftop Unit Series- *Coming soon*
  - Tools to Assess Performance
  - Maintenance Guidelines
  - Economizers
- Smart Thermostats for Commercial Office Buildings- *Coming soon*

Learn more at: [https://www.energystar.gov/small\\_office](https://www.energystar.gov/small_office)



# Additional Resources

Better Bricks:

- [Leverage Leasing Practices to Reduce Energy and Utility Costs](#)
- [Selling Efficient Spaces: Brokers Bring Green into the Equation](#)

Building Owners and Managers Association (BOMA):

- [Green Lease Guide](#)

Department of Energy's Better Buildings:

- [The Business Case for High-Performance Buildings](#)

Institute of Market Transformation (IMT)

- [Deep Retrofit Value \(DRV\) Green Leasing Tool](#)
- [The Business Case for High-Performance Buildings](#)

National Resource Defense Council (NRDC):

- [Energy Efficiency Lease Guidance](#)

Penn Institute for Urban Research:

- [Educating Commercial Real Estate Brokers on Green Leasing/Energy Efficiency](#)

# Taking action

**Connect** with us at [smartleasing@denvergov.org](mailto:smartleasing@denvergov.org) to gain access to:

- Expert advisors for implementation
- Free recognition and promotional materials

Check out the [Smart Leasing Webpage](#)

- Sign up for our newsletter!

**Spread the word** with your colleagues:

- Stakeholder specific one-pagers
- Social Media #smartleasing

# Q&A

## Untapped sustainability opportunities have potential to:

- Reduce operating expenses for a Class B/C building
- Increase NOI
- Boost property value

Report linked [here](#)

