



Question of the Month: How can you solve the “split-incentive” challenge through a green lease? - by Dailey Tipton

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Dailey Tipton
Evolution Energy Partners

Over 70% of all energy consumed in major cities is attributed to buildings. To combat this high consumption, city governments have implemented energy reduction plans and regulations that require building owners and operators to reduce energy consumption and greenhouse gas emissions across the board.

Energy reduction programs and efficiency projects drive large savings to the overall footprint of the building. But, for building owners/operators of CRE with tenants and subleases, who benefits from an efficiency project and takes advantage of the cost savings? As an energy professional who works closely with the CRE industry, these challenges are at the forefront of our conversations.

When a CRE owner/operator considers efficiency upgrades that impact operational expenses, the focus is mainly on common areas, parking lot lighting, central heat/air systems, and other infrastructure. These areas have a high impact on the building's energy bill that is paid by the building operations. Rented spaces are generally overlooked since tenants typically pay their own utilities, leaving limited savings opportunities, and owners may not have the legal right to make operational adjustments. But with tenant spaces controlling upwards of 50% of a building's energy usage, why can't a tenant and landlord jointly benefit from efficiency upgrades and savings? The answer is due to limitations in traditional leases.

Traditional leases appear to be inefficient when efficiency projects are concerned, especially during times of low occupancy. A recent study performed by Johnson Controls shows only a 10-20% reduction in large buildings' energy consumption during low occupancy in the pandemic. Spaces are being heated and cooled without people occupying them. If more than 50% of a building is "out of operational control" and the lease prevents joint benefit of operations, what is the answer?

Green Leases can be a path forward! The U.S. Department of Energy's Better Buildings has introduced the "Green Lease Leaders" program to set the requirements to support a shared opportunity for operators and tenants to participate in Green Leases. The program promotes the partnership of landlords, tenants, and real estate professionals to incorporate green leasing to drive high-performing, healthy buildings. The Green Lease Leaders framework shows a proven track record for implementing green leasing and offers case study examples and audit tools on the website. The overall goal of the program is to foster collaboration between landlords and tenants to break down the split-incentive barrier and to align financial and environmental benefits for all involved.

Without leadership and guidance for both owners/operators and their tenants on ways to define and drive a sustainable operation, barriers will continue to plague operations. If we continue to find smart financial benefits for efficient upgrades, the savings should be shared among both parties. The future may require a bit more collaboration, but the financial and sustainable gains for all parties are worth it.

Will your building benefit from a Green Lease? Contact the EEP team today to learn more at info@evolutionep.com or 610-329-8288.

Dailey Tipton is vice president at Evolution Energy Partners (Evolution Sustainability Group), Exton, PA.

Dailey Tipton has spent many years in senior positions of management, where he is recognized for his expertise in energy and sustainability. He has a long history of growing companies, from start-up

to Fortune 500 in size. As the leader for revenue generation for Evolution Energy Partners, Tipton focuses on creating opportunities for customers to drive impact to their bottom line through energy management projects while increasing their sustainable footprint. Prior to EEP, Tipton worked at CPower as a general manager, SAP as the leader for energy management and sustainable applications center of excellence, DATUM as part of the management team and created, launched, and managed a highly successful SAP sustainability practice for ERM.

Tipton started his career as a naval flight officer and is a veteran of foreign war with multiple recognitions, including two Navy achievement medals. He holds two degrees in Engineering: MS in Civil Engineering from the University of Texas and BS in Mechanical Engineering from Auburn University.

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