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National Task Force Completes Model Green Lease, Real Change Foreseen In Real Estate Economics



A year of work by a group of savvy, commercial real estate professionals has resulted in the Model Green Lease. This new lease document brings the green building movement to the economic center of commercial real estate – the lease agreement between the landlord and tenant.

The Model Green Lease was crafted by a task force of attorneys, real estate brokers, corporate tenants, landlords, and green building consultants from both sides of the negotiating table. Collectively, they have negotiated hundreds of office building leases. The task force chair is B. Alan Whitson, RPA, President of the Corporate Realty, Design & Management Institute. Whitson launched the Model Green Lease project, having grown frustrated by the industry's lack of progress in overcoming the biggest financial obstacle to green buildings – the so-called "split-incentive."

"We knew that modifying an existing lease wasn't going to work, and this needed to be more than a symbolic gesture to sustainability," explains Whitson. "So we started with a blank sheet of paper and a straightforward goal: Create a lease document that encourages green office buildings, maximizes the return on investment for green buildings, and provides a healthy and productive workplace."

The Model Green Lease will be available on CD or downloadable on the Internet after July 13, 2009. It includes a reference guide on understanding and working with the Model Green Lease, plus an editable copy to use in your own leasing transaction. Information is available at www.squarefootage.net or by calling 503-274-7162.

"The average American office worker is more likely to be struck by lighting, than work in a green office building," says Jeff Woolf, Executive Vice President, Cushman & Wakefield, Los Angeles, and past member of the Board Directors of the International Facilities Management Association. "Since green buildings have lower operating costs and higher worker productivity, it's clear we need to encourage more green buildings. It's a major issue in this economy as corporate tenants are looking to cut their costs and improve worker productivity. At the same time, landlords are seeking to keep tenants and stop the decline in building value. The Model Green Lease is a powerful tool to do just that."

"Apart from the issues raised by the current state of the economy," adds Laurie McMahon, LEED AP, Managing Director, Cassidy & Pinkard Colliers, Washington DC; "rising energy costs, and concerns about carbon and climate change have upped the stakes for addressing the split-incentive. Our experience shows that greening any building benefits both tenants and the building owner. The first step is getting the financial incentives aligned, and then pairing that with an educated, engaged and effective property management and leasing team to execute."

The Model Green Lease is distinct from other green lease efforts in three critical areas:

1. Resolves the critical financial problem of the split-incentive that has hobbled the progress of greening existing office buildings and constructing new green buildings.

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2. It's equitably balanced to meet the financial and operational needs of landlords, tenants, lenders and investors.
3. Preliminary estimates show that buildings adopting the structure of the Model Green Lease, with appropriate construction and operating standards can cut energy use by 30 to 50 percent over comparable office buildings, with corresponding financial benefits accruing to investors.

Historically, the industry is polarized. If a tenant signs a net lease, the building owner sees little benefit from investing time and money in saving energy. A tenant that signed a gross lease doesn't care how energy efficient a building is - because the tenant never sees the savings. Ironically under both types of leases, tenants that manage their energy use wisely often subsidize tenants that waste energy or operate beyond normal business hours. The Model Green Lease changes the game, says Whitson, "We redesigned the modified gross lease to put the economic incentives in the right spots to get the economic and environmental results everybody wants. Plus, it's written in plain English."

"It's time to rethink the traditional lease document," says real estate attorney Ronald B. Grais, Jenner & Block, Chicago. "While drafted at the onset of a lease term that may go five, 10 or even 20 or more years: many things will change over the lease term. Although the Model Green Lease includes specific 'standards' for IAQ, cleaning, recycling, and temperature range; these standards are going to change. The real genius of the Model Green Lease is its flexibility to adapt the landlord tenant relationship to those changes, and encourage continuous improvement."

The Task Force sought to create a lease that is consistent with ASHRAE, Energy Star, Green Globes, and LEED rating systems. Yet, it could be used in any buildings that for various reasons may not be seeking certification. Other goals include; having a user-friendly format with key deal points itemized at the front of the lease, and work across a portfolio of buildings with minimal changes. Besides key environmental issues such as IAQ, energy use, carbon credits, recycling, insurance, operating costs, tenant improvements, green cleaning specifications, and building regulations; the Model Green lease includes a requirement for an Annual Environmental Performance Report.

A series of educational seminars on the Model Green Lease is scheduled throughout North America. The program will cover provisions of the Model Green Lease, its evolution, and how to apply it to new or existing buildings. An expert panel/ mock lease negotiation session is part of the seminar. This educational program is part of the Turning Green into Gold® series; and is offered in cooperation with the IFMA Corporate Real Estate Council and other collaborating organizations. The seminar schedule is posted at www.squarefootage.net

"The Model Green Lease provides a framework for landlords to compete for tenants by designing, building and managing sustainable buildings while maximizing their return on investment," says Whitson. "It ensures that tenants receive the full benefit of a green building over their lease term at a competitive rate. Best of all, it will improve the environmental performance of the office buildings industry."

Corporate Realty, Design & Management Institute is based in Portland, OR and conducts numerous educational programs on real estate, sustainability, and high performance buildings. Turning Green into Gold® is a registered trademark of Corporate Realty, Design & Management Institute.

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