

The CRC Energy Efficiency Scheme puts “Green Leases” firmly back on the agenda



The way forward: Green Leases

The CRC Energy Efficiency Scheme is set to commence on 1st April 2010. It is estimated that 5000 commercial landlords will be “caught” by the scheme and face annual costs of upwards of £38,000 (8% -10% of their annual energy bill).

The CRC is the latest “weapon” being used by the government to lower CO2 emissions. As the costs associated with being “non-green” increase, owners and occupiers of buildings are turning their attention towards more energy efficient and generally “greener” behaviour.

Ruth McCarthy, commercial property partner at law firm Slater Heelis Collier Littler, introduces Green Leases as a way to put Landlords back in control.

What is a Green Lease?

Put simply a Green Lease is a lease with “extras” – extra clauses designed to get Landlord and Tenant to work together in partnership to reach a common goal: to manage and occupy the building in an environmentally responsible and more sustainable manner. Its application can be adapted for ALL buildings, even those with protective listings.

Whilst Green Leases are somewhat of a new concept for the UK, they are compulsory in Australia for certain buildings and widely used with recognised and well documented success in the USA and Canada.

Why Tenants are saying YES to Green Leases

Tenants are beginning to demand greener buildings leased on greener terms, as it offers them:

- lower operating costs;
- a more effectively run and better maintained building;
- a more comfortable and productive working environment;
- the ability to operate more flexibly and efficiently with less space;
- increased employee productivity and satisfaction;
- enhanced employee recruitment and retention;
- lower employee absence rates and healthcare expense; and
- improved CSR, profile and brand equity.



Tenants want cost reductions

Tenants are on a continual drive to reduce costs and are looking to their property to help them achieve this. In the latest Office Occupier Survey, Tenants were seen to want reduced costs and better “value for money” out of their current premises with many talking about increased employee density and use of their current space more efficiently.

Have “green issues” vanished off the radar? NO! Quite the opposite. Of those surveyed, 40% said they would pay more for green features. This willingness was largely connected to perceived energy cost savings. Sustainability now features in the top ten factors likely to determine future property choice, ahead of other previously highly rated features such as major road access, visibility and prestige of address. Interestingly when respondents were asked what they would like Landlords to do apart from lowering the rent, one of the top responses was “implement “green” features”.

Find out how much money a Green Lease could save your business by calling Ruth McCarthy on 0161 975 3827.

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Other factors pushing Landlords to choose Green Leases

- Ambitious CO2 reduction targets (80% by 2050) are now enshrined in UK law.
- Buildings account for around 40% of the total CO2 emissions and the government expects the property industry to play an active role in reducing these.
- The introduction of further legislation imposing tougher standards, more costly compliance and “green” taxation.
- The government is prevented (by law) from occupying non-energy efficient buildings. Public sector will follow suit.
- The need to future-proof buildings and maximise their value and letting potential.
- The likelihood of a two-tier market of “green”/ “non-green” buildings with those “non-green” ones losing value (capital and rental) and becoming increasingly difficult to let and secure finance against.
- Occupiers’ sustainability agendas, CSR, consumer pressure and rising energy costs.

Did you know?

- Upgrading from single glazing to double low-e glass can generate a 70% improvement in the thermal performance of glazed surfaces.
- Installing energy efficient lighting can reduce overall energy use by between 4 and 10%.
- Installing roof insulation can reduce heat loss through the roof by 60% while cavity wall insulation can reduce heat loss through walls by 50% or more.
- The use of pale colours on walls and ceilings can reduce the energy used for lighting by 5 – 10%.
- A recent RICS report claimed that an increase of just 1% in employee productivity could nearly offset a company’s entire annual energy bill.

Facts and figures

- Hammerson has entered into 370 Green Leases with retailers and office occupiers since 2007.
- 35% of companies would pay up to 5% more in rent in order to occupy a sustainable building, while a further 35% would pay up to 15% more*.
- Energy prices are predicted to triple by 2015.
- There has been a 32% increase in the number of Tenants requesting information on environmental performance of buildings**.
- Manchester businesses could save 3% in energy costs by implementing an energy policy, monitoring energy use and monitoring staff awareness***.
- Occupiers are using office space more intensively with a shift away from individual offices to more open plan structures. Building design will need to be more adaptable and flexible to meet the demands of different users****.
- Green Lease provisions can cut energy consumption by 25%-50% below that of the average building*****.
- Productivity increases as much as 15% and absenteeism lowers by about 14% when an office is retrofitted to greener standards*****.

*Lambert Smith Hampton’s First Corporate Real Estate Matters, Oct 2008.

** The Occupier Satisfaction Index 2009

***Manchester Energy Strategy Report, 2005.

**** The British Council for Offices (BCO) Specification For Offices 2009

***** Model Green Lease Seminar US Green Building Council Chicago April 23 2009

***** The Green Lease Guide For Commercial Office Tenants Investa Properties Limited 2007

At Slater Heelis, we understand that Landlords’ circumstances won’t be the same and they won’t wish to approach the issues in the same way. We have drafted a number of alternative Green Lease “approaches” tailored to the needs of Landlords whether owners of a single unit or a portfolio of properties. Call us to find out more details on 0161 975 3827.

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