

Intervention #2

Tenant and landlord alignment

Intervention point

By aligning landlord and tenant goals on decarbonisation, the real estate industry would be able to better tackle its scope three emissions from its occupied space, which makes up one of the largest components of global carbon emissions for the built environment.

Current situation

While buildings are currently responsible for 37 percent of global carbon emissions, 27 percent is from operational emissions that are largely attributable to the energy used by occupiers.¹ This figure provides landlords with a challenge; occupier space is largely out of their day-to-day control but forms a major component of the scope three emissions they need to address as part of their net zero commitments.

In contrast, for many occupiers, which are also addressing their own net zero agenda, real estate forms a minor component of their overall emissions. Instead, they are more focused on reducing emissions from their own business operations, often centred on supply chain and manufacturing.

This presents a real issue for the real estate industry, which faces a major retrofitting challenge. Some 80 percent of properties expected to be standing by 2050 are already built,² and as many as three-quarters of these buildings are unsustainable, according to the European Commission.³ The majority of European buildings are also energy inefficient but the retrofitting rate is just 0.2 per cent of the building stock a year, leaving the industry way off target.

If the retrofitting programme is to be accelerated, there needs to be a wholesale change of approach

around the sharing of data and responsibilities by these two key stakeholder groups. Occupiers are understandably concerned about business interruption and potential costs that could arise during any building works but to fulfil the retrofitting agenda, landlords cannot only wait for lease events or expiries to undertake deep retrofit work.

Historically, the relationship between landlord and tenant has been disconnected. Tenants have been reticent to engage with landlords so as not to reveal commercially sensitive strategy about operations or information that could inform the commercial terms of a lease. Landlords have traditionally been less service-minded, not requiring an ongoing dialogue once a lease was signed. Now, it is in both their interests to co-operate on issues such as sharing energy data, trust needs to be rebuilt.

Decarbonisation of buildings is often lower priority for many occupiers. For some – for example, manufacturers, chemicals, pharma, and retailers that produce their own retail goods – the building emissions pale in comparison to supply chain and manufacturing emissions. However, the real estate industry needs to work to educate occupiers address this small piece makes a significant contribution to reducing the wider global emissions goal for the built environment.

Despite these issues, there should be a compelling case for far greater owner and occupier engagement to achieve decarbonisation. Owners and occupiers can find common ground with retrofitting and improving operational efficiencies based upon shared net zero goals, lowering high energy costs, improving mechanical and construction inefficiencies, and finding opportunities for rebates and financial incentives.⁴ Avenues for cooperation can be identified, especially in the relationship between the landlords and the tenants' real estate director, sharing similar frustrations in trying to change the behaviour of end users.

However, in the face of the now rapid need to decarbonise, the conventional lease presents a significant barrier. The NNN, or triple net lease secures steady cash flow by assigning responsibility of the operational expenses to long-term tenants and building upgrades to the owners. Owners have no incentive to upgrade a property if they do not share in the energy savings, and although tenants would prefer lower energy bills, it is not their building.⁵

One point of progress is green leases, which include clauses for landlord and tenant for the management and improvement of the environmental performance of a building, and have established a framework around how to share data as well as financial incentives to drive greater cooperation. Green leasing has moved the industry forward, but it has not been a silver bullet, considering the fact that the concept has been in use for over 10 years with limited progress. Challenges for green leases lie in definitions and requirements, as well as enforcement.

Occupiers also do not yet account for embodied carbon in their decision-making. Instead, they consider only their operational carbon emissions which makes them favour new buildings over old, and often those with good certification credentials. If occupiers needed to consider embodied carbon as part of their scope three emissions (for example, if real estate is a service) then this might lead them towards more retrofit building options.

Growing regulatory pressure should also bring owners and occupiers together, as already seen in the Netherlands⁶ and New York City.⁷ In the Netherlands, all office buildings are now required by Dutch law to have an energy label of C or higher. In New York, Local Law 97 will require most buildings over 25,000 square feet – except public ones – to meet new energy efficiency and greenhouse gas emissions limits by 2024 to avoid financial penalties, with stricter limits coming into effect in 2030.

In addition, although the European Commission (EC) has helped put real estate on the path to net-zero through such measures as the Renovation Wave strategy and the revised Energy Performance of Buildings Directive (EPBD), the regulations sidestep the specific challenge of shared responsibility, data and split incentives between owners and occupiers.

While there has been less progress on owner and occupier engagement through regulation, there are hopes that European policymakers may follow the lead set by a new French scheme called *Décret Tertiaire*,⁸ which requires owners and occupiers of buildings in the tertiary sector to share their data annually via an online platform.⁹

The EC's revised EPBD, meanwhile, outlines the need for "smart readiness" in large commercial buildings from 2026. Building data is to be made directly available between owners, tenants and managers, and enforced by legislation, although the EC has yet to set a time scale.¹⁰

Innovation will play a role; the technology to support deep decarbonisation in the built environment already exists, the real challenge is in its deployment and the issue here is cost.¹¹ The pay-back for deep decarbonisation can be 10 years,¹² which may not align with the desired lease length of the occupier. This makes the business case more challenging for owners. Furthermore, some technological fixes are only viable for a building as a whole, which can mean practical difficulties for multi-tenanted properties with varying lease lengths.

What is being done

The issue of tenant/landlord alignment was selected as one of the first intervention points for the ULI C Change programme, which aims to find practical solutions to speed up and scale up decarbonisation. The key objective of this intervention is to create deeper understanding of tenant issues and interests to uncover and develop solutions that improve tenant and landlord collaboration.

The programme has begun early insight work by engaging with occupiers through one-to-one interviews. In 2023, a Community of Practice for owners and occupiers will build relationships and trust, and develop resources and potential solutions for the two parties to work towards common goals on decarbonisation.

In the US, the Urban Land Institute has been working to support owner and occupier engagement for well over a decade. The approach is holistic, with tools to support owner and occupier collaboration at the building fit-out stage,¹³ detailed case studies of leading organisations,¹⁴ and active support of the Green Lease Leaders¹⁵ multi-stakeholder movement to drive more innovation in green leases.

In the US, Green Lease Leaders represents about 3 billion sq ft of leased space¹⁶ – an encouraging take-up of green leases and an excellent example of collaboration between property owners and occupiers.

Much work is being done to support the continued development of trust, know-how and a sense of a common agenda for everyone involved in the built environment. The Better Buildings Partnership in the UK, for instance, has launched a forum for owners and occupiers, and it is seeking to establish a protocol to formalise and standardise the data sharing process.¹⁷ Similarly, ULI Americas held a net zero collaborations forum in 2021 and is due to host another one in 2023.¹⁸

Europe's real estate industry can already take encouragement from a booming proptech sector, which saw 350 percent year-on-year growth in 2021.¹⁹ Proptech solutions include apps enabling employees to control aspects of their workspace such as temperature and lighting, and technology

for landlords and occupiers to team up to reduce energy use. Payback periods remain a challenge, but innovations in contracting, such as tenant-to-tenant cost pass through clauses¹⁹ and multi-tenant power purchase agreements are helping to bridge the gap between owners and occupiers.²⁰

Possible next steps

The energy crisis triggered by the Russian invasion of Ukraine has created an immediate sense of urgency for better alignment between tenants and landlords, so that energy efficiency measures or fuel switching retrofits can be carried out swiftly.

There are encouraging examples of innovation when it comes to aligning the interests of building owners and occupiers, but the European retrofit rate remains at just 0.2 per cent of the building stock a year. The industry is nowhere near the agreed 1.5°C pathway.

The following areas require action:

- Improvements must be made to the existing regulatory frameworks to encourage shared data and responsibility. The cross-border roll-out of bold schemes like France's *Décret Tertiaire* needs to be considered alongside faster implementation of the EPBD-related measures at member state level.
- There is still no green lease standard across Europe. But as wider sustainability measures become established the path to an agreed set of mandatory and optional green lease criteria should become clearer, paving the way for integration into future regulation.
- Addressing the question of why green leasing seems to be more effective in some countries (e.g. the US) than in others, presents a potentially fruitful line of enquiry.
- While industry-wide solutions are critically important, targeted changes are also necessary for real estate sub-sectors, which will require a greater understanding of their particular challenges around owner and occupier engagement. Other stakeholders, such as financial institutions and city authorities, should be involved in this process.

- Similarly, while many pockets of innovation and best practice are surfacing across real estate, the insights are rarely adequately shared. There needs to be a far deeper industry commitment to initiatives like ULI Americas' case studies research, which will help encourage best practice everywhere.

How to get involved

The ULI C Change programme is an industry-wide initiative and welcomes support from across the value chain. To find out more about the programme's tenant/landlord alignment work, visit the C Change [webpage](#).

To contribute to ULI's work on tenant energy optimisation work, click [here](#).

Green Lease Leaders in the US invites landlords and tenants with a global footprint to apply [here](#)

To stay at the forefront of technology and innovation, consider joining the ULI Europe Technology and Real Estate product council. More details can be found [here](#).

About C Change

C Change is a ULI-led programme to mobilise the European real estate industry to decarbonise. We're a movement empowering everyone to work together for a sustainable future. We connect the brightest minds from across the value chain. We challenge barriers, share expertise, and champion innovation to move swiftly to accelerate solutions that will transform our industry and protect our planet. C Change means real change.

C Change was formed in late 2021 by a group of leading real estate players that was united in its aim to focus on collaboration to ensure companies large and small have access to practical solutions and education on decarbonisation.

About these intervention briefings

This is one of a suite of intervention points developed as part of the C Change programme. Intervention points are specific places within a system where we can target action, interrupting business as usual in order to drive transformation. Of course, systems are dynamic environments that are always in flux. We expect movement over time, and will update this document as prevailing and anticipated trends change shape. This briefing was first researched in 2022 and published in 2023.

- 1 [Global Alliance for Buildings and Construction: 2022 Global status report for buildings and construction](#)
- 2 [McKinsey: Call for action: Seizing the decarbonization opportunity in construction](#)
- 3 [European Commission: Driving energy efficiency in the European building stock: New recommendations on the modernisation of buildings](#)
- 4 [Forbes: Building Retrofits: The key to commercial real estate achieving net-zero emissions](#)
- 5 [Aquicore: What is a Green Lease?](#)
- 6 [Savills: What investors need to know about the upcoming Dutch building regulations](#)
- 7 [NYC: Local Law 97](#)
- 8 [Deepki: Décret Tertiaire](#)
- 9 [Schneider Electric: Décret Tertiaire: One year for French building owners to comply](#)
- 10 [European Union: Proposal for a Directive of the European Parliament and of the Council on the energy performance of buildings \(recast\)](#)
- 11 [Taylor & Francis Online: Retrofit of existing buildings – a major technical, economic and social challenge](#)
- 12 [ResearchGate: Rental tenants' willingness-to-pay for improved energy efficiency and payback periods for landlords](#)
- 13 [Urban Land Institute: ULI Tenant Energy Optimization Program](#)
- 14 [ULI Tenant Energy Optimization Program: case studies](#)
- 15 [Green Lease Leaders: Creating collaborative owner-tenant relationships](#)
- 16 [Green Lease Leaders: About us](#)
- 17 [Note: The outputs of the Owner and Occupier forum are currently private but elements will be published more widely in due course.](#)
- 18 [Property Week: Proptech market continues to grow in Europe](#)
- 19 [p.7 Rocky Mountain Institute: Barriers and breakthroughs for multitenant developments](#)
- 20 [Schneider Electric/Bird & Bird: Collaborative offices PPA structures for renewable energy buyers](#)

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