

GUIDE GREEN LEASE CONTRACT





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Investments in energy efficiency are not currently happening at the rate needed, hindered by barriers such as high upfront costs, lack of access to finance, high perceived risk, lack of trust in new technologies, competing investment priorities, lack of knowledge, awareness and personal resources, and split incentives. Many of these barriers can be overcome, at least significant part, with well-designed financial tools and instruments.

The Interreg Baltic Sea Region Program 2014-2020 project EFFECT4buildings is providing building owners and managers with a set of financial tools and instruments to support the implementation of more energy efficiency measures, developed, and improved in real cases.

The main target group is building managers in charge of public or privately owned building portfolio.

The nine tools are:

- Convincing Decision makers
- Financial calculations
- Bundling
- Funding
- Energy Performance Contracting
- Multi Service Contracting
- Green Lease Contracting
- Prosumerism

EFFECT4buildings was implemented from 2017 to 2020 with the support from the Interreg Baltic Sea Region Programme 2014-2020. There were seven partner countries – Denmark, Estonia, Finland, Latvia, Norway, Poland, Sweden.

The project was also a part of the implementation of the EU Strategy for the Baltic Sea Region (EUSBSR), being a flagship project under policy area Energy and the horizontal action Sustainable development. Flagship projects demonstrate the progress of the EUSBSR and serve as pilot examples for desired change.

The full toolbox can be found on project webpage: www.effect4buildings.se



GREEN LEASE CONTRACT

Reaching energy and climate goals requires involving building users, to let them understand what energy savings can be achieved thanks to changes in their behaviour. Green lease contracts (GLCs) offer a model providing a structural platform for cooperation between building owners and tenants. Contracts are always energy-related, but they are often supplemented with information about choice of materials, waste management, information and training activities, and paving the way for more sustainable buildings. GLCs stimulate dialogue and continuous improvement, reaching for financial incentives if such a need arises. Various forms of GLCs can be developed for different kinds of buildings.

Let's understand the problem

To achieve energy and climate goals users of the buildings have to be involved. Most building managers also act as landlords, renting out premises or apartments. A building manager can also often have the task to rent premises from private or public organizations for own use, for example for municipality needs.

Goals for energy and environment in those cases need to be communicated and worked on in cooperation between the parties, although forms for such collaborations where energy efficiency is fully utilized are rare. Evaluation of previous attempt highlight problems with follow-up, evaluation and including a long-term perspective.

Experience show that building managers often lack the knowledge of how the use of premises (like schools, preschools, nursing homes, sports facilities, administrative buildings) affect energy use, power demand and

other environmental aspects. Even when building managers have high construction skills and understand how their buildings works, they often lack the ability to estimate and follow up energy savings from different measures.

The building manager needs to motivate the tenants to get involved in energy efficiency. Increased use of electricity can lead to power peaks during certain times of the day and the year. Cooperation is also needed to manage power loads and to reduce this vulnerability. Including heat and electricity in rentals makes it difficult for the tenants to monitor energy use, demotivating them to control power consumption. So, to get tenants involved, they should be informed in a clear way about energy use, which calls for using simplified systems of energy use reporting. In countries in which building owners make profit out of selling energy to tenants, tenants (e.g., a public organization) can have problems with motivating the owner to reduce energy use.

Landlords/building managers are demanding new methods and tools for increasing energy efficiency, and broader collaboration with tenants using Green Lease Contracts can be a solution for this.

Solution

The green lease contract method is based on a collaboration between both parties towards the optimization of energy use by a real estate. Together, it creates a win-win concept designed to give both parties an economic advantage. Always energy-related, a contract's content is often supplemented with other forms of action, such as the choice of materials, waste management, information dissemination, and training activities.

Instead of employing costly energy measures in a real estate, it is better to start motivating its tenants to change their way of using energy in order to reduce their energy consumption. The resulting economic savings can then be used to implement additional energy efficiency measures in the real estate. An initiative for implementing a green lease contract in a real estate can also come from a tenant renting a building who wants to contribute to energy savings and sustainable buildings.

Green lease contracts supply tenants and landlords with a structure to communicate and cooperate. In green lease contracts, the parties involved build up a dialogue about the real impact of the building and its operations on energy and the environment, thereby forming a common platform for monitoring future changes, discussion about them, and their implementation. This platform stimulates continuous improve

ment. In a green lease contract, the parties undertake to regularly communicate energy and climate issues, that way opening opportunities for further improvements. The platform can also be used for pedagogic purposes, teaching energy issues in schools.

The landlord controls the building's heating system, ventilation, climate shells, lighting, and the like. The tenants can change their energy use, report on deficiencies in climate shells, operating times on lighting and ventilation, temperatures in different parts of rooms, and so on. Through proper communication between the two parties, possible adjustments are facilitated. Before investing in costly energy measures and supporting reinvestments in buildings, the landlord should collect feedback from the building's users.

In certain situations, the greatest motivator for partners to sign the contract and fulfil their commitments may prove to be a financial one. If heat and electricity are not included in the tenants' rent, they can be motivated in other ways; for example, a contract can be used to minimize power peaks by optimizing energy use during the day, thereby resulting in lower energy costs. An improved indoor climate may encourage the tenants to commit.

Buildings	Scope	Cross sectorial	Energy/Peaks	All/part Electricity	Period
Buildings may need different contracts.	Incentives in a contract can be informative and/or economical.	Contracts can include other environmental aspects, e.g., recycling and water use.	Contracts can lower energy, electricity and energy peaks.	Contracts can include part of or all electricity in the real estate, e.g., car heaters and charging stations for cars.	Contracts can vary in their timelines, depending on their goals.

TABLE 1. EXAMPLES OF IMPLEMENTATIONS OF GREEN LEASE CONTRACTS.



Experience from testing and recommendations

The most common mistake made during contract implementation is neglecting the follow-up. Follow-up meetings are crucial for both the landlord and the tenants, letting them share what they have done and what they could do better.

The landlord can use quantitative data to show whether and how the changes enhance the situation. Initial agreements should not be treated as constant. Instead, their final versions should be derived by an iterative procedure, with each step being an adjustment resulting from the increasing experience of both parties gained during the contract implementation.

Conditions changing over time and the contract will need to be improved to adapt to new reality. For building owners who have not signed any contract with their tenants, green lease contracts offer a soft start for the dialogue. The guide is based primarily on experience from contract processes between property managers and schools, but also from a health care centre.

Studies in Dalarna have shown that during the first year of a green lease contract, at least 5% of the property's energy can be saved.

Most of it comes from savings due to adaptations of ventilation, heat and lighting to the tenants' needs.

(During five years before signing the contract, no energy action had been made and no active energy saving measures had been implemented.)

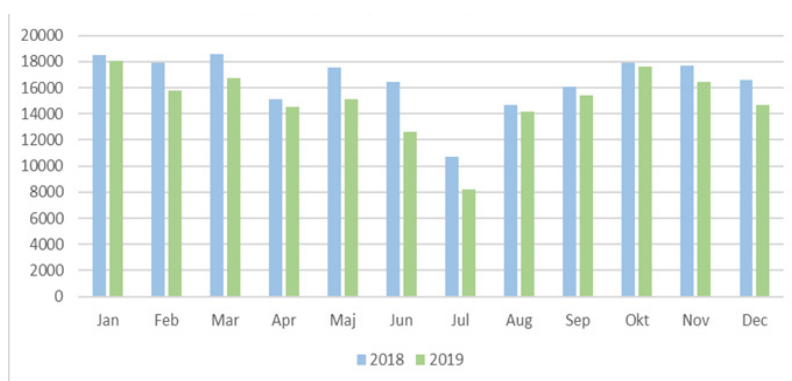


FIGURE 2. A SCHOOL'S ENERGY SAVINGS AFTER THE IMPLEMENTATION OF A GREEN LEASE CONTRACT.

Benefits from a well-designed green lease contract

Cooperation strengthens the relationship between tenants and landlord, improving their communication and mutual understanding.

Knowledge. The real estate's environmental and energy performance is increased by communication, sufficient gathering of information, and dissemination of key ratios.

Environmental. Performance is improved by more efficient use of resources and sustainable property management.

Cost effectiveness. Thanks to decreasing energy and resource use, cost effectiveness increases in both operations and management, with both landlord and tenants benefiting from it.

Pro-activity. A contract provides a competitive position when the demand for greener properties increases, especially when stricter environmental legislation is introduced. It also reduces sensitivity to increasing energy prices.

Goodwill. A contract created by parties working together on reducing the environmental impact can be used as a marketing tool to attract new stakeholders.

TABLE 2. BENEFITS FROM A WELL-DESIGNED GREEN LEASE CONTRACT.

Summary of experiences from testing and main challenges

Commitment: Both parties need to be committed to lowering the environmental impact of the real estate.

Knowledge: Poor knowledge about the real estate's environmental impact, measurements and environmental measures is key to making the real estate more environmentally friendly.

Trust: The landlord usually possesses the highest level of expertise in the field, meaning that for the cooperation to work, he or she needs to gain the tenants' trust.

Time: To get a good result, both parties' must be willing to allocate time to the contract.

Resources: A lack of resources for dialogue, measurements, and evaluations, together with a lack of financial resources, hinders the implementation of a contract.

Law: Low legal requirements favour passivity and goals that are difficult to set.

Incentives: To keep both parties motivated, it is important to find incentives that benefit both parties to keep them motivated.

Follow-up: Follow up the implementation in order to assess the contract and, if such a need arises, introduce required adjustments.

Combination with other tools

This tool can be combined with most other tools, as they can contribute to on another. The financial calculations are always behind Green Lease Contract. Funding and convincing the decision makers are supportive tools that can help achieve the goals. With MSC there is no direct combination. Nevertheless, it is important to pay attention to all green leasing contracts when performing MSC.



Conclusions

Green lease contract is a potential tool for sustainability, reduced energy use and increased profitability. A green lease contract can be applied for to all buildings in which energy efficiency can be increased. Signing a contract is fairly easy, but keeping it useful and alive is not. Key implementation challenges include a lack of time and motivation as well as poor communication. To overcome them, a contract should set up clear goals and impose an open and continuous dialogue between both parties.

Collaboration is key to get the most out of the agreement and it will lower the buildings climate impact if its achieved. Keeping the dialogue alive increases the likelihood that the agreement and lowered energy use in the building will last.



TOOLS

1. Guideline for Green Lease Contracts
- 2a Green Lease Contract. Template.
- 2b Green Lease Contract. Template for building owners
- 3a Green Lease Contract. Example for health care facilities
- 3b Green Lease Contract. Example for schools
- 3c Green Lease Contract. Example from BBP for commercial buildings
4. Green Lease Contracts Presentation
5. Green Lease Contracting training material

FIND ALL TOOLS HERE

www.effect4buildings.se/toolbox/green-lease-contracting/





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