

Executive Summary

Sustainable Real Estate Roundtable:
Management Best Practices

MORE SUSTAINABLE LEASED SPACE



SUSTAINABILITY ROUNDTABLE

Best Practices For More Sustainable Business



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Sustainable Leased Space

Executive Summary This *Sustainable Leased Space* report is part of SR Inc's year-round Sustainable Real Estate Roundtable (SRER) business service, which assists Member Executives responsible for making well more than one billion square feet of real estate more sustainable. SR Inc presents this management best practices research report to address the expressed and growing interest of SRER Members in moving to more sustainable leased space to enable real estate (RE) portfolio and operational efficiencies and to reduce enterprise greenhouse gas (GHG) emissions, while managing top talent, improving human capital outputs, and enhancing brand and reputation.

Leading companies are innovating beyond traditional lease approaches. Three recent trends have accelerated the move to more sustainable lease space:

- The most respected statistically normalized studies consistently demonstrate that green buildings create value through leasing (5%) and sale price (5-7%) premiums.
- When consultants are not overpaid, green buildings and, specifically, green building certification, are in fact far less costly to achieve (0-2% additional cost) than many real estate professional assume.
- There is increasing recognition of the health and productivity benefits of green buildings.

The increasing adoption of "green leases" is expected to play a transformational role in streamlining the greening process. While the cost of certification has led some companies to "build to LEED-CI" but not certify, the development and use of various tools, experienced staff, and the New LEED Volume Program are all leading to cost reductions.

The management best practice research and recommendations presented in this report are premised on dozens of SR Inc Member-Client interviews in CY 2010 and 2011 with executives leading corporate real estate portfolios and with major national and global real estate owners. SR Inc research into management best practices is on-going and will be updated

for delivery at SR Inc's 2011 Summit on Sustainable Real Estate with the provision of additional tools and resources. SR Inc's recommendations are strictly vendor- and solution-neutral.

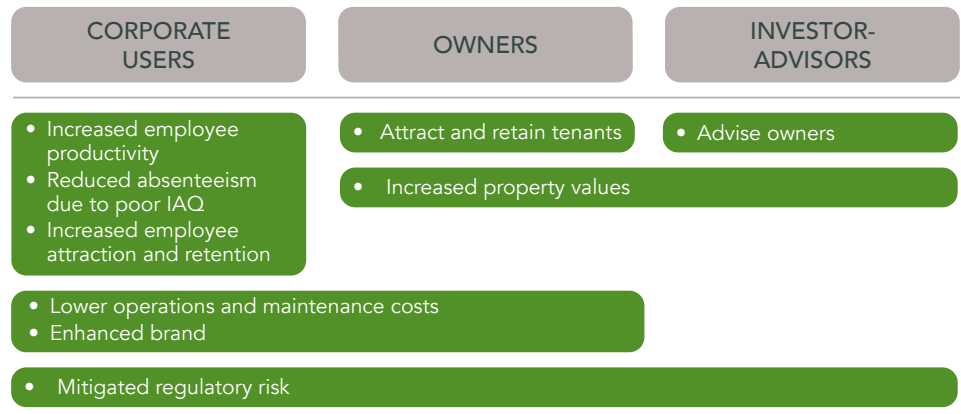
Key Takeaways

- Leading companies are moving to more sustainable leased space to lower operating costs, reduce environmental risks, increase productivity, improve recruiting and retention, implement corporate sustainability mandates, and enhance brand and reputation.
- To overcome conflicting priorities and the barriers that hinder the move to more sustainable leased space, leading companies develop a strong business case aligned with corporate goals, conduct total lifecycle cost accounting, adopt "green" leases, implement essential tools such as BIM and IPD, gather data for sustainability key performance indicators to benchmark internally and externally, and implement continuous improvement programs.
- Real estate leaders develop and implement more sustainable leased space portfolio-wide in a stepwise process (**planning, implementation, and evaluation**) to ensure the efficient allocation of resources across multiple sites, reduce costs, and maximize outcomes.
- To benefit from independent third-party ratings, many corporate tenants pursue LEED-CI (Commercial Interiors) or BREEAM commercial interiors. Such recognition reinforces credibility, provides brand recognition, and engages employees and clients.
- To achieve cost-effective sustainable leased space and certification, RE leaders give preference to those buildings that meet green site criteria, are already certified or ENERGY STAR rated, or whose landlord has demonstrated a commitment to sustainability.
- To avoid the administrative burdens of formal certification but still obtain the benefits of more sustainable leased space, some corporate tenants choose to "design to LEED-CI" or BREEAM, but not certify.

Section 1 Section 1 of this report provides an overview of the dominant green building standard for leased space—LEED Commercial Interiors (LEED-CI)—as well as information about BREEAM for commercial interiors. The section provides data on the cost of LEED-CI certification and reviews the main drivers for moving toward more sustainable leased space. The barriers to adopting sustainable leased space and the strategies used by leading companies to overcome these are discussed as well.

The increasing interest in and move towards more sustainable leased space has special relevance for corporate users, owners and investor-advisors. **Corporate users** pursue more sustainable leased space to reduce costs and risks, enhance brand, improve workforce productivity, and attract and retain employees. Mandates and tax incentives as well as pressure from competitors and desire to demonstrate sustainability commitments also play an important role in their move to “green” leased space. **Owners** move towards more sustainable office space to increase property values, reduce O&M costs, and ensure competitiveness in the market. **Investors-advisors** also benefit from increased property values and reduced regulatory risks. Owners and investor-advisors proactively respond to emerging mandates and regulatory changes related to climate change, energy efficiency, water efficiency, chemicals restrictions, and improving indoor air quality, among others. Investors advise owners on why and how they can take better advantage of the opportunities and manage risks by moving to more sustainable leased space.

Figure 1. Relevance of deployment of sustainable leased space by CRE role



Section 2 Section 2 of this report includes examples of best practices from half a dozen organizations: Exelon Corp., BOMA Chicago, L.L. Bean, HOK, Biogen Idec, and the UK Environmental Agency.

Section 3 Section 3 features four SRER Member-Client case studies: one from the landlord perspective (Equity Office), and three illustrating the tenant approach (Akamai, Autodesk, and Gensler). The cases provide valuable insights to why and how these leading companies decided to pursue more sustainable leased space, what process they used, what were the results and lessons learned.

Equity Office SRER Member-Client Equity Office, one of the largest commercial real estate firms in the United States, owns more than 59 million square feet of Class A office space throughout the country. As of May 2010 the company had 11 buildings registered with the US Green Building Council and was working to attain ENERGY STAR certification for all.

“Top management believes that sustainable office space provides good market for landlords.”

Ed Slein, Director Engineering of Equity Office

Equity Office LEED -CI Gold buildings leased to Bank of America, Boston, (left) and Microsoft, Cambridge (right)

Source: <http://www.equityoffice.com/propertyprofile.asp?portfolioid=888012>

Source: <http://www.equityoffice.com/propertyprofile.asp?portfolioid=888023>



Akamai Technologies SRER Member-Client Akamai Technologies provides market-leading, cloud-based services for optimizing Web and mobile content and applications, online HD video, and secure e-commerce.

“The Information Communication Technology (ICT) industry must play a key role in building a more sustainable world by driving efficiencies across industries and around the globe.”

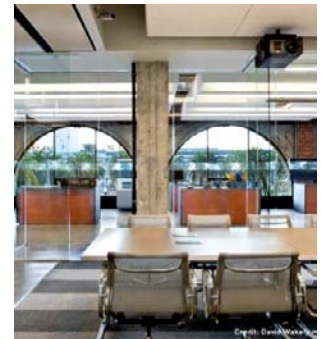
Paul Sagan, CEO, Akamai Technologies Inc.

Akamai’s headquarters in Cambridge, MA, (left) and Akamai office building in San Mateo, CA (right)



Autodesk SRER Member-Client Autodesk, a leader in 3D design, engineering, and entertainment software, operates in about 100 locations across 90 cities and 37 countries. For the renovation of its office in San Francisco the company combined Building Information Modeling (BIM) and Integrated project Delivery (IPD) tools to optimize the design and construction process as well as enhance team collaboration.

Autodesk Office Building, One Market St., San Francisco (LEED-CI Platinum)



Gensler SRER Member- Client Gensler, a global architecture, design planning and consulting firm, employees over 2500 professionals networked across 38 locations around the world. Gensler is considered a global sustainability leader in its sector and in 2005 received the Leadership Award from the US Green Building Council for its commitment to sustainable design. Gensler is committed to the American Institute of Architects (AIA) 2030 Challenge of achieving carbon neutrality for all new buildings and major renovations of over 5,000sf by 2030.

Gensler's offices in Boston and San Francisco are defined by a range of sustainability features.



Section 4 Section 4 of the report provides RE executives 'with an effective decision framework for implementing best practices in the move to more sustainable leased space, based on approaches deployed by leading companies discussion in sections 2 and 3.

When adopting more sustainable leased space, corporate users and owners follow a step-wise process consisting of three major phases – **Planning, Implementation, and Evaluation**. Careful planning requires making the business case for more sustainable leased space to the C-suite, defining roles and responsibilities, selecting KPIs and set related goals that are linked to their company's sustainability commitments, and establishing a strategy to accomplish these goals. Good planning also requires that the team develops guidelines, checklists, and tools to support implementation, performs a gap analysis to identify high value opportunities within the portfolio and among prospective projects, and develops a roll-out plan.

Step-wise planning process



The most important steps during implementation include finalizing site selection for new leases, negotiating terms with the landlord based on 'green' lease considerations, hiring experienced consultants, deploying one or more pilots, and then integrating lessons learned from these before rolling out projects portfolio-wide. SRER Member-Client Cisco's sustainable lease term matrix, which establishes priorities depending on the asset's size, is covered as part of best practice examples. The Coalition for Energy and Environmental Leadership in Leased Space's tool for site selection is referenced as well.

Step-wise implementation process

Select Site	<ul style="list-style-type: none"> • For new sites, issue green RFP, develop green LOI • For existing leases or leases for renewal, engage landlords early
Negotiate Green Lease with Landlords	<ul style="list-style-type: none"> • Identify and allocate TI responsibilities, soft and hard costs • Clarify terms for upgrades and alterations, recertification, remedies
Hire Consultants, Implement Tools	<ul style="list-style-type: none"> • Engage architect, MEP, commissioning, LEED, and other consultants • Implement BIM, IPD, other tools
Deploy Pilots & Review	<ul style="list-style-type: none"> • Deploy pilots and finalize credits to pursue for certification • Assess feasibility of achieving established goals portfolio-wide
Deploy Program Portfolio-Wide	<ul style="list-style-type: none"> • Integrate lessons from pilots, and roll out program portfolio-wide • Engage service providers to ensure green operations and maintenance

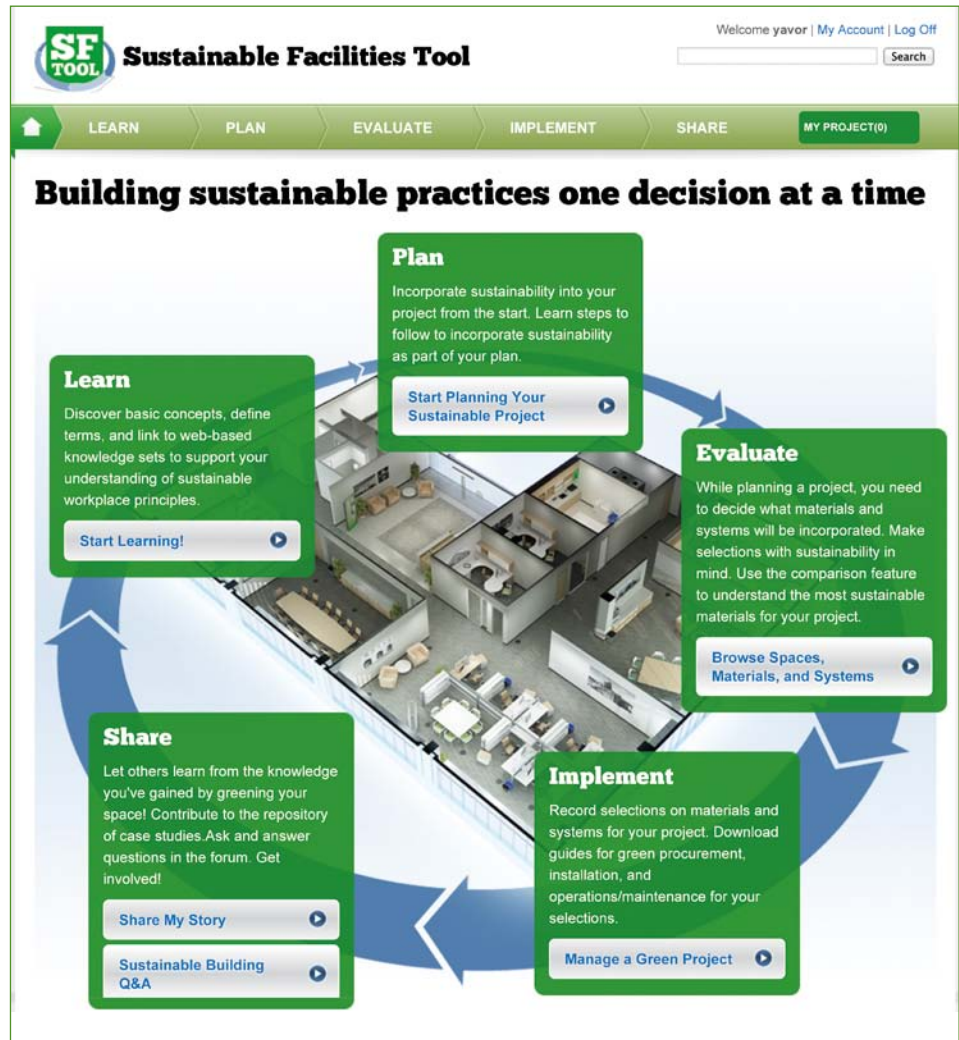
Summary of motivation, strategy, and best practices for moving to more sustainable leased space

<p>WHY? Incorporate sustainable leased space as part of portfolio-wide sustainability strategy</p>	<p>Enhance sustainability strategy to maximize value-add and cost savings:</p> <ul style="list-style-type: none"> – Comply with regulations to mitigate risks – Reduce environmental impacts – Reduce costs (O&M, employee absenteeism) – Increase property values – Reduce liability, risks – Enhance brand – Improve employee health and productivity – Increase employee attraction and retention
<p>WHAT? Select relevant sustainable leased space strategies</p>	<ul style="list-style-type: none"> • Adopt strategies aligned with established sustainability goals and targets • Choose strategies feasible within existing (or green) lease structure • Consider cost-effective options (e.g., ENERGY STAR or LEED certified buildings; LEED Volume Program)
<p>HOW? Implement sustainable lease space policies company-wide</p>	<ul style="list-style-type: none"> • Make the business case based on the life cycle costs and benefits of more sustainable leased space • Establish guidelines, checklists, and tools • Select site and negotiate more sustainable options with landlords (ie. green lease) • Conduct assessments (e.g., LEED gap analysis, financial analysis) • Hire experienced consultants and contractors • Continuously evaluate results (internal and external benchmarking), implement best practices, and communicate internally and externally

Section 5 Section 5 of this report provides actionable implementation guidance, including specific tools and resources. The latter encompass both SRER resources as well as external tools like the Green Lease Toolkit by the California Sustainability Alliance and the Sustainable Facilities Tool by the US GSA.

GSA Sustainable Facilities Tool

Source: <http://www.sftool.org/>



SR Inc Resources and Tools

- **SRER *Global Guidelines for Sustainable Real Estate and Facilities (V.2)***, 2010. This document provides guidance on sustainable management of owned and leased assets through asset lifecycle (acquisition, design and construction, operations and maintenance, decommissioning). The guidelines include over 20 practical tools such as checklists, RFP templates, management plans, etc., and the updated v.3 is forthcoming
- **SRER Report *Portfolio-wide Sustainability Strategy***, 2010
- **SRER Member Advisory *RFP Guidance for Enhancing Sustainability in Leased Portfolio***, 2010
- **SRER Member Briefing *International Green Building Rating Systems***, 2010
- **SRER *Green Certification Strategies***, 2009
- **SRER Report *Benchmarking Real Estate Portfolio Sustainability***, 2011
- **SRER *Outline and Analysis of BOMA Green Lease***, 2010
- **SRER *Outline and Analysis of CRDMI Green Lease***, 2010
- ***Multiple Member-Client studies on Sustainable Lease*** (both for landlords and corporate tenants can be requested)
- **SRER Webinar “*How Leaders are Moving to More Sustainable Leased Space*”**, May 26, 2011

SR Inc Tools (In Development)

- **SRER *Guidance for More Sustainable Site Selection***
- **SRER *Guidance for More Sustainable RFPs***
- **SRER *Guidance for More Sustainable LOIs***
- **SRER *Guidance for More Sustainable Leases***
- **SRER *Guidance for More Sustainable Property Management Agreements***

Other Resources and Tools

- Cisco’s ***Sustainable Lease Term Matrix***
- Sieglinde Fuller, ***Life Cycle Cost Analysis***, NIST / Whole Building Design Guide, 2010: <http://www.wbdg.org/resources/lcca.php>
- USGBC ***The Cost Analysis of Whole Buildings***: http://www.usgbc.org/DisplayPage.aspx?CMSPageID=77#economic_analysis

- Integrated Project Delivery (IPD) delivery approach
 - <http://www.ipd-ca.net/>
 - <http://www.aia.org/contractdocs/AIAS077630>
- Coalition for Energy and Environmental Leadership in Leased Space, ***Leased Space Environmental and Energy Efficiency Attributes*** (Survey), 2010: http://www.ibm.com/ibm/environment/news/coalition_leasedspace_2010.shtml
- USGBC ***Green Office Lease Guide***, 2010
- NRDC Green Lease Forum, 2010
- California Sustainability Alliance, Green Leases Toolkit 2.0, 2011: http://sustainca.org/green_leases_toolkit
- California Sustainability Alliance, Greening California's Leased Office Space: Challenges and Opportunities , May 5, 2009: http://sustainca.org/sites/default/files/GreenLeases_report_050509.pdf
- Andrew Nelson, The Greening of US Investment Real Estate--Market Fundamentals, Prospects and Opportunities, RREEF Research, Number 57, November 2007: http://green-sourcebuildingproducts.com/sustainable_development/PDFs/Greening_US_Investment.pdf.
- Rob Watson, Green Building Market and Impact Report, 2010, http://sallan.org/pdf-docs/GBMIR_2010.pdf.
- US GSA, Sustainable Facilities Tool: <http://www.sftool.org/>

Table of Contents

EXECUTIVE SUMMARY	4
Key Takeaways	6
SECTION 1: INTRODUCTION TO SUSTAINABLE LEASED SPACE	7
1.1 Introduction	8
1.2 Relevance of the Deployment of Sustainable Leased Space by CRE Role	8
1.3 Overview of Market Drivers for More Sustainable Office Space	9
1.4 Green Certifications: LEED-CI & BREEAM	12
Overview of LEED-CI	12
Overview of BREEAM for Commercial Interiors	14
Roles and Responsibilities of Tenant and Landlord	15
1.5 Global Trends	16
1.6 Barriers to Moving to More Sustainable Leased Space Strategies for Overcoming the Barriers	17
1.7 The Growing Importance of “Green” Leases	20
SECTION 2: SECTOR BEST PRACTICES	23
2.1 Exelon Headquarters, Chicago, Illinois	23
2.2 BOMA Chicago Office Building	26
2.3 L.L. Bean Retail Store in Mansfield, MA	27
2.4 HOK Office in Chicago, IL	29
2.5 Biogen Idec Headquarters in Weston, MA	31
2.6 Environmental Agency’s Corporate Office in Bristol, UK	32
SECTION 3: SRER MEMBER CASE STUDIES	34
3.1 Introduction	35
3.2 Landlord Approach to More Sustainable Leased Space Equity Office Properties	35
3.3 Tenant Approach to More Sustainable Leased Space Akamai Technologies, Inc.	38
Autodesk	43
Gensler	46
3.4 Conclusion	50

SECTION 4: SUSTAINABLE VALUE CREATION	52
4.1 Introduction	53
4.2 Decision Framework for More Sustainable Leased Space	53
Planning	53
Implementation	61
Evaluation	66
Summary of Recommended Management Best Practices	69
SECTION 5: IMPLEMENTATION GUIDANCE	70
5.1 SR Inc Resources	70
5.2 SR Inc Tools (In Development)	71
5.3 Other Resources and Tools	71

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Members should contact SR Inc with any questions or comments. Members who have more sustainable leased space deployment best practices that they wish to share with other Members are encouraged to do so for inclusion in future updates of this report.

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