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Feature April 17, 2025

The lease is greener: Why energy efficiency is now a design conversation

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Innovative technologies are driving a surge in sustainability efforts across commercial real estate. New materials and reduced production costs are lowering the initial expenses associated with sustainable development and enhancing the long-term benefits for developers and landowners. As the costs of renewable energy and smart building systems continue to decrease, innovative financing programs are emerging. These programs and decreased upfront costs are transforming commercial real estate sustainability initiatives from merely a social responsibility into a critical financial necessity for developers and landowners. Additionally, green leasing (lease agreements that include sustainability provisions) encourages landlords and tenants to invest in sustainability measures that benefit all parties involved.

Green leases represent a transformative approach to rental agreements that significantly benefit both landlords and tenants. By incentivizing water and energy conservation, these agreements foster collaboration between parties to create a more sustainable living environment. They establish a clear framework for financing larger projects, such as the installation of advanced, energy-efficient appliances and HVAC systems.

This partnership leads to substantial cost savings and enhances the property's overall value. As innovative technologies continue reducing the expense of sustainable practices and soaring energy costs create financial strain for tenants, green leases are emerging as a powerful solution for promoting energy efficiency and improving the quality of life. Embracing this approach is not just an investment in sustainability; it's a strategic move towards a more economically viable and livable future for all involved.

The benefits of green leases for landlords are primarily financial. They include higher property values, reduced operational costs and maintenance expenses, lower vacancy rates, and increased competitiveness for government grants and tax incentives. As landlords invest in their buildings, green leases incentivize them to attract tenants more effectively while allowing them to charge

higher rents. Consequently, green leases motivate landlords to enhance their properties' sustainability and energy efficiency in ways that were less common just ten or twenty years ago.

A 2022 report from JLL, a global real estate services company, revealed that 90% of commercial office buildings are over ten years old.¹ With the rapid advancement of sustainability technology, the energy efficiency of these older buildings may soon be inadequate, as outdated systems are unlikely to meet future energy efficiency standards. By 2050, 80% of the office buildings in existence today will still be in use, highlighting the urgent need for landlords and building owners to invest in the sustainability of their properties.

As energy prices continue to rise and both tenants and investors demand more energy-efficient buildings, the financial motivation to improve the sustainability of older structures will only grow. Collaborative efforts between landlords and tenants, supported by green leases, will enhance the investment rate in energy efficiency for these aging buildings.

The benefits of green leases for tenants can be categorized into three main areas: financial, physical, and social. Tenants who enter into a green lease can expect to save money due to the installation of energy-efficient appliances and renewable energy systems, which lower water and energy consumption, ultimately reducing overall utility costs. Additionally, tenants may enjoy physical benefits such as newer, high-performance heating, ventilation, and air conditioning (HVAC) systems, as well as automated facilities management systems, which contribute to improved air quality and increased natural light. These two factors are closely linked to tenants' physical health and well-being.

Successful green leases have clearly defined, measurable goals that create a win-win situation for both tenants and landlords. Collaboration among tenants, landlords, and sustainability experts is essential for establishing a mutually beneficial green lease. Effective green leases offer financial advantages for tenants, such as reduced energy costs, as well as social benefits that support their organization's net-zero carbon goals. On the other hand, effective green leases provide incentives for landlords to invest in sustainability efforts. This can include purchasing new energy-efficient appliances and retrofitting buildings with renewable energy systems, rainwater harvesting, greywater recycling, and high-performance insulation. These landlord investments enhance the sustainability of their properties, increase tenant occupancy rates, and encourage longer, more stable leasing agreements.

What is preventing some tenants and landlords from agreeing to green leases? Pursuing green leases requires both parties to recognize the mutual benefits and for landlords to secure the investment capital needed to implement energy efficiency measures in their buildings. Despite technological advancements that have reduced sustainability costs and the availability of green financing options that minimize upfront capital requirements, some landlords and building owners still face financial constraints that hinder their ability to invest in sustainable practices. Additionally, some remain skeptical about the long-term return on investment from sustainability measures. These challenges

can largely be addressed through education and increased awareness, particularly on the part of landlords.

As landlords increasingly recognize the substantial long-term benefits of sustainability initiatives and, more critically, the significant costs tied to neglecting energy efficiency improvements in their properties, they will actively pursue solutions that enhance their financial performance and outlook. This shift towards innovative strategies will decisively lead even the most skeptical landlords to embrace mutually beneficial green leases, transforming their approach to property management for the betterment of both their bottom line and the environment.

References:

[1.](#)

[Insights for a brighter way.](#) JLL.