

Förstudie: Incitamentsavtal för energieffektivisering

Pilot study: Incentive leases for energy efficiency



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Beställargruppen lokaler, Belok, är ett samarbete mellan Energimyndigheten och Sveriges största fastighetsägare med inriktning på kommersiella lokaler. Belok initierades 2001 av Energimyndigheten och gruppen har sedan drivit olika utvecklingsprojekt med inriktning mot energieffektivitet i lokalbyggnader.

Gruppens målsättning är att energieffektiva system, produkter och metoder tidigare skall komma ut på marknaden. Utvecklingsprojekten syftar till att effektivisera energianvändningen samtidigt som funktion och komfort förbättras.

CIT Energy Management är ett konsultföretag som arbetar med energieffektivisering och innemiljö i olika typer av fastigheter. De har fått i uppdrag av Energimyndigheten (via ramavtal) att leverera förstudier och utredningar inom verksamhetsområdet lokalfastigheter. Förstudierna och utredningarna genomförs internt eller av extern part och undersöker vilka områden inom energieffektiva lokaler som är intressanta att utveckla och vilka fördjupade utredningar och analyser som kan behövas. Alla frågor kopplat till denna rapport hänvisas till CIT Energy Management AB: info.em@cit.chalmers.se

Alla rapporter kommer att göras tillgängliga via Beloks hemsida www.belok.se.

As requested, this report will be written in English.

ABSTRACT

A pilot study regarding incentive leases/green leases between property owners and office tenants has been conducted. The intention has been to do a market study to identify what kind of leases are on the market, and to find out how well these are or are not working. Identifying success factors as well as problems has been in focus, as well as finding out what needs may exist to make the co-operation between property owners/landlords and tenants work better. The study was partly a follow-up of a Belok work from 2006-2008, partly a follow-up of Fastighetsägarna's "Grönt Hyresavtal" (Green Lease) and partly an aid to a current IEA project (IEA Demand Side Management Programme Task 24).

The study consisted of a literature study as well as interviews with property owners and tenants, and conversations with various experts within the field.

The study showed that ideas from the Belok study has been used, but that the actual template contracts have not been widely spread. There are some 2500 of Fastighetsägarna's Green Leases signed to date, which has made it a market standard.

Results from the study show that property owners and tenants in general co-operate well. Some interesting results to note:

- Engagement means more than the actual lease. Where property owners and tenants are engaged, results are often very good and any difficulties are solved along the way.
- There is some problems with actually doing what has been agreed when a Green Lease is signed, which risk leading to "green washing".
- A desire to move on to an "action plan" has been identified. Where do we go from the signed Green Lease to a fruitful co-operation.
- Where the property owner has undertaken a sustainability assessment according to for example LEED, BREEAM or Miljöbyggnad, the tenants seem more willing to accept a green lease with commitment.
- Although the property owner always has the upper hand, focus in the further work should be on involving the tenants.
- A desire has been identified to have a forum/platform/cluster where good examples, solutions to difficulties etc. can be discussed.

The study has shown that there is a willingness and desire to continue co-operating to reduce energy consumption and environmental impact.

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1 BACKGROUND

Energy can be saved in buildings, but potential savings may not take place due to lack of co-operation between property owners (or landlords) and tenants. Efforts to co-operate on the Swedish market have been made for some two decades, and the work to formalize the co-operation into contracts/leases on the Swedish market has been ongoing for about a decade. In 2006-2008, BELOK¹ (Beställargruppen för lokaler) undertook a study with the aim to present some contract templates which would help the stakeholders on the market formalize their co-operation. The work resulted in a few various forms of incentive contract templates, differing slightly due to warm or cold rental leases. In 2010-11, Fastighetsägarna (the Association of private property owners) started their work on “green leases”, which resulted in an appendix contract/lease² to be added to existing contracts. The appendix (mainly for office buildings) was finalized in 2013, and soon became market standard (Fastighetsägarna’s “Grönt Hyresavtal” (Eng. Green Lease³)). To date, some 2500 Green Leases have been signed.

With this pilot study, the Swedish Energy Agency has desired to gain a market overview over existing green leases/incentive contracts as well as to follow up and evaluate results from the green leases/incentive leases. The overall aim is to address obstacles to efficient co-operation between landlords and tenants, and find ways to eliminate or reduce these obstacles and promote co-operation to save energy. The Swedish Energy Agency is also involved with an International Energy Agency project, IEA Demand Side Management Task 24, and has expressed a desire to synchronize this study with the IEA project.

2 OBJECTIVES

The following objectives were defined for this pilot study:

1. Compilation/market overview of existing incentive agreements and green leases and which results they give
 - Follow up Belok work from 2006-2008
 - Follow up implementation of Fastighetsägarna’s ”Grönt Hyresavtal”
 - Support IEA DSM task 24, stage II
2. Evaluation of practical experiences of current leases/contracts and agreements, and particularly to highlight difficulties/obstacles
3. Compilation of wishes and needs to develop future leases
4. Recommendations about further work or pure pilot projects

¹ A group of some 21 large Swedish commercial property owners (non-residential property) working together to find effective methods and technology to increase energy efficiency.

² There are two versions of ”Grönt hyresavtal”, one standard and one extended version

³ When written with capital initial letters, Green Lease hereafter denotes Fastighetsägarna’s version of a green lease.

3 METHODS

The planned methods for conducting the study was to do an initial literature study combined with information research from various stakeholders, followed by interviews with property owners/landlords as well as tenants.

4 INTERVIEW QUESTIONS

Initially, a literature study was conducted (see the literature list), and contact was made to various experienced stakeholders within the field. Those contacts included several people at Fastighetsägarna who have worked with developing and maintaining the green leases. Considering what was desired to find out from property owners and tenants, as well as considering the IEA Task 24 project, the following interview questions were listed:

1. What type of incentive agreement do you have?
2. Do you also have green leases (Fastighetsägarnas Grönt Hyresavtal or adapted version)?
3. Who is in charge of:
 - a. Initial establishment
 - b. Follow up
4. How to the leases/agreements work in practise/in everyday life?
5. What results have the leases given:
 - a. You?
 - b. Tenants?
6. What problems/difficulties do you experience?
7. What problems/difficulties do your tenants experience?
8. How do you think green leases/incentive agreements can be improved?
9. Do you think that an external part (like the Swedish Energy Agency, Fastighetsägarna, Belok or any other part) can help in any way?
10. Other questions or thoughts?
11. May I speak to one of your tenants?

The interviewed parties were also invited to the scheduled workshop in Stockholm that took place Monday 3rd October.

5 RESULTS, DISCUSSION AND FUTURE WORK

This section will compile the results of the interview answers⁴, as well as the outcome of conversations with stakeholders who had valuable input to the study. Altogether, interviews were conducted with five property owners and one tenant. Informal conversations were held with some ten stakeholders such as property owners, tenants and experts in the field.

5.1 Market overview of existing incentive leases and green leases and what results they give

- Fastighetsägarnas Grönt Hyresavtal has become market standard. Some 2500 are signed to date.
- The Belok work from 2008 was a help to both landlords and tenants, mainly landlords. Principles were used, but the template leases seem not to have been that much used⁵.
- Landlords and tenants often make simple written agreements when opportunities for savings with investments arise. This is perceived as easier than large, formalized contracts.

5.2 Evaluation of practical experiences - highlight difficulties

- Sustainability assessment (like LEED, BREEAM and Miljöbyggnad) shows determination by the landlord and tend to boost tenants' willingness to co-operate.
- Engagement is vital – leases may help. Sometimes less formal agreements may be better – have a lower threshold – than formal green leases. Also, to add a green lease during the contract negotiation is perceived as extra work added to sometimes already extensive negotiations. It is important to meet regularly and to create an atmosphere of co-operation.
- Property owners always have the upper hand. They need to be aware of this, and be fair to create trust among their tenants.
- Fastighetsägarna's Green Lease ("Grönt Hyresavtal"):
 - Several stakeholders are happy that there is a market standard.
 - The standard (simple) version of the green lease is easy to accept, whereas the enlarged version meets more resistance. The enlarged version is mainly used when the tenants have their own sustainability agenda/demands.
 - Some consider the standard version being just common practice, and therefore intend to include the most important parts in their standard lease instead of using the appendix.

⁴ More detailed interview answers can be found in Appendix A

⁵ Often, incentive agreements are made when profitable investments are found. These agreements are often made separate from a formal appendix to the rental contract. Hence the term "incentive agreement" is used rather than incentive contract or incentive lease.

- The paragraphs in the green lease – mainly the standard version - are not always followed by the stake holders. One example is that not even the compulsory annual meeting takes place. This is causing questions as to what consequences may follow. The answer is that there will be no repercussions, why the consequence may be "green washing".

5.3 Compile wishes and needs to develop future leases

- Change BBR⁶'s strict division between property energy (fastighetsenergi) and tenant energy (electricity; verksamhetsel). It is obvious to all that the behaviour of the tenants affects the property energy. If this strict division was changed, there may be further incentives to co-operate.
- There is a need to now move on to an "action plan". We have the green leases in place, but how do we now act on a day-to-day basis?
- The contract signing occasion may not be the best occasion for also regulating co-operation regarding energy and environmental issues. One reason is that the parties have already gone through many clauses in the normal contract when they come to the green lease. The work may become more efficient if we separate the cooperation regarding energy and environmental issues for leases/contracts.
- There is a desire from both landlords and tenants to share their experience in co-operation.

5.4 Recommendations about further work or pure pilot projects

- Energimyndigheten has suggested a new forum for cooperation. It would be helpful to make this happen, and to focus on also inviting engaged tenants.
- Follow up the practical work between property owners and tenants. Several green leases are signed, but there has not been any coordinated efforts to follow up the day-to-day work and the results. This includes both Fastighetsägarna's Green Lease and other co-operations.
- Focus more on involving tenants. Much focus has been on the property owners/landlords, but much can be gained if the tenants are given a larger focus. Tenants have also expressed a desire to have a forum to discuss experiences within. One good example of co-operation regarding energy as well as environmental issues is that between Vasakronan and Houdini Sportswear.

⁶ The National Board of Housing, Building and Planning issue regulations regarding buildings which include regulations for energy use.

LITTERATURE AND SOURCES

The following sources are all in Swedish.

Belok's study from 2006-2008, "Hyresavtal med incitament för minskad energi-användning", <http://belok.se/hyresavtal-med-incitament-minskad-energianvandning/>

Fastighetsägarna's own material about "Grönt Hyresavtal",
<http://www.fastighetsagarna.se/gronthyresavtal>

SKL report "Incitament för energieffektivisering – kall- och varmhya för lokaler", 2013: <http://webbutik.skl.se/sv/artiklar/incitament-for-energieffektivisering.html>

Boverket's (and Energimyndigheten's) report "Analys av delade incitament för energieffektivisering", rapport 2013:12:
<http://www.boverket.se/sv/om-boverket/publicerat-av-boverket/publikationer/2013/analys-av-delade-incitament-for-energieffektivisering/>

The successful co-operation between Vasakronan and Houdini Sportswear:
<http://www.houdinisportswear.com/se/sustainability/grona-butiker>

APPENDIX A: ANSWERS TO INTERVIEW QUESTIONS

Below are answers to the interview questions. They interviewed property owners/landlords are number 1 to 5, and the tenant is number 6. Not all questions were answered by all parties.

1. What type of incentive agreement do you have?

Answers:

1: "We have both warm and cold rental leases. We consider warm leases to be incentive leases, since we save money by reducing heating cost. We may lose participation from tenants though. We often do measures which we don't write a contract about, but use these as a negotiation advantage when re-negotiating contracts."

2: "We have only cold leases, apart from if we buy buildings with existing warm leases. The part who uses the energy should also have the incentives to save energy. Where we can, we try to convert the warm leases to cold leases, especially in buildings with only one tenant. Since 2013, we have our own new calculation model with discounting of future rental income. This new model makes life much easier."

3: "Not at the moment. We had a demanding agreement with one large tenant, but each part had their separate targets (so no co-operation). The tenant should not use more than 35 kWh/m² tenant electricity, and we should not use more than 50 kWh/m² heating, cooling and property electricity. We managed, by using geo-energy. Had we failed, we would have had to pay penalties to the tenant. The tenant had so such obligations. Both we and tenant fulfilled our targets though. We have almost only warm leases, and the tenants often have their own electricity contract directly with the supplier."

4: "We used to have our own versions and experimented a bit. Initially, there were no demand from tenants. We gave tenants financial benefits if they accepted a larger temperature span. Our first formal incentive contracts were the ones released from the BELOK project in 2008. However, we came to the conclusion that it is not sound that tenants invest in installation related to our building. They should focus on their business, and we should focus on ours (which are the buildings). We therefore stopped these formal contracts, but kept on helping the tenants. Often investments related to the tenants own electricity, and provided that there was long time left of the contract, they took the investment. We often assisted (and still do) tenants with our knowledge to reach good solutions for them. We also had situations where tenants had pure cold contract, potential measures needed investment, we took the full investment, tenant paid a bit extra for the investment, but less than what they had paid in running costs before the investment... we owned the new investment... so it was a win-win situation."

5: "Yes, we have had some with really big tenants. Various methods. We try to have separate district heating substations for each tenant (as well as of course electricity contracts)."

6, Tenant: "No, we don't. We have a good relationship with our landlord, and make separate agreements when suitable."

2. Do you also have green leases (Fastighetsägarna's Grönt Hyresavtal or adapted version)?

Answers

1: "We have our own modified version of Fastighetsägarna's "Grönt Hyresavtal" with one of our tenants."

2: "Yes, we are using Fastighetsägarna's version - with a modification - as standard"

3: Yes, we do. We usually use the simplified version of the two version that exist. We have a few of the extended version.

4: "Yes, we do. However, we see that it has played out its role and is to formal in its nature. Many parts are obvious. We will therefore stop using the green lease, and take the main parts of the standard green lease and work these parts into our normal contracts. Any parts where the tenant has influence should be included. Tenants also commit to giving us data about their electricity use. Where applicable, we will still co-operate with tenants and do more than the standard contract requires. We find it easier to find solutions out with a formal green lease."

5: "Yes, we do. With the absolute majority of contracts, we have green leases."

6: "Yes, we do. A modified version of the green lease. We have had various own versions of a green lease since 2006, and recently extended our lease until 2022. We also work with a concept called "green lease", which involve our own staff."

3. Who is in charge of:
- Initial establishment

Answers:

1: "Property managers"

- Follow up

Answers

1: "Property managers"

4. How to the leases/agreements work in practice/in everyday life?

Answers:

1: "We have few tenants with very large leased area. Hence we have time to talk to our tenants, which make the leases work well. We achieve the most when also the tenants have made energy efficiency a matter of priority. We do much together which is not formally regulated in contracts. One example is that we have asked tenants if they would like to invest in light controls when we are about to do maintenance on the lighting. Pay-back period was shorter than a year, so the tenants were happy to go ahead with this investment. It is also quite common that the tenants make investments themselves if they see potential savings."

2: "They work well where we have only one tenant and that tenant has one or a few very engaged contact persons. More difficult where several tenants. We had one incentive agreement 2011-2016, where we kept the promised savings, so it worked well."

3: "Usually they work well in the beginning, but then the engagement from the tenants tend to drop. We meet at least once a year. Tenants with a strong profile

for sustainability tend to keep up the good work, and it is also these tenants who have the extended version of the green lease. There are more points in the action plan.

We usually focus on temperatures, operation hours etc., which is part of the standard lease.

4: "See above. We prefer to avoid formal green lease appendix to standard contract in the future. Co-operation with tenants work well though."

5: "Quite well. We met once a year regarding the green issues according to the green lease, but we met every quarter regarding operational issues. We agreed to include the green issues as a standing point on our quarterly meetings instead of having a separate annual meeting to follow up the green lease. The public tenants usually keep high quality in their sustainability work. The private tenants differ much more: some are really good, while some are rather poor. Generally, the co-operation is better with the bigger tenants (who have more resources). It is good to have a co-operation and agree on things separate from the actual rental contract negotiation situation. The issues at stake (sustainability) are too big to just be a clause in a contract, or an appendix to the existing contract – both we and many tenants feel like this."

6, Tenant: "Very well. Our landlord has paved the way, through doing their own work (sustainability certification) and also assisted us with their knowledge to help us make our "green office" work well. Landlord installed PV panels, which has also increased interest among our staff.

We used to meet once a year, but now meet more often to follow things up."

5. What results have the leases given:

a. You?

Answers:

1: "Some 20-30% reduction in heating mainly, which equates to some 30-40 kWh/m².

2: "Better communication with the tenants. However, in terms of energy savings, we have not followed up exactly how much of our energy savings are related to our green leases. Our own environmental certifications (Green Building, Miljöbyggnad and BREEAM-in-use) have been more important. We have gone from energy performance numbers of 174 kWh/m² in 2008 to 100 kWh/m² in 2015, a reduction with 42%. This has been achieved mainly by own targets and efforts. Own staff is good and have been experienced by working towards targets.

3: "Mainly a better relationship with the tenants. Cannot quantify in terms of money. Sometimes it is necessary for us to get tenants – they would only sign contracts where there is a green lease as well as an sustainability certification.

4: "Not so much to be honest. We prioritize good relations to our tenants anyway, and see much of the green lease as obvious anyway. Our help to tenants have paid off at contract re-negotiations and we have often been able to ask for a higher new rent due to our previous work – which was often done without too much formalism."

b. Tenants?

Answers:

1: "Don't have figures for the tenants."

2: "The tenants have benefitted much from our work, since in most cases we apply cold rent. We see benefits for us in the long term scenario though."

3: "We feel that the initiative is appreciated by the tenants. When the green lease initially is mentioned, we are often met with curiosity but also some anxiousness. Tenants ask: 'What does this mean for us? Will it cost us something in terms of time, effort and/or money?' Tenants readily tend to accept the standard version of the green lease – it is considered "low risk", but some tenants become reluctant when the extended version is put on the table. The green lease is developed by property owners/landlords and has that focus. Tenants sense this. They need to see benefits before signing. Often ask "What's in it for me?" So mainly those tenants with a sustainability profile accept the extended version.

The value of the green leases has increased with sustainability certification. When we take the first step and work towards a sustainability certification (like BREEAM-in-use), tenants are more ready to agree to a green lease. There are also then already methods in place.

5: "Very good relationship with the tenants. We have gradually developed co-operation within the green leases."

6, Tenant: "It has increased our awareness about sustainability issues. Has also made sure we do things in everyday life"

6. What problems/difficulties do you experience?

Answers:

1: "To separate the cost of maintenance having been brought forward in time from the energy related investments. Also, do not want to take the financial risk which incentive leases may result in. Can not disturb the tenants every day activities easily. Too short time left of rental contract for large investments."

2: "Thinks that the property sector and tenants are slow to act. Many are not doing enough – and it does require work to make co-operation work.

Often, tenants are represented by lawyer/consultant during the contract negotiations. The consultant does not have the engagement for green leases, unless the tenant has specifically ask him to sign one.

Buildings with many different kinds of tenants pose a problem.

One incentive agreement had run for five years but was not renewed. Reasons:

1. Most energy efficiency measures were already done. 2. Remaining ones that might be profitable were difficult to estimate cost and savings for. 3. The tenant changed their operations (way of using rented space) every so often.

3: "Tenants – especially new tenants – may oppose to pay for covering the full cost for heating when large investments have already been done... the running cost for heating is obviously lower after the investment. Much energy efficiency has been done already in 2008-09 after the energy performance certificates were done, and the potential to save much more requires investments.

Many tenants do not understand difference in actual energy cost versus corrected energy performance (like correction for degree days, degree hours etc.) which may complicate the dialogue.

4: "Current lease is too formal. Would be better with a tick-list where one could choose which points are relevant with different tenants. Some consultants who do energy audits come up with too simple solutions to be worth the cost of the audit."

5: "None, really. Initially, the meetings and work took some time, but now we have better routines."

7. What problems/difficulties do your tenants experience?

Answers

2: "Some tenants do not have the resources. Annual meetings with the necessary people may take some 40 man hours per tenant per year, which is a problem for some. Municipalities have too many intermediate managers, which make decisions complicated. Needs to have quicker decision making.

6, Tenant: "None. We only have positive experiences."

8. How do you think green leases/incentive agreements can be improved?

Answers:

2: "The contracts don't need much improvement, but the people involved. Most important is that the tenant has an engaged contact person."

4: "It would be welcome with more simplification of the current market standard green lease. On the other hand, it is not the leases that need improvement – it is the relationship itself... which often is improved/good when we take the lead and show initiative."

6, Tenant: "The green lease is only a paper in itself. It is the co-operation that can be improved/developed."

9. Do you think that an external part (like Energimyndigheten (the Swedish Energy Agency), Fastighetsägarna, BELOK or any other part) can help in any way?

Answers:

1: "Clearer directives from owners, both towards landlords and tenants. The current standard green lease includes measures we would do anyway, so it does not really add anything. We modify the contract ourselves as we go along."

2: "Possibly Sweden Green Building Council (SGBC) may help. What makes things happen are new laws"

3: "We would like to see more energy related key performance indicators (nyckeltal), for example from the Swedish Energy Agency as well as "Boverket" (from all the energy performance certificates) so that we can relate better to similar buildings.

4: "Not sure who should take the lead.

The strict BBR (Boverket's Byggregler) definition of property energy and tenant electricity has proven unfortunate. The tenants' behaviour has a big influence on the property energy, and there are many aspects where it had been better to include all energy used by and in a building.

10. Other questions or thoughts?

Answers: "Much focus has been on the property owners. Tenants need to be more involved, and maybe have some forum/group where they can discuss problems and solutions".

11. May I speak to one of your tenants?

Answers: Although the property owners initially answered yes to this question, only one property owner let me interview two of their tenants. This resulted in one fruitful interview and one conversation with interesting input for the future.