

Combining Leasing and Financing for Building Performance

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ABSTRACT

Emerging building performance programs, rising energy costs, and increased weather variability all raise risk for buildings and create new value propositions for energy efficiency technologies and building resilience strategies. High-performance leasing can dramatically improve building energy performance by (1) establishing shared goals for property owners and tenants and (2) strengthening communication and coordination on capital investments.

In this study, we will outline the value of high-performance lease language, the financial opportunities available when a high-performance lease is in place and how those two pieces enable cash flow savings, enhanced building performance, reduced operating costs, and improved building valuation. The analysis leverages real project case studies from various property types and reviews existing terms, conditions, and capital stacks of high-performance and traditional leases. These case studies will compare two scenarios: one with a traditional lease and conventional financing capital stack and a second where the property has a high-performance lease in place and an updated capital stack. This analysis will use indicators like utility cost-sharing, indoor air quality standards, and capital investment responsibilities to demonstrate performance-based and investment benefits which address split incentive challenges. We aim to demonstrate how high-performance leases support more reliable and effective investment models by linking lease terms and conditions to capital stack composition, acknowledging cash flow impacts of shared operating expenses, and potentially reducing tenant's total cost of occupancy. The paper's findings will build on previous cost valuation for high-performance leases and offer a practical pathway in scaling building energy efficiency and reliability.

Background

A high-performance building is a structure that combines energy efficiency and resilience with business value. The demand for high-performing workspaces is set to outstrip supply by 75% across major U.S. markets by 2030 (Granger and Torres 2023). Several factors are driving this increasing demand:

- Energy costs fluctuate and can be unpredictable, making it difficult for landlords and tenants to plan for future operating costs (IEA 2022). “Electricity costs are proportionate to 4% – 26% of rental value, making efficiency improvements essential for building competitiveness” (Torres 2025).
- Increased weather variability and major weather events pose a risk to the continued operations and safety of buildings and occupants. This increased vulnerability is reflected

in rising insurance premiums, as insurance costs in states with the greatest risk of extreme weather are forecasted to double by 2030 (Burns et al. 2024).

- Regulations such as Building Performance Standards (BPS) require building owners to improve their buildings or face potentially costly financial penalties for noncompliance. As of 2026, there are 16 active BPS laws in the U.S., with more expected to come online in the next few years (Burton 2026). While landlords are responsible for compliance with BPS, tenants can control up to 80% of energy in leased buildings, depending on the building type (U.S. Department of Energy 2016). The implication is clear: to comply with BPS and avoid the noncompliance payments, landlords and tenants must collaborate.
- New construction will be unable to meet demand. Building owners must improve their current building stock to tap into increasing demand for high-performance buildings (Torres 2025). To retrofit existing buildings, owners must leverage their leases and financing tools.

The Split Incentive Problem

Despite demand for high-performance buildings, the split incentive baked into traditional triple net (NNN¹) lease structure is a significant hurdle to achieving energy efficiency and resilience at the property level. A split incentive is the misalignment between landlords and tenants for who pays the upfront costs of building investment versus who reaps the return on this investment.

For example, under a traditional lease, the landlord is expected to pay the upfront cost of switching lights to LEDs. However, if the tenant pays their own electricity bill, the tenant will see the benefit of the LED lighting upgrade in the form of reduced electricity costs. The landlord would only see a reduction in their own common area electricity cost. Under this traditional structure, the landlord is not incentivized to invest in the building lighting since they do not see the return on investment. Similarly, tenants are not incentivized to invest in the building because they do not own the property.

Basics of High-Performance Leasing

To realize the investments needed to support a high-performance building, landlords and tenants need high-performance leases. This lease type may also be called an energy-aligned lease or performance-based lease. It overcomes the split incentive by incorporating language that aligns investment in building performance with the financial benefits resulting from the investment. An energy-aligned lease may also include clauses that support collaboration between the landlord and tenant, such as utility data tracking and sharing so that both parties have the data needed to identify issues with building performance, reduce operating costs, and make smart investment decisions.

The concept and implementation of high-performance leases have been in place for over a decade. Green Lease Leaders, a high-performance lease recognition and education program run by the Institute for Market Transformation, sets the global standard for what constitutes a high-

¹ NNN stands for triple net and refers to a lease structure where the tenant pays for their base rent to the landlord, utilities, and common area maintenance.

performance lease. It also provides tools for companies to craft and implement their own high-performance leases. Green Lease Leaders is also a recognition program. Each year, Green Lease Leaders award companies who meet high-performance leasing best practices. The recognition is valid for three years. The program provides a window into high-performance leasing adoption and evolution. Companies who earn Green Lease Leaders recognition, known as “winners”, demonstrate incorporation and implementation of leasing best practices that overcome the split incentive problem and support building-level efficiency and resilience investments. As of the end of 2025, Green Lease Leaders winners covered over nine billion square feet of leased space all around the world. Every year, about 50% of Green Lease Leaders winners are new to the program, demonstrating that high-performance leasing practices are expanding and applicable to different geographies and property types. This is quantified in Table 1 below (Lee 2026)².

Table 1. Percent of new Green Lease Leaders

Year	Cumulative sq ft (billion)	Total winners	New winners	Percent of new winners
2014	0.02	14	14	100%
2015	0.28	15	15	100%
2016	0.37	15	13	87%
2017	0.56	12	10	83%
2018	1.86	27	14	52%
2019	2.10	24	17	71%
2020	2.60	29	8	28%
2021	3.56	45	23	51%
2022	4.88	61	31	51%
2023	6.47	71	30	42%
2024	8.11	66	32	48%
2025	9.04	49	24	49%
2026	8.86	55	18	33%

² A requirement of the Green Lease Leaders recognition program for all property types, except multifamily, is to incorporate a cost recovery clause into the lease. The cost recovery clause is a mechanism to overcome the split incentive problem referenced in this paper.

Source: Green Lease Leaders

Financial Opportunity

There is a clear business case for utilizing high-performance leases. For the average U.S. office building, incorporating high-performance lease clauses can achieve an average of 17% energy savings (Lee 2024). Having a high-performance lease also opens up additional opportunities for financing through tax credits, C-PACE loans, and other incentives, depending on the location of the property. By combining leasing and financing, landlords can realize greater operational savings, improved Net Operating Income (NOI), and increased asset attractiveness to tenants. To understand the potential value of implementing high-performance leases at scale, we will review the current leasing terms and conditions present in a major U.S. market below.

Leasing Terms and Conditions Study

Commercial real estate lease structures determine how operating costs, utility expenses, and capital responsibilities are allocated between landlords and tenants. These arrangements shape whether high-performance improvements can be implemented and monetized. To understand how current market practices either reinforce or help resolve the split incentive, we used the CoStar database to analyze more than 11,000 leases across the Atlanta, Georgia, market.

In the CoStar dataset, several lease types appear as distinct categories, including “plus electric,” “plus utilities,” and “plus cleaning.” However, in real-world leasing practice, these are not considered separate lease structures. Instead, they are understood as variants of modified gross leases, each representing a different way of splitting operating costs between landlords and tenants. Consolidating these CoStar sub-types improves analytic clarity because it aligns the dataset with how leases are actually classified and negotiated in practice. To better reflect how the market actually functions and to support a clearer comparison across structures, these sub-types were consolidated into six industry-standard categories for this analysis, as shown in Table 2 below.

Table 2. Lease types and definitions

Lease type	Definition
Triple net (NNN)	The tenant pays base rent plus most operating expenses, including utilities.
Double net (NN)	The tenant pays base rent plus property taxes and insurance, while the landlord typically covers structural repairs and some maintenance.
Single net (N)	The tenant pays base rent plus one major operating expense, usually property taxes, and the landlord covers insurance and maintenance.
Industrial gross	The landlord pays most building-level operating expenses such as taxes, insurance, and common area costs, and the tenant typically pays utilities and interior maintenance. In practice, this functions similarly to a modified gross lease.
Full service	Operating expenses are bundled into rent and primarily borne by the landlord.

Modified gross	A hybrid structure in which the landlord and tenant split operating expenses. This category includes CoStar’s “plus electric,” “plus utilities,” “plus cleaning,” and similar variants.
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Source: CoStar

This consolidation aligns the analysis with how brokers, landlords, and tenants classify leases in practice and provides a more accurate basis for evaluating whether existing structures help or hinder high-performance leasing.

Using these six categories, clear patterns emerge. NNN leases remain common, but modified gross leases account for a substantial and growing share of the market, about 21% of the market, see Figure 1 below. This is especially true among office and retail buildings (Figure 1) between 5,000 and 25,000 square feet (Figure 2) in the Atlanta market. These hybrid leases matter because they already require landlords and tenants to negotiate utility responsibilities, cost-sharing structures, and how operating cost fluctuations are managed. In many cases, they show that the market is already navigating elements of the split incentive.

For example, clauses such as “plus electric” or “plus utilities” require landlords and tenants to define who is responsible for different portions of the utility bill, who controls consumption, and how changes in usage affect total occupancy cost. These negotiation points naturally support the introduction of energy-aligned provisions such as utility data sharing, cost-aligned capital recovery mechanisms, or operating standards tied to performance.

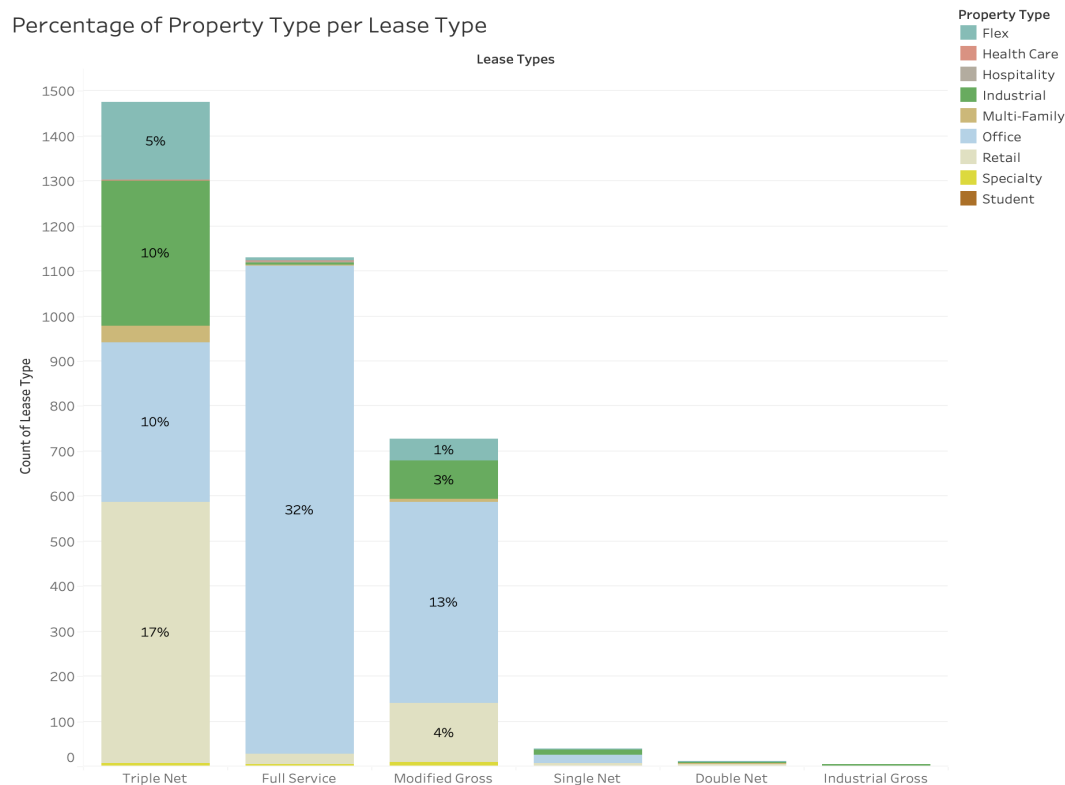


Figure 1. Percentage of property type per lease type in Atlanta, Georgia. Source: CoStar

Figure 2 presents the consolidated distribution of lease types by gross square footage. The prominence of modified gross leases, along with the presence of multiple CoStar sub-types that function as modified gross leases in practice, highlights a significant opportunity to address the split incentive and expand high-performance leasing. These structures already create openings for aligning financial incentives, improving operating predictability, and enabling more cost-effective performance improvements.

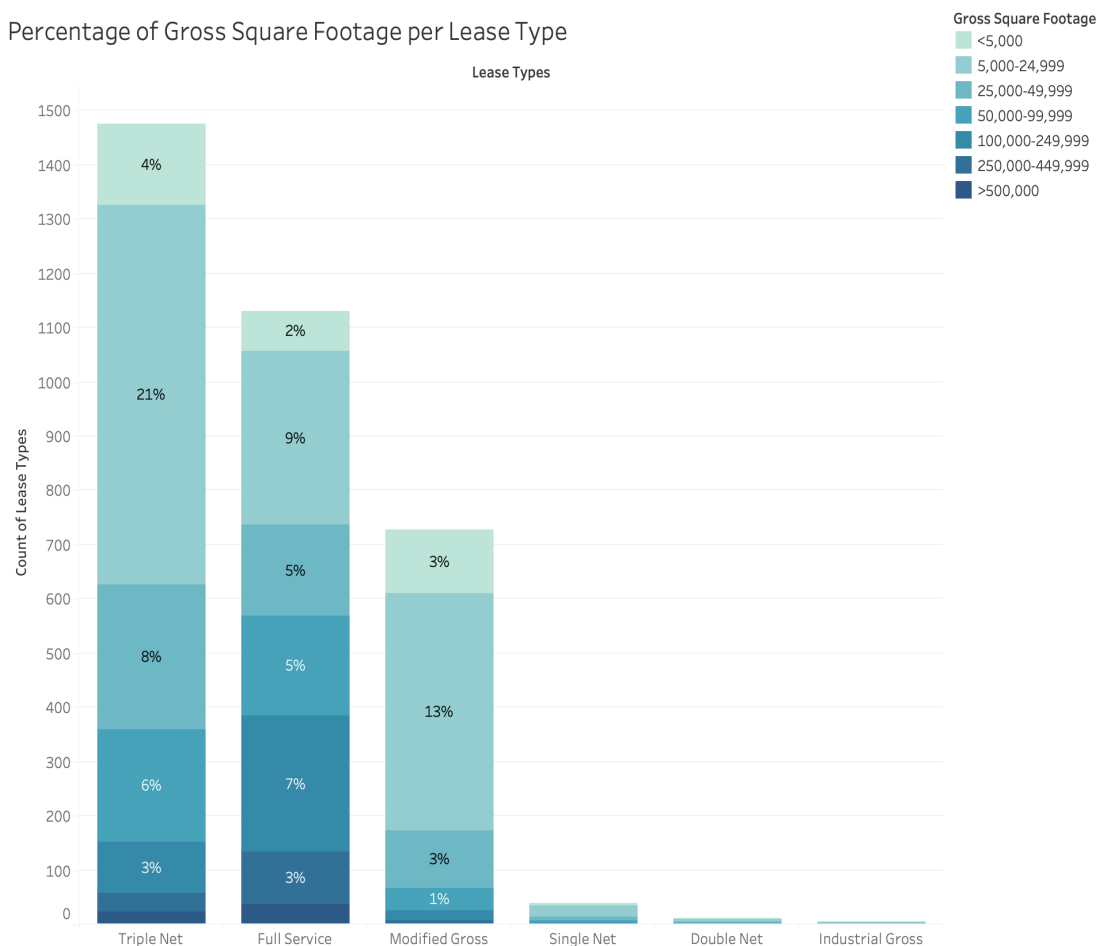


Figure 2. Percentage of gross square footage per lease type in Atlanta, Georgia. *Source:* CoStar

What split operating expenses in modified gross leases are allocated can significantly influence both the predictability of these costs and the alignment of incentives for efficiency. While a modified gross lease does not always equate to a high-performance lease, the appetite for modified gross leases is an indication that the market is willing to negotiate clauses that overcome the split incentive. For this reason, lease negotiations and the marketing of the value proposition to tenants present key opportunities for landlords and tenants to define how energy-related costs will be managed and determine market uptake of high-performance leasing strategies. Strategies may include establishing usage caps, share the costs of efficiency upgrades,

or incorporating alternative lease clauses that formalize commitments to more sustainable building operations (Institute for Market Transformation 2020). These clauses often address utility data sharing, indoor air quality standards, water conservation measures, cleaning requirements, waste management protocols, and provisions that support energy-efficient equipment or reliable energy procurement. Examples of the terms and conditions for these clauses can be found within the 100 leases provided by Invest Atlanta. Figure 3 highlights an example of a lease clause from a modified gross lease. Regular reporting and monitoring of energy use can further support transparency and help both parties identify cost-saving opportunities.

10. UTILITIES. Tenant shall be responsible for arranging for and paying for all Utility Services required on the Premises.

11. MAINTENANCE AND REPAIR; RULES. Tenant will, at its sole expense, keep and maintain the Premises and appurtenances in good sanitary condition and repair during the term of this Agreement and any renewal thereof.

Figure 3. Example lease language for split operating expenses in a modified gross lease. *Source:* Invest Atlanta

In summary, these leasing patterns demonstrate both the persistence of the split incentive and the growing number of structures that can help resolve it. The following case studies illustrate how landlords and tenants have leveraged these opportunities in practice to unlock improved financing, operational savings, and enhanced building performance.

Case Studies

The following case studies offer specific examples of how high-performance lease terms create opportunities for project financing, financial returns and improved building performance.

Case Study 1: Cap Rate Compression for LEED Silver Multi-Tenant Spec Industrial with LEED Lease Addendum

The joint-venture developers of this industrial multi-tenant, spec-built project in Saint Paul, Minnesota, sought to achieve LEED Silver pre-certification and certification. At the time, this was (and still is) unconventional in the marketplace for a spec building. The development partners were United Properties³ and the Saint Paul Port Authority.

The building was a 190,000 square foot, multi-tenant, light industrial office/warehouse. It was designed and constructed in 2016 and sold by the CBRE capital markets team in 2020. The project was the first LEED pre-certified multi-tenant industrial building in Minnesota. Pro forma rents were modeled as slightly above market given the sustainability implementations, energy efficiency, rooftop PV, and high finish of the building.

³ United Properties achieved Green Lease Leaders Gold recognition in 2024.

While the pro forma's cost structure included up to \$200,000 in capital investment to achieve LEED Silver, actual costs came in slightly lower. The funds to achieve LEED Silver were spent on energy efficiency, LED lighting, rooftop solar PV (C-PACE financed) and other efficiency measures. As a LEED v4 Core and Shell project (Certified Silver), to achieve maximum LEED points, the tenant leases required a LEED lease addendum specifying which high performance measures tenants would need to comply with over the lease term. Table 3 below outlines the types of clauses included and the intent for each clause.

Table 3. Summary of LEED lease addendum clauses

Clause type	Intention
Purpose/LEED acknowledgement	Tenant acknowledges that the project is pursuing or has achieved LEED v4 Core & Shell certification and agrees not to alter tenant space in a way that would defeat the landlord's documented LEED assumptions.
Tenant improvement design standard	Tenant must design and build its premises in accordance with the landlord's tenant design and construction guidelines delivered before lease execution, except where the lease expressly permits deviations approved by landlord. USGBC required those guidelines to be provided before lease signing.
Lighting / energy clause	Guidelines included a hard cap on tenant lighting power density, required controls, and a prohibition on later changes that exceed the modeled assumptions without landlord consent.
Water / plumbing clause	Guidelines specify permitted fixture flow/flush rates and required landlord approval for substitutions.
Indoor environmental quality clause	Tenant improvement work needs to follow IAQ-management procedures outlined in guidelines, including smoking restrictions, and low-emitting-material requirements.
HVAC / refrigerant / metering clause	Tenant barred from installing noncompliant supplemental cooling, altering control sequences, bypassing submeters, or using disallowed refrigerants without approval, because refrigerant management, energy performance, renewable-energy coordination, and advanced metering are all identified as relevant tenant-space coordination topics.

The project did not achieve above market rents, as modeled. It did achieve market rents with solid credit tenants and cash flowed adequately, but did not generate above market returns on a cash flow basis. However, the belief of the development partners was that a highly-efficient future-proofed, energy efficient building with solar PV would be worth more from a valuation perspective to a certain buyer pool.

This was proved out when they put it on the market and achieved a 5.25% capitalization rate, 50 basis points lower than the expected rate and a record in the market for that quarter for

industrial sales⁴, and based on the project's NOI resulted in an additional \$2.05 million of profit at exit, see Table 4 below.

Table 4. Case Study 1 High-Performance Lease Value Creation

Building net operating income	Building conventional cap rate	Building conventional projected value	Building LEED silver cap rate	Building sale value
\$1,250,000	5.75%	\$21,750,000	5.25%	\$23,800,000
High-performance lease value creation: \$2,050,000				

Case Study 2: New York City High-Performance Leasing Program

A New York City (NYC)-based REIT/merchant-builder/developer created a high-performance leasing program, grounded in Green Lease Leaders (GLL) standards to solve the split incentive problem and to directly manage the potential financial liabilities associated with NYC's building performance statute known as Local Law 97 (LL97). The program produced a repeatable clause library, deal-specific financial models, and an operating/governance cadence that has been market-tested since early 2023 and used (with updates) for ~2.5 years across office, multifamily, and industrial assets, both in leasing and in buyer due diligence conversations.

For context, this case study references NYC skyscrapers facing LL97 compliance and penalties in which tenant versus landlord responsibilities are often unclear. Their broader portfolio includes industrial, multifamily, and office, each with different utility metering, control, and capital expenditure (CapEx) realities. For a merchant-builder style execution⁵, leases needed to transfer well through a sale process and stand up to buyer scrutiny. The merchant-builder addressed several key challenges by implementing a high-performance leasing strategy. The challenges included:

- **LL97 risk allocation.** Who pays for emissions penalties driven by tenant loads/operations?
- **Split incentive.** As described in this paper in The Split Incentive section, under a traditional lease structure, the landlord typically funds improvements, but the tenant often receives the savings.
- **Data and audit access.** Energy performance, compliance with LL97, and having the data needed to make smart business decisions requires data rights, audits, and cooperation.
- **Market acceptability.** Lease language must be negotiable and financeable.

⁴ A report by Cushman and Wakefield shows the average market statistics for Q1 2020 industrial sales and this specific sale. The building's sale was also positively reported in an article by Finance & Commerce in 2020.

⁵ Merchant builders, also called merchant developers, build properties and lease up the property, with the intention of selling the building. With this strategy, merchant builders typically have shorter hold periods than other building owners and often transact the property before permanent financing is in place.

To develop the high-performance leasing strategy, the team worked directly with General Counsel to review the Green Lease Leaders high-performance leasing standards and translate the recommendations into transaction-ready clauses and operating requirements. These clauses were crafted to ensure enforceability, include negotiation pressure, and ensure consistency with standard lease architecture. Through this process, the team built custom financial models to quantify and allocate LL97 penalty exposure, audit costs, CapEx for energy conservation measures (ECMs), and project savings benefits.

The team also developed model lease language, which incorporated Green Lease Leaders standards, and materials to support high-performance lease negotiation, such as playbooks and fallback positions. Within the model lease language, there was a specific NYC LL97 Addendum to address compliance with this law. The addendum included explicit LL97 fine split and apportionment, defined emissions that were tenant-driven versus building-based, required the data sharing needed to calculate risk exposure, and outlined remedy mechanisms should penalties arise. With the LL97 Addendum in place, the merchant-builder incorporated opportunities to ensure compliance during the operating cadence. These mechanisms included:

- Energy audits required every five years (the merchant-builder's NYC implementation standard in the program).
- Audit/study costs shared between landlord and tenant (negotiated per deal).
- Energy conservation measure (ECM) implementation trigger. If an ECM's payback fits within the remaining lease term, it must be implemented.
- Funding for ECMs. The CapEx for ECMs was generally tenant-funded when the tenant captures the savings. Alternate structures were used when needed.

The development of these strategies identified some positive split-incentive economics. Proactively addressing the below issues through a high-performance lease should increase the willingness of tenants to accept cost recovery clauses:

- Recognition of a common outcome: savings benefit flows primarily to the tenant.
- Standardized pathways to align incentives:
 - Tenant pays when tenant benefits, or
 - Pre-negotiated cost splits (e.g., 80/20 cost split, with landlord paying for 80% of the audit and tenant receiving 100% of savings, in one law-firm tenant negotiation)
- Clear apportionment of:
 - Studies (audits/engineering),
 - CapEx (ECMs), and
 - Savings, including reduced utility costs and avoided penalties.

In order to transfer well, as described above, “commercial feasibility” guardrails were included. These incorporated language like “where commercially feasible” to preserve marketability while still committing parties to action, supported by the underlying model definitions (what “feasible” means in practice).

These strategies were market-tested in early 2023, then scaled and refined. They were used for four NYC skyscraper transactions and then extended to industrial, multifamily, and

office deals with tailored riders. When used with buyers, the high-performance lease package became a diligence-ready artifact demonstrating risk governance, operating discipline, and a credible pathway to compliance/CapEx planning.

Stakeholder reactions and market signals were generally positive to this approach. Some counterparties were not in GLL and not being assessed LL97 fines, and reacted positively to the clarity. A tenant noted that they had “*never seen it expressed like this,*” referring to this quantified, apportionment-based structure rather than generic language. Implementation by a high-credibility partner (well recognized REIT/merchant-builder) with recognized market standards helped drive acceptance. The lessons learned and replicable elements include:

- **Quantification beats aspiration.** Modeling LL97 exposure and CapEx/savings created negotiable clarity.
- **Clause library and clear governance/operating cadence.** Implementation clarity made it easy to deploy across asset classes while staying transaction-friendly.
- **Aligned incentives.** Acknowledge when the tenant is the savings beneficiary and build a payment logic that matches economics.
- **Buyer-ready narrative.** Demonstrate high-performance leasing as a diligence-strength asset, not a marketing appendix.

Case Study 3: Sustainable Design, Development, Operations, and Leasing Program Built on Split-Incentive Fix and NOI / Valuation Lift

This case study summarizes preliminary design and financial feasibility analysis conducted in 2023 for a confidential developer client pursuing an approximately 168,000-square-foot, multi-tenant light industrial office/warehouse project in a first-ring suburb of Minneapolis with strong freeway access. The project was designed to test whether a high-performance industrial development model could outperform a conventional approach by fully integrating multiple Inflation Reduction Act tools into the development pro forma. The incremental landlord capital expenditures for these systems were modeled to be partially offset through Section 48 ITCs, other tax benefits, lower-cost financing, reduced operating expenses, and increased asset value.

The central challenge was whether a developer could justify going beyond business-as-usual industrial development when the upfront cost of high-performance systems was materially higher than a conventional baseline. The analysis asked whether sustainable design and building infrastructure could generate enough financial value to justify the incremental investment, measured across capital stack efficiency, cost of capital, cash flow, NOI, DSCR, asset valuation, exit cap rate, return on equity, equity multiple, and internal rate of return. A second core problem was the split incentive endemic in commercial real estate. Landlords typically fund base-building improvements while tenants capture much of the benefit through lower utility expenses. Without a lease structure that allows the landlord to capture a fair share of the value created by its capital investment, high-performance development is difficult to underwrite. Fixing this split incentive was therefore not a sustainability goal; it was a financial prerequisite.

The feasibility analysis was organized around two primary goals. The first was to validate the developer’s investment case by determining whether the combination of sustainable finance tools, tax incentives, and operating strategies could improve overall development economics

enough to justify a higher-performance building. The second was to demonstrate that the approach could simultaneously reduce tenant occupancy costs while increasing landlord NOI. These goals were not in conflict; the strategy was designed to make both true at the same time.

To accomplish this, the project capital stack and pro forma were restructured to incorporate C-PACE financing, Section 48 ITC tax equity, ITC bridge debt retired upon monetization in Year 2, the 179D Energy Efficient Commercial Building Deduction, energy property depreciation, and an after-tax financial model. While conventional lender underwriting typically focuses on pre-tax cash flows, several of these tools are federal income tax-based incentives, making after-tax modeling essential to accurately assess their value.

The centerpiece of the leasing strategy was a modified gross lease structure with high-performance clauses. Under this structure, the landlord invested in geothermal HVAC, solar PV, and other high-performance building systems. Tenants benefited from lower utility bills and reduced total cost of occupancy. The landlord, in turn, recouped its now-direct energy costs through the lease structure and shared in the resulting savings, with a 50/50 landlord-tenant split assumed in the model.

Critically, solar PV revenue and energy savings were structured to be recognized as additional NOI, which allowed lenders and equity partners to underwrite these income streams as value-enhancing rather than treating the sustainable systems solely as incremental capital cost. The high-performance lease was therefore an enabling tool for the entire financial model, not merely a sustainability provision.

Capital Stack and Cost of Capital

Over a 10-year analysis period, the high-performance capital stack produced a comparable total cost of capital (within ~\$500,000 of baseline), after accounting for an additional \$5 million in high-performance capital expenditures. This was achieved through a lower blended cost of capital and reduced equity requirements. Owner equity in the high-performance scenario was \$2.9 million, compared to \$3.9 million in the conventional approach. The model replaced expensive equity, preferred equity, and mezzanine debt with lower-cost, long-term fixed-rate C-PACE financing and tax credit equity, while additional debt proceeds helped fund the \$5 million of higher construction costs.

Table 5. Case Study 3 Cost of Capital - 10 Year Hold

Conventional total development costs	Conventional cost of capital (interest expense & equity returns)	High performance total development costs	High performance cost of capital (interest expense & equity returns)
\$19,500,000	\$21,900,000	\$24,500,000	\$22,400,000

Source: Sustainable Investment Group

Operating Expenses, NOI, and Tenant Cost

Geothermal HVAC and solar PV reduced both volumetric electricity charges and demand charges, lowering utility expenses in tenant spaces and common areas and reducing CAM costs. The dual result was lower total occupancy costs for tenants and higher NOI for the landlord

through energy cost recovery and savings sharing. The strategy also reduced exposure to future energy price escalation, improving the building's risk profile for tenants, owners, lenders, and equity investors.

Debt-Service Coverage Ratio (DSCR)⁶

The high-performance scenario produced a DSCR of 1.52 compared to 1.74 in the conventional baseline. This reflects both higher NOI and a lower-cost high-performance capital stack. The high-performance scenario produces a slightly lower (but still financeable) DSCR outcome even after absorbing an additional \$5 million of high-performance costs.

Tenant Retention and Leasing Economics

The high-performance scenario assumed a 90% lease renewal probability versus 70% in the conventional baseline. Because renewals typically generate up to 50% lower brokerage commissions than new leasing activity, this modeled difference reduced broker fees for lease renewals in Year 7 by approximately \$583,000, directly accretive to landlord NOI and improved overall investment returns. The model also reflected lower vacancy downtime, reduced carrying costs, and lower tenant improvement expenses associated with improved retention.

Valuation and Exit

The combination of higher NOI, lower operating risk, stronger tenant retention, and improved DSCR supported the expectation of cap rate compression at sale. While comprehensive industrial-sector sustainable building valuation data remain limited, studies by Cushman & Wakefield and CBRE in other asset classes, along with comparable project experience, indicate that high-performance assets with durable NOI benefits and lower risk profiles can command valuation premiums. Together, the modeled strategies increased projected after-tax performance across valuation, return on equity, equity multiple, and IRR.

Table 6. Investment returns

	Yield on cost	Return on equity	Equity multiple	Internal rate of return (unlevered)
Conventional	7.73%	2.96%	1.77X	11.45%
High performance	8.29%	12.57%	2.98X	15.19%

Source: Sustainable Investment Group

⁶ Debt-service coverage ratio compares net operating income against total debt payment. A higher ratio means that there is more income compared to debt, signaling a safer investment.

The project ultimately was not built due to extraordinary site costs associated with development on a brownfield/consolidated landfill site that the development team was unable to overcome within the project's overall economics. The financial model itself, however, held up.

The analysis demonstrated that an integrated strategy combining high-performance design, IRA incentives, sustainable financing, and a restructured lease can lower tenant occupancy costs while simultaneously increasing landlord NOI, improving DSCR, reducing required owner equity, lowering blended cost of capital, improving tenant retention, reducing vacancy and leasing costs, and increasing valuation at sale. These outcomes are not in tension with one another. When properly structured, they are mutually reinforcing.

Many industrial developers and portfolio owners are already exploring similar approaches. Prologis, for example, has publicly demonstrated how large industrial platforms can use rooftop solar and building performance strategies to control occupancy costs, create tenant value, and grow long-term asset value. The broader lesson from this analysis is that sustainable design, when paired with the right capital stack, tax strategy, operating model, and lease structure, becomes a direct NOI and valuation strategy rather than merely a sustainability credential.

Conclusion

High-performance leases are a critical tool to resolve the split incentive. These lease mechanics can have multiple benefits, including:

- Allowing the landlord to recoup CapEx for high performance building systems
- Lowering tenants' total cost of occupancy
- Achieving capital providers, landlord, and tenants building performance goals
- Properly allocating and potentially avoiding building performance standard fines
- Improving initial financial underwriting metrics
- Increasing valuation at sale of the asset

CoStar data reveals that a significant percentage of leases in the Atlanta market are not triple net leases. Modified gross leases, and the variety of sub-categories thereof, reveal that the marketplace is already using these types of lease structures to account for and allocate a variety of property costs. While not all modified gross leases are high-performance leases, this is a step towards adopting high-performance leases.

Owners cannot control many factors that make deals difficult to pencil out. Volatility in the debt/equity markets, interest rates, insurance costs, construction cost escalation and many other factors lie outside their control. However, HVAC design, renewable energy generation, lease structure, and other related high-performance factors are indeed within their control.

Broader marketplace understanding of high-performance design options, finance levers, and high-performance leasing structures can drive tenant and landlord building efficiency and financial goals and improve financial performance for all parties.

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