

# GSA's Path to Net Zero Greenhouse Gas Emissions in Leased Space

---

Recommendations from the Green Leasing Task Group to the GSA PBS

Presented by:

**Kevin Bates**, Task Group Co-Chair,  
President, Sharp Development Company

**Fernando Arias**, Task Group Co-Chair,  
Vice President, Shared Services, RE Tech Advisors

# E.O. 14057: Sustainable Leasing Requirements

---

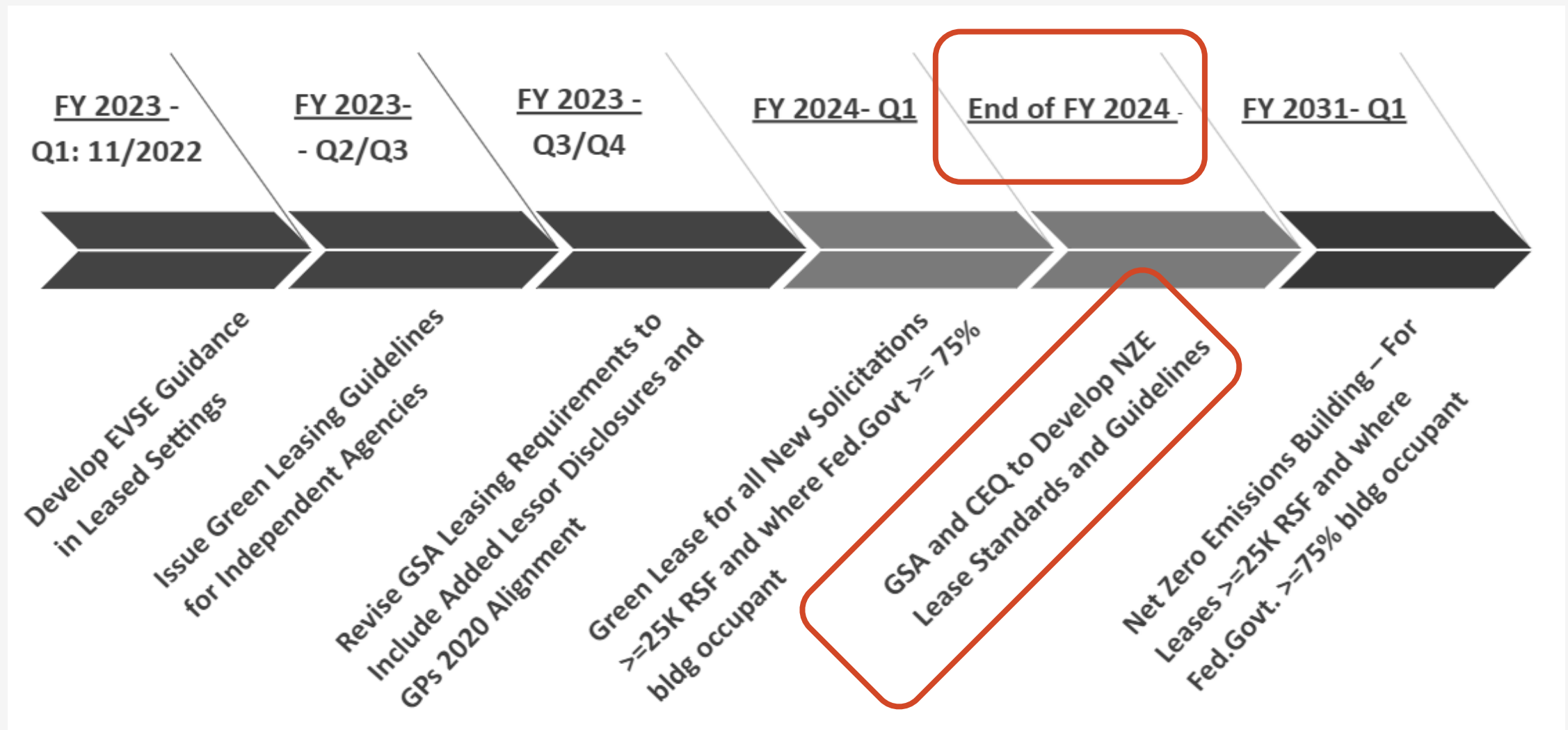
## **Net Zero Emissions**

*– “New lease solicitations issued after 9/30/2030 that are greater than 25,000 RSF and where the Federal Govt. leases at least 75% of the total building square footage, **must be in NZE buildings** (consistent with the overall GSA green lease requirement)”*

**9 / 30 / 2030 >**

>=25K RSF and >=75% Occupancy threshold → 647 Leases = 8.5% of Leases; 43% of RSF

# E.O. 14057: Timeline of Deliverables for Leasing Requirements



# What is the Challenge?

---

According to a Jones Lang LaSalle study, the current supply of zero net energy/emissions buildings in the US is roughly 23MM sq. ft. (which is primarily fully leased and committed.)

- Corporate demand is currently roughly 310 MM sq. ft.
- GSA demand is roughly an additional 180MM sq. ft.

We must convince enough private sector building owners to renovate its existing building stock to NZE to enable the GSA to conform with EO 14057.

# How Do We Approach the Solution?

---

Identifying what is driving the perceived resistance from the private sector ownership is key:

- Too expensive, and the return on investment is too low.
- Limited availability of capital.
- Lack of knowledge/resources.
- Split Incentives – The owner pays for NZE improvements, and the tenant receives the financial benefits.

Instead, GSA must:

- Articulate the business proposition to overcome these resistance elements.
- Message the condition the buildings must be in to enable the GSA to conform to EO 14057 clearly and make third-party verification as easy as possible for the owners.
- Communicate this broadly and clearly to the private sector ownership.

# The Recommendations: Financial Returns

---

We recommend that the GSA clearly and broadly communicate the potential financial benefits of renovating existing buildings to net zero emissions to building owners. This can be done by explaining the following:

- How to convert to a high-performance building envelope cost-effectively.
- Through actual case studies, demonstrate how NZE buildings can increase cash flow and net asset value while reducing occupancy and loan risk. Show what average returns on investment for the US look like.
- The cost benefits federal and local tax incentives and local power provider programs provide.
- The cost of losing an existing tenant and the value of the reduced occupancy risk created by an NZE building.
- The value of getting ahead of future regulatory requirements around a building's carbon emissions.
- The GSA or any future tenant will be insulated from future power rate increases.
- Including health and wellness benefits at little to no additional cost further differentiates the owner's building.

# The Recommendations: Capital Availability

---

Even with highly motivated building owners, acquiring the up-front capital needed to complete the NZE improvements in today's economic environment can be challenging.

We recommend that the GSA educate owners on alternative ways to procure capital. These include:

- Property assessed clean energy (PACE) Loans; power purchase agreements (PPAs), energy-saving performance contracting (ESPCs), utility energy service contracts (UESCs), and self-financing by using "Green Addendums" for appraisals, cash, or other credit enhancements.

We recommend that if an owner diligently works toward completing the required improvements, the GSA should have some flexibility around allowing the improvements to be completed after occupancy.

- Some building dynamics, such as supply chain issues and approvals, are outside the owner's control.
- This flexibility could also help with borrowing capacity and provide additional capital from cash flow.

# The Recommendations: Split Incentive

---

- In roughly 3% of the GSA's leases, it utilizes a Net of Utilities lease form in which it is responsible for the cost of power.
- This creates a split incentive where the landlord is asked to pay for the NZE improvements, and the tenant receives the financial benefit of the reduced power bill.

We recommend that the GSA convert most of these savings in operating expenses to additional Base Rent within its Lease to enable the building owner to utilize that higher rent (equivalent to the reduction in the GSA's power bill) to recover the cost of the improvements.

We also recommend that when determining market rate compliance, the GSA look at the overall occupancy cost of a building (Net of Utilities rent plus operating expenses) when determining whether it meets the market rate standard for approval.



## The Recommendations: Multiple Certifications

---

- Currently, green building rating systems and standards are using, piloting, and introducing a variety of definitions and approaches to net zero energy and net zero GHG emissions.
- The challenge with multiple net zero emissions building standards and definitions is that they can be confusing and difficult for building owners and tenants to navigate. Additionally, not all standards are created equal, and some may not be as rigorous as others in achieving net zero emissions.

We recommend building on existing, commonly used, and accepted building standards to create a flexible third-party verification system that conforms to the GSA's definition of NZE.

# The Recommendations: Outreach and Communications

---

- Messaging is one of the biggest challenges to promoting net zero emissions (NZE) buildings. How can we effectively communicate the GSA 2030 Net Zero Emissions leasing requirements to prepare the market to meet them?

We recommend that the GSA utilize various methodologies to communicate the above recommendations and information to the private sector. The GSA should execute the information contained in this advice letter with a partnership mentality that demonstrates that it is trying to help the real estate sector thrive by informing it of available resources and information that it may not be aware of, as opposed to a position of mandating additional burdensome requirements.

# Conclusion

---

- There is currently a significant deficiency of NZE buildings available in the private sector to meet the GSA's leasing needs to comply with EO 14057 by 9/30/2030.
- There is a lack of clarity with some building owners around the benefits of pursuing NZE renovations, how to procure the needed capital, and what conditions the buildings must be delivered to comply with the GSA's needs.
- Communicating the information necessary to the private sector building owners to motivate them to renovate their buildings to the NZE standards that the GSA requires both broadly and clearly will be critical to increasing the available NZE building stock.
- The dissemination of this information will help generate the space the GSA needs to lease and be in conformance with EO 14057 by October 2030. Still, it will also accelerate the shift toward NZE buildings for the entire country.

## Summary of Recommendations for the GSA:

---

- Communicate the potential financial benefits of renovating existing buildings to NZE.
- Educate private sector owners on alternative ways to procure capital.
- Align GSA lease terms appropriately to enable owners to amortize the cost of NZE improvements.
- Provide flexibility around the timing for completing NZE improvements when warranted.
- When utilizing a Net of Utilities lease form, the GSA should enable the landlord to increase the base rent by an amount commensurate with the energy savings generated by the NZE improvements and include these operating costs with the base rent when evaluating market rent compliance.
- Build on existing, commonly used, and accepted building standards to create a flexible third-party verification system that conforms to the GSA's definition of NZE.
- Utilize various methods to communicate the above recommendations to the private sector.

# Discussion