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Should you stay or go?

What your sustainability commitments mean for your leasing decisions

JLL SEE A BRIGHTER WAY

Amid the intensifying race for sustainable space, companies need to weigh their options when leases come up for renewal.

Today's companies increasingly want to lease low-carbon, high-quality spaces. That's partly because they're walking the talk on sustainability commitments and complying with incoming regulations, but cost also comes into play — energy efficient spaces can be cheaper to run.

While companies can take many small steps to **cut emissions** within their leased space, buildings often need infrastructure upgrades to become net zero – and this is generally the owner's responsibility. Despite the growing economic case for making buildings more sustainable, some owners remain reluctant to invest in improvements.

It's putting some companies with upcoming renewals and stringent sustainability targets in a tough spot.

The search for sustainable offices, warehouses or other types of real estate can be challenging right now. Supply has not yet caught up with soaring demand, leading to more competition and higher rents for sustainable-certified spaces.

For companies that need to make a call on their real estate, the big question is:

Do you negotiate with your landlord so they carry out sustainability improvements, invest yourself in exchange for more favorable lease terms or search for a new property in a market where green space comes at a premium?

This guide aims to help you navigate your decision to stay or go, answering questions such as:

- Why is it so challenging to find sustainable space?
- How do you decide whether to stay in your current location or move to a more sustainable space?
- What factors should you consider when seeking sustainable space?
- How should you initiate conversations with landlords at leasing or renewals?

Why it's challenging to find sustainable space

For many companies, the decision to stay or go is becoming increasingly urgent as lease expirations approach. In the U.S. alone, 1.2 billion SF (111 million sqm) of office space and 2.5 billion SF (232 million sqm) of industrial space will experience a lease expiration before 2030, according to **JLL analysis** of 2023 data.

In some ways, this is good news for creating more sustainable real estate. Lease negotiations and renewals are the prime time for occupiers to have the greatest impact on the property they're leasing.

If landlords aren't willing to collaborate, tenants can walk away and move to a greener space — if they can find one.

In 2025, at least 30% of market demand for low-carbon space in 21 cities globally will not be met. Given the current quality of existing stock and the development pipeline, the gap could exceed 70% by 2030 — a critical year for decarbonization targets. That's the year by which global greenhouse gas emissions must be halved to avert the worst impacts of climate change, according to the International Panel on Climate Change (IPCC). Most companies have aligned their corporate sustainability objectives to this goal.

> "The supply is not there for all organizations to meet their decarbonization goals.
>
> **Shawn Hesse**
> *Vice President Sustainability and ESG Strategy, JLL*

As the gap between the supply and demand of sustainable space widens, companies should expect higher costs for space that aligns with their sustainability goals. Corporate tenants have shown a willingness to pay more for green-certified office assets, with rental premiums ranging from **7.1% to 11.6%**. Early evidence suggests this premium is much higher for buildings that are also low-carbon.



How to decide if you should stay or go

If your current space doesn't align with your sustainability ambitions, the appeal of a newer, more sustainable building can be difficult to resist. However, the grass isn't always greener on the other side.

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> It's expensive and carbon-intensive to move, so there has to be quite a step change in your workplace to justify the decision. The earlier an organization starts thinking about their options, the more opportunities they'll have.
>
> **Kirsty Draper**
> *Head of Sustainability - UK Agency at JLL*



The following tips can help you navigate the decision of whether to stay or go:

Start early

Starting the decision-making process well in advance provides time to conduct a thorough location analysis and consider the performance standards of incoming leasable space.

Draper recommends beginning the process several years before a lease expires to maximize opportunities, although the exact timeline will depend on how much space you need, your geography and the property type.

For example, a company occupying a 300,000 SF headquarters might start evaluating options five years before the lease event to allow sufficient time to evaluate the market and potentially influence a new sustainable building development. Companies looking for a 15,000 – 20,000 SF office have more flexibility, but supply may still be tight in the market.

Create a framework

Every robust real estate sustainability strategy needs a framework defining your requirements around key metrics such as energy and emissions intensity, water usage, waste reduction and more.

Once you have a framework, you can assess how your existing building performs against your requirements and what changes are needed to reach your goals. The framework will also provide a structure for evaluating other buildings in the market.

Create alignment

When making real estate decisions, companies must weigh sustainability objectives alongside a host of other considerations, including employee experience strategies, operational costs, technology requirements, supply chains and basic space parameters. That requires input from many parts of the business, making internal alignment an important step.

“It’s not unusual to see silos in large organizations where the team managing site selection has little to no context for sustainability targets,” says Hesse. “To prioritize sustainability, you need to ensure that the team making transaction decisions understands your requirements very early in the process and why sustainability must be treated as a critical business factor.”



Assess your landlord's appetite for change

Organizations leasing space often have fairly limited options to reduce emissions from their real estate on their own. Most opportunities for improvement depend on the building owner's ambitions to boost energy efficiency and make other building-wide changes.

Ensuring that your landlord has the desire, skills and funding to improve the building's sustainability performance is critical.

Evaluate the market

If you suspect that your landlord will not be a willing and competent partner to help reach your sustainability ambitions, it's time to look at other buildings in the market.

An experienced real estate partner with deep knowledge of your local market can help you identify potential buildings with owners that share your commitment to sustainability. They will also know about new spaces in the pipeline that align to your needs.

Buy yourself some time

If your lease expiration is fast approaching and you are encountering a limited supply of sustainable space, you may be able to extend your lease for a short period while exploring other options. This strategy creates flexibility and opens up new possibilities.

For example, there may be a green building under development that will be move in ready a year after your lease expires. Or, you may have an opportunity to partner with a developer on a new property and influence the building's sustainability features. The more time you have, the more options you will have.



When to stay and when to go

If your leased space currently falls short of your sustainability goals, a comprehensive evaluation can help you decide whether to stay in place or move when your lease expires. For today, you can start with the following self-assessment pros and cons list.

Factors that sway you to stay	Factors that drive you to go
Your landlord is planning or open to making improvements	Your organization wants to right size your space or move for other strategic reasons
You like the location and space of your current building	Your landlord is not willing to pay for retrofits or lacks sustainable real estate expertise
You're in a very tight market for sustainable space	You will face fines or reputational damage for remaining in a carbon-intensive space
You don't want the upheaval and costs of moving	You'd accept a larger rent cost to keep sustainability commitments on track
Your landlord has expertise in sustainable building operations	



Spotlight: How a global bank is driving sustainability in its leased space

Facing an ambitious goal to reduce energy use intensity in its offices by 2035, a global financial institution needed to know how its real estate portfolio was tracking toward its targets. To answer that question, the firm engaged JLL to conduct a strategic review of its nearly 100 corporate real estate assets globally.

The analysis revealed a significant gap in the firm's ability to meet its targets based on current building performance. Together, JLL and the firm's sustainability and real estate teams embarked on a variety of initiatives to drive change:

Enacted new practices to **elevate sustainability in leasing decisions,** including changes to the real estate governance process.



Leveraged JLL's market-level **supply/demand data and landlord intelligence** to identify which landlords would be most likely to engage on sustainability based on factors such as regional regulations and potential increases to asset value.



Entered data and modeling in Carbon Pathfinder, JLL's proprietary software, to give executives on-demand access to **real estate sustainability dashboards,** enabling more informed decisions based on carbon data.



Began **renegotiating leases to include green clauses,** such as access to utility data, renewable energy purchases, and landlord engagement on sustainability and decarbonization strategies.



With the firm's head of real estate strategy championing the initiative, they are on a path to driving sustainability throughout its portfolio. Next, the team will conduct a similar analysis of retail locations and examine the role the firm's data centers can play in meeting sustainability targets.

What to look for in sustainable space

Many companies still value green-certified space such as the U.S. developed LEED or UK led BREEAM. However, a growing number are now looking beyond these certifications — which tend to evaluate the building's design — to focus more on building operations and performance.

JLL research indicates that office tenants are assessing performance based on the following factors:



Energy efficiency

What is the building's energy use intensity compared to others in the market?



Electrification

Is the building 100% electric, or has the landlord committed to removing onsite fossil fuel systems?



Clean energy procurement

Does the building source 100% of its electricity from clean power sources?

In addition to these core factors, leading organizations consider circularity, climate resilience and **social value**. They also look for onsite electric vehicle (EV) charging stations and proximity to public transit to reduce Scope 3 emissions associated with employee commutes. For new builds, leading companies also prioritize construction with a lower embodied carbon footprint.

However, another critical factor in determining how well your leased space will support your sustainability ambitions may not be a building feature, but the landlord.

"It's important to look at the owner's level of sophistication and their willingness to take decarbonization seriously," says Hesse. "If they have public sustainability targets, that indicates a shared value, but you also want to see that they are collaborative and willing to work with you."

This needs to be an ongoing relationship throughout the lease not just a tick box exercise at the start. "The whole collaboration and partnership piece is really important," says Draper. "If you are looking at a 10- to 15-year lease, an owner who has a long-term interest in a building may be more aligned with your sustainability objectives."

Negotiating with your landlord

While ongoing communication and regular process checks between owners and occupiers are key to achieving sustainability goals, the best time to negotiate improvements is during lease negotiations and renewals. Addressing sustainability during negotiations enables you to incorporate clauses into your lease related to emissions targets, data sharing, electrification, air quality standards and employee wellbeing.

"Identifying and working towards shared sustainability goals means adopting a different process to typical lease negotiations," says Hesse. "Developing a 'green' lease means engaging with landlords to say, 'This is the kind of space we're trying to create over the next 5-10 years. Can we do it together?'"

Green leases empower property owners and tenants to work together to make buildings more environmentally friendly and energy efficient. They're like regular leases, but with added clauses that encourage both parties to adopt practices that reduce the building's environmental impact.

Every green lease is unique and should reflect the priorities outlined in a company's sustainable real estate framework. However, adhering to a few best practices can help achieve optimal outcomes as you begin discussions with your landlord.

Identify shared goals

Does the building owner have public sustainability targets? If so, consider where your goals overlap and how your decarbonization timelines align. Highlighting **how a green lease helps the owner meet their needs** and commitments, and avoid fines can facilitate better collaboration.

If the owner hasn't made their targets public, they may still share your commitment to sustainability. Many real estate asset managers face increased pressure from their investor clients to decarbonize their portfolios and address climate risks. Additionally, several cities have started using carbon pricing and fines to reduce emissions in the built environment.

Prioritize data sharing

Data sharing is the number one issue to discuss with your landlord. “It’s vital that the team negotiating your lease understands that data sharing is a business-critical issue,” Hesse says.

Sharing data is essential for tracking and evaluating progress, especially related to energy performance. Analyzing actual performance makes it easier to evaluate what’s going well, pinpoint areas for improvement and set goals. Moreover, increasingly stringent disclosure requirements have made data capture a compliance requirement.

Focus on co-investment and shared value

Sharing the costs and benefits of sustainability improvements helps create the foundation for a strong partnership. Enhancing operational efficiency or reducing harmful emissions benefits both parties. Plus, the owner may see an increase in asset value.

Negotiating how the owner and tenant share in capital expenditures and the resulting value is a key element of green leases. As a tenant, you can help incentivize building upgrades in several ways, such as extending your lease term, agreeing to higher rent or contributing towards capital improvements. There are many ways to structure the lease to share in costs and value creation, and having the conversation upfront will pay dividends down the line.

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Partnering to achieve your sustainability ambitions

Whether you choose to stay in your current space or move to a new property when your lease expires, a strong real estate partner with sustainability expertise can help guide the way.

From developing a sustainability-focused real estate strategy to evaluating your current and potential future spaces, JLL's sustainable real estate experts can help you cut your carbon footprint and achieve your sustainability goals — all while reducing operational costs and creating long-term value.

Contact us to learn more.

About JLL

For over 200 years, JLL (NYSE: JLL), a leading global commercial real estate and investment management company, has helped clients buy, build, occupy, manage and invest in a variety of commercial, industrial, hotel, residential and retail properties. A Fortune 500® company with annual revenue of $23.4 billion and operations in over 80 countries around the world, our more than 112,000 employees bring the power of a global platform combined with local expertise. Driven by our purpose to shape the future of real estate for a better world, we help our clients, people and communities SEE A BRIGHTER WAY℠. JLL is the brand name, and a registered trademark, of Jones Lang LaSalle Incorporated. For further information, visit jll.com

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