CITY SWITCH

Tenant guide to **green leasing**

Understand, navigate and unlock the benefits of green leasing to drive sustainability, collaboration and cost efficiency in your tenancy.

Getting started

This guide provides an overview of green leasing. It covers what's involved and the benefits.

A green lease explained

It's a commercial agreement between a tenant and landlord. A green lease is like a standard contract but includes clauses about the sustainability and environmental performance of a building. The clauses embed a commitment between you and the landlord to minimise the environmental impacts of the property.

How green leasing has evolved

Green leasing uptake has lagged since the mid-2010s. It was often used by large institutional landlords to safeguard building environmental ratings. Since then, the perception of green leasing has shifted. Now it's recognised as a strategic approach to strengthen environmental commitment and improve operational performance by landlords and tenants.

Why green leasing is important

Green leasing is a practical and powerful tool you can use to accelerate decarbonisation. It creates the legal and financial framework to turn sustainability intent into action, ensuring that commitments in strategies, policies or net-zero plans are embedded in day-to-day building operations.

It's also about more than just the environment. By clearly defining shared commitments, a green lease can reduce operating costs and underpin a more productive, healthy and comfortable workplace. With a little preparation, green leases can mean long-term gains.

Smart negotiating

Embedding sustainability, efficiency and goals into the lease itself, rather than leaving them for later discussion, ensures both parties have a clear, enforceable roadmap for action. Many upgrades or service changes, such as removing gas from building systems, installing solar panels or improving waste and recycling services, require mid to long-term planning and investment. Once a lease is signed, negotiating these improvements can become difficult, as responsibilities and costs are already fixed. Including these topics upfront creates certainty, aligns investment decisions and helps avoid costly renegotiations during occupation.

Green buildings are in demand

JLL's Early Mover Advantage research highlights a significant shortage of good quality, energy efficient office spaces in Sydney and Melbourne city centres to meet growing demand for properties that aligns with sustainability targets.

In 2023, 74% of Sydney and 67% of Melbourne city centre occupiers with office footprints greater than 5,000m^2 have set zero carbon targets. But there is a shortfall in premium, energy-efficient (NABERS Energy 5.5+) and electrified office space. There's an undersupply of 84% in Sydney (over 4 million m^2 of demand) and 43% in Melbourne (over 2 million m^2 of demand).

Emerging regulatory and disclosure requirements, including reporting for business and buildings, are accelerating the necessity and demand for collaboration on environmental social governance (ESG) between tenants and landlords. For example, the mandatory climate-related financial disclosures under the Australian Sustainability Reporting Standards (ASRS) require companies to report on climate risks, emissions and transition plans to net zero. The expansion of the Commercial Building Disclosure (CBD) program will require more building types and smaller commercial tenancies to report NABERS energy ratings at point of sale or lease.

Benefits for tenants

Benefit	Description	Example
Operational cost savings	Shared investment in efficiency upgrades reduces energy, water and waste costs.	You and your landlord co-fund the LED lighting and smart meter installation in your tenancy through an equitable cost-sharing clause. The upgrades cut electricity use by 25%, cutting operating expenses and emissions while improving data transparency.
Alignment with environmental, social and governance (ESG) targets	Structured reporting and verifiable environmental outcomes that support Australian Sustainability Reporting Standards (ASRS) and corporate disclosure obligations.	Data-sharing and emissions-tracking clauses are included in your lease, enabling yearly disclosure of scope 1, 2 and 3 emissions from operations. This verified building performance data supports your ASRS-aligned sustainability reporting.
Improved workplace quality	Enhanced indoor environment conditions contribute to wellbeing, productivity and keeping employees.	The lease includes provisions for maintaining high indoor air quality, access to natural light and thermal comfort consistent with NABERS indoor environment or WELL standards. Staff surveys report higher satisfaction and productivity, while your employee retention rate improves following relocation to or an upgrade to a healthier workspace.
Future-proofed occupancy	Access to good quality buildings with low emissions reduces the risk and costs associated with relocating, especially considering tightening climate regulations.	In the lease, provisions ensure the landlord maintains what it advertised in terms of building performance. For example, EV (electric vehicle) charging or a NABERS Energy 5.5 Star rating. This ensures ongoing compliance with emerging energy-performance disclosure requirements and shields your business from future retrofit costs or reputational risk associated with occupying a high-emission asset.
More effective partnerships	Stronger relationships with landlords through transparent data-sharing, joint reviews and shared sustainability governance.	You and your landlord establish a joint sustainability working group and agree to share quarterly energy and waste data. Together, you identify opportunities for efficiency upgrades and coordinate an electrification roadmap, improving trust, transparency and long-term collaboration throughout the lease term.

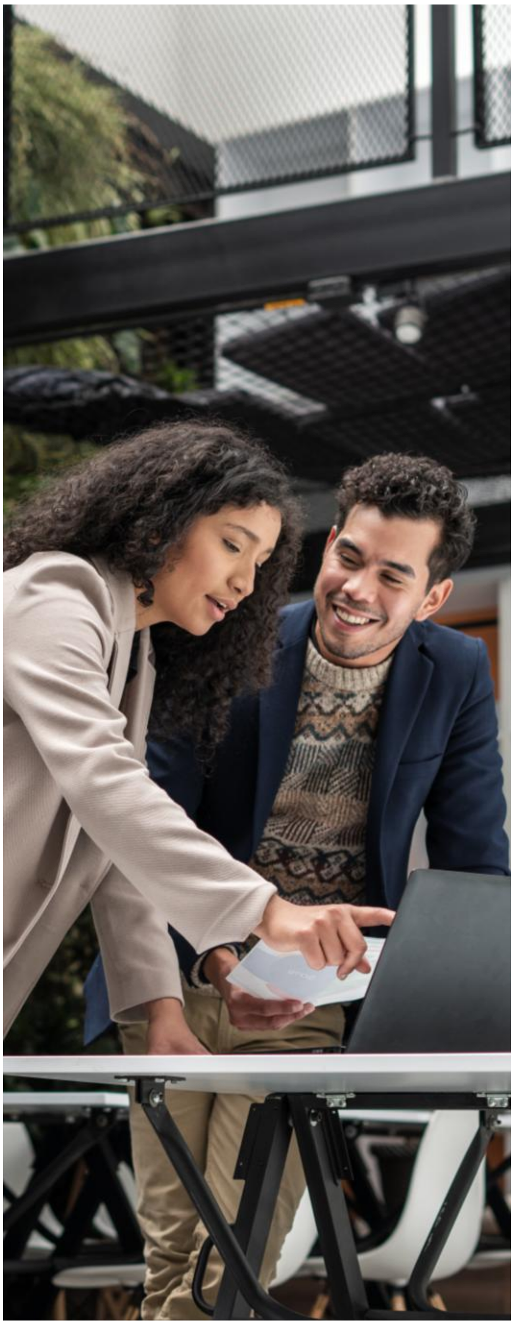
How to make it work

Create an ongoing partnership

Moving from traditional leasing to a green lease requires clear goals, collaboration and ongoing accountability. The process is not simply about amending lease clauses. It's about creating a shared platform for continuous sustainability improvement throughout the lease.

Take it step by step

Green leasing requires both parties to collaborate across the complete occupancy of a premises, from site selection and lease negotiation through to operation and end of lease.



STEP 1

Start Early and Align Objectives

You'll gain the most benefits if you nurture an open and collaborative relationship with your building owner(s). Communicating early about sustainability helps clarify goals, identify opportunities and address challenges before negotiations begin. Early conversations also allow time to plan upgrades, change operations and assess the risks and value of sustainability commitments.

STEP 2

Have the Right Team in the Room

Involving the right people early, representing sustainability, legal and property, helps all parties understand the value and risk of the lease.

STEP 3

Document Agreed Objectives (Heads of Agreement)

Before including green lease clauses in the final agreement, tenants are encouraged to include key sustainability goals in the heads of agreement document to:

- highlight the importance of sustainability
- ensure it's considered at an early stage in lease discussions
- help prevent it being weakened during final negotiations.

Examples of green lease objectives

Topic	Intention	Good practice objective
Data sharing	Promotes sharing sustainability-related data in a timely and transparent manner while safeguarding confidentiality. Sustainability-related data can include environmental (energy, water, waste) and social (health, comfort and social impact).	Parties agree to share high-quality data at specified intervals in a timely manner. This should include: • NABERS energy rating • Greenhouse Gas (GHG) reporting (scope 1 and 2) • data required for reporting obligations and compliance Data is to be anonymised where used by either party to maintain confidentiality.
Decarbonisation (electrification)	Holds parties accountable to decarbonisation commitments for building systems and/or infrastructure.	Parties commit to a decarbonisation pathway for the premises, including budget and timeline. The decarbonisation pathway should identify electrification opportunities and outline plans to switch to electric alternatives for heating, cooking, hot water and EV charging infrastructure.

Green clause examples

Decarbonisation Plan - Example clauses from Zero Carbon Clause Guide

01 Within 60 days of the commencement date, the landlord and the tenant agree to prepare a decarbonisation plan covering their specific commitments to decarbonisation in the base building and premises, respectively.

02 The Decarbonisation Plan must include:

- the date by which the Landlord must obtain:
  - the Landlord NABERS ratings; and
  - the Climate Active Certification for the building (if required)
- the date by which the tenant must obtain the tenant NABERS ratings, if these are not to be achieved by the commencement date
- electrification opportunities and plans to switch fossil fuel sources to electric (for example, heating, cooking, hot water, electric vehicle charging)
- how the landlord and tenant will work to eliminate the use of gas in the base building and premises, insofar as possible
- how the landlord and tenant will work to pursue energy efficiency opportunities (which may include but are not limited to window double glazing, insulation and lighting upgrades)
- a budget and timeline for any proposed activities set out in the decarbonisation plan.

03 The landlord and the tenant agree to use reasonable endeavours to work towards, dedicate resources to, and achieve their respective obligations set out in the decarbonisation plan.

04 The landlord and tenant will meet once every [x months] during the term to review the progress and efficacy of the activities set out in the decarbonisation plan.

Dig deeper

This guide has provided a simple introduction to green leasing. For more practical step by step guidance, check out the following:

- Better Buildings Partnership Green Lease Toolkit
- City of Melbourne's Zero Carbon Lease User Guide

Glossary

Term	Definition
ASRS (Australian Sustainability Reporting Standards)	Mandatory disclosure requirements established by the Australian Accounting Standards Board (AASB) for climate-related financial risks, emissions and sustainability information. Group 1 entities with a consolidated revenue greater than $500m must comply for financial years beginning 1 January 2025.
Commercial Building Disclosure (CBD) Program	Owners or lessors of commercial office buildings with a net lettable area above a certain threshold must disclose energy, water and other key building data when they're for sale or lease. The scheme aims to enhance transparency and increase energy efficiency in the commercial building sector.
NABERS	A national rating system that measures the environmental performance of buildings and tenancies.
Net zero	Achieving an overall balance between greenhouse gas emissions produced and greenhouse gas emissions taken out of the atmosphere.
Scope 1, 2 and 3 emissions	Scope 1: Direct emissions from sources owned or controlled by the organisation Scope 2: Indirect emissions from purchased energy (electricity, heating, cooling) Scope 3: All other indirect emissions in the value chain (upstream and downstream activities)

Resources

Source	Resource
Australian Government	Green Lease Schedules
Better Buildings Partnership (AU)	Green Lease Toolkit
Better Buildings Partnership (UK)	Green Lease Toolkit (2024) Case Studies
Building Owners and Managers Association International (BOMA)	Green Lease Guide (2018)
City of Melbourne	Zero Carbon Lease User Guide (2024)
The Chancery Lane Project (TCLP)	Climate Aligned Clauses (2024) Case Studies

Thanks for caring about our environment, climate action and our community.

If you have any questions, email us at – cityswitch@cityofsydney.nsw.gov.au