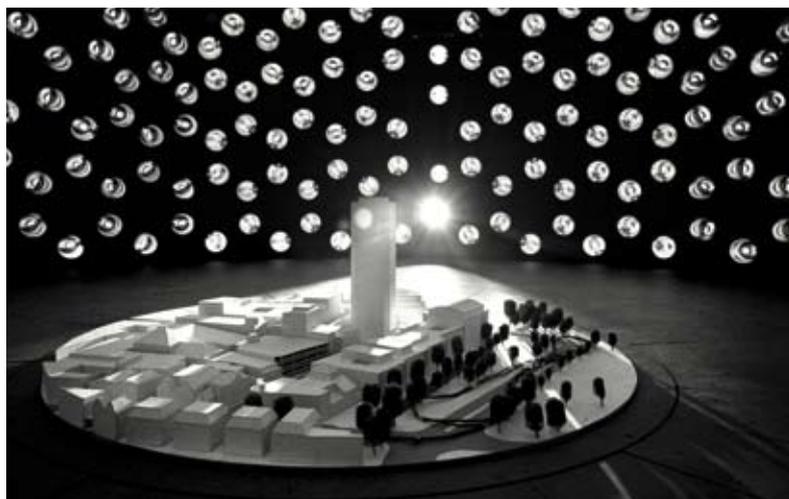


INCORPORATING ENVIRONMENTAL BEST PRACTICE INTO COMMERCIAL TENANT LEASE AGREEMENTS:

GOOD PRACTICE GUIDE – PART I ©

JANUARY 2007



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The Centre for Research in the Built Environment (CRiBE) is located within the Welsh School of Architecture, Cardiff University. CRiBE has pioneered research and established an international reputation in the fields of environmental design advice, energy efficiency of buildings and urban sustainable development. CRiBE comprises an established multi-disciplinary group of environmental design specialists including architects, engineers, planners and social and environmental scientists. This brings a uniquely holistic inter-disciplinary approach to effective and sustainable design, construction and operation of the built environment.

CRiBE plays a major role in informing the future of building design, and also in defining and developing the whole area of urban sustainability.

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- Building operators

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- Cardiff City Council
- DETR
- Hanover Trade Fair
- Millennium Dome
- National Botanic Garden for Wales
- National Assembly for Wales
- Newcastle City Council, Australia
- United Development Company, Qatar
- Ove Arup and Partners
- Wales Millennium Centre

Project Team & Acknowledgements

The research undertaken and led by CRiBE for the production of this Good Practice Guide was funded by the Carbon Trust. The project was kindly supported and managed in partnership with King Sturge, RICS Foundation, Eversheds and the Environment Agency Wales. CRiBE is grateful to the following members of the project team for their kind support and advice to the research.

John Michell

Partner
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Stephen Brown

Director of Research
RICS Foundation

Bob Vaughan

Strategic Environmental Planning Manager
Environment Agency Wales

Nefydd Jones

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Eversheds

Further acknowledgements

CRiBE would also like to thank the following organisations and individuals for their support and feedback during the research project:

David Meluish

Senior Policy Officer / Secretariat for the
Code of Practice
RICS Public Affairs

Paul Bagust

Commercial Business Support
RICS

Patrick Martin

Land and Property Division/Urban
Policy Unit
ODPM

Matthew Smith

British Property Federation

Don Cheyne

Greening Operations Co-ordinator
National Assembly for Wales



RICS FOUNDATION



ASiantaeth yr Amgylchedd Cymru
ENVIRONMENT AGENCY WALES



EVERSHEDS

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Foreword

There are numerous reasons why commercial landlords and tenants should consider their responsibilities to improve their environmental performance, particularly in relation to energy consumption. Some of these reasons are provided below, and whilst the list is not exhaustive, they provide bottom-line business reasons, which all aim to reduce carbon emissions from the built environment and improve environmental performance.

- The Energy Performance of Buildings Directive (EPBD) introduced in the UK in 2006, has led to the amendment of the UK Building Regulations, which will require all new commercial buildings to produce 27% less carbon than previously allowed.
- Under the EU Directive, the Government is introducing new measures for inspecting and rating energy efficiency of a building, which will need to be declared when the building is sold, let or refurbished.
- Further articles from within the EPBD are likely to be implemented in the future which will have direct relevance to the commercial sector.
- Reports from Government and the Royal Institute of Chartered Surveyors suggest that Green Buildings will be of greater value. Better performing buildings may provide better value for the tenant in terms of the rent, whilst offering more flexible leases.
- Compulsory carbon trading may be introduced by the Government, which may include, amongst others, larger occupiers and property owners who use greater than £250,000 energy per annum.

Published by

The Welsh School of Architecture

Incorporating Environmental Best Practice into
Commercial Tenant Lease Agreements:
Good Practice Guide - Part I

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ISBN 978-1-899895-37-3



Publication funded by
Welsh Assembly Government

This Good Practice Guide aims to encourage landlords and tenants to consider a more sustainable approach, helping both parties to address these issues through the commercial lease agreement.

Incorporating Environmental Best Practice into Commercial Tenant Lease Agreements:

Good Practice Guide – Part I

Introduction

The aim of this guide is to help landlords and tenants to incorporate a sustainable method which helps them to meet their obligations for reducing resource consumption and waste generation whilst improving the environmental performance and energy efficiency of their building.

When the landlord of a building and a prospective tenant embark on the development of a commercial lease agreement, certain clauses can be included, withdrawn or amended by agreement of both parties.

Research undertaken by CRiBE has identified that the commercial lease agreement is often considered a systemic barrier to environmental improvement and resource efficiency within the commercial built environment, particularly in multi-tenanted buildings.

This Good Practice Guide provides model lease clauses and recommendations, which can be discussed and included, as appropriate, during lease negotiation stages.

Adoption of the model clauses and recommendations presented in the document will assist commercial property landlords and tenants to incorporate and maintain good environmental practice into building management and operation. Reduction in resource consumption and improvement in efficiency could potentially:

- Provide bottom-line business benefits for both parties
- Improve corporate image
- Encompass aspects of the Energy Performance of Buildings Directive^[1] and other relevant environmental legislation.
- Encompass aspects of the relevant UK Building Regulations.

The guide is divided into two parts. Part I lists the model lease clauses and briefly presents their practical implications and potential benefits. Part 2 contains explanatory guidance notes.

Terms of Reference

‘Assignee’

The third party tenant, person or organisation who rents accommodation from the assignor.

‘Assignor’

A tenant who assigns to sub-let a part of their rented premises to a third party tenant.

‘Building’

For the purpose of this document, a building is a purpose built (new, existing or refurbished) business premises, for use by business or organisations to undertake commercial based business activities.

‘Guarantor’

A person or organisation that gives a formal guarantee to be responsible for, and accept liability for specified risks.

‘Landlord’

A person or organisation that lets a building to

a tenant (or sub-tenant) under a commercial lease agreement.

‘SME’

Small to Medium Sized Enterprise: by definition under EU at time of project, an SME is an organisation which has 250 or less employees, has a turnover of less than €40 million (£26 million), and less than 25% owned by one or more companies not falling within this definition. Current definition available in “The New SME definition: User guide & model declaration”.^[2]

‘Tenant’

The occupier company, person or organisation who rents the premises from the landlord of the building through a commercial lease agreement.

‘Tenanted Areas’

A building or part of a building that is leased to a tenant or occupier by the owner of the building through a commercial lease agreement.

Section A - Negotiating a Commercial Tenancy Agreement

More stringent legislation in the UK will ultimately increase the pressure on both occupiers and landlords to improve their energy efficiency and environmental management within a building. Incorporating good environmental management at lease negotiation stages ensures a sustainable approach for both parties, providing obligations to reduce resource consumption and improve efficiency of operation and management. The following model clauses and recommendations may help to achieve this at lease negotiation stages.

Benefits

1. The provision of an energy performance certificate within the information pack will comply with the EU Directive Article 7 ^[1].
2. Noting the availability of metering and monitoring data will show that recommended items for consequential improvements in ADL2B have been followed ^[3].
3. SME tenants are increasingly becoming more aware of the need to consider environmental and energy issues in their selection criteria. The existence of an Environmental Policy will reassure such tenants.
4. The development and use of an Energy or Environmental Policy (containing aims relating to energy consumption) will comply with the stated objective of the EU Directive ^[1].
5. Discussing the applicability of loans and support schemes for energy management and environmental improvement at the negotiation of a rent, ensures that they are considered at the stage when most benefit to tenant and landlord can be reaped.
6. Any building where services are changed will require a building log book ^[3]. In multiple tenancy buildings, tenants will have a responsibility for their own sub log books. The log books should be reviewed annually and information should be exchanged between the tenants and landlord. The information from the log book would be a good basis for the information pack.

1 Renting Premises

- I.1. The landlord should produce and provide tenants with a handbook or an information pack, which incorporates energy and environmental management in relation to the building, including, where available or known, the current energy performance rating. Where lettable areas are designed as individual units, the pack or handbook should include details for each individual unit, accordingly. This pack might provide the following for the building:
 - Energy and environmental management of the building, including energy, water and waste reduction targets.



- Current environmental and energy performance and energy rating.
- Availability of metering and monitoring data.
- An Environmental Policy, including a Policy for the rented premises.
- Availability of grant, loans and support schemes for energy management and environmental improvement.
- Copies of most recent energy audit certificates and environmental reports.

Tip!

1. Why not present this information on a building web-site? A valuable, innovative method for increasing “value” in the commercial market.
2. The information pack could contain additional information, e.g.:
 - a. Existing or planned energy efficient facilities / equipment
 - b. HVAC efficiency and operating parameters
 - c. Monitoring and maintenance schedules
 - d. Recycling facilities available for waste

1.2. When discussing terms of the lease contract, the landlord should inform the tenant by way of the information pack or tenant handbook of the availability of metering and monitoring data. Under tenant covenants it is also recommended that:

- The tenant provide full details [on request or otherwise] to the landlord of the tenant’s energy and water use including the provision of all meter readings, monitoring data and other records and to provide general information relating to the tenants experiences of resource efficiency practices, procedures and problems and to permit the landlord or professional expert to enter and inspect rented premises and all the apparatus, machinery, plant and equipment within the rented premises

Benefits

7. Tenants will be able to demonstrate to landlord any good environmental practice which may be adopted within other areas. This is particularly applicable for sharing best practice in multi-tenanted buildings.
8. Reduces environmental risk and liabilities if data and records are held, which may assist at lease renewal.
9. The inspection of apparatus, machinery, plant and equipment will comply with European Directive Articles 8 and 9 ^[1] which are likely to be implemented within three years of 4th January 2006.

1.3. When assessing tenant financial credentials, and when discussing the terms of the lease, the landlord should ascertain, wherever reasonable, current and proposed environmental credentials of the tenant. Environmental credentials held by a company may be in the form of one or more of the following:

- Has been awarded an environmental accreditation certificate or can demonstrate registration for adoption of a formal Environmental Management System, such as ISO14001, EMAS, BS8555 or Green Dragon (Wales).
- Has developed and adopted a company Environmental Policy
- Has a public Environmental Statement

Benefits

10. Environmental accreditation schemes (such as ISO14001) are recognised as adding a competitive edge to any business.
11. Environmental risk for the landlord will be reduced.

Tip!

3. Why not investigate reduced insurance premiums where environmental risk has been reduced?

Benefits

12. Ensuring that all parties are aware of and committed to the Environmental Policy will increase its level of success.

Tip!

4. Guidance for developing an environmental policy is provided in “Good Practice Guide 376: A strategic approach to energy and environmental management”^[4].

Benefits

13. Environmental audits can identify new opportunities with bottom-line benefits.
14. The recommendations from a regular environmental audit can form the basis of future aims within the environmental policy.

Benefits

15. Setting targets and monitoring achievements provides dynamic progress with demonstrable environmental improvements.

Tip!

5. The information pack could be made available on the internet.

- 1.4. The landlord should formulate an Environmental Policy for the building, including a skeleton Policy for rented areas to be provided to the tenant and discussed at lease negotiation stages. The landlord should covenant to undertake to manage the building in accordance with the Environmental Policy and to take all reasonable measures to manage the common parts of the building in a more efficient way.
 - The tenant should covenant to [have due regard or comply with] the landlord’s Environmental Policy, proposals, resource reduction targets, and suggestions relating to the reduction of resource consumption within the rented areas.
 - The tenant should undertake to make the tenant’s employees and any third party contractors appointed by the tenant in relation to the rented areas aware of the landlord’s Environmental policy and its commitment to reducing the use of energy and other resources.
- 1.5. The landlord should undertake [or procure the undertaking of] a full environmental survey, including resource consumption for the building periodically every 3 years and to make available to all tenants the survey report. In a multi-let building, this survey should include the rented areas on behalf of the tenant, but the cost to undertake the environmental audit should be recovered through the service charge. In a single-let building the cost to undertake the environmental audit should be the responsibility of the tenant with reports and certificates submitted to the landlord.
- 1.6. The landlord and tenant will use reasonable endeavours to minimise resource use [as far as reasonably practicable] and set resource reduction targets for the rented areas [or building]. The landlord and tenant should formulate a strategy, including the measures proposed to achieve such targets and will use its best endeavours to achieve such targets in the common parts of the building [and / or rented areas].
- 1.7. The landlord should ascertain [or procure to ascertain] and set resource reduction targets for the building common parts and ascertain the measures to be undertaken to achieve such targets and use best endeavours to achieve such targets. Furthermore, the landlord should publish its performance periodically to its tenants.

2 Obtaining Professional Advice

- 2.1. Parties intending to enter into leases should seek early advice from property professionals or lawyers. Furthermore, advice should be sought from energy advisers and environmental consultants.

Benefits

1. Such consultation allows landlords and tenants to identify feasible, cost-effective opportunities for environmental improvement and reduced resource consumption.
2. The savings from improved environmental performance / reduced resource consumption could be used to offset the costs for obtaining consultancy support, rather than being fully charged through rent / service charges.

Tip!

1. A list of advisers and approved consultants is available in the Environmental Data Services Ltd. (ENDS) Environmental Consultancy Directory. Contact www.ends.co.uk or www.endsdirectory.com

3 Financial Matters

- 3.1 The landlord should reserve itself discretion (acting reasonably) to adjust the environmental aspects and costs of a service charge proportionally payable by individual tenants to reflect good practice undertaken by individual tenants relating to resource efficiency.

Benefits

1. This acts as a financial incentive for tenants to demonstrate good practice relating to resource efficiency.
2. Such discretion in service charge can be implemented as long as it is incorporated in the apportionment schedule and agreed with tenants at the negotiation stage ^[5].



Benefits

1. With shorter and more flexible leases becoming more favourable, tenants are more likely to invest in energy efficient equipment for longer payback periods (or larger capital investment schemes) if these are considered at lease negotiation and/or lease renewal stages.

4 Duration of the Lease

- 4.1. For new and prospective tenants, it is recommended that the landlord should discuss at lease negotiation stages if the tenant wishes to engage in one of the financial support schemes, as per information provided in the pack provided by the landlord. Professional advice should be sought to establish payback periods.

Benefits

1. Assessment of rent could reward those tenants undertaking good environmental practice under terms within the contract.

5 Rent and Value Added Tax

- 5.1. Where alternative lease terms are offered, different rents should be appropriately priced for each set of terms. The landlord should disclose the VAT status of the property and the energy rating of the building where available. The tenant should take professional advice as to whether any VAT charged on rent and other charges is recoverable.

Benefits

1. Allowing adjustments in service charges will reward and encourage further adoption by other tenants.
2. If good environmental management within the building can be rewarded through a reduced resource cost as part of the service charge then this will become a comparable factor within the rent review and thus a more favourable option for prospective tenants.

6 Service Charges

- 6.1. To encourage incorporation of efficient environmental management within rented areas by tenants. Tenants should be made aware at negotiation stages of environmental aspects covered by the service charge either by way of the information pack or during lease negotiation stages.

Tip!

1. At lease negotiations, consider establishing the total cost of occupying the premises to include rent and adjustability in elements of service charges relating to environmental aspects and costs, together with insurance and business rates.



2. Consider using financial savings through successful environmental measures to offset the cost of obtaining consultancy advice or in providing additional facilities – providing benefits to both landlord and tenant.
3. For further guidance on service charges consult “Service Charges in Commercial Property” ^[5].

7 Repairs and Services

- 7.1 At negotiation stages, a tenant is provided with the information regarding planned schedules of repairs and services together with previous reconciliation reports.
- 7.2 The landlord should inspect [or procure the inspection of] all apparatus, plant, machinery and equipment in the building common parts to ascertain its environmental efficiency and resource consumption on a periodic basis. Also, the landlord should where reasonably necessary or where reasonably desirable, carry out maintenance, repair, overhauling and/or replacement of apparatus, plant, machinery or equipment. Where the landlord deems it reasonably necessary or reasonably desirable, the landlord should endeavour to improve the environmental performance of apparatus, plant, machinery and equipment.

Benefits

1. Evidence of annual inspections, schedules of repairs / services and reconciliation reports for previous work can be submitted as part of an energy audit. Such evidence may reduce the cost of an energy audit.
2. Energy performance audits (carried out by a qualified expert) which include inspection of boilers, and air-conditioning systems will comply with EU Directive Articles 8, 9 and 10 ^[1] which are likely to be implemented within three years of 4th January 2006.
3. Efficiency inspections will identify equipment and facilities requiring improvement. If the tenant has undertaken such improvements, this will assist with improving the building energy rating.

8 Assigning and Sub-Letting

- 8.1 The assignor should produce and provide assignee tenants with a copy of the landlord’s handbook or an information pack, which incorporates environmental and resource management in relation to the building.
- 8.2 The assignor should ensure that the assignee adopts the landlord’s Environmental Policy or formulates and implements their own.

Benefits

1. Ensuring that the assignee is aware of and committed to the environmental policy ensures that sub-letting does not result in 3rd party increases in resource consumption under elements of the service charge.

Benefits

1. This would ensure that tenants consider potential adverse effects of their planned alterations. These can include changes of partitions which result in lighting of unoccupied areas, or which adversely affect HVAC configurations.
2. This also ensures that tenants consider the impact of their proposed changes with regard to Approved Document L2B ^[3].

Benefits

3. Enabling tenants to take up financial assistance for environmental efficient modifications will provide potential to improve the energy efficiency rating of the entire building and improve environmental performance.

Benefits

4. This ensures that tenant proposals do not run foul of the Approved Document L2B ^[3] by causing a system to become (more) unsatisfactory in relation to the building regulations.

Tip!

1. Further guidance is available with regard to fit-out specification clauses to use in multi-tenanted offices in “Good Practice Guide 324: Leasing energy efficient offices – Business benefits and how to achieve them” ^[6].

9 Alterations and changes of Use

9.1 The tenant should ensure that, prior to requesting consents from the landlord where any refurbishment programmes or major alterations or changes of use are proposed within rented areas, sufficient information is provided so that reasonable judgement can be made on the impact that proposed changes may have on the environmental performance of the building and the meeting of requirements under relevant legislation and statutory instruments.

9.2 If a tenant commits to undertake installation of efficient equipment through funded or part-funded business support schemes, the tenant must ensure that the lease term is sufficient to cover for the term of the loan or should, in advance of the application, inform and agree terms and conditions of the period of the loan with the landlord. This may require third party expert advice to assess achievable savings and payback period, which often is provided during loan assessment stages. Where both landlord and tenant may significantly benefit either materially or financially from the improvement, joint arrangements should be discussed and information disclosed to guarantors.

9.3 Any tenant entering into an agreement for a loan to install more efficient equipment must establish whether the loan can be transferred to any assignee during the period of the lease contract should the rented area be assigned to another tenant. This needs to be agreed with the landlord.

9.4 To include in tenant alteration covenants of the Lease: an absolute prohibition on carrying out any alterations, which (materially) adversely affect the environmental performance, particularly the energy efficiency of the rented premises and/or the building.

Section B - Management During an Ongoing Commercial Tenancy Agreement

Establishing good communication between landlord and tenant is paramount to ensure transfer of information between the two parties. Agreement and adoption of proactive strategies for conduct between both parties during the lease contract helps to eliminate the need for costly reactive approaches. The following model lease clauses and recommendations may assist with the development of improved environmental management and communication between the two parties.

10 General Communication

10.1 The landlord wherever reasonable, encourages development of Landlord / Tenant Liaison Groups and ensures that information required is provided through either regular group meetings, an information pack or within the tenant handbook. Prospective and new tenants should be encouraged to attend and contribute to the flow of information. Should the formation of Landlord / Tenant Liaison Groups not be deemed suitable, communication should be improved through the development of a “building web-site” or development, production and circulation of periodic newsletters.

Benefits

1. The inclusion of energy related topics for discussion within the liaison groups, newsletters or on a “building web-site” will comply with the stated objective of the EU Directive ^[1].

10.2 The landlord should inform tenants by way of the lease contract or the information pack or tenant handbook, of any waste recycling schemes and facilities which the landlord either initiates for the building or which it promotes. Furthermore, the landlord should inform tenants through provision of drainage plans and permitted disposal routes for liquid wastes from technical scientific premises.

- Tenant Covenant - The tenant should inform the landlord of the type and volume of waste and the manner of disposal of such waste and of any recycling work or schemes utilised by the tenant. Also, the tenant should monitor the type and amount of waste discharged

Benefits

2. This establishes the obligations and responsibilities of both parties for waste disposal, since both parties have a duty of care to comply with waste disposal regulations “The Environmental Protection (Duty of Care) Regulations 1991” ^[7].
3. The landlord is able to provide correct facilities if he is aware of the tenant requirements.



4. Tenants are informed as to the correct use of facilities provided, encouraging further adoption of best practice.
5. Reduces landlord liabilities if suitable and correct facilities for disposal are provided.
6. Monitoring of waste will help to reduce liabilities and environmental risk for both parties.

into the drains and conduits of the building and to keep records to be made available to the landlord and other tenants. Information could be provided by way of the Landlord / Tenant Liaison Group meetings or flow of information.

Benefits

1. This would ensure that tenants consider potential adverse effects of their planned alterations. These can include changes of partitions which result in lighting of unoccupied areas, or which adversely affect HVAC configurations.
2. This also ensures that tenants consider the impact of their proposed changes with regard to Approved Document L2B ^[3].

11 Request for Consents

- 11.1 When seeking consent from the landlord, the tenant should supply full information about his/her proposal. The landlord should respond without undue delay and should where practicable give the tenant an estimate of the costs that the tenant will have to pay. The landlord should ensure that the request is passed promptly to any superior landlord or mortgagee whose agreement is needed and should give details to the tenant so that any problems can be speedily resolved.

Benefits

1. This ensures that any ongoing obligation of the landlord in respect of environmental management is upheld unless terminated in agreement with the tenant and new landlord.

12 Release of Landlord on Sale of Property

- 12.1 Landlords who sell their interest in premises should take legal advice and discuss with environmental managers and consultants about ending their ongoing liability under the relevant leases. Any landlord who does not undertake this should not be entitled to have their liabilities released.

Benefits

1. This gives further incentive to tenants to improve their environmental performance, ultimately benefiting the building and its occupants.

13 Repairs

- 13.1 The landlord should consider waiving any dilapidation costs incurred during the lease term where measures have been undertaken or installed by the tenant, which proven through monitoring programmes, has helped to improve the environmental efficiency of the rented areas.

Benefits

1. Pursuing joint initiatives and documenting monitoring programmes

14 Business Rates

- 14.1 Tenants or other ratepayers should consider if their business rates assessment is correct or whether they need to make an appeal. They should refer

to the DTLR Business Rates – a Guide or obtain advice from a rating specialist.

- 14.2 Landlords should inform the tenant of the Uniform Business Rate set for the building. This can be included within tenant information packs.
- 14.3 Whilst this may be an issue for the long term future, it is recommended that both landlord and tenant pursue joint initiatives and document monitoring programmes. Which may aid future appeals for reduction in business rates should Local Authorities adopt changes in the calculation procedure.

may aid future appeals for reduction in business rates should Local Authorities adopt changes in the calculation procedure.

Tip!

1. Further guidance for DTLR Business rates is available from <http://www.local.odpm.gov.uk/finance/busrats/guide/>
2. The RICS provides a free rating help line services (020 7831 3505) and advice is available from the Institute of Revenues Rating and Valuation (IRRV).

15 Service Charges

- 15.1 With regard to the cost of provision of services the landlord to reserve itself a discretion, acting reasonably, to adjust a service charge proportion payable to individual tenants to reflect good practice undertaken by individual tenants relating to good environmental practices thus, for example, reward initiatives like energy saving and punish energy waste.

Benefits

1. Tenants are generally aware of the environmental implications relating to resource consumption but have never investigated how good environmental management could be addressed through an existing lease contract. Implementing this clause would give tenants a cost incentive to employ environmental good practice.

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