green building council australia

Building a sustainable future

8 November 2019

Phil Manners
Director
The Centre for International Economics
Level 7, 8 Spring Street
SYDNEY NSW 2000

By email: pmanners@thecie.com.au

Dear Mr Manners,

GREEN BUILDING COUNCIL FEEDBACK ON CIE DRAFT REPORT FINDINGS - Review of the CBD Program 2019

The Green Building Council welcomes the opportunity to provide feedback on the draft report findings for the independent review of the Commercial Building Disclosure (CBD) Program.

The GBCA has a diverse membership of over 550 member organisations that are committed to the sustainable transformation of Australia's built environment. Many of our members are building owners and managers, and the vast majority are energy users in the office buildings. We therefore take great interest in cost effective policy measures to lower energy consumption in buildings, recognising it as an important source of low cost greenhouse gas emissions reductions.

The GBCA has supported the CBD Program since its inception as a framework to improve the energy efficiency of Australia's large office buildings and we believe there is significant opportunity to build upon its success to date through expansion into new commercial building classes, in particular office tenancies. In this context our comments in the submission focus largely on this sector, though we also consider the case for expansion exists in hotels and shopping centres.

The GBCA commends the Australian Government on its commitment to the continued success of the CBD program and thank CIE for their extensive work on this review. Should you have any questions about this submission, please contact Sandra Qian at sandra.qian@gbca.org.au.

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Yours Sincerely,

Jonathan Cartledge

Head of Public Affairs and Membership

Feedback on recommendations found in CIE's draft report:

Recommendation: The CBD Program continues for office buildings

Agree. The GBCA believes that there is a strong case for the CBD Program to continue, noting the CIE's findings that it has delivered significant benefits to Australia. However, it should be recognised that the estimated $86 million in net benefits is ultimately a conservative figure that does not account for the many ways that the CBD program currently delivers savings by contributing to the productivity and resilience of buildings, and builds economic capital through driving competition and business growth.

Regarding possible changes to the disclosure requirements for base buildings, we support the report's recommendation for moving to a periodic (annual or biennial) trigger for a BEEC if the program is extended to office tenancies. Besides rationalising the rating process for building owners (by enabling base building ratings to be linked to tenancy ratings, which would be required on a periodic basis) we believe this change would also capture the cohort of owner-occupiers and mid-tier buildings owners who rarely sell or lease their buildings and are less aware of their relative energy performance as a result. The case for periodic ratings is further supported by the cumulative benefits of repeated ratings. As CIE's findings show, each additional NABERS rating generates an improvement in the star rating achieved (of ~0.2 stars) and a reduction in energy use of around ~20MJ/sqm. This impact persists over time and becomes larger as more ratings are undertaken, with some impacts diminishing as the easiest upgrades are achieved.

However, we concur that the case for this shift is predicated on office tenancies being required to disclose.

We agree that under a periodic trigger the existing sale and lease disclosure requirements for buildings should continue to apply.

Recommendation: The impact of the CBD Program can be increased, through funding programs aimed at low-NABERS energy star-rated buildings

Agree. Studies of international mandatory disclosure programs show that they have the greatest impact when implemented as part of a coordinated energy efficiency policy strategy. To further drive the benefits of the CBD Program among lower-performing buildings, it is critical that owners and managers of these buildings have access to a suite of measures that help them to access financing opportunities and promote better decision making. These can include programs that deliver targeted upgrades in low performing buildings, drive skills uplift, reward improved performance and help owners develop marketable value around their NABERS ratings.

In 2015, the GBCA led a project on behalf of the (former) Department of Industry and Science to identify a range of short, medium and long term actions that would improve the performance of mid-tier (i.e. non-Premium or A Grade) commercial office buildings. Among the various recommendations, the Mid-tier Commercial Office Buildings Pathway project promoted a range of financing mechanisms to encourage upgrades and retrofits such as low-interest loans and environmental upgrade agreements, and advocated support for mid-tier buildings to access existing funding programs such as state based energy efficiency obligation schemes.

International experience also exists around actions that have worked effectively to complement mandatory disclosure schemes. In the US, a number of jurisdictions couple mandatory disclosure programs with requirements for building energy audits and retro-commissioning, which help to identify improvement opportunities and make recommendations for equipment and system upgrades. These policies can be used to support lower-performing buildings, as seen in the case of Orlando, Florida where buildings scoring below a set threshold for energy performance are required to undertake retro-commissioning. In many jurisdictions, information from these audits is also used to identify high-opportunity buildings that would benefit from technical assistance and efficiency upgrades.

GBCA considers that the options progressed under this recommendation should further the goal of an integrated policy framework for existing buildings in Australia. Notably, the COAG *Trajectory for Low Energy Buildings* project is currently developing a suite of options for improving existing commercial buildings and has proposed low cost universal mandatory disclosure as one of the prioritised policy options to achieve zero energy and carbon ready buildings in Australia.

Recommendation: The CBD Program should be extended to office tenancies, replacing the current TLA requirements, subject to the development of a low-cost system that would integrate mandatory tenancy ratings with existing base building requirements, a shift to periodic ratings, and a system that allows landlords/building managers access to tenant metering data.

Agree. The GBCA strongly supports the expansion of the CBD Program to office tenancies, leveraging a NABERS Co-Assess pathway which can provide a low-cost option to achieve a tenancy rating at the time the base building rating is conducted. Our preferred design for this scheme includes the following elements:

Thresholds

The GBCA agrees with the report's observation that if appropriate regulatory arrangements for co-assessment were available, the threshold for tenants could be determined by the floor space of the whole building to link the requirements for tenancy ratings to those for the base building rating (since, under a periodic disclosure regime for base buildings, building floor size would become the most appropriate reference for the threshold).

We understand that detailed design is beyond the scope of this review, but note that further analysis is necessary to determine the most appropriate threshold for tenancies. Analysis of net benefits and benefit to cost ratio by tenancy size in the feasibility assessment conducted by EnergyAction for the City of Sydney shows that substantial benefits can be achieved with a minimum size threshold of 1000sqm for tenancies under a number of policy options. Under a scenario where the requirement to rate is triggered by the building floor size, we believe it is also appropriate to consider how to exempt smaller tenancies for whom a NABERS rating would be cost prohibitive.

Table 3: Policy Option Net Benefits and BCR by tenancy size threshold

	Option 1: Annual - Stand Alone		Option 2: Annual - Co-Assess		Option 3: CBD Triggered - Co-Assess	
Size threshold	**Net Benefits ($M)**	**BCR**	**Net Benefits ($M)**	**BCR**	**Net Benefits ($M)**	**BCR**
> 500 m²	29	1.07	221	1.98	184	2.16
> 1,000 m²	64	1.22	187	2.10	151	2.25
> 2,000 m²	67	1.45	117	2.17	94	2.29
> 3,000 m²	54	1.54	85	2.22	67	2.31
> 4,000 m²	48	1.54	74	2.22	58	2.30

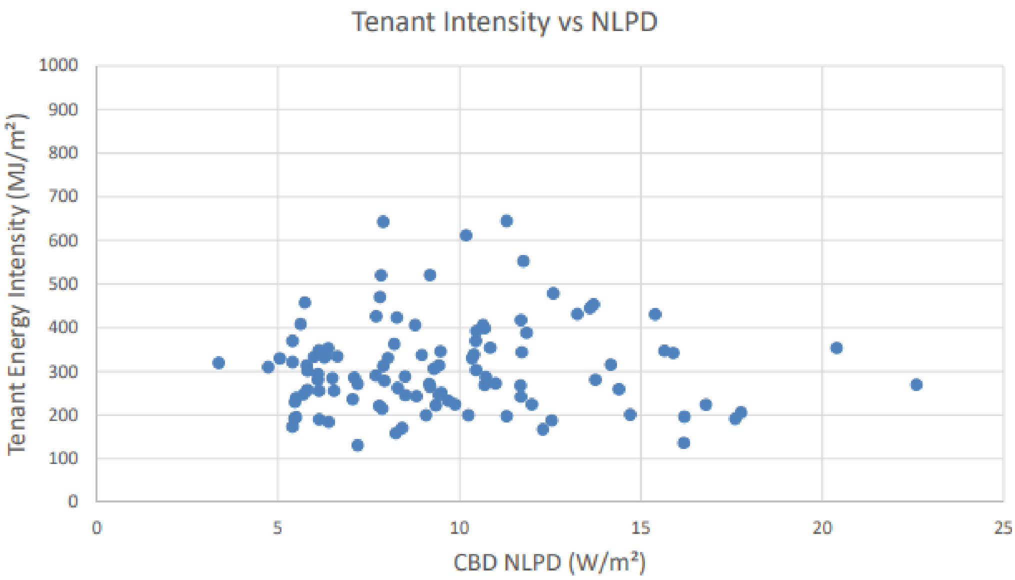
Source: EnergyAction for City of Sydney, "Expansion of Mandatory Disclosure to Office Tenancies – Feasibility Assessment"

Trigger for disclosure

We support a periodic trigger (either annual or biennial) for tenancy ratings. For office tenancies, we believe a continuous regime of disclosure is important to provide the visibility that can prompt internal action and affect customer/investor decisions. A sale/lease trigger would not be able to affect the same level of behavioural change in tenancies, and the information disclosed would also be less meaningful. With respect to the appropriate time-base, we consider biennial ratings to be acceptable, but note that annual disclosure can be more useful for driving better practice since repetition is key to embedding energy efficient behaviours as standard practice. As mentioned above, we support linking the requirement for base building ratings with the requirement for tenancy ratings, on the basis that doing so would drive greater efficiencies and cost savings through the disclosure process. This would imply a yearly periodic base building rating for buildings that trigger the requirement.

Information disclosed

The information disclosed by office tenancies should include a NABERS Tenancy rating, achieved under the Co-Assess pathway. We agree with the report's proposal to remove the TLA requirement on the basis that it is rarely considered by tenants and also agree that compared to a NABERS rating, it is a less adequate representation of tenancy energy use. As the graph below shows, the relationship between tenancy energy use and nominal lighting power density is weak to non-existent. This is expected as lighting typically represents around half of tenancy energy use, with the balance being determined by IT loads, kitchen equipment and supplementary air conditioning.



Source: EnergyAction for the City of Sydney, "Expansion of Mandatory Disclosure to Office Tenancies, Feasibility Assessment"

The report further notes that where a tenant's primary concern is greenhouse gas emissions, a measure including GreenPower may be more relevant. The GBCA does not object to the inclusion of Green Power in the disclosed NABERS Tenancy rating as we understand it can inform tenants' understanding of their environmental impact. However, as the purchase of GreenPower can also lead to an increased star rating, we recommend that where the rating with GreenPower is disclosed, it should be accompanied by the rating without GreenPower to help tenants better understand their actual energy performance, and allow easy comparison with other tenancies.

Disclosure arrangements for office tenancies

The GBCA believes that public disclosure of tenancy performance is important to embed behavioural change. We support the disclosure of information through the following means:

- Website. We agree that the NABERS/CBD Program website should serve as the repository of office tenancy ratings, with the ability for customers and staff to check ratings at any time.

- Within the building. We support the option of disclosing tenancy ratings at the entrance to each tenanted space. This is difficult to enforce due to the sheer number of tenancies, but would nonetheless provide an important reminder to key decision makers.
- Within annual reports (for organisations required to prepare one). While the report recommends against this inclusion on the basis that many organisations already undertake sustainability reporting, we maintain that the benefit of public disclosure should not be limited to publicly listed organisations that already prepare sustainability reports, particularly as it is arguably the organisations which do not engage with this process, that stand to gain the most from greater awareness of their buildings' energy performance.

Disclosure of energy performance should not be mandated for shopping centres

Disagree. We are not convinced by the draft report's case against expanding mandatory disclosure to shopping centres, on the basis that it would have no impact on their energy performance.

While we are alive to the market leadership and the voluntary uptake of NABERS present in the shopping centre sector, we believe the question is whether non-rating shopping centres would stand to benefit from understanding their energy performance. The report indicates that based on available data, those not rated with NABERS are achieving the same improvements in their energy efficiency, however it is unclear what this means for shopping centres for which data is unavailable. The experience of the office sector suggests that while owners of large, premium and A-grade buildings recognise the performance and competitive benefits of energy ratings, owners of smaller and/or lower grade building are typically less proactive and their buildings will have more scope to improve. As such, information on the behaviour of non-rating shopping centres is important to draw a firm conclusion on the case for expansion for this sector. While we accept that this evidence may not be readily available, we reject the report's assertion that mandatory disclosure is unlikely to have an impact on the energy performance of shopping centres as shopping centres are already improving their performance, with or without energy ratings.

The CBD Program should be expanded to hotels following a review of the NABERS Energy tool, and subject to a process of staged disclosure, beginning with undisclosed ratings and followed by mandatory disclosure for hotels with more than 100 rooms. Hotel ratings would be required every two years.

Agree. The GBCA believes there is a strong case for expanding mandatory disclosure to the hotels sector. Given the relative inexperience of the sector in relation to NABERS Energy at this point in time, a phased approach is appropriate for the sector to gradually ramp up its capabilities, testing and improving the implementation process before levelling up to a requirement for public disclosure. We believe that allowing buildings to phase in will help to achieve building owner and manager support for the policy, as would programs designed to support owners with funding access and information. We also support the report's recommendation for the NABERS Administrator to work with this sector to gradually build confidence in NABERS Energy as this work should help the sector develop a more sophisticated approach to energy performance management generally that leverages benchmarking tools. Consideration should be given to how the sector can partner with government and industry to drive marketable value around energy ratings, since work is already underway (through the Sustainable Destination Partnership and its stakeholders) to encourage businesses, government and leisure travellers to seek accommodation with environmental performance ratings.