

Phil Manners
Director
The Centre for International Economics (CIE)
Level 7, 8 Spring Street
Sydney NSW 2000

Dear Mr. Manners,

HFM FEEDBACK ON CIE DRAFT REPORT – REVIEW OF CBD PRPROGRAM

HFM is pleased to be able to provide feedback on The Centre for International Economics (CIE) draft report a part of its independent review of the Commercial Building Disclosure (CBD) program.

HFM is an Engineering Consultancy offering tailored Engineering Solutions to improve the efficiency of all building types throughout Australia. We have a diverse range of services focussed around 6 key areas; NABERS and BEEC, asset management, building improvement, facility advisory, energy & water & renewable energy.

Our involvement in the NABERS and CBD programs has been in several different capacities including; providing advice on the development of the various rating tools, undertaking NABERS Ratings and BEECs for clients across Australia and being involved in the supervision of trainee assessors. As a result, we believe we have significant experience and look forward to adding meaningful discussion points to the current review.

We are strongly supportive of CBD program having seen firsthand the positive changes it has brought to the office sector since its implementation in 2010. We welcome the expansion of the CBD program to Office Tenancies and Hotels and provided some more feedback on this below.

1. Expansion to Office Tenancies

HFM support the expansion of the CBD Program to office tenancies and believe the most cost-effective way to do this is through use of the NABERS Co-Assess process given a lot of the information is being already collected as part of conducting a base building or whole building rating under the CBD program.

Our preference is for tenancy ratings to be mandatory rather than whole buildings if there was to a choice between the two. Tenancy ratings would empower tenants with information to improve their rating. This is not achieved if the building is rated as a whole building.

HFM believe the current automated process (within the Co-assess method) of subtracting 5 hours per week off the Owner/Tenant Agreement (OTA) hours to determine rated hours may be negatively penalising the tenants getting a rating. HFM have received complaints from tenants around this process stating that their NABERS

Rating has dropped when assessed through the Co-assess method and they prefer the alternative stand-alone method.

2. Expansion to Hotels

HFM strongly supports the expansion of the CBD program to Hotels. We believe the Hotel industry is where the Australian Office sector used to be 15 years ago in terms of energy efficiency. For example an office building should be achieving a 5.0 star NABERS rating for it be considered as Premium grade under the PCA rating scheme. The equivalent grade of hotel is 5.0 star accommodation which has no consideration of energy efficiency in its evaluation method.

a. Use of the NABERS Rating Tool for CBD Program

We have recently completed indicative ratings across 36 Australia and the outcomes indicate that the rating tool appears to require a review. Hotels that achieved higher ratings were typically operating in the mid market 3-4 star AA ratings. The tool does not appear to accurately reflect the change in services (and hence higher energy usage) requirements of the 5.0 star hotels. Noting we carried out two energy audits / and indicative ratings on a recently opened 5.0 star / 6.0 star hotels and in both cases the hotels came up at 3.0 star even though they had deployed significant technology into the hotels.

We believe there is insufficient ratings done each year to build the data base to review the accuracy of the rating tool. It is recommended that NABERS undertake a formal review of the tool with a focus on ensuring the higher servicing requirements of the 5.0 star hotels are accounted for accurately.

b. Industry Consultation is Essential for Effective Implementation

More effort should be placed into industry consultation for implementation of mandatory disclosure of hotels than was put into for offices. Awareness and understanding is limited with many in the hotel industry unaware of what the NABERS program is, or the benefits it can achieve.

When mandatory disclosure for offices was implemented many of the large institutional property owners were already participating and obtaining ratings each year. The hotel industry generally doesn't have this current participation from the large owner/operators. Upon implementation of mandatory disclosure an industry consultation period is required outlining both the reasons the program is being implemented and the benefits it can bring.

c. Potential Conflict with International Tools

HFM acknowledge there is a legitimate concern around the large number of environmental rating systems with many of these available internationally. Despite their widespread availability HFM note the fragmented adoption of these tools and limited penetration within Australia.

International groups will tend to use international systems however it should be recognised that the NABERS tool is being utilised in Hong Kong and now the UK.

d. Some Hotel Groups have KPIs Around Sustainability

We note that some of world's largest hotel groups have now introduced management KPI's related to emissions on the hotel managers bonus mechanisms. We have recently completed audits for some groups and hotel managers and were keen to measure their sustainability and identify improvements.

e. Cost to Carry out a Rating

We note that costs of \$6,000 were discussed in the report. We believe this is not realistic or accurate. The NABERS fee is circa \$1219 for a single rating. We believe that a formal Energy rating should cost between \$1500 - \$3000 depending on the complexity of the hotel. Total cost \$2700 - \$4200. Noting for a mid-size hotel this would typically represent less than 1% of the annual energy costs.

f. Tourism Australia Submission

The original comment paper presented by TAA in response to the CIE Issues paper released in January 2019 had some valid points but any improvement in performance within hotels is generally a business decision for the hotel owners depending on the owner's appetite for Return on investment, environmental conditions.

HFM have provided several case studies demonstrating positive energy efficiency improvement outcomes achieved across hotels with various ownership structures, geographic locations. These include; Regional hotel, a locally owned 4.0-star hotel, a foreign owned mixed use site. Despite characteristics of these hotels falling into TAA argument to oppose mandatory disclosure all outcomes demonstrated a very good ROI circa > 20%.

g. Significant Opportunities to Improve Energy Efficiency

HFM have conducted circa > 40 energy / engineering reviews in hotels in 2019 and the general outcomes are very similar.

- Lack of understanding of energy and where it is consumed
- Inadequate skills in the hotel maintenance department in understanding both asset and maintenance management and energy management.
- A poor rating would indicate that an Energy Assessment should be conducted such to identify the opportunities to improve the performance. From here a formal action plan can be put in place and prioritised.
- Potentially funding be provided similar to the City of Sydney (COS) funding would energise and encourage the industry to improve their performance.
- Noting the improvement in energy performance is a process and generally takes time circa 3-10 years subject to the age and lifecycle of the hotel.
- Case studies and training will assist the industry in raising the awareness on what can be achieved.

h. Challenges with Collecting Adequate Data

HFM knows first-hand that utility data currently being collected by many hotel groups may have quality issues such as missing NMI's, incorrect NMI's, mixed energy coverage including or excluding key services. Therefore quality of data initially collected as part of the proposed review of the NABERS Tool maybe of a poorer quality than data provided in subsequent years post operation of mandatory program. As a result, a review of the benchmarks should be conducted 2-3 years after the program has been in place.

i. NABERS Timeline for Mandatory Disclosure

Prior to the introduction of Mandatory Disclosure (Suggest July 1st 2021) clear targets should be set by NABERS such to build the data base, raise awareness and get the industry acting.

The industry requires significant assistance to get started. As such the federal government should provide a funding mechanism get a change. This should also include financial assistance for conferences, education, audits fees. Energy Management Plans.

Yours Sincerely,

Alex Sejournee

HFM Asset Management Pty Ltd.

Lead Consultant

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