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National Australian Built Environment Rating System – Australian Experience with market based performance ratings

Chris Bloomfield – 20 January 2016

NABERS

- National Australian Built Environment Rating Scheme
- Introduced in 1999
- Performance (measurement based)
- Separate assessments for energy (emissions), water, waste, indoor environment
- Operated by government with industry consultation
- Applied to offices, shopping centres, hotels, data centres, hospitals

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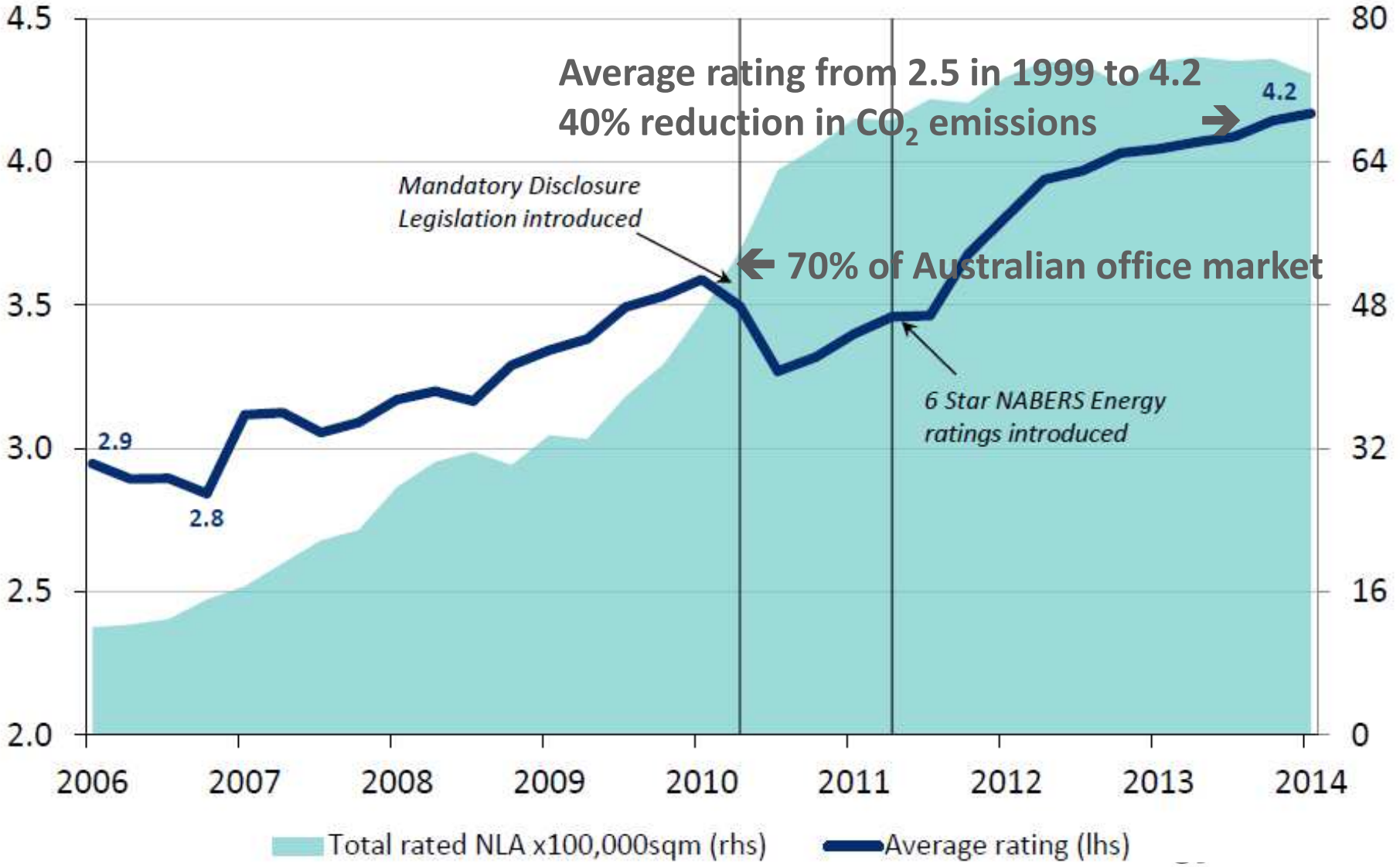
Has it worked? – office buildings (base build)



Source – NABERS 2014 annual report (www.nabers.com.au)

NABERS – key features

- Managed by government with industry consultation
- Aligned to procurement boundaries – tenant and landlord assessed separately
- Electricity metering well split between tenant and landlord
- Simple metric – 0-6 stars in 0.5 stars
- Financial grade audit and support of rating data
- Assessed on measurement – technology agnostic
- Market based

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Rating structure

- Based on 12 months data, valid for 12 months
- Essentially a productivity index – consumption per unit of output
- For office energy ratings,
- $$KPI = f\frac{\sum Energy\ use \times Emissions\ factor}{Occupied\ area \times Hours\ of\ service \times Climate\ factor}$$
- KPI benchmarked against real building data, 2.5 stars = market median, 7 stars = carbon neutral

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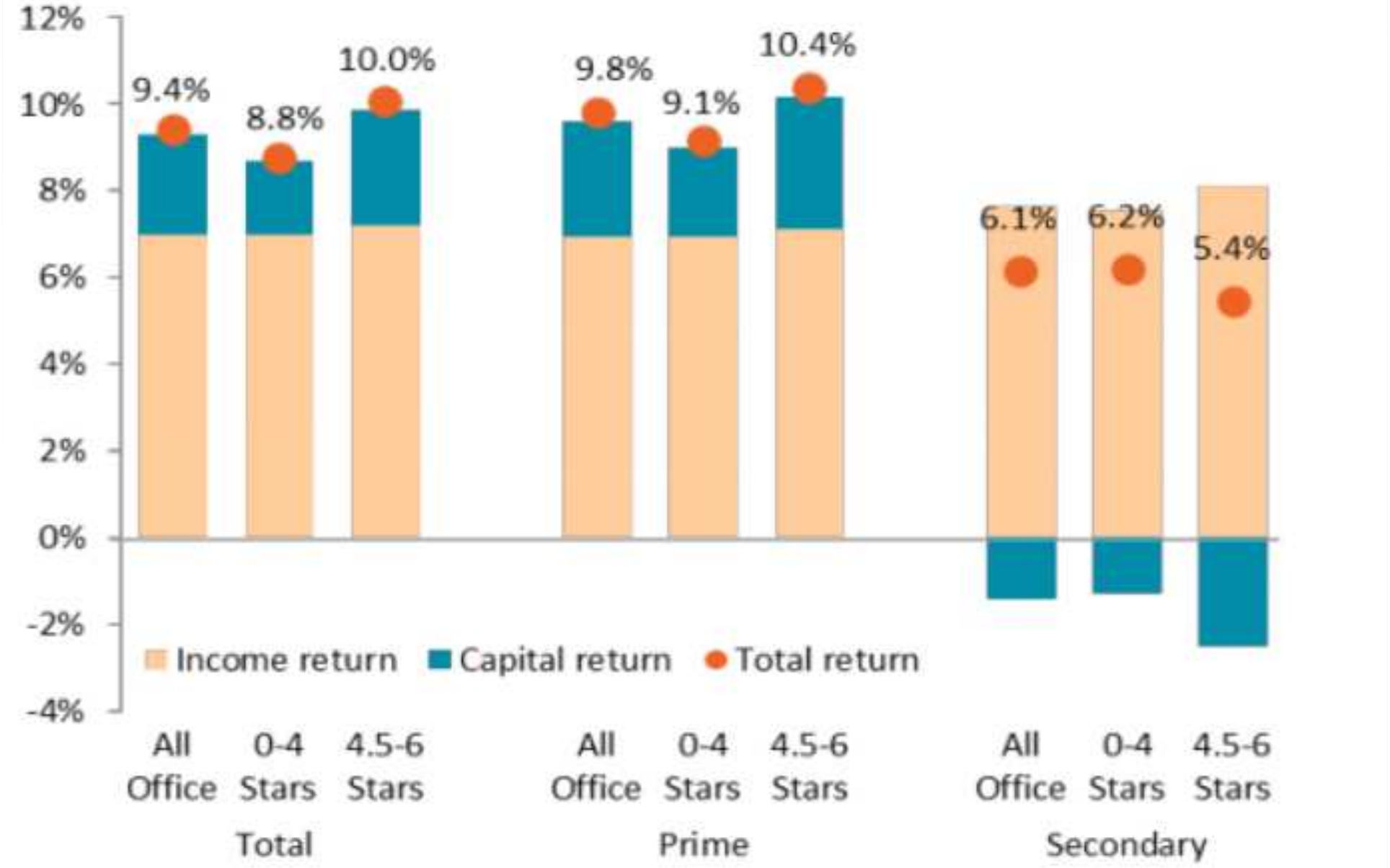
Driven by market value



Source – IPD 2013

Driving the market

- Green leases – state and federal government require 4.5 stars for new leases (~15% of market)
- Leadership from government owned property portfolios
- Lease outgoings (gross/net lease becoming irrelevant)
- Grants (generation of carbon trading, direct funding)
- Cost of debt (green bonds)
- Name and shame (mandatory disclosure)

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Case study – driving building upgrades. Garema Court

- 1997 construction, 11,400m$^{2.}$ 2010 performance 2.5 stars, Lease expiring. Value AUD$31M
- Efficiency upgrades 2011-12, $1.2M project
- 2013 rating 4.5 stars (45% reduction in emissions), enabled new 15 year government lease
- 2013 valuation $56.5M

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Valuations from DEXUS annual financial report 2011 and 2014.

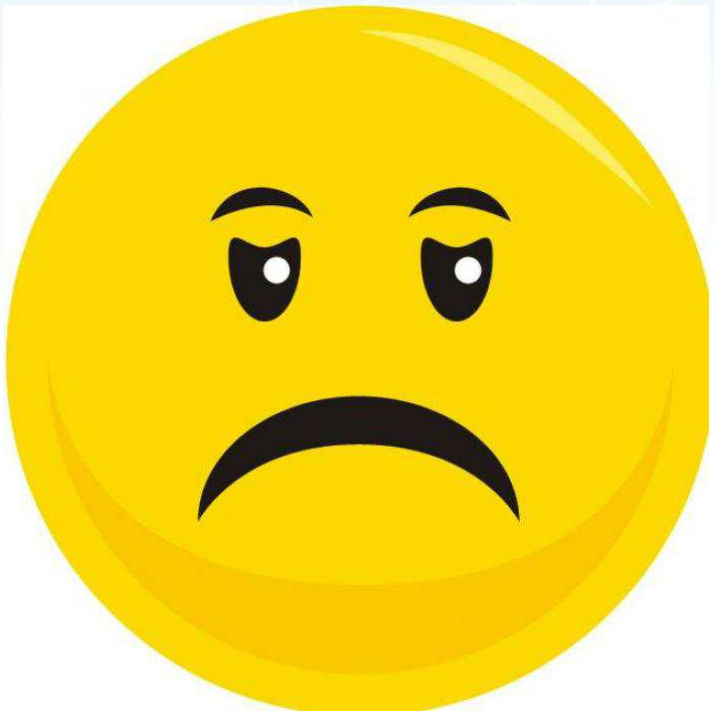
Engagement with tenants vs landlords

Base building office ratings

- 90%+ of floor area rated annually

Tenancies

- ~10% of floor area rated annually



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Tenant drivers - softer

- Energy is a smaller driver for tenants - $50 vs $500/m2 compared to rents, $50 vs $7000/m2 compared to wages
- Main energy usage:
  - IT equipment
  - Lighting
- Different drivers to landlords – less aligned to core business.

What seems to work?

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Green leases

- Green leases common for “premium” and “A” grade properties, usually driven by tenant
- Tenant seeking to procure (and pay for) lower emissions building
- Measurement every year results in same quality of maintenance through lease term
- Correlation between energy efficiency and indoor environment quality ➔ wage productivity
- Some green leases reciprocal (places performance requirement on tenants)

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Disclosure of lighting system at lease

- Common in AU market for lighting fitout to be provided by landlord at start of lease
- Mandatory disclosure of lighting power density
- Allows tenants to evaluate cost of occupancy of prospective tenancies
- Has resulted in a lot of lighting efficiency upgrades at end of leases

COMMERCIAL BUILDING DISCLOSURE

A National Energy Efficiency Program

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Engagement

- Development of NABERS Data Centres – engage with IT
- Recognition and awards – CitySwitch
- Staff engagement and retention

Questions?

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