Australia | September 2024

Department of Climate Change, Energy, the Environment and Water

Commercial Building Disclosure (CBD) Program Expansion Public Consultation Paper

JLL's Response

Introduction:

JLL values the comprehensive and collaborative approach taken by the Department of Climate Change, Energy, the Environment and Water (DCCEEW) in developing a staged expansion of the Commercial Building Disclosure (CBD) program.

The CBD program has worked well to drive energy efficiency improvement and increase National Australian Built Environment Rating System (NABERS) uptake in office stock over the past 12 years.

According to DCCEEW, the commercial building sector accounts for approximately 25% of overall electricity use and 10% of total carbon emissions in Australia. Thus, reducing this consumption is key to achieving the country's net-zero target. However, the majority of these building emissions fall outside the commercial sector. This means expanding the CBD program to broader building types presents a significant decarbonisation opportunity.

JLL recognises that to align with the Paris Agreement and achieve Australia's whole-of-economy Net-Zero by 2050 goal, the real estate sector needs regulatory enforcement to raise wider awareness and drive changes. We believe that the CBD expansion program, by requiring building performance transparency, will add another competitive dimension into the sector, and will push the economy, especially the private sector into action.

Executive Summary:

JLL is dedicated to accelerating the transition to net zero, improving our own performance, and contributing to a sustainable future. We are committed to transparency regarding climate-related risks and opportunities.

In 2019, we voiced our support for the recommendations made by the Taskforce on Climate-related Financial Disclosures (TCFD), and in July 2022 released our first TCFD report.

In 2021 we became the first company, providing professional services to the property and real estate sector, to be recognised for aligning our net zero commitment with climate science. This was accomplished when our net zero emission target by 2040 was certified by the Science Based Targets initiative (SBTi) against its Net-Zero Standard. As part of this we have committed to:

1. Reducing absolute Scope 1, 2 and 3 emissions by 51% by 2030 from a 2018 baseline (including 100% of Scope 1 and 2 emissions from JLL-occupied buildings).

2. Reducing absolute Scope 1, 2 and 3 emissions by 95% by 2040 from a 2018 baseline.

As part of our commitment, we monitor and disclose our Scope 1, 2, and 3 emissions in our annual ESG Report to ensure we are on track to meet these targets.

As a leading professional services firm in the real estate sector, we fully support the Australian Government commitment to meeting its climate change obligations across the economy. However, we also recognise the challenges associated with energy-related reporting and disclosure in the building sector.

These challenges include a lack of education and awareness, insufficient data readiness, difficulties in tenant collaboration, hesitancy to disclose information, and the time and financial investments required to implement changes.

With that in mind, JLL's response considers the Australian Government's broader climate goals and the positive impact of the current CBD program. Overall, the importance of regulatory enforcement to drive transparency, energy efficiency and reduce emissions in the built environment is noted.

1. Current CBD program and Australian Government's broader climate initiatives

- Evaluation of the current CBD program

We acknowledge that since its introduction, the CBD program has achieved a 35% reduction in base building energy use intensity for office buildings that are required to report on their performance.

As outlined, the current program requires commercial office owners (>1000 m2) to disclose the NABERS star rating and provide a Building Energy Efficiency Certificate (BEEC), including a NABERS certificate, at the point of any sale, lease, or sublease.

While the expansion of the program to a broader range of building types is critical, as important is the way that these disclosures are made, regular disclosure will ensure continuous improvement for buildings captured under the program.

[Source: Australian Government DCCEEW].

JLL recognises the success of the current CBD program. Our response considers the current disclosure trigger, location, and other requirements for offices. However, it is also notable that different building types may require tailored disclosure approaches based on their specific asset features, NABERS uptake and other considerations.

- Australian Government's Net Zero Plan

Having signed the Paris Agreement and committed to keeping global average temperatures well below 2 °C of warming and pursuing efforts to it to less than 1.5 °C, the commitment to reduce greenhouse gas emissions by 43% below 2005 levels by 2030 and achieve net zero emissions by

2050, emphasises the importance of expanding the CBD program.

[Source: Australian Government DCCEEW - Net Zero].

JLL recognises the significant role of the commercial building sector in achieving the country's decarbonisation goals. Offices have seen an improvement in building performance as a result of proactive efforts to raise ratings and maintain competitiveness since the introduction of the current CBD program. As its coverage expands to broader building types, we would expect a similar trajectory.

- Australian Government mandatory climate-related financial disclosures

  There are direct links between the CBD program and the work completed by the Task Force on Climate-related Financial Disclosures (TCFD), which established a global framework for companies to disclose climate-related risks and opportunities in their financial reporting.

  The Australian Government integrated the TCFD recommendations into its own mandatory climate-related financial disclosure requirements and introduced a climate disclosure bill that was passed on 22 August 2023, and confirmed by the Senate on 9 September 2024, that will require large entities to report their emissions from 1 January 2025.

  Under current policy, entities subject to mandatory climate-related financial disclosure would be phased in three groups, over a four-year period. By 2027, a wide range of entities will be required to report on their scope 1, 2, and 3 emissions.

  [Source: Australian Government Department of Finance - Commonwealth Climate Disclosure Policy].

  JLL believes that expanding the CBD program will signal the building industry to prepare for coming regulations. It will also facilitate Australia Sustainability Reporting Standards (ASRS) by ensuring a greater proportion of the real estate sector is proactively gathering actual energy data, thus enhancing the quality of emissions reporting.

- Australian Public Service (APS) Net Zero 2030 target:

  The APS is leading by example with its Net Zero 2030 strategy that outlines the Australian Government's approach to achieve net zero for the operations of its buildings by 2030. This includes implementing a minimum energy performance standard (MEPS) of 4.5-stars NABERS rating for government buildings, as well as actions like considering energy efficiency and emissions in government staff business travel.

  JLL has observed an increasing trend in energy-related improvement actions among building owners when dealing with Government occupiers driven by APS Net Zero 2030. This demonstrates the Australian Government’s leadership and its key role to influence the market for proactive reactions. Meanwhile, we believe that expanding the CBD program will support the APS Net Zero 2030 by better informing Government entities' decision-making in building-related actions and thus drive simultaneous changes.

2. Review of global buildings disclosure requirements:

JLL's response and recommendations incorporate our understanding of existing global building disclosure requirements.

Examples include:

- Energy Performance Certificates (EPCs)

  The Energy Performance Building Directive requires the European Member States to adopt EPCs. The EPC document provides an energy efficiency rating (displayed on an A-G scale) in relation to a property's running costs.

  [Source: Energy Performance Building Directive]

  In UK, it has been a legal requirement to have an EPC for properties to sell or lease or newly built since 2008. From April 1st, 2023, it was mandatory for all privately rented non-domestic properties to have an EPC rating of E or higher. For residential buildings, it is currently illegal to lease a home with an energy rating of F or G.

  The Government plans to increase the minimum criteria to band C by 2025 for all new tenancies and 2028 for existing tenancies, and ultimately to band B by 2030.

  [Source: UK Government]

- Display Energy Certificates (DECs)

  Introduced by the UK Government in October 2008, the DEC aims to encourage the owners of public buildings to adopt energy efficiency measures by displaying their energy performance. DECs provide an energy rating of the building from A to G, based on the actual amount of metered energy used by the building over the last 12 months within the validity period of the DEC. When a DEC is obtained, it should be clearly displayed at all times in a prominent and highly visible place within the building.

  Since January 2013 DECs need to be prominently displayed in buildings over 500m^2 that are occupied by public authorities or institutions providing a public service. Since July 2015, the mandatory display extends to public buildings over 250m^2.

  [Source: UK Government]

Based on a comparison with various frameworks and related certification requirements, JLL believes that NABERS is a world-leading and well-understood rating scheme that effectively discloses a building's energy information to the target audiences.

In addition to using NABERS as a tool to disclose building performance, we recommend that the government reference and mirror the application of performance disclosure seen in other markets by adopting minimum energy performance standards for each asset class.

Conclusion:

JLL's response to the CBD Program Expansion Public Consultation Paper incorporates our wide-ranging expertise across all business lines and represents JLL's perspective on the built environment.

We recognise the success of the current CBD program, and fully support its expansion. We agree with the proposed expansion that:

- Reduce the office floor area threshold to 500 m^2 to cover a more significant portion of the market.
- Introduce CBD Program for office tenancies, as base building ratings may be inadequate where tenant consumption is significant.
- Adopt national MEPS for offices to standardise and improve underperforming offices, considering office assets' preparedness developed through current CBD program.
- Expand the current CBD program to include all NABERS ratable buildings and progressively include currently non-ratable building types, aiming to replicate the success of the current CBD program across a wider range of building categories.
- Use NABERS as the main disclosure tool, as NABERS is a world-leading and well-understood energy rating tool.
- Supplement NABERS with other straightforward and cost-effective emission-related information to provide a comprehensive assessment of building performance while minimising additional expenses.
- Expand to all ownership structures to foster broader inclusion and facilitating more comprehensive emissions reductions across the sector.

However, whilst we appreciate DCCEEW's effort in developing a clear roadmap, we also recommend the Government to consider the followings:

- Alignment with other related energy and emission programs and policies (e.g. ASRS), to increase real estate sector participation in energy data collection, improving emissions reporting quality and thus enhancing whole-economy reduction impacts.
- Reassess the current roadmap's grouping of building types, to take into consideration factors such as NABERS uptake rates, data readiness and building type stock features.
- Mandate periodic disclosure at least every two years, in addition to current sale or lease trigger. This ensures equitable comparison across all NABERS-rated buildings and provides the public with up-to-date building performance information.
- Implement NABERS-star ratings as MEPS for offices and potentially retail centres to ensure the certainty of CBD program's outcome.
- Increase support for education, awareness raising, knowledge sharing and

collaboration, to facilitate the implementation of the CBD expansion.

It is also important to note that we need to strike a balance between economic and social considerations versus decarbonisation opportunities. We have identified significant knowledge and performance gaps among different tiers of building occupiers. Compared to top tiers, the lower end of the market will face enormous challenges in meeting disclosure requirements and MEPS, including financial costs, time required for transition, and data readiness. We recommend the Government to consider providing financial incentives for buildings that improve their performance or continue to perform well over a set period of time, before switching to a penalty model.

JLL believes that the expansion of the CBD program will be a valuable tool to enhance sector awareness, promote data transparency, drive up building performance, and support the decarbonisation journey for those lagging behind. Moreover, this program will foster a deeper industry-wide understanding, facilitating the integration of decarbonisation practices into business decision-making.

Please reach out to us for further discussions or clarifications on our feedback. Refer to the Contact Information section on how to reach key members of the sustainability team at JLL.

References:

1. APS Net Zero Emissions by 2030: https://www.finance.gov.au/government/climate-action-government-operations/aps-net-zero-emissions-2030
2. Australian Government's Net Zero Plan: https://www.dcceew.gov.au/climate-change/emissions-reduction/net-zero#dcceew-main
3. Display Energy Certificates (DECs): https://www.gov.uk/government/publications/display-energy-certificates-and-advisory-reports-for-public-buildings/a-guide-to-display-energy-certificates-and-advisory-reports-for-public-buildings
4. Energy Performance Building Directive: https://epb.center/epb-standards/energy-performance-buildings-directive-epbd/
5. Energy Performance Certificate (EPC): https://epb.center/epb-standards/energy-performance-buildings-directive-epbd/ https://www.gov.uk/energy-performance-certificate-commercial-property
6. National Australian Built Environment Rating System (NABERS): https://www.nabers.gov.au/

Response to Questions:

Below are JLL's responses to the key questions outlined in the Commercial Building Disclosure (CBD) Program Expansion Public Consultation Paper.

1. **What are your views on expanding the CBD Program to different types of commercial buildings in line with the suggested road map?**

   JLL strongly supports the expansion of the CBD Program and agrees that:

   - Developing a roadmap to phase in a larger pool of commercial buildings is vital to help achieve Australia's Net Zero plan.

     Our research in 2022 tracks 4,145 office assets in 19 office markets in Australia and shows that 56% by area have obtained a NABERS energy rating, leading to a reduced emissions intensity by over 40% in these assets. However, when considering the number of assets, only 23% of them have obtained a NABERS rating. This data indicates change towards more efficient office assets is still slow, particularly among small-sized offices.

     Expanding the CBD program to include a wider range of assets by type and size will serve as an enforcing power, boosting the NABERS uptake rate and incentivising compliance with higher energy efficiency standards. We anticipate that this expansion will lead to a similar decarbonisation trajectory observed in the previous CBD program.

   - NABERS is a world-leading and well-understood rating scheme that effectively discloses a building's energy information to target audiences.

   - Supplementing NABERS with other simple and low-cost emission-related information (e.g. Scope 1 emissions, building electrification information, refrigerant information) provides a more comprehensive view of a building's carbon footprint to the target audiences.

   - Phased implementation of NABERS-star rating MEPS for offices and potentially retail centres will provide greater certainty of program outcomes. The MEPS scheme will significantly improve the energy efficiency of low-performing buildings, bringing them in line with larger and newer buildings.

   However, we recommend that the Government also considers the following, based on stakeholder inputs from our various business lines:

   - A whole-building energy disclosure: We recommend gradually mandating NABERS ratings for both base building and tenancy area. Firstly, base building ratings may not provide sufficient information for specific buildings where tenancy consumption constitutes a significant portion (e.g. single-tenant buildings). Secondly, we observed multiple times when owners of multi-tenant buildings want to upgrade the building's energy efficiency or reporting their Scope 3 emissions, they face challenges as tenants do not want to disclose their usage without regulatory requirements. The whole-building disclosure approach will give support to improve data collection and to identify major energy consumption areas thus drive real changes.

- Reconsidering the grouping of buildings: The current grouping by NABERS maturity solely based on the release year. However, building types under the same NABERS release year may have vastly different uptake rates, reflecting variations in each building type's stock features, data readiness, and other factors. This challenges the feasibility of a uniform roadmap for each group. Examples include:

    - In Group 3, Shopping Centres currently hold significantly higher NABERS maturity compared to other types, particularly Public Hospitals.
    - In Group 3, building types like Warehouses, Cold stores show a higher NABERS uptake rate than Data Centres and Public Hospitals in Group 2.

  We recommend reconsidering the grouping to incorporate additional factors including NABERS uptake rates, data readiness, similarity in building features and the cost and affordability of disclosure for each specific building type.

- Considering built year impact: When phasing the roadmap, consider the built year of buildings alongside net lettable areas or size as an expanding/exemption criteria, especially for implementing MEPS. Building age significantly impacts the feasibility and cost of related upgrades.

- Solid benchmarking before setting MEPS: JLL supports the proposal to use NABERS-star rating MEPS for offices and suggests considering a similar approach for shopping centres. However, expanding to other building types requires solid NABERS adoption for reliable benchmarking before mandating.

- Exemptions and tolerance: Special consideration should be given to certain building types (e.g. crucial public sector buildings with high energy intensities, such as hospitals; old buildings about to demolish). This includes providing flexibility in disclosure requirements (e.g. using an upgrade and implementation plan to address changes instead) and potentially allowing the option to not disclose. This approach aims to minimise negative economic and social impacts, maintain the building functionality, meanwhile ensure alignment with the national decarbonisation plan.

2. **Where should disclosure information (e.g. energy ratings) be displayed? Some examples include on advertising (including online advertising), on your business website, in the foyer.**

The location of disclosure should follow the principle that:

- Be transparent and easily accessible for all interested parties.
- The disclosure can raise public awareness and signal the market for changes.

Based on target audience, different building types may have different optimal locations for displaying information.

JLL therefore recommends that the Government adopts a building-type specific approach to determine the best location for displaying information, tailored by analysing each building type's target audiences and occupiers. Examples include:

- Assets with high turnover rate (e.g. offices, shopping centres):
  - Display in any advertising material for the sale, lease, or sublease of the property.
- Public buildings (e.g. hospital, councils) or properties with moderate turnover rates but facing continuous flow of guests (e.g. Hotels):
  - Display in a prominent place clearly visible to the public (e.g. hospital reception, retail store windows)
  - On relevant booking system (especially for hotels)
  - Display in any advertising material for promotion.

We also recognise the need for a digital platform that centralise all disclosure information, categorised by building features, similar to the current CBD register and NABERS register. This would ensure more informed decision-making by potential investors and occupiers.

3. **What should trigger disclosure? Some examples include on sale or lease, or a periodic trigger such as yearly or once every two years.**

JLL agrees that the current trigger for disclosure is effective for assets with high turnover rates like offices. It should be maintained as a minimum requirement when expanding CBD to other building types.

However, for assets with moderate turnover rates, such as hotels, the current disclosure triggers are inadequate. Relying solely on sale and lease as triggers may result in decades-long gaps between disclosures for these assets, failing to provide up-to-date building energy information to the public.

Thus, we recommend that the current disclosure triggers should be supplemented by mandatory disclosure on a time basis. This approach helps mitigate performance slips and ensures that the star rating accurately reflects the current state of the building. Ideally, the disclosure period should be aligned with the NABERS validity period on an annual basis. However, considering typical timelines for equipment lifecycles and feasible energy efficiency upgrades during the disclosure cycle, we propose a biennial disclosure schedule as a practical compromise.

The Government should lead by example, adopting an early and aggressive periodic disclosure framework for all building types under its operational control and are able to disclose. This will demonstrate the leadership and effectively signal the market to take proactive actions before mandatory changes.

4. **Who would be most interested in your energy use?**

Top-tier investors and occupiers are looking into building's energy use for their reporting and disclosure requirements, as well as align with their own sustainability goals.

However, there is still a lack of motivation and awareness among the majority of private owners unless they are convinced that energy efficiency directly impacts the building's capital value.

Signalling to market the connection between energy efficiency and asset value can encourage proactive upgrades to maintain the asset's competitiveness. Certification programs like NABERS are doing well in linking energy efficiency to asset quality, thereby lead to market-driven improvements. Inclusion of sustainability characteristics in the International Valuation Standards from January 2025 will further aid this.

Additionally, JLL recognises the impact on the market of the historic Energy Efficiency in Government Operation policy and the likely impact of the recent APS Net Zero in Government Operations policy as a standard setter for performance expectations amongst tenants. Expansion of the CBD will allow tenants to make informed choices more easily about the performance of the space they choose to occupy. This demonstrates an example of the role of Government in leading and signalling the market for change.

5. **What are the barriers to you getting and disclosing your building's energy rating? What might be needed to help you overcome those barriers?**

Based on JLL's experience and conversations with our clients, we have identified the following as the main barriers:

- **Skill and resource gap:**

1) Data readiness poses a common challenge when it comes to energy-related disclosure. Both data accessibility (e.g. metering in small spaces and record keeping) and data quality (actual vs estimated) are often inadequate.

2) Tenant collaboration: Collecting tenant data and fostering tenant collaboration is time and resource consuming, especially in multi-tenant buildings. We have received complaints about the difficulty of conducting TLAs especially in small areas.

3) Lack of education: High density of information on how to comply with mandatory disclosure is available, but not easily navigated or understood by non-specialists. These market players are also likely to be those who lack access to liquid capital to pay for advisory and improvement works. Nevertheless, even top players in the industry sometimes face a lack of understanding. For example, the scarcity of actual data obtained through gas metering poses a challenge for participants in NABERS. They often fail to distinguish between their actual usage and the estimated usage on their bills, resulting in their failure to obtain NABERS certification.

Addressing these skill and resource gaps is a crucial first step for the industry to prepare for mandatory disclosure. However, it will require time, financial and human resources to implement the necessary changes.

- **Reluctant to disclosure:** There is a noticeable reluctance among stakeholders to take on responsibilities beyond their current scope. They prefer to remain compliant within established boundaries unless absolutely necessary, which makes the regulatory enforcement crucial

Recommendation

Mandatory enforcement of the CBD expansion will drive market change. However, we also realise the challenges and the time required by the building sector for proper planning and investment to reduce risk of unexpected expenses and compliance difficulties. JLL recommends the Government to provide adequate support to:

- **Run targeted educational updates** to help the industry understand staged changes, including workshops and guidebooks on:

1. Benefits of data collection and energy efficiency upgrade, as well as the rising market requirements on sustainability features to increase industry awareness;

    1) Benefits of energy efficiency features and green certificates – how they are linked to building's capital value;

    2) How to assess data (e.g. instal metering and sub-metering) and who are the right sources of information for disclosure (e.g. energy companies, relevant consultancy);

    3) How to interpret data to ensure compliance with the disclosure requirements;

    4) How to facilitate effective communication with tenants through structured workshops and templates

- **Prioritise market-driven change measures** before implementing mandatory regulations:

    1) Explore the feasibility of a marketplace solution before implementing mandatory requirements, where the Government leads by example, signals the market and links building capital value to energy efficiency features;

    2) Encourage trading platforms to incorporate and disclose features that facilitate the identification of better-performing assets, fostering market-driven change before resorting to penalties and enforcement measures.

- **Implement both incentives and enforcement power** to drive desired changes:

    1) Further encourage NABERS participation, as well as building energy efficiency upgrades with financial incentives (e.g. rate discount for early adoptions), before resorting to financial penalty-based enforcement;

    2) Phase in appropriate penalties including fines for non-compliance to ensure enforcement.

- **Time:** Given the complexity of implementing changes, allowing sufficient time is critical. Entities will need additional time and tolerance to adjust of non-compliance, enabling them to make realistic changes before transitioning to a penalty model.

6. **Should other information also be disclosed in addition to the NABERS energy rating? Possibilities include Scope 1 emissions from on-site activities (for example gas use, diesel use and refrigerants) or the NABERS Renewable Energy Indicator which displays the proportion of the building's energy that comes from on-site renewable energy generated and off-site renewable energy procured.**

JLL observes that investors and building occupiers prefer simple and easily understood criteria. Straightforward box ticking works more effective in signalling the market and driving best practices , as this does not require additional education for the audience to understand the underlying significance. Examples in addition to the ones mentioned in the question can be:

- Whether the building has a gas connection or is fully electrified
- EV charging infrastructure readiness

Additionally, it is important to note that water and waste may not be directly energy-related, but the associated energy use and emissions are significant. We suggest encouraging disclosure in these areas, as water and waste NABERS tools already in place.

Another important one is the fugitive gas. It is crucial to note that refrigerant gases have a more significant impact than CO_2 emissions and pose greater environmental dangers. Therefore, we recommend including a refrigerant survey of building HVAC systems, providing refrigerant top-up information and include it into disclosure.

Other considerations include reevaluating the existing TLA to limit its applicability to new tenancy fit-outs.

7. **What are your views on the use of minimum energy performance standards to improve the energy efficiency of commercial buildings?**

JLL supports the proposal to use NABERS-star rating MEPS for offices and suggests considering a similar approach for shopping centres.

However, MEPS should serve as an insurance mechanism to reduce the tail of underperforming assets. Due to the variety of building features, as well as limited benchmarking data, setting a standardised passing grade (e.g. a minimum NABERS rating) for each building type is challenging. Examples include public buildings like hospitals with very high energy use intensity; or buildings like hotels that may exhibit energy use patterns linked to local events and seasonality.

Additionally, as MEPS is designed to upshift the tail-end group landlord, we recommend also to consider their resource capacity and time required to meet the gaps.

Therefore, we recommend DCCEEW to consider:

- Before rolling out to a standardised MEPS (i.e. utilising minimum NABERS star rating), consider set documentation and upgrade plan requirements for underperforming assets (e.g. energy data collection plan, electrification plan, renewable energy plan, and rating plan).

- Before implementing MEPS, initially pass on incentives and rebates as a benefit for a set period first before switching to a penalty model, allowing the market to react under market mechanism.

- Allowing sufficient time to transition and provide financial assistance to avoid sudden shock to the economy (either through grants, rate reductions, or connecting building occupiers to finance).

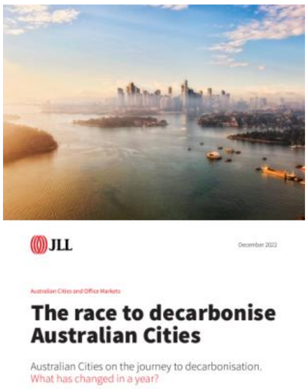
- Consider implementing a co-assessment approach for both tenants and landlords to comply with MEPS to achieve maximised result.

Background Information

JLL's responses to the key questions outlined in the DCCEEW's consultation paper are developed aligned with the following JLL Report / Policy / Research and other internal documents.

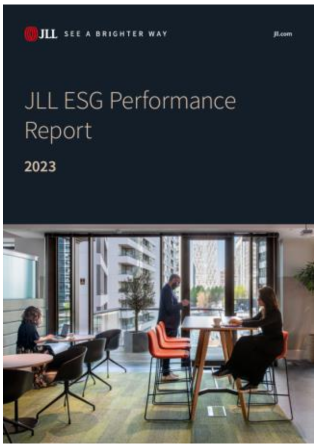
Click on each document to view:

The race to decarbonize Australian Cities



JLL TCFD 2022 Report

JLL ESG Performance Report 2023



Climate Related Financial Disclosure Australian Treasury Consultation – JLL Response