



# **Commercial Building Disclosure (CBD) Program Expansion**

City of Melbourne Submission to  
Department of Climate Change,  
Energy, the Environment and  
Water

September 2024

# Executive summary

This submission is provided on behalf of the City of Melbourne. The City of Melbourne welcomes the opportunity to provide input into the *Commercial Building Disclosure (CBD) Program expansion consultation* for the Australian Government, Department of Climate Change, Energy, the Environment and Water in recognition of the need to improve the energy performance in Australia's buildings.

A large portion of energy performance improvements for the City of Melbourne, and Australia as a whole, will come through retrofits of existing buildings. Residential, commercial, and industrial buildings account for 20 per cent of Australia's annual greenhouse gas emissions ([ClimateWorks, 2020](#)). Energy performance retrofits can lower energy costs, reduce emissions and reduce pressure on electricity supply infrastructure. Retrofits of existing buildings can come with a wide range of other benefits including increased resilience to the impacts of climate change; improved occupant health and wellbeing; heat island effect mitigation and generation of high-quality jobs.

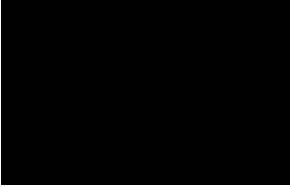
Our response relies on endorsed positions of Council, especially the following strategies and plans: [Retrofit Melbourne](#), Planning Scheme [Amendment C376 Sustainable Building Design](#), and the [Climate Change Mitigation Strategy to 2050](#). It is informed by close consultation with our community, building owners, managers and tenants as well as the professional associations and organisations in the sector.

The City of Melbourne makes the following recommendations:

1. **Mandate periodic disclosure** of building energy performance **at least every two years**, reduce the floor area threshold to 500 m<sup>2</sup> and expand the program to all National Australian Built Environment Rating System (NABERS) ratable building types.
2. **Provide a clear pathway to national minimum energy performance standards (MEPS)** with set dates. This will allow industry time to prepare and sends a clear and decisive signal to the market that regulation is on the horizon. MEPS should include electrification, emissions intensity and energy productivity, not just energy efficiency.
3. **Support industry with financial incentives** for improving the environmental performance of buildings.
4. **Increase federal government support for education, knowledge sharing and collaboration** schemes related to energy efficiency and emissions reduction such as the CitySwitch program run by capital city local governments. There is a desire from both residents and businesses within the City of Melbourne to have a 'one stop shop' for knowledge on emissions reduction.
5. **Provide subsidized access to energy saving technologies** especially for renters, owners' corporations and small business who are least able to afford it.

The City of Melbourne looks forward to continuing to work with the Australian Government on the expansion of the CBD program. To discuss the points raised in this submission, please contact: [REDACTED], Manager Zero Carbon City, [REDACTED].

Yours sincerely

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General Manager Strategy, Planning and Climate Change

CoM reference: 17997664

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# Introduction

The City of Melbourne commends the Federal Government for the initiative to understand and develop a national approach to the improvement of building energy performance.

This submission is provided on behalf of the City of Melbourne. The City of Melbourne welcomes the opportunity to provide input into the *CBD Program expansion consultation* for the Department of Climate Change, Energy, the Environment and Water in recognition of the need to improve the energy performance in Australia's buildings.

A large portion of energy performance improvements for the City of Melbourne, and Australia as a whole, will come through retrofits of existing buildings. Residential, commercial, and industrial structures account for 20 per cent of Australia's annual greenhouse gas emissions ([ClimateWorks, 2020](#)). Energy performance retrofits can lower energy costs, reduce emissions and reduce pressure on electricity delivery infrastructure. Retrofits of existing buildings can come with a wide range of other benefits including increased resilience to the impacts of climate change, improved occupant health and wellbeing, heat island effect mitigation and generation of green jobs.

The City of Melbourne's submission centers around three principles:

- **The speed of the transition should be accelerated** – urgent action is required to mitigate the impacts of climate change. The Government should commit to a more ambitious plan to take advantage of an aligned national, state and local ambition.
- **Transition is an economic opportunity** – transitioning to zero emissions presents enormous opportunities to develop the clean energy industry, generate jobs, boost economic productivity, and position Australia as a leader in renewable technologies.
- **The transition must be socially inclusive and equitable** – the transition needs to be managed to ensure that the benefits are shared equitably and that the costs are not unduly borne by vulnerable communities and those least able to afford it.

## City of Melbourne context

The City of Melbourne's [Climate Change Mitigation Strategy to 2050](#) outlines the cities priorities for achieving zero emissions for Council operations, and for the municipality. Through these strategies, Council has committed to a zero emissions City by 2040 and a City powered by 100 per cent renewable energy by 2030.

Improving the energy performance of all buildings within the municipality is a critical component to achieving this. Research has shown that if we solely rely on the decarbonisation of the electricity grid, without improving efficiency and building electrification, the City's targets won't be achieved.

Our response relies on endorsed positions of Council, especially the following strategies and plans: [Retrofit Melbourne](#), [Amendment C376 Sustainable Building Design](#), and the [Climate Change Mitigation Strategy to 2050](#). It is informed by deep consultation with our community, building owners, managers and tenants as well as the professional associations and organisations in the sector. [Retrofit Melbourne](#) was informed by the over 70,000 words provided by our community, building owners, managers and tenants as well as the professional associations and organisations in the sector.

The focus of our response is to support the Federal government in their work to consider the gaps, opportunities and needs of our constituents in creating their national response to energy

performance improvements in existing commercial buildings. Additionally, we seek to highlight the critical role local governments have and can continue to play in delivering initiatives on the ground.

Research commissioned by the City of Melbourne has shown that 80 office buildings per year need to be retrofitted to be 'zero carbon ready', to achieve the City's goal of zero carbon emissions by 2040. The City of Melbourne has proposed the following definition of a zero-carbon ready office building:

- has a high level of efficiency (5-star NABERS rating for the whole building),
- has all-electric building services,
- its owners regularly report on its progress towards zero emissions, and
- has a carbon reduction action plan to transition the building to whole-of-life zero carbon after 2040.

The study also indicated that if we retrofit 80 office buildings per year to this standard, it is expected to deliver \$2.7 billion to the economy over the next 18 years, 12,000 jobs by 2040 and a reduction of energy costs by around \$184 million per year, not accounting for recent increases in energy supply costs. Electrification of buildings also presents an opportunity and a challenge for the electricity generation sector, as an additional ~1,000 MW of renewable electricity generation capacity will be required to service Melbourne's office buildings.

## Why energy performance disclosure is critical

To date, voluntary use of National Australian Built Environment Rating System (NABERS) ratings has not resulted in enough uptake of energy improvements to achieve net zero targets, even with incentives and support. The cost of rating assessors remains a hurdle for new starters. For example, our CitySwitch program has a discount for NABERS ratings but this has not driven significant uptake from mid and low-tier building owners.

Mandatory periodic disclosure of building performance will significantly accelerate the retrofit activity, as it increases accountability, incentivising retrofitting in older buildings to remain competitive in the market. Mandatory periodic disclosure will also provide benchmark measurements where they currently do not exist. These benchmarks will help policy-makers, like the City of Melbourne, to focus incentives and support where it will have the most uplift potential.

Mandatory minimum energy performance requirements for buildings are used successfully in major cities across the world. To ensure consistency and fairness, these requirements need to be led at a federal level in Australia. As with Australia's Equipment Energy Efficiency (E3) Program, minimum energy performance regulation for buildings will encourage investment in energy efficiency.

## Expansion of public disclosure

The reduction of the minimum floor area threshold, the inclusion of additional ownership types and the expansion of the CBD program to other building types are welcomed by the City of Melbourne.

## Reducing minimum floor area

The City of Melbourne's building stock is characterised by a large number of small, historic buildings. Based on the City's Census of Land Use and Employment (CLUE) and property data, of

all buildings with office space, both occupied and vacant, more than 60% have a floor area of less than 1,000 m<sup>2</sup> (Figure 1). However, in terms of total floor area, that category represents only 6% of the total. The proposed reduction of the minimum floor area threshold to 500 m<sup>2</sup> will improve the legislation’s efficacy, covering a greater number of buildings within the boundaries of the City.

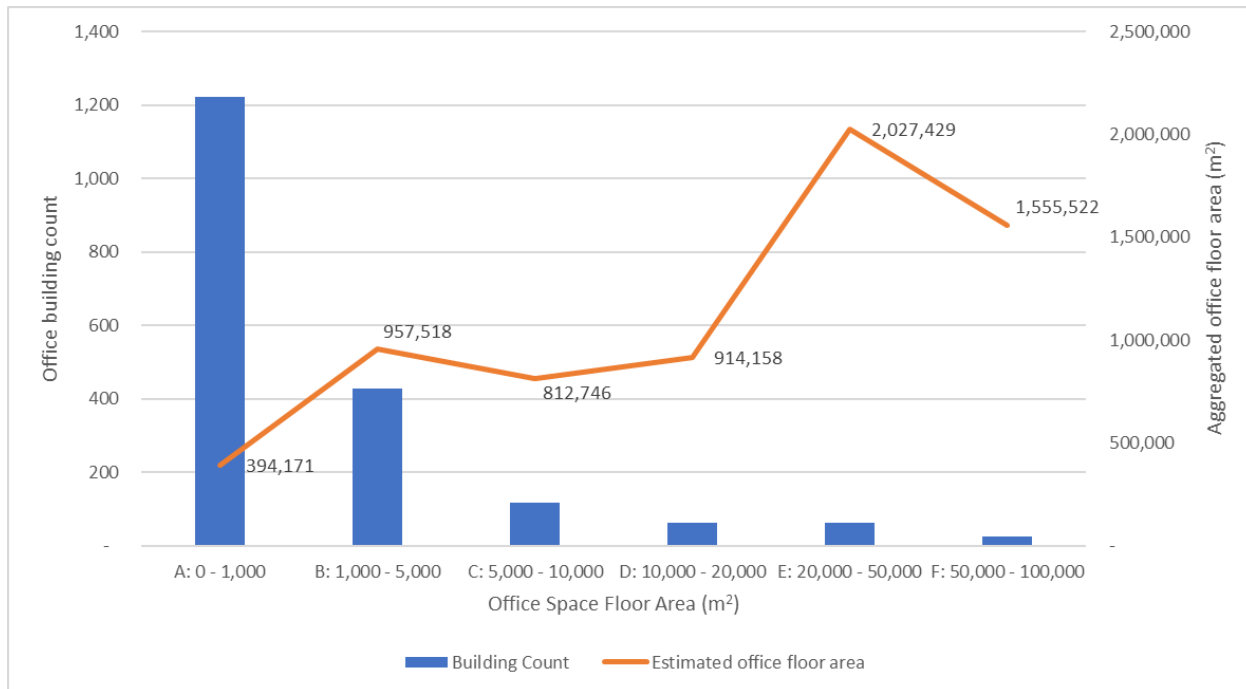


Figure 1. Floor area and building count of office space in the City of Melbourne, CLUE 2022

## Expansion of building typologies

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

As indicated by the Commercial Buildings Baseline Study (DCCEE, 2022), office buildings are estimated to be accountable for approximately a quarter of the total greenhouse gas emissions of the Australian building stock. Thus, the staged inclusion of additional building groups, prioritising those currently rated by NABERS, has the potential to address the remaining three quarters of the total building stock emissions and reduce the carbon footprint of the building sector in Australia.

The City of Melbourne would like to encourage the Australian government to bring the expansion of the CBD program to office tenancies, as they account for approximately half of the office sector’s emissions.

The expansion of the program should also include additional building types, assisting NABERS newly introduced rating schemes to mature. The suggested expansion of the CBD program to Group 2 buildings (hotels, shopping centers, data centers and public hospitals) as a first step, aligns well with the City’s buildings’ emissions profile (see Figure 2). The City of Melbourne would like to suggest that residential buildings are also included as part of Group 2, given the significant proportion of emissions both in the City of Melbourne and nation-wide. The inclusion of the residential sector should also be accompanied by targeted financial support, to support those experiencing financial hardship.

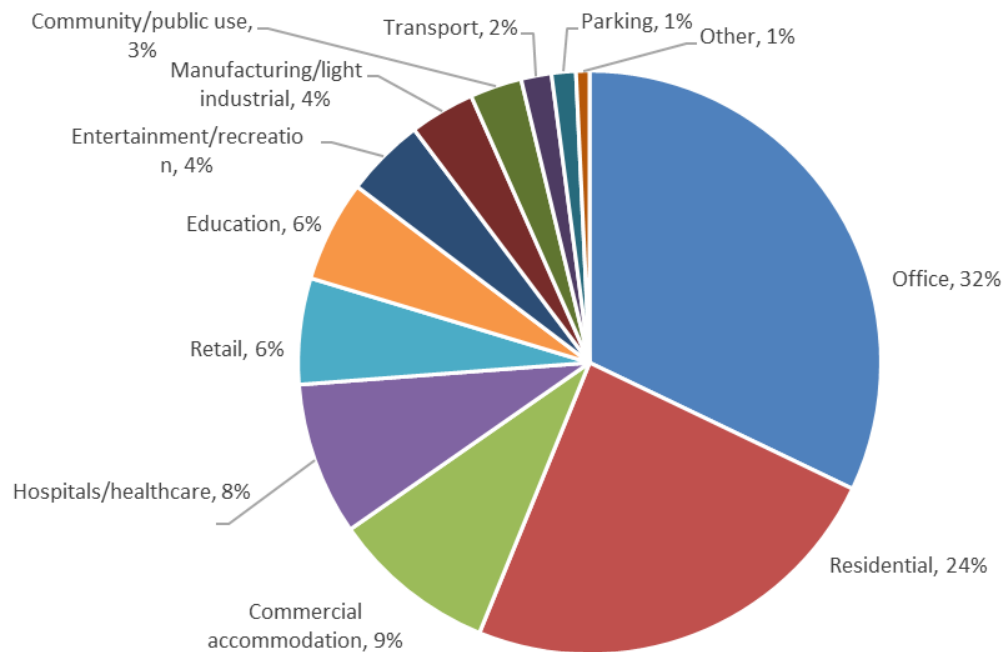


Figure 2. Greenhouse gas emissions share by space use type for buildings within the City of Melbourne, City of Melbourne 2022

## Disclosure trigger

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

The City of Melbourne supports a shift to periodic disclosure with reporting required at least every two years. This position is aligned with leading jurisdictions in the US, Canada, Japan, South Korea and Europe. Several cities have legislated periodic reporting or public disclosure requirements as a way of benchmarking the performance of the building stock but also as a step towards enabling minimum energy performance standards or emissions limits. While an annual disclosure requirement would be preferable, as it aligns with the validity period of NABERS certificate, the cost of obtaining a NABERS rating can be significant, especially for small size buildings. Biennial disclosure with a provision for building owners and tenants to provide an annual NABERS estimate for the years a NABERS certificate is not obtained provides a balanced solution.

Currently, the number of buildings in the City of Melbourne with a valid NABERS certificate is around 160, which represents 23% of the City's buildings with office space larger than 1,000 m<sup>2</sup> and 50 per cent of the total office floor area. Periodic disclosure will significantly increase coverage, allowing for better understanding of the current and collective performance of the building stock in the City, while providing a measure to track progress over time and assist the City in targeting supporting programs for low performing buildings. Periodic disclosure will also provide an even playing field for all NABERS-rated buildings when MEPS are introduced, as opposed to disclosure at the point of lease or sale.



# Barriers to disclosure

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

Expanding the CBD scheme to additional sectors, while necessary, will mean a steep learning curve for stakeholders unfamiliar with the building energy performance disclosure process, especially Group 1 Office Tenancies.

Based on the City's experience administering the CitySwitch program for office-based businesses, a long lead time and a comprehensive public education campaign for office tenants on disclosure requirements will be crucial to give office tenancies, especially those occupied by small-medium enterprises (SMEs), time to upskill to meet compliance requirements.

Some barriers that currently exist for office tenancy disclosure include:

- Of the 384 separate office locations over 1000 m2 NLA reporting to the CitySwitch program in the 2022-2023 period, only 91 accredited NABERS ratings (24%) were recorded. This demonstrates a low penetration of accredited NABERS ratings in office tenancies. CitySwitch is a voluntary program for offices wanting to achieve their net zero goals, and consequently the actual percentage of voluntary NABERS ratings in the overall office tenancy market may be much lower.
- Office tenancies occupied by SMEs are unlikely to have a dedicated sustainability resource that understands what's required to conduct a NABERS rating.
- Lack of perceived need for, or value of, a NABERS tenancy energy rating, e.g.: "the base building has a rating so why do I need one?" or "we do our own corporate greenhouse emissions accounting already and understand our emissions profile, we don't see the need to do a NABERS tenancy energy rating for our offices". Some solutions to overcoming these barriers to disclosure include:
  - Partnering with and providing support to the CitySwitch program to educate office tenants on performance disclosure requirements and how office tenancies can improve their rating.
  - Emphasising the need for landlords and their representatives (e.g. asset managers), who are more likely to have the sustainability knowledge on energy performance disclosure, to assist their tenants in meeting their disclosure requirements, especially through the NABERS Co-Assess process.
  - Providing a clear roadmap to and adequate time for compliance.

## Public disclosure details

***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.***

Currently, the disclosed information is published on the CBD website and in advertising material for sale and lease. Strengthening the online presence of the disclosure, with the addition of an interactive map, would make the information more visible but also increase peer pressure among building owners, which can potentially lead to building performance upgrades.

As mentioned in the KPMG report, City of Melbourne supports following leading global cities, such as France and Germany, who mandate the presence of buildings' energy performance certificate in visible locations, such as the entrance lobby. This way, not only tenants but also building visitors can have access to the disclosed information, increasing visibility and pressure for performance improvement.

***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.***

The NABERS Renewable Energy Indicator is an element of NABERS certificate that illustrates the share of renewable energy use for a building. NABERS Energy rating reports also provides an energy source breakdown, including the share of fossil fuels (scope 1 emissions), the on-site renewable electricity produced and the off-site renewable and non-renewable electricity procured. The City of Melbourne would encourage the inclusion of NABERS Renewable Energy Indicator energy source breakdown in the Building Energy Efficiency Certificate, providing a complete picture of the buildings' energy consumption/production. The energy source breakdown will inform stakeholders of the energy use and associated costs but also for the building readiness to become net zero.

The global warming potential (GWP) and associated greenhouse gas emissions of refrigerants are currently outside the scope of NABERS Energy Ratings. However, it is anticipated that buildings will be rapidly electrified, increasing demand for refrigerants. Developing a simple indicator, like the Renewable Energy Indicator, for the GWP of the refrigerant mix in the building is highly encouraged. The public disclosure of that indicator is expected to contribute towards the procurement of low GWP refrigerants.

## Improving building performance

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

The City of Melbourne has endorsed the investigation of the efficacy of an emissions cap, as a regulatory tool that mandates a limit on building emissions, following a transition period. The City understands an emissions limit as a way to overcome the following challenges:

- lack of incentive to act – by mandating emissions reductions
- lack of knowledge – by encouraging building owners to understand their energy use
- lack of clear expectations – by providing building owners with a clear path for retrofit strategies based on the increasing stringency of the cap
- lack of urgency – by giving a clear emission reduction timeline.

Through our [Zero Carbon Buildings for Melbourne – Discussion Paper](#), research and subsequent feedback, respondents considered an emissions cap the most likely to be effective of all the initiatives proposed (see [Figure 3](#)). It was seen as fair if well foreshadowed, because the industry is provided with a clear timeframe to adapt.



Figure 3. Responses on the effectiveness and practicality of previously proposed initiatives, City of Melbourne 2022

The introduction of MEPS, emissions limit or equivalent regulation provides a clear timeline for required action, a clear target metric, and potentially financial consequences for non-compliance and inaction. It has proven effective in accelerating retrofit rates in several cities in the United States, including New York (see Case Study below). In Australia, a single, federal MEPS regulation would provide a consistent standard for the property sector to follow. This approach is preferable to individual cities implementing different mechanisms to deliver the same outcome, which carries the risk of greater complexity and compliance costs for building owners managing building portfolios across multiple jurisdictions. Lastly, for a successful scheme, the Australian government would need to consider the local, state and federal decarbonisation and net zero targets.

#### Case study – New York City’s emissions cap

In 2019, New York City Council introduced Local Law 97<sup>1</sup>, setting emissions intensity limits for various building typologies. The first emission limits apply from 2024 until 2029, with tighter limits from 2030 to 2034, when the financial penalties also increase. This timeframe gives property owners time to evaluate their stock and identify strategies to meet requirements. It also allows the industry to build the capacity to support these strategies. The law has brought in the ‘social cost’ of carbon – a penalty of \$US268 (around \$A358) for every metric tonne of carbon dioxide equivalent above the cap limit. The strategy will reduce greenhouse gases from all of NYC’s building stock by 80 per cent by 2050.

The emissions cap is part of the city’s Climate Mobilization Act 2019. The Act aims to reduce six million metric tons of greenhouse gases, create more than 26,700 jobs, avoid 150 hospitalisations and prevent 50 to 130 deaths annually by 2030 (Petross, 2022).

## Implementation roadmap

While some leading jurisdictions around the world that have introduced MEPS or equivalent regulations, after establishing periodic mandatory disclosure, other jurisdictions, such as Toronto City, are introducing periodic disclosure and MEPS in parallel, as an acknowledgement of the limited time for climate action. Considering the above, the City of Melbourne recommends the simultaneous introduction of periodic disclosure and MEPS for the CBD expansion. The scheme below is an example for offices:

- Cycle 1 (2025-2029): Introduction of periodic disclosure, inclusion of other ownership types and tenancies at the beginning of the cycle and introduction of MEPS for the disclosed offices at the end of the cycle.

- Cycle 2 (2030-2034): Reduction of the floor area threshold for periodic disclosure at the beginning of the cycle and MEPS threshold for the disclosed offices at the end of the cycle.
- Cycle 3 (2035-2040): Further reduction of the floor area threshold for periodic disclosure at the beginning of the cycle and MEPS threshold for the disclosed offices at the end of the cycle, with the ambition to achieve a net zero ready target.

The scheme below is an example for hotels:

- Cycle 1 (2025-2029): Introduction of periodic disclosure for large hotels at the beginning of the cycle and introduction of MEPS for the disclosed hotels at the end of the cycle.
- Cycle 2 (2030-2034): Reduction of the floor area threshold for periodic disclosure at the beginning of the cycle and MEPS threshold for the disclosed hotels at the end of the cycle.
- Cycle 3 (2035-2040): Further reduction of the floor area threshold for periodic disclosure at the beginning of the cycle and MEPS threshold at the end of the cycle, with the ambition to achieve a net zero ready target.

In this approach, periodic disclosure is prioritised across the building stock, as a requirement for building benchmarking. MEPS are introduced at the end of each cycle, making sure that no building is left behind while the net zero target for the sector is progressively being met. This way, building owners become aware of their building performance in the first place, while also being given a timeframe for performance upgrades.

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