

2015 GRESB Report - Australia/NZ Snapshot

Introduction

Recent climate events such as extremely high temperatures and widespread drought, have focused government, institutional and public attention on the impacts of climate change in Australia. Despite recent decisions by the Abbott government to prioritize economic growth above combating climate change, buildings continue to be a focus of environmental legislation. The legal framework for the Commercial Building Disclosure (CBD) program is a notable example. As a result, green building certification programs and energy ratings have become standard in the Australian property market, with more than 1,000 Green Star-certified buildings, and over 2,000 yearly accredited NABERS ratings. Disclosure and assurance of environmental performance creates transparency, and a transparent market allows tenants and investors to reward better performing buildings. This has formed a strong market-based incentive for owners to improve their properties with cost-effective energy efficiency and sustainability upgrades that will ultimately increase returns and protect long-term value.

To support this trend, the regional market has been working on the development of so-called “best practice leases”. These lease clauses highlight the importance of the parties working together, and deal with how to allocate costs and benefits associated with environmental upgrades.

Furthermore, Australian and New Zealand super funds and large (foreign) institutional investors are increasingly engaging with their investment managers to evaluate ESG performance, while some are taking more active positions in reducing or even divesting from non-sustainable holdings. Increasingly, investors are demanding reliable data on energy efficiency and sustainability to help guide their decision-making.

The demand for transparency on ESG issues will further drive the Australian and New Zealand real estate industry in improving their sustainability performance at the organization, portfolio and asset level.

Response Rate

This year, participation in the GRESB Survey by Australia/NZ property companies and funds increased by 7% to 47 participants, compared to 44 in 2014. The participating entities represent a total GAV of USD 157 billion, covering 1,353 assets.

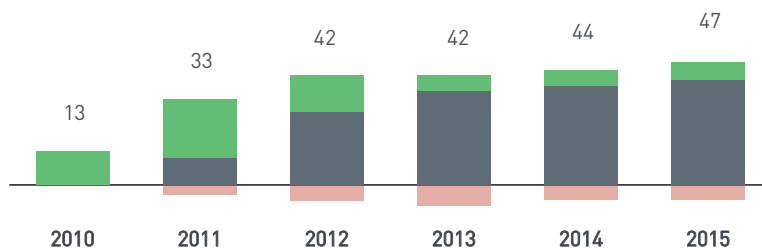
On the private equity side, the number of reporting entities is 35, up from 34 in 2014. This includes JV’s and separate accounts, as well private funds, non-listed companies, and developers. Of these entities, 77% identify themselves as Core, 14% as Value Added, and 9% as Opportunistic. The number of listed participants increased by two, to a total of 12 entities. They cover 67% of the Australian and New Zealand constituents in the FTSE EPRA/NAREIT Asia Developed Index, based on market cap.

In 2015, GRESB participants from the Australia/NZ region represented different combinations of standing investments and development activities:

- Standing investments only: 16 entities
- Development only: 1 entity
- Combination of standing investments and development projects: 30 entities

Response rate development

- New participants
- Existing participants
- Churn



“Increasingly, investors demand reliable, standardised data on energy efficiency and sustainability to help guide their decision-making. Green building certification programs have become institutionalised in mature real estate markets, and Australia now has more than 1,000 Green Star-certified buildings. GRESB can help investors understand sustainability and non-financial ESG metrics, and the value of the building certification systems across global markets.”

Romilly Madew, Chief Executive, GBCA

Regional Results

GRESB Scores

In 2015, Australia and New Zealand prolongate their top position in terms of regional GRESB Score, and actually showed a further increase of 13%.

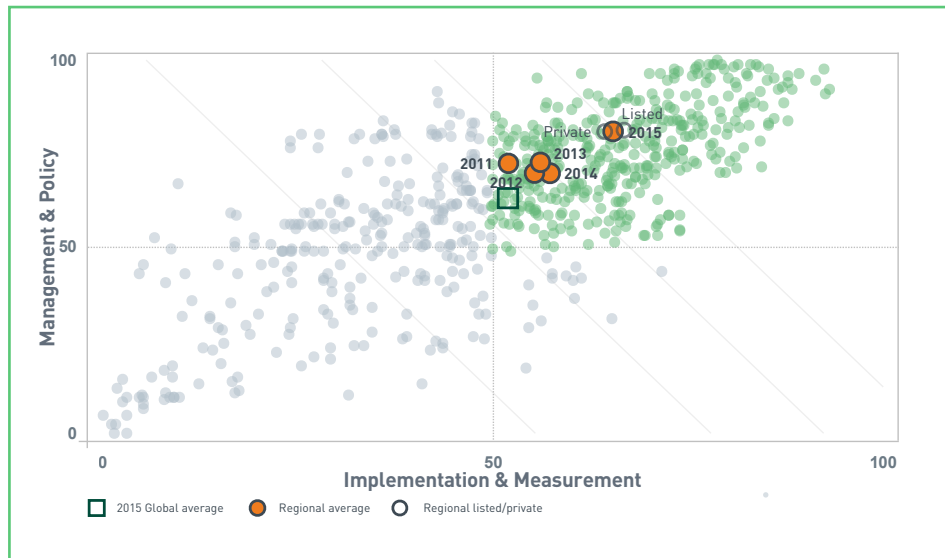
- Average GRESB Score for all Australia/NZ entities: 69 (global: 56)
- Average GRESB Score for listed Australia/NZ entities: 73 (global: 61)
- Average GRESB Score for private Australia/NZ entities: 67 (global: 54)

Similar to global development, the improvement is most notable on the dimension of Implementation & Measurement, underlining the fact that besides increasingly having strategies, policies and objectives in place that are related to environmental, social and governance issues (ESG), participants in Australia/NZ also strongly focus on the translation of those polices into actions.

Quadrant Model

The GRESB Quadrant Model clearly shows the further improvement in performance of the Australia/NZ region:

- 76% Green Stars (2014: 70%)
- 4% Green Walk (2014: 2%)
- 11% Green Talk (2014: 12%)
- 9% Green Starter (2014: 16%)



“At NABERS we understand the impact of buildings on the environment and the importance of upgrading existing building stock. Our vision is to support a more sustainable built environment through a relevant, reliable and practical measure of building performance. The GRESB Survey is highly valuable to us because it brings our data an audience of global institutional investors who drive our property market to reduce its environmental footprint.”

Tom Grosskopf - Director, Metropolitan Branch, NSW Office of Environment & Heritage

each Aspect is the sum of scores for each question in that particular Aspect. Compared to the global Aspect Scores, Australia/NZ participants outperform on all Aspects. However, there are still opportunities for improvement on the Aspect of Policy & Disclose.

ESG Scores

The GRESB Score is broken down into separate scores for Environmental, Social and Governance (ESG). These scores are calculated based on the allocation of individual questions to E, S, or G. The results for Australia/NZ show that the region scores best on Governance, with a score of 80, while there is opportunity for improvement on Environmental, with a score of 62.

Aspects Scores

The GRESB Survey is structured into seven unique sustainable Aspects, plus a separate Aspect for New Construction & Major Renovations. The maximum score for



Sustainability Trends

Stakeholder Engagement & Disclosure

Responsible investing is getting more attention, as an increasing amount of investors are incorporating those principles into their investment process. This year's [Responsible Investment Benchmark Report](#) by RIAA showed that more capital is being directed into responsible investment portfolios by superannuation funds, fund managers and advisers to underpin strong investment returns, and deliver a healthier built environment and society. Institutional investors who incorporate ESG criteria now account for 50% of Australia's total assets under management. Under pressure from their members, super funds and other large investors are also increasingly engaging with their investment managers to discuss lack of ESG disclosure or material ESG concerns. Indeed, sustainability goals and ESG disclosure are firmly part of mainstream business practices for property companies and funds reporting to GRESB:

- Publicly available sustainability objectives: **91%** (global: 73%)
- Stakeholder engagement policy focused on investors and shareholders: **85%** (global: 74%)
- Sustainability performance disclosure: **93%** (global: 85%)
- Disclosure via dedicated sections on websites (**91%**), annual reports (**74%**), sections in entity reporting to investors (**70%**), and stand-alone sustainability reports (**53%**).

Building Certifications

While investor expectations for transparency, information availability, and data quality continue to rise, there is an ongoing push for regulation to require asset-level energy efficiency ratings for privately and publicly-owned real estate. Australia's [CBD program](#) mandates the disclosure of energy efficiency information for commercial office space, which has resulted in a strong uptake of building and energy ratings. In addition, IPD's Australian Green Property Investment Index has repeatedly demonstrated that Green Star-certified and NABERS-rated buildings financially outperform non-rated buildings, especially at the higher end of ratings performance. This underlines that building ratings not only provide the market with access to consistent, verified and meaningful environmental information, but that sustainable buildings also lead to enhanced investment performance. The 2015 GRESB data shows the following information for green building ratings in Australia/NZ:

- **54%** of Australia/NZ participants have obtained a green building certificate for building and fit-out design and/or new construction (2014: 56%)
- **41%** of Australia/NZ participants have obtained a green building certificate for operations and maintenance (2014: 0%)
- **87%** of Australia/NZ participants have an energy rating (global 71%)

Best Practice Leases

Including sustainability-specific clauses in leases has become mainstream in the region. [These clauses](#) create tenant awareness, and may positively influence tenant behaviour. As such, they contribute to realizing tangible benefits such as energy and water savings, and improved productivity and occupant health and well-being. Moreover, clauses that include data sharing, reporting and information provision help owners to assess whole building performance rather than just base building. Of all GRESB participants in the region, **91%** now include sustainability-specific requirements in its standard lease contracts (global: 60%). Clauses included by these participants are:

- Operational performance standards for the building: **81%** (global: 33%)
- Sharing of utility data: **79%** (global: 73%)
- Obligations to do nothing to adversely affect the environmental performance of the building: **79%** (global: 58%)
- Energy-efficient and/or environmentally responsible specifications for tenant works : **76%** (global: 60%)
- Information sharing relevant to green building certificates: **74%** (global: 60%)

Performance Indicators

Disclosure, building ratings and best practice lease clauses also affect real building performance. Even though many property companies and funds in the Australia/NZ region have been focused on energy efficiency and water reduction for multiple years, the average like-for-like change in energy consumption between 2013 and 2014 is still **1.9%**. Greenhouse gas emissions went down with an impressive **4.3%**, on average, and water consumption decreased by **2.3%**. However, the amount of renewable energy generated by the Australian commercial property market remains very low, at 52GWh, of which just 3.1GWh is generated on-site. This is only a small fraction of total energy consumption: 0.09% is generated on-site, while for the other regions this fraction is up to four times higher.

