

Victorian Buildings, Mandatory Disclosure and NABERS

By the Victorian Asset Management Committee

On June 24 2010, Australia's first female prime minister was appointed and the Senate passed the Commercial Building Energy Efficiency Disclosure (CBEED) "Mandatory Disclosure" Bill with bipartisan support. Over the years there has been much debate about the NABERS energy rating tool regarding its treatment of the various states. In recent times, this debate has resurfaced and the adequacy of NABERS for application in Mandatory Disclosure is a key consideration for building owners and the property industry.

This article demonstrates that there is a disparity in the NABERS rating bands between the Australian States which negatively impacts on Victorian buildings. While this is the case, NABERS is supportable for the use in Mandatory Disclosure: it just needs to be fixed.

Background on CBEED "Mandatory Disclosure"

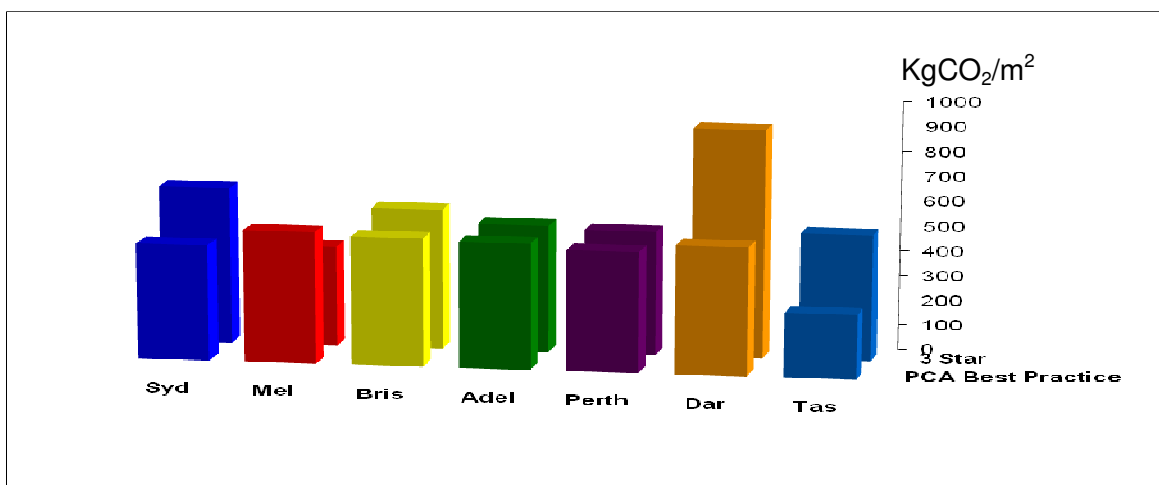
The Mandatory Disclosure Scheme is anticipated to commence in the second half of 2010. Under the scheme, property owners will be required to disclose energy efficiency information about their buildings (its NABERS energy rating) at the point of sale or lease with the intention that potential buyers and tenants have the opportunity to compare the energy efficiency of buildings on a 'like for like' basis.

The Mandatory Disclosure Scheme itself does not require greater efficiency outcomes, but as a regulatory device it is designed to steer change by providing information in the market. It is therefore imperative that Mandatory Disclosure uses an equitable rating base for all buildings around Australia.

However, we believe there are inherent inequalities between the states in their NABERS rating bands which put Victoria at a disadvantage when compared to other states and territories.

Problem with the NABERS Rating Bands

- The NABERS base building rating bands are not set at an equitable rating, with Victorian being placed at a distinct disadvantage.



The above graph plots 3 Star (median performance) and Property Council best practice. It shows that the 3 Star threshold for Victoria is set at a lower (more stringent) level than the PCA guideline,

whereas the 3 star rating thresholds for all other states are set equal to or higher (less stringent) than the Property Council guideline.

- Based on available Property Council of Australia information and the estimated cost to improve NABERS energy ratings of Melbourne buildings, it has been determined that it would cost between 2.5% and 10.0% of investment property value across all grades to increase these ratings by half a star. It could be suggested that this cost will be taken into account in future investment decisions, particularly when considering similar buildings between states.

History of the NABERS Rating Band Methodology

We understand the setting of the rating bands has taken into account the geographic and higher greenhouse gas factors in the calculation. The calculation of the “proposed rating bands” was conducted fairly and equitably applying both climatic and greenhouse gas correction to arrive at the rating proposed bands. However, the NABERS rating band thresholds for Victoria have been set at a lower (more stringent) level than the other states when compared to available baseline data. This makes it more difficult to achieve equivalent ratings in Victoria.

The NABERS base building rating bands were derived from data that is ten years old. State based rating bands were established by applying the state based greenhouse gas coefficients and climate correction factors to translate the rating bands to provide state specific bands.

The changes made after these calculations at the time, to arrive at the “final rating bands,” have skewed the Victorian bands negatively relative to the other states. The effective penalty is almost 1 Star at the 1, 2 and 3 Star bands, half a Star at the 4 Star level and zero penalty at the 5 Star level.

This is why a 3 Star building in NSW will achieve a 2 Star rating in Victoria for a similar building.

Property Council of Australia Endorsed Recommendation

- (1) *The NABERS rating bands need to be revised to provide an equitable national comparison based on a numerically derived star rating system for Mandatory Disclosure.*
- (2) *The adjustment to the NABERS rating bands should better reflect the originally proposed rating bands for Victoria (refer to Annexure).*

The Property Council is currently advocating for this correction to the Victorian Government and the Federal Government.

Conclusion

For Mandatory Disclosure to be a successful national program it must maximise incentives for all buildings owners around Australia consistently. At present, applying NABERS means that the proposed scheme acts as a disincentive for investment in Victorian buildings. The scheme should be calibrated to reward effort equally, instead of placing a penalty on Victorian buildings.

All government programs should be monitored and altered according to the most up to date information. In the future, once there is greater available building data, NABERS should be readjusted to reflect this.

Presently, the message is clear: the Property Council of Australia supports NABERS, but it needs to be fixed.

Annexure - Rating Bands Analysis

State based rating bands were established by applying the state based greenhouse gas coefficients and climate correction factors (NSW as the base case) to translate the rating bands to provide state specific bands. The rating bands for Victoria were the only rating bands then altered. (Refer below to the Vic/NSW comparison). Rating bands for all other states remained as originally derived.

The originally equitable rating bands are understood to be:

Originally Proposed National Rating Bands

State	1 Star	2 Star	3 Star	4Star	5 Star	
NSW	200	168	136	104	72	kgCO2/sqm
VIC	281	236	191	146	101	kgCO2/sqm

A decision was made to vary these to:

Final Agreed Rating Bands

State	1 Star	2 Star	3 Star	4Star	5 Star	
NSW	200	168	136	104	72	kgCO2/sqm
VIC	225	194	163	132	101	kgCO2/sqm

The effective penalty is almost 1 Star at the 1, 2 and 3 Star bands, half a Star at the 4 Star level and zero penalty at the 5 Star level. NSW also retained more lenient tenancy rating bands (not shown).

The final changes to the bands mean that it is impossible to “back calculate” directly from the rating bands to replicate the source energy data. To remove the impact of the greenhouse gas correction, we can show the impact of the change by back calculating to the equivalent energy budget/band.

Energy Budget Back Calculation

	1 Star	2 Star	3 Star	4 Star	5 Star	
Vic (Actual Bands)	609	507	404	301	199	MJ/sqm
	169	141	112	84	55	kWh/sqm
Vic (Originally Proposed Bands)	795	648	500	348	199	MJ/sqm
	221	180	139	97	55	kWh/sqm
Sydney	927	779	630	481	332	MJ/sqm
	258	216	175	134	92	kWh/sqm

Thus, we can see that the rating band change has had a significant effect on the “energy budget”.

It should also be noted that the originally proposed bands still provide an energy intensity for Victoria/Melbourne well below those of Sydney.