

Creating Resilience

NABERhood Watch - 3rd Edition

REPORT

June 2024



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NABERS AND SUSTAINABILITY IN AUSTRALIA

How does Australia compare with other countries regarding sustainability initiatives and energy efficiency.

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WHY GET RATED?

Explores the benefits to landlords and investors from getting assets energy rated.

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NABERS OBSERVATIONS ACROSS AUSTRALIAN CBD MARKETS

An analysis of data and NABERS ratings across major Australian CBD office markets to provide insights into how differently rated buildings perform.

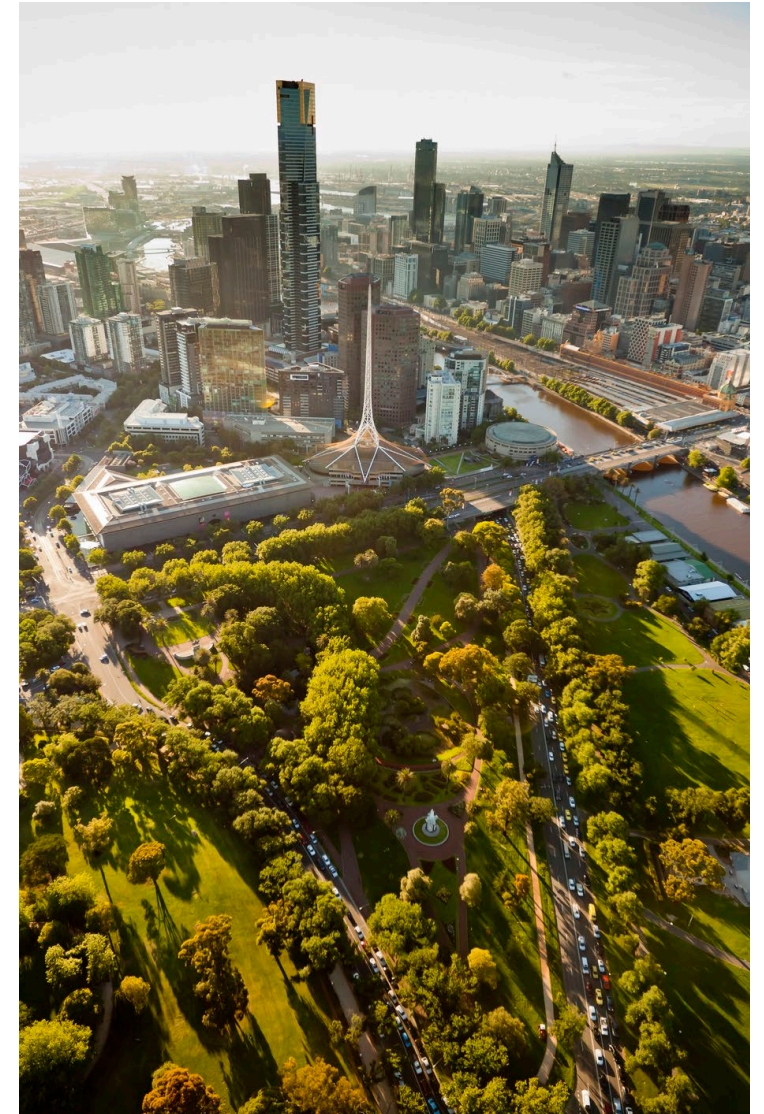


The bottom line

- Energy makes up 10-15% of the operational cost of office buildings. Energy costs are lower as a percentage of rent by 1.0%-1.4% for Premium and Grade A offices, which have a larger share of high NABERS rating.
- Higher occupancy rates, with a 12% spread between NABERS 5.5 and 6 Star offices compared to 4 Star peers and 24% spread to buildings rated 3 Stars or less.
- Rental discounts apply for lower rated assets, with premiums for the highest NABERS rated buildings – although this is more nuanced in the middle, for 4.5 Star or 5.0 Star rated assets.
- Cap rates and yields are influenced by location, building grade and cashflow strength. However, energy efficiency is becoming an increasingly important consideration for investors.

What's next?

- c13% of Australia's office footprint is Premium or Grade A but with a NABERS Energy rating of 4.5 Stars. These buildings are prime candidates for energy efficiency upgrades.
- That represents more than 1.2 million square metres of Australian office space where there's an opportunity to both "do good" and attract interest from a growing pool of office occupiers making sustainability related leasing decisions.

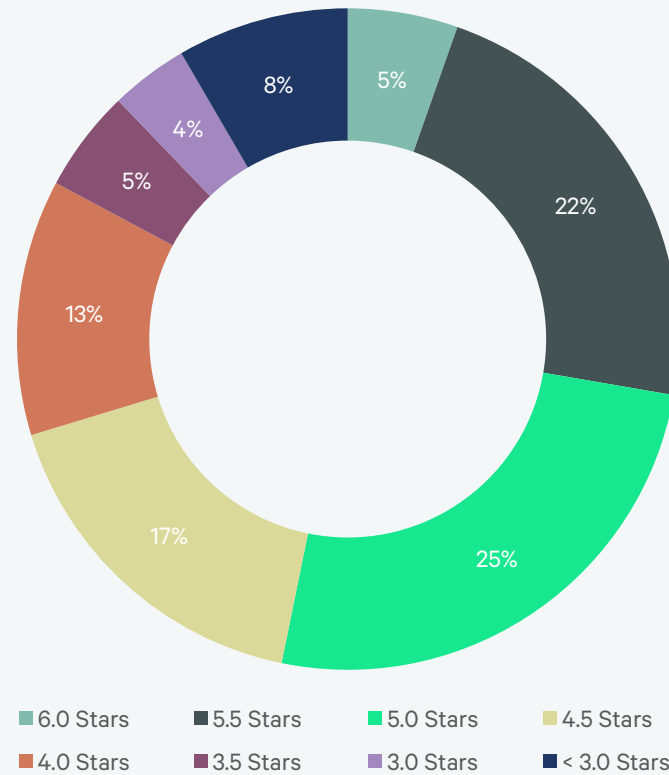


NABERS ENERGY RATING

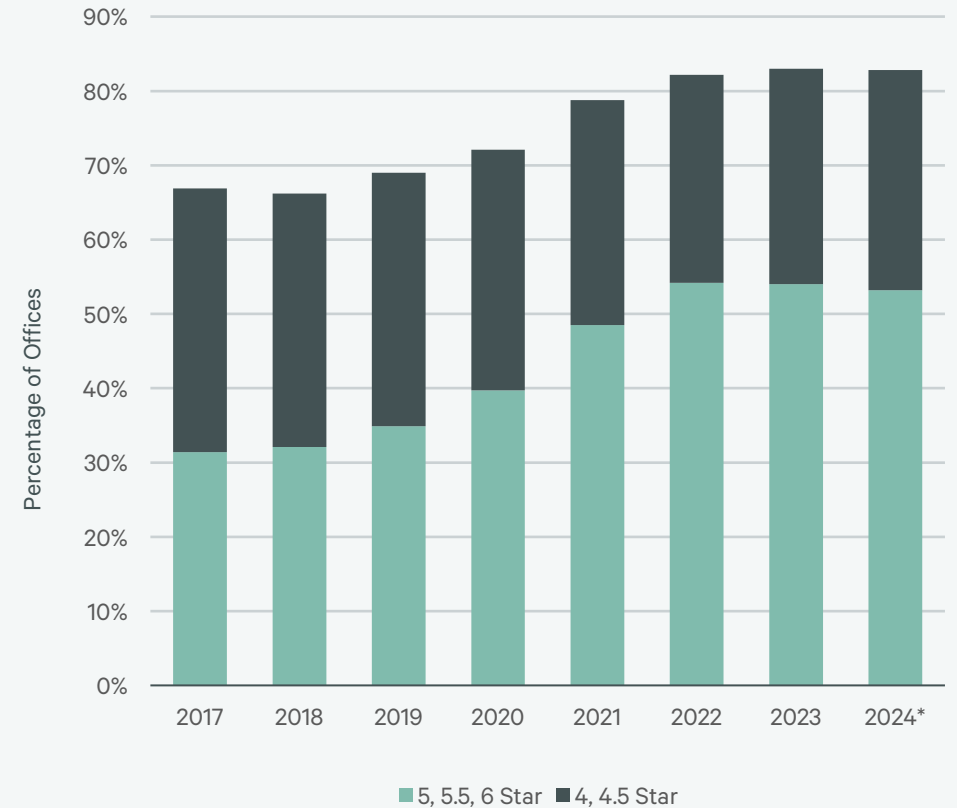
22% Uplift in 5 Star or Above

- NABERS rating is compulsory for all Office buildings over 1000sqm. 77% of Australia's Office footprint was rated for Energy purposes in 2022-23.
- 53% of the NABERS rated office stock has 5 Stars or above rating.
- Building upgrades and new construct have seen the proportion of 5 Star and above grow by 22% over the past 7 years. Landlords are anticipating shifts in occupier demands.

Figure 1: Office Energy rating distribution (without Greenpower)



Source: NABERS, CBRE Research
*As at May 2024



NABERS ENERGY RATING

Age Is No Barrier

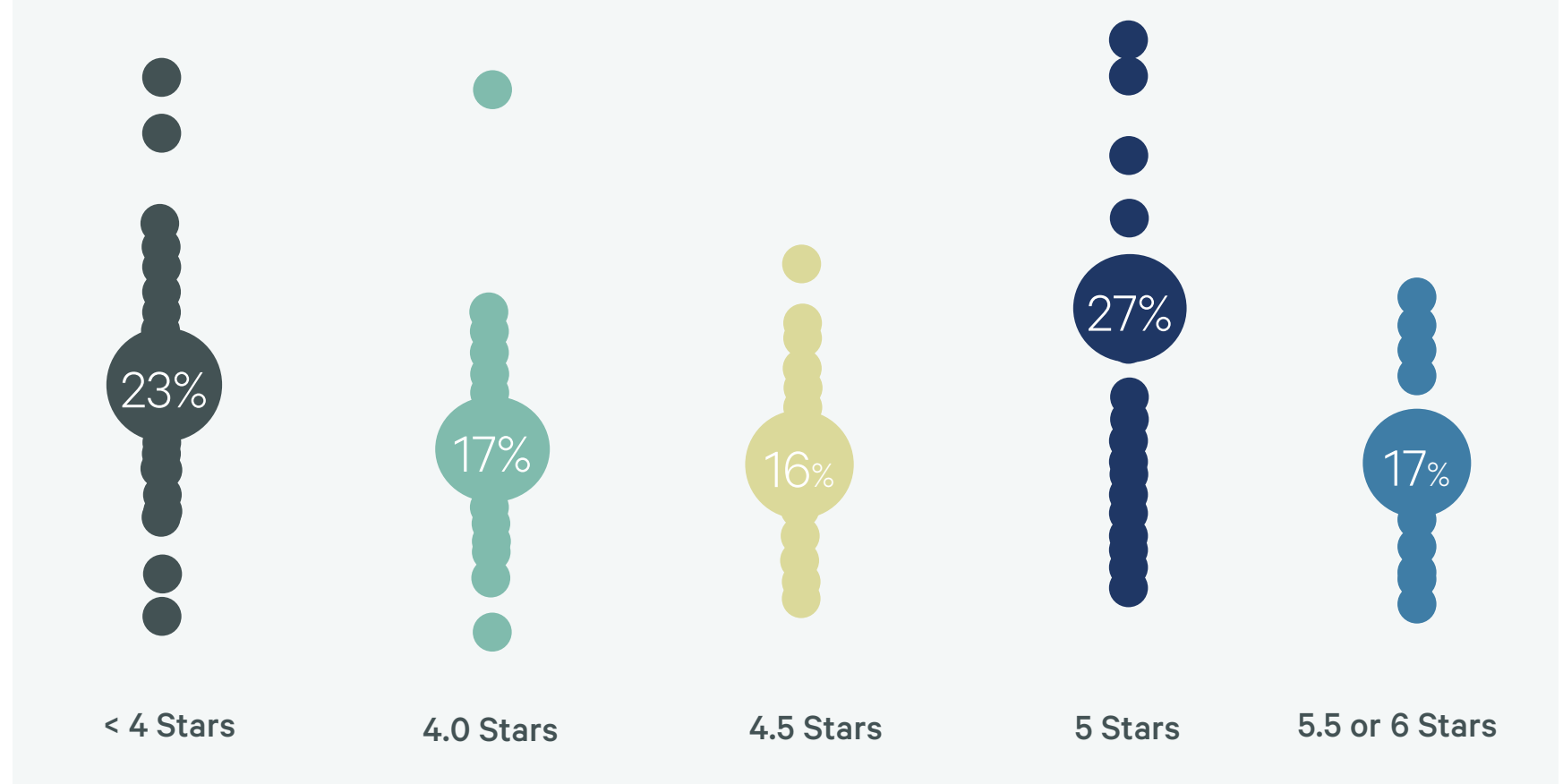
Vintage does not hamper energy rating

44%


Of offices constructed pre-2000 and NABERS rated, now have a 5 Star or greater energy rating.

Refurbishments and energy efficiency initiatives have driven lower consumption.

Figure 2: Energy ratings for pre-2000 build office towers



Source: Cityscope, NABERS, CBRE Research
 N=251 office buildings in Sydney, Melbourne, Brisbane, Perth and Adelaide



Energy efficiency and wellness features are at the forefront of refurbishment priorities for building owners.

ECONOMICS OF A GOOD RATING

Grade and Ratings

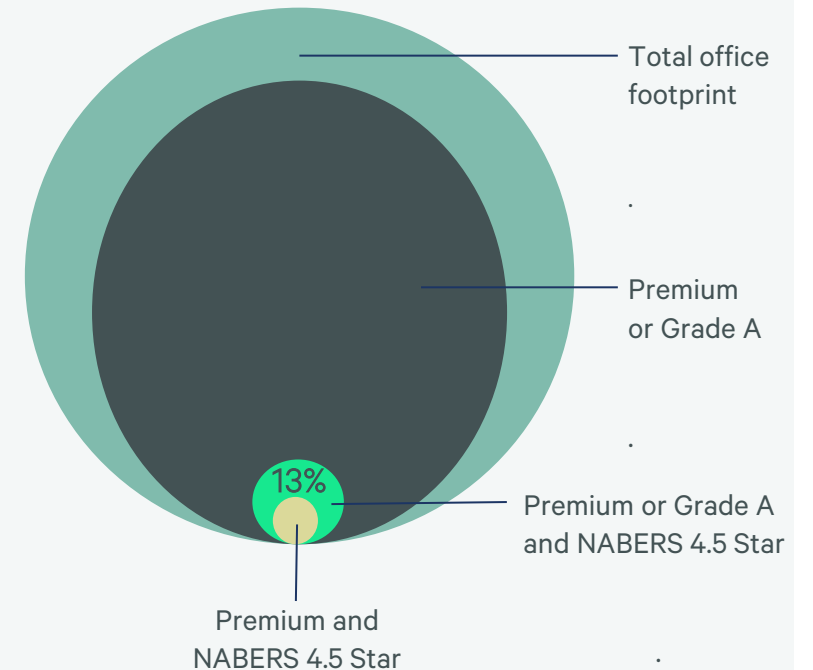
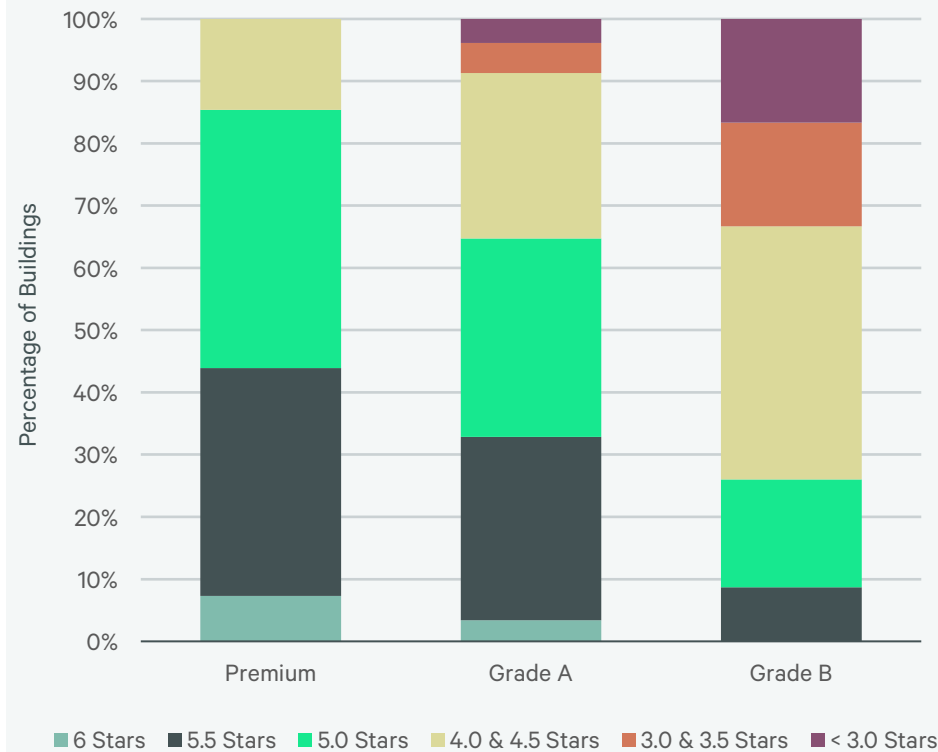
33%-44%

of Premium and Grade A buildings have a NABERS rating of 5.5 or 6 Star.

13%

We estimate that 1.2m sqm or 13% of the footprint is Premium or Grade A rated but with NABERS rating of 4.5. The opportunity lies within these buildings as prime candidates for energy efficiency upgrades.

Figure 3: Office building grade and NABERS rating



Source: NABERS, Property Council of Australia, CBRE Research
 N=408 office buildings across Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra

ECONOMICS OF A GOOD RATING

Lower Cost

Energy expenses make up

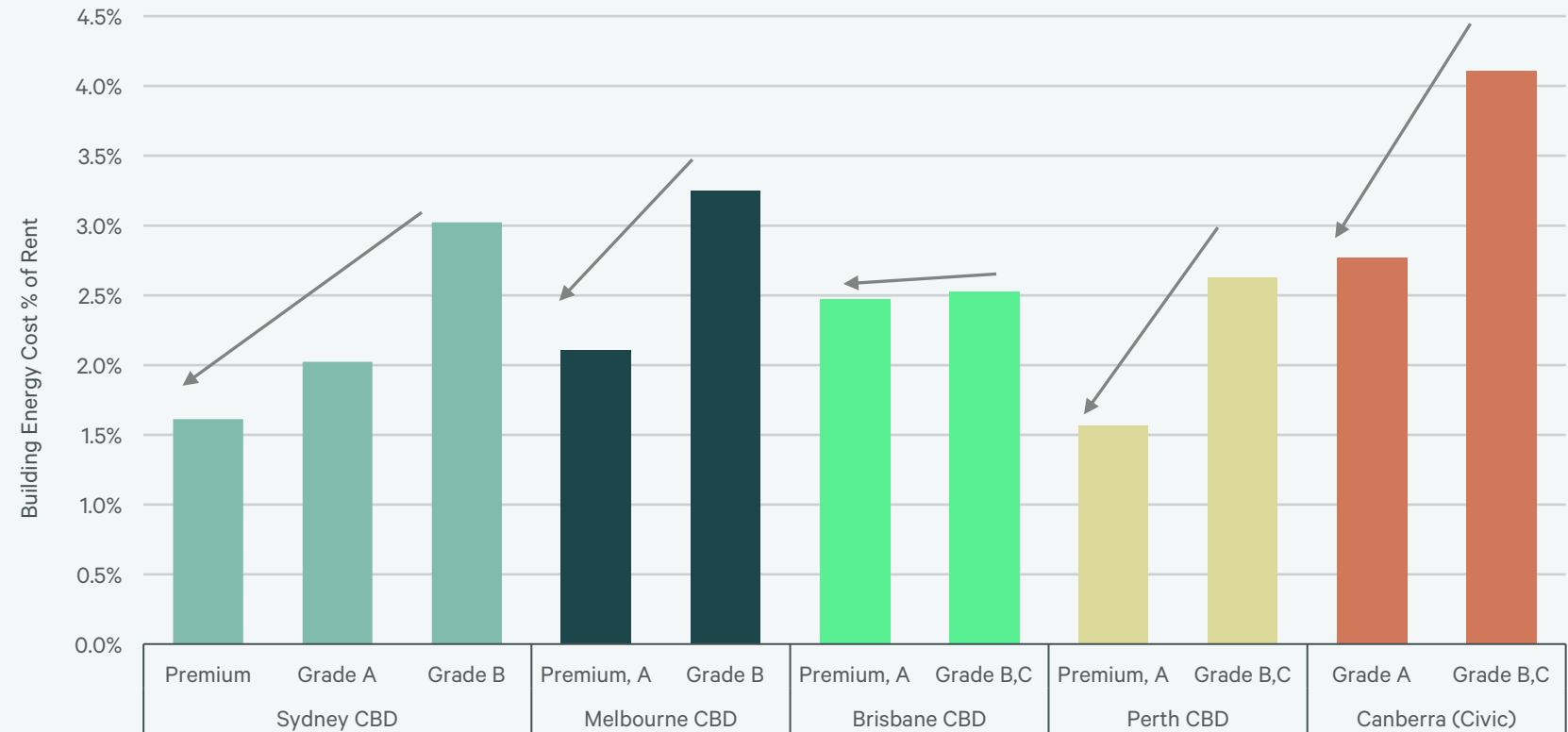
10-15%

of the overall cost of operating a building.

1.0%-1.4%

As a percentage of rent, the energy costs for Premium and Grade A offices were 1.0%- 1.4% lower in 2024.

Figure 4: Energy costs as % of rent



Source: Property Council of Australia, CBRE Research

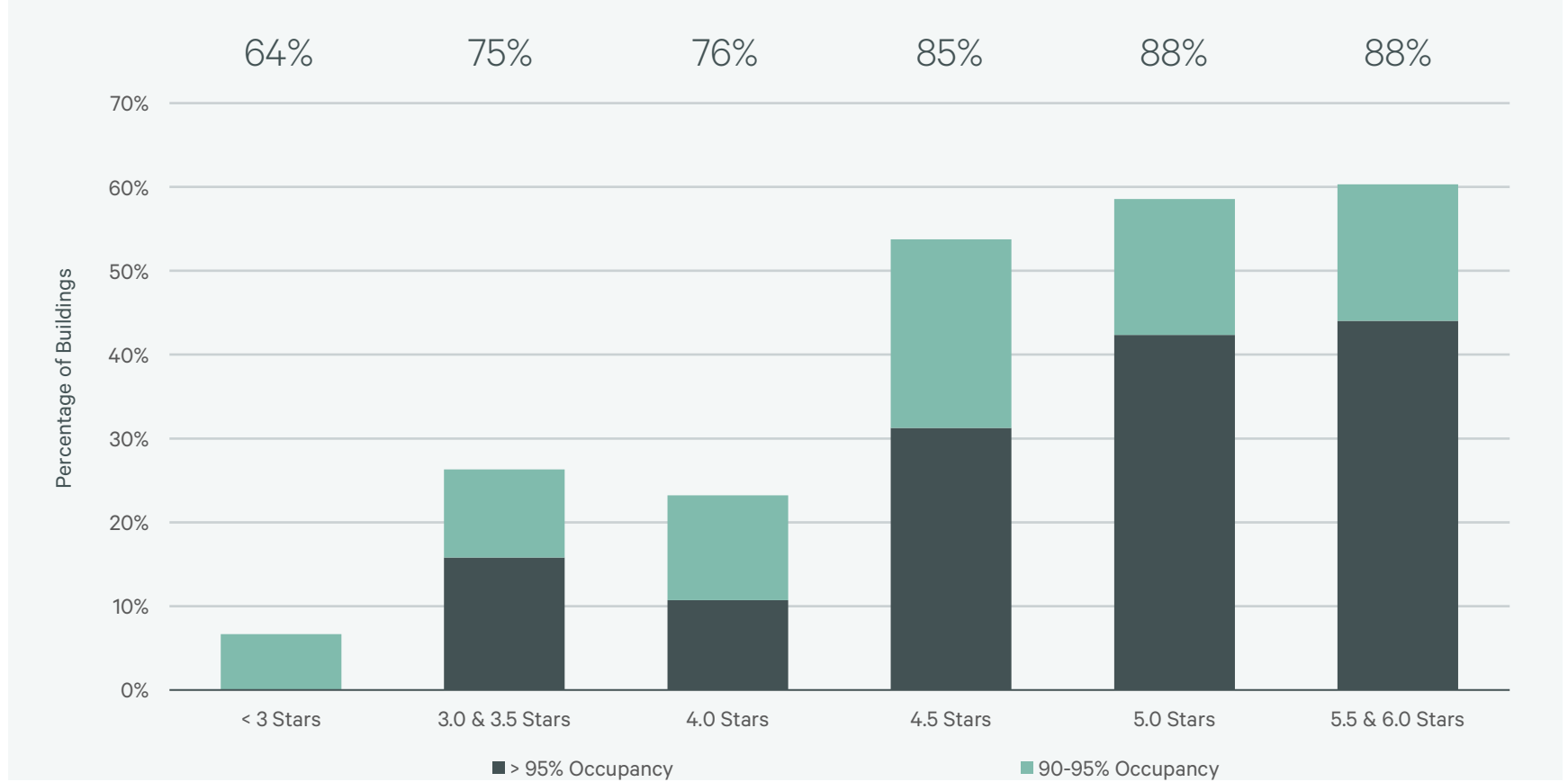
ECONOMICS OF A GOOD RATING

Higher Occupancy

12%

There is clear evidence of higher occupancy for NABERS 5.5 and 6 Star rated buildings, with 12% gap to 4 Star rated and 24% gap to < 3 Star rated offices.

Figure 5: Occupancy and NABERS energy rating



Source: NABERS, Property Council of Australia, CBRE Research
 N=514 office buildings across Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra

ECONOMICS OF A GOOD RATING

Higher Occupancy

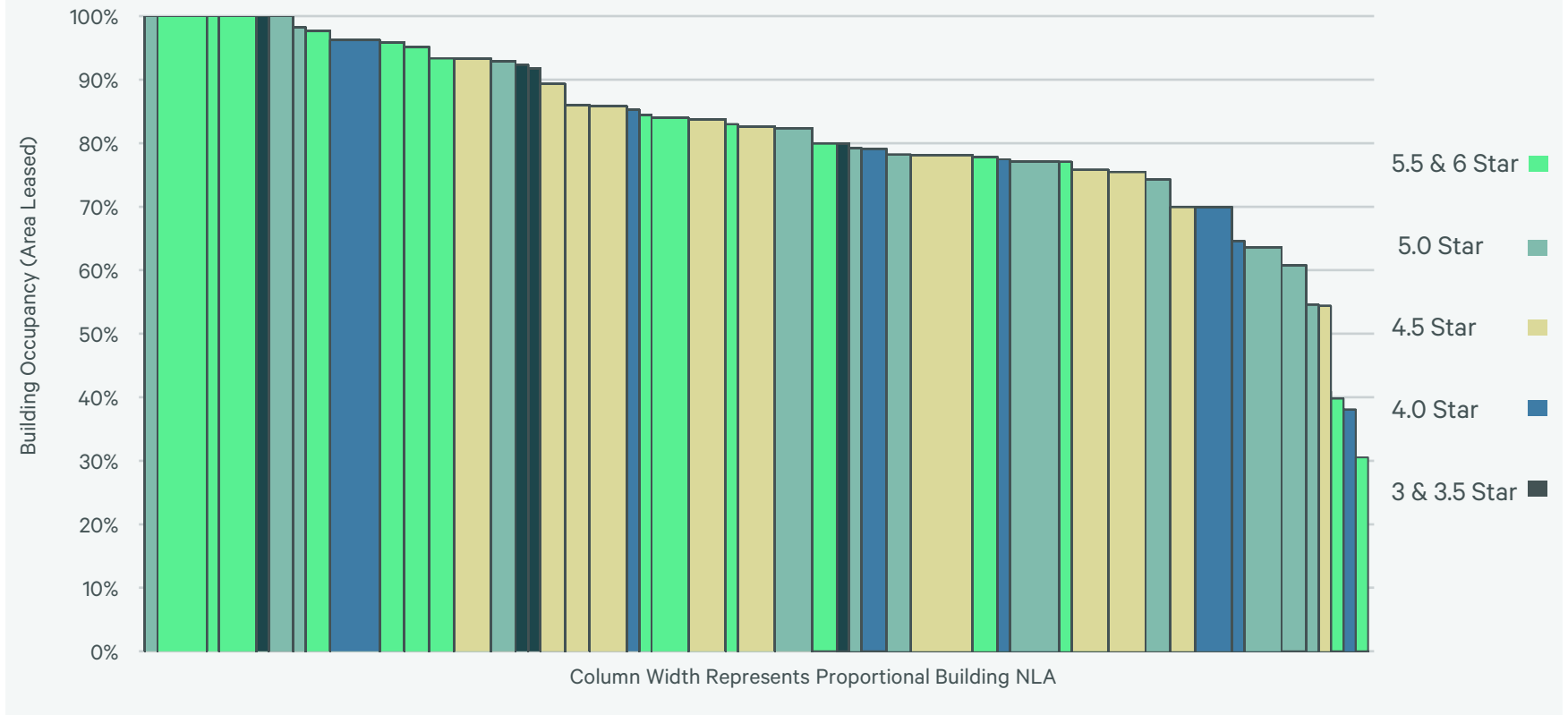
More than half (54%) of Melbourne CBD office space has a NABERS rating of 5 Star and above. Tenants have significant choice of green space.

We find

10%

occupancy advantage for 5.5 and 6 Star buildings in Melbourne CBD.

Figure 6: Illustrative Melbourne CBD prime office. Occupancy and NABERS Energy ratings



Source: NABERS, Property Council of Australia, CBRE Research
 N=54 office buildings across Melbourne CBD

ECONOMICS OF A GOOD RATING

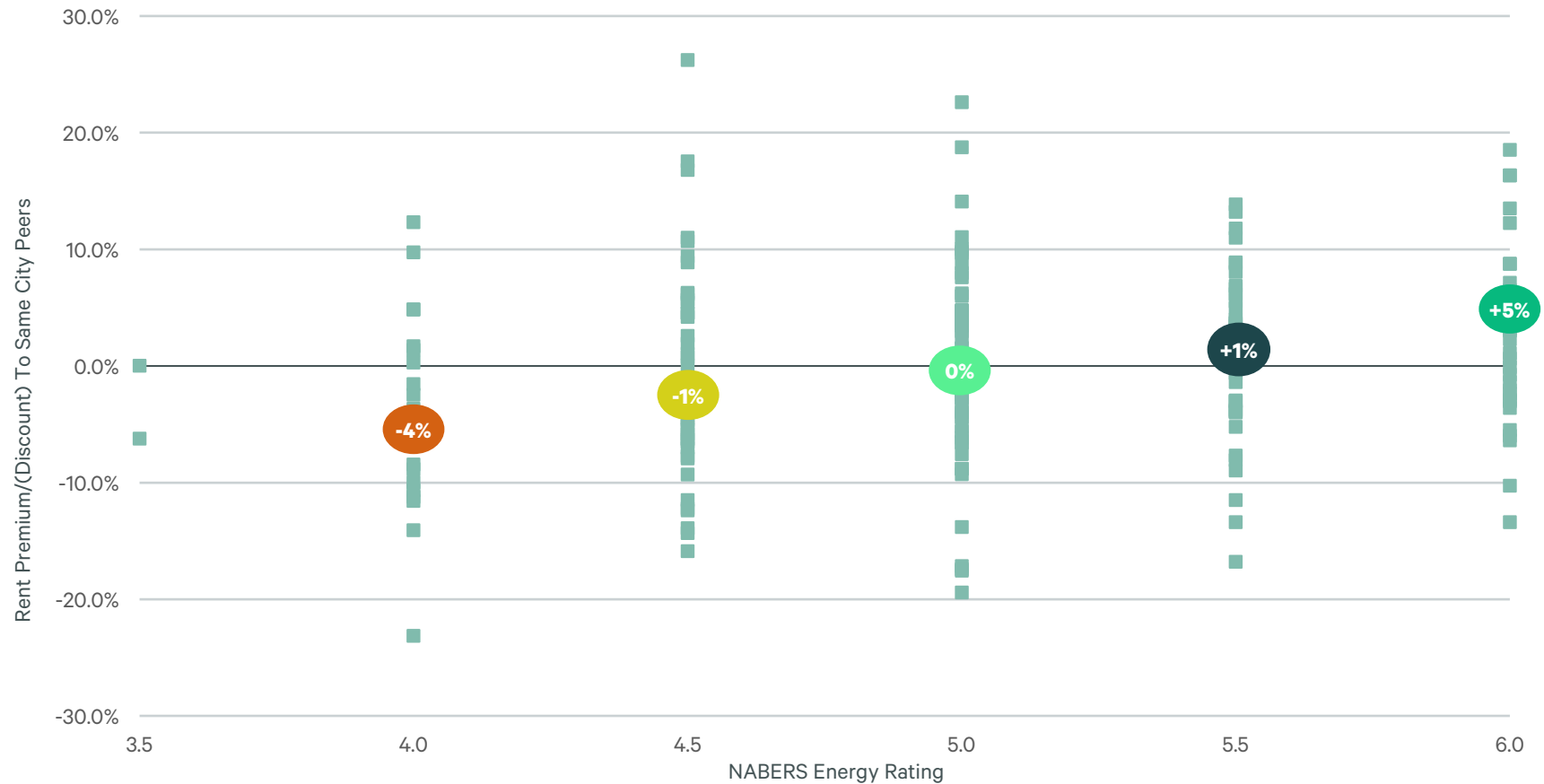
Rent Barbell

We compared rents in office buildings based on their NABERS ratings. The premium/(discount) was determined comparing offices in the same city.

1%-5%

The data suggests discounts for lowest rated and premiums for highest rated buildings. But it is more nuanced in the middle, where buildings are 4.5 Star or 5.0 Star rated.

Figure 7: Rent premium/(discount) to same city peers and NABERS energy rating



Source: NABERS, Property Council of Australia, CBRE Research
 N=200 office buildings across Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra

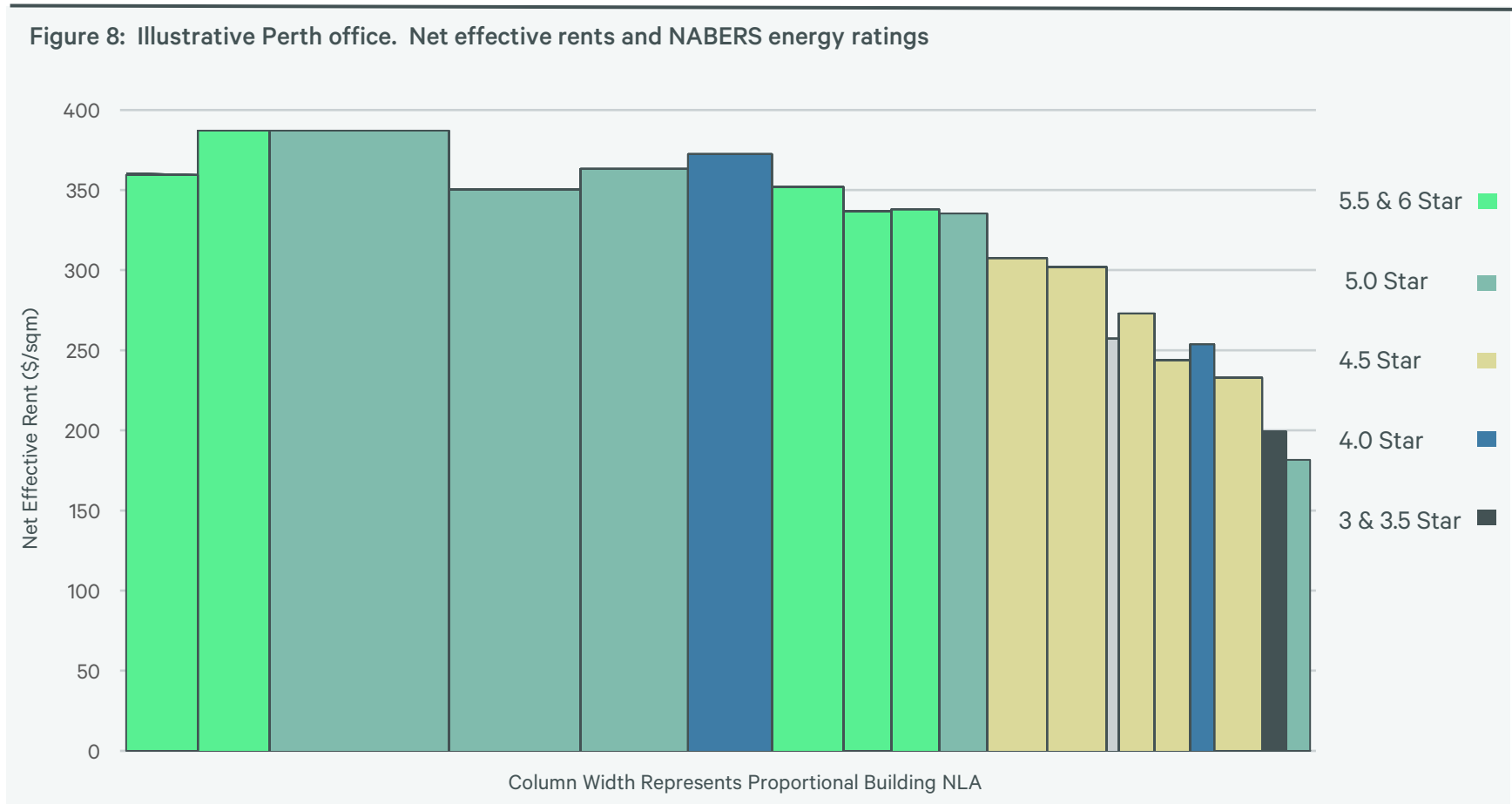
ECONOMICS OF A GOOD RATING

Rent Barbell

In Perth, there is strong evidence of rent premium for higher NABERS rated buildings.

The Resources and Mining Services sector has increased focus on sustainability outcomes which could further grow the differential in rents.

Figure 8: Illustrative Perth office. Net effective rents and NABERS energy ratings



Source: NABERS, Property Council of Australia, CBRE Research
 N=19 office buildings across Perth CBD

ECONOMICS OF A GOOD RATING

Yields

We find slight correlation between cap rates and NABERS ratings. There is a slight premium for 6 Star rated buildings and a slight discount for 4.0-4.5 Star rated buildings.

Cap rates are still primarily influenced by location, building grade and cashflow strength. Energy efficiency is becoming an increasingly significant consideration for investors.

Discounts are likely to emerge as investors bake in future capex associated with energy efficiency upgrades.

Figure 9: Cap Rate premium/(discount) to same city peers and NABERS energy rating



Source: NABERS, CBRE Research
 N=200 office buildings across Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra

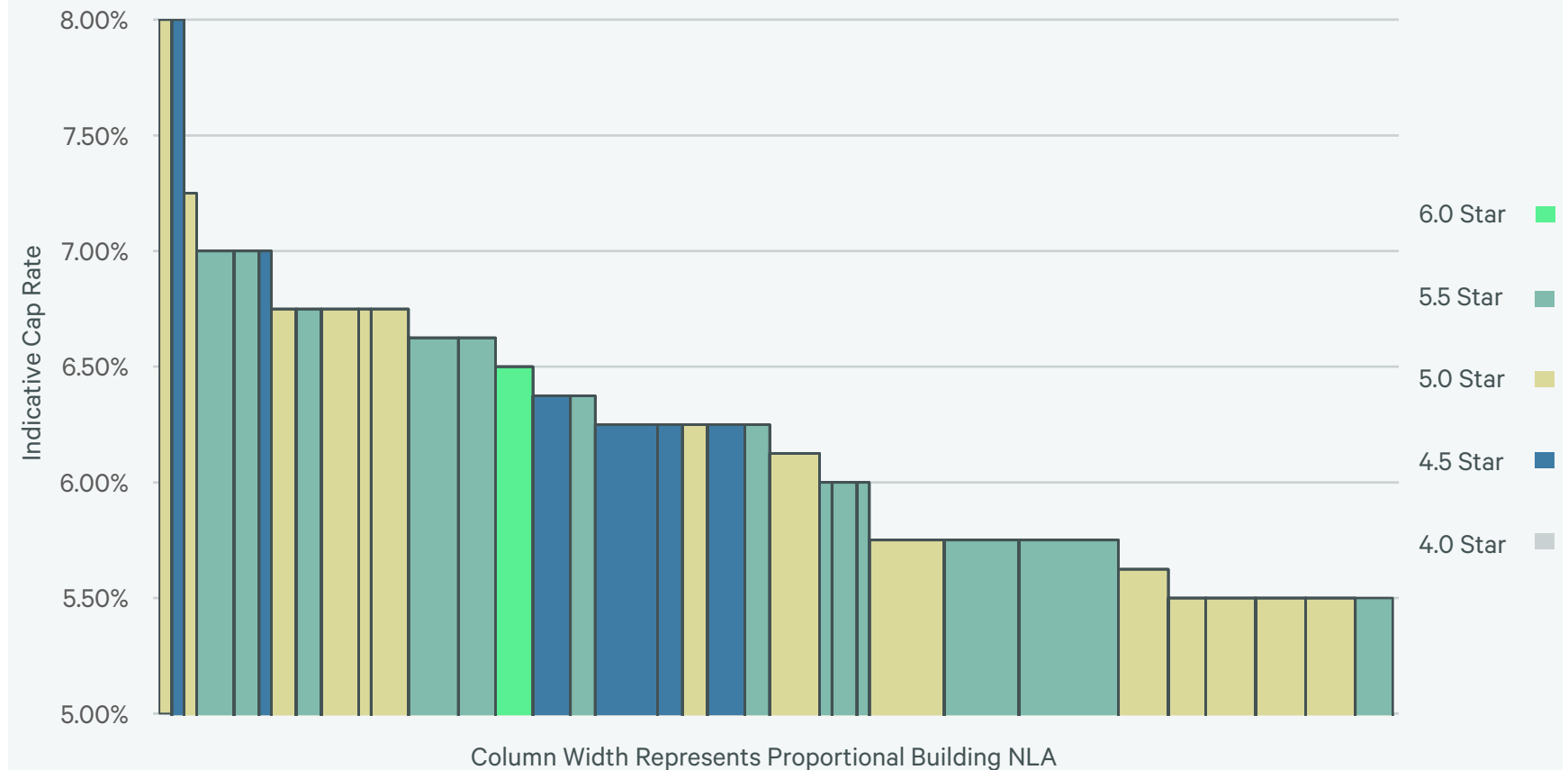
ECONOMICS OF A GOOD RATING

Yields

In Sydney, cap rates are primarily driven by grade of the building and location. But there is also clear evidence of high NABERS rated buildings offering a valuation premium.

We expect sustainability characteristics such as building energy efficiency to become a more significant part of the yield argument.

Figure 10: Illustrative Sydney prime office. Yields and NABERS energy rating



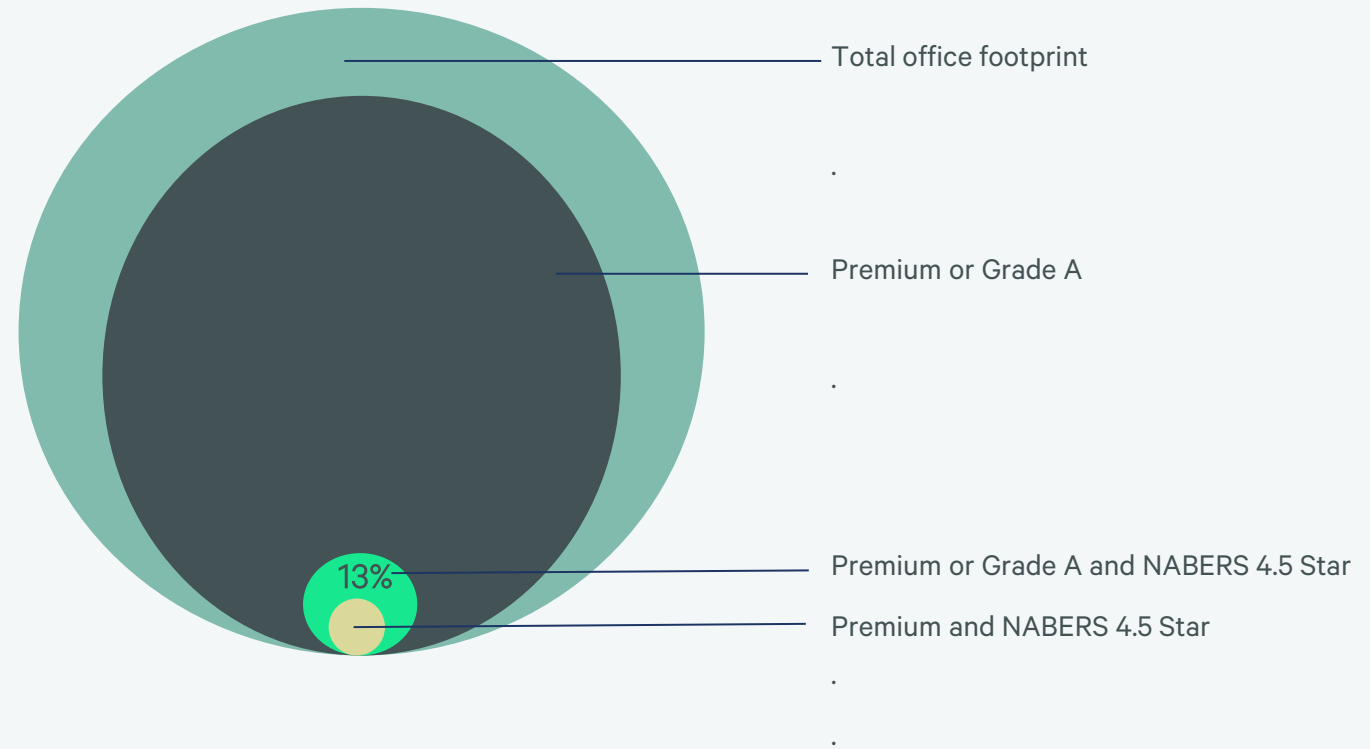
Source: NABERS, Property Council of Australia, CBRE Research
 N=34 office buildings across Sydney CBD

ECONOMICS OF A GOOD RATING

The 13% Opportunity

We estimate that 1.2m sqm or 13% of the footprint is Premium or Grade A rated but with NABERS rating of 4.5. The opportunity lies within these buildings as prime candidates for energy efficiency upgrades.

Figure 11: Building grade and NABERS energy rating



Source: NABERS, Property Council of Australia, CBRE Research
 N=408 office buildings across Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra

Appendix

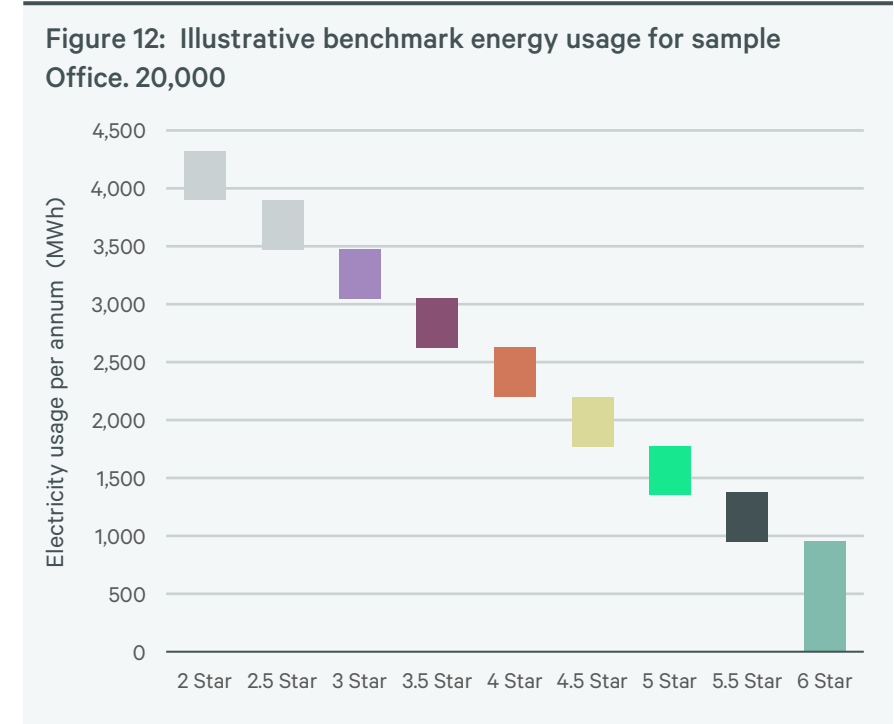
APPENDIX

NABERS Energy Rating

The NABERS rating system is a benchmarking tool, allowing comparison across similar types of structures. By taking location into account, factors like air-conditioning in hotter climates can be accommodated. Separately, there are withholding tax incentives for foreign investors in Office buildings commenced after 2012 which maintain a 5.5 Star NABERS rating.

Input	Output
– Location	6 Stars – Market leading
– Occupancy hours	5 Stars – Excellent
– Size of building	4 Stars – Good
– Energy usage	3 Stars – Average
– Energy source	2 Stars – Below average
	1 Star – Poor
	0 Stars – Very poor

For illustrative purposes, we show the NABERS rating for a 20,000 sqm office building in Sydney CBD, depending upon its energy usage (MWh) per annum.



Source: NABERS, CBRE Research

APPENDIX

Energy Ratings for Physical Real Estate

The building sector accounts for approximately 20%-25% of Australia’s GHG emissions. Estimates suggest commercial buildings account for roughly half of this amount and office if 25% of this. So, office sector contributes c2.5% of Australia’s GHG emissions.

Four Australian firms were in the Top 5 of the global real estate industry in the 2022 edition of S&P Global Corporate Sustainability Assessment. Australia (Oceania) again ranked number one in the regional GRESB results for 2022.

Figure 13: Commonly used physical real estate ESG rating systems

	Markets	Energy	Waste	Water	Indoor Air	Wellness	Office	Industrial	Retail	Resi	Alternatives
BREEAM	Europe	✓	✓	✓	✓	✓	✓	✓		✓	
Casbee	Japan	✓					✓	✓			
Green Star	Aus, S Africa	✓	✓	✓	✓	✓	✓		✓	✓	✓
GRESB	Global	✓	✓	✓			✓	✓	✓	✓	✓
LEED	US, Canada	✓	✓	✓	✓		✓	✓	✓	✓	✓
NABERs	Aus, NZ, UK	✓	✓	✓	✓		✓		✓	✓	✓
WELL	US, Europe, China, India	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

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