MAXIMISING YOUR INVESTMENT

Using rating tools to attract sustainable finance for real estate

A joint government and industry collaboration between NABERS, GBCA, GRESB, and CBI.

NABERS

green building council australia

GRESB

Climate Bonds Initiative

Contents

This industry guide provides information about sustainable finance in the built environment in Australia. It is designed to support investor understanding of Australia's world-class rating tools and standards, and how these can be applied to direct more capital towards sustainable finance for our built environment. Included are insights that reflect lessons learnt when using a rating scheme to establish an investment framework, conduct due diligence or report on an issuance.

Green bond issuance is growing rapidly in our region. Recently, the International Finance Corporation (IFC) said that investments in green buildings – a specific use of proceeds for green bonds – are set to grow due to urbanisation, economic growth and population expansion, as well as an increased focus on creating healthy, resilient and resource-efficient places to work and live. Furthermore, governments are starting to incentivise green buildings and green bonds to limit the real estate industry's contribution to climate change.[1]

The IFC also points out that stricter green building codes alone are not enough to curb carbon emissions in line with the Paris Agreement.

"Buildings also need to have clear and reliable labels on them that convey how well the building performs once it is completed."[2]

The IFC also points out that investors need to have faith in the reliability of the 'greenness' of the underlying assets.

Investors are looking for trusted and proven measures to back claims of sustainable investment ready assets.

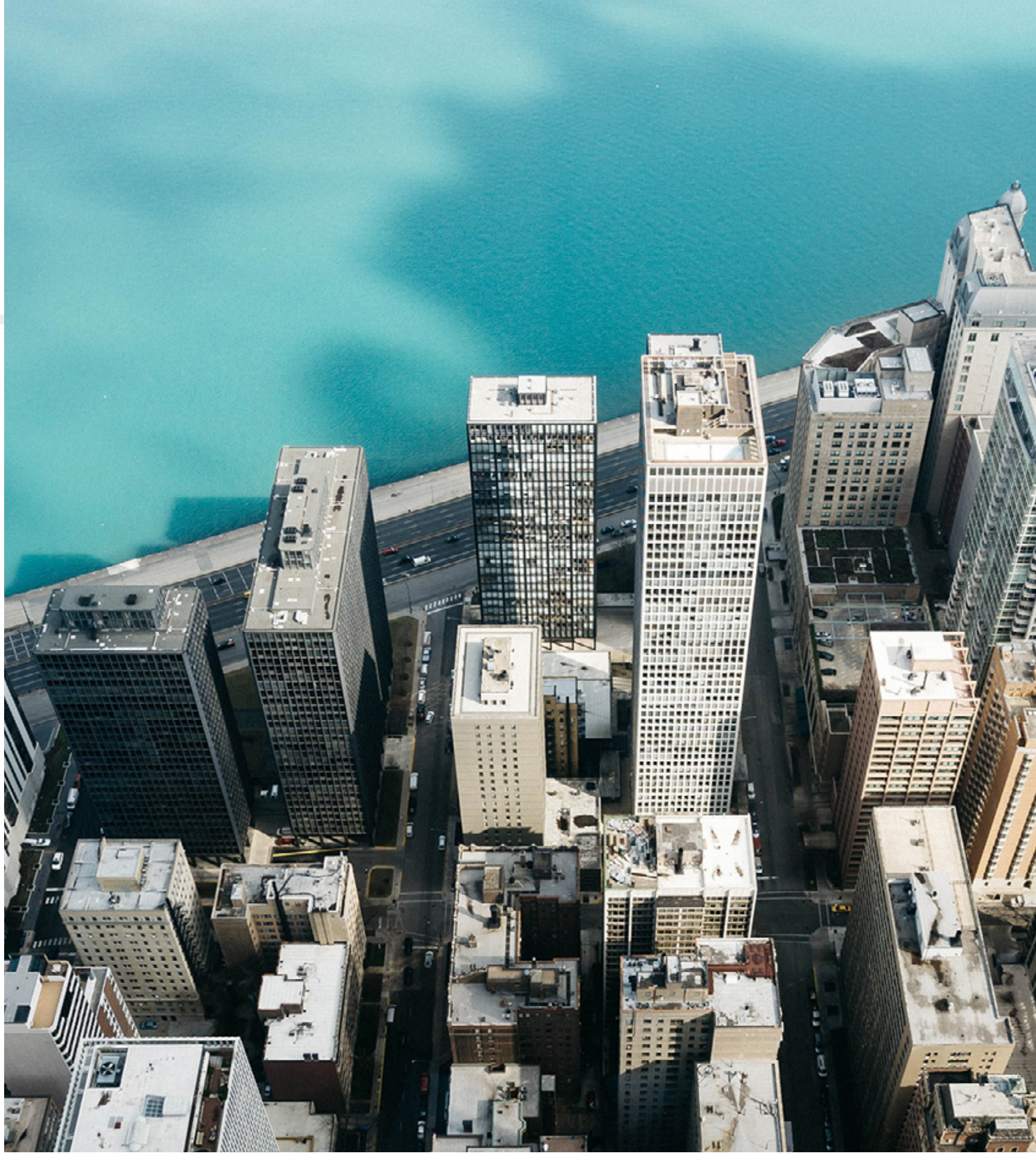
More investors want to see environmental and social impact with returns over a longer term. Sustainability-linked loans[3] are growing rapidly and are broader than green bonds,[4] or loans for environmentally focussed projects. These loans open up the market to a wider range of companies that are serious about a long-term sustainability strategy, and lasting social and environmental commitments.

The National Australian Built Environment Rating System (NABERS), the Green Building Council of Australia (GBCA), and GRESB have established world leading, trusted, low cost and contemporary guidelines and ratings tools in Australia (and for offshore applications) to assist those developing sustainable finance for built environment projects to:

- Identify sustainable built environment investment opportunities through publicly available data sets (predominantly energy but more to come);
- Establish building sustainability performance thresholds to support decision making;
- Improve sustainability practices;
- Demonstrate real impact on communities and the environment through the setting of targets and correct measurement of outcomes; and
- Provide trusted governance and reporting underpinned by an independent third-party rating or assessment.

Only a small portion of green bond issuances have fully utilised these rating programs in investment decisions to date. This is expected to change, as green bonds include greater focus on impact reporting, external reviews and reliable data.[5]

With these programs now covering thousands of buildings in Australia every year, and new ratings being developed in emerging sectors, the investment community has a huge opportunity to leverage their investments more readily and use these ratings to unlock capital.



1 "Opportunity awaits – Understanding Asia's green building bond journey", Environmental Finance, Spring 2019, p54.
2 "Opportunity awaits – Understanding Asia's green building bond journey", Environmental Finance, Spring 2019, p54.
3 Sustainability-linked loans are debt instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivise the borrower's achievement of ambitious, predetermined sustainability performance targets (SPTs).
4 Green bonds are an instrument for earmarking public and private financing to fund projects that deliver environmental benefits.
5 https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf

Using data to drive investment

The following three schemes are widely recognised as the leading mechanisms to demonstrate compliance and benchmark high performing built environment assets across Australia.

NABERS

green building council australia

GRESB

NABERS

A rating system for benchmarking energy, water, indoor environment and waste in six building sectors.

Green Star

A voluntary holistic rating system for buildings, fitouts and communities.

GRESB

A voluntary environmental, social and governance (ESG) benchmarking framework for building (and infrastructure) portfolios.

You can now build investment-specific frameworks enabling compliance with Green Bond Principles,[6] certification through the Climate Bonds Initiative (CBI) or bespoke green bonds and investment offerings. Whatever the investment scenario, the data and information from rating schemes such as NABERS, Green Star and GRESB are the key to unlocking the investment opportunity.

The information provided by these programs, along with growing industry data sets, will enable robust, quantitative and measurable baseline data and measurement of sustainability targets linked to investments.

6 "The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond." ICMA Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds, June 2018, p.3.

NABERS

NABERS is a government program that measures the environmental performance of Australian buildings and tenancies. Put simply, NABERS measures the energy efficiency, water usage, waste management and indoor environment quality of a building or tenancy and its impact on the environment. NABERS currently has ratings for offices, shopping centres, hotels, data centres, public hospitals and apartment buildings.

NABERS is one of Australia's most successful government initiatives, and is widely considered as one of the key programs that has helped Australian property companies become world leaders in building sustainability.

The program uses a 6 star rating scale to communicate performance, where 1 star shows poor performance and 6 stars demonstrates market leading performance. The average NABERS Energy for Offices rating (without GreenPower) in FY18 was 4.4 stars. This period also saw a rise in high performing buildings within the office market. For the first time, more than 100 office buildings throughout Australia achieved a NABERS Energy rating of 5.5 stars or higher. This is a three-fold increase compared to only five years ago. This achievement is a powerful reflection of how advanced designers, operators and service providers have become in this sector over the past five years.

Green Star

Green Star ratings are a voluntary market-based mechanism for demonstrating compliance with the highest of environmental standards in Australia. In buildings, Green Star sets benchmarks for energy, greenhouse gas emissions, water, waste, indoor environment, materials, transport, land use, ecology, and other issues. These ratings are regularly achieved by building owners seeking to set clear benchmarks, guarantee outcomes at design, construction, and operations, and demonstrate to a third party that the building or fitout performs as expected.

Green Star ratings are based on data and documentation collected by the building owner and submitted to the Green Building Council of Australia (GBCA). The GBCA then assigns the information to a third-party assessor, independent from the building owner. The information is audited and a rating assigned. This process ensures rigour, independence, and relevance resulting in a standard that is widely recognised as the standard for environmental performance in Australia.

Ratings for new buildings, fitouts and communities are awarded on a scale of 4 (Best practice) to 6 star (World leadership). For existing buildings, the scale is extended to include 0 (assessed) to 3 star (good practice). This enables the benchmarking of existing buildings and gives them the opportunity to improve over time. To achieve a 4 star Green Star rating (best practice), a new building must show an improvement of 10% over a typical building as a minimum. On average, Green Star rated buildings have been shown to have a greenhouse gas emission reduction of 47% to 69% compared to a typical new building.

NABERS and the Green Building Council of Australia work together closely to help ensure the complementarity of the Green Star and NABERS rating tools, and that stakeholders get the best possible value and information to understand the performance of their assets. The NABERS and Green Star rating scales are different but have been designed to complement each other. For example, if a building is seeking or has obtained a NABERS rating for Energy, Water, Waste or Indoor Environment Quality, associated points can be claimed in a Green Star – Performance rating.

GRESB

GRESB is the environmental, social and governance (ESG) benchmark for real assets. Working in collaboration with the industry, GRESB provides standardised and validated ESG data to the capital markets. Over 90 capital providers, including institutional investors and lenders, collectively representing over US$22 trillion in institutional capital, use GRESB data and analytical tools. The GRESB Assessments are guided by what capital providers and the industry consider to be material issues in the sustainability performance of real asset investments and are aligned with international reporting frameworks.

Assessment participants receive comparative business intelligence on where they stand against their peers, a roadmap with the actions they can take to improve their ESG performance, and a communication platform to engage with capital providers. Investors use the ESG data and analytical tools to make better informed investment decisions, engage with their managers and integrate sustainable investing into their investment process.

Although GRESB does not provide a tracking mechanism for deployment of green proceeds, the GRESB results can provide an overall assessment of an issuer's commitment to integrating ESG into its management organisation and portfolio. In addition, GRESB data is increasingly used for sustainability-linked loans, where the borrower's sustainability performance and the extent to which they meet the predefined Sustainability Performance Targets (SPTs) can be measured by their GRESB results (e.g. GRESB Scores and Rating).

Benefits of ratings and benchmarking in green bond issuances

In Australia, the data required for reporting for a green bond, including Certified Climate Bonds and bonds seeking to be Green Bond Principle compliant, is already collected by most building owners via their Green Star or NABERS ratings. Depending on the type of bond and green outcomes being sought, the relevant data and information is contained within the rating report for NABERS and Green Star. This information goes well beyond just showing the star rating outcome and includes details such as a building's consumption level of electricity, gas and diesel, total emissions (scope 1, 2 and 3) and greenhouse gas intensity (scope 1, 2 and 3).

For example, to qualify as a Certified Climate Bond for Low Carbon Green Buildings, assets are required to demonstrate very low carbon emissions in operation for the life of the bond. Specifically, these buildings must have an emissions footprint in the top 15% of emissions performance in the local market or a substantial reduction in $kgCO_2m^2$ because of upgrade or retrofit.[7] The greenhouse gas intensity (kgCO -e/m^2) (without GreenPower) is calculated in a NABERS Energy rating or within a Green Star rating and can be used for reporting during the term of the bond.

Using these rating systems means that the appropriate benchmarks for the built environment can be set and the proceeds of the bond directed to green outcomes. What is considered 'good performance' versus 'market leading performance' in the built environment has changed in recent years.

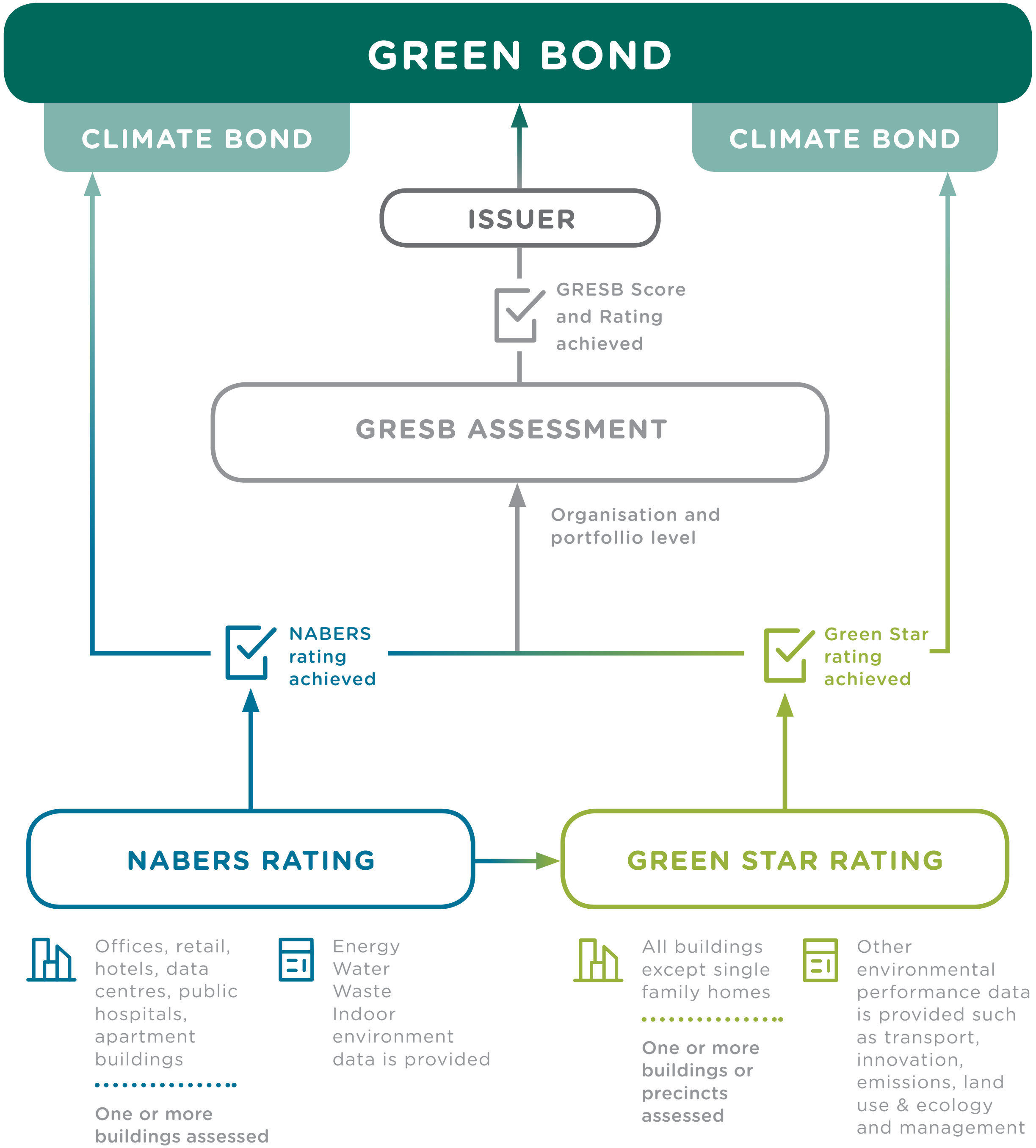
When issuing or investing in a green bond, it's critical that the right data and information is used to reduce the risk of 'greenwashing' or poor performing buildings being included in issuances by mistake.

Unlocking the information and data from ratings will also help reduce the administrative burden of developing and setting benchmarks on the issuer side, and will make reporting and verification easier too.

There are additional benefits of using sustainability rating tools beyond the value of the bond. In the case of Green Star ratings, a building must achieve significant improvements over a baseline compared to a typical building across a range of environmental indicators. This means that by achieving a Green Star rating, they have also addressed impacts such as water performance, good indoor environment quality, and even biodiversity improvements. For example, as part of a Green Star rating, the building owner can look to also achieve a 'Resilience and Adaptation' credit focused on climate change resilience. Likewise, for your annual NABERS rating, continuous improvement is required, and measurable change is needed year-on-year on your energy, water and waste performance and indoor environment quality in order for the rating to improve.

7 https://www.climatebonds.net/files/files/CBI-Taxomomy-Sep18.pdf

This diagram shows how the respective ratings feed into GRESB Assessment results and can be leveraged by issuers and investors for green bonds.



Guidance for using rating systems in issuances

The Australian market has fewer challenges with raising green debt for those assets in the built environment where there is a high adoption of NABERS and Green Star. Without this widespread use and acceptance of rating tools and standard metrics, for example energy intensities, issuers and investors have limited access to relevant information and performance data.

A challenge for issuers can be the additional work required in developing a first green bond framework, and associated costs from having to involve third parties during reporting and verification pre and post-issuance. To help with this, we have identified several 'do's and don'ts' that reflect lessons learnt, which are helpful when using a rating scheme to establish your framework, conduct due diligence or report on an issuance.

The following advice is written for a varied audience and may be applicable to building owners and managers, or investors, depending on the situation.

NABERS

DO

- Know what your building/s star rating actually means – what is high, average and low performance for that asset type. You can check the NABERS website to see recent aggregated statistics for thousands of buildings by sector (e.g. office) and rating type (energy, water, waste and indoor environment).
- Carefully consider the detailed building information contained in the rating report. The star rating is only a window into understanding a building's performance. A NABERS rating report goes well beyond just showing the star rating and includes details such as building consumption level of electricity, gas and diesel, total emissions (scope 1, 2 and 3) and greenhouse gas intensity (scope 1, 2 and 3) in the case of an energy rating.
- Broaden your investment opportunities by utilising other NABERS ratings in sectors like retail and hotels. Understanding your building's performance in areas like waste management can also unlock a more holistic picture of sustainability performance which investors are looking for.

DON'T

- Use buildings with a star rating that is below average if you are targeting a CBI Certified Climate Bond for Low Carbon Buildings. In these instances, buildings must show they are in the top 15% of emissions performance in the local market.
- Guess what your portfolio rating is. NABERS has a verification process to provide property companies with an average NABERS rating across their portfolio. This process aligns verified NABERS portfolio results with a company's external reporting, for example, GRESB's real estate assessment. Verified portfolio scores assist companies with their own portfolio reporting and provide results that are credible and reliable.

DO

- Know what your building/s star rating actually means – for new buildings or precincts, any rating will be far above typical practice. For existing buildings, the scale varies, with anything above 4 star demonstrating far above average performance.
- Know that buildings receiving less than a 4 star Green Star rating are not performing highly. Issuers should consider these buildings carefully in the due diligence process before including them in green bonds, except in cases of refinancing an asset to improve performance and efficiency.
- Know that Green Star is a holistic rating across multiple aspects of sustainability performance in addition to carbon emissions reductions. As such, Green Star ratings provide a comprehensive measurement of multiple benefits and outcomes related to sustainability performance.
- Look at the certificate score and the greenhouse gas emissions report attached to every Green Star rating. The star rating is holistic and gives a good snapshot of results. The certificate and report provide valuable information on many achievements of the building or portfolio.
- Know that Green Star ratings are awarded to individual buildings as well as portfolios of new and existing buildings.
- Note that with every portfolio rating, a greenhouse gas emissions certificate is awarded summarising key data relevant to portfolio reporting and green bond issuance.
- Consider Green Star ratings in every sector. With the exception of individual homes, Green Star ratings have been awarded for everything from aquatic centres to university buildings. Any building type, new or existing, as well as any new fitout, and any new precinct can achieve a rating.

DON'T

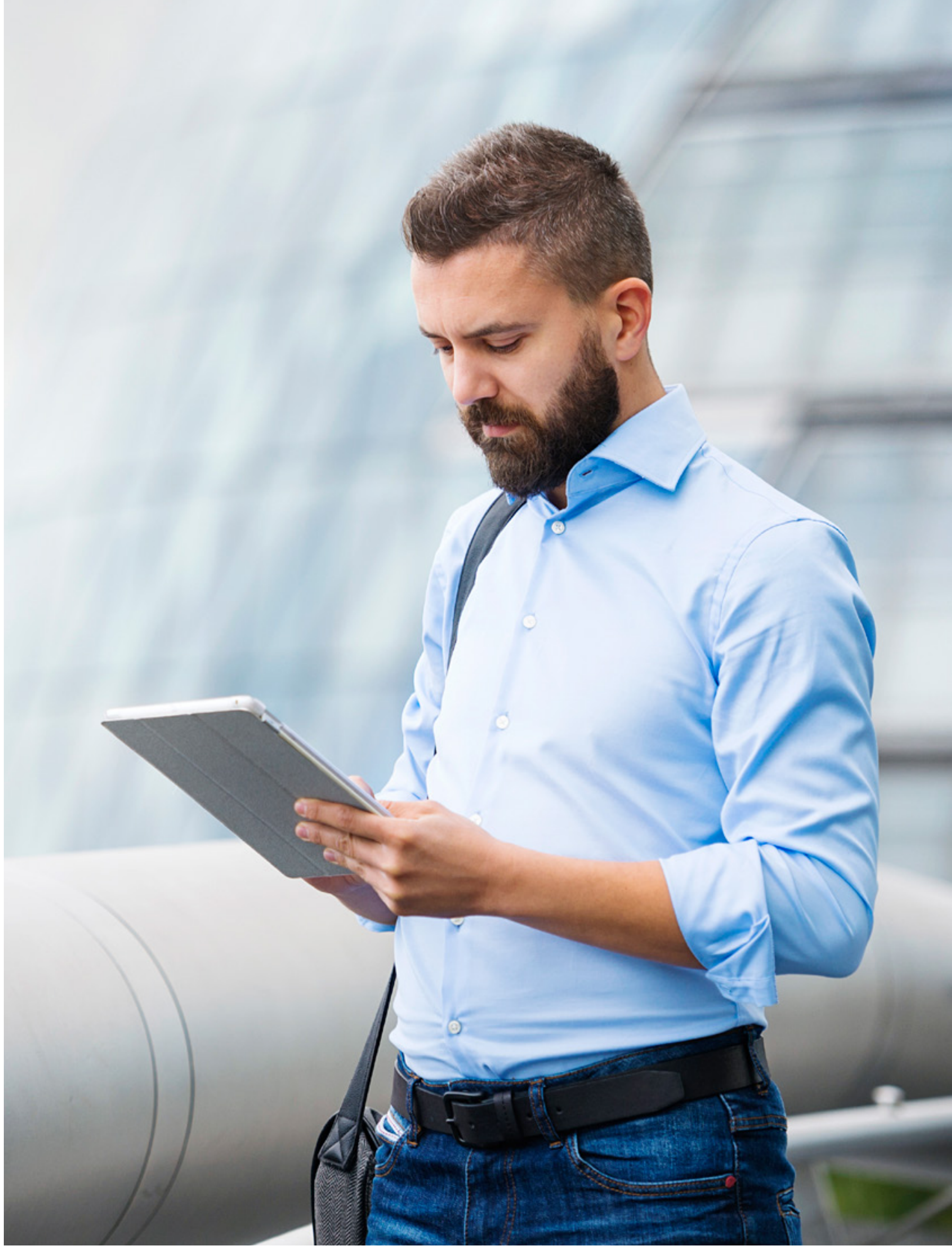
Rely only on your star rating that is below average if you are targeting a CBI Certified Climate Bond for Low Carbon Buildings. In these instances, the greenhouse gas emissions addendum report will provide information that will help calculate the greenhouse gas emissions performance improvement in the building.

DO

- Know that GRESB focuses on multiple levels of ESG integration and best practice. As such, the GRESB results provide an insightful overview of your commitment to ESG and how it translates into portfolio-level performance.
- Understand your GRESB Score and Rating – how do individual ESG topics or aspects contribute to your Score, how are the GRESB aspects weighted, and how is the GRESB Rating calculated. This understanding allows you to dig deeper into more material aspects and focus on topics/items directly related to the green bond framework.
- Use a combination of absolute and relative performance metrics to determine the portfolio's improvement potential. By understanding what your peers are doing, you can adopt their approaches to ESG and implement best practices across your organisation, portfolio and assets.
- Identify where the opportunities for improvement are. The detailed GRESB Benchmark Report provides an indicator-by-indicator overview of your ESG performance. It is designed to help you identify areas of risk and opportunity, set clear and measurable improvement targets, and deepen your engagement with investors.

DON'T

- Participate in the GRESB Assessment as a one-off. Even though GRESB does not track the use of proceeds, the annual Assessment is an effective tool to monitor an issuer's overall improvements in ESG performance year-on-year.
- Despair if you receive a low GRESB Score or Rating. Deficiencies and/or shortcomings of the portfolio may provide impactful investment opportunities.
- Look at the GRESB results in isolation. There might be specific reasons why the portfolio received a low GRESB Score or Rating. Always consider the context to fully understand the GRESB results and the opportunities for improvement.
- Focus on a single sub-score. Rather, focus on specific topics and cross-sections of the GRESB results (i.e. energy efficiency, risk management, resilience and adaptation) that are relevant to the green bond framework.



Green bond issuances and market opportunity

Global trends

Did you know?...

- The cumulative green bond issuance since 2007 has been US$521 billion with USA leading, followed by China and France.[8]
- CBI states that: "The building sector presents one of the biggest opportunities to mitigate climate change. Globally, buildings account for 30% to 40% of total final energy demand and over 30% of all energy-related CO2 emissions. This strongly implies that significant financing will be required to realise the opportunities for drastic cuts in emissions from the built environment. The bond markets can provide this vast scale of investment required."[9]

Future outlook

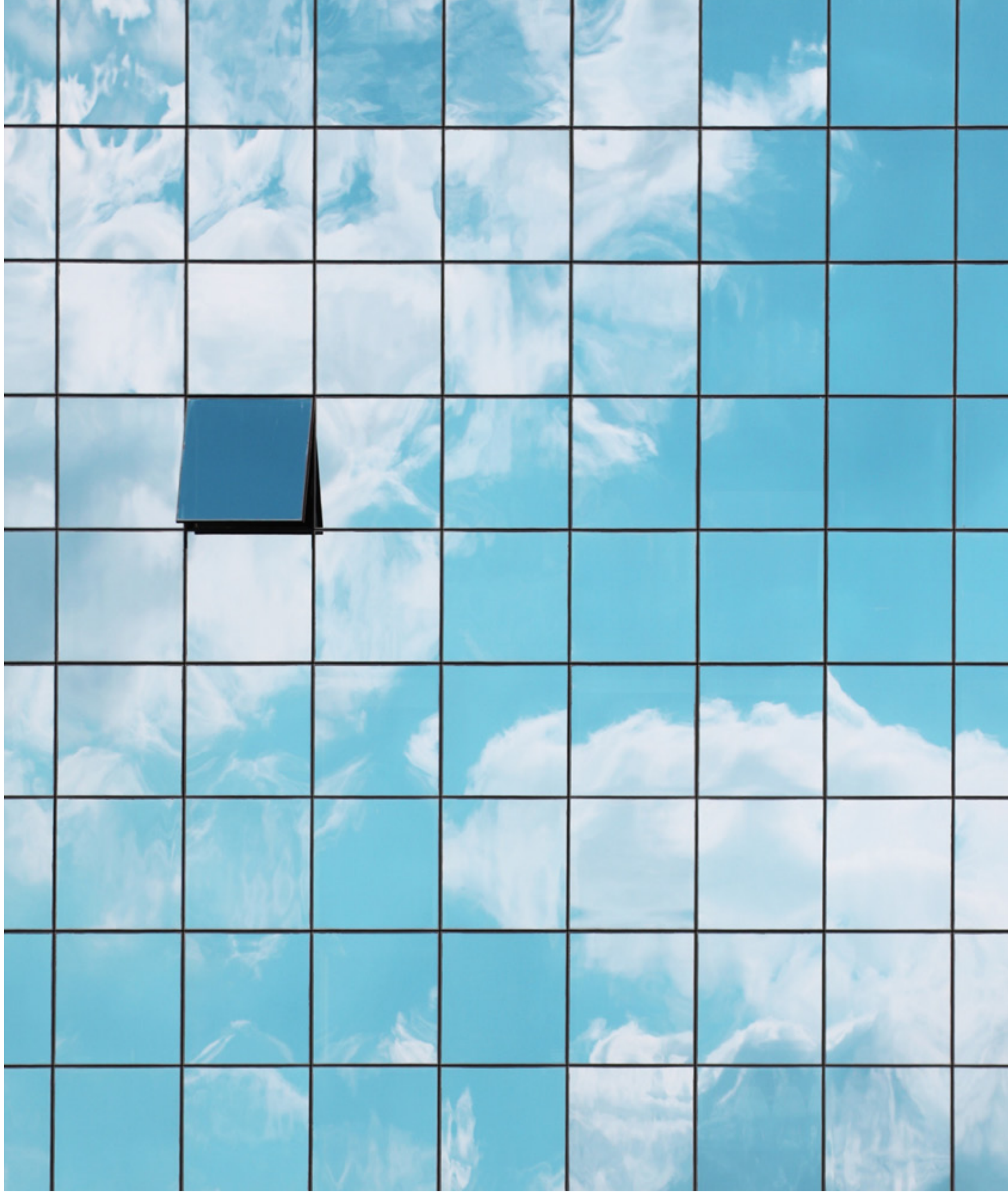
- Green bond issuances are expected to grow, as financial institutions, labelled bonds, and regions such as Asia Pacific gain momentum.
- Other labelled bonds such as sustainability/SDG bonds and social bonds are also expected to grow.[10]
- The role of rating systems will continue to grow as more issuances are externally reviewed, either at pre or post-issuance.

8 https://www.climatebonds.net/files/reports/cbi_gbm_final_032019_web.pdf?origin_team=T5WBZR7J9
9 https://www.climatebonds.net/files/page/files/overview_of_the_green_property_standards_0.pdf
10 https://www.climatebonds.net/files/reports/cbi_gbm_final_032019_web.pdf?origin_team=T5WBZR7J9

Real estate

Here are a few facts, trends and developments you may not be aware of regarding green bonds in the real estate sector.

- Nowadays, Green Bond Frameworks include multiple layers of KPIs, including green building ratings/certifications, eligible property types, energy intensities and carbon impact.
- The focus is shifting from 'checkbox exercise' to actual impacts. This also fits nicely into the trend of mainstream impact investing,[11] which is an important driver for investors to invest in green bonds.
- Lenders are embracing green bonds and green loans in their financing schemes for (deep) green retrofits, major renovations, and new construction projects.
- In 2018, approximately 28% of green bond issuance (by value) was raised to finance buildings and real estate with environmental and climate metrics attached to them. These have been issued by a range of issuer types including government entities, development banks, property companies and corporates.



11 https://www.unpri.org/thematic-and-impact-investing/impact-investing-market-map/3537.article

Green bond issuances in Australia

In Australia there are typically three types of green bond issuers:

1. Corporations, including property companies (Stockland, Investa)
2. Multinational/national banks (NAB, ANZ, Westpac, Commonwealth Bank)
3. Governments and related organisations (NSW Treasury Corp, Queensland Treasury Corp)

A number of Australian banks and companies are entering the climate and green bond markets, and the property sector is well-placed to take advantage of the interest under the CBI Low Carbon Buildings Standard. Since 2014, some of Australia's leading banks and property companies have launched green bonds. CBI certified issuances specifically related to property include:

- ANZ Bank, May 2015, A$600 million. Low Carbon Buildings (40%), Wind and Solar (60%)
- Westpac, May 2016, A$500 million. Wind, Low Carbon Buildings (Commercial)
- Treasury Corporation Victoria, July 2016, A$300 million. Wind, Solar, Low Carbon Transport, Low Carbon Buildings (Upgrades), Water Infrastructure
- Monash University, December 2016, A$218 million. Low Carbon Buildings (Commercial), Solar
- Commonwealth Bank, March 2017, A$650 million. Wind, Low Carbon Buildings (Commercial), Low Carbon Transport
- Investa Office Fund, April 2017, A$150 million. Low Carbon Buildings (Commercial)
- Investa Office Fund, April 2017, A$100 million. Low Carbon Buildings (Commercial)
- Westpac, April 2017, A$50 million. Wind, Low Carbon Buildings (Commercial)
- Westpac, November 2017, €500 million. Low Carbon Transport, Low Carbon Buildings (Commercial), Wind, Solar
- Monash University, December 2017, A$66 million. Low Carbon Buildings (Upgrades), Low Carbon Buildings (Commercial), Solar
- National RMBS Trust 2018-1, February 2018, A$300 million. Low Carbon Buildings (Residential)
- Westpac, February 2018, A$117.3 million. Low Carbon Transport, Low Carbon Buildings (Commercial), Wind, Solar

- National Australia Bank, June 2018, US$750 million. Wind, Solar, Marine Renewable Energy, Low Carbon Transport, Low Carbon Buildings (Commercial)
- Monash University, August 2018, A$116 million. Low Carbon Buildings (Commercial)
- National Australia Bank, August 2018, €750 million. Wind, Solar, Marine Renewable Energy, Low Carbon Transport, Low Carbon Buildings (Commercial)
- Westpac, November 2018. Wind, Low Carbon Buildings (Commercial)
- Investa Commercial Properties Fund, January 2019, A$170 million. Low Carbon Buildings (Commercial)
- Ubank (subsidiary of National Australia Bank), March 2019. Wind, Solar, Marine Renewable Energy, Low Carbon Transport, Low Carbon Buildings (Commercial)
- Woolworths Group, April 2019, A$400 million. Low Carbon Buildings (Commercial)
- Brookfield Properties, June 2019, A$880 million. Low Carbon Buildings (Commercial)
- QIC Global Real Estate, August 2019, A$300 million. Low Carbon Buildings (Commercial)

Further information and resources

While green bond issuances in Australia are growing, there are still largely untapped opportunities for companies that have energy inefficient and high-carbon portfolios to transition to a low carbon future. Green bonds are an important instrument to incentivise and finance the transition to low carbon and future sustainability.

Tap into the resources listed to help you broaden your investment opportunities and make the most of green bonds for all types of built environment portfolios.

Resources

NABERS website
nabers.gov.au

GBCA website
new.gbca.org.au

GRESB website
gresb.com

CBI website
climatebonds.net

Green Bonds: The State of the Market 2018, Climate Bonds Initiative
https://www.climatebonds.net/files/reports/cbi_gbm_final_032019_web.pdf

ICMA Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds, June 2018
icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

Report on EU Green Bond Standard - EU Technical Expert Group on Sustainable Finance, June 2019
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf

The World Bank Green Bond Impact Report 2018
pubdocs.worldbank.org/en/632251542641579226/report-impact-green-bond-2018.pdf

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