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To Whom It May Concern

Submission on Australian Sustainable Finance Taxonomy V0.1, public consultation paper, May 2024

The Property Council of Australia (the Property Council) welcomes the opportunity to respond to the Australian Sustainable Finance Institute's (ASFI) consultation on the Australian Sustainable Finance Taxonomy (the taxonomy) V0.1, released in May 2024.

The Property Council of Australia is the leading advocate for Australia's largest industry - property.[1] Our industry represents 13% of Australia's GDP, employs 1.4 million Australians and generates $72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major built environment asset classes.

Australia's property industry leaders are world leaders in sustainability. They have a demonstrated commitment to ESG, topping indices like the Global Real Estate Sustainability Benchmark and the Dow Jones Sustainability Index for thirteen consecutive years. Most of our leading members have net zero goals by 2030 or before (Scopes 1 & 2), with several having reached it already at a fund or group level.

Our members have a long-term stake in ensuring our capital and regional cities thrive and want to see decisive action on both climate mitigation and adaptation to avoid the worst projected impacts of climate change.

Overview

The Property Council supports the development of a comprehensive framework for reducing barriers to investment into sustainable activities across the Australian economy. Real estate is a major asset class accounting for two-thirds of global real assets and faces both physical and transition climate risks.

[1] Property Council commentary in no way applies to shopping centre or retail matters, only to other commercial assets.

At the same time, buildings account for over 50% of electricity use in Australia and almost a quarter of its emissions. Reducing the risks facing our built assets and their impact on our environment requires large-scale transformation, backed by the increased investments and funding options in Australia.

Australian property is already attractive to global and domestic sources of sustainability-linked capital due to high industry ambition and action underpinned by robust assurance frameworks. Across the sector, there are a range of measurement and reporting tools that contribute to a high level of transparency in the reporting of sustainability outcomes, which supports the issuers of sustainable finance to make positive investment decisions.

This has led to a sharp rise in sustainability finance products designed for use in property, making it easier for real estate businesses to align funding to their values and sustainability strategies. Since 2020, the percentage of loans issued to the real estate sector in Australia that are labelled sustainable finance is estimated to range from 25% to 44%. Over the same time period, the percentage of green bonds issued to the real estate sector has ranged from 1% to 6%.

As the race to attract the capital needed to drive decarbonisation intensifies, the development of Australia's Sustainable Finance Taxonomy should, as a priority, protect the conditions that have contributed to the attractiveness of Australian property to investors, both international and domestic, and leverage tools widely used in the industry.

Our Priorities

The Property Council's key priorities in relation to the development of an Australian Sustainable Finance Taxonomy are set out below. We have included our response to the consultation questions regarding the proposed Construction and Built Environment criteria as Appendix A.

The Property Council supports an ambitious and considered decarbonisation trajectory. We note that there is an assumption that much of the economy-wide decarbonisation can occur within the next decade, including across the energy system and the phase-out of fossil gas in the built environment.

We believe much more ambitious policy is needed to drive this transition than exists currently, and by no means is this assured based on current policy settings.

Our overarching focus is to ensure that members who are already benefitting from sustainable finance products, developed with a sophisticated and nuanced understanding of challenges and opportunities in different sectors, can continue to do so.

1. Clarify the coverage and applicability of the taxonomy

The taxonomy seeks to create a framework by which we can classify economic activities and assets which contribute positively to our sustainability objectives; however, it is not clear on the impact it will have on existing, nuanced approaches to assessing sustainable activities.

Approaches which do not meet the strict framework of the taxonomy should not impact on their green credentials if they do meet the criteria under existing and well-established frameworks, such as NABERS, the Nationwide House Energy Rating Scheme (NatHERS) or Green Star.

ASFI should clarify the role the taxonomy will play in this broader environment of frameworks. Financiers are already taking a more sophisticated view of their investments than is proposed

under the taxonomy, and it is unclear whether the taxonomy will inadvertently limit investment in these activities.

Feedback from Property Council members suggests international investors may hold expectations that Australian firms will maintain alignment with the taxonomy. However, not all building typologies will be covered by the taxonomy, as least in its initial implementation period, including industrial uses such as warehouses and data centres.

We seek clarity on what building types will be explicitly covered and not covered by the taxonomy when it is implemented, and what plans there are to extend this to cover all typologies, as well as confirmation that any excluded sections of the built environment will not be precluded from their own methods of disclosure and labelling.

2. Make the transition of existing assets a key objective of the taxonomy

The Property Council recommends ASFI clarifies how the taxonomy will support the decarbonisation of the construction and built environment sector, particularly in the next 10 years which will be critical to meeting our obligations by 2050.

Transitionary criteria create challenges for finance due to the long-term nature of loans and agreements – clarity is sought on how certain instruments created for sustainable finance in the transitionary period (i.e. prior to 2030) will perform after this period.

The taxonomy should explicitly outline how it can help support the financing of greening existing brown buildings, in addition to creating a framework for new construction.

3. Focus on the most impactful strategies and simplify its rollout

The most significant role the taxonomy can play is to support the transition of the existing building stock over this next critical decade, focusing on:

- energy efficiency
- electrification, and
- use of renewable electricity.

These are the most impactful strategies to drive down emissions in the coming decade and the taxonomy should therefore focus on simplifying screening criteria to allow more market participants to use it and drive more ambitious action to 2035.

The concept of sunrise and sunset dates is likely to create unnecessary confusion and we believe some of the issues highlighted can be best dealt with via other policies and strategies:

- **remove refrigerants from the proposed screening criteria** - refrigerants are an important but minor contributor to overall emissions in buildings and the lack of regulatory guidance and consensus on the appropriate solution for existing buildings means much more work is needed to establish new and best practice, and
- **require an embodied emissions assessment and reduction plan for new buildings using NABERS from the commencement of the taxonomy** – we support alignment to use of the NABERS Embodied Carbon rating tool and Green Star requirements for new buildings. Aligned to this position, we note Building Ministers recently agreed to introduce the NABERS Embodied Carbon rating as a voluntary pathway in the National Construction Code 2025, in advance of further work to require consideration of embodied emissions in NCC 2028.

Further to the use of renewables, consideration should be given to the labelling of portfolios which do not meet 100 per cent renewable energy, which otherwise have a plan to get there.

4. Focus on buildings powered by renewable energy, not on-site solar

The focus of the taxonomy should be buildings powered by renewable energy. In the Australian market this is achieved by elimination of fossil fuel appliances, installation of rooftop solar and/or procurement of renewable electricity via the grid.

In that context, we recommend removing on-site rooftop solar from the proposed screening criteria and instead propose the NABERS Renewable Energy Indicator (REI) as the most suitable measure to drive the desired outcome.

The NABERS Renewable Energy Indicator (REI) shows the proportion of renewable energy generated onsite or purchased offsite and is provided with every NABERS Energy rating. A REI of 100%, or similar measure for non NABERS buildings, could be used as a screen by users of the taxonomy.

The REI cannot reach 100% while there are fossil gas systems being used in the building. It's a metric that industry has invested in, and is gaining broader understanding as fund managers, leasing managers, facility managers all become familiar with the strategies to achieving 100% REI.

5. More policy ambition and support is needed to phase out fossil gas

More policy ambition and support is needed for the transition from fossil gas. We note that there is an assumption in the modelling that complex challenges like the phase out of fossil gas in buildings will occur within the next decade, but there is very little policy in place to support this structural change.

Much more ambitious policy is needed to drive this transition than exists currently, and by no means is this assured based on current policy settings.

The Property Council advocates that all new buildings should be all-electric from the National Construction Code 2025 onwards. Our experience is that members are switching to all-electric new buildings at a pace, but there are challenges that need to be overcome in particular circumstances. For example, tenant preferences in retail food and beverage premises.

The transition of the existing building stock however presents a significant challenge with retrofits of larger commercial buildings in particular presenting significant commercial and technical barriers that require significant and targeted policy to address. The mixed messages contained in the Commonwealth's Future Gas Strategy do not provide the clear signal the buildings sector needs to phase out fossil gas with urgency.

The transition pathway for building services that need to be electrified is challenged by the service lifetime of major equipment like boilers, chillers and heat pumps, which extend well beyond 10 years in most cases. Industry leaders have currently flagged the significant costs of electrification retrofits for the end-of-life replacement of fossil gas equipment.

Meeting a sunset date for transitional criteria in 2031 will be extremely challenging in the current policy environment. We strongly support an ambitious role for sustainable finance to accelerate the electrification of commercial buildings with certain concession considerations in policy setting. In the Property Council's view, this is one area the finance sector could have a transformative role in

transitioning the existing building stock. We would like further clarification on how the taxonomy will assist in accelerating the phase out of fossil gas in Australia's buildings.

6. Clarify future reviews and ongoing governance of the taxonomy

The Property Council recommends ASFI clarifies the timeline for future reviews of the taxonomy to ensure it remains fit-for-purpose and the taxonomy's governance following the initial development phase.

The construction and built environment sector is rapidly evolving and responding to market dynamics and broader national and international sustainability requirements. As regulation continually evolves, regular reviews of the taxonomy should take place to ensure it is aligned to best practice and international standards.

Further to this, clarity is required on the governance structure and arrangements, including decision-making and the conducting of future reviews, for the taxonomy after its initial development phase and implementation. This may require the Australian Council of Financial Regulators' Climate Working Group (CWG) to advise of the permanent establishment of a government or non-government organisation to oversee the taxonomy's future reviews.

The Property Council would welcome the opportunity to discuss this submission in more detail. Please reach out to Dan Rubenach, Policy Manager at drubenach@propertycouncil.com.au to arrange a meeting.

Yours sincerely

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Appendix A

Headline ambitions

1.1 Do the headline ambitions reflect Australia's highest national goals for climate and environmental sustainability?	**Yes**

Construction and the Built Environment

4.1 Do you support a 'sunrise' trigger for refrigerants and embodied carbon?	**Comments** A sunrise trigger could cause confusion in the rollout of the taxonomy. We suggest: • **Removing refrigerants from the proposed screening criteria**- refrigerants are an important but minor contributor to overall emissions in buildings and the lack of regulatory guidance and consensus on the appropriate solution for existing buildings means much more work is needed to establish new and best practice. • **Require an embodied emissions assessment and reduction plan for new buildings using NABERS from the commencement of the taxonomy** – we support alignment to use of the NABERS Embodied Carbon rating tool and Green Star requirements for new buildings. Aligned to this position, we note Building Ministers recently agreed to introduce the NABERS Embodied Carbon rating as a voluntary pathway in the National

	Construction Code 2025, in advance of further work to require consideration of embodied emissions in NCC 2028. **Further discussion on refrigerants** Refrigerants contribute 2% of the commercial building emissions footprint. Refrigerants are chosen to meet the demands of performance, efficiency, GWP, toxicity, safety and cost. The potential to create GHG emissions is a function of GWP, charge size and likelihood of release to atmosphere. In this response we urge caution in applying a GWP only consideration of refrigerant. Australia is a signatory to the Montreal Protocol and the Kigali amendment agreeing to a phase down of HFC refrigerants from imports of 8 million tonnes CO2e in 2018 by 85%, to 1.607 million tonnes by 2036. It is expected that residual HFC refrigerant will remain in use throughout and beyond this period. Ideally, taxonomy aligned buildings will reduce or eliminate HFCs well ahead of the phase down schedule and this may be most easily achieved in new buildings that are designed around the performance and characteristics of alternative refrigerants. For existing buildings, the transition is not as clear. At page 60 in the consultation paper there is an assumption that "commercial buildings can immediately transition to very low GWP refrigerants." This is not consistent with the experience of our members, many of whom have the most ambitious net zero targets on the global stage. Some alternative low global warming refrigerants, including some HFOs, are linked to other forms of pollution, including PFAS, forever chemicals linked with far reaching environmental and health impacts. It seems possible that some HFOs will also be subject to bans in the EU, while in the US the EPA's drinking water standards for PFAS will have the community seeking the source of these chemicals to eliminate the root cause.

	In summary, more information is required to demonstrate how the contribution of refrigerants and associated systems energy can be managed to meet a 1.5 deg C trajectory without creating other pollution effects. Following the precautionary principle and the Do No Significant Harm criteria, AFSI should demonstrate that the GWP trajectory is fit for purpose and will not lead to unintended consequences. Before then, the recommendation is to delete the GWP requirement from commercial property acquisition and ownership. Meanwhile, the property industry should be much better informed on the various complications in refrigerant and equipment selection and how associated risks are best managed. We do not agree with the consultation paper statement "Screening criteria have been developed for refrigerants that accommodate current market product and skills capacity." Significant work is required to create greater awareness and understanding of the greenest, or least bad outcome. We also note that the taxonomy is based on privately held analysis in relation to refrigerants. References 63, 64, 69-74 are examples and suggest that all analysis supporting the taxonomy is available in the public domain.
4.2 Is the nominated two-year sunrise date (1 Jan 2027) appropriate? If not, what should it be and why?	**Comments** The taxonomy is simplified if the sunrise date is eliminated, and new construction considers embodied emissions from the commencement of the taxonomy. Refer to comments in Section 4.1 regarding refrigerants.
4.3 Do you support a sunset date for transition criteria? If not, what should it be and why?	**Comments** As identified previously (**Priority 4**), the current policy environment will mean meeting a sunset date for transitional criteria in 2031 will be extremely challenging. We would seek clarification on how the taxonomy proposes to accelerate the phase out of fossil gas in Australia's built environment. The Property Council strongly supports an ambitious role for sustainable finance in accelerating the electrification of the built environment, particular commercial buildings, with concessional finance.
4.4 Do you agree with the framework for assessing the suitability of proxies for the screening criteria?	**Yes** The use of proxies, where compliance with screening criteria can be easily and independently assessed, will be critical to the taxonomy's success. NABERS and Green Star are widely adopted in the Australian commercial

	building sector, serving as robust and trusted benchmarks for performance that are already broadly leveraged in sustainable finance products. It is essential that the taxonomy is aligned with NABERS and Green Star. The introduction of any other measures will add cost and administrative burden where it is least necessary. For example, NABERS star ratings are the most widely used measure of energy performance of commercial buildings. It's a metric, widely understood, that is cost efficient to certify with a thriving market of trained (and monitored) assessors.
4.5 Are there additional proxies that should be considered for the Australian building sector?	**Comments** The Property Council strongly supports the alignment of the taxonomy with NABERS Energy ratings and the GBCA's Green Star Rating system, for which industry has invested in significantly. ASFI should consider further transparency on its assessments of these proxies, noting our previous comments that misalignment with these benchmarks will introduce significant administrative burden and undue costs.
4.6 Do you support the proposed alignment with the NCC requirements and revisioning process for energy efficiency for new buildings, or should those requirements be subject to an uplift, like the 10% required by the Green Star Buildings criteria? If you support an uplift, what should it be and for what reasons?	**Comments** The Property Council notes the work in progress to increase energy efficiency requirements in the NCC 2025 as part of an ongoing commitment to review and ratchet up requirements for new buildings over time. This is an area of significant progress in recent years, driven by Commonwealth and state and territory governments' commitment to the Trajectory for Low Energy Buildings, which is currently being updated with suggested actions out to 2050. Given the strong focus on minimum standards in the NCC being geared towards alignment with best practice and a constant process of review and revision, we support the alignment of the taxonomy with this process as sufficient.
4.7 If you currently support an uplift, should this continue indefinitely or	**Comments** The Property Council suggests this concept could be revisited in future.

should it be revisited in the future as the NCC continues to be revised?	The current cadence of review and uplift of requirements in the NCC are considered aligned to best practice in keeping pace with energy efficiency opportunities. One reason to revisit the potential for uplift in future could be an extended delay in the rollout of the NCC by states and territories, who have to adopt the NCC by variations to their Building Acts.
4.8 Is the time allowed for industry adaptation appropriately calibrated for commercial and residential applications?	**Comments** If the refrigerant requirement is deleted from the taxonomy and the taxonomy is clearer on how it supports the transition of buildings that exceed the operational energy and emissions thresholds and have yet to fully electrify, the projected trajectory to 2035 is achievable if all the possible policy levers can be applied. We note the significant work now needed from governments to create a policy framework that not only provides long term certainty on key challenges like the phase out of fossil gas, but also supports the transition with the appropriate incentives and regulatory measures. The development of the Built Environment Sector Plan and the update to the Trajectory for Low Energy Buildings now present a critical opportunity to embed the necessary policies.
4.9 Should the sunrise date apply to all buildings or be restricted to only some sectors such as houses?	**Comments** As outlined previously, our preference is to remove the sunrise date.
4.10 Should rooftop solar be a prerequisite for green screening criteria?	**Comments** No, the overriding criteria should be that the building is powered by renewable energy. In the Australian market this is achieved by elimination of fossil fuel appliances, installation of rooftop solar and/or procurement of renewable electricity via the grid. The use of the NABERS Renewable Energy Indicator – provided with every NABERS Energy rating – is a far more useful measure for the taxonomy to adopt as a screening criterion. See the response to 4.12 for further detail. **Why on-site rooftop solar is the wrong measure for existing commercial buildings**

	The generation and supply of electricity to cities forms a complex interactive system. As the system transforms to one based on distributed energy generation, storage and use, the optimal system solution has yet to be defined. Technology continues to develop rapidly across generation, storage and especially, transport energy. Solar and batteries remain on strong cost reduction pathways, even when Australia already enjoys lower solar installation costs than other major economies, combined with the benefit of long sunlight hours. No wonder Australia leads the world on installed solar on a per capita basis. Mandatory installation of PV on existing buildings could lead to unintended consequences and poor investment decisions. We acknowledge that the likely net zero scenario will include significant growth of solar on buildings but we don't think that it should be used as a discriminating factor in the sustainability of a building. A building should be able to meet green criteria without rooftop solar. Noting that the proposed revision of the NCC 2025 section J9D5 mandates solar installations for new buildings, given certain conditions, it doesn't suggest that every existing building should have the same provision. We also note the list of exemptions in the NCC, from space that is shaded, trafficable, occupied by equipment and subject to other practical and technical constraints. On existing buildings, the list of exemptions will grow to include insufficient structural capacity, heritage impacts, access to switchboards etc. Qualifying all these exemptions becomes a significant administrative burden that will slow decision making and the allocation of capital. These administrative burdens must be weighed up against the incremental incentive the taxonomy might provide through the blanket requirement. The installation of solar PV in many applications on buildings is highly commendable and should be encouraged where market dynamics support a business case. Given the Australian experience in uptake of solar, particularly on homes, the omission of solar as a screening criterion seems unlikely to impede solar roll out.

	The taxonomy should consider how it will acknowledge renewable electricity supply agreements enabled through Australia's robust renewable energy certificates scheme. Including a NABERS 100% Renewable Energy Indicator could prove to be a more influential requirement than a rooftop solar prerequisite. Consider the case of a large commercial office tower where the solar installation, given all competing requirements on rooftop space is very limited, is limited to < 100 kW, yet the renewables purchase can apply to all electricity consumed. The simplistic response to this suggestion might be that the electricity agreement isn't a feature of the building. Similarly, the scope 2 emissions assigned to a building are a feature of the energy system and not of the building. Encouraging renewable electricity contracts leads to the preferred outcome of efficient buildings running on renewable electricity.
4.11 Should rooftop solar screening criteria be applied to all building use types or is it only appropriate for a limited selection of building use types, such as single-family dwellings? If you support limiting to select building use types, which types of buildings and why?	**Comments** For new buildings, we note it is likely the proposed revision of the NCC 2025 will mandate solar installations for commercial buildings, subject to the suitability provisions. For existing commercial buildings, this should be removed as a screening criteria.
4.12 Are there other measures instead of or in addition to on-site solar that should be recognised?	**Yes** As flagged above, the Property Council recommends that the NABERS Renewable Energy Indicator is the most suitable measure that should be recognised, instead of on-site solar. The NABERS Renewable Energy Indicator (REI) shows the proportion of renewable energy generated onsite or purchased offsite and is provided with every NABERS Energy rating. A REI of 100%, or similar measure for non NABERS buildings, could be used as a screen by users of the taxonomy.

	This measure supports the ambition of transitioning to a fully decarbonised grid and effectively imposes a cost of carbon into electricity purchases that in turn enhances the business case for further efficiency. This measure would also align with the US definition for zero emissions buildings in operation, "All energy used by the building must be clean energy, obtained through any combination of on- and off-site sources, as long as the GHG emissions from that clean energy equals zero." The REI cannot reach 100% while there are fossil gas systems being used in the building. It's a metric that industry has invested in that is gaining broader understanding as fund managers, leasing managers, facility managers all become familiar with the strategies to achieving 100% REI.
4.13 Are there better ways to screen for the contribution of rooftop solar for any building than currently proposed?	No further comment.