SUBMISSION TO THE INQUIRY INTO ACT GREENHOUSE GAS REDUCTION TARGETS

Property Council of Australia

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The Property Council of Australia welcomes the opportunity to provide this submission to the ACT Legislative Assembly Committee on Climate Change, Environment and Water on its Inquiry into ACT Greenhouse Gas Reduction Targets.

We also appreciate the opportunity to appear before the Committee's scheduled public hearings.

The Property Council of Australia is the nation's peak representative of the property industry. Our members help shape, build and finance our cities and have a long-term interest in the future of our urban areas. Locally, Property Council members include property owners and developers who invest directly in the infrastructure that underpins Canberra, and therefore play a vital role in sustaining the future growth and sustainability of our city. Property is a key business sector and driver of the ACT economy, and an important partner with government in delivering well thought out and sustainable initiatives and policies.

The Property Council has commissioned several research papers (1,2) in recent times which underpin our views in relation to the important role at state and territory level for complementary measures to the national CPRS and other Federal climate change legislation in the form of targeted initiatives to unlock low cost abatement opportunities in the built environment.

The Property Council supports the retention of the targets proposed in the ACT Government's 'Weathering the Change' Climate Change strategy, especially in the context to the expected growth of Canberra to around 500.000 residents by 2050. It is the change in emission profile over the coming years, as well as the ongoing review and monitoring of our emission trajectory that is important. The Property Council offers its active support in this process of change.

The property industry has already and is continuing to absorb the costs and risk arising as a result of increasing federal policies and legislation, because of the high component of Commonwealth Government accommodation in Canberra. In order to achieve targeted emission reductions for the ACT, greater incentives, education and collaboration is needed between the ACT Government and industry. This is critical to ensure a meaningful and viable approach to encourage economic activity, return on risk and capital sufficient to justify the investment by the private and public sectors towards achieving the greenhouse gas emissions profile for the ACT.

The detailed response below provides further recommendations and context.

The Property Council of Australia's response to the Standing Committee on Climate Change, Environment and Water inquiry into and report on:

(a) an appropriate target to be established in legislation, including:

(i) an appropriate date for the peaking of greenhouse gas emissions in the ACT;
(ii) an appropriate target for the reduction of greenhouse gas emissions in the ACT by 2012; and
(iii) an appropriate target for the reduction of greenhouse gas emissions in the ACT by 2020;

Recommendation 1:

Retain current targets but develop collaboratively with industry sectors detailed strategies and initiatives for individual market segments that will initiate change of the current emission trajectory.

The Property Council and its members see opportunities in the property sector for targeted initiatives to increase energy efficiency, reduction of energy demand as well as increased use and production of renewable energy.

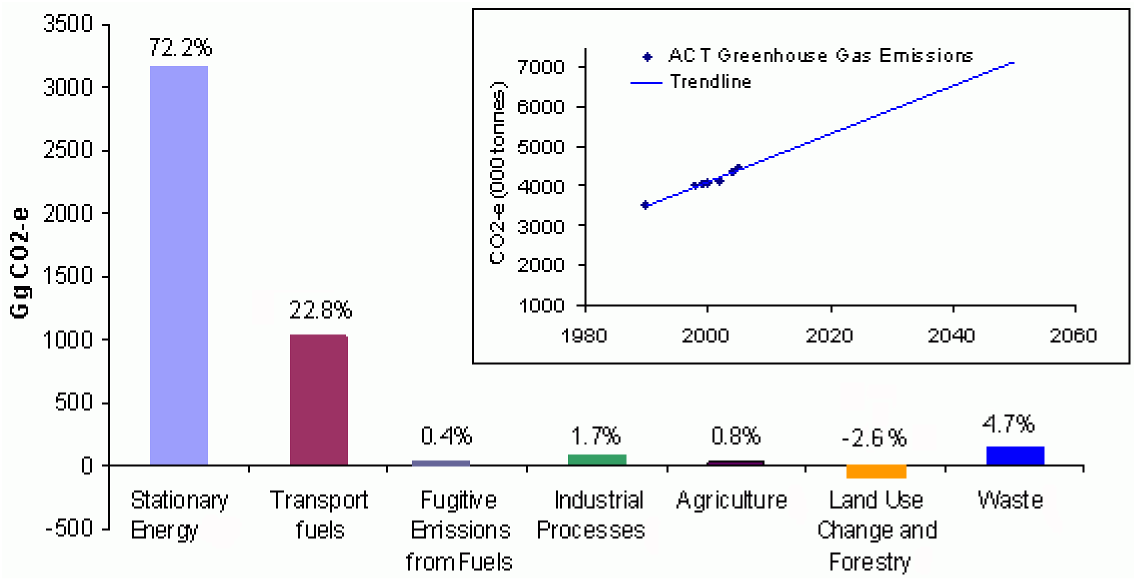
Weathering the Change, 2007 (3) represents the ACT Government's current commitment to reduce greenhouse gas emissions to 2000 levels in 2025, a target of 4,059 million tonnes and a reduction of 60 per cent of 2000 levels by 2050, to 1,623 million tonnes.

The Property Council supports the ACT Government in this objective, and offers to work collaboratively towards achieving these targets. At this point in time, with very limited data or monitoring of existing initiatives, the Property Council believes the current targets are ambitious and should not be increased. A detailed strategy should be developed jointly with all sectors of the ACT economy and its communities to work towards the current targets.

The ACT Government's policies on climate change must cost effectively unlock the potential that exists within the community to reduce greenhouse gas emissions because the ACT Government cannot achieve the target it has established on its own. Therefore identification and development of targeted incentives and policies, especially in the current economic climate are critical. In the property sector this relates in particular to the majority of the existing commercial building stock.

Nationally around a quarter of Australia's greenhouse gas emissions come from buildings and their occupants (1, p.6). The 2008 published *ACT State of the Environment Report* (4), reported that in the ACT 72.3% of energy consumption is for stationary energy use (electricity and gas used to heat, cool and light) for homes, offices and other buildings.

This significant higher proportion is due to the ACT's key role of accommodating Commonwealth and ACT Government activities and services, and the lack of primary industries and large scale manufacturing in the Territory. The other key factor is the current low level of supply and use of only 2 percent of renewable energy in the ACT market. This presents a significant opportunity to shift the Territory's emission profile towards renewable energy production and use within the Territory and reduce reliance on high emission fossil fuel electricity production (4).



Ref 4; Figure 1: ACT greenhouse gas emissions

Source: TAMS, Climate Change Policy Unit (unpublished)

Recent research for the Australian Sustainable Built Environment Council (ASBEC, Ref.1) found that energy price increases from the Federal Government's proposed Carbon Pollution Reduction Scheme (CPRS) will only deliver savings from the building sector of around 8 Mt a year. However, with complementary measures and encouragement to achieve the fuller energy efficiency potential of the building sector, abatement of around 60 Mt per annum are achievable by 2030. This is an abatement of around 27-31 per cent against the baseline emission projections (without change) for the building sector.

The Property Council offers to work with the ACT Government to identify the 'complementary measures and encouragement' that may be effective within the unique Canberra market context. This opportunity would be defeated however, if additional ACT Government legislation or conditions were placed on the ACT property industry, which is already struggling to absorb costs and risk arising out of Commonwealth legislation related to the CPRS, the EEGO policy and proposed mandatory disclosure legislation in the current economic climate.

The Property Council has long advocated that the Commonwealth and ACT Governments demonstrate leadership and match the private sector practices in embracing a co-operative working approach to achieve jointly agreed energy efficiency targets.

(b) appropriate monitoring, reporting and review processes to accompany the target;

Recommendation 2:

Reporting should be delivered annually by DECCEW to the Chief Minister and the ACT community for public comment. In addition, an annual review is to be undertaken jointly with industry and community groups on efficiency and effectiveness of programs, barriers and opportunities identified and further expansion of initiatives and programs. A more detailed breakdown of the stationary and transport energy and emission profiles are essential to inform future discussions on this matter.

The Property Council believes that appropriate monitoring and reporting by the ACT Government, primarily based on customer metering data via ACTEW AGL and other energy providers, is critical to the review by communities and industry as well as transparency on cost and emission reduction effectiveness of program and initiatives over time.

The Property Council would appreciate if the ACT Government in its future *State of the Environment* reports provided a more detailed breakdown of data for the stationary and transport energy sector to allow more detailed review and discussions. This should also provide insight into Commonwealth and ACT Government owned, occupied and leased property assets.

It should be recognised by government that the private sector, through new developments in recent years in the Territory, has heavily invested and committed to a significant shift not only in energy efficiency but also broader sustainability in terms of reduction of water, waste and material use, to name only a few aspects. Higher costs and risk imposed through Commonwealth Government property accommodation requirements (EEGO policy, 7) and tenant expectations are continued to be absorbed by the private sector. Further Commonwealth legislation expected in 2010 will, in the current economic climate, put further pressure on the Canberra property market and reduce its ability to finance, mange and risk and deliver projects.

(c) the following issues associated with achieving the greenhouse gas reduction target:
(i) the efficacy of existing programs within the current ACT Climate Change Strategy Weathering the Change, and the need for additional programs in the Strategy;

Recommendation 3:

The ACT Government should investigate and utilise its broad range of administrative tools to overcome the current economic and structural barriers experienced by the property sector. Initiating change now will not just result in significant emission reductions and lowered energy demand, but also stimulate economic activity, employment and its supply chain as well as retain the ACT Governments tax revenue base.

A number of programs and initiatives have been announced by government to support private households and public housing as well as government buildings and operations. These programs are welcome and necessary to include all sectors of the community. Future programs and incentives should include the commercial property sector and larger residential developments as well, particularly in an environment where Canberra's office market vacancy rate is increasing, and is currently the highest for any of Australia's capital cities. Higher office vacancy rates and the need for public sector spending to counter reduced economic activity creates the opportunity to upgrade existing buildings to reduce greenhouse gas emissions.

While Canberra has a number of new high class green buildings, as at July 2008 some 68 per cent of commercial buildings in the ACT are existing B, C and D Grade stock with little or no environmental credentials. Therefore, the ACT Government can without doubt achieve very significant results by putting in place additional incentives for owners of existing buildings to retrofit their stock.

Although retrofitting premises embodies for building owners an important statement about that company's environmental and social credentials, in practical terms there is presently little commercial incentive for owners of many existing buildings to upgrade their buildings. Property owners are currently managing a significant level of risk in regards to financing cost, decline in property values, lease obligations, increased vacancy and loss of income during building upgrades, cost and delay during ACT planning and approval processes, to name just some of the barriers a building owner is currently very concerned about.

Therefore in the current economic climate, if no action is taken, upgrades would only occur in accordance with the normal building lifecycle responses. This would significantly delay the transition to low emission properties in the ACT.   This is where the ACT Government can step in and through careful policy initiatives that effectively kick-start significant reductions in greenhouse gas emissions by offering appropriate incentives to building owners.

The following are examples of incentives that could be offered to accelerate the uptake of green principles by owners of existing buildings, thereby contributing to the overall objective of generating "deep cuts" in greenhouse gas emissions with the associated co-benefits. These could be applied on their own, or as part of a package.

- **Rate Reductions for Green Buildings**

A sliding scale of rate reductions could be offered for buildings with an achieved green rating, measured or modelled emission reduction.

- **Land Tax Abatement**

Land Tax should be reduced for green rated buildings on a similar sliding scale to the proposed rate reductions.

• **Gross Floor Area Increases**
Buildings that achieve an agreed green rating should be allowed a 10-15 per cent increase in the prevailing location limits and within current planning envelopes, possibly as more height but within further setback or possible transfer to other projects.

• **Stamp Duty Waivers**
Stamp Duty relief should be examined on the same basis as rate relief measures for green rated residential and commercial buildings.

• **Fee Waivers (DA Lodgement Fees and any required building covenant extension fees)**
The range of fees associated with constructing new and redeveloping existing buildings, such as Development Application Lodgement Fees, could be waived for buildings achieving a green rating standard. Alternatively, an 'Express' or 'Green Door' approval process can be considered, especially for larger projects that commit to a range of sustainability initiatives.

• **Change of Use Charge Remission or Deferment**
The Change of Use Charge should be waived in full or deferred for a period of 1-2 years for redevelopments that achieve a green rating. This waiver or deferral should be contingent upon the developer conducting an audit of the proposal to ensure that what is planned achieves the best outcome from an environmental perspective.

- **Facilitation adaptive re-use of inefficient office buildings**

Generally, an inefficient office building is a greater user of energy than if a building was converted to residential use. The ACT Government needs to ensure that planning and land use regulations encourage the re-use of redundant and inefficient office buildings into other uses.

The above initiatives can be combined and complement in a number of ways suit project type, scale and broader economic context. In addition, the ACT Government should offer rewards for improving eco-efficiency in existing buildings with deep cut emission potential through density bonuses, transferable rights based on higher densities, rebates on infrastructure charges, 'green door' fast tracked planning approvals and assistance with environmental ratings and access to professional expertise.

(ii) the ACT's future energy supplies, taking account of the draft ACT Government Energy Strategy due to be published in late 2008 and options for sourcing or producing sufficient renewable energy to meet the needs of the ACT;

Recommendation 4:

The increase of renewable energy production and supply, diversification of sustainable energy sources including solar, co and tri-generation systems as well as carbon off-set programs are encouraged by the Property Council of Australia. Continued discussion between the ACT Government and the Property Industry is critical to ensure that this

does not result in new regulatory or other barriers and that harmonisation between local and national schemes is achieved.

The Property Council supports the ACT Government's intention to broaden and diversify its energy base towards renewable energy sources, in particular solar energy, co and tri-generation systems that offer application to existing and new properties and developments.

The recently announced feed-in-tariff for installations of up to 30 KWH is such a measure to allow on-site solar energy production based on gross metering. This program will provide an important initiative to achieve an increase from the currently low 2 percent of renewable energy usage in the ACT. Any development that includes onsite renewable energy production will make a significant contribution to the reduction of the ACT's emission profile into the future.

At this early stage some barriers and additional risks have been identified by members of the Property Council in relation to negotiation of contractual obligations with the energy providers or installers as well as local approving authorities applying conditions, all of which are passing additional risk back to the property owner and developer. These issues will be monitored by the Property Council and we would welcome the opportunity to discuss these with the Minister for Environment, Climate Change, Energy and Water in regular intervals over the coming years.

In addition, the future broadening of acceptable offset opportunities, as treatment and availability of offsets and abatement opportunities will be another integral component to achieve proposed greenhouse gas reduction target. It is the Property Council's position however that this review should extend beyond an assessment of *'the acceptability of local and offshore offsets'* per se and consider how the proposed greenhouse gas reduction target will interface with:

- the Carbon Pollution Reduction Scheme (**CPRS**) which contemplates only limited domestic opportunities for abatement via an 'opt in' reforestation mechanism (see White Paper policy position 6.22); and
- voluntary schemes available in the market,

The Property Council also believes that the emphasis of the Committee's review should be upon domestic as opposed to international offset opportunities given:

- recognition of the Kyoto flexibility mechanisms under the proposed CPRS;
- encourage local investment in the solar energy industry and technology; and
- the policy submission on efficiency and refurbishment opportunities outlined in the July 2008 progress report on the *ACT Climate Change Strategy 2007–2025: Weathering the Change*.

c (iii) climate change impacts on the sustainability of existing ecological communities;

Recommendation 5:

A review and change in approach that provides a balanced 'before and after' development assessments in regards to the ecological site value is required. This should lead to enhanced integration of environmental planning into property development as well as a reward and approve where development and construction contributes to longer term ecological diversity and sustainability.

The Property Council calls for a fresh look at how property development within developed areas (brown field sites) as well as on new sites (green field sites) can foster inclusion, enhancement and in particular recognise improvement of ecological value through the on-site development process and delivery of final outcomes at completion.

The current approach of environmental impact assessment, flora and fauna and in particular tree assessment and replacement are cost and time intensive, but do not take into consideration where the development approach contributes, enhances and for the longer term provides a basis for improvement of the ecological communities. These improvements can take place across or on or part of the site, adjacent or even within the neighbouring community, depending on value and contribution made by the individual property development.

Examples of improved ecological benefits that are not being recognised or are even penalised because they amount to change from the existing site are: increased tree planting after pruning and clearing, on-site water management and retention, wild life access corridors, creation of various microclimatic zones on site, broadening of local species to attract and build more complex flora and fauna systems on site, provision of excess water to adjacent parks or easement to support off-site ecosystems rather than to stormwater to even sewer.

The current planning systems is heavily focused on retention only, even if existing ecosystems, natural or man-made infrastructure and overall site conditions are run down and not sustainable due to broader environmental or off-site changes.

c (iv) social equity and economic issues, costs and opportunities in achieving this target;

Recommendation 6:

To ensure social equity, choice and diversity in relation to this target it is of vital importance that Canberra can continue to grow sustainably and starts to develop and deliver viable and integrated infrastructure and transport systems.

The Property Council has been a long standing advocate of sustainable growth of Canberra. This is to ensure that a sustainable basis for employment, education, communities, health and welfare, government and private sector investment underpins the long term growth of our capital city. This is expressed in the Property Council's 'Initiatives for Canberra' documents (5).

Infrastructure

The Property Council regards infrastructure as a critical policy issue for government at all levels across Australia. Not only does infrastructure represent a substantial share of the economy, but it also plays an essential role in supporting nearly all aspects of society's operation. In past years the Commonwealth Government invested significant funds to provide high-quality infrastructure assets in the ACT. Since the advent of self-government in 1989, relatively little has been spent on maintenance or on the provision of new infrastructure, resulting in the degradation of existing assets and gaps in critical infrastructure needed to enable the nation's capital to thrive and grow.

The Property Council sees this as a major priority for the ACT, and has identified the need for a 20 year infrastructure strategy, together with a program for annual delivery of infrastructure and tied to the ACT's population target. An infrastructure plan for Canberra should provide a statutory framework to encourage and manage sustainable growth as well as shift and reduce the Territory's emission profile.

Transport

In a submission to the ACT Legislative Assembly Standing Committee inquiry into ACTION buses and the Sustainable Transport Plan in 2007, as well as in a number of subsequent publications, the Property Council recommended an integrated strategy noting that for a broad range of reasons, including the convenience of the multi-functional car, lifestyle choice, lack of modal choices or necessity, Canberrans are highly car dependent.

In 2007 around 87 per cent of Canberrans choose to rely on their car as their primary mode of transport to and from work, which leaves around 13 per cent walking, cycling and catching ACTION buses. And, in spite of a number of recent initiatives to encourage more people to catch buses, there has been little or no shift at all towards public transport.

A light rail system has been proposed, but even if this were to attract Commonwealth funding and to get off the ground in Canberra, it is unlikely in and of itself to provide a complete fix to Canberra's transport challenges. The Property Council believes it is necessary to take a fresh look at the problem, to find solutions which will genuinely meet the needs of the community.

For this to happen, an integrated transport plan needs to be developed which incorporates better linkage between public transport and park and ride options, and the offer of frequent public transport services to work and service centres.

Paid car parking as well as park and ride/ cycle interchanges in proximity to public transport lines are critical part of the approach to a modal shift away from the very high car usage. It is also critically important that the development of any transport system be closely aligned to land use planning. Increased densities in and around Civic and the town centres will provide more people with the option to walk to work or nearby public transport connections.

Existing buildings

With respect to existing buildings, an independent report by David Langdon has reported that the average age of office buildings in Australia is over 27 years. So much energy has gone into the construction of existing buildings (embodied energy) it is generally counterproductive, from an environmental and energy reduction perspective to demolish them without consideration for the potential energy efficiency of a replacement buildings. According to the report it would take around 290 years to regain the embodied energy in a new building through the more efficient performance (6).

The more practical solution is therefore to upgrade existing office stock with a feasible life cycle to become more efficient in the first instance. Where in addition to energy inefficiency, building age, structure, compliance or use in specific locations is also affecting the performance of the asset, change of use and redevelopment can be combined with higher environmental performance to improve the future life cycle of existing buildings. In this instance energy efficiency incentives as well as facilitating approval timeframes and change of use charge remission or deferment should be offered by the ACT Government to initiate this shift towards more sustainable long term assets.

c (v) the relationship between the ACT's legislated target and policy and measures agreed to and implemented at a national level;

Recommendation 7:

As National Capital, the ACT property sector is the provider of Commonwealth as well as ACT Government property accommodation and related services. The increasingly legislated requirements by the federal government, its various departments and agencies have had a much higher impact on the property sector in Canberra than in other states or territories. This continued trend is expected to worsen the economic outlook of the property sector in the ACT. The Property Council recommends to the ACT Government to assist with incentives, harmonisation of local and federal requirements and facilitate simple and transparent planning and approval processes related to emission reduction in the ACT.

The property industry in the ACT is due to its size and close linkage to local and Commonwealth Government employment and investment cycles often not synchronised with the national trends of the larger states.

Hence, due to the size of the Commonwealth Government office component in Canberra, any legislation or measures in relation to properties and office accommodation has a significantly higher impact on the whole property market of the ACT than anywhere else in Australia.

An example is the Australian Government *Energy Efficiency in Government Operations Policy (6; EEGO, 2006)*. This policy requires 'Green Lease' agreements between owner and tenant that target 4.5 star NABERS (Energy) tenancy ratings for new or refurbished offices, energy management plans as well as metering, monitoring and reporting by each department on their annual energy consumption.

In an expanding market over the last decade, this federal policy has resulted in most new developments being designed and constructed to a high level of energy efficiency in order to be able to attract Commonwealth tenants.

However, in the current market of economic recession and increased property vacancy rates, these current requirements with possibly added local and national legislation will be of detrimental impact on the local property sector. Increased legislation and its uncertainty of longer term impact will further increase the rising level of risk and cost financing in property investment, construction and development costs, increased legal and leasing requirements, delays in the planning and approval process.

As previously stated, it should be recognised by government that the private sector through new developments in recent years in the Territory has heavily invested and committed to a significant shift not only in energy efficiency but also broader sustainability in terms of reduction of water, waste and material use, to name only a few aspects. Higher costs and risk imposed through Commonwealth Government property accommodation requirements (EEGO policy,7) and tenant expectations are continued to be absorbed by the private sector. Further Commonwealth legislation expected in 2010 will in the current economic recession put further pressure on the Canberra property market and reduce its ability to finance, mange risk and deliver projects.

In summary, the commercial property market in Canberra is under substantial stress with further pressure expected in the future through national legislation. This will in the ACT have an increased negative effect on the property industry's ability to invest, employ and improve its asset and hence the ACT Governments revenue base.

The Property Council asks that the ACT Government balance the economic context and federal legislative impact on the property industry with the provision of significant climate change incentives and improved local government services to encourage property industry, in particular the ageing existing building stock to reduce emissions and improve its overall environmental credentials.

The Property Council has been in discussion with the ACT Government to jointly launch a Building Tune-up program to encourage investment and education, achieve measurable environmental savings in emission, water, waste, etc, as well as ensure that the important property asset base of the ACT is not falling into long term decline.

Conclusion

Thank you for the opportunity to provide input to this important inquiry into the ACT GHG emission targets. The Property Council of Australia and its members are committed to continue to work closely with the ACT Government and its agencies to achieve significant GHG emission reductions in the property and building areas. As in the proposed *'Tune-up*

Canberra' proposal discussed and submitted to the ACT Government for consideration as a modest start-up program we offer to develop jointly with Government a number of programs and incentives that are cost effective, provide measurable reduction in GHG emission, education of the industry, more sustainable built environments and stimulation of economic activity and skills development in the ACT.

In the current economic climate with additional federal legislation and related requirements expected to have a continued negative effect on the property industry in the ACT, the key role of the ACT Government in regards to facilitating emission reduction is through a close working relationship with the industry and provision of targeted and effective incentives to release the significant GHG emission reduction potential, in particular in existing residences and commercial office buildings.

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References:

1) ASBEC, 2008, - *The Second Plank: Building a Low Carbon Economy with Energy Efficient Buildings*

2) Centre of International Economics, 2007, *Capitalising on the building sector's potential to lessen the costs of a broad based GHG emissions cuts*

3) ACT Government, 2007,p.23, *Weathering the Change, the ACT Climate Change Strategy 2007-2025*

4) ACT Government, 2007, *ACT State of the Environment Report greenhouse gas emissions indicator*, accessible at http://www.envcomm.act.gov.au/soe/2007actreport/indicators07/greenhouse07

The ACT State of the Environment Report 2007/08 was tabled in the ACT Legislative Assembly on 7 August 2008. The report covers the period from 1 July 2003 to 30 June 2007*

5) Property Council of Australia, 2008, *Initiatives for Canberra, Towards Canberra's Centenary and Beyond*

6) David Langdon, 2008, *Opportunities for Existing Buildings - Deep Emission Cuts*

7) EEGO Policy, see http://www.environment.gov.au/settlements/government/eego/publications/eego.html