

20 December 2023

Mrs Lisa O'Malley  
Chair  
Public Accounts Committee  
4 Harvest Terrace  
WEST PERTH WA 6005

Via: [lapac@parliament.wa.gov.au](mailto:lapac@parliament.wa.gov.au)

Dear Mrs O'Malley,

**Re: Inquiry into how the Western Australian Government's progress towards achieving Environmental, Social and Governance (ESG) outcomes is assisting to secure international investment**

Green Building Council of Australia (GBCA) welcomes the opportunity to make a submission on how the Western Australian Government's progress on ESG outcomes is assisting to secure international investment.

GBCA's purpose is to lead the sustainable transformation of the built environment. We do this primarily through our core functions:

- We rate the sustainability of buildings, fitouts and communities through Australia's largest national, voluntary, holistic rating system – Green Star.
- We educate industry, government practitioners and decision-makers, and promote green building programs, technologies, design practices and operations.
- We advocate policies and programs that support our vision and purpose.
- We collaborate with our members and other stakeholders to achieve our mission and strategic objectives.

Green Star is Australia's most widely used sustainability rating system for the design, construction and performance of buildings (including social infrastructure), fitouts and communities. At the heart of the development of the Green Star rating system (first released in 2003) was a commitment to providing industry-agreed best practice benchmarks and to combat greenwashing through a robust, independent verification process. Green Star aims to transform the built environment by:

- reducing the impact of climate change
- enhancing our health and quality of life
- restoring and protecting our planet's biodiversity and ecosystems
- driving resilient outcomes for buildings, fitouts, and communities
- contributing to market transformation and a sustainable economy.

GBCA represents more than 650 member organisations which reflect the diversity of Australian business with over 400 small-to-medium enterprises through to 100 companies with annual turnover of more than \$100 million and 27 companies listed in the ASX200, with a combined market capitalisation of more than \$550 billion. Our members include major developers, professional services firms, banks, superannuation funds, product manufacturers, retailers, utilities and suppliers. We also have local government, federal and state government departments and land organisations, and university/education members.

In recent years, ESG has come to play an essential role in the built environment, with a growing focus on sustainability and social responsibility in the construction, design and operation of buildings and other infrastructure. There has also been a 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. Recognising that organisations with strong ESG performance can deliver better returns, investors are increasingly adopting ESG criteria into their investment evaluations. This creates pressure for firms across all sectors to improve ESG performance and disclosure to secure investment.

### **How the State Government's commitment to net zero emissions by 2050 will help improve ESG outcomes?**

ESG analysis has become an increasingly important part of the investment process. For investors, a key motivation in the practice of considering environmental, social and governance issues as part of their financial analysis is to gain a fuller understanding of the investment opportunity. For international investors, this analysis often extends beyond the performance of an individual organisation to progress at a jurisdictional scale. ESG investment is also seen as a pathway to achieve the [UN Sustainable Development Goals](#).

In order to reach net zero emissions economy-wide, the built environment will be required to decarbonise. The WA Government's commitment to net zero, combined with sectoral emissions reduction strategies, including for the built environment, will provide a clear and consistent framework for action and long-term certainty that enhances investor and business confidence, which can lead to increased interest in investment. GBCA commends the WA Government's commitment in the recent *Sectoral emissions reduction strategy for Western Australia* to encourage certification of new government buildings to a 4 Star Green Star rating, and the principles for sustainable buildings embedded within the strategy, as positive steps on this leadership journey.

It is expected that 73% of Australians will live in capital cities by 2061.<sup>1</sup> Climate action, resource depletion and impacts on human equity, health and wellbeing are global megatrends that the built environment must address. Buildings account for over 50% of electricity use in Australia and almost a quarter of its emissions. The built environment has the technology to decarbonise now, but we must do this at speed and scale to smooth the way for other hard-to-abate sectors and achieve Australia's legislated emission reduction targets.<sup>2</sup> Governments have a critical role to play in overcoming barriers and accelerating industry action.

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 twelve consecutive years. Many are already committed to ambitious goals to reach net zero emissions by 2030 or sooner and are leveraging sustainable finance products to help achieve these targets. In partnership with the Australian Sustainable Finance Institute, GBCA recently released a report, [Unlocking the value: A practical guide for sustainable finance in the Australian real estate sector](#), which aims to facilitate increased and more efficient adoption of such products in the Australian market to unlock the enormous environmental and investment opportunities available. As outlined in the report:

Energy efficiency measures in buildings alone could deliver \$20 billion in energy bill savings for businesses and households, and 64MT of avoided CO<sub>2</sub>e emissions by 2050. Electrifying the built environment could deliver \$49 billion in energy savings between 2024 and 2050 compared to BAU, along with 199MT of avoided CO<sub>2</sub>e emissions.

The report also identified the following opportunities:

- The real estate industry is a key contributor to the global sustainable finance debt market (across loans and bonds). According to BloombergNEF, total issuance volume (USD equiv.) for the real estate sector in 2021 and 2022 are \$178bn and \$127bn respectively. That equates to approximately 10% and 8% of the total sustainable finance issuance volume for 2021 and 2022 respectively.
- Within the sustainable finance debt market (across loans and bonds) in the real estate industry, issuance volume is dominated by European and North American issuers/ borrowers. Australia contributed approximately 3% and 2% of issuance volumes in 2021 and 2022 respectively.

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<sup>1</sup> [Australian Bureau of Statistics](#)

<sup>2</sup> [Every Building Counts 2023 Edition](#)

- In the years 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%.
- For bonds issued to the real estate sector in Australia, the percentage labelled sustainable finance has ranged from 1% to 6% in the years since 2020.

As the competition for global investment intensifies, it is critical that national and state led emissions reduction targets are in alignment and adopt standardised international benchmarks to evaluate the sustainability performance of projects.

### **Milestones in place for achieving ESG outcomes including any monitoring and reporting requirements.**

Globally, sustainable finance instruments such as green loans and green bonds are on the rise, as companies committed to decarbonisation see their investment potential. Australian property is already attractive to global sources of sustainability-linked capital due to high industry ambition and action underpinned by robust assurance frameworks, such as Green Star, NABERS, Living Building Challenge, the Well Building Standard and the Cleaning Accountability Framework.

These frameworks rely on quality control mechanisms which are repeatable and auditable. Alternatives to these that are not supported by a credible, independent verification process have been shown to not perform to expected outcomes. In addition, recent studies<sup>3</sup> show that independent verification yields results – with demonstrable performance that equals or exceeds the intended targets. Frameworks backed by quality assurance processes means claims regarding achievements that investors can trust. For example, Green Star includes a certification process that has achieved ISO 9001 accredited quality control. Green Star is also a registered trademark approved by the Australian Competition and Consumer Commission.

Projects that make claims of sustainability standards that are not independently verifiable or transparent have faced accusations of greenwash and have needed to retract those claims. Equivalency is an issue faced by many organisations managing certification schemes. In the Green Star context, this means making a self-assessment that a project's outcomes meet Green Star's benchmarks, or when a benchmark or system is used to measure a project and judged as equivalent to Green Star, but that benchmark or system lacks the rigour of the Green Star system.

### **The financial implications of doing nothing**

ESG investing is growing worldwide with the value of ESG assets growing ninefold in four years. In 2018, the value of worldwide ESG ETF assets was at USD 41 billion and as of February 2022 the value of ESG ETFs assets reached USD 378 billion.<sup>4</sup>

The commercial real estate sector boasts over 859 million square metres<sup>5</sup> of floor space. This number is projected to double by 2050 to accommodate the growing demand for offices, retail spaces, and other facilities. The residential sector has approximately 10.9 million dwellings<sup>6</sup> as of June 2022, with approximately 200,000 built every year, about 50% of which are apartments. By 2040, it is expected that number to increase by 43%.<sup>7</sup> Of the existing dwellings, approximately 5.2 million are connected to the gas network,<sup>8</sup> with another million using propane.<sup>9</sup>

Energy efficiency retrofit investments present an opportunity that combines emissions reductions with high returns on investment. 80% of the buildings that will exist in 2050 already exist today. Improving energy efficiency and transitioning these buildings to renewable energy represents another major opportunity for sustainable financing. Transition funding is crucial for various projects, including

<sup>3</sup> [Closing-the-performance-gap-in-australias-commercial-office-sector. Green Building Council of Australia](#)

<sup>4</sup> [Standards: The building blocks of trust for Australia's ESG investing landscape](#)

<sup>5</sup> [Banking on the climate transition \(kpmg.com\)](#)

<sup>6</sup> [Australian Bureau of Statistics. 2022. 10.9 million dwellings in Australia in 2022](#)

<sup>7</sup> [ABS. 2019. Household and family projections, Australia](#)

<sup>8</sup> [Energy Networks Australia. 2021. Reliable and clean gas for Australian homes.](#)

<sup>9</sup> [connectnow. 2020](#)

electrification, HVAC system upgrades, chiller system revamps, and the introduction of building management systems to continue reducing energy demand. In fact, to achieve net-zero carbon targets by 2050, Australia must:

- Electrify more than 500 homes a day, every day, including weekends, and also improve the energy efficiency of 100 more (approximately 200,000 homes and apartments a year)
- Retrofit nearly 3.5% of its current non-residential stock annually, a significant jump from the present rate of 1%. This would mean increasing the current rate of investment in retrofits from \$500 million AUD to about \$1.5-\$2 billion AUD.<sup>10</sup>

GBCA would welcome further engagement on the issues raised in this submission. Please contact Shay Singh, Senior Policy Manager Policy and Government Relations, via email at [REDACTED] to arrange further consultation.

Yours sincerely

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Davina Rooney  
Chief Executive  
Green Building Council of Australia

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<sup>10</sup> [Green Finance](#)