Introducing Performance-Based Ratings in Commercial and Industrial Offices above 1,000m² in England and Wales

June 2021

Better Buildings Partnership

The Better Buildings Partnership (BBP) is a collaboration of the UK's leading commercial property owners and managers who are working together to improve the sustainability of existing commercial building stock. Our members represent over £270bn of AUM, and via the Managing Agents Partnership, manage over 30,000 buildings.

This year the BBP and the Managing Agents Partnership have continued an extensive programme of work to support our members in line with the objective of improving the sustainability performance of their portfolios. In September 2019 we launched our Member Climate Change Commitment, which now has 26 signatories covering over £370bn AUM who are committed to delivering net zero carbon buildings by 2050.

The BBP has an extensive programme of work, which is member led and highly targeted on the significant role that property owners can play in driving change based on three key objectives:

- Buildings that perform better
- Improving Professional Understanding
- Market Transformation

Of particular relevance to this consultation are the following BBP projects:

- The Real Estate Environmental Benchmark (REEB) whereby the BBP measures and benchmarks operational data submitted voluntarily by BBP members from over 1,000 commercial properties on an annual basis, providing a vital insight into the performance of commercial buildings and providing robust industry benchmarks that can be used to inform action.
- The BBP led Design for Performance project which has involved an extensive programme of work to explore and emulate the NABERS rating system here in the UK.
  - Initiated in 2015, the project included a feasibility study and pilot programme and subsequently the development of technical infrastructure for the scheme facilitated through an MOU between the BBP, NABERS and BRE which enabled a NABERS UK scheme for offices to be launched in November 2020 with the keynote speech given by Minister Kwasi Kwarteng. BRE is the UK Administrator for the scheme through a license agreement with NABERS.
  - NABERS UK was developed by the industry for the industry and has received backing from major UK office developers. The Design for Performance process is already being implemented on 14 new major office developments representing over 350,000m^2 of new office space.
  - The scheme also has the backing of key industry bodies (see details below) and a steering group which includes representatives from the British Property Federation (BPF), British Council for Offices (BCO), UK Green Building Council (UKGBC), Chartered Institute for Building Services Engineers (CIBSE), Building Services Research and Information Association (BSRIA), Royal Institute of British Architects (RIBA), Royal Institute of Chartered Surveyors (RICS) and The Institute of Workplace & Facilities Management (IWFM).
  - The scheme has already been integrated into key industry standards including the BCO Guide to Specification, BREEAM New Construction, BSRIA Soft Landings and the RIBA Plan of Works.

PIONEERS

British Land, Derwent London, Federated Hermes, Great Portland Estates, Grosvenor, Landsec, Legal & General Investment Management, Lendlease, Nuveen Real Estate, MEPC, Royal London Asset Management, Stanhope, The Crown Estate

INDUSTRY SUPPORTERS

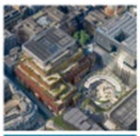
BCO, BPF British Property Federation, bre, BSRIA, CREFC Europe, CIBSE, RIBA Architecture.com, RICS, UK GBC, UBT Usable Buildings Trust

DELIVERY PARTNERS

AECOM, ARUP, atelier ten, ATKINS, Bryden Wood, Buro Happold, chapmanbdsp, CUNDALL, ELEMENTA, EVORA EDGE, H|M, HOARE LEA, INKLING, KJ TAIT ENGINEERS, MECSERVE, Norman Disney & Young, PICK EVERARD, RAMBOLL, SWECO, TFT, thornton reynolds, TWINNEARTH, watkins payne, wsp

Pioneering projects

NABERS
DESIGN FOR PERFORMANCE


1 Broadgate


2 Finsbury Avenue


2 Ruskin Square

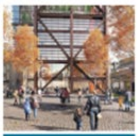

4 Angel Square

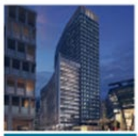

11/12 Wellington Place


19-35 Baker Street


The Turing Building


Lavington Street


New City Court


Portland House


Ralli Quays


South Molton Triangle


St James Market Phase 2


Statesman House

14 PROJECTS +350,000 M²

High-level Response to the consultation

The BBP members wholeheartedly welcome the Government's plans to introduce a Performance-Based Policy Framework in Large Commercial and Industrial Buildings.

The response to this consultation should be read alongside the accompanying consultation: 'INTRODUCING A PERFORMANCE-BASED POLICY FRAMEWORK IN LARGE COMMERCIAL AND INDUSTRIAL BUILDINGS'.

This consultation is specific to the office sector and our high level response is as follows:

- It is noted that the approach in the strategy paper should be applied without amendment to the office sector. An important point for clarification relates to the party that will be responsible for undertaking the rating.
- Most offices will have the metering infrastructure for a whole building rating, but there will likely be challenges in separating out the base building energy uses from tenant uses, whilst this delineation is necessary and should be driven by the performance based rating scheme, there may need to be an approach to this which allows for a transition from a whole building rating to a base building (and tenant) rating.
- Given that the energy consumption associated with tenants can, in some cases, account for a significant proportion of the buildings total consumption, the BBP would support a tenant rating, but question the decision for this to be made voluntary. Further consideration also needs to be given to the ways in which owners and occupiers are compelled to share data with one another to enable the rating to be delivered. Also compelling sharing of data between owner and occupiers to enable the rating.
- The consultation provides an analysis of the costs and compares this with the NABERs UK for offices rating costs. As highlighted in our responses to both consultations, any consideration of costs should also reflect the benefits of undertaking a rating and the likely cost savings associated with the reduced energy consumption driven by the disclosure of ratings. An important factor for property owners will be whether the outcome of the rating has an impact on the investment performance of the asset. There is an important link between this and the desire for any rating to be 'investment grade'.
- The consultation states clearly that the rating system should be 'investment grade' and provide 'critical, reliable and trusted information'. This a critical consideration, the consultation does not set out in any detail how this assurance process will work and there is an important balance to be struck between the quality and cost of the rating. Whilst the submission of data could be achieved at relatively low cost, the process of assurance and verification (and the accompanying tailored benchmarks) will be vital if the market is to have the appropriate degree of trust in the rating scheme.
- The BBP welcomes the Government's intention to work with the industry to tailor the framework appropriately. Through the development and launch of the NABERS UK scheme for offices the BBP, NABERS and BRE have worked collaboratively together to develop a performance based rating scheme for the office sector which we believe provides a highly relevant and useful evidence base for the Government to draw upon.
- Finally, we would comment that NABERS UK has been developed through extensive industry collaboration and has engendered significant industry support. We would therefore hope that any Government scheme would seek to align with this industry led and backed initiative.

Should you require any further information on any aspect of this submission please contact Sophia Tysoe, Stakeholder Engagement and Communications Executive at s.tysoe@betterbuildingspartnership.co.uk.

Membership

BETTER BUILDINGS PARTNERSHIP MEMBERS

MANAGING AGENTS PARTNERSHIP MEMBERS

20. The Government's approach for implementing annual performance-based ratings in commercial offices over 1,000m² follows the approach outlined in the strategy paper. Are there any considerations specific to the office sector, that are not covered elsewhere in this paper, that the Government should be taking into account? Please provide evidence where possible.

- It is noted that the approach in the strategy should be applied without amendment to the office sector. Consultation responses received in relation to the strategy to an introduction of a performance based framework should therefore also be considered here.
- This section of the consultation refers to commercial offices above 1,000m2. Further comment on this Is provided In the response to question 27.
- An important point for clarification relates to the party that will be responsible for undertaking the rating. Whilst the consultation indicates that owners and single tenants will be required to undertake a rating, it does not indicate who should be responsible. This is particularly important in the scenario where a single tenant is leasing an office building from an owner, clarification of this will be essential. For example, where there is single tenant, whilst that tenant will 'typically be responsible for all energy and services in the office', depending on the terms of the lease they may not be responsible for procuring the energy and therefore may not have access to the data to undertake the rating. It may be more simple for the responsibility to simply sit with the 'owner' of the building, but this would require appropriate mechanisms to be in place for the owner to require the tenant to provide the appropriate data where the owner is not responsible for energy procurement for tenant services (in this case a base building rating would be preferable, but this would only be possible where the appropriate metering was in place to enable delineation).
- The requirements set out on page 11 of the consultation indicate the circumstances under which a whole building and a base building rating will be required. Most buildings will have the metering infrastructure for a whole building rating, but there will likely be challenges in separating out the base building energy uses from tenant uses, for example the absence of base building metering arrangements in some buildings, and access to data. There may be unreliable documentation of existing metering – its location, the services being supplied and the conversion of the meter reading into energy units. It is also common for the existing metering not to have a suitable logging system in good working order. Evidence that the BBP has gathered through the Design for Performance project indicates that rating existing buildings could therefore prove challenging at least during the early introduction of the scheme prior to the right 'levers' being in place to encourage better metering and monitoring. An option in this regard would be to allow the production of a whole building rating for leased offices where proof can be provided that a base building rating is not possible for the reasons stated above. The soft launch of the scheme could be used as an opportunity to test the efficacy of such an approach. Ultimately, it is the BBP's view that, in order to effectively drive improvements in performance, greater granularity and delineation of energy use is required and that any rating should encourage the implementation and uptake of effective metering arrangements that would support this.
- The Government has asked for feedback on whether it would be beneficial to make the performance-based framework rating available on a voluntary basis to tenants in a multi-tenanted office with a large (over

1000m²) lettable area. Given that the energy consumption associated with tenants can, in some cases, account for a significant proportion of the buildings total consumption, the BBP would support a tenant rating, but question the decision for this to be made voluntary. For the BBP members and owners of buildings, understanding the energy consumption that generates their 'scope 3' building emissions is going to critical as part of the pathway to achieving net zero buildings. If this is voluntary, there needs to be significant incentives put into place for occupiers to voluntary adopt this rating and/or a clear indication of whether this will become a future mandatory requirement and if so, the timescales for doing so.

21. To resolve instances where the Private Rented Sector (PRS) Minimum Energy Efficiency Standards (MEES) overlap with the requirement to obtain and disclose annual performance-based ratings, do you favour:

- the 'hybrid option' as has been set out by the Government
- the 'hybrid option' with amendments. If so, please state the amendments you like to see made
- the 'do nothing' option
- a different option to resolve this issue

- Following consultation with members, the BBP would not support either of the above options as they are quite binary in nature. Instead we would recommend an approach based on a phased transition with performance based outcomes being the ultimate objective. Until such a time as a performance based rating scheme is proven to deliver improvements in energy performance, it would be advisable to have the safety net of PRS and MEES compliance in order to ensure, at the very least, building fabric and services are being invested in and improved. Over time, the PRS and MEES obligations could be phased out, with preference given to the performance based rating scheme, as long as this was accompanied by evidence of investment in building fabric and services and some mandatory requirements concerning performance improvement (other wise a building could achieve a poor performance rating without any requirement to improve). Our understanding is that by pursuing the hybrid solution in isolation this could give rise to a potential gap from 2022 to 2030 where there is no check on any action taken to meet MEES and the performance rating has no requirement to improve performance. Our reading of the consultation would lead us to suggest that there is an options which transitioned from the 'do nothing' solution to the 'hybrid' solution over time. In this regard, as highlighted elsewhere, it would be helpful to see the timescale for MEES and the timescale for the performance based rating presented alongside one another to provide greater clarity on how this might work.
- As highlighted in the consultation response to the Performance Based Rating Framework, one option would be to remove the requirement to produce an EPC and comply with MEES if the building achieves a specific level of performance demonstrated through the performance based rating.
- A further question arising is whether offices under 1,000m2 could voluntarily opt in to the performance based framework, thereby also removing obligations concerning PRS and MEES compliance as proposed?
- The consultation indicates that 'where building owners will have a low rating, they will be given clear sight

of the level of improvements that they be expected to make over the 2020s'. However, there is no detail on how the level of these improvements will be arrived at – providing clarity and certainty on this point will be essential in order for the appropriate investment decision-making to take place. Whilst the paper cites the examples of NABERS and REEB where improvements have been undertaken on a voluntary basis, the time period over which these have been achieved should be considered by the Government, including an assessment of whether purely voluntary improvement is likely to deliver the pace and scale of change required to meet its targets.

22. Do you consider that there should be any other exemptions applied specifically to the office sector?

- As indicated in the response to Question 6 in the accompanying consultation paper, we would agree that exemptions should be limited to relatively few buildings and would argue that the policy should be on the basis of 'comply or explain' rather than seeking to exclude certain types of assets, including those where national security is concerned. It remains important to improve the energy performance of these buildings and we would recommend that these buildings could still be required to undertake the rating, but if the information was deemed as a threat to national security, they would not be required to publicly disclose the rating.
- Where the rating relies on the responsible party being able to access the appropriate data to undertake the rating, specific legal requirements concerning the provision and exchange of this data between owner and occupier may need to be introduced. This is an important matter for further consideration and could, potentially, suggest further exemptions and a consideration of the financial burden of non-compliance.

23. The Government's objective is to deliver an investment grade performance-based rating at the lowest possible cost. Do you consider that the proposals outlined above, and in Chapter 3, strike the right balance between cost and quality?

- With regards costs this has also been commented on in the accompanying consultation introducing a performance based rating framework as follows:
    - The consultation states clearly that the rating systems should be 'investment grade' and provide 'critical, reliable and trusted information' and that the 'the aim of the rating is to be investment grade at the lowest possible cost.' We would agree that this a critical consideration, most especially if the Government would like to see the rating scheme linked to other policies, fiscal incentives and green finance. However, the consultation does not set out in any detail how this assurance process will work and there is an important balance to be struck between the quality and cost of the rating. Whilst the submission of data could be achieved at relatively low cost, the process of assurance and verification (and the accompanying tailored benchmarks) will be vital if the market is to have the appropriate degree of trust in the rating scheme.
    - The consultation outlines a schedule for the ratings that is a combination of physical site visits and desk top audits. Whilst we would agree in principle that both of these mechanisms might be needed, the key principle is the ability of the scheme to assure the quality and accuracy of the data and we would argue that the scheme should be configured to achieve this, rather than specifying

  - the frequency of site visits required, most especially as this has a significant impact on the cost of any rating. The particular circumstances arising as a result of COVID provide an opportunity to review the appropriateness and efficacy of site visits in gathering and verifying data and we understand that NABERS ratings in Australia have continued during COVID without the need for site visits. Further evidence could be sought directly from NABERS in this regard.
  - Equally it is important not to make any assumptions about the ease and accuracy of automated data gathering. Again this is something that should be explored on a sector specific basis, where in some sectors this may be easier than others.
- Not withstanding the comments above concerning the relationship between the process of rating (especially site visits) and costs, the presentation of the costs in relation to a four year cycle is not particularly helpful or transparent, it would be better if these costs were presented on an annual basis to allow direct comparison with the costs of rating using other schemes and if the costs were broken down into the costs associated with scheme administration i.e. lodging and verifying the rating (which would be fixed costs) and the costs of delivering the rating i.e. assessor and other time/resource costs (these would be variable costs and would, to a degree be left to the market to resolve).
- Evidence from Australia concerning this question are as follows:
  - NABERS ratings are designed to achieve some of the highest quality standards of any energy rating tool globally, at the lowest cost possible. Some distinct aspects of the NABERS quality assurance framework include that certification is conducted by well-trained Assessors, using high-quality standards that are improved on an ongoing basis. Assessors must visit buildings to ensure all energy sources and other data is captured accurately, and every one of their certification submissions is independently quality checked and audited.
  - This quality assurance scheme in NABERS has been central to achieve a near-universal trust in the results of a NABERS rating across building owners and energy services companies in Australia. The level of trust in the NABERS results has been central to Australia achieving record levels of energy savings in existing buildings. Upon receiving a star rating results, most building owners and consultants in Australia focus on how to improve their buildings results, rather than on questioning the accuracy of their NABERS star rating.
- The evidence above suggests that the principles of an investment-grade rating are important to ensure that any rating is widely trusted and acted upon by industry. Measures to reduce cost in these assessments should considered carefully, to ensure they do not come at the expense of certification quality, which would likely undermine the energy and emissions savings aim of the policy.

24. Do you consider the estimated cost of the rating to be realistic?

- The consultation (and accompanying impact assessment) provides an analysis of the costs and compares this with the NABERs UK for offices rating costs. We would comment that, as the consultation highlights, the proposed costs of producing and processing the rating are broadly comparable with the NABERS UK rating scheme.
- The main point of difference is in relation to the annual updating of the rating. In this regard, it is our understanding that the Government is proposing that the annual update of the rating only involves submitting updated information and, as we understand, does not involve any assurance in relation to these

annual updates (only requiring a 'site visit' once every four years). This therefore results in significantly lower costs of rating when this is spread over four years and compared with the NABERS rating scheme.

- Not withstanding the strategic points made in response to question 23 above, we would view these costs as being realistic based on the experience of NABERS. However, we would highlight that this has yet to be market tested and the assumptions in the consultation concerning multiple ratings, maturity of the market and economies of scale are not yet proven.
- In addition to the points made above, we would observe that the cost comparison is in relation to the base building rating only, costs for whole building ratings are likely to be cheaper and this should be explored in more detail in order to provide an appropriate cost analysis and comparison. The cost of the rating does relate to the specific rating sought (whole building, base building and/or tenant rating) and evidence from NABERS in this respect is as follows:
    - Conducting a NABERS Energy for Offices whole building tool, where the entire building is assessed as a single entity, or The total cost to owners of conducting a whole building rating is somewhere between \$3,500 to \$4,500 on average (£1,750 to £2,250), depending on the complexity of the building.
    - Conducting a NABERS Energy for Offices base building rating (for the owner) along with NABERS Energy for office tenancies rating (one for each tenant) requires more work for the assessor and auditor and based on experience in Australia, conducting combined ratings of owners and tenants (which they call Co-Assess), would be 20% to 30% higher or c£2,100 - £2,700 in total, on average.

25.Do you consider the estimated cost of the rating to be affordable?

- We would refer to our response in the accompanying consultation as follows:
- More importantly, any consideration of costs should also reflect the benefits of undertaking a rating and the likely cost savings associated with the reduced energy consumption driven by the disclosure of ratings. An important factor for property owners will be whether the outcome of the rating has an impact on the investment performance of the asset. There is an important link between this and the desire for any rating to be 'investment grade'.

26. Do you favour:

- Option one as set out by the Government, or option one with amendments. If the latter, please state the amendments you would like to see made
- Option two as set out by the Government, or option two with amendments. If the latter, please state the amendments you would like to see made
- A different option to resolve this issue.

- A fundamental consideration in relation to this question is whether the building being rated should be over 1,000m2 or the space being rated should be over 1,000m2. In this regard, the number of assets that fall into Option 1 will mean that a significant number of buildings could potentially be excluded from the rating scheme (especially post COVID) and therefore this would not be the preferred option.
- In relation to Option 2 greater clarification is sought on the percentage of the space that would need to be defined as office space as there is only a nominal suggestion of 50%. This question also bears significant relationship to the planned roll out of the scheme beyond offices to other asset types and therefore it Is challenging to draw any conclusions when the plan for this roll out is not clearly defined.
- Not withstanding the above, the approach adopted by NABERS UK is to apply the office rating to the office premises in the building i.e. to exclude from the rating the area of and energy used by premises which are not offices. This is a key criteria in enabling the rating to be investment grade by excluding other building uses which may significantly influence the outcome of the rating, either by function of the energy use or the hours of use.

27. Is the approach taken to define the energy associated with a base building rating, including the interpretation of additional services added by a tenant, suitable to achieve an accurate and fair base rating?

- Whilst lacking in some detail, the BEIS approach overlaps significantly with the methodologies being proposed by NABERS UK and therefore we would conclude that this approach seems sensible. The approach would require clarifying in the drafting of the rules for any scheme.

28. Is the approach taken to define the energy associated with a whole building rating suitable to achieve an accurate and fair rating?

- This would seem sensible and excludes energy uses not associated with the building (e.g. EV infrastructure), although more detail is required concerning how offices with mixed uses will be dealt with – please refer to the response to Question 26 above.

29. Do you support the Government's proposal for resolving boundary disputes? If so, are there any additional considerations or amendments you would make to the proposal? If not, do you consider that a different approach would be more effective? Please provide evidence and case studies to support your reasoning, where possible.

- The BBP broadly supports these proposals which reflect the NABERS UK Rules.

30. At this stage the Government welcomes views on how to deal fairly with situations where metering arrangements in offices are not ideal, and how to incentivise upgrades in the metering arrangements where that is the case.

- As highlighted in our response to Question 20 above, we would suggest that this is addressed by allowing the production of a whole building rating for leased offices where proof can be provided that a base building rating is not possible due to insufficient/inappropriate metering. The soft launch of the scheme could be used as an opportunity to test the efficacy of such an approach. Ultimately, it is the BBP's view that, in order to effectively drive improvements in performance, greater granularity and delineation of energy use is required and that any rating should encourage the implementation and uptake of effective metering arrangements that would support this.

31. Which of the options above is your preferred option for addressing situations where offices are in buildings with non-office areas? Are there other options that have not been considered? Please provide evidence, where possible.

- In response to this question, we would evidence The rules for the NABERS UK energy tool (based on over 20 years of addressing many practical issues such as this) include clear rules on how to deal with retail spaces in an office building, the area and energy of which are generally excluded from a NABERS rating. The NABERS UK rules also provide step-by-step rules on how to do this, what documentation is needed to prove this and even alternative methods when this information is not possible to be obtained.
- An advantage of the NABERS UK scheme is that it has well-tested and robust solutions to many other issues that can and will emerge when certifying buildings. These include solutions to deal with:
  - fluctuating vacancies in office buildings,
  - Non-office areas often found in office buildings, such as medical centres, language schools,
  - Mix-used buildings, as well as individual building towers that share common facilities (e.g. car parks or foyers) or services (e.g. a shared heating or cogeneration plant).

32. Subject to the outcome of this consultation, the Government will work with the ratings administrator, and with industry experts, to tailor the framework appropriately to the office sector. At this stage, the Government welcomes any additional feedback on the high-level technical considerations outlined in this chapter, especially where there may be key considerations that we may have not addressed, or not been able to cover.

    Where possible, it would be helpful if you could provide evidence and case studies to support your response.

- The BBP welcomes the Government's intention to work with the industry to tailor the framework appropriately for the office sector and we hope that the response to this consultation provides useful feedback on the high-level technical considerations for the scheme.
- Through the development and launch of the NABERS UK scheme for offices the BBP, NABERS and BRE have worked collaboratively together to develop a performance based rating scheme for the office sector which we believe provides a highly relevant and useful evidence base for the Government to draw upon.

- Finally, we would comment that NABERS UK has been developed through extensive industry collaboration and has engendered significant industry support. We would therefore hope that any Government scheme would seek to align with this industry led and backed initiative.