BBP | BETTER BUILDINGS PARTNERSHIP

INTRODUCING A PERFORMANCE-BASED POLICY FRAMEWORK IN LARGE COMMERCIAL AND INDUSTRIAL BUILDINGS

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

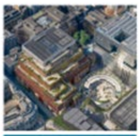
BCO · BPF British Property Federation · bre · BSRIA · CREFC Europe · CIBSE · RIBA Architecture.com · RICS · UK GBC · UBT Usable Buildings Trust

DELIVERY PARTNERS

AECOM Imagine it. Delivered. · ARUP · atelier ten · ATKINS Member of the SNC-Lavalin Group · Bryden Wood · Buro Happold · chapmanbdsp · CUNDALL · ELEMENTA · EVORA EDGE · H|M · HOARE LEA (H.) · INKLING · KJ TAIT ENGINEERS · MECSERVE · Norman Disney & Young A Tetra Tech Company · PICK EVERARD · RAMBOLL · SWECO · TFT · thornton reynolds · TWINEARTH · watkins payne designed • engineered • focused · wsp

Pioneering projects

NABERS DESIGN FOR PERFORMANCE


1 Broadgate


2 Finsbury Avenue


2 Ruskin Square

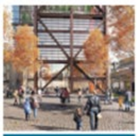

4 Angel Square

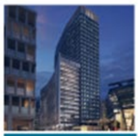

11/12 Wellington Place


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 BBP has worked for over a decade to highlight the importance of measuring performance in use and has supported and initiated various projects to fill this gap in the absence of legislative intervention. More recently and of very particular relevance, is the BBP's project to lead the development of an in-use performance rating scheme for UK offices highlighted above and based on the highly successful and market transformational NABERS scheme in Australia.

Our high-level response to this framework is as follows:

- The BBP supports the introduction of mandatory in-use performance ratings for commercial buildings in the UK. This is deemed by our members to be a vital instrument for improving transparency concerning the energy performance of commercial buildings and as an enabling mechanism for improving that performance.
- The consultation provides a solid foundation from which to develop such a scheme in the UK and the BBP broadly supports the key principles that are proposed for the scheme, including incorporating learnings from Display Energy Certificates (DECs) and NABERS UK.
- The BBP supports the introduction of mandatory ratings for all non-domestic buildings and the public disclosure of these ratings annually. The BBP would like to see the Government commit to a time scale for this rollout commensurate with the Government's climate change ambitions and targets. This will provide much needed clarity concerning the future trajectory for this policy and enable property owners to prepare appropriately.
- The framework indicates that whole building, base building and tenant ratings will be offered and the BBP broadly supports this delineation as it acknowledges the important role that responsibility and accountability for energy performance plays in driving improvements in performance.
- The BBP broadly supports the approach to metrics, benchmarks and the general principles concerning the use of these ratings in respect of single-let and multi-let buildings. However, more work is needed to understand how these principles might be applied in sectors other than offices and, furthermore, how owners and occupiers might be compelled to provide the data necessary for any ratings.
- The BBP supports the move towards outcome-based policy making, but would highlight that EPCs and Performance Based Ratings serve two different purposes. The BBP is not, therefore, in favour of enabling property owners to use the Performance Based Rating to replace the requirement for EPCs and MEES until such time as the evidence base demonstrates that they are driving performance improvements effectively.
- The BBP is supportive of financial incentives to drive improvements in performance and would encourage the government to consider the 'removal' of other obligations to encourage scheme uptake and improved performance. The Government must also provide the appropriate resources to drive the reputational benefits highlighted in the consultation.
- The objective for the scheme to be 'investment grade' is understood and supported - it will be important for the specification of the scheme to enable this. The higher transaction costs associated with an investment grade scheme need to be presented in the overall context of the energy savings that can be driven through robust and verified performance-based ratings.
- The BBP has welcomed the approach taken to BEIS in the development of this consultation and would

encourage BEIS to continue pro-active and open engagement with the industry in the future development of any scheme. The BBP is keen to continue engaging with BEIS and is happy to provide evidence gained through its work and the work of its members.

- Finally, the BBP would comment that it is critical that the Government supports the development of a ‘unified’ scheme that provides a simple means of comparison across buildings and portfolios. Competing schemes are not helpful in the marketplace and with the intention to ‘lead’ with the office sector, alignment with the NABERS UK scheme for offices should therefore be a key point for consideration given the considerable industry backing that this rating scheme has already achieved.

We hope the following responses to your queries prove useful. It is worth noting that the BBP has performance data, case studies and market knowledge that could be very helpful to the Government in formulating effective policy in this area and would be happy to provide more details and briefings on this to Government to assist in this process.

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

1. Do you have any evidence which supports, disputes, or could add to, the evidence presented by the Government in this chapter? In terms of the evidence presented in this chapter, do you support the Government's analysis?

- The BBP broadly supports the evidence provided by the Government in this chapter as much of the evidence presented is taken from the BBP and NABERS with whom the BBP has been working to develop a performance in use scheme for the UK. In summary:
  - We would agree that the UK commercial property sector is very diverse and that the type of the asset and its use have a significant influence on the energy used within these buildings.
  - NABERS in Australia has reported that building owners participating in NABERS Energy in Australia have saved more than £540 million ($1bn AUD) in energy bills savings since the start of the scheme. Data from NABERS also shows that the average shopping centre has reduced energy use by 25% after 7 years, with the average office reducing 33% of energy use after 10 years.
  - The evidence presented in this Chapter draws heavily from the Australian NABERS scheme, the Design for Performance initiative and REEB where the datasets focus largely on office assets. It would be helpful if this were supplemented by additional evidence pertinent to other commercial property asset types. The BBP has data gathered on other sectors through REEB, most especially the retail sector, and we would be happy to share the relevant data and benchmarks with BEIS.
  - Whilst EPCs provide a useful indication of building fabric and drive improvement of the building fabric through MEES, we would agree that they do not provide an accurate representation of commercial buildings' performance in use and that there is limited evidence of any correlation between EPC's and actual performance in use. Evidence from the dataset gathered through the BBP's Real Estate Benchmark is utilised in the consultation and we would be happy to provide BEIS with access to the data that is gathered through REEB on an annual basis.
  - Through the evidence that the BBP has gathered through the Design for Performance project, we would agree that the NABERS scheme has been market transformational in Australia, evidenced by the significant reduction in energy consumption and emissions from Australian Offices, driven by a progressive mandatory policy on performance disclosure and public sector procurement. The integration of NABERS into the Property Council for Australia's specification of prime offices was also an important driver with minimum NABERS energy ratings of 4.5 stars minimum for grade A offices, 4 stars for grade B. The British Council for Offices (BCO) is the UK equivalent of the PCA and is a strong advocate and supporter of Design for Performance and NABERS UK and reference to DfP is included within the current BCO Guide to Specification.
  - As referenced in the consultation, the BBP Real Estate Environmental Benchmark (REEB) is a voluntary initiative which has sought to gather and benchmark performance in use of commercial buildings of BBP members. We would agree that it provides a helpful evidence base concerning performance in use, but is only representative of part of the market with the participants being mainly large property owners with significant portfolios of assets.
  - The evidence provided in this chapter would benefit from further discussion of the role that a performance-based rating system can play in upskilling the sector. The evidence from Australia points to the fact that the NABERS UK Scheme has led to upskilling of consultants, contractors and managing agents who are all focused on enabling their clients to deliver NABERS ratings and

improve their performance against these ratings over time, with the NABERS ratings providing a valuable KPI for the procurement, delivery and retention of their services.

2. Do you support the rationale set out in this chapter? If so, are there any changes you would make or considerations you would add to the rationale the Government has set out? If not, could you please explain why, providing evidence where possible.

- Prioritising those buildings over 1,000m2 based on their share of energy use enables the Government to target a smaller number of buildings that account for a significant share of energy consumption across commercial buildings. Targeting the policy at these larger buildings is also likely to mean that the buildings will be owned by organisations that have the resources to comply and drive performance improvements through the use of a rating scheme.
- The proposed roll out of the scheme to other sectors is a critical point for consideration and the BBP would like to see the Government commit to a time scale for this rollout and an evidence-based approach to this, targeting those building types that are likely to have greater energy intensity, for example, shopping centres and retail warehousing. This will provide much needed clarity concerning the future trajectory for this policy and enable property owners to prepare appropriately.
- This approach also means that (according to the figures provided in the consultation), 93% by number and 47% of commercial buildings' energy consumption will not covered by this policy. It will therefore be important to clarify whether the policy will, in time, be extended to cover these assets or whether other policies will be introduced to cover the remainder of (smaller) commercial buildings.
- On a point of detail, it will be important to clarify the floor unit area that will be utilised in the scheme. This will depend on whether this is intended to be 'universal' (i.e. it can be applied to all asset types e.g. GIA or Gross Internal Area) or whether it will differ according to specific asset types (e.g. NIA – Net Internal Area). This reporting metric should be clearly defined and, where possible, consistent with other reporting mechanisms used in the sector.
- We would agree that having verified data and high-quality benchmarks is critical to the success of any performance in use rating scheme and focuses on performance outcomes rather than design intent. Performance based ratings rightly focus on outcomes and therefore enable flexibility concerning how these outcomes are achieved, enabling property owners to achieve performance outcomes in a way that reflects the location, nature and business model of their investments and avoids a prescriptive, design-based approach that does not guarantee the desired outcome.
- In addition to the policy measures highlighted in this chapter we note that there are no (initial) proposals to introduce minimum standards of performance. In this regard, we would emphasise the importance of implementing policy measures that incentivise improvements in performance and comment that there is a lack of detail in the consultation on how the scheme will seek to drive improvement.
- Related to this, we would comment on the critical importance of disclosure of performance in driving improvements in performance. It is essential that this disclosure provides a simple, robust and fair means of comparison across the market. This is especially important for investors seeking to use rating schemes to underpin their investment decisions and the objective of the scheme to provide an 'investment grade rating' merits further discussion with investors to ensure that the scheme would meet their requirements

and particularly with the Green Finance sector.

3. Do you support the Government’s proposal to underpin a performance-based policy framework with a rating that looks to modernise the DEC, in the ways set out above? If so, are there any changes you would make or considerations you would add to the proposal? If not, could you please explain why, providing evidence where possible.

- We support the Government’s proposal to underpin a performance-based policy framework with a rating scheme that seeks to learn from the experience of DECs in the public sector and we broadly agree with the specific propositions that the Government includes in the consultation to ‘level-up’ the DEC.
- The ability of the scheme to offer base and whole building ratings ensures that building owners can utilise different types of ratings that most appropriately reflect the configuration of energy use and responsibility and accountability for energy performance. The BBP would support this and it clearly aligns with the approach taken by NABERS. There will be some initial challenges with the roll out of the scheme that will need to be considered, for example, where buildings do not have the appropriate metering in place to enable a base building rating it might be appropriate to allow these buildings to comply through whole building ratings during a 'transition' period.
- It is noted that, initially, the government does not intend to mandate tenant ratings alongside whole and base building ratings. This will potentially leave a significant ‘gap’ when trying to assess the energy and carbon footprint of multi-tenanted buildings if the tenant ratings are not taken up voluntarily. The sharing of data between owners and occupiers is a key barrier to improving performance and this is something that the scheme could help to address if configured in the appropriate way. Given the differing nature of management and leasing regimes across sectors and sub-sectors, it is recommended that this is considered as a key point in the roll out of the scheme and looking at previous attempts to address this might provide some helpful insights. One such example is the work of the British Property Foundation to develop the Landlord Energy Statement.
- For commercial property owners, fair comparison is an important point of principle, most especially with a scheme where public disclosure of the rating is required. In this regard we would highlight the importance of acknowledging the extent to which the use of the building can impact upon its energy intensity. This requires the scheme to incorporate data inputs that reflect the use of the building (e.g. occupant density) and to flex the benchmarks accordingly. The NABERS methodology has successfully addressed this through the use of empirical data which enables the appropriate adjustments to be made. This is particularly important to ensure that the outcome of the rating cannot be undermined by pointing to differences in use that have not been accounted for.
- Whether or not the plan to roll out the rating to other sectors can be considered ambitious will depend entirely upon the timescale over which this is proposed. The consultation does not include timescale for this planned roll out, this will be essential to ensure that the sector has clarity concerning the scale and speed of the roll out. In particular, identifying the retail sector as one of the priority sectors (based on absolute consumption and energy use intensity) would provide an important signal that the policy aims to bring other sectors on board with the scheme as quickly as possible.
- In relation to the time required to develop a rating scale and associated infrastructure, we would comment

that:

- Following the feasibility and pilot studies undertake to understand the applicability of the NABERS scheme to the office sector, data collection and initial development of the benchmarks and rating tool took a further c9 months to develop and the accompanying infrastructure (rating calculator, rule books, assessor training, assurance and verification processes) a further c8 months. So, this provides a good indication of the timescales involved.
- The speed of development is, of course, in part dependent upon the level of funding and resources available (NABERS UK was developed with limited funding provided by the Design for Performance Pioneers), but it should be noted that it is also dependent on the relevant data being available in order to configure the benchmarks and the extent of stakeholder engagement employed. Building owners will need to support the development of the scheme by providing empirical data and BEIS will need to ensure that the appropriate resources are dedicated to the development of the scheme infrastructure.
- With the appropriate resources in place, the scheme could potentially be rolled out to other sectors at pace. As noted in the consultation, NABERS in Australia is currently seeking to expedite the development of the scheme for additional sectors through its 'Accelerate' programme and further engagement with NABERS could provide more evidence concerning the likely timescale for roll out to other sectors. The NABERS Rating Product Development Flow indicates a timescale ranging from 22 - 28 months.

- Also, in relation to ambition, additional comments concerning two specific propositions contained in Chapter 3 concerning are as follows:
    - It is clear that the Government is keen to understand the extent to which commercial buildings are on the pathway to 'net zero'. The scheme as currently proposed will provide an accurate assessment of the energy intensity of the building which is the single most important factor when understanding the energy performance of the building - retaining this clear focus for the scheme will ensure that the potential to improve the actual performance of the building is clear and avoid any risk of 'green washing'. The inclusion of 'net' zero could potentially introduce additional complexities and could undermine the integrity of the scheme by incorporating factors 'outside' the building itself (e.g. renewables procurement and offsetting). It should also be noted that calculating this would also require gathering data from sources external to the building and property owner, potentially making the accuracy more difficult to verify. We would, therefore, encourage the Government to define clearly how it interprets ‘net zero’ and include this in the specification of the scheme. For the NABERS UK scheme a net zero energy building would theoretically achieve 7 stars, but the highest rating awarded under the current NABERS UK scheme is 6 stars. Another way of expressing this relationship is that 6 stars lies half way from 5 stars to net zero energy. So, the NABERS rating does provide a clear route to a net zero building . It is also interesting to note that NABERS Ratings in Australia are provided with and without ‘Green Power’.
    - Introducing embodied carbon (or indeed whole life carbon) to a performance-based rating scheme would considerably increase the complexity of a performance-based rating system. Whilst the BBP would be supportive in principle, it is much more difficult to arrive at a performance-based outcome that would address some of the known challenges, in particular the accounting for the embodied carbon across the whole life cycle and the associated 'agency to act' which has been so

critical to the success of NABERS and ensuring that accountability for energy performance is clearly delineated and can therefore drive action to improve. This is a complex and emerging field of study and whilst we would support the ambition, we would advise caution in trying to integrate this into the proposed scheme, certainly within the initial phase of roll out. It could, be considered as a point for future development of the scheme, but we would also advise considering whether other policy mechanisms would be better suited to the nature of embodied carbon assessment, for example, building regulations and EPCs which are more concerned with building fabric and services and would therefore lend themselves more easily to embodied carbon assessment.

4. The Government proposes that, as a first step, building owners and single tenants should be required to obtain an annual performance-based rating, and disclose that rating online. Do you support this proposition? If so, are there any changes or amendments you would make to the proposal? If not, could you please explain why, providing evidence where possible.

- We support the proposal to get an annual rating and disclose that rating online, noting that property owners will only have to do this from the 2nd year of utilising the rating. As highlighted in the response to earlier questions, public disclosure of performance in use is absolutely vital in providing other stakeholders with the transparency needed to inform and drive market transformation. Since the disclosure of NABERS Energy ratings started in late 2010, the scheme has captured over 2,500 medium and large buildings which had never received a rating before. Most of these buildings had had limited exposure to energy efficiency beforehand, and initially proved to use significantly more energy than the leaders which were already participating in NABERS. However, disclosure quickly changed this, with the average building disclosing under the scheme reducing energy use by 35% over just 9 years.
- An important point where further clarity is required concerns the responsibility for undertaking the rating, most especially for single tenanted buildings, where this could either be the owner or the occupier. If the landlord is responsible for obtaining the rating the tenant will need to be compelled to provide data. If the tenant is responsible, they will need to be compelled to share the information with owners as a poor rating could have an impact on the value of the asset.
- We note that it is proposed that there will, initially, be no regulatory obligation to improve the rating achieved and agree that, in the early implementation of the scheme this will allow owners to respond to the framework and government to review the data in order to establish whether or not it is appropriate to set minimum performance requirements. In Australia, the evidence suggests that the market will also play an important role in driving performance improvement with the larger property owners seeking to achieve and drive higher levels of performance, especially now that climate change is considered to an important factor in commercial competitiveness. The role of public sector procurement in providing early market signals cannot be over-emphasised and was a key factor in driving performance improvements in Australia.
- In order to meet the Government's net zero ambitions (and acknowledging the urgency of this), it will be essential that consideration is given to instruments that the government can use to expedite improvements in performance. The setting of minimum standards and/or performance improvement requirements may need to form an important aspect of this policy mechanism if the Government is serious about meeting its ambitions within a much faster timeframe than the improvements that were delivered

through the voluntary approach adopted in Australia via NABERS.

- Related to this, we would highlight that a significant factor in the early uptake and success of the NABERS scheme in Australia was a voluntary commitment by the Government to use the scheme to set minimum standards for its own procurement and occupation of offices. We would encourage the Government to use the same approach to demonstrate leadership and ensure that its own estate is committed to achieving performance in use outcomes that are in line with its emissions reduction targets.

5. What is the best way to support Small and Medium Enterprises in obtaining annual performance-based ratings, where the owner of the building or the single tenant is an SME?

- It is not clear from the analysis the extent of this challenge and the number of SMEs that are the owner or single tenant in buildings larger than 1,000m^2. We would therefore comment that the burden is likely to be very low, unless the scheme is extended to smaller buildings in the future.
- The Government may wish to consider providing SME's with additional support packages to on-board their building and/or guidance/support to help them continually improve their performance.

6. Should the Government:

• Allow owners of buildings above 1,000m^2 to use their annual performance-based rating to satisfy their existing regulatory obligation to present a valid EPC before a building is sold or let. As set out above, under this option the Government would continue to collect data about fabric and service improvements. Where prospective buyers or tenants want information about the building fabric and services, EPCs can be obtained on a voluntary basis.

• Continue to require owners of buildings above 1,000m^2 to present a valid EPC where the building is sold or let, recognising that the EPC and a performance-based rating assess different things, and can collectively provide a better level of information about the building than either rating would in isolation.

Please outline your preferred option and your reasoning, providing evidence where possible. Please set out any changes or amendments you would make to the options, or if you would favour a different option. An appraisal of the benefits and risks of both options, providing evidence where possible, would help inform the Government's decision making

- The BBP does not favour either of the above options, although it supports the principle that, in time, policy should move towards performance-based outcomes, the proposals add complexity and it seems premature to introduce an interdependency between the two policies for the following reasons:

- Energy Performance Certificates and a Performance Based Rating Framework are different tools, that serve different purposes and should be communicated as such to avoid market confusion. They both play an important role in ensuring that buildings meet the desired outcome of improving the energy performance of commercial buildings. Whilst not having an operational rating has been a huge barrier to improvement, changing immediately to only having a performance-based system would also be flawed. For this policy to work effectively both schemes are essential, at least in the initial phases, particularly given the urgency of the issue and the need to tackle building fabric, services and management.
- Option 1 signals to the market that these schemes are temporary apart from anything else.
- As the performance-based framework is not yet in place for all sectors, Option 1 will result in market inconsistency, with only some asset types being required to produce EPCs. Again, this will create confusion in the market and prove difficult to communicate, most especially to investors who have diversified portfolios.
- Option 1 indicates that Government would continue to collect data about fabric and services improvements, and the performance-based rating scheme for offices indicates that this information would be provided to the administrator as part of the annual performance-based rating. Assuming that this information would then need to be passed to those responsible for administrating and enforcing EPCs, this would seem to add even further layers of complexity and therefore increase risk of unsatisfactory implementation.
- Option 1 only requires EPCs on a voluntary basis. Assuming that this would also relate to the proposed MEES, the major risk with this is that, with no minimum performance requirements in place, buildings could achieve a poor performance rating, but with no compulsion to improve the building fabric and/or improve performance in use. This would therefore rely entirely on the market to value the performance-based ratings to improve performance. To remove any regulatory requirement to produce an EPC would seem premature at this stage.
- Option 1 does not acknowledge that EPCs and the associated MEES regulations have resulted in important drivers for property owners to improve building fabric, resulting in an improved <u>potential</u> for the building to deliver better energy performance. This has driven many investors to upgrade their assets in line with the MEES requirements, resulting in many buildings having the <u>potential</u> to deliver better performance.
- Option 2 is not favoured, for the most part, as it is not consistent with the proposals put forward in the parallel MEES consultation that all buildings should have valid EPCs in place at any time, not just at the point of sale or let. The fact that the two consultations are running in parallel is somewhat confusing as the consultations present several options and there are therefore multiple options to consider across these two policy mechanisms. The consultation on introducing a performance-based rating scheme for offices sets out the preferred approach in more detail, also highlighting the need for owners to demonstrate that they have undertaken agreed works to improve the fabric of the building, based on the EPC presented at the time of on-boarding the asset. Whilst the proposals are communicated in terms of reducing complexity, we feel that these result in the exact opposite with EPCs being voluntary, but owners still having to demonstrate that they have installed measures that will deliver an EPC B by 2030, but with no rating to demonstrate that performance outcomes have actually been achieved. Please see below for an alternative

option which seeks to simplify this.

  - Option 2, only requiring a valid EPC at the point of sale or let, will also slow down the transaction process which would serve to frustrate property owners and make the transaction process more expensive and time consuming.
  - Whilst it is important to be aware of the administrative and compliance costs associated with operating two processes that are designed to achieve the same outcome, we would comment that it is important to base any relationship between the two regimes on an evidence-based approach. Until the performance in use scheme has been implemented, it will not be known whether this is driving improvements in performance. In this regard, it is not easy to understand the different timeframes surrounding the MEES requirements and the introduction of the policy and how they would interact. It would be helpful if the Government was to provide greater clarity on this, most especially as the timescale of the roll out to sectors other than offices is not specified and the current proposals concerning MEES suggest an interim target of C, rising to B in 2030.
- An alternative would be to continue to require owners of buildings above 1,000m^2 to present a valid EPC and comply with MEES, unless they can demonstrate that the building achieves a specific minimum standard under the performance-based regime. This could be tested when the scheme is rolled out to the office sector with associated incentives to encourage the uptake of the scheme during the 'soft start' of the scheme. Communicating this to the body responsible for enforcing EPCs would be relatively straightforward. This would assist the transition to a performance-based policy and incentivise performance improvements.

7. Recognising that the Government has committed to review the threshold for each sector, do you consider 1,000m^2 to be a sensible starting position for determining which buildings should be required to obtain annual performance-based ratings?

- The approach to identifying 1,000m2 as the starting threshold is based upon the Government's assessment of the number and associated energy consumption of buildings of this size.
  - This would seem to be a sensible starting point, but this should be reviewed in relation to the overall objectives of the policy and the desired outcomes. If the objective is purely to achieve transparency, then this threshold will leave large number of assets that are not captured by the regulation, but if the objective is to focus on driving performance the proposal will capture a significant proportion (53%) of the energy consumption of commercial buildings.
  - In addition, due to the challenges of gathering and delineating the data required to provide base building ratings and the associated costs of doing so, some consideration should be given to a transition period where whole building ratings are acceptable, giving the property owners the time to invest in the appropriate metering infrastructure to deliver base building ratings.
- The method used to assess the threshold will be important to clarify and, as highlighted above, we would recommend that this is based on the overall size of the building and its formal classification (although the actual 'rated' area should be based on an appropriate metric for specific sectors – with NLA as the preferred starting point). One potential issue worth flagging in relation to retail is that the units in the centres would not be big enough but the centre itself would be. In this case, a base building rating would

be the most apppröiate rating, but this leaves the energy consumed by the tenants uncovered by this policy. This is a consistent theme and highlights the need to develop the scheme on a sector specific basis and consider incentivising tenant ratings, which under the current proposals are voluntary. As highlighted previously, whole and tenant building ratings for such buildings could be achieved by, for example, using a methodological approach similar to the Landlord Energy Statement.

- Whilst 1,000m2 might be a helpful starting point, taking the analysis in the consultation, a significant number of smaller assets will not be captured. We would recommend that the Governemnt clarifies whether the intention is to expand the scheme to cover smaller buildings and if so, provide a clear timeline of when this is expected to happen. It would be helpful it this were considered alongsise other sectoral pathways and the Committee on Climate Change pathways.

8. Should the Government consider expanding the performance-based rating to cover factors such as water, waste and indoor air quality? What do you consider would be the benefits of this approach? Would there be any drawbacks?

- It is important to acknowledge the contribution of other environmental impacts to the carbon footprint of buildings and, indeed, the importance of other environmental issues such as water and waste in their in own right. In addition, now more than ever, indoor environmental quality will be critical to understanding the attractiveness of buildings to occupiers and therefore their future importance in terms of assessing the performance of buildings.
- We would therefore support the intention to explore the future development of such ratings, but highlight that specifying this as part of the initial roll out of the scheme could potentially be distracting and significantly delay implementation.
- The consequences of making these mandatory for commercial buildings needs to be carefully thought through, most especially where performance is contingent on other factors and stakeholders and where specific performance assessment might impact on business and leasing models. Interaction with other regulations should also be considered (e.g. waste regulations, building regulations). From a practical perspective, a voluntary, phased approach with extensive industry engagement would seem sensible, but the initial focus should remain clearly on energy performance and rolling this out across all sectors.
- The BBP has worked with its Managing Agents Partnership to trial the NABERS waste rating tool and would be happy to provide further evidence and data gathered through this pilot process.

9. Has the Government identified what you consider to be the right objectives for a successful delivery model?

- With regards the four objectives, the first two we would consider to be important objectives, acknowledging the importance of an annual rating and also the appropriate quality assurance processes.
- With regards the third objective, concerning market leadership, the BBP represents many of the leading UK Property owners many of whom are already voluntarily inputting data to the BBP's REEB and adopting NABERS UK. This is therefore critical in terms of moving the market forward. However, we think the Government should provide further detail on the circumstances under which it thinks intervention might

be important. We would also comment that the Government itself should be providing leadership and would strongly advocate the adopt of this rating scheme on its owned and occupied buildings in order to provide that leadership.

- With regards the fourth objective concerning recommendations. We agree that the rating process itself should not try to generate recommendations – the data inputs for the scheme will not be sufficient to determine where improvements are required.
- We would agree that those owning/managing these buildings are likely to already have the infrastructure and advisors in place who are best placed to provide appropriate recommendations. Related to this, we would support the suggestion that the Government considers the interaction of the scheme with other policy mechanisms such as ESOS which could provide a helpful source for such recommendations.
- The evidence from Australia indicates that the rating will give rise to a healthy market for recommendations and guidance.
- It is also important to have the long-term aims of the scheme in sight and, in this regard, careful thought should be given as to whether other sectors and/or sizes of buildings have the same access to this expertise and whether or not they would benefit from such recommendations or, whether the Government should plan to provide additional resources and support when the scheme is rolled out further.

10. Do you support the Government's proposal that the annual rating should not be accompanied by recommendations for improving the rating? If so, are there any changes you would make or considerations you would add to the proposal? If not, could you please explain why, providing evidence where possible.

- As indicated in the response to Question 9, we agree that the rating process itself should not try to generate recommendations – the data inputs for the scheme will not be sufficient to determine where improvements are required. The buildings at which the rating is (initially) aimed at are likely to be more complex and therefore any recommendations provided purely off the back of a rating with limited knowledge of the building, would not be an effective use of time or resources. We would agree that those owning/managing these buildings are likely to already have the infrastructure and advisors in place who are best placed to provide appropriate recommendations.

11. Do you support the Government's proposal that exemptions should be limited to a relatively few buildings? Are there any grounds for an exemption that you feel are appropriate, which the Government has not considered? Ahead of the findings from the Government's research project we also welcome views on how the requirement to obtain and disclose an annual rating could be enforced most effectively.

- 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.

- The Valuation Office Agency (VOA) database provides an important source of information and could be used to identify buildings within the scope of the policy.
- We would agree that enforcement will be critical, this could be done either by the ratings agency, government department or government agency. The BBP's view is that the enforcement agency should be a central agency and bringing EPC enforcement into the same agency would be transformational. We would not support combining enforcement with monitoring and verification (scheme administration) in one organisation – this would effectively mean the administrator was 'marking their own homework' and lead to challenges with governance and transparency.

12. Are there any considerations you would like to add to the Government's analysis of the factors that are likely to drive improvements in ratings? Do you support the Government's proposals to improve ratings from day one?

- We would add to the analysis of key drivers, investor and occupier demand for performance ratings and access to green finance.
- An important missing incentive is also the use of the Government estate to lead and indicate future policy direction by setting minimum standards (or performance improvement requirements) for its own occupation of buildings. This played an important role in both the uptake and improvements in ratings in Australia and this really will be a critical signal to send to the market of the Government is serious about driving improvements in performance.
- The Property Council of Australia (PCA) also played a significant role in the uptake and improvement of NABERS ratings by setting minimum NABERS energy ratings in its specification of prime offices: 4.5 stars minimum for grade A offices, 4 stars for grade B. The British Council for Offices (BCO) has been a strong advocate and supporter of Design for Performance and NABERS UK and DfP is included within the current BCO Guide to Specification, it does not currently include a minimum standard as the scheme was not launched at the time of drafting the guide, but it does include best practice recommendations.
- The analysis of key drivers is heavily weighted towards voluntary measures and market action. This will not be sufficient if the Government for the Government to achieve its stated targets for reducing energy consumption and putting the UK on a net zero carbon trajectory and this is referred to in more detail in response to Question 13 below.
- This section of the consultation also provides commentary on the 'Steps the Government could take if ratings are not improving at the rate required'. However, nowhere is it Indicated what the appropriate rate of improvement would be, in the office paper there is reference to 'approximately 30% less energy used in 2030 than was used in 2015' and it also indicates that the 'Government will clarify this target later this year.' Understanding this target will be critical when commenting on whether the drivers will be sufficient.

13. Do you consider that linking a clear financial incentive, or disincentive, to annual performance-based ratings would be an effective way to drive improvements in those ratings?

- We would agree, in principle, that linking the rating to financial disincentives/incentives would be an important driver, but would favour financial incentives over disincentives. This will encourage owners to drive for and demonstrate out performance rather than disincentives which result in financial penalties and could risk a 'race to the bottom'. It might also potentially involve the introduction of cost effectiveness calculators which would result in unnecessary additional complexity and may not have the desired outcome if this means that buildings can claim exemption as a result.
- With regards financial incentives, there are a number of different mechanisms that could be utilised and we would recommend that the Government seeks to explore these further, but would comment that they will need to demonstrate effectiveness in relation to the large buildings (and owners) that this policy is aimed at. Landfill tax is often cited as a successful example of a financial incentive, in this case, that would equate to a carbon tax specifically aimed at buildings (again, perhaps using minimum performance criteria to trigger this), but it would have to be simple to collect and meaningful enough to be worth collecting, this is not easy and could prove to be a distraction in the early stages of the scheme's implementation.
- The 'removal' of other obligations might also be an important avenue to explore, for example removal of ESOS requirements for buildings that perform well under this policy.
- Links to green finance would be an important incentive to explore and we would recommend that the Government looks to provide greater focus on commercial buildings in its work on Green Finance. Other schemes including the 'Environmental Upgrade Agreements' mechanism in Australia (linked to NABERS ratings) and the PACE programme in the U.S. might provide some interesting examples of the kind of mechanisms that could be used.

14. What do you consider would be the impact of the incentives and interventions that have been suggested? Are there ways you think those incentives or interventions could be made more effective? Are there other incentives or interventions that the Government has not considered here, which you believe would be more effective at ensuring ratings improve over time?

- The example given linking to the performance rating to clean heat and 'capping' the performance that can be achieved unless the primary heating system is low carbon could potentially make the rating system more complex, more difficult to communicate and create interdependencies to the provision of low carbon heating which are currently uncertain. One might argue that any rating system should, by definition, reward and incentivise low carbon heating. The BBP would strongly recommend that this rating scheme retains its focus on energy.
- With regards minimum standards, the suggestion is that a target date for improvement would need to be set, but not what the rate of improvement should be. As highlighted earlier, this needs to be carefully considered in order that they reflect the rate of improvement necessary to meet Government targets and ensure that there are the appropriate incentives in place to improve the performance of poorly performing

buildings and avoid unnecessarily ‘stranded assets’ being disposed of. This creates unintended consequences concerning whole life, especially embodied, carbon which would not deliver the outcomes that the Government (or our members) are seeking.

- When setting regulatory interventions concerning improvement targets and dates, it will be important that they reflect the timeframes of investment decision making and a longer-term approach to implementing improvements. In this regard, we would recommend focusing in the short-term on maintaining the star rating and, in the longer term, looking at say a 5-year timescale for improvement. This would enable owners to incorporate such targets in their 5-year business plans, which would be more workable and avoid an onerous enforcement regime, paticularly where it is possible that marginal changes in performance might influence the 'star rating' outcome year on year.
- The voluntary incentives listed are what the industry would expect in terms of Government’s support for the scheme (publicising top performing buildings and providing special recognition for buildings that achieve a high rating). These voluntary incentives must be supported by the appropriate resources and a very pro-active approach by Government to publicising the scheme. These reputational benefits should be coupled with other policy and fiscal mechanisms to make this approach more robust. By way of evidence, it is noted that the NABERS scheme has a high degree of transparency with a wide range of statistics published on the scheme available on the NABERS website, including Life of program information that demonstrates the impact of the scheme over time.

15. Do you agree with the Government’s assessment and preferred approach? Please provide evidence or case studies, where possible, in your response.

- We would agree with the Government's assessment and preferred approach for the metrics of the scheme.
- The metric proposed aligns with the one used by NABERS UK which was chosen to achieve a balance between competing policy and stakeholder objectives such as greenhouse gas emissions, energy efficiency and energy cost, all of which effectively carry different perspectives on the relative cost/benefit of different energy sources.
- We would strongly express a preference for a metric which reflects energy performance over carbon performance as this reflects the efficiency of operation and any improvements subsequently result in a reduction in demand, both fundamental principles of the energy hierarchy. The stability of the metric over time is also a significant factor for consideration.

16. Do you agree that flexible energy use should be a core component of the rating? What is the best way, technically, to reflect flexible energy use in the rating structure?

- The consultation acknowledges that this is a complex issue where more research is required and that the infrastructure is not currently sophisticated enough to be able to factor in flexible energy use. We therefore feel it would be premature to state that this should be a ‘core’ part of the performance rating scheme going forward. There might other ways to provide this information if approached from a different perspective, for example, the data could be accessed by engagement with the utilities sector and the application of tariffs which take into account peak loads in their pricing.

17. Do you agree with the Government's preferred option to use a star rating format? Are there any formats which the Government has not considered that you believe could be more effective?

- We would strongly support the use of a star rating scale for the performance-based rating scheme. This approach has had demonstrable success in Australia by providing a simple and easily understood rating outcome that stakeholders can act upon without necessitating a detailed understanding of the metrics that sit behind it. This would be particularly important for investors and occupiers in commercial property.
- We would also comment that having a different scale for this rating scheme reduces confusion, rather than exacerbates it. Using this star scale will help to differentiate the scheme from EPCS and DECs and contribute to greater clarity concerning the function and purpose of these two rating schemes.
- The psychology of performance improvement also indicates that the use of star ratings would be preferable.
- With regards delineation of the scale, we would prefer a scale that can be delineated in half-stars as any greater delineation than this detracts from clear communication and drivers to act.

18. The Government welcomes feedback on the considerations outlined above. What are the key factors that the Government should consider in determining fair and effective rating benchmarks and a fair and effective rating scale? Where possible, please provide evidence, or case studies, to support your feedback.

- The BBP was extensively involved in the development of the benchmarks and rating scale for NABERS UK and would therefore advocate the approach taken by NABERS based on a linear scale. We do not consider that a manually adjusted scale provides a fair and even scale where every reduction in energy is treated the same. We would be happy to provide the technical detail concerning the process and approach to developing the benchmarks and rating scale for NABERS UK.
- Defining the scale in this way enables the rating to (based on empirical data) establish a scale that both reflects the existing market (with the midpoint being the median) and establishes a clear 'end point'. This will enable property owners not only to gain a star rating of the building based on its current performance, but also clearly identify how much it needs to improve to achieve a higher rating.
- Favoring the poorly performing buildings by enabling them to progress faster through the rating scale may be more palatable for those buildings that are poorly performing, but it will also discriminate against those buildings thar have already put in considerable effort to improve their performance, so this would seem to be sending some conflicting signals. It will also make the rating more difficult to communicate.
- Having clear bands of performance also avoids the eventuality where poorly performing buildings can achieve the lowest rating possible where the band is infinite (as has happened with DECs).
- The benchmarks should be developed in collaboration with the industry and take an evidenced based approach, drawing on operational data from existing buildings wherever possible to ensure that the rating scale can be configured as accurately as possible.
- We would support the proposition that the benchmarks should be made publicly available, but if correctly configured, we do not agree that the benchmarks would need reviewing on a regular basis. If the approach

outlined above is adopted (based on empirical data with the midpoint being the median), then the benchmarks do not need revising and the scale rewards improvements in performance with the top of the scale representing a net zero energy building. This also provides stability and consistency – a key factor for investors comparing assets over time.

19. 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 each 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

- It is noted that the Government is proposing that whole and base buildings are mandatory but that tenant ratings are voluntary. In some asset types tenant energy consumption can account for significant proportion of the overall energy consumption of a building and therefore this ‘gap’ in the coverage of the mandatory policy is noted and some clarification of future intentions in this regard is essential.
- The specification of framework inputs within this consultation document is fairly high level with the format yet to be specified, in principle the framework inputs cover the key primary data inputs and the emphasis on measured as opposed to estimated data is welcomed, but much more detail will be needed on this to ensure that the rating scheme meets the principles of being accurate and fair. In particular:
    - The metric used for floor area will need to be clearly defined.
    - The approach to occupancy and operational hours (defaulting to the operational hours defined in an agreed lease) will need further consideration in relation to each sector. This is a vital indicator when determining energy use intensity and approaches that provide a more accurate representation of actual occupancy may need to be considered.
    - The building/benchmark category will need to be sufficiently granular to enable significant differences within each sub-sector to be accounted for (e.g. retail).
- The flexibility concerning the timing of the rating allows for property owners to undertake the rating at a time that would coincide with other data collection, hence making the process more efficient.
- 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 will be vital if the market is to have the appropriate degree of trust in the rating scheme.
- If the ratings are automotically generated, which seems to be the suggestion, there will need to be absolute clarity about how they are being generated and sufficient time for challenge if owners consider them to be

inaccurate. There is reference to a 'short period' forreview, but this is insufficient if large numbers of buildings are being assessed as owners will need time to check the rating is accurate otherwise it will risk losing industry buy-in.

- 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 as meters are known to fail and produce inaccurate readings if not correctly configured. Again, this is something that should be explored on a sector specific basis, where in some sectors this may be easier than others.
- Notwithstanding 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).
- 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 which, in itself will provide a market based driver to improve performance. There is an important link between this and the desire for any rating to be ‘investment grade’.
- We would agree that the costs of undertaking the rating are likely to vary dependent upon the nature, size and complexity of the building and therefore any costs at this stage can only be considered as indicative. Further work is needed on this to explore whether these costs will be acceptable to the market.
- Much more detail is needed concerning the principles surrounding exemptions and enforcement, including the financial implications of non-compliance.