



NABERS Sustainable Finance Criteria

Summary



The National Australian Built Environment Rating Scheme (NABERS) Sustainable Finance Criteria (the Criteria) provides guidance about how to use NABERS ratings to identify strong environmental performance and to use these achievements to underpin a sustainable finance agreement.

This document sets out consistent NABERS-based targets to assist banks, investors, non-bank lenders and building owners of all sizes and scale to structure sustainable finance transactions that result in

real and measurable environmental impacts. It applies to single assets and portfolios that are eligible to obtain a NABERS Energy rating.

The Criteria outlines three methods to demonstrate eligibility for a green loan. It can be used for building upgrades, high performing assets and portfolios. The Criteria supports the movement towards sustainable investment, lending and development in Australia.



Introduction

The built environment offers some of the largest and most cost-effective opportunities to reduce carbon emissions and can make a major contribution to tackling climate change. But the window to transition to a more sustainable world is narrow and reaching net zero emissions globally by 2050 will require trillions of dollars in investment¹.

Financial institutions are increasingly integrating sustainability into their core business strategies and risk management processes. Many offer green bonds and sustainability-linked loans to incentivise energy efficiency outcomes.

But how can developers demonstrate their projects deliver on their sustainable promises? And how can financial institutions have confidence they are

backing projects that move the world towards net zero? This Criteria was designed to establish clear and consistent guidelines for how to use NABERS ratings to identify and track significant environmental achievements. This Criteria uses NABERS data from more than 20 years of operation to provide performance targets that are based on the Australian built environment sector.

NABERS has saved an estimated AU\$1 billion in energy costs and driven down greenhouse gas emissions in the commercial building sector by more than seven million tonnes since it was established in 1998.

By measuring the operational performance of commercial buildings, NABERS encourages better building performance with lower costs and fewer emissions. For example, offices rated with NABERS Energy have achieved energy savings by 37% on average over the last 14 years and driven down greenhouse gas emissions intensity by 53%.



2000+
buildings
rated in 2021

Across Australia, the number of buildings that are certified with a NABERS Energy rating continues to grow each year with over 2000 buildings receiving a NABERS Energy rating in 2021. These ratings cover multiple building types including offices, shopping centres, hotels, apartments, data centres and public hospitals.



70%
of Australian
offices rated

In the office sector, over 21 million square metres of floor space has been rated by NABERS, representing over 70% of all commercial office space in Australia.



30%
emissions
reduction

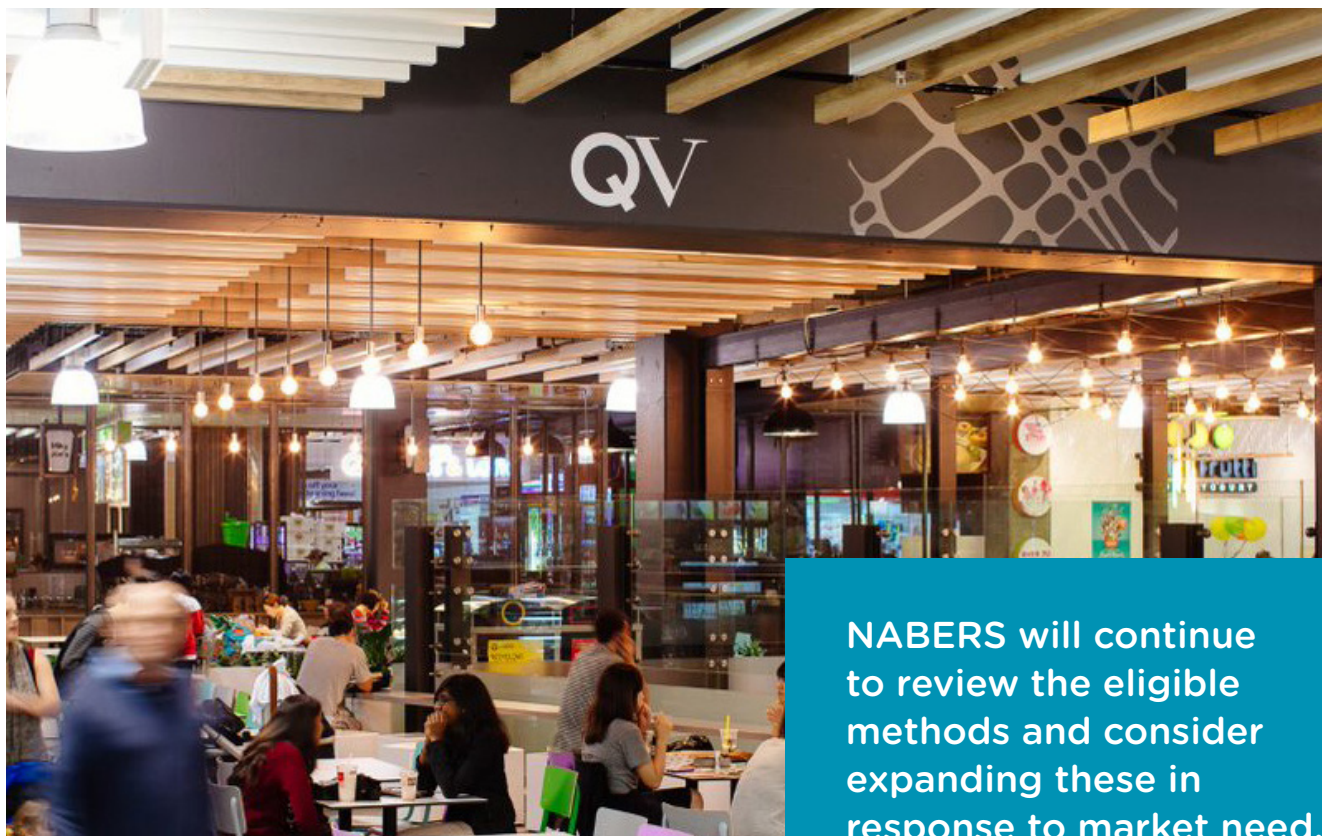
On average, buildings that get regular NABERS ratings over a 10 year period reduce their energy consumption by over 30% and their carbon emissions by over 40%.

Source: NABERS 2021 Annual Report

¹ This cost estimation was taken from the January 2022 McKinsey & Company report on [The net-zero transition: What it would cost, what it could bring](#)

Scope





NABERS will continue to review the eligible methods and consider expanding these in response to market need.

The Criteria provides three methods for eligibility that demonstrate significant environmental achievement:

Method 1 | Building upgrades

Is based on a building or portfolio achieving at least 30% reduction in emissions over a loan period

Method 2 | Low carbon buildings

Recognises buildings that are performing in the top 15% of their cohort

Method 3 | Low carbon portfolios

Recognises portfolios (2 or more buildings) that are performing in the top 15% of their cohort

To support significant environmental achievement NABERS has set the maximum tenor of a loan under all methods to five years. However, the length of the loan will be determined by the lender and borrower. This Criteria can also be applied to a shorter loan term provided the required NABERS target is met and verified with a NABERS rating certificate.

NABERS will continue to review the eligible methods and consider expanding these in response to market need. For example, future updates to the Criteria are expected to incorporate other environmental impacts in buildings such as water and waste reduction.

The document and target ratings will be reviewed regularly and updated where appropriate.

Scope

Method 1

Building upgrades

NABERS data has been used to set targets for good performance in building energy efficiency upgrades. To be eligible for sustainable finance under this method, existing buildings must meet the following:

- 1. Efficiency improvement target.** Buildings must target an improvement to their NABERS Energy rating that results in an emissions reduction of at least 30%. They must also achieve above-average energy performance in their sector, which means 4.0 stars or above.
- 2. Target date.** The length of loan will be determined between the lender and borrower. However, in order to remain a significant environmental achievement, the target rating must be achieved within five years.

Determining the efficiency improvement target

The target tables have been developed and tested using NABERS data. They demonstrate the required star rating improvement to achieve at least 30% emissions reduction.

A 30% target has been set as it is a significant reduction which aligns with other recognised sustainable finance upgrade standards.

Tables 1 – 3 show the target NABERS Energy rating required for a building to meet the environmental requirements under this method. Achieving the necessary rating improvement qualifies an asset or portfolio to be eligible for sustainable finance using the NABERS Criteria.

Suggested steps for proving eligibility under Method 1

Step 1

Determine the existing NABERS Energy star rating of the asset or portfolio associated with the loan and identify the target rating using Table 1 – 3.



Step 2

Ensure the proposed scope of works is reviewed by an external expert and verify:

- Capital expenditure total
- NABERS target is achievable from proposed upgrade activities.



Step 3

Commence works and provide status updates to lender(s) regarding works and energy usage. NABERS Energy ratings are completed annually throughout the period of the loan, where possible².



Step 4

Upon completion of the works, use a NABERS Energy rating to verify the required targets have been achieved.

² Refer to NABERS Rules [here](#)

Buildings must target an improvement to their NABERS Energy rating that results in an emissions reduction of at least 30%.



Offices (ACT, NSW, SA, TAS, VIC)

Initial NABERS rating (at the start of the loan)	Target NABERS rating (at the end of the loan)
0	4.0
1.0	
1.5	
2	
2.5	4.5
3.0	
3.5	5.0
4.0	5.5
4.5	6.0
5.0	
5.5	

Offices (QLD, NT, WA)

Initial NABERS rating (at the start of the loan)	Target NABERS rating (at the end of the loan)
0	4.0
1.0	
1.5	
2	4.5
2.5	
3.0	5.0
3.5	5.5
4.0	
4.5	
5.0	6.0
5.5	

Tables 1 and 2: Minimum star rating target for building upgrades to achieve at least 30% emissions reduction – Office buildings

All other sectors

Initial NABERS rating (at the start of the loan)	Target NABERS rating (at the end of the loan)
0	4.0
1.0	
1.5	
2	
2.5	4.5
3.0	
3.5	5.0
4.0	5.5
4.5	6.0
5.0	
5.5	

Table 3: Minimum star rating target for building upgrades to achieve at least 30% emissions reduction – all sectors (excl. offices)

Scope

Method 2

Low carbon buildings

Existing buildings

NABERS data from FY20 has been used to set a benchmark for low carbon buildings as demonstrated in Table 4.³

The benchmark indicates the star rating that qualifies an asset within the top 15% of its sector. NABERS ratings are reported in 0.5 star increments. This means the low carbon benchmark may represent less than the top 15% in some sectors, like apartment buildings, and slightly more in others, like data centres.

To address this, NABERS is currently undertaking work to provide ratings to two decimal places. This will offer a more granular indication of the top 15% in each sector. The Criteria will be updated with more granular targets once available.

The Method 2 benchmark will be reviewed regularly and updated as required.

To be an eligible project using this method, buildings must meet the following:

Meet the top 15% benchmark rating. To be considered low carbon, a building must attain a NABERS Energy rating that is greater than or equal to the benchmark rating.

Maintain or improve the rating for the entire period of the loan. Once a building has qualified by meeting the Method 2 benchmark, a borrower must commit to maintaining or exceeding the NABERS benchmark rating that qualified the building for the entire loan period. A maximum loan period of five years applies to this method.

Sector	Low carbon energy benchmark	% of cohort represented
Office (base building)	5.5	14%
Shopping centres	5.5	10%
Hotels	5.0	11%
Apartment buildings	5.0	4%
Public hospitals	5.5	8%
Data centres	5.0	20% ⁴
Retirement living	5.0	15%
Residential aged care	5.0	11%

Table 4: Benchmark NABERS star rating for top 15 per cent of buildings by sector to half-star increment

³ The 2021 data sets recently published in the NABERS Annual Report have been affected by COVID-19 lockdowns

⁴ In the FY19/20 data for data centres two of the 10 buildings received a 5 star rating which meant a figure of 15% or above could not be determined.



Suggested steps for demonstrating eligibility under Method 2

Step 1

Determine the NABERS Energy star rating of the asset associated with the loan.



Step 2

Ensure the NABERS Energy star rating is equal to or greater than the low carbon benchmark identified in Table 4.



Step 3

Undertake a review to ensure that the activities to be undertaken are considered green and to verify that the NABERS rating will be maintained or improved over the period of the loan.



Step 4

Upon completion of the loan, undertake a NABERS Energy rating to verify the asset has maintained or improved on the original NABERS rating when the loan was issued.

New buildings

Alternatively, a new build can demonstrate its eligibility using this method by signing a NABERS Commitment Agreement that, on completion, would meet or exceed the low carbon energy benchmark in Table 4. To be eligible for sustainable finance for a new build a developer must meet the following:

1. Commit to develop a new build that will meet or exceed the benchmarked target.

The agreed target to qualify a new build for green finance would need to meet or exceed the low carbon energy benchmark in Table 4 at the time of issuance.

2. Provide NABERS Commitment Agreement documents to the lender(s) at all stages throughout the process.

A borrower must make available the agreement documents throughout the process including: NABERS Commitment Agreement Contract (at point of issuance), design and modelling documents, Independent Design Review, NABERS rating once the building is in operation and annually for the term of the loan.



Scope

Method 3

Low carbon portfolios ⁵

The [NABERS Sustainable Portfolios Index \(SPI\)](#) is a voluntary, annual publication that showcases leading portfolios across Australia according to their ratings and percentage of portfolio rated. Each portfolio rating is verified and ranked by NABERS.

The Index is the only one of its kind in Australia and is a rich dataset that companies can use to compare their performance with other office and shopping centre portfolios.

The NABERS SPI has been used to identify the top 15% NABERS Energy star benchmark for office and shopping centre portfolios. The low carbon portfolios method was developed to acknowledge a pool of assets that are performing consistently well across the board.

The NABERS low carbon portfolios benchmarks are identified in Table 5 below. The portfolios benchmark is only available for offices and shopping centres.

Rules for how to calculate a NABERS portfolio including exclusions and exemptions can be found [here](#).

Sector	Low carbon portfolio benchmark
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Offices	5.2
Shopping centres	4.6

Table 5: Benchmark NABERS star rating for top 15 percent of low carbon portfolios by sector

The Method 3 benchmark will be reviewed annually with the release of the SPI and updated as necessary.

To be eligible under Method 3, portfolios must meet the following:

Meet the top 15% benchmark for portfolios.

To be considered low carbon, portfolios must attain a NABERS Energy rating for the portfolio that meets or exceeds the benchmark rating.

Maintain or improve the NABERS portfolio rating for the entire period of the loan.

Once a portfolio has qualified by meeting the required benchmark, a borrower must commit to maintaining or exceeding that portfolio rating for the entire period of the loan. A maximum loan term of five years applies.



⁵ A portfolio is a minimum of two buildings of the same space type owned by the same legal entity



Suggested steps for demonstrating eligibility under Method 3

Step 1

Determine NABERS Energy star rating for the portfolio. This can either be determined by participating in the NABERS SPI or by requesting a NABERS verified portfolio rating.



Step 2

Ensure the portfolio NABERS Energy star rating is equal to or greater than the low carbon benchmark identified in Table 5.



Step 3

Undertake review to ensure the loan activities are considered green and to verify that the NABERS portfolio rating will be maintained or improved over the period of the loan.



Step 4

Upon completion of the loan, undertake a NABERS Energy rating for portfolios to verify the portfolio has maintained or improved on the original NABERS rating at the time the loan was issued.



Review

The Criteria recommends that borrowers undertake appropriate steps to review the loan agreement throughout the loan term. Further information on recommended levels of review can be found in the 'Review' section of the International Capital Market Association (ICMA) and Loan Market Association (LMA) Green Loan Principles (GLP).

Risk mitigation

Prior to execution of loan documentation, review steps should be taken to mitigate both borrower and lender risk. While this is recommended by NABERS, ultimately it is the decision of the lender and the borrower to determine their respective risk appetite and appropriate controls.

Technical review of proposed works

A technical review of the scope of works to be carried out is recommended. Examples of a technical review include a report from an engineer or environmental consultant substantiating that the proposed scope of work should achieve the intended NABERS outcome. The purpose of the review is to assure both parties that the proposed scope of works will result in the intended NABERS rating upon completion.

Financial review of loan

External assurance that reviews the details of the loan is recommended to ensure it aligns with relevant sustainable finance standards (e.g. GLP). International standards such as the GLP recommend an external financial review phase for a loan instrument to be certified as a green loan.

Governance

Post issuance verification reporting (self-reporting)

Borrowers should maintain current and up-to-date records, and document the use of proceeds and/or status of works to be completed. NABERS recommends that borrowers submit information about the management of proceeds to the lending institution(s) one year post issuance and at full allocation.

For agreements issued against Method 1, NABERS also recommends that the borrower provide regular reporting on the status of work. This will mitigate the risk to the lender of the NABERS rating not being achieved by the loan maturity date.

If the borrower and lender agree, an external review could provide further assurance of the green credentials of the agreement.

NABERS ratings

It is a **requirement** that borrowers commit to annual NABERS ratings throughout the term of the loan, where it is possible to conduct a rating.⁶ These ratings must be provided to the lending institution. A NABERS certified rating must be obtained at the full allocation of the loan to verify the loan terms have been met.

⁶ Refer to NABERS rules [here](#)



It is a requirement that borrowers commit to annual ratings throughout the term of the loan and a certified rating must be obtained at full allocation.

The Criteria has been informed by leading sustainable finance standards globally and provides a clear connection between Australian building performance metrics and these standards. NABERS alignment with international standards is shown in Table 6 below.

Leading sustainable finance standards

NABERS alignment

Green Loan Principles International Capital Market Association and Loan Market Association	NABERS-rated projects qualify within the Green Project category under the Principles
ASEAN Green Bonds Standards – Association of South East Nations	NABERS-rated projects qualify within the Green Project category under the Standards
Climate Bonds Initiative	NABERS emissions intensity figures are recognised in the CBI Low Carbon Buildings Standard
European Union taxonomy	<p>To align completely with the taxonomy, proposed economic activities must “do no significant harm” to any of the environmental objectives. These include protection of water, climate change adaption, transition to a circular economy, waste prevention and pollution control.</p> <p>NABERS already includes methods to measure some aspect of a “do no significant harm” assessment, such as waste and water consumption. It does not address all requirements of the assessment.</p>

Table 6: Alignment of the Criteria to other leading sustainable finance standards

Why use NABERS?

NABERS star ratings are widely recognised, easy to communicate and understand, and comparable within sectors

NABERS is Australia's most widely used environmental performance rating scheme for commercial buildings.

NABERS Energy ratings provide an indication and comparison of a building's operational performance based on 12 months of verified energy data. NABERS Energy ratings can also be used to track improvements in a building's performance over time, and to benchmark buildings against best practice.

Almost 80% of Australia's commercial office buildings have achieved NABERS ratings.

NABERS Energy ratings are developed using hundreds of data points from operational buildings in Australia. Sophisticated algorithms assess key building characteristics that influence building energy consumption, such as location, climate, size and hours of operation. Buildings can achieve a NABERS star rating from 1 to 6 stars, where 6 stars is market leading and 3 stars is average.

The simplicity of the NABERS rating means that it is easy to understand how well a building is performing in comparison to the sector. Building owners and occupants can understand whether a building is improving over time. This supports easy monitoring of a sustainable finance product.

NABERS data is rich, robust and verified

NABERS has Australia's largest database of high-quality building energy performance information, with tens of thousands of certifications over 20 years. By using NABERS ratings to underpin sustainable finance, lenders benefit from robust data, verified by accredited NABERS Assessors and with environmental outcomes that are government certified.

Almost 80% of Australia's commercial office buildings have achieved NABERS ratings. NABERS also captures approximately 68% of the gross lettable area retail (GLAR) of Australian shopping centres. NABERS ratings are available for hotels, public hospitals, data centres, residential aged care, retirement living and apartment buildings. An expansion plan will cover an additional four sectors – warehouses and cold stores, schools, retail stores and supermarkets – within the next two years.

NABERS is a cost-effective, independent rating system

NABERS is an affordable rating tool which includes compliance and quality assurance measures in three steps:

- Ratings can only be conducted by NABERS Accredited Assessors who have undergone rigorous training
- 100% of ratings undergo a Level 1 audit by the NABERS trained technical team, who check for data entry errors and ensure NABERS Assessors have correctly applied the rules
- A further 5% of ratings undergo a comprehensive Level 2 audit in which a complete re-rating is undertaken to ensure NABERS rules are being applied consistently.





**NABERS is administered
by the NSW Government**

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