

# PRELIMINARY FINDINGS REPORT ON THE CBD PROGRAM

Submission



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## **INTRODUCTION**

Tourism Accommodation Australia (TAA) welcomes the opportunity to provide feedback on the *Independent review of the Commercial Building Disclosure Program Preliminary Findings Report*.

As the peak body representing the accommodation sector, TAA's feedback will focus on the needs and interests of hotels, motels, and serviced apartments.

Our argument centres on the difficulties in expanding the CBD program to hotels, and this feedback will illustrate why it should not be extended to this part of the building sector.

## **DATA INTEGRITY**

TAA has voiced concerns with CIE about the data that the preliminary findings rely on. TAA disputes that there is 'good evidence' of behavioural failures in energy efficiency in hotels as the evidence is largely based on consultation with a small number of hotel advisers and energy advisers.

Statements such as '[a]t an individual level, there is little awareness as to the energy pricing, consumption and costs of operating the hotels' and 'there has been a significant skills deterioration within the sector in regards to technical management' are broad and not grounded in evidence. TAA has been advised by members that hotels already participate in internal measures to reduce GHGs and closely monitor their energy use and costs. One mentioned that "most operators already had their own environmental ratings, Green Key, Earth Check, Green Engage or other 'chain related benchmarking' and that motivated them to do their best from an environmental perspective."

TAA attended a recent Australian Institute of Hotel Engineering (AIHE) meeting in Sydney where CIE presented their preliminary findings. Attendees (predominantly hotel engineers) stressed that they are already striving to increase their energy efficiency and they are mindful of energy usage and cost.

Without adequate data on the hotel sector, expanding the CBD program to hotels is not advised by TAA.

## **LEGISLATIVE AND POLICY HURDLES**

### *Mandatory Disclosure Trigger*

TAA understands that the ultimate goal for the CBD program is to facilitate energy efficiency improvements in buildings through mandatory disclosure at the point of sale/lease of a building. The *CBD Expansion Feasibility Final Report* by Energy Action and EnergyConsult, prepared for the Department of the Environment and Energy, stated that sales turnover of hotels is only around 1%. Given that under the CBD Program it becomes compulsory to obtain a Building Energy Efficiency Certificate (BEEC) to sell/lease there would be minimal application to the hotel sector with the low percentage of hotel sales.

It has been suggested that annual reviews could be a consideration instead of the mandatory disclosure trigger – annual reviews are not advisable as completing upgrades to hotels are a lengthy process. Annual reviews could pressure hotels to quickly complete costly reviews – something that owners, especially overseas ones, would be unlikely to approve.

### *Supporting Policy*

The CBD Expansion Feasibility Final Report stated that disclosing energy ratings is unlikely to inform transaction decisions and should only be completed if there is complementary policy (i.e. energy efficiency requirements in government accommodation procurement guidelines). At present, there is no supporting policy in the states and territories.

Disclosing energy ratings are said not to inform transaction decisions and the sales turnover of hotels is approximately 1% - neither of these factors support expanding the CBD program to hotels.

### **LEVEL PLAYING FIELD**

Extension of the CBD Program to hotels is yet another cost impost on hotel operators and owners that would not apply to strata title apartment buildings that might house commercial/residential short term letting apartments. Entire Class 2 buildings or individual SOU's (soul-occupancy unit) within a Class 2 building being let commercially by individuals or companies will not be affected by extension of the CBD Program.

Class 3 buildings have higher development costs and higher capital upgrade costs than Class 2 buildings.<sup>1</sup> Since both buildings can be utilised in a similar way post-construction, these higher costs for Class 3 development make Class 2 a more attractive investment proposition and potentially jeopardise ongoing investment in regulated commercial accommodation in Class 3 buildings. This helps explain the significant growth in visitor nights in residential property for short-term stays,<sup>2</sup> since without the same regulatory costs those operators can undercut the prices offered in Class 3 accommodation.

TAA opposes extension of the CBD Program to the hotel sector as it targets commercial Class 3 buildings, constituting a further distortion of the accommodation playing field and also provides a disincentive to investing in regulated commercial accommodation in Australia.

### **NABERS NOT SUITABLE FOR HOTEL SECTOR**

NABERS is not widely used in the accommodation sector. TAA notes that according to NABERS' 2017/18 Annual Report 156 hotels have certified with NABERS (3 in FY18): there are 4,081 hotels, resorts, motels, private hotels, guest houses and holiday parks in Australia (2017-18 Australian Accommodation Monitor, Tourism Research Australia). NABERS is not the obvious metric for hotels and energy intensity measures given the minimal penetration of the market.

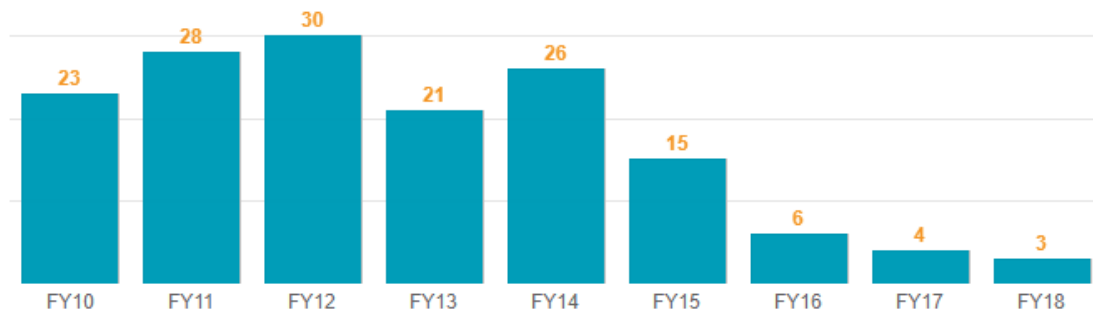
In the NABERS Annual Report the number of certified NABERS hotels are as follows:

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<sup>1</sup> Philip Chun, 2012, 'Class 2 and 3 Evaluation of Options Project', Report for the ABCB.

<sup>2</sup> Tourism Research Australia, International Visitor Survey: Year Ending March 2019, <https://www.tra.gov.au/International/international-tourism-results>.

Number of certified NABERS Energy for hotels ratings FY10 - FY18:



There is a low number of currently certified hotels, and TAA questions if there is a sufficient spread of geographic location, size, star rating, difference in offering (i.e. function centre, pool, restaurant, gym/spa facility) across the hotels to constitute a useful benchmark tool. Feedback from hotels is that there is limited usefulness in the present NABERS benchmark tools to rate hotels.

Further TAA member feedback on NABERS has been the concern that old buildings are at a disadvantage and will struggle to get a high rating even with energy efficiency measures in place. If NABERS ratings are linked with government procurement guidelines, old buildings will be penalised unless the way ratings are completed through the benchmark tool reflects differences in building age. Hotel operators have advised that it is more difficult to reduce energy use in old buildings.

An additional concern is CIE's preliminary finding that a review of the NABERS energy tool for hotels will need to be completed 'once a larger set of data about hotels is available.' Given the low number of hotels that have rated with NABERS, it seems unlikely that a larger data set will be available anytime soon.

TAA recommends that if NABERS were to be considered for the CBD program the benchmarking tool for hotels would need to be improved, with input from the accommodation sector.

## BEHAVIOURAL CHANGE

Given their global scope of operations, many hotels subscribe to international accreditation bodies to reduce their energy use or have existing in-house programs – for example IHG Green Engage™ system and AccorHotels Planet21. Hotels are already exploring renewables such as through TAA/AHA's Power Purchase Agreement, which includes electricity produced from a solar and/or wind farm.

At present, there is no national compensation for hotels who seek to be certified by NABERS. TAA has been advised that there is a \$6,000 price tag attached to NABERS. This does not include the costs of seeking to implement recommended energy efficiency measures. For hotel operators, it is difficult to recommend to owners the return on investment of pursuing NABERS certification.

- TAA recommends that if expansion proceeds, the CBD Program must include other internationally recognised certifications (Green-Key, EarthCheck etc.)
- There needs to be recognition of energy efficiency measures already undertaken by hotels – internal programs, international best practice, international accreditation/certification, involvement in PPAs using renewable sources. For hotels already pursuing energy efficiency, TAA recommends that, should the program be extended, there is a waiving of fees as well as concessions for good behaviour.

## **OUTSTANDING QUESTIONS**

### *Disclosure Requirements*

It remains unclear how disclosure would apply to the hotel sector under the CBD Program. At present, the advertising requirements under the legislation appear only to apply at the point of sale/lease.

If it is intended that the NABERS rating be disclosed in consumer facing advertising, it is unclear whether third party online travel agents (OTAs) would advertise energy ratings on their sites. The requirement to include NABERS ratings in wider advertising is an onerous task for hotels as there are existing difficulties with managing downstream distribution. Maintaining vigilance of NABERS ratings in every advertisement is a task that would require shared responsibility by a number of different stakeholders, including overseas based OTAs.

TAA advises against disclosure of ratings on consumer facing advertisements if the CBD Program expansion is to proceed.

### *Free-will of guests*

Aspects of free-will within hotels and serviced apartments means that it is difficult to mandate energy use. Lights, hot water use, and air-conditioning within a room are set and used at the occupant's preference. It is challenging to develop a behavioural rating for occupants, especially in luxury hotels.

## **HOTEL OPERATOR FEEDBACK**

The feedback from the AIHE meeting was that extending the program to hotels is fraught with problems, not least of which is that the NABERS benchmarking tool is not suitable for hotels. Concerns were raised about the cost, lack of ROI, penalties for older buildings, and that hotel operators are already taking measures to increase their energy efficiency.

Further feedback from Sydney hotel operators includes the following:

- NABERS needs to improve its capability for hotels to accommodate different sizes and structures, age of building, star rating etc.
- NABERS is not recognised globally.

- NABERS has a star system which could counter-act a hotel star system – especially if mandated to display publicly.
- A NABERS initial consult of a hotel may not reveal anything new, or will designate upgrades/changes that require huge and lengthy infrastructure costs.
- The CBD Program will not fit hotels the same way it does offices.
- A significant amount of time would be needed to ready hotels for such a program.
- There needs to be an option to be accredited by agencies other than NABERS.

- TAA's discussions with and feedback from hotels operators present contrary data to CIE's – hotel operators are well aware of their energy use and costs.
- TAA has concerns that the star ratings system of NABERS is potentially confusing for customers as opposed to star rating for service standard.

TAA welcomes continuing consultation with CIE on the CBD Program. For the reasons above, TAA recommends not pursuing expansion of the CBD Program into the hotel sector.

Yours Sincerely,



Michael Johnson  
CEO  
Tourism Accommodation Australia