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Sustainable Finance Unit
Climate and Energy Division
Treasury
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By email: sustainablefinanceconsultation@treasury.gov.au

Dear Sustainable Finance Unit,

Property Council Submission to the Sustainable Finance Strategy consultation paper

The Property Council of Australia welcomes the opportunity to provide comments on the Sustainable Finance Strategy consultation paper.

About us

The Property Council of Australia is the leading advocate for Australia's largest industry – property. Our industry represents 13% of Australia's GDP, employs 1.4 million Australians and generates \$72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major built environment asset classes.

Australia's property industry leaders are world leaders in sustainability. They have a demonstrated commitment to ESG, topping indices like the Global Real Estate Sustainability Benchmark and the Dow Jones Sustainability Index for twelve consecutive years. Most of our leading members have net zero goals by 2030 or before (Scopes 1 & 2), with several having reached it already at a fund level. Our members have a long-term stake in ensuring our capital and regional cities thrive and want to see decisive action on climate mitigation and adaptation to avoid the worst projected impacts of climate change.

The Australian property industry has also shown global leadership on social sustainability initiatives, including gender diversity through the Property Champions of Change and the establishment of world first industry-wide online platforms to tackle modern slavery risks in supply chains and measure social impact in the sector.

General comments

The Property Council supports the development of a comprehensive framework for reducing barriers to investment into sustainable activities across the Australian economy. Real estate is a major asset class accounting for two-thirds of global real assets and faces both physical and transition climate risks. At the same time, buildings account for over 50% of electricity use in

Australia and almost a quarter of its emissions. Reducing the risks facing our built assets and their impact on our environment requires large-scale transformation, backed by the increased investments and funding options in Australia. The scale of investment needed to realise this transformation is only available through access to global sources of capital. A cohesive Sustainable Finance Strategy has the power to help provide certainty to industry and drive the transition to zero-carbon-ready homes and buildings.

Australian property is already attractive to global sources of sustainability-linked capital due to high industry ambition and action underpinned by robust assurance frameworks. Across the sector, there are a range of measurement and reporting tools that contribute to a high level of transparency in the reporting of sustainability outcomes, which supports the issuers of sustainable finance to make positive investment decisions.

This has led to a sharp rise in sustainability finance products designed for use in property, making it easier for real estate businesses to align funding to their values and sustainability strategies. Since 2020, the percentage of loans issued to the real estate sector in Australia that are labelled sustainable finance is estimated to range from 25% to 44%. Over the same time period, the percentage of green bonds issued to the real estate sector has ranged from 1% to 6%.

As the race to attract the global capital needed to drive decarbonisation intensifies, the development of Australia's Sustainable Finance Strategy should, as a priority, protect the conditions that have contributed to the attractiveness of Australian property to international investors.

Key priorities

The Property Council's key priorities in relation to the development of a national Sustainable Finance Strategy are set out below.

1. Provide clarity on how the Strategy will support delivery of targets set out in the Net Zero Plan for the built environment sector

To ensure the supporting policy settings contained in the Strategy will direct investment towards those opportunities that will best support the Government's economy-wide emissions reductions targets, it must consider the detailed targets and strategies that will be set out in the six Net Zero sectoral plans.

Buildings present some of the lowest-cost emissions reduction opportunities, and the property industry already develops zero-carbon-ready buildings. A national plan which includes sectoral targets and policies for emissions reduction out to 2050 would leverage opportunities in the sector and expand the progress shown by market leaders in recent years. This would also send clear market signals to global investors about the nature and scale of sustainability-linked finance opportunity in Australia.

We welcomed the Australian Government's announcement of the development of a Net Zero Plan for the built environment and have consistently advocated that such a plan should encompass a range of measures that accelerate decarbonisation in the built environment, including interim targets aligned with Australia's international commitments. It should be underpinned by frameworks to coordinate action across different levels of government, departments, agencies and policy processes. The development of a Sustainable Finance Strategy represents one such opportunity for coordination.

At this stage, there is not sufficient detail in the consultation paper, and the Net Zero Sector plan has not yet been developed to provide comment on how the two policies can achieve

shared aims. However, a clear opportunity exists for both policies to work together to mobilise global capital to achieve Net Zero goals. The setting of effective sector-based targets is the necessary first step in the development of this Strategy.

Recommendation: The accelerated delivery of the built environment sectoral plan to support the development of the Sustainable Finance Strategy, inclusive of detailed industry consultation with the property sector.

2. Safeguard access to sustainability-linked capital available through existing sector-based, market accepted rating tools and standards

The real estate industry is a key contributor to the global sustainable finance debt market (across loans and bonds). According to BloombergNEF, total issuance volume (USD equiv.) for the real estate sector in 2021 and 2022 are \$178bn (approx. 10%) and \$127bn (approx. 9%) respectively. Given the sectoral lens that is regularly applied by capital investors, adopting an approach to sustainable finance that allows the flexibility to recognise the different conditions of sectors aligns with both market expectations and international policy frameworks.

Australian property companies are world leaders in their commitment to decarbonisation and investors have seen their investment potential. The industry's world-class rating tools and standards have historically offered investors the assurance they need to issue sustainable finance instruments such as green loans and green bonds.

Our industry actively uses a variety of home-grown, global recognised, rating tools and frameworks that have been developed to enhance transparency and accountability, tailored to the Australian property context. While there are clear advantages in the development of harmonised frameworks and a common taxonomy, this does not displace and should not impact the use of fit-for-purpose sector-based frameworks and tools, that are clearly preferred by global capital investors to accurately assess material risks and opportunities.

Recommendation: Australia's Sustainable Finance Strategy should actively seek to elevate and not disrupt the relevance and application of existing, sector-based sustainability tools and rating frameworks that are highly regarded by global investors.

3. Ensure there is flexibility to recognise the dynamic nature of market demands to access sustainability-linked capital

We understand the overarching objective of the Strategy is to mobilise global capital towards investment in Australia's energy transition and to deliver greater sustainability outcomes across the economy. The rapid pace of innovation to drive sustainability outcomes will be essential to meet the global climate targets and remains critical to enable industry to create its own ambitious strategies and targets. With innovation, comes the evolution of market expectations regarding the assessment of that ambition.

For example, in the built environment sector, increasing decarbonisation of Australia's energy grid, coupled with market expectations favouring electrification has been transformative in the reduction of emissions. While expectations around electrification are relatively recent, to ensure the industry landscape remains agile to respond to change, policy settings should incentivise those outcomes.

Close industry consultation is required where regulatory responses are contemplated to ensure that market supervision delivers intended outcomes, without inhibiting innovation and increasing compliance burdens. To truly establish the Australian economy as an environment that is competitive for global sustainability-linked capital, the Sustainable Finance Strategy should not be overly prescriptive and consider opportunities to incentivise innovation.

Recommendation: The development of policy and programs, and regulatory settings that support the delivery of the strategy should be outcomes driven and focused on fostering an environment conducive to evolving market-demands.

4. Establish ambitions for sustainable finance beyond emissions abatement

We recognise the value of the Australian Government's 'climate first' approach to developing this strategy to target the urgent priority to decarbonise. However, failure to fully consider other aspects of sustainability would be a missed opportunity for Australia to demonstrate global leadership and unlock additional investment flows directed to achieve a just transition.

In response to global mega-trends, the built environment has focused on three strategic imperatives of:

1. climate action
2. resource efficiency and circularity; and
3. health and wellbeing outcomes.

Related issues such as resilience, biodiversity and nature loss, and a stronger focus on social impacts, are rising in importance as material business risks and as a result are of interest to global investors. There are opportunities to promote our industry's work across all three of these areas to give Australia a competitive advantage in accessing capital.

Having already established a range of tools and frameworks to understand and communicate climate impacts and dependencies in the built environment, our industry in particular has been a leader in promoting positive social outcomes, including equity across supply chains and recognising community values as well as respect for cultural heritage and indigenous knowledge. Further consideration must be given to develop a sustainable finance strategy that is comprehensive of the opportunities that exist to attract investment, including both environmental and social outcomes.

Recommendation: The strategy should consider the full spectrum of sustainability-linked finance opportunities. 'Climate first' should not result in 'climate only' application, and attention should be paid to the opportunities that positive social outcomes have in attracting investment.

5. Provide further information about the intended scope of policy relating to the labelling of sustainability-linked finance

The Property Council commends the government on its commitment to address greenwashing. The labelling of sustainability-linked finance is a positive step towards enhanced transparency and defining key sustainability terms. Our sector is committed to

delivering genuine environmental outcomes through our activities and occurrences of greenwashing undermines this.

In the property sector, we seek to support environmental claims with contextual information that brings additional clarification on the terminology employed. For example, “Net zero” commitments generally apply to Scope 1 and 2 emissions with the potential for some Scope 3 emissions being included. The boundaries of the emissions can be drawn in various ways depending on the reporting organisation’s approach. Much of this sophistication is available in the detail of sustainability strategies but may not immediately be visible to targets of advertising material. The property sector is unique in that there are already a range of frameworks and benchmarks, including examples of government-backed programs, that our sector uses to meaningfully communicate sustainability claims we make.

Methodologies for the assessment and definition of ‘green’ investment products should not be overly prescriptive. While common definitions are important to support comparison, it should be open to market participants to respond to market demands and facilitate the evolution of new products. Ultimately, within the bounds of reasonable guidance, lenders should be able to describe the characteristics of financial instruments that are linked to sustainability outcomes and justify claims made.

Further guidance is also required to describe how the labelling of products will be monitored and potential de-labelling will be managed. This guidance will be essential to provide both borrowers and lenders with the certainty they need to drive growth in this market.

Recommendation: The development of labelling policy must carefully consider how property sector frameworks already operate in the market and provide further opportunity for industry consultation on draft policy.

6. Prioritise international alignment and recognition of Australia’s sustainable finance taxonomy across jurisdictions

We support the ongoing efforts to create a taxonomy that responds to the specific needs of the Australian context, but note that it will be imperative for the final taxonomy to be interoperable with international frameworks. We should not be seeking to replicate international definitions, but the Australian framework must be capable of mutual recognition in the international arena. The final framework should also be supported by sector specific guidance and consider the availability and suitability of data sources relevant to each sector.

Recommendation: The Strategy should consider data available to different sectors to contextualise the role of the taxonomy in supporting increased flows of sustainability-linked capital.

7. Include greater consideration of the skills and competencies that will be required across the economy to implement the Strategy

The consultation paper is focused on those areas where government policy can enhance transparency to support and address the risks of greenwashing and misinformation. While these issues must be addressed, as outlined in our recent report [‘Unlocking Value, A](#)

[practical guide for sustainable finance in the Australian real estate sector](#),’ delivered in collaboration with the Green Buildings Council of Australia and the Australian Sustainable Finance Institute, unlocking sustainable-finance requires an enabling environment, where there is increased understanding of sustainable-finance instruments across industry. Additionally, an influx of technical professionals will be needed to support the rapid scaling of a sustainable-finance market both within the providers of sustainable-finance products and those seeking to access those products. Increased volume of skilled and specialist professionals will be needed to ensure that products and projects align with Australia’s emissions reduction objectives.

This will also be a key consideration to support credible net zero transition planning. The Australian Government should continue to work with industry to develop guidance on effective transition planning and give clear guidance on the expectations on market participants.

Recommendation: We welcome the Australian Government’s commitment to systemic change in this space, but note that such change will require greater understanding of relevant finance skills and competencies. Given the immediate need to scale the sustainable finance market, the Strategy should detail how the Australian government uplift skills in this space.

8. Provide further opportunities for detailed industry engagement on each policy proposed for inclusion in the strategy

We note that Treasury’s work to introduce mandatory climate-related financial disclosure is well underway, and the final design of those reforms will likely inform the detailed policy settings relating to many of the priorities set out in this consultation paper. Likewise, the detail underpinning the development of the sustainable finance taxonomy, potential policy around the labelling of sustainable finance products and the issuance of green bonds will be essential will impact the overall effectiveness of the strategy.

While we welcome this early opportunity to provide comment on the principles underpinning the development of the sustainability strategy, the success of the Strategy will rely on the delivery of a cohesive plan that streamlines process and enhances the overall attractiveness of Australia as an investment destination. The Strategy is a welcome step towards bringing together a diverse range of policy settings, but we note that in many cases those setting do not yet exist. Because these policies are being developed in tandem (both to each other and the creation of this comprehensive Sustainable Finance Strategy), continued detailed consultation with industry is necessary to avoid duplication and disparate policy decisions.

Recommendation: In the context of developing each of the supporting policies, relevant departments should consider, and reference new policies will link to the Sustainable Finance Strategy and invite industry comment. This will support industry to engage with, and support the development of a truly cohesive Sustainable Finance Strategy.

The property sector is a leader in addressing cross-sectional sustainability issues including climate, nature, social impacts and circularity. The prevalence of sustainable financing in Australian property demonstrates that the industry’s sustainability practices and credentials are attractive to capital investors. However, more is needed to safeguard that competitiveness on the global stage. The

Property Council looks forward to further engagement on this important issue to ensure Australia's policy settings are primed to direct global capital towards financing the transition to net zero.

Please reach out to Eleanor Sondergeld, National Policy Manager – Sustainability and Regulatory Affairs at esondergeld@propertycouncil.com.au should you wish to discuss this submission in further detail.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Matthew Kandelaars', followed by a period.

Matthew Kandelaars

Group Executive, Policy and Advocacy

Property Council of Australia