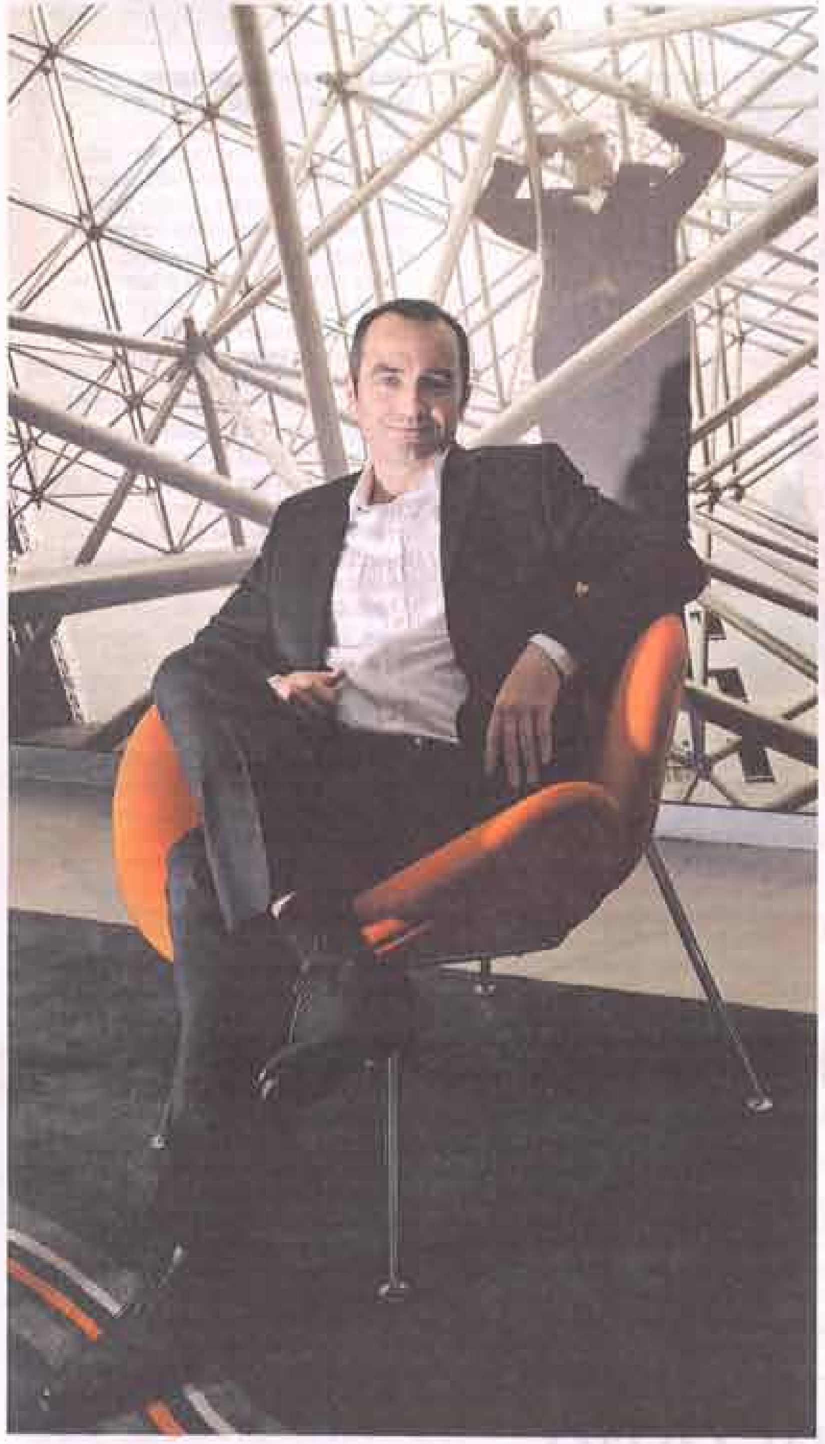
Smart Money Property

Environmental factors rate highly



Shane Quinn says property needs to be managed properly. Photo Mal Fairclough

If you want quality tenants for your commercial property investments, make sure you comply with your green rating requirements.

Ben Wilmot

Investing in commercial property and helping to reduce Australia's carbon footprint sound like divergent aims.

Right now, smart private investors are focused on hunting for bargain properties as the property cycle is at a low point.

They can pick up assets at the best value they have been at for some years – either by buying small office buildings or shopping centres or investing in direct property funds.

In many cases, the property part of an investor's portfolio is then put in the bottom drawer and all but forgotten, as long as the rent is paid and dividends come in.

But former civil engineer Shane Quinn says this approach is fraught with peril. He warns that office buildings, indeed any properties, can quickly become a problem if not managed adequately.

"If you don't protect these investments they can quickly become liabilities," he says.

His company, Quintessential Equities, specialises in finding rundown buildings and turning them around to attract better tenants. But the way he does this – by regenerating the property so that it has a higher environmental rating – has lessons for all commercial property owners.

The first thing for owners, or for those seeking to buy properties, to consider, is what the fuss is about.

In simple terms, buildings can now be rated by their carbon footprint – or by how much carbon they produce.

Quinn says it's a little known fact that commercial buildings generate about 10 per cent of Australia's greenhouse gas emissions. Most comes from heating and cooling towers, with lighting and equipment also contributing.

The government has recognised the problem and has introduced a rating system – NABERS [National Australian Built Environment Rating System] – which measures energy efficiency, water usage, waste management and indoor environment quality.

Last year, new laws came into effect that state office buildings, or spaces inside them larger than 2000 square metres, cannot be sold or offered for lease without a rating. Quinn says this has made energy usage and water consumption a huge driver for the entire property market.

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While these factors are also important for shopping centres, hotels and even homes, he says they are most important in the case of office buildings. This focus on sustainability is changing the way smart investors look at property.

At the big end of town, landlords have either upgraded their towers or are disposing of their lower grade properties to improve the overall quality of their portfolios.

Owners of small buildings face a more stark choice if they want to stay invested in the sector. They can either upgrade to meet new environmental requirements or have their buildings gradually become obsolete.

Quinn says that unless as an owner you can demonstrate you have a secure cash flow, at what is a tough time in the market, the value of your holdings can fall.

On the flip side, he says, there is the opportunity to pick up older assets and then reposition them to attract better tenants. "You've got lots of tenants driven by [corporate social responsibility] wanting to be seen to be green."

But it is not just a matter of passively owning an asset for the long term.

"If you are buying a building, you had better be aware if you have a commitment to maintain a certain NABERS energy rating, you take that on properly," Quinn says.

If a building is occupied by a tenant that has certain "green lease" requirements, letting these slip might result in them paying a lower rent or even moving out.

Lenders are also recognising the importance of environmental factors.

"Over time, the banks are going to become aware that secure cash flows that underlie the value of your asset could be eroded if it's not managed well," Quinn says.

He admits the wider focus on environmental matters has slipped.

"I know we're still bunkering down post the GFC and carbon footprint is not as front of mind as it was, but it's still there," he says. "If you want a long-term lease with the government or a blue-chip tenant you've got to take this on board."

Most governments aim to be in buildings with NABERS ratings of at least 4.5 stars on a scale that goes up to 6. Along with large companies, Quinn estimates their requirements make up about 60 per cent of the market.

"Certain parts of the market will always go for the cheapest option but if you want quality tenants you've got to regenerate your assets to meet their green lease requirements."

Sustainable design

It's becoming easier to be green

Making small commercial properties more sustainable can add to their efficiency and appeal, as occupiers become increasingly aware of the benefits of a better performing workspace.

While lower power and water bills are an obvious advantage of a more efficient building, Green Building Council of Australia's executive director of advocacy and business services Robin Mellon says the real gains are in productivity.

Staff costs are the biggest outlay for most businesses and employers can make large savings by improving employee output, cutting absenteeism and reducing staff turnover by offering a more comfortable workplace.

While the business case for more sustainable property is mounting, the idea of investing in an extensive overhaul of a commercial property can seem daunting for small investors.

Mellon says the principles of designing a sustainable property are the same, no matter the size of the asset.

Any retrofit of a property should consider building design (elements like window shading and natural ventilation), systems (lifts, lighting and airconditioning) and behaviour (how occupants are using the building).

Mellon says anyone seeking to improve energy and water efficiency should look at the supply and demand levels of both.

So, while minimising power usage, owners should consider whether power sourced from another supply (like wind, solar or green power) is a possibility.

Help in planning and executing a retrofit is available, with many councils offering sustainability audits for properties and developments, and others offering funding assistance.

In NSW and Victoria, laws have been introduced that allow councils to sign agreements with financiers and property owners to fund upgrades. Environmental upgrade finance is provided upfront to landlords, who then pay off the loan with the money saved on energy and water bills or from the higher rents secured from tenants. The loan is paid back to the council involved.

The money can be used for works that improve a property's environmental performance, including improving water or energy efficiency, aiding recycling, encouraging or facilitating sustainable commuting methods (instead of using private cars) or reducing pollution.

Ainslie Chandler

Growing interest ... productivity benefits from green offices. Photo Peter Rae

Going, going, gone

Sydney auctions		Melbourne auctions	
NUMBER OF LISTINGS	YoY change -7.0%	NUMBER OF LISTINGS	YoY change -7.7%

Best home loans

Top 5 mortgages v what's on offer from the big banks*

STANDARD VARIABLE	INSTITUTION AND PRODUCT	INTEREST	AAPR	UPFRONT FEE	ONGOING FEE
	UBank UHomeLoan (for refinancing)	5.62%	5.62%	Nil	Nil

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	UBank Inv UHomeLoan (for refinancing)	5.62%	5.62%	Nil	Nil