



## Emissions Trading Scheme and Property – Destination Unknown

*'Destination unknown as we pull in for some gas...  
Every time I look around... its in my face.'  
Extract from the song 'How bizarre' – The OMC*

If the Federal Government introduces an Emissions Trading Scheme<sup>1</sup> 'ETS' in July 2010, this will be the biggest single change to the property industry since the Federal Government introduced GST in 2000. However the impacts on the property industry are still largely unknown. This article will focus on some issues to consider in managing and leasing commercial investment properties.

### *Overview of the proposed system*

The Scheme will put a price on carbon in a systematic way throughout the economy. It employs a 'cap and trade' emissions trading mechanism to limit the volume of greenhouse gas emitted. Putting a cap on the limit means that the right to emit greenhouse gases becomes scarce – and scarcity entails a price. The government has set a target of reduction carbon emissions by between 5 and 20% below 2000 levels by 2020. The mechanics of the Scheme are set out below.

### Mechanics of a cap and trade scheme

- Emitters of greenhouse gases need to acquire a permit for every ton of greenhouse gas that they emit.
- The quantity of emissions produced by firms will be monitored, reported and audited.
- At the end of each year, each liable entity will need to surrender a permit for every tone of emissions that they produced in that year
- The number of permits issued by the Government in each year will be limited
- Firms will compete to purchase the number of permits that they require. Firms that value the permits most highly will be prepared to pay most for them, either at

---

<sup>1</sup> The Formal name is The Carbon Pollution Reduction Scheme. A White Paper was released in December 2008.

auction or on a secondary trading market. For some firms, it will be cheaper to reduce emissions than to buy permits

- Certain categories of firms will receive an administrative allocation of permits, as a transitional assistance measure. Those firms could use the permits or sell them.

As well as driving actual emissions reductions, the introduction of a carbon price provides a financial incentive for investment in low emissions technology research, development and commercialization. Investment in technological solutions that reduce greenhouse gas emissions has the potential to deliver high financial returns to those sectors which have a high cost of abatement. These sectors have a strong incentive to reduce their exposure to a carbon liability.<sup>2</sup>

### Possible Impacts on Commercial Investment Property

1. **Tenant Demand** – The incorporation of tenant requirements for Green Rated Buildings is now virtually ubiquitous amongst government agencies. Furthermore most large corporations have accommodation standards which require a certain level of sustainability to be incorporated by the facility. As such the Green Building Council of Australia <http://www.gbca.org.au/> provides a rating system of most commercial property asset classes.

This implies that tenants will become increasingly more particular about sustainability in their accommodation selection processes, which will in turn drive demand for buildings in the future.

2. **Rents and recoverable outgoings** – There can be no doubt that recoverable outgoings will rise as a result of an ETS, due primarily to the increased cost of energy which drives a large percentage of recoverable outgoings. However, for those building owners who are unable to upgrade their facilities or invest in carbon reduction technologies, they may be faced with the very real possibility of having to buy permits, which in all likelihood would be passed onto their tenants, in the form of higher outgoings. Furthermore, as the cap is gradually reduced over time, this problem would exacerbate, as additional permits would need to be purchased, thus exacerbating the cost of running the building.

In such circumstances a two-tiered market would likely open up between those buildings that are able to manage or reduce their carbon output and those that cannot.

---

<sup>2</sup> Carbon Pollution Reduction Scheme, Australian Federal Government White Paper, December 2008.

Undoubtedly rents will also be affected. Research conducted by Joyce et al 2007:376 stated “improved management may result in better rents and values”.<sup>3</sup>

3. **Property Values and Valuations** – Whilst sustainability factors are not yet a significant factor in valuations, they will be moving forward. Research by Jones Lang LaSalle 2007:2...”from the perspective of most owners, investors or valuers... sustainability will be reflected in purchase yields, net returns to owners and in property valuations .. in the near future.”<sup>4</sup>

### **So what as property professionals can we do?**

At the recent API Queensland Property Conference in November 2008 (Goddard 2008) stated “property managers’ oversight of energy use in a building would both reduce use/outgoings and ensure compliance with green credentials to promote value enhancement.”<sup>5</sup>

This theme is likely to resonate through the commercial property management industry and managers may be required to recommend to their clients, appropriate sustainability procedures in order to maintain the value of their client’s investments.

There are a number of courses available through the Green Building Council of Australia, which is an excellent place to start. So whilst the destination might be unknown, at least you can be prepared for when we get there!

About the Author

#### **Bio – Simon Fonteyn**

In January 2005, Simon Fonteyn founded **leaseinfo.com.au**, an online retail leasing database and has taken the business to become the largest independent retail data provider in Australia with over 300 clients and over 22,000 leases covering, centres and strips.

Simon is a registered property valuer and retail tenancy expert with the Administrative Decisions Tribunal and is called on as an expert in rental determinations. He combines expert knowledge in property valuation and leasing with strong business and IT management skills.

---

<sup>3</sup> Thinking about the Value of Property from a Sustainable Perspective, Dr Lynne Armitage, API Journal, March 2009, pg12.

<sup>4</sup> Op.Cit. pg 12

<sup>5</sup> Op. Cit pg 12

Simon holds a Bachelor's degree in Accounting/Finance from UNSW, an Associate Diploma in Property Valuation and a Master's Degree in Business Management from Macquarie. He is an associate of the Australian Property Institute.