Sustainable Investing:

Why Energy-Efficient New Builds Future-Proof Portfolios

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Introduction

Sustainability is no longer a niche concern in property — it has become a mainstream driver of value. Across Australia, investors, tenants, governments, and lenders are placing increasing emphasis on energy efficiency, environmental performance, and long-term resilience. What was once considered “optional” is now emerging as a core part of property decision-making.

For property investors, this shift presents both a challenge and an opportunity. The challenge lies in adapting to rising expectations from tenants and regulators. The opportunity lies in recognising that energy-efficient new builds are uniquely positioned to deliver lower costs, stronger rental demand, and future-proofed investment portfolios.

This ebook, *Sustainable Investing: Why Energy-Efficient New Builds Future-Proof Portfolios*, explores how environmental, social, and governance (ESG) trends are reshaping property investment. It looks at the financial benefits of energy-efficient properties, the appeal to modern tenants, and the government policies accelerating the shift. For investors who want to stay ahead of the curve, sustainability is no longer just about doing the right thing — it is about building smarter, more resilient portfolios.

Chapter 1: The Rise of ESG in Property

Globally, ESG considerations are transforming industries, and property is no exception. Institutional investors, super funds, and governments are demanding higher environmental performance from assets. In commercial real estate, this has already become standard, with “green star” ratings and NABERS energy benchmarks influencing leasing and valuations.

Residential property is following the same path. Tenants increasingly want homes that are comfortable, efficient, and environmentally responsible. Regulators are tightening energy standards for new dwellings. And banks are starting to offer “green home loans” with interest rate discounts for sustainable properties.

According to the ABS, households account for around 20% of Australia’s greenhouse gas emissions, largely through electricity and gas use. Reducing this footprint is a national priority, and housing policy is a key lever. For investors, this means sustainability is no longer a trend to watch — it is a structural shift already underway.

Chapter 2: Tenant Appeal and Market Demand

Tenants are at the front line of sustainability demand. Rising energy costs make efficient homes more attractive. A property with good insulation, LED lighting, efficient heating and cooling, and potentially solar panels can save tenants hundreds of dollars annually. This translates into stronger demand, lower vacancy rates, and the potential for premium rents.

Lifestyle expectations also matter. Millennials and Gen Z, who make up a growing share of renters, place higher value on sustainability. They are more likely to choose homes with eco-friendly features and to stay longer in properties that align with their values.

For investors, this tenant appeal reduces one of the biggest risks in property — vacancy. A sustainable new build not only stands out today but will continue to appeal as awareness and expectations grow. By contrast, older, inefficient dwellings may struggle to attract tenants without costly retrofits.

Chapter 3: Lower Running Costs and Stronger Cashflow

Energy-efficient homes are cheaper to run. For tenants, this means lower utility bills. For investors, it means fewer disputes over costs, less strain on tenants' budgets, and therefore more reliable rent payments.

New builds must already comply with minimum energy performance standards set by the National Construction Code (NCC). From October 2023, new dwellings are required to meet a 7-star energy rating (up from 6 stars previously). This includes stricter insulation, glazing, and appliance standards. While these requirements may slightly increase construction costs, they deliver long-term benefits in reduced energy consumption.

Properties with solar panels or provision for electric vehicle charging are also gaining an edge. As the transition to renewable energy and EV adoption accelerates, these features will shift from "nice to have" to "must have."

For investors, the outcome is more resilient cashflow. Properties that cost tenants less to run are more affordable to occupy, reducing financial stress and turnover. At the same time, depreciation allowances for energy-efficient inclusions can enhance after-tax returns.

Chapter 4: Government Policy Driving Sustainability

Government policy is one of the most powerful forces shaping sustainability in property. Both federal and state governments have set ambitious emissions reduction targets. Housing is central to achieving them.

The NCC's 7-star requirement is only the beginning. Many states are considering additional measures, such as mandatory disclosure of energy ratings at point of sale or lease. This would make efficiency visible in the market, influencing buyer and tenant decisions.

Incentives are also being deployed. Programs such as the Clean Energy Finance Corporation (CEFC) support green building initiatives. Some lenders, in partnership with government programs, offer green loan discounts for properties that exceed minimum standards.

For investors, this policy direction is clear: energy-efficient new builds will increasingly be rewarded, while older, inefficient stock may face compliance costs or reduced demand. Positioning portfolios toward sustainability is therefore not just ethical, but financially prudent.

Chapter 5: Risks of Ignoring Sustainability

Investors who overlook sustainability expose themselves to several risks.

- **Rental risk:** Inefficient homes may become harder to lease as tenants prioritise cost savings and comfort.
- **Regulatory risk:** Future policy may mandate retrofits, creating unexpected expenses for landlords
- **Valuation risk:** As the market begins pricing energy efficiency into values, unsustainable properties may underperform.
- **Liquidity risk:** Properties that fall behind sustainability expectations may take longer to sell.

These risks highlight why sustainability should be seen as a core investment consideration, not an optional extra. New builds mitigate these risks from the outset by meeting or exceeding current standards.

Chapter 5: Risks of Ignoring Sustainability

Consider two investors purchasing properties valued at $650,000.

Investor A buys a newly built townhouse rated at 7 stars under the NCC. It features high-quality insulation, efficient air conditioning, and solar panels. The property rents for $600 per week and attracts strong tenant demand, with average vacancy of just one week per year. Tenants are happy to pay slightly higher rent because running costs are significantly lower.

Investor B purchases an older townhouse at the same price. It has minimal insulation, an outdated hot water system, and poor ventilation. Rent is $550 per week, but tenants experience higher utility costs. Vacancy averages three weeks per year, and tenant turnover is higher. The property also requires upgrades to meet evolving state energy compliance standards, costing $10,000 over five years.

Over time, Investor A enjoys stronger rental returns, fewer costs, and a more future-proofed asset. Investor B faces higher expenses, weaker demand, and growing compliance risks. The contrast underscores the financial case for prioritising sustainability.

Chapter 7: Future-Proofing Portfolios with Sustainable New Builds

Sustainability is not just about short-term tenant appeal; it is about positioning for the future. As Australia’s energy transition accelerates, properties that align with new technologies and policies will remain competitive, while outdated stock risks obsolescence.

Future-proofing involves anticipating what tenants, governments, and lenders will expect five, ten, or twenty years from now. New builds already put investors ahead, but those that exceed minimum standards — incorporating features such as solar, EV readiness, and water efficiency — will be best placed to thrive.

This resilience is particularly important for long-term investors. The ability to hold property comfortably and confidently is what allows capital growth to compound. Sustainable properties support this goal by reducing risks, lowering costs, and aligning with long-term trends.

Conclusion

Sustainable investing is no longer a fringe concept. It is central to the future of property. Energy-efficient new builds deliver immediate benefits through tenant appeal and lower running costs, while also aligning with government policy and long-term market shifts.

For investors, the choice is clear. Properties that embrace sustainability are not just environmentally responsible — they are financially strategic. They reduce risk, improve cashflow, and future-proof portfolios against evolving tenant preferences and regulatory requirements.

The shift is already happening. Those who act now will position themselves ahead of the curve, while those who ignore sustainability risk falling behind.

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