

Business Case for Environmental Upgrade Finance

Early intervention to future proof newly acquired asset

**182-186 Blues Point Rd –
McMahons Point, NSW**

BUILDING DETAILS

- Age: 1960s
- Size: 4,296 m² (NLA), 8 floors
- Use: Office, Retail, Recreational
- NABERS Rating: 2 stars (indicative)

UPGRADE DETAILS

- 31 kW solar PV installation
- Replacement of T8 and T5 fluorescent tubes with LEDs and motion sensors
- New central heating and cooling system
- Annual Savings: \$39,583
- Net Annual Repayments: \$8,332



THE CHALLENGE

- Most of the building services are in good working condition, having been upgraded in 1996. However, the owners recently purchased the building and plan to upgrade to improve yields and increase the asset value in the medium term (5-7 years)
- As leases start to come up for renewal in the next 12 months, the owners want to have completed improvements to the asset to help retain existing tenants and attract new tenants

THE OPPORTUNITY

- An audit identified opportunities that would reduce energy costs for tenants by around \$39,000, helping to maintain full occupancy and make the building more attractive to prospective tenants
- The upgrade would also increase the building efficiency to a NABERS 3.5 stars rating, improving the asset's value

ENVIRONMENTAL UPGRADE FINANCE

Environmental Upgrade Finance (EUF) is a growing form of low-risk finance for building upgrades that reduce operating costs and improve energy, waste, or water efficiency or increase renewable energy. Benefits include:



1. Zero upfront capital, and no additional security



2. Improved cash flow, with lower annual repayments offset by energy cost savings



3. Competitive interest rates fixed for 10 years or more, with reduced re-financing risk



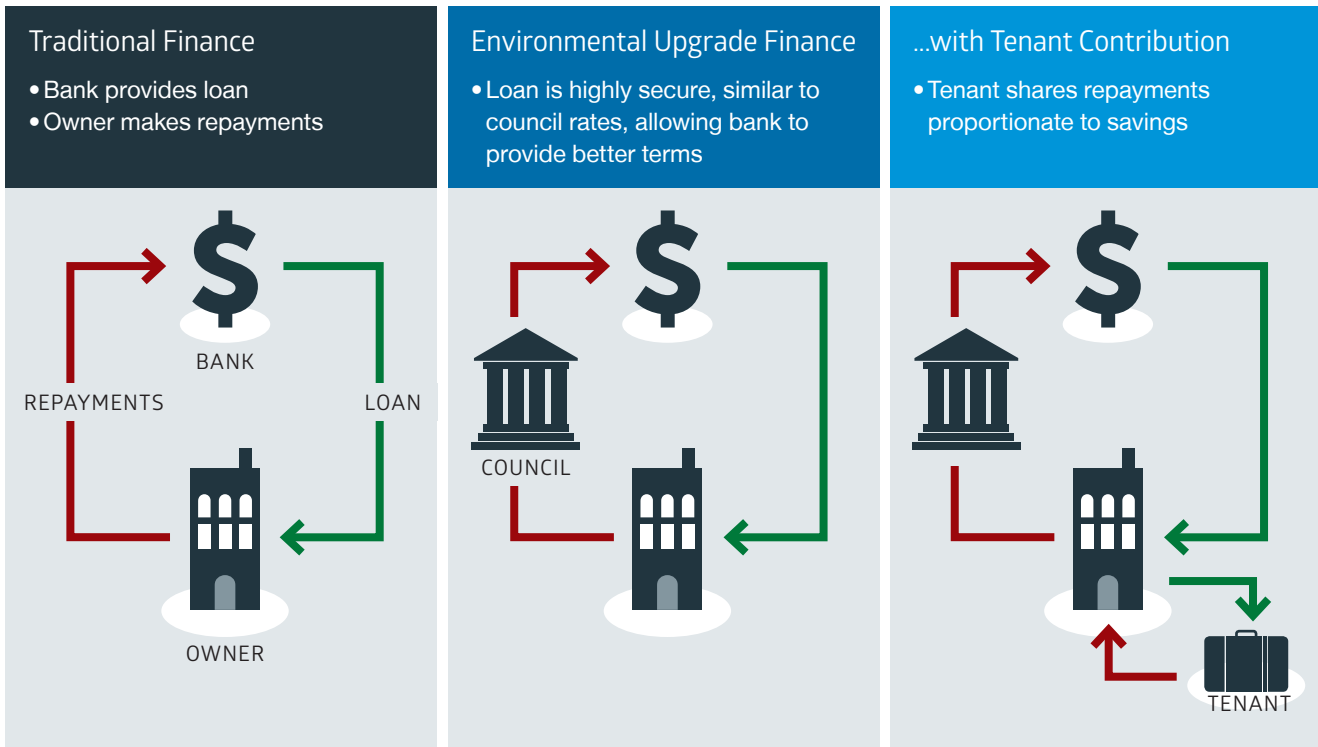
4. Option to share costs, delivering a better asset for the owner, and an improved workplace for tenants

Turn over to see how EUF could help deliver this project



HOW DOES IT WORK?

A number of banks including NAB, ANZ and Bank MECU currently offer EUF. This kind of finance is secured against the building, rather than the building owner, with repayments collected for distribution to the lender by the local council. This structure makes EUF lower risk for banks, and allows them to offer more attractive finance terms.



BUSINESS CASE FOR EUF FOR 182-186 BLUES POINT RD



1. While there are no pressing building works to be undertaken right away, having access to 100% project finance under EUF would allow the building owner to consider pro-active upgrades
Unlike traditional finance, EUF provides funding for the whole project cost, including project development costs such as consultant fees, audit costs and administration fees – this means an upgrade can be undertaken at no cost to the owner



2. A fixed low interest rate over a longer period would reduce the cash flow impacts of the upgrade during the owner's 5-7 year time horizon for their investment strategy.
Under a 15 year EUF, repayments can be as low as \$41,664, compared to \$109,696 under a 4 year traditional loan, an annual cash flow benefit of \$68,032.



3. Owner and tenants can co-operate to upgrade their office space immediately without raising rents
Energy cost are shared between the tenants and the building owner, which means that tenants receive a portion of the energy savings. Under EUF, tenants would be provided with clear data on energy savings. This would allow them to confidently agree to contribute a portion of the savings towards finance repayments, avoiding any rental increase and getting an improved work space and reduced energy costs now rather than waiting for the end of their lease. With a tenant contribution of 80 per cent of their energy savings, the annual costs to the owner could be reduced to \$8,332.

This business case has been developed based on an audit of energy efficiency opportunities in this building by 2XE. Please note that at the time of publication, the owner has not completed or secured Environmental Upgrade Finance for this project – this business case is provided for illustrative purposes only. As with any other finance arrangement, the availability of finance in each situation, and finance details would need to be negotiated on a commercial basis with the lender.



Australian Government
Department of Industry