

Business Case for Environmental Upgrade Finance

1930s office block with sole tenant and sustainability-focused investor

401 Collins Street – Melbourne, Vic

BUILDING DETAILS

- Age: 1930s
- Size: 6,162 m² (NLA), 10 storey
- Use: Office
- NABERS Rating: 2 stars (indicative)

UPGRADE DETAILS

- More efficient heating and cooling system
- Hot water valves for zoned hot water
- Replace T8 fluorescents with T5s, LEDs and motion sensors
- Annual Savings: \$51,344
- Net Annual Repayments: \$11,121



THE CHALLENGE

- Impact Investment Group is a recently established fund manager whose goal is to create positive social and environmental change through its investments, while at the same time achieving good financial returns.
- In addition to improving the environmental performance of the building, the owner wants to cooperate with the lead tenant to make the building a better, lower-cost work space, in particular by improving heating and updating lighting and appliances to improve the tenant's indoor environment and reduce both parties' energy costs.

THE OPPORTUNITY

- An audit identified a range of energy efficiency opportunities that would improve occupant comfort levels and productivity, primarily through improved lighting, heating and cooling.
- The project would reduce energy bills by \$51,344 annually for tenants, who pay all energy costs.
- It would improve the building's NABERS rating to 4 stars, increasing the asset value and safeguarding the return on investment for investors.
- At the same time, the project would reduce greenhouse gas emissions by over 10 per cent.

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



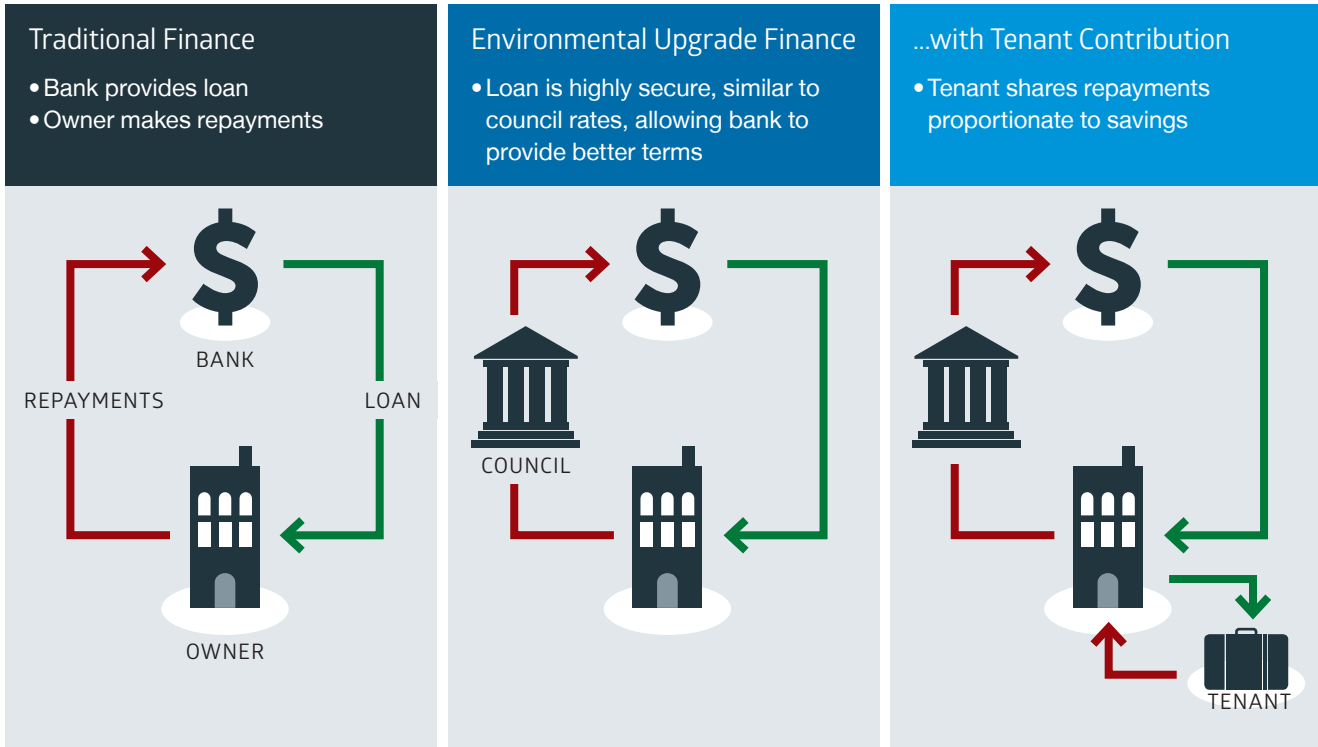
4. Option to share costs, delivering a better asset for the owner, and an improved workplace for tenants

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 401 COLLINS STREET



1. EUF would make it easier for the owner to share the upgrade costs with their tenant

All energy costs are paid by the tenant, meaning all energy savings will benefit the tenant. Under EUF, the tenant would be provided with clear data on energy savings, allowing them to confidently agree to contribute a portion of the savings towards finance repayments.



2. Long-term fixed interest finance means lower repayments, delivering immediate cash flow benefits

Under a 15 year EUF, repayments could be as low as \$55,609 annually, compared to \$141,882 under a 4 year traditional loan. With tenant contributions, the annual cost could be as low as \$11,000.

'EUF is a practical tool for building owners to unlock the underlying potential of their property.'

Will Richardson, Chief Investment Officer, Impact Investment Group

FINANCE DETAILS[^]

	DEBT	EUF
Loan amount	\$510,894	\$513,834*
Interest rate & term	5.25% 4yr	7% 15 yr
Annual repayments	\$141,882	\$55,609
Repayments (after tenant contribution of 80% of savings)	N/A	\$11,121

[^]These figures are illustrative estimates. As with any other finance arrangement, details such as interest rates and loan periods would need to be negotiated on a commercial basis with the lender. This analysis excludes bank fees, which would need to be incorporated into any EUF financing decision.
* Includes \$2,940 EUA administration fee. Fees vary by council and over time.

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.



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