

# Business Case for Environmental Upgrade Finance

Small office building housing professional consultancies

**45 Bourke St, Melbourne, Vic**

## BUILDING DETAILS

- Age: 1980s
- Size: 1,100 m<sup>2</sup> (NLA), 3 floors
- Use: Office & Retail

## UPGRADE DETAILS

- HVAC set point & sensors
- LED lighting
- Solar PV system (40 kW system)
- Annual savings: \$17,881
- Net Annual Repayments: Nil (cashflow positive from outset)



## THE CHALLENGE

- Tenants in this building have expressed concern about the comfort levels of the indoor environment, particularly heating and cooling
- Energy bills for tenants have increased significantly over the past 3 years, another concern discussed with the building owner
- Existing tenants are professional consultancy firms who have high expectations regarding sustainability of their workplaces, and the owner personally wants to reduce the building's environmental impact
- As owner of an architectural firm, the owner also feels it's important for his business to be across new technologies and design approaches

## THE OPPORTUNITY

- An audit identified opportunities to reduce energy consumption by 74% and energy bills by \$17,881 per year
- The project would reduce greenhouse gas emissions from the building by 79.7 tCO<sub>2</sub>e per year, equivalent to 18 cars off the road annually
- It would also improve the owner's brand as a sustainable architectural business, catering to the taste of current and prospective tenants

## 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



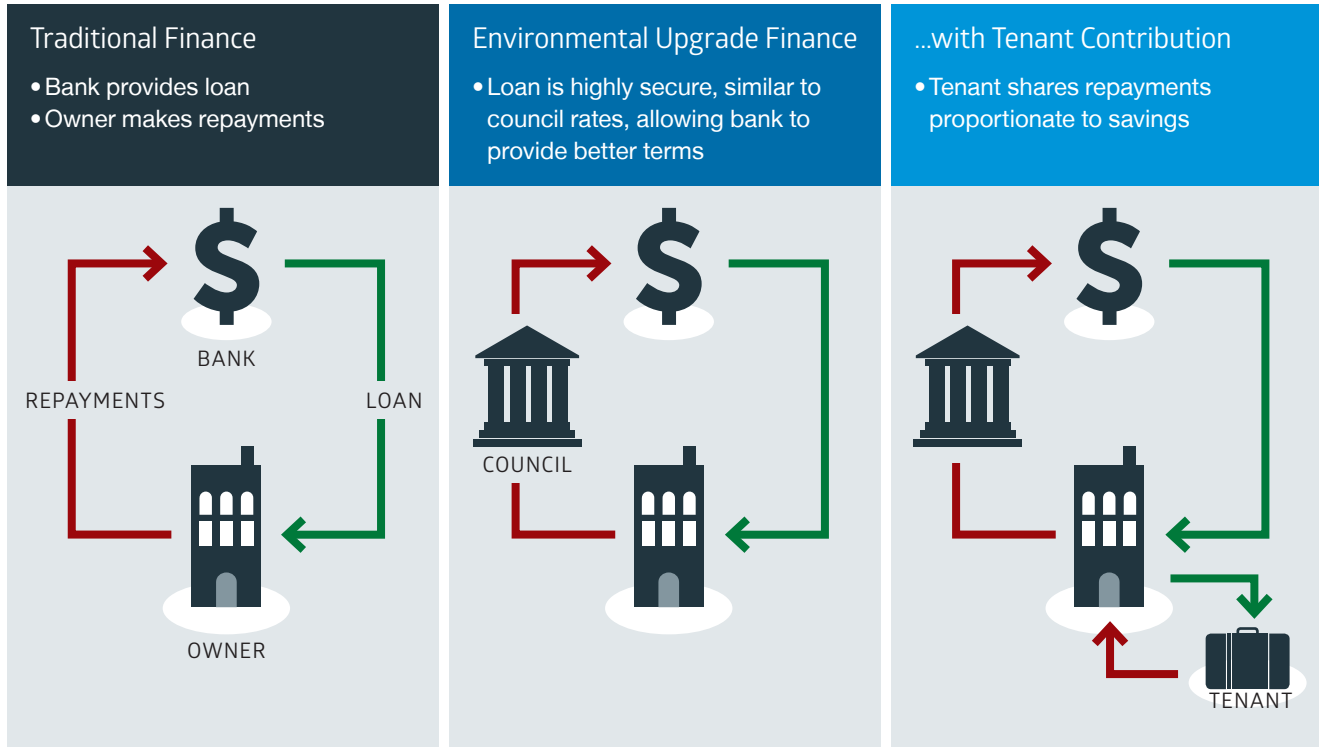
4. Option to share costs, delivering a better asset for the owner, and an improved workplace for tenants

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 45 BOURKE ST**



**1. EUF could help the owner meet tenant expectations regarding sustainability and energy costs without needing to raise rents**

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, addressing their concerns while avoiding any rental increase



**2. EUF could make the project cashflow positive**

With tenant contributions and a longer finance term, the project can be cash flow positive, an annual saving of \$21,346 compared to a 4 year traditional loan.

*'If we can respond to tenant concerns without raising rents, we keep them happy – a happy tenant means a happy building.'*

Hani Akawi, Owner

**FINANCE DETAILS<sup>^</sup>**

	DEBT	EUF
Loan amount	\$75,817	\$77,029*
Interest rate & term	5.25%, 4yr	7%, 7yr
Annual repayments	\$21,055	\$14,014
Annual repayments (after tenant contribution)	N/A	Nil (cash flow positive from outset)

<sup>^</sup>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 administration fees, which would need to be incorporated into any financing decision.  
\* Includes \$1,212 EUF 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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