

Business Case for Environmental Upgrade Finance

Family owned regional shopping centre facing competitive pressures

Manny's Market, Morwell (Vic)

(note: EUF is not yet available in Morwell)

BUILDING DETAILS

- Age: 1960s
- Size: 3000m²
- Use: 10 retail stores

UPGRADE DETAILS

- LED lighting
- Replacement of many old fridges and cool room
- Replace 3 old HVAC systems with a single, high-efficiency unit
- Annual Savings: \$38,489
- Net Annual Repayments: \$8,251



THE CHALLENGE

- Manny's Market is a family-owned shopping centre located in the regional city of Morwell in Victoria.
- The centre is facing extreme competition from new stores in the Morwell area run by large chains.
- It is also facing rising utility bills and operational costs, impacting on business profitability.
- The owner, who also runs the supermarket and liquor store, is keen to help tenants minimise the impact of rising energy costs, but also needs to avoid rental increases which would impact his competitiveness.

THE OPPORTUNITY

- An energy audit was undertaken and identified opportunities to reduce energy usage by 29%, equivalent to \$38,489 annual savings. This would help boost profits and maintain competitiveness of retail stores.

ENVIRONMENTAL UPGRADE FINANCE

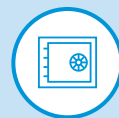
Environmental Upgrade Finance (EUF) is a growing form of low-risk finance for building upgrades that reduce operating costs and improve energy, waste, or water efficiency or increase renewable energy. Benefits include:



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



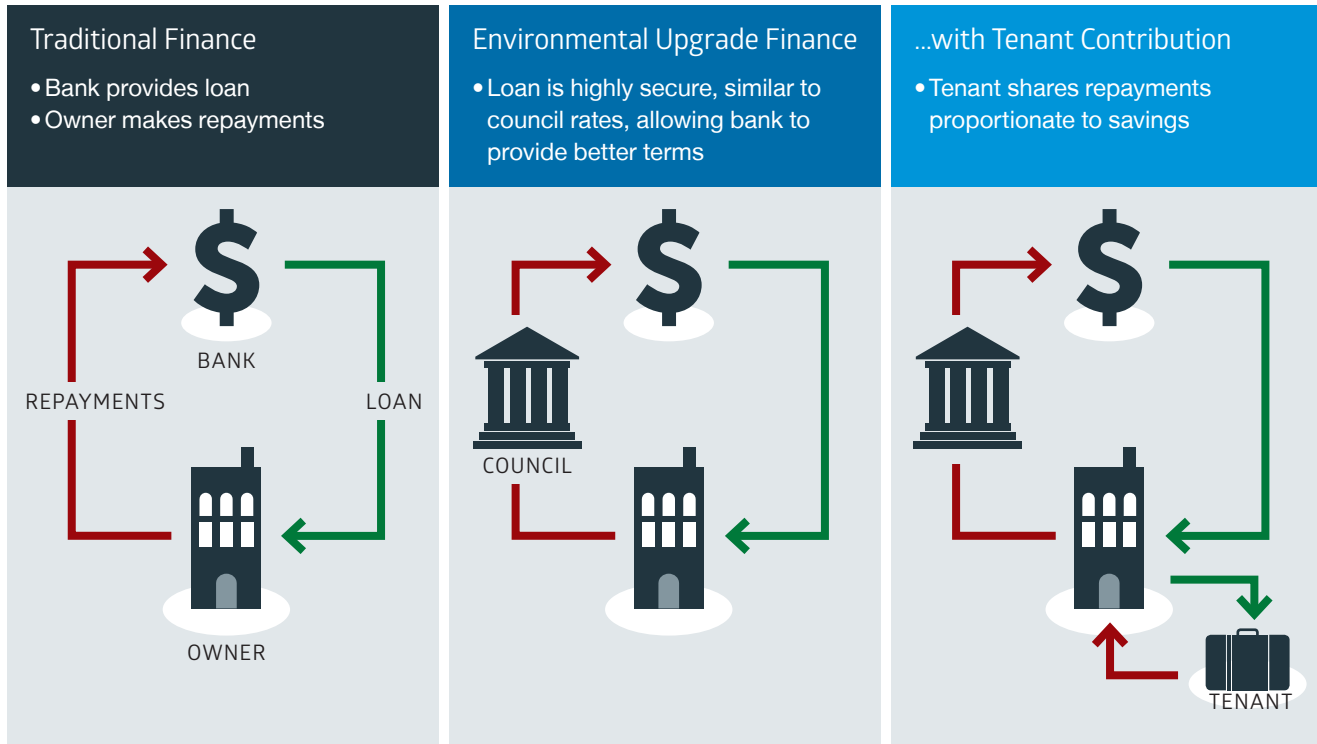
4. Option to share costs, delivering a better asset for the owner, and an improved workplace for tenants

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 MANNY'S MARKET



1. EUF would help the owner and existing tenants to co-operate to upgrade the space immediately

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.

'We're trying to keep the pressure off the tenants, but unfortunately the costs have gone up in every respect. This would help us avoid rental increases for a few more years.'

George Labros, Owner



2. Long-term, fixed interest finance would help better match repayments to savings, delivering cash flow benefits for the owner

With 10 year finance under EUF, the owner's repayments would be over \$40,000 lower compared to traditional finance over 4 years. With a tenant contribution, the owner's repayments would be reduced to under \$9,000. There would be reduced re-financing risk, meaning the owner knows their liability over the whole finance term.

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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