

Environmental Upgrade Finance Case Study

Family owned art deco CBD office building with ageing equipment

460 Collins St, Melbourne, Vic

BUILDING DETAILS

- Age: 1930s
- Use: 3689 m² (NLA), 11 floors
- Use: Office & Retail

UPGRADE DETAILS

- Completed: New PowerPax chiller and controls
- Proposed: New high efficiency boiler, variable speed drives for fans, valves and sensors to achieved zoned heating and cooling, and LED lighting.
- Annual Savings (completed): \$11,000
- Annual Savings (proposed): \$32,787



THE CHALLENGE

- 460 Collins Street is a family-owned office building in central Melbourne. The building's central equipment is ageing, incurring unnecessary energy and maintenance costs and posing the risk of failure in the future.
- Existing tenants have experienced significant energy cost increases, and a portion of the building is unoccupied, meaning the owner is looking to attract new tenants.
- The owner also has a personal interest in properly maintaining the building, reducing its environmental impact, and maintaining its position as a stand-out feature of Melbourne's Collins Street.

THE PROJECT

- In September 2011, the old chiller was replaced with a high-efficiency PowerPax chiller. This was Australia's first project financed through EUF, and delivered \$11,000 in annual energy savings compared to a like-for-like replacement of the old equipment. It increased the building's NABERS rating to 4 Stars.
- The proposed additional upgrades would save a further \$32,707 annually and increase the NABERS rating to 4.5 stars by upgrading the remaining HVAC equipment and installing highly efficient LED lighting.
- Both projects help avoid equipment breakdowns and associated disruption to tenant operations, and ensure old equipment is replaced in a planned manner with high efficiency models rather than a rushed like-for-like replacement following equipment failure.

ENVIRONMENTAL UPGRADE FINANCE

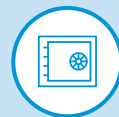
Environmental Upgrade Finance (EUF) is a growing form of low-risk finance for building upgrades that reduce operating costs and improve energy, waste, or water efficiency or increase renewable energy. Benefits include:



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

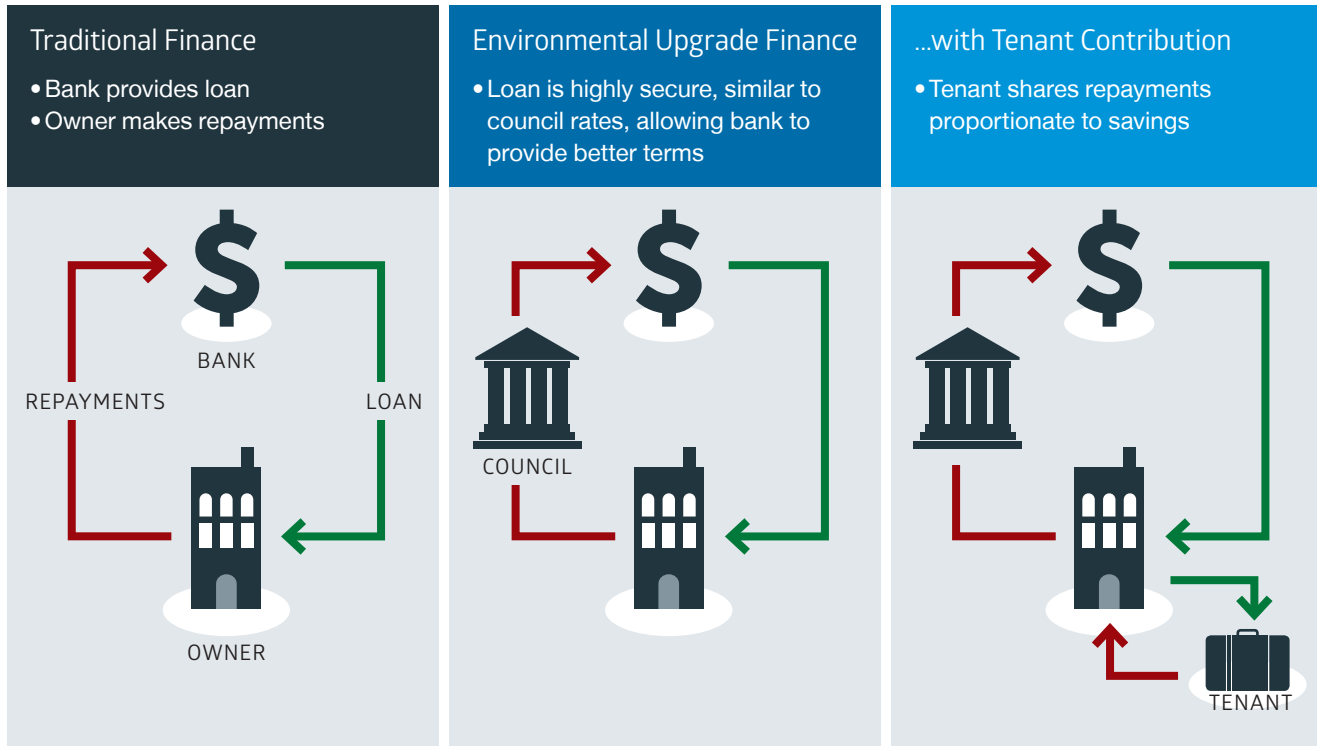


4. Option to share costs, delivering a better asset for the owner, and an improved workplace for tenants

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.



HOW EUF HELPED DELIVER THE PROJECT



1. EUF enabled a capital-intensive, proactive replacement of old equipment with efficient models at zero upfront cost

EUF provides 100% project finance, covering project development expenses such as energy audits, consultant costs and administration fees. This allowed a capital intensive upgrade without any capital expenditure by the owners, and enabled the owner to consider higher efficiency (and higher cost) replacements.



2. EUF delivers cash flow benefits

The ten year fixed interest period available under EUF reduced the cash flow impact of the project. Compared to a 4 year traditional loan at the same interest rate, the owner's annual finance costs under EUF for the completed project were over \$80,000 lower.

FINANCE DETAILS[^]

	DEBT	EUF
Completed project		
Loan amount	-	\$400,000
Fixed interest term	-	5yr
Annual repayments	-	\$93,452
Proposed project*		
Loan amount	\$715,362	\$718,305*
Interest rate & term	5.25%, 4yr	6.5%, 15 yr
Annual repayments	\$198,665	\$75,326

[^]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 financing decision. This also excludes the local government EUF administration fee of \$3,382, which is payable over time throughout the course of the project. These fees vary by project size, by council and over time.

* This potential project has been developed based on an audit of energy efficiency opportunities by 2XE. At the time of publication, the owner has not decided whether to proceed with the project. EUF figures include \$2,970 EUF administration fee.



Australian Government
Department of Industry