

## Environmental Upgrade Finance Case Study

Newly built small industrial warehouse re-positioning for the long term

114 Bakehouse Road, Kensington, VIC

### BUILDING DETAILS

- Age: 2012
- Size: 100 m<sup>2</sup>
- Use: Light industrial warehouse
- Tenanted

### UPGRADE DETAILS

- Installation of 10kW solar array
- LED lighting upgrade
- Capital cost: \$17,409
- Annual energy savings: \$3,825



### THE CHALLENGE

- Covertel is an Australia company that specializes in providing products, support and services primarily to the telecommunications industry. It is a fully owned subsidiary of the owner of 114 Bakehouse Rd in Kensington, Victoria, and leases the premises from the parent company. The site is for importing and distribution.
- For Covertel, the primary concern was rising energy costs. The building owner was also looking for ways to future-proof the building and saw the installation of a solar system as an opportunity to increase its re-sale value.

### THE PROJECT

- The roof and orientation of the building was well suited to solar, and the energy usage was mostly consumed during office hours when solar systems are generating. The project involved a 10kW solar array and a complete lighting upgrade to LED lighting that also provided a better quality working environment for staff.
- The tenants pay all energy costs for the site, and so they receive the benefit of all energy savings. In this case, expected annual savings are \$3,825 per year. The project will also reduce the tenant's exposure to rising energy costs by grid electricity consumption.

### 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



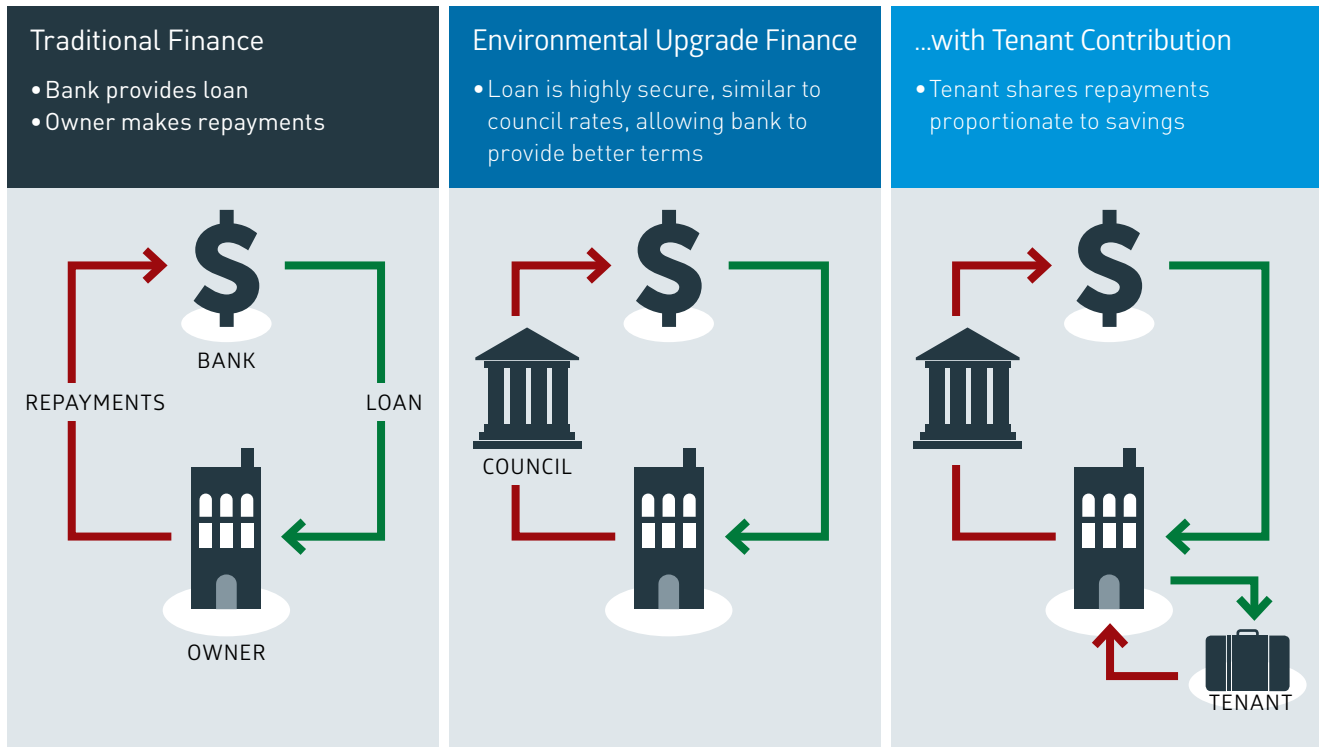
4. Option to share costs, delivering a better asset for the owner, and an improved workplace for tenants

Turn over to see how EUF helped deliver this project



## HOW DOES IT WORK?

A number of banks including NAB, ANZ and Bankmecu 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



Using EUF allowed the building owners to structure the debt over a longer period of time (in this case five years) than would be possible using traditional financing. This means the finance repayments are better aligned with the savings generated by the project.



Using EUF enabled the owner company to recover a portion of the cost of investment from the tenants, who received all the benefit from the project. The tenants are contributing around \$3,000 annually, reducing the owner's repayments by over three quarters. The tenants retain the remainder of the energy savings, as well as enjoying an improved working environment.

## FINANCE DETAILS<sup>^</sup>

	EUF
Loan amount	\$ 17,409
Interest rate & fixed interest term	5.090% 10 yr
Annual repayments	\$ 3,966
Tenant annual contribution	\$3,000
Annual repayments (after tenant contribution)	\$996

<sup>^</sup>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 EUF financing decision. This analysis excludes the EUF administration fee charged by the local government, which is payable over time throughout the course of the project. These fees vary by project size, by council and over time.



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