

Environmental Upgrade Agreements.

Accelerating energy efficiency in commercial buildings.

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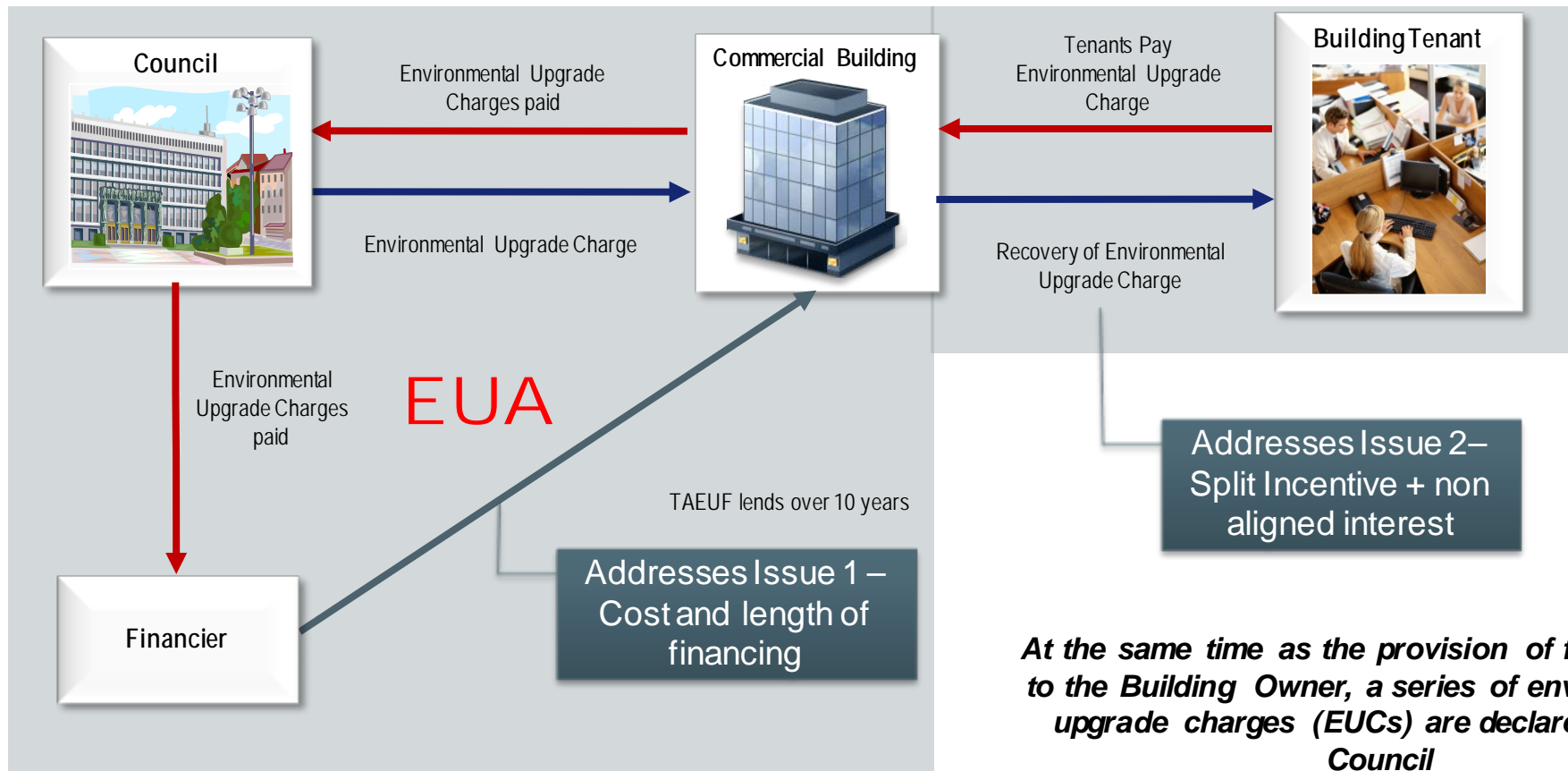
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Environmental Upgrade Agreements: Key Points

- What:
 - 100% funding for environmental upgrades repaid via the council rates mechanism



Environmental Upgrade Agreements: Eligible Works

- The works must result in an environmental improvement to the use and occupation of the building
- Environmental improvements cut across energy, water, waste and sustainability
- An AS/NZS 3598-2000 Level 2 Energy Audit is required

- Base Building examples:

- Boilers
- Chillers
- BMS
- Windows and cladding
- Lighting
- Lift motors
- Water recycling

- Tenancy examples:

- Lighting
- Kitchen boilers



Photo source: NAB

Environmental Upgrade Agreements: Common vs. Custom improvements

There are two types of improvements that can receive funding:

1. Common improvements

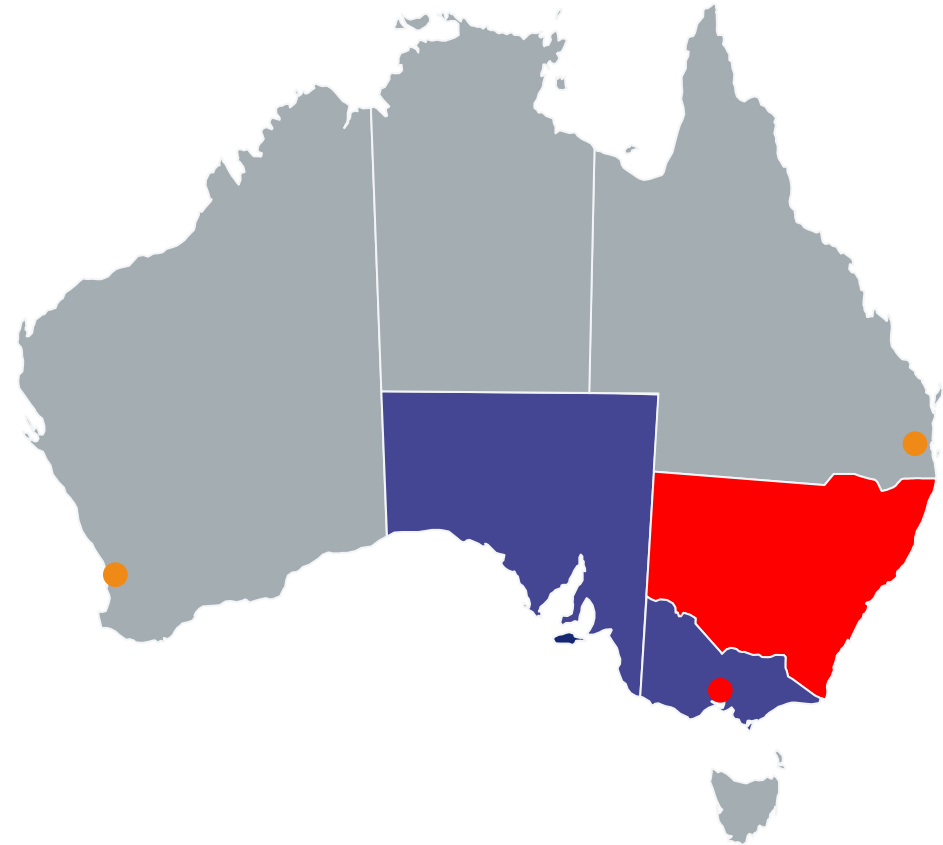
- These are improvements with a proven record of producing either energy or water savings, or renewable energy, and therefore qualify as a pre-approved improvement.
- Any common improvement included in an application does not need to undergo additional review or approval by Sustainable Melbourne Fund for eligibility.

2. Custom improvements

- Any improvement not on the Common Improvements list.
- Custom improvements require a business case and are assessed by a technical reference panel. Business case should cover:
 - A brief explanation of why the improvement meets the program's definition of an environmental upgrade
 - Any information, reports or case studies that support the explanation
 - A simple cash flow model showing the effect of the cost savings of the custom improvement
- A list of examples of custom improvements is available from the Sustainable Melbourne Fund website.

Where EUAs work

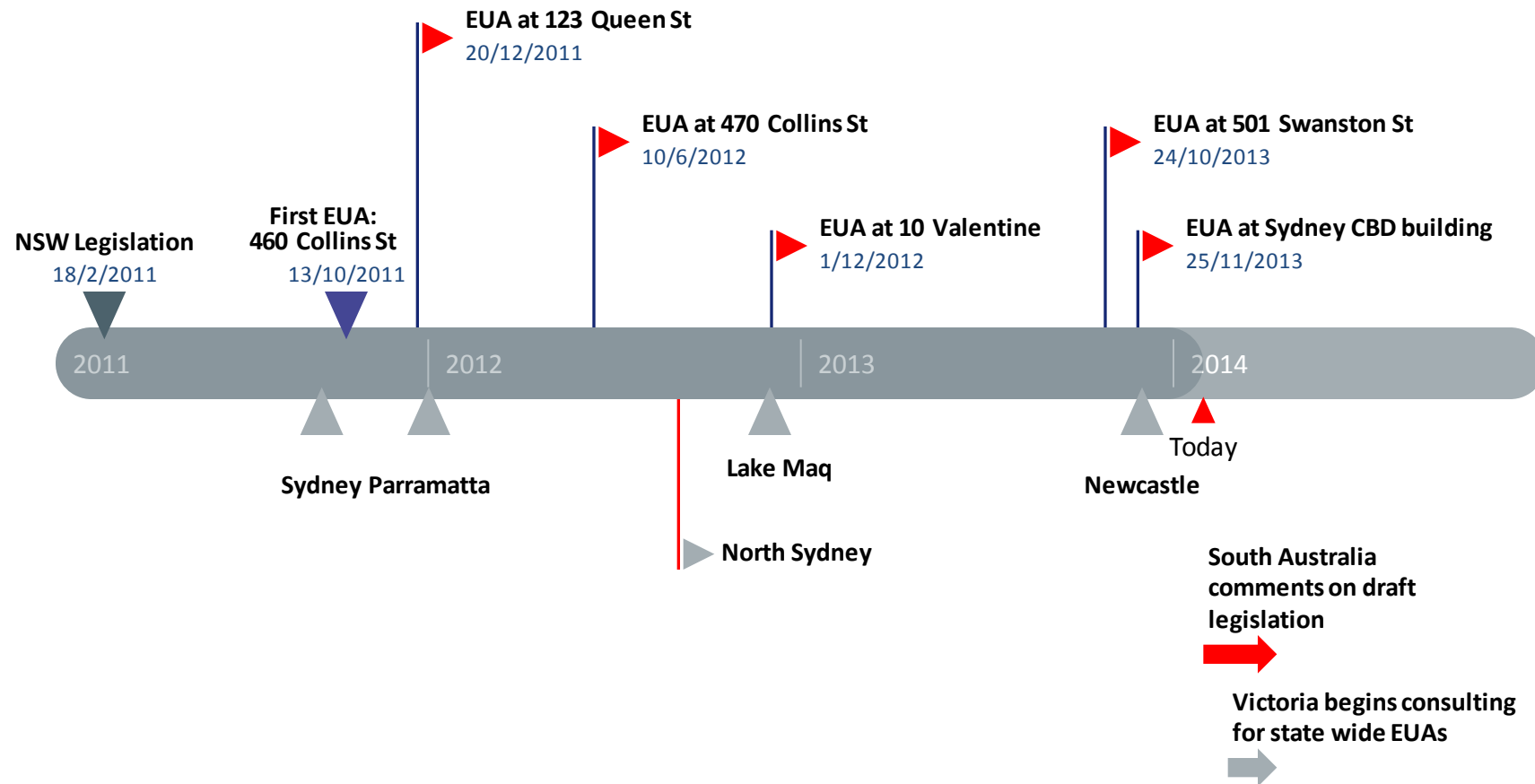
- City of Melbourne
- City of Sydney
- City of Lake Macquarie
- North Sydney Council
- Parramatta City Council
- City of Newcastle



South Australia will legislate this year, and cities of Brisbane and Perth have active working groups.

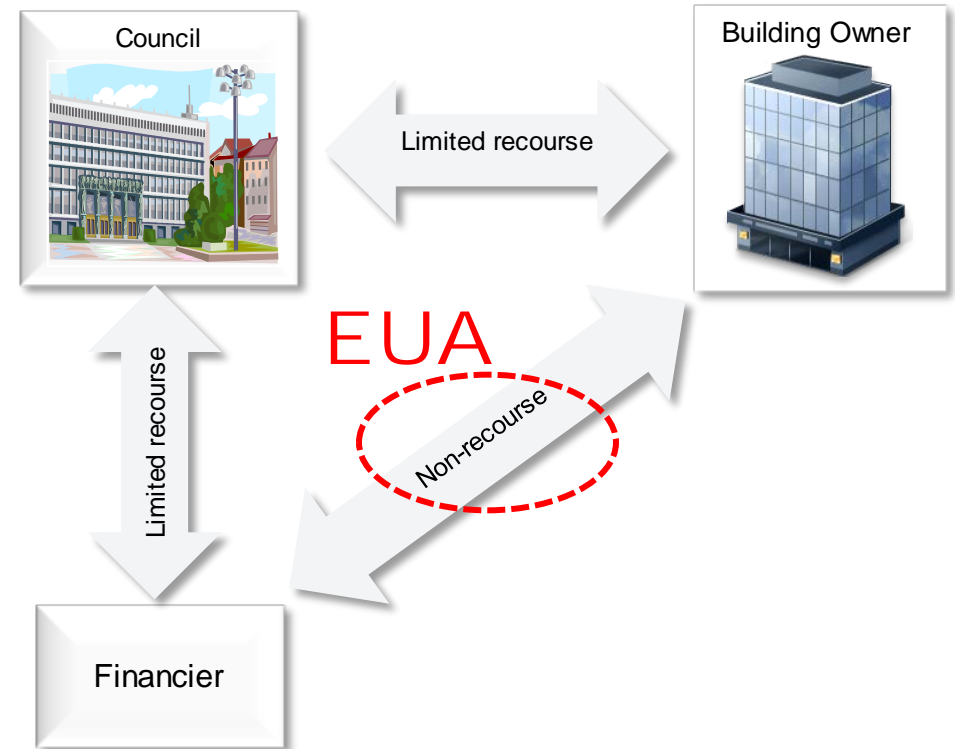
Victorian Government currently considering allowing EUAs state-wide as part of Plan Melbourne review.

Environmental Upgrade Agreements: A brief history



Why EUAs work: Advantage to traditional debt

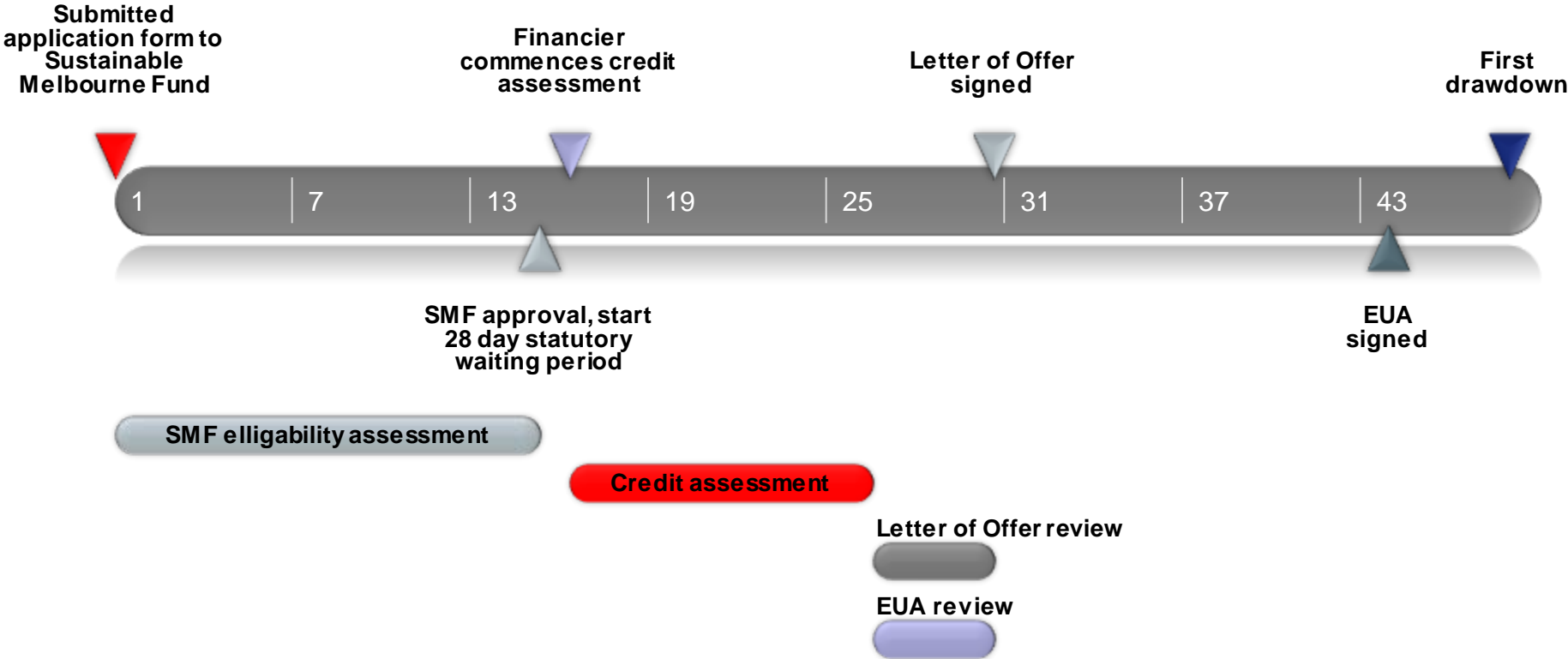
	EUA	Debt
No Security	✓	✗
No Financial Covenants	✓	✗
No financial reporting	✓	✗
No re-financing risk (long tenor & fully amortising)	✓	✗
Non-recourse by financier to the building owner	✓	✗
Transparent tenant engagement	✓	✗
Pass through to tenant can improve financial performance	✓	✗



Process Overview: Only two additional steps for an EUA

Step 1	Building owner (B/O) conducts a level 2 audit to establish works and power savings.
Step 2	Building Owner completes and submits EUA application to local council. EUA template issued.
Step 3	Financier completes an abbreviated credit process.
Step 4	Financier issues draft Letter of Offer (10 page template); B/O and Financier then agree Letter of Offer (LoO).
Step 5	B/O, Council, Financier agree EUA. 40 page template - not designed to be amended; Annexures are customised.
Step 6	CPs need to be satisfied: Know Your Customer, verification forms/evidence, signed purchase agreements/ construction contracts, etc.
Step 7	B/O finalises work scope and signs purchase/ construction agreements, as well as LoO and EUA.
Step 8	Monies advanced based on contract terms.
Step 9	Monies repaid each quarter from first Council date after works completed.

Process Flow: The timeline for EUAs in Melbourne



Considerations when planning for an EUA

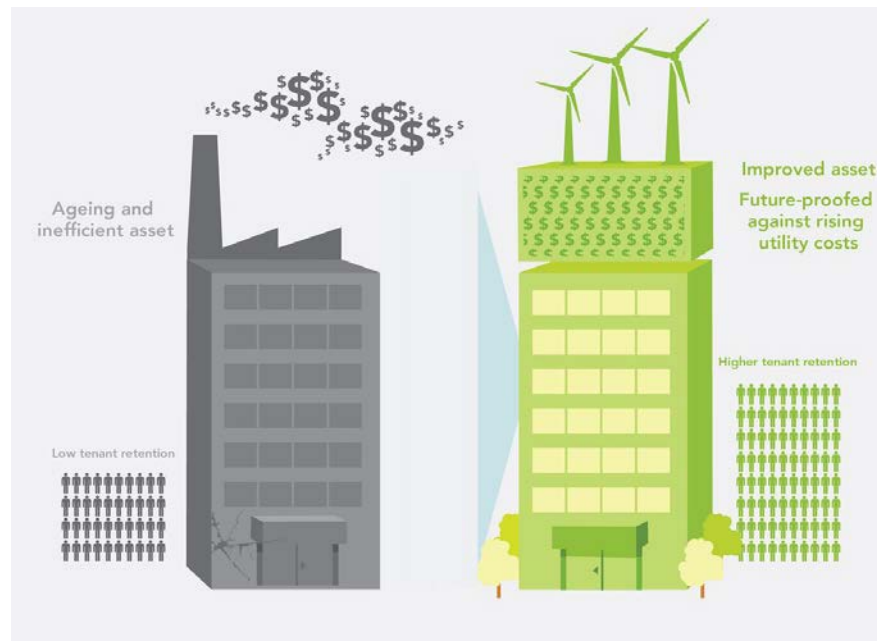
- Common or custom improvement path?
- What are the projected savings?
 - Important to prove the business case
 - Both SMF and NAB need projections for our assessments
 - Don't forget the maintenance savings
- Is there an opportunity for tenancy side improvements?
- Who will be providing the QS reports?
- When am I likely to need the funds?
 - Drawdown schedule needs to be set in advance and aligned to council rate periods
 - For smaller EUAs only one drawdown

Case Study: Sydney CBD Environmental Upgrade Agreement

- The EUA included a raft of retrofit works to lift the star rating of the building from 2 to 4 NABERS Energy Rating to attract quality tenants

Scope of Works

- Replacing:
 - tenancy light fittings and lights,
 - three lift motors
 - water pumps
 - Metering
 - Chiller and Boiler Replacement
- led to energy and maintenance savings for the tenants
- without capital expenditure by the tenants and no lease negotiating



Source: Sustainable Melbourne Fund

EUA Agreement

- EUA appropriately shares and regulates the costs and benefits of the upgrade

Case Study: Sydney CBD Environmental Upgrade Agreement

- The EUA included a raft of retrofit works to lift the star rating of the building from 2 to 4 NABERS Energy Rating to attract quality tenants

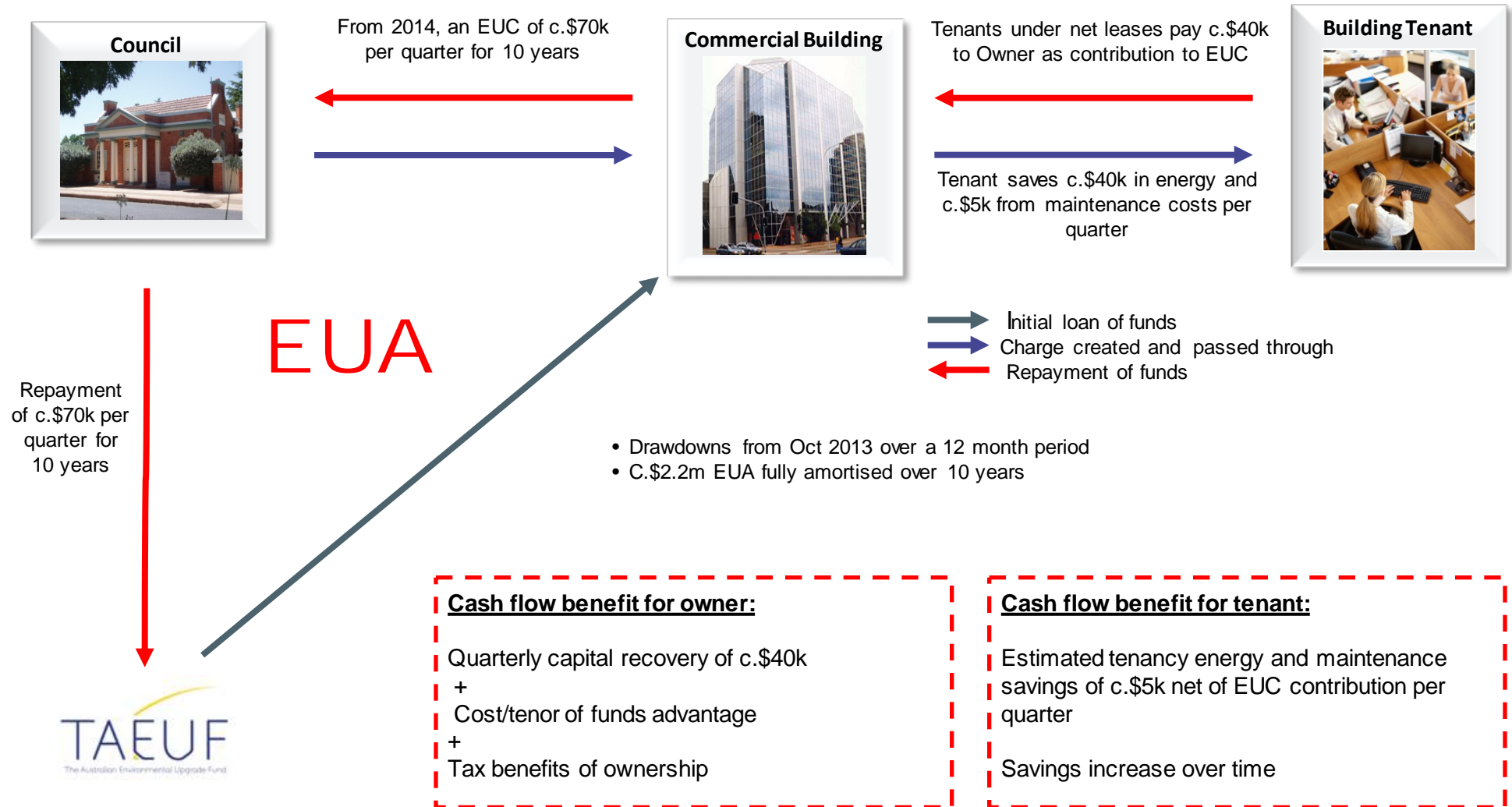
Key Takeaways

Building Owner	<ul style="list-style-type: none"> ✓ Cash flow benefit ✓ Competitive cost and diversified source of capital ✓ Bundled purpose financing which matches payback ✓ Tenant engagement + retention
Tenants	<ul style="list-style-type: none"> ✓ Cash flow benefit without capital expenditure ✓ Improved tenancy space without rent review initiation ✓ Transparency in benefit sharing ✓ Better occupancy space

Key Transaction Details

Date of signing	Late 2013
Building Owner	Undisclosed
Total Area	c.6,000m ²
Number of Tenants	21, net leased
WALE	c.3 years
Capital Cost	c.\$2,200,000
EUA Term	10 years
Est. Electricity Savings	c.\$141,600 p.a.

Case Study: Sydney CBD Environmental Upgrade Agreement



Questions?



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