

CEFC finance for commercial property energy productivity improvements

\$100 million finance from CEFC for investment in commercial property retrofits

SUMMARY

The Clean Energy Finance Corporation (CEFC) is providing up to \$100 million in finance designated for commercial property upgrades that will reduce buildings' energy consumption and cut greenhouse gas emissions.

The CEFC is partnering with one of Australia's leading non-bank commercial loan managers, Balmain Corporation (Balmain), which will originate and service the loans. Balmain will be partnering with a number of investment banks to offer mortgage financing for the upgrading of existing commercial building stock across all cities and metropolitan business centres across Australia. The CEFC finance will be used for major building retrofits that lift a property's National Australian Built Environment Rating System (NABERS) rating by at least two stars, up to at least four stars (or the equivalent thereof)¹.

Commercial properties such as offices, retail and industrial buildings are potentially eligible for loans, with approval on a case-by-case basis.

"There is huge potential to improve the energy productivity of Australia's building stock and cut emissions, but this is still a relatively new area of investment for the property market."

Oliver Yates
CEO, Clean Energy Finance Corporation



The commercial building sector in Australia has almost 25 million square metres of office stock. The average age of these buildings is 27 years and accounts for about 10 per cent of Australia's greenhouse gas emissions. Investment to upgrade these buildings to lower their energy consumption and improve their sustainability would yield significant energy productivity gains and financial benefit. According to ClimateWorks, a capital investment of about \$13 billion in energy efficiency improvements to commercial buildings could deliver energy savings of 37 per cent and achieve a positive long-term return on the investment.

Recent Australian Property Council and IPD research points to stronger investment returns from high NABERS rated CBD office buildings (10.5 per cent) than buildings with low NABERS Energy ratings (7.4 per cent)².

Energy efficiency upgrades to commercial properties can deliver higher returns and increased productivity, helping increase the

¹ The NABERS measures the energy efficiency, water usage, waste management and indoor environment quality of a building or tenancy and its impact on the environment using measured and verified performance information which is converting into a star rating scale.

² The Property Council/IPD Australia Green Property Index December 2013.

attractiveness of buildings to tenants. Improved building performance in areas such as energy, water, waste reduction and indoor environment quality provide an improved physical environment.

The CEFC's partnership with Balmain complements other CEFC financing that supports property upgrades to cut the energy use of commercial buildings and meet the needs of the diverse property market. These include CEFC finance of up to \$30 million for Environmental Upgrade Agreements, available through National Australia Bank, on-bill finance through Origin and Energy Efficient Loans through Commonwealth Bank of Australia.

PROJECT IMPACT

The potential

There are about 4,000 commercial office buildings in Australian cities with almost 25 million square metres of office space. It is estimated that more than 80 per cent of this is over 10 years old, and much of it consists of low-grade office buildings.³

ClimateWorks has estimated that a capital investment of about \$13 billion in energy efficiency improvements of existing commercial buildings could deliver energy savings of 37 per cent and achieve a positive long-term return on the investment. However, there have only been slight improvements in the energy intensity of these buildings over the last decade. The introduction of energy performance disclosure for large commercial buildings in 2010 has revealed a growing group of market leaders with highly rated building stock. However there is a large group of

buildings (11 per cent of assessed buildings) with a zero star rating. These buildings consumed over twice as much energy per square metre as highly rated buildings of the market leaders, which would lead to significant differences in energy bills.⁴

Retrofitting and improving existing buildings with more modern technology is one of the most cost-effective opportunities for reducing overhead costs as well as carbon emissions according to the Green Building Council of Australia. Heating, ventilation and air-conditioning (HVAC) systems typically account for between 25–50 per cent of a commercial business's energy bills. Significant savings can be made through clever design and installation of more efficient equipment. Lighting can account for up to 40 per cent of energy costs in commercial buildings, and by upgrading to more energy efficient lighting technology combined with other measures, significant savings in lighting and operating costs can be realised.

continued...



³ Sustainable Built Environment National Research Centre, Green buildings: How can the performance of existing commercial buildings be improved? 2012

⁴ ClimateWorks Australia, Tracking progress towards a low carbon economy: Buildings, July 2013.



Project Impact continued...

Financial returns

More energy efficient buildings can achieve better financial returns according to industry research conducted by the Australian Property Council and IPD. Their research shows that CBD office buildings with high NABERS Energy ratings delivered stronger investment returns (10.5 per cent) than buildings with low NABERS Energy ratings (7.4 per cent). IPD research also demonstrated that NABERS Energy high-rated buildings outperform all office buildings fully refurbished over the last five years.⁵

Energy efficiency improvements to commercial properties increase the attractiveness of buildings to tenants by providing an improved physical environment and lower energy costs, helping to improve occupancy rates and yield. Deep upgrades can future-proof buildings by lowering energy and operating costs, often diversifying building use and extending their useful life.

"The savings made will prove the project's value and will continue to prove its value as electricity prices rise."

Marc Stuart

Director, Trans Action

Market features

While new building standards for new commercial properties have resulted in an estimated one third reduction in emissions from office base buildings, the energy intensity of existing commercial buildings has only improved slightly (two per cent) over the last decade.

Even when there is a positive business case for significantly improving energy efficiency as part of a retrofit, often priority allocation of available capital is made to other elements of the project thereby limiting the achievable sustainability outcomes.

The diversity of the commercial property market, which ranges from small industrial properties in regional areas to large, CBD-based offices, means that different types of financing is required to overcome such market barriers.

Making capital available designated for deep retrofits should help overcome this, providing an incentive for upgrading commercial buildings and widen the understanding and experience across the sector about the financial benefits of improving the energy performance of commercial buildings.

The CEFC's partnership with Balmain complements other CEFC financing that supports upgrades to cut the energy use of Australia's ageing commercial property. These include CEFC finance of up to \$30 million for Environmental Upgrade Agreements, available through National Australia Bank, on-bill finance through Origin and Energy Efficient Loans through Commonwealth Bank of Australia.

⁵ The Property Council/IPD Australia Green Property Index December 2013.

FINANCE

The CEFC has agreed to provide up to \$100 million in senior debt financing, with up to \$700 million in mortgage debt financing to be sourced from other co-financiers and a minimum of \$200 million in equity.

Individual projects financed under the agreement must satisfy the CEFC's requirements for energy efficiency savings and projected NABERS ratings improvements.

CEFC financing is for a maximum of five years and CEFC holds a joint first ranking mortgage over the property, ahead of other debt providers.

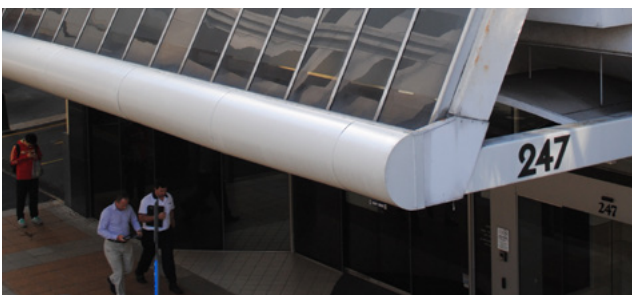
Upgrade projects to be financed under the agreement will be approved on a case-by-case basis, with the terms determined on individual projects.

CASE STUDIES

The CEFC has financed a number of commercial property upgrades that have improved the energy productivity of existing building stock, cut energy costs and benefited both owners and tenants.

A five-star transformation

The strategically located office block at 247 Adelaide Street Brisbane has achieved a five star NABERS Energy Base Building Rating following \$1.23 million in energy efficiency improvements.



The seven-storey 1970s building's transformation from zero to five stars has reduced the base building electricity use by nearly 50 per cent. Improvements involved installing new high efficiency air cooled chillers, new pumps and variable speed drives, a new mechanical switchboard, solar thermal heating, ventilation and air conditioning (HVAC) units and LED lighting.

From bulky goods retail centre to high performing office building

The \$1.6 million upgrade of a dysfunctional bulky goods retail centre at Ipswich in Queensland transformed the building into a high performing office space.

Replacement of the air conditioning and building management systems reduced the building's energy usage by more than 50 per cent, saving around \$220,000 a year, and attracted key government agencies as tenants. The upgrade transformed the building from a zero-star NABERS rating to targeting four stars and the building's owner says the upgrade has improved the building's long-term value.



Value added

The 11-storey O'Connell's OBM House commercial office building in Brisbane increased its NABERS rating from zero stars to a targeted four plus stars and reduced annual costs by about \$54,000.

The building's energy consumption was reduced by over 40 per cent following improvements to the building management system, chiller and mechanical plant, and an upgrade of base building lighting, metering and controls. The upgrade delivered immediate savings, improved tenant amenity and appeal, and helped drive up the value of the property in a highly competitive market.

Balmain Corporation (Balmain) is a broad based financial services organisation, with activities spanning all facets of commercial real estate finance and debt funds management. It is one of Australia's leading



non-bank commercial loan managers and has over 30 years of experience in commercial real estate (CRE) debt, having set approximately \$15 billion of CRE loans over the last seven years.

Balmain is active in wholesale institutional funds management on behalf of some of the world's largest institutions, banks and investment banks, retail funds management and private markets with over \$6 billion in assets under management. It has over 100 staff based in nine offices throughout Australia and New Zealand.

"This finance from the CEFC will help provide a demonstration across the property sector of the benefits from property improvements to improve efficiency and sustainability, cutting building operating costs and emissions. This will be focused on our clients in the property market who otherwise would be unlikely to undertake energy efficiency upgrades."

Andrew Griffin
CEO, Balmain

The Clean Energy Finance Corporation (CEFC) invests using a commercial approach to overcome market barriers and mobilise investment in renewable energy and lower emissions technologies. These investments are improving energy productivity and lowering energy costs for businesses across Australia, and helping to develop local industries and new employment opportunities.

In 2013, the CEFC's investments of \$536 million mobilised on average \$2.90 of private sector investment for every \$1 of CEFC investment and will achieve abatement of 3.88 million tonnes of CO₂e per annum. These investments will deliver a positive return to the CEFC, with a cost of abatement in the order of negative \$2.40 per tonne CO₂e.

The CEFC operates under the CEFC Act 2012. More information is available on our website www.cleanenergyfinancecorp.com.au

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