

# Environmental Upgrade Funding



## Making it easier for commercial property owners to reduce their carbon footprint.

We've developed a unique funding product for property owners to access finance for environmental retrofits of commercial, select industrial, education and retail buildings.

The funding makes it easier for property owners to unlock substantial reductions in energy and water use and costs, and carbon emissions

for commercial premises, while sharing the costs with those who benefit most – the tenants.

Launching in parts of NSW and Victoria, this is the first product of its kind in Australia. At the heart of the product is the partnership between building owners, tenants, councils, solution providers and capital providers, all of whom stand to benefit.

## What is Environmental Upgrade Funding?

Environmental Upgrade Funding is a finance product that provides funding, from \$250,000 to \$10 million plus, for the sustainable retrofitting of commercial buildings. Funding is repaid as a council charge. Environmental Upgrade Funding is unique in not only this repayment mechanism, but also in that it allows charges to be passed through to tenants under certain lease conditions.

By doing so, Environmental Upgrade Funding can overcome the 'split incentive', which arises when commercial property owners pay for an energy efficiency upgrade, but tenants receive the most benefit from the resulting energy savings.

The funding gives both owners and tenants an incentive to carry out sustainability upgrades. Funding can be up to 100% over long durations. In effect, energy efficiency savings can be used to repay the ongoing upgrade charge.

Market data increasingly supports the idea that sustainable buildings generate superior financial returns.<sup>1</sup> In addition, increases in energy prices are triggering greater awareness and interest in energy efficiency.<sup>2</sup>

By promoting the take-up of energy - efficient technologies, the scheme helps move Australia closer to having a low-carbon economy.

The funding model is available in select council areas (City of Melbourne, City of Sydney, City of Parramatta North Sydney, City of Newcastle and Lake Macquarie Councils). Eight transactions of this type have been signed to date (as at December 2013), to a total of over \$35 million.

## Property upgrade snapshot

### Common building area upgrade examples:

- Foyer and car park improvements;
- Voltage reduction and power factor correction;
- Lift lighting and motor improvements;
- Improvements to heating, ventilation and air conditioning systems;
- Glazing and facade improvements;
- Co-generation and tri-generation; and
- Renewable power.

### Tenancy area upgrade examples:

- Lighting upgrades;
- Office hardware power reduction; and
- Kitchen boiler improvements.

<sup>1,2</sup> 'Building Better Returns – A Study of the Financial Performance of Green Office Buildings in Australia' 2012.

## Benefits for commercial property owners

**Competitive rate** – due to the structure of the repayment arrangements, the interest rate within the Environmental Upgrade Funding is competitive compared with traditional lending.

**Funding repaid via local government charges** – monies borrowed are repaid via local government charges levied on the property. Subject to lease conditions, property owners can choose to share the financial cost with tenants, to the extent that the tenant enjoys cost saving from the upgrade works (i.e. decreased power bills).

**Longer-term, fixed-rate funding** – the funding is more closely matched to an asset’s life, repayments are fixed, and the risk of obtaining re-financing can be minimised.

**Energy savings repay the loan** – because of the long-term nature of the loan, the periodic cost savings from energy-efficiency improvements better match the repayments associated with the upgrades.

**Increased recovery** – because the capital contribution can potentially (and at the owner’s option) be recharged to tenants prior to lease expiry, the building owner’s cashflows are improved.

**No ongoing financial covenants** – the ongoing compliance of this funding is typically lower than traditional debt finance.

**No security registered on title and may leave other lines of credit unaffected** – depending on the specific terms of existing funding arrangements, funding may not impact existing credit lines, giving the building owner greater flexibility in capital management.

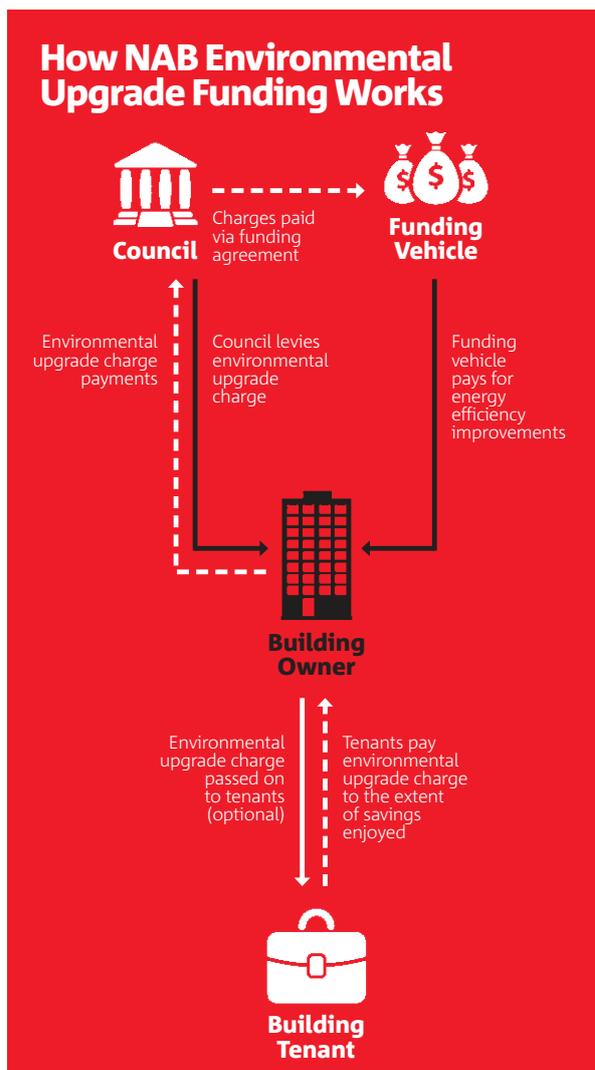
**Acquisition and investment advantage** – commercial property owners can use the scheme to improve their property portfolio. Financing terms of the Environmental Upgrade Funding are flexible enough that if ownership of the land transfers, the financing is designed to stay.

**Broad appeal** – open to many types of commercial building owners seeking retrofit capital.

## Benefits for tenants

**Cost savings without Capital Expenditure** – For the Environmental Upgrade Finance provided to date, in the instances where tenants are contributing to the charge servicing, these tenants have retained cost savings beyond the amounts they have paid as their contribution to the charges. The net benefit of energy savings should be even higher once the capital cost of refurbishments is repaid, and energy savings remain.

**Contributing to the transition to a lower-carbon economy** – along with anticipated savings on energy bills, organisations that measure or offset their carbon footprint should see a direct reduction in their indirect carbon emissions, helping to bring about long-term sustainability for Australia.



- Funding vehicle forwards funds to the Building Owner.
- Once works are complete, the Building Owner repays the funds via the Council, and to the extent allowed, recovers part of the charge from the Tenants.

## In action

**We've worked with local councils to understand their carbon-reduction objectives. This helped us create an energy-efficiency blueprint that we can scale up and deliver nationally. Additional programs are currently in development in other Australian states.**

NAB and City of Melbourne	NAB and City of Sydney and NSW Government
<ul style="list-style-type: none"> <li>• Environmental Upgrade Funding aligns with council plans such as the City of Melbourne's 1200 Buildings program and also supports the City of Melbourne's 'Zero Net Emissions by 2020' strategy. Through encouraging upgrades, this program aims to cut carbon costs of 1200 existing non-residential buildings in the municipality, benefiting tenants and landlords with ongoing savings.</li> <li>• The City of Melbourne Act 2001 requires that tenants consent in writing to Environmental Upgrade Funding before the cost of Environmental Upgrade Funding is able to be passed through to the tenants.</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental Upgrade Funding aligns with the City of Sydney's Sustainable Sydney 2030 plan. This plan aims to cut greenhouse gas emissions by 70% (on 2006 levels) by 2030 through an integrated transport, architecture, infrastructure, planning and economic development focus. NAB has also engaged with other Greater Sydney Council's to make Environmental Upgrade Funding available.</li> <li>• Within the City of Sydney (and other NSW councils), tenant permission of Environmental Upgrade Funding is not required so long as the upgrade costs regularly passed through to (and paid by) the tenants do not exceed the energy efficiency savings the tenant periodically enjoys as a result of the upgrade. Owners have the option but not the obligation to pass the charges through to the tenants.</li> </ul>

## Leading innovation in the property industry

We're committed to helping industry meet their carbon reduction goals in an innovative, commercially-viable way. Since September 2010, we've been carbon neutral across all our businesses. By sharing our sustainability record and financial capabilities we've developed the Environmental Upgrade Funding to help property and government sectors respond to increasing

energy and climate change regulation, such as mandatory NABERs ratings.

We are at the forefront of market-leading property transactions and were voted No.1 Bank of Choice for Property Development Finance in the 2011 and 2012 Peter Lee Survey.<sup>3</sup> We're also a Platinum Sponsor of the 'Building Better Returns' report, a study of the

financial performance of green office buildings in Australia. The report provides the economic rationale for sustainable property investment and development, encouraging investors to pursue green building opportunities that support economic growth for future generations while also preserving our ecological heritage.<sup>4</sup>

3 Peter Lee Associates 2011 and 2012 Large Corporate and Institutional Relationship Banking Survey – Australia. Equal No.1 Bank of Choice for Property Development Finance in 2012.  
4 'Building Better Returns – A Study of the Financial Performance of Green Office Buildings in Australia'

# Want to know more?

**Please visit [nab.com.au/neuf](http://nab.com.au/neuf), contact your NAB Relationship Banker or the NAB Environmental Upgrade Funding team:**

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## Partnership with Clean Energy Finance Corporation

NAB has partnered with the Clean Energy Finance Corporation (CEFC), an independent company established by the Australian Government to deliver innovative finance solutions to help the move towards a low- carbon economy. The CEFC is a cornerstone investor within The Australian Environmental Upgrade Fund, a vehicle established to undertake the financing of eligible projects and support the evolution of this funding model.

The CEFC was established under the CEFC Act 2012 with a flexible mandate and commercial approach to mobilise investment in renewable energy, low-emissions technology and energy efficiency. The CEFC's investments are helping overcome financial barriers that have inhibited clean energy investment at scale in Australia.

Learn more at [www.cleanenergyfinancecorp.com.au](http://www.cleanenergyfinancecorp.com.au)

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