

WHAT ARE THE ADVANTAGES

COMMERCIAL ADVANTAGES

Using a 20,000sqm NLA building with a 1 Star NABERS Rating.

These directly related commercial gains include:

Current Annual Energy Expenditure (Base Building) = **\$560,000**

Current Annual Maintenance Expenditure (Mech & Elec) = **\$600,000**

TOTAL CURRENT BASE BUILDING SERVICES AND ENERGY EXPENDITURE = \$1,160,000 PER ANUM

Upgrade Cost to 4 ½ NABERS = **Approx. \$2,000,000 (New Chillers fitted 2008)**

Expected Annual Energy Savings = **\$230,000**

Expected Annual Maintenance Saving = **\$300,000** (Note first years maintenance included in upgrade cost)

TOTAL EXPECTED BASE BUILDING SERVICES AND ENERGY EXPENDITURE = \$630,000 PER ANUM (i.e. +\$500,000 PA saving)

Government Incentive = **\$500,000 (Grant scheme to be replaced by Tax break scheme to approved applicants)** – refer link below

<http://www.climatechange.gov.au/government/initiatives/tax-breaks-for-green-buildings.aspx>

Additionally standard tax depreciation opportunities are applicable to all upgraded plant.

In this working example the owner has the opportunity to recover the investment in 3 years. Without the grant / tax incentive applied for and approved, an owner would still be able to recover the investment within 4 years. MOST IMPORTANTLY THE OWNER WOULD TYPICALLY BE ABLE TO RECOVER THE COST WITHIN THE TERM OF THE INITIAL LEASE PERIOD.

BENEFITS

- Energy Savings
- Equipment Upgraded
- Maintenance Reduced
- Grants and subsidies are available.
- Knowledge of Building is recreated.
- Services Demarcation is established which leads to mitigation of risk Tenant / Owner disputes.
- Better Energy Rating improves building value.

| | Nabers Energy |
|---------------------|---|
| Commonwealth | 4.5 Stars For New Buildings, New Leases And Major Refurbishments. |
| NSW | 4.5 Stars (By July 2011) |
| ACT | 4.5 Stars (BB) For New Leases 4.5 Stars (T) - For New Fitout In Leased Offices 4 Stars (T) – For Refurbishments In Leased Offices |
| VIC | 4.5 Stars (BB) For New Buildings 4 Stars (BB) For Existing Buildings 5 Stars (T) For New Fitout In Leased Offices |
| SA | 5 Stars (BB) For New Buildings Preference For 5 Stars (BB) For Leased Offices In Existing Buildings |
| WA | 4.5 Stars (BB/WB) For New Buildings 3.5 Stars (BB) For New Leases In Existing Buildings 4.5 Stars (T) New Fitout/New Leases In Existing Buildings 4 Stars (T) For Existing Tenancies |
| NT | 5 Star (BB) For Newly Leased Office Buildings Through A Commitment Agreement Existing Buildings Encouraged To Achieve 4.5 (BB) By 1 July 2012 |
| QLD | 4.5 Stars For New Buildings, New Leases And Major Refurbishments |
| TAS | Policy In Development |

WHAT HAPPENS IF THE BUILDING IS NOT UPGRADED

Notionally a building which currently has a 1 Star NABERS rating currently rents at approx \$500/sqm gross in the Brisbane CBD.

Should no NABERS (or Sustainability) upgrade occur and the building remain at a 1 Star NABERS rating; Rent could potentially drop to \$400/sqm gross i.e. (\$100/sqm drop).

Assuming \$100/sqm drop as the effect on per/sqm rents contributed by:

- New Market supply coming online,
- Mandatory Disclosure (sale and lease),
- Other Building owners upgrading their assets and repositioning the space for release (i.e. higher in the spectrum),

BUILDING VALUE

Based on the above with a building 20,000sqm NLA it has the following notional effect on gross terminal values:

- \$500/sqm gross x 20,000 /8% cap = \$125,000,000,
- \$400/sqm gross x 20,000 /8% cap = \$100,000,000,

Based on this above representation the devaluation by the market of \$100/sqm of the building has a valuation effect of **\$25,000,000 (or a rental loss of \$2,000,000 per annum)**.

Note that the above is a notional representation of the loss of rental dollars per square meter and its effect on terminal valuation.

As noted previously the upgrades to building efficiency should be seen as follows:

- 'Added Value' or is it a discount for 'Non-Sustainability'?

In the case of this building, it would be a \$100/sqm discount for Non-Sustainability.