

CEFC backed property trust looks to boost energy performance in commercial property sector

High Income Sustainable Office Trust (HISOT) managed by EG will invest \$400 million to upgrade older buildings to meet growing metropolitan office demand.

The Clean Energy Finance Corporation (CEFC) has committed up to \$125 million as cornerstone equity in the High Income Sustainable Office Trust (HISOT), a new \$400 million wholesale property fund focused on improving the building controls and energy performance of commercial office properties.

Managed by leading real estate fund manager EG, HISOT will buy and refurbish office properties to significantly lift their energy and operating performance. The fund is targeting a portfolio of about 12 core Australian commercial properties in major metropolitan office markets on the eastern seaboard.

Once acquired, the properties will undergo retrofits including the latest integrated building and HVAC management systems with real-time energy monitoring technologies and other building improvements to lift energy and operating performance. These projects are expected to achieve an increase of at least two stars under the National Australian Built Environment Rating System (NABERS) across the portfolio, with each property targeting an outcome of 4.5 stars post upgrade.



PROJECT IMPACT

The CEFC's HISOT investment is part of its property focused program helping develop innovative new opportunities for greening the Australian property sector, investing to revitalise and rejuvenate older commercial properties through energy efficient technology upgrades and the installation of renewable energy technologies.

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Project Impact continued...

About 20 per cent of Australia's national greenhouse gas emissions come from buildings, and commercial buildings account for nearly half of these. More than 90 per cent of the emissions from commercial buildings come from the consumption of grid-supplied electricity.

This is a strong indication that the commercial property sector is a key area where energy efficiency investment can have a substantial and beneficial cross-economy impact.



According to Colliers International (*Dial for Demand: Enquiry for Metro Assets on the Rise*, March 2015), the top sources of demand for office space in metropolitan Sydney and Melbourne locations is from sectors such as IT, business services, media and communications, trade and construction, health and community services, as well as finance and insurance.

HOW IT WORKS

The HISOT fund is targeting B and C Grade office buildings and commercial properties which typically have a NABERS rating of less than three stars and offer the most opportunity for significantly lifting energy efficiency, reducing operating cost and improved occupant comfort.

The commercial and residential building sector is a major consumer of grid-supplied electricity. Commercial properties that reduce their energy use save money on energy costs and reduce their carbon emissions. At the same time, they increase their attractiveness to tenants by being more cost efficient and potentially more comfortable places in which to work.

The HISOT fund will seek to meet the market need for higher performance rated commercial space beyond the central CBD in most major metropolitan centres. The HISOT fund will target this market, investing in property which can deliver higher environmental ratings and operating performance needed in this market.

"Our focus will be towards taking buildings reaching the end of their economic lifecycle, making the right choices and installing the right equipment to reposition them to meet modern standards, attractive to high quality tenants."

Adam Geha
CEO, EG

AUSTRALIA'S COMMERCIAL BUILDING STOCK

HISOT aims to demonstrate the economic benefits of upgrading buildings to improve their NABERS ratings, to catalyse other like developments across the Australian commercial property sector delivering enhanced returns from improved energy utilisation.

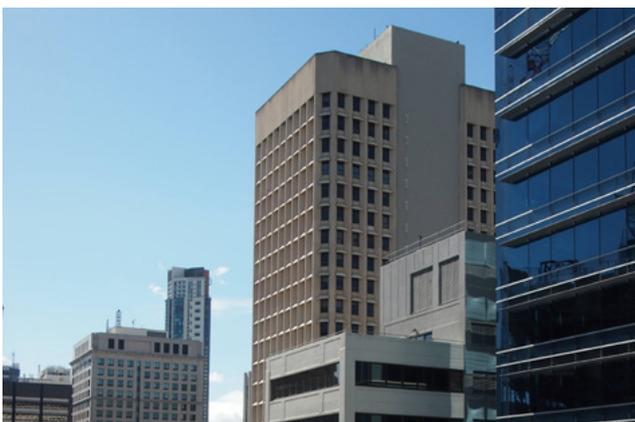
The majority of Australia's CBD building stock was built before 1990 and stands to benefit from improvements that increase energy efficiency and environmental performance.

Research in recent years has demonstrated the potential for positive impact of higher energy and performance rated commercial property for property investors. PCA/IPD research (2013) and the *Building Better Returns* study provided evidence of higher basic rent, higher net operating income, lower capital expenditure, lower vacancy rate, and longer Weighted Average Lease Expiry (WALE) building with higher ratings under the National Australian Built Environment Rating System (NABERS).

CATALYSING INVESTMENT

In addition to the CEFC's cornerstone \$125 million equity, the HISOT will be open to investment from institutional investors, including superannuation funds, which have been increasingly interested in low emissions and sustainable investment opportunities in the mid-sized investment market.

Colliers International 2015 research in the Australian marketplace shows that government decentralisation, CBD supply constraints, infrastructure spending and urban regeneration hold the key to the growth of Australia's metropolitan office markets, and areas featuring urban regeneration precincts and solid public transport access will continue to offer the best prospects for growth.



"There is a strong business case for upgrading older commercial buildings. Apart from lower energy costs, greener buildings have been shown to deliver higher rental income and higher net operating income. At the same time, upgraded buildings require lower capital expenditure and have lower vacancy rates. These are compelling reasons for property owners to upgrade older commercial buildings."

Oliver Yates
CEO, Clean Energy Finance Corporation

THE BENEFITS OF REVITALISING COMMERCIAL CENTRES

The development of thriving non-CBD commercial hubs is supporting population and business growth in Australian cities and can help in reducing transport and congestion pressures. Specialised precincts can deliver wide economic benefits by building on the area's strengths to attract further business and investment. For example:

- Melbourne's Docklands redevelopment of 190ha of industrial wasteland tapped its potential to create a modern urban waterfront with thriving retail, commercial, entertainment and residential precincts which has become the headquarters for major businesses including NAB, ANZ, Myer and Medibank Private
- Parramatta in NSW is redeveloping three hectares in its centre to create a new civic heart and has flagged that all buildings within Parramatta Square will be designed to 5 Green Star Standards to see the area re-emerge a vibrant, connected and liveable city. A-grade vacancies are at a low 2.1 per cent, which demonstrates strong demand and need for green office space.

- Ipswich, west of Brisbane, is in the process of a \$1 billion transformation which began in 2009, and has included delivering an A-Grade commercial tower which has been leased by the Queensland Government.

WHY RATINGS MATTER

Improving energy efficiency is one of the most cost effective ways of reducing the greenhouse gas emissions of commercial buildings. The Commercial Building Disclosure Program, developed by the Australian, State and Territory Governments, requires most Australian sellers and lessors of commercial office space of 2,000sqm or more to obtain a Building Energy Efficiency Certificate (BEEC) disclosing information about their building's energy efficiency to comply with the Building Energy Disclosure Act 2010.

Two voluntary national accreditation programs measure and report on the environmental performance of office tenancies – the National Australian Built Environment Ratings System

(NABERS) and Green Star. These two very different rating tools provide reliable benchmarks for Australian commercial property comparisons. Both systems recognise environmental efficiencies in buildings and provide best practice benchmarks enabling property owners to demonstrate that measures have been undertaken to reduce energy use, water use and carbon emissions. Properties with higher efficiency levels are delivering a competitive edge in a crowded marketplace.

“Through our investment in this trust, the CEFC is seeking to demonstrate the economic benefits of upgrading buildings to improve their NABERS ratings, which potentially can catalyse other like developments across the Australian commercial property sector that can enhance returns from improved energy utilisation.”

Oliver Yates
CEO, Clean Energy Finance Corporation

Program	Overview	Documented outcomes
NABERS	A performance-based environmental impact rating system for existing buildings, tenancies and homes. It is operated by the NSW Office of Environment and Heritage on behalf of the Australian, State and Territory governments.	Research by the Property Council of Australia (PCA) into the Australian office market released in August 2014 shows that properties with NABERS ratings of four and above recorded stronger investment returns of 9.4 per cent per annum, compared with lower rated properties at 7.6 per cent.
Green Star	An environmental rating system developed by the Green Building Council of Australia that evaluates the environmental design and construction of new buildings, new fitouts and master-planned precincts.	Green Building Council of Australia research conducted in 2012 demonstrated that on average, Green Star certified buildings use 66 per cent less electricity and produce 62 per cent fewer greenhouse gas emissions than average Australian buildings. PCA research shows that Green Star rated offices continue to outperform the all-office market, recording a 10 per cent rolling annual return in June 2014 compared with 9 per cent for the all-office market.

EG COMMERCIAL PROPERTY CASE STUDY

EG's experience in upgrading commercial property to improve its NABERS standing is demonstrated through its purchase and development of a Burwood, NSW, government-tenanted office building. EG purchased the 6,400sqm building in 2010 for \$25.35 million.

EG increased the building's NABERS energy rating from three stars to 4.5 stars, through a \$600,000 upgrade that involved installing a new chiller, pumps and variable speed drives, as well as a building management system and heater controls. The investment realised an internal rate of return of 25 per cent per annum.



"At EG we're experienced in identifying, acquiring, managing and developing assets with urban renewal potential. The CEFC's cornerstone finance for the High Income Sustainable Office Trust will help us accelerate further opportunities for investors who are seeking returns from greener office space."

Adam Geha
CEO, EG

EG is a leading real estate fund manager founded in 2000, with over \$1.5 billion in assets under management. Its ability to identify and realise opportunities has helped it achieve consistently high, risk-adjusted returns for investors. Its current portfolio spans the retail, commercial and industrial sectors. Its developments across Australia have a pipeline value of more than \$2 billion.

EG is a signatory to the UN Principles of Responsible Investment (UNPRI). With offices in Sydney Melbourne and Perth, privately owned EG employs 35 staff. For more information about EG see www.eg.com.au/.

The Clean Energy Finance Corporation (CEFC) invests using a commercial approach to overcome market barriers and mobilise investment in renewable energy, energy efficiency and low emissions technologies.

Since its inception, the CEFC has committed over \$1 billion in finance to investments in clean energy projects valued at over \$3 billion.

The CEFC invests for a positive financial return, with its more than 40 direct investments and 25 projects co-financed under aggregation programs expected to achieve a positive net benefit for the taxpayer. These projects help to improve energy productivity for businesses across Australia, develop local industries and generate new employment opportunities.

The CEFC operates under the *Clean Energy Finance Corporation Act 2012*. More information is available on our website www.cleanenergyfinancecorp.com.au

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