



OFFICE INVESTMENT OPPORTUNITIES

The time to refurbish an existing asset, or purchase and reposition a commercial office building may be opportune.

With recent Legislation requiring NSW State and Australian Government tenants exceeding 1,000m² and 2,000m² respectively to occupy office space from 1 July 2011 which has a minimum 4.5 Star NABERS rating for energy efficiency, and the imminent mandatory disclosure of a building's energy performance, it should pay dividends to refurbish an existing asset or purchase and reposition a new one.

Current initial research and analysis by Palladium Property indicates that out of the approximate 9,500,000m² of existing commercial office stock in the Sydney CBD, Fringe, and NSW major regional centres some 1,289,652m² or 13.5% is NABERS 4.5*+ Certified (Base Building) as of July 2009. A further 540,000m² or 6% is Green Star 4*+ certified. In the Sydney CBD and North Sydney commercial areas figures indicate that only 20% and 10% respectively of existing stock is currently NABERS 4.5*+ certified. In the last two months alone some 320,000m² has been certified NABERS 4.5* and above.

A recent industry space occupier sentiment survey suggests that 42% of respon-

dents would be willing to pay up to 10% more to occupy a sustainable building. Some 76% said that energy/sustainability is a major 'tie-breaker' in their location decisions and 82% of respondents consider green building ratings in their building selection.

The Federal Government through its *Green Building Fund* initiative aims to reduce the impact of Australia's built environment on green house gas emissions by reducing the energy consumed in the operation of commercial office buildings. The program provides \$90 million in grants across four years, from 2008-09 to 2011-12. It aims to help buildings reduce their energy consumption, by retro-fitting or retro-commissioning projects. Grants ranging from \$50,000 to \$500,000 are available for up to 50% of project costs. Grants over \$500,000 may be available under limited circumstances for buildings of more than 5,000m². Three rounds for submissions have already closed with the fourth round closing on the 22nd of September 2009.

This demonstrates that significant opportunities currently exist to reposition commercial office assets and capture the increasing demand for sustainable office space whilst securing beneficial government funding.

DEVELOPMENT FUNDING CONCERNS CONTINUE

Funding for larger scale commercial / residential projects is becoming increasingly difficult to source due to lenders being over exposed to the Australian property market. As a consequence, lenders are now aggressively attempting to reduce their exposure to the property sector by tightening the lending criteria for developers seeking development funding i.e. higher level of equity contributions, pre-sales, pre leasing commitments (including tenancy risk) and development profit margins are now required. This has been compounded by the lenders in many instances having a 'no new lending policy' for larger commercial / residential projects, particularly for funding applications in excess of \$10million.

Generally, for property transactions requiring funding under \$10million, there appears to be a greater availability of funding options, although the credit criteria for such transactions has also tightened over the past 12 months.

The withdrawal of overseas lenders providing property development finance to the

local market is also having an impact on the availability of credit. A void has been left in the second tier lending market with the withdrawal of several major lenders including The Bank of Scotland / Capital Finance, GE, ING Commercial, Ashe Morgan and Orix.

Following the rejection by the Liberal and Greens in Federal Parliament on the 16th June 2009 of the \$28 Billion Australian Business Investment Partnership (popularly known as Rudd Bank), access to commercial development funding appears bleak. The perceived requirement for the Fund was aimed to fill any void from foreign banks withdrawing funding from the commercial property market in line with current global banking trends. In the event that the bill had won approval, cash strapped but viable development projects currently underway would have benefited from alternative funding sources, however new proposed schemes would have still faced significant increased equity contribution and restrictive loan criteria.



Cameron Buchan joins Palladium

Palladium Property is pleased to welcome Cameron Buchan in the role of Property Development Consultant. Cameron joins Palladium after working for eight years in London and brings extensive experience delivering complex mixed use schemes within the United Kingdom. Most recently he was a partner in a specialist design and management practice. Working in close collaboration with leading UK property developers and private funds to reposition and maximise returns across a range of asset classes.

With experience working on projects ranging from \$1m to \$500m Cameron will provide valuable development management skill, with a sharp eye for identifying latent opportunities and added value through good design and sound commercial acumen.

His experience provides excellent knowledge of the complete development process from feasibility through construction and completion. His project experience has included high-rise and luxury residential, mixed-use, hotel, hospital and urban renewal.

"In the field of observation, chance favours only the prepared mind"

Louis Pasteur, 1854

Palladium Property is a founding member of the Gravitus Consulting Group, which incorporates a comprehensive skill-set of professional development services across all property categories. Expert consultancy and management roles are provided by seven boutique 'best practice' member companies operating within an integrated, multi-disciplinary team. This unique partnership ensures added value for our clients' projects.

As a group, Gravitus employs in excess of 239 skilled people with 27 offices in three continents comprising Australia, China, England and Scotland resulting in a 2008 calendar year combined fee turnover of some \$30million.

Our alliance members offer our institutional, government and private client base significant expertise with recent experience across all facets of property development projects totalling some \$3 Billion total property development value in 2008



Palladium is now a member of the Green Building Council of Australia. Palladium Property is a keen proponent of environmentally sustainable development and sustainably manages the use of energy, water and materials in the company's operations. All our professional staff are Green Star Accredited Professionals

MANDATORY DISCLOSURE

Of key importance to investors and developers within the Australian office market is the proposed nationally mandatory disclosure scheme for commercial office building energy efficiency currently being refined by the Federal and State/ Territory Governments. The anticipated implementation date of the scheme is mid to late 2010.

When legislated, the proposed scheme will have a significant effect on leasing and sales of office buildings in Australia as the energy efficiency of all commercial office buildings (anticipated above 2,000m² NLA) are to be disclosed at the point of sale or lease.

Not dissimilar to the obligatory certification sticker on new cars for sales rating fuel consumption and CO₂ emissions, this scheme will allow potential buyers and tenants to compare the

energy efficiency of buildings on a comparable basis. A key objective of the new scheme will be to overcome market impediments and ensure that all parties in a transaction have access to accurate information regarding about a building's energy efficiency.

Following early 2009 consultancy workshops with industry, the Department of Environment, Water, Heritage and Arts expects to provide firm direction on key issues raised through the consultation process in the next few months. These include government decisions on the application of the minimum bench mark of 2,000m² (NLA) of office space, adequacy of metering in commercial office buildings, issues of control of tenant operations and resultant effect on the NABERS rating of the building, and the period for which the energy certifications will be valid.



NABERS vs Green Star What's the difference?

Environmentally Sustainable Design has never loomed as large on the property radar as now. With the latest announcement of grants from the Green Building Fund, increasing energy costs, the promise of an emissions trading scheme in the immediate future and regular publication of the latest buildings to achieve 'firsts' in environmentally sustainable design, building owners and developers are finally embracing sustainable design practices. Currently NABERS and the Green Building Council of Australia's Green Star rating systems are the two main tools for rating a building's sustainability. So what is the difference between NABERS and Green star, and what do they mean?

NABERS (National Australian Built Environment Rating System) measures an *existing* building's environmental performance during operation. NABERS rates a building on the basis of its measured operational impacts - these may include energy, water, waste and indoor environment. NABERS is

based on actual measured performance rather than design parameters and can be complementary to design based rating systems. NABERS currently provides rating systems for Offices, Residential, Retail and Hotels.

The Green Building Council of Australia's Green Star is a comprehensive, national, voluntary environmental rating system that evaluates the environmental design and construction of buildings. It provides a holistic rating system for proposed developments as well as 'as built' ratings for projects that have been completed. Green Star separately evaluates the environmental initiatives of designs, projects and/or buildings based on a number of criteria, including management, energy and water efficiency, indoor environment quality, transport, materials, land use and ecology, and innovation. Green Star currently provides rating tools for Offices (design and as built), Retail Centres, Education and Office Interiors.

Contact: Phillip Hoare
PALLADIUM PROPERTY
Ground Floor, 133 Alexander Street
CROWS NEST NSW 2065
p: 02 9432 7866 f: 02 94392738 info@palladium.net.au