



i am action matters

Environmental Upgrade Agreement:
Tenant contributions guidance

Environmental Upgrade Agreement

tenant contributions

Environmental upgrade finance allows building owners to share upgrade costs and benefits with tenants. Tenants receiving the benefits of an upgrade project are able to pay for those benefits with their utility bill savings.

How do tenant contributions work?

The building owner upgrades the building (base building and/or tenancies) with potentially no upfront, capital outlay through an Environmental Upgrade Agreement (EUA). While the owner is responsible for repayment through the Council rates process, tenant contributions can be recovered by:

- existing lease provisions without tenant consent, where the tenant already contributes to outgoings, or
- a specific agreement, when the building owner and the tenants negotiate and agree to contributions to be made.

The tenant contribution is based on the utility bill savings they are estimated to receive as a result of the project. The contribution is calculated by a suitably qualified consultant using engineering methodologies. Tenants can't be financially worse off under an EUA financed upgrade, meaning that their contributions must be equal to or less than their utility bill savings.

Does lease structure matter?

The building owner's ability to recover contributions will depend on the structure of the lease.

There are three types of lease.

Net lease

The tenant pays, in addition to rent, some or all of the property expenses or outgoings that are normally paid by the building owner. These include expenses such as real estate taxes, council charges, insurance, maintenance, repairs, utilities and other items.

Tenants on net leases benefit directly from an upgrade project that reduces the cost of their utilities. Under an EUA an owner can recover up to the value of these utility savings from their tenants, with the tenants' utility outgoings remaining at or below pre-EUA levels.

Building owners who have tenants on a net lease can consider seeking tenant contributions towards the cost of an upgrade.

Semi-gross lease

In some circumstances leases can combine net and gross lease features when treating outgoings. For example, the building owner may accept outgoings up to a certain threshold (defined as a base year) with tenants responsible for expenses above that threshold. It may be possible for tenants to contribute under an EUA, although it will depend on the project, lease structure and base year.

Gross lease

The tenant pays a flat rental amount, and the building owner pays for all regular property charges. In this scenario the owner will benefit from the upgrade project with reduced utility costs and tenant contributions are not appropriate.

There are cash flow advantages of doing environmental works under an EUA regardless of the lease type because it is the utility savings that pay for the works.

Getting tenants on board

Upgrades are a normal cost for building owners and tenants and are ultimately recovered at some stage in the leasing cycle. The EUA's ability to enable cost recovery through utility savings provides a great opportunity to realise these opportunities sooner rather than later and the flow-on benefits for tenants and owners.

Why

Improving the efficiency and comfort of your building is a reason to celebrate with your tenants.

It's important that you engage appropriately with the tenants early in the process and get them on board if you want tenant contributions for the upgrade project. The level of engagement will depend on the type of upgrade and the tenants in the building, with the building lease manager best placed to advise on the most appropriate way to engage with the tenants.

How

Meet with tenants through tenant representative meetings or individually.

- Explain the upgrade plans to them, highlighting the improvements to their workspace and reductions in outgoings.
- Talk to them about the timing and staging of works to minimise impacts to their operations.
- Clarify how the savings will be monitored and verified.

Consider recovering less than 100% of savings from your tenants (e.g. 80%). This will still provide the building owner with a significant financial benefit, at the same time as generating goodwill with the tenants because they will also see an immediate financial benefit. Recovering less than 100% also provides the owner with a buffer in case savings are not fully realised. The owner may decide to go with contractors that guarantee energy savings resulting from the upgrade and provide greater certainty of savings for those owners recovering costs from tenants through the EUA.

Why is measurement and verification important?

The measurement and verification (M&V) process fairly measures and evaluates the utility savings delivered by the upgrade and ensures tenants are not financially worse off.

The M&V Plan

A key part of the M&V process is the development of an M&V Plan, which defines how the savings analysis will be conducted before the upgrade is implemented. This provides a degree of objectivity that is absent if the savings are simply evaluated after implementation.

The baseline usage is a crucial input to the M&V Plan and process and for quantifying the direct benefits to tenants. Baseline conditions are established for the purpose of estimating savings by comparing the baseline energy use with the post-installation energy use.

Reconciliation of tenant contributions

When tenants contribute to costs, an annual reconciliation process to account for any variance between the estimated and verified savings received by tenants must be undertaken. The savings data recorded through the M&V process provides the data to complete the reconciliation.

Tenant outgoings reconciliation

An annual reconciliation of estimated and verified savings must be carried out if tenants are contributing to EUA upgrade costs through savings in utility outgoings. Ideally this should be undertaken with your existing reconciliation processes for outgoings, utilising data recorded for M&V. The M&V consultant can either create the systems for the leasing manager to complete the reconciliation or carry out this task on behalf of the owner.

General Approach

In simple terms the reconciliation process compares estimated savings (utility unit i.e. kWh and \$) with verified savings (utility unit and \$). The following outlines the key elements for a successful reconciliation process.

- The tenant contributions calculated and displayed in schedule 4 of the EUA contract contain the utility savings estimates (engineering calculations) and the value of those savings (the relevant utility tariff). Together these figures provide the estimated savings in dollar terms.
- Verified utility usage data is recorded through the M&V processes determined during the design stages and implemented post construction. The verified utility savings (kWh, kL etc) for each period are multiplied against the relevant actual tariff for that period to determine the value of the savings achieved.
- Compare the estimated tenant savings/contribution (Schedule 4) with the value of the actual savings calculated for the year and reconcile any difference. Both the utility savings (kWh) and the relevant tariff interact to determine whether the estimated savings (in \$ terms) eventuate as verified savings (in \$ terms). If the tenants received more savings than the contribution value you have a created goodwill. If the tenants received less savings in value than they contributed, they need to be reimbursed.

The end result must be that the building's tenants cannot be out of pocket for the upgrade.

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Office of Environment and Heritage
59 Goulburn Street, Sydney NSW 2000
PO Box A290, Sydney South NSW 1232
Phone: (02) 9995 5000 (switchboard)
Phone: 131 555 (environment information and publications requests)
Phone: 1300 361 967 (national parks, general environmental enquiries, and publications requests)
Fax: (02) 9995 5999
TTY users: phone 133 677, then ask for 131 555
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