Introduction
Commercial Property Assessed Clean Energy (C-PACE)

- C-PACE is a Public / Private partnership which allows property owners to finance projects through voluntary assessments placed on the property by a state economic development agency.

- C-PACE programs may finance 100% of the energy efficiency, renewable energy, water conservation, resiliency improvements and the related costs, covering retrofits to ground-up construction.

- The financing is typically collected with regular local real estate taxes and assessment payments are amortized over a 5-30 year term, not to exceed the useful life of the project.
Commercial PACE is legislated in 36 states and D.C.

Of that total, C-PACE programs are now launched and operating in 20 states and the number of eligible states continues to grow.

Although some states, such as NJ and NH are legislated, those states have limited PACE financing availability due to the rate PACE is adopted at the city/county level and other jurisdiction specific issues.
C-PACE Early Adopters
C-PACE Financing Highlights

100% Project Financing
Finance 100% of the project costs on typically no more than 20% of the appraised value including hard and soft development costs, design, engineering, permits and service contracts. Improvements increase NOI and property value, improve aging infrastructure, and align landlord and tenant interests.

Fixed Long-Term Rates
Projects are financed over the useful life of the improvement with fixed long term interest rates and fully amortizing terms ranging between 5 and 30 years.

Flexible Prepayment Options
C-PACE financing provides flexible prepayment options that allow the developer or property owner to effectively manage the capital structure of the property. PACE financing can include prepayment options coterminous with a potential property sale.
C-PACE Financing Features

Reduce the need for Value Engineering in Projects
C-PACE provides a 100% cost-effective financing of Energy Efficiency, Renewable and Sustainable upgrades, and retrofits of a commercial real estate property, allowing the property owner to install needed energy reduction measure and reducing the need for value engineering.

Effective Alternative to Mezzanine Debt in Deep Retrofits, Repositioning or Ground Up Construction
C-PACE provides a cost effective solution as part of the capital stack allowing the developer to increase the overall potential of the project and profit opportunity.

Non Recourse Financing Release
Because PACE is a tax assessment, the financing is non recourse to the borrower with no personnel guarantees required.

1. Please consult your accountant or tax advisor
C-PACE Eligible Improvements

**Renewable Energy Improvements**
Examples include: Charging stations, storage systems, alternative or solar energy improvements

**Common Area Retrofits**
Examples include: HVAC, windows, roofing, lighting & elevators

**Green Roofs**
Examples include: Green roofs, rooftop gardens, green walls

**Seismic Retrofits***
Examples include: Soft story, concrete non-ductile, accessory dwelling units

**Water Conservation***
Examples include: Weather-based irrigation control, high efficiency sprinkler nozzle, artificial turf, faucets

**Flood Mitigation***

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* Improvements only available in California  ** Improvements only available in New Jersey and Rhode Island
C-PACE Eligible Improvements

**Doors and Windows (Energy Efficiency or Wind Resistant*)**
Examples include: Impact resistant doors, impact-resistant windows, applied window film

**Roof (Energy Efficiency or Wind Resistant*)**
Examples include: Wind resistant re-roof, solar reflective cool roof, Fluid Applied Silicon Coating System

**HVAC (Energy Efficiency)**
Examples include: Heat Pumps, Water Heaters, Chillers, Building automation, Central air conditioner, furnace, energy efficient thermostat

**Lighting (Energy Efficiency)**
Examples include: Indoor and outdoor lighting fixtures, lighting controls

**Pool (Energy Efficiency)**
Examples include: Pool pumps, pool heaters, automatic pool covers

**Building Envelope (Energy Efficiency)**
Examples include: Insulation, radiant barriers, air sealing, cool wall coating

* Wind Resistance Improvements only available in Florida
Replace Equity¹ and Reduce the Need for Outside Capital

Reduce equity¹ participation and maintain larger ownership.

CAPITAL STACK

Conventional Debt/Equity

- Debt: 65%
- Owner's Equity: 35%

With PACE Financing

- Debt: 65%
- Owner's Equity: 15%

¹ C-PACE can supplant mezzanine debt as well as equity in the capital stack
C-PACE Financing Mechanism

Property Tax + Other Assessments
PACE Assessment payments
Recorded PACE Assessment lien

Program Authority / Program Administrator (appointed by State Gov’t)

Initial Funds Flow
Securities/Agreements
PACE payments

Property Tax + PACE Assessment
Annual PACE Assessment on Property Tax Roll

PACE Assessment Contract/Lien
PACE Funds for Retrofit Project
PACE Assessment Payments

Energy Savings

Property Owner

Government/Municipal Tax Authority

Property Owner

Property

PACE Financing Entity

HANNON ARMSTRONG

COUNTERPOINTESRE
Demand for Sustainability Initiatives

According to Deloitte\(^1\), 95% of business travelers surveyed believe the hotel industry should be undertaking “green” initiatives.

According to Credit Suisse’s 2017 Global Investor report, millennials are driving sustainable practices in various industries.

Recent studies by Nielsen - Deloitte indicates that millennials are willing to pay more for products and services seen as sustainable or coming from socially and environmentally responsible companies.

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Hospitality Sector embracing sustainability initiatives

Demand

• 95% of business travelers surveyed believe the hotel industry should be undertaking “green” initiatives.
• Studies confirm people are willing to pay more for products and services seen as sustainable or coming from socially and environmentally responsible companies.

Industry Trend

• 23 global hotel organizations including Marriott and Hilton established a streamlined methodology, “Hotel Carbon Measurement Initiative”, for measuring the carbon footprint of individual hotel locations. Over 15,000 hotels have already adopted this approach to reporting.
• The Ritz-Carlton Hotel Company embarked on a three-year program centered on reducing energy consumption. On a portfolio basis, energy consumption was reduced by over 13% from the 2005 baseline.

3 https://www.wttr.org/about/members/
C-PACE Financing for Hotel Properties

Potential Positive cash flow in year 1
• Higher cash flow resulting from lower operating costs due to utilities cost reduction

Efficient Financing for required PIP’s
• C-PACE can be used as part of a long-term financing of required Property Improvement Plans. The availability of additional PACE capital can expand scope of improvements.

Pass costs to guests
• C-PACE cost may be offset by green taxes charged to guests

CAPEX capital at a lower cost than debt or equity
• C-PACE financing available for up to 25% of estimated property value
• Replaces mezzanine debt with low cost, long-term financing
• Non-recourse, amortizing and with no financial covenants
C-PACE on Hotel Room Bill Example

Description
The best gifts can't be wrapped and for a limited time give the gift of travel with this promotion at thousands of hotels worldwide. Reservation requires full pre payment for the entire stay at the time of booking and is nonrefundable. Length of stay requirements vary by hotel and other restrictions may apply.

Taxes and Additional Charges
Additional Charges:
1.76 USD per night not included in rate effective 15 January, 2020 thru 16 January, 2020
5.9% per night not included in rate effective 15 January, 2020 thru 16 January, 2020
Taxes:
17.1% per night not included in rate effective 15 January, 2020 thru 16 January, 2020
 Fee - Pays for Arena and City facilities is $1.76 per night. / Pace Assessment Fee is 5.9% per night.

Maximum # of Persons per Room Allowed
4 person max.

Rate Rules
Advanced purchase required
Check-in time: 3:00 PM
Check-out time: 11:00 AM

Deposit Rules
A deposit for the entire stay is due at time of booking.

Cancellation Policy
Canceling your reservation or failing to arrive will result in forfeiture of your deposit. Taxes may apply.

Rate Information per Night for 1 Room
<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wed 15 Jan 2020 - Thu 16 Jan 2020</td>
</tr>
<tr>
<td>Price for 1 room(s) and 1 night(s);</td>
</tr>
<tr>
<td>Taxes:</td>
</tr>
<tr>
<td>Additional Charges:</td>
</tr>
<tr>
<td>Estimated Total Price:</td>
</tr>
</tbody>
</table>

[Logo: HANNON ARMSTRONG] [Logo: COUNTERPOINTESRE]
C-PACE Financing for Multifamily Properties

Prepayment options
• Can create flexible prepayment options to allow for agency financing upon completion of retrofit and stabilization

Effective financing for common Multifamily retrofits
• PACE can replace equity investment for a variety of common multifamily retrofits including HVAC, windows, doors, insulation, seismic improvements etc.

Freddie Mac and FHA enabled
• Freddie Mac will provide lender consent for C PACE and has issued guidelines for approval FHA has initialed a pilot program for PACE in multiple states. CSRE has completed a small test project of $1mm
C-PACE Financing for Multi-Tenant Properties

Positive cash flow in year 1

• Higher cash flow resulting from lower operating costs
• Promotes strong tenant retention and higher lease rates
• Allows for effective financing of multi-tenant buildings - eliminates the split incentive issue

Capital at a lower cost than mezzanine debt or equity

• PACE financing available for up to 35% of estimated property value
• Replaces/reduces expensive mezzanine debt or equity financing

PACE Attributes

• Off-balance sheet treatment¹
• Fully non-recourse², amortizing, with no financial covenants
• Property-based rather than owner credit – qualification for financing based on the building’s financial health, not the property owner’s personal or business credit/guarantees
• Transferable at sale - assessments are linked to the property and may be transferred to a new owner upon sale. No residual encumbrances and easy exit

1. Please consult your accountant or tax advisor  2. Subject to applicable state law with respect to the payment of real estate taxes
C-PACE Financing for Multi-Tenant Properties

Advantageous for Triple Net and Modified Gross Leases

**Triple Net Lease**
- As opposed to debt financed property improvements, C-PACE is a tax assessment, which is treated as an operating expense, so the cost may be passed through to tenants.
- Costs and benefits are aligned for property owners and tenants alike.

**Modified Gross Lease**
- A portion of the assessment may be passed through in the form of an additional rent increase as stipulated under the modified gross lease agreement
- Higher property cash flow resulting from lower operating costs and strong tenant retention

"Value Added"

Increases property value
Aligns landlord and tenant interests
Property owners can improve aging infrastructures
C-PACE Financing for New Construction/Gut Rehabs

New Construction/Major Renovation

- Financing for ground up construction is available in most PACE jurisdictions
- Financing also available for significant property retrofits/renovations, even on unstabilized properties
- Determination of allowable property improvements as a percentage of property value is based on appraised value at completion

Reduces or eliminates the need for "value" engineering

Achieve the highest levels of Green Building Certification

- Low cost funding of the incremental investment needed to achieve green building designations drives sustainability and project headlines – results in lower operating costs, higher rents and higher NOIs

PACE attributes

- Off-balance sheet treatment\(^1\)
- Fully non-recourse\(^2\), amortizing, with no financial covenants
- Replaces/reduces expensive mezzanine debt or equity financing
- Property-based rather than owner credit – qualification for financing based on the building’s financial health, not the property owner’s personal or business credit/guarantees
- Transferable at sale - assessments are linked to the property and may be transferred to a new owner upon sale. No residual encumbrances and easy exit

1. Please consult your accountant or tax advisor 2 Subject to applicable state law with respect to the payment of real estate taxes
Ideal for a Deep Asset Retrofit or Repositioning

- C-PACE typically can finance up to 20% of the completed project’s appraised value effectively covering more of the project’s construction costs.

- Covers a large number of expensive rehab eligible products including chillers, elevators, control systems, HVAC, etc.

- C-PACE is increasingly accepted by some of the largest construction lenders as an excellent source of funds in complex projects.
Financing Conditions

Lender Consent

From a lender’s perspective, PACE assessments have attributes similar to a ground lease, yet more flexible.
Why Consent to a C-PACE Financing

Benefits to Lender

**Collateral Protection**
PACE improvements modernize the property and protect it from devaluation and income losses from delayed maintenance, and end-of-life infrastructure concerns.

**Cash-flow positive nature of C-PACE**
Improve property value, reducing the impact on the lender’s leverage point

**Non-acceleration provision**
Limit the size of protective advances required by the mortgage holder.

**Borrower relationship**
Existing customers are better served because the cash-flow positive nature of C-PACE assessments improve the financial position of the customer over a traditional second mortgage

**Increase Banking Business**
Mortgage lenders can enhance client relationships and attract customers in a competitive lending market. In addition, improving energy efficiency and reducing emissions is a matter of public policy. Lenders including Freddie Mac, and HUD have expressed the willingness to provide consent subject to certain criteria.
# C-PACE Illustrative Financing

## C-PACE Characteristics

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Location</td>
<td>• Within Active PACE Jurisdictions</td>
</tr>
<tr>
<td>Project Scope</td>
<td>• Upgrade/Retrofit, New Construction¹, and Previously Completed Projects¹</td>
</tr>
<tr>
<td>Improvement Types</td>
<td>• Energy efficiency, renewable energy, water conservation, seismic retrofit, and risk mitigation</td>
</tr>
<tr>
<td>Tenancy</td>
<td>• Stabilized or Transitional</td>
</tr>
<tr>
<td>Assessment Size</td>
<td>• $1,000,000 - $100,000,000</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>• 5.25% to 6.25% (fixed)¹</td>
</tr>
<tr>
<td>Term</td>
<td>• 5 to 30 years, based on estimated useful life of project</td>
</tr>
<tr>
<td>Amortization</td>
<td>• No balloon payments; assessments are self-amortizing</td>
</tr>
<tr>
<td>Maximum Assessment to Value³</td>
<td>• Up to 35%</td>
</tr>
<tr>
<td>Maximum Combined LTV³</td>
<td>• Up to 95%</td>
</tr>
<tr>
<td>Minimum Combined Loan and Assessment³</td>
<td>• DSCR 1.00x</td>
</tr>
<tr>
<td>Prepayment Provisions</td>
<td>• Flexible Prepayment Terms</td>
</tr>
<tr>
<td>Recourse</td>
<td>• Non-Recourse</td>
</tr>
</tbody>
</table>

¹as of 9/1/19
Efficient Capital for Efficient Buildings

- Hannon Armstrong Sustainable Real Estate (HASRE) is a strategic alliance between Hannon Armstrong and CounterPointe Sustainable Real Estate.

- CounterPointe Sustainable Real Estate has been financing C-PACE assessments since its inception in 2014.

- Hannon Armstrong (NYSE: HASI), a Public REIT in the sustainable infrastructure markets for over 30 years, has $5.3 billion of managed assets as of 12/31/2018. In the last year, Hannon Armstrong has closed transactions valued at more than $1.2 billion.

- Expert commercial property knowledge and resources to finance sustainable energy efficiency and resiliency upgrades for the commercial real estate industry- regardless of the project’s complexity.
Questions & Next Steps

Contact

Eric.Alini@hasre.com
## CASE STUDY: TOMMIE HOTEL

### PROJECT
- **Development Stage:** New Construction
- **Building Type:** Hotel
- **Property Name:** Tommie Hotel
- **Property City:** Los Angeles, CA (Hollywood)
- **Developer:** Relevant Group

### PROPERTY DETAILS
- **8 floors**
- **212 guest rooms**
- **188,390 square feet**
- Ground floor dining/mixed use
- Rooftop pool and bar
- Underground parking

### IMPROVEMENT TYPES
- ✓ Building Envelope
- ✓ HVAC and/or chillers
- ✓ Wind or seismic risk mitigation
- ✓ Lighting
- □ Renewable energy
- □ Green Roof

### BENEFITS
- ✓ Reduce WACC
- ✓ Increase Leverage
- ✓ Pass through expense
- ✓ Fully non-recourse to sponsor
- ✓ Combine with tax credits
- ✓ Retain utility rebates & incentives

### CASE STUDY

"Working with Hannon Armstrong Sustainable Real Estate to help build sustainability into our projects has become an important part of our capital strategy."

Warren Cruz,
Chief Accounting Officer, Relevant Group

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[$12,000,000 30YR Term Fixed Rate C-PACE Financing](#)

12% Loan to Development Cost

6516 W. Selma Avenue
Hollywood, CA
CASE STUDY:
DELTA MARRIOTT

$1,790,000
15YR Term Fixed Rate C-PACE Financing

25% of renovation (PIP) budget

PROJECT
Development Stage: Franchise Repositioning/Renovation
Building Type: Hotel
Property Name: Delta Marriott
Property City: Cincinnati, Ohio
Owner: LDI Management Company

PROPERTY DETAILS
13 floors
237 guest rooms
18,000 square feet of meeting space
Ground floor dining/mixed use
Business/Banquet/Fitness Center
Services neighboring Sharonville Convention Center

IMPROVEMENT TYPES
✓ Building Envelope
✓ HVAC and/or chillers
☐ Wind or seismic risk mitigation
✓ Lighting
☐ Renewable energy
✓ Green or cool roof

BENEFITS
✓ Reduce WACC
✓ Increase Leverage
✓ Pass through expense
✓ Fully non-recourse to sponsor
☐ Combine with tax credits
✓ Retain utility rebates & incentives

“Cincinnati has a clear economic development plan and we are proud to be a part of it. Creating such a unique, sustainable place would not be possible without strong public/private partnerships such as the C-PACE program.”

Sanjay Tibrewal, Vice President/Co-owner, LDI Management Company
CASE STUDY: HYATT CENTRIC

$10,466,000
25YR Term Fixed Rate
C-PACE Financing

$1,551,065
Interest savings over 3-year
development & stabilization

PROJECTS
Development Stage:
Ground Up Construction
Building Type:
Hotel
Property Name:
Hyatt Centric
Property City:
Sacramento, CA
Developers:
1122 7th Street LLC

PROPERTY DETAILS
11 Floors
172 Guest Rooms
109,500 square feet
Ground floor dining/mixed use
Business/Fitness Center

1128 7th Street
Sacramento, California

IMPROVEMENT TYPES
✓ Building Envelope
✓ HVAC and/or chillers
✓ Wind or seismic risk mitigation
✓ Lighting
☐ Renewable energy
☐ Cool or Green Roof

BENEFITS
✓ Reduce WACC
✓ Increase Leverage
☐ Pass through expense
✓ Fully non-recourse to sponsor
☐ Combine with tax credits
✓ Retain utility rebates & incentives

“PACE filled a very important gap in the capital stack to complete this loan and get construction of the Hyatt Centric underway. We have found it to be a great tool for hotels to take advantage of.”

Marc Sallette
CBRE Senior Vice President
CASE STUDY:
THE ATRIUM

$3,920,000
20YR Term Fixed Rate
C-PACE Financing

$653,187
Projected Energy Savings
(lifetime)

PROJECT
Development Stage:
New Construction
Building Type:
Assisted Living Facility
Property Name:
The Atrium at Liberty Park
Property City:
Cape Coral, Florida
Owner:
Atrium at Liberty Park, LLC

PROPERTY DETAILS
2 floors
130 unit / 140 bed facility
119,842 square feet
Four dining rooms & a coffee shop
Activity rooms, computer room, coffee shop, library, theater, and exercise facilities

IMPROVEMENT TYPES
✔ Building Envelope
✔ HVAC and/or chillers
✔ Wind or seismic risk mitigation
✔ Lighting
□ Renewable energy
□ Green or cool roof

BENEFITS
✔ Reduce WACC
✔ Increase Leverage
✔ Pass through expense
✔ Fully non-recourse to sponsor
✔ Combine with tax credits
✔ Retain utility rebates & incentives

“We’ve spent a significant amount of time carefully crafting an environment for seniors, thoughtfully designed to exceed expectations for lifestyle and care. Atrium at Liberty Park will bring a much-needed service to seniors in Cape Coral and Southwest Florida.”

Dan Castleberry, CIO
Meridian Senior Living

1321 NE 24th Avenue - 3564
Cape Coral, Florida