Improving Financial Performance of Existing Buildings thru Energy Efficiency Retrofits

Presented to

EPA ENERGY STAR

Networking Meeting

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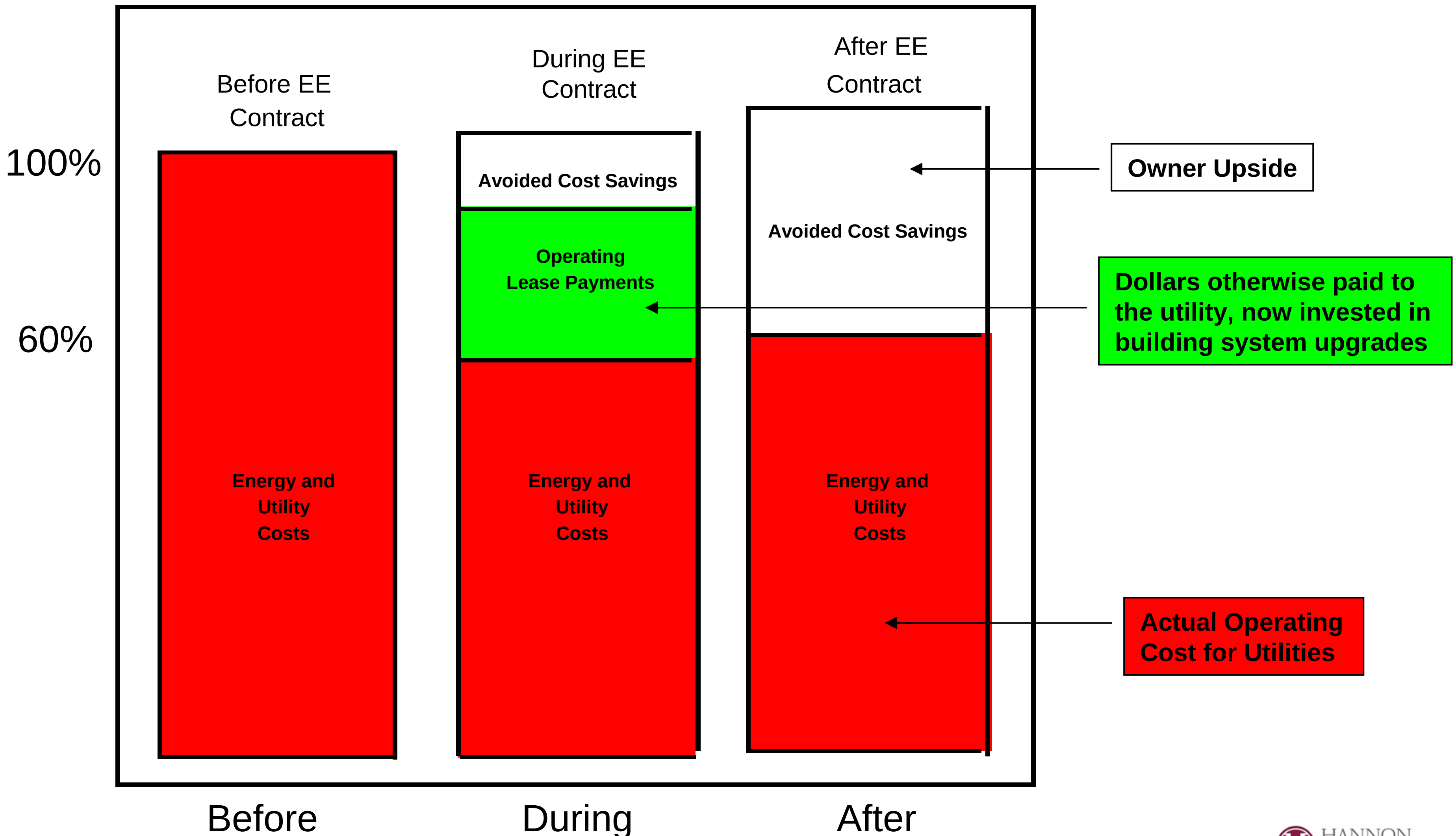
Today’s Energy Efficiency Market

- Wide range of proven EE technologies
- Comprehensive EE programs can reduce expenses by 25-50%
- Variety of contracting methods
- EE projects are self-liquidating “investments”
- Most EE projects amortize within 5-10 years, despite 10-20 year useful life
- EE projects may be subsidized thru monetization of efficiency credits
- Cheaper than buying renewables

Summary of Benefits

- Enhanced Financial Performance
  - **Net Operating Income**
  - **Occupancy**
  - **Rents**
  - **Sales Price**
- Cost Management
- Risk Mitigation
- Comfort and Productivity
- Big Step toward Sustainability and Environmental Responsibility

Self-Liquidating Nature of EE Assets



Principal Challenges in Commercial RE

PRIMARY STRUCTURING GOALS:

- ***Contracting structure that incentivizes the "non-occupying owner"***
- ***Ability to pass-through EE costs under net leases***
- ***Building LLC stands-alone -- no parent guarantee***
- ***No lien waiver from first mortgagee***
- ***Contracting flexibility that doesn't hinder a sale***
- ***Looking past the holding period and using LCC-based decision-making***
- ***Focus on the linkage between reduced expenses and cap value***

Principal Contracting Approaches

Performance Contracting

Leases

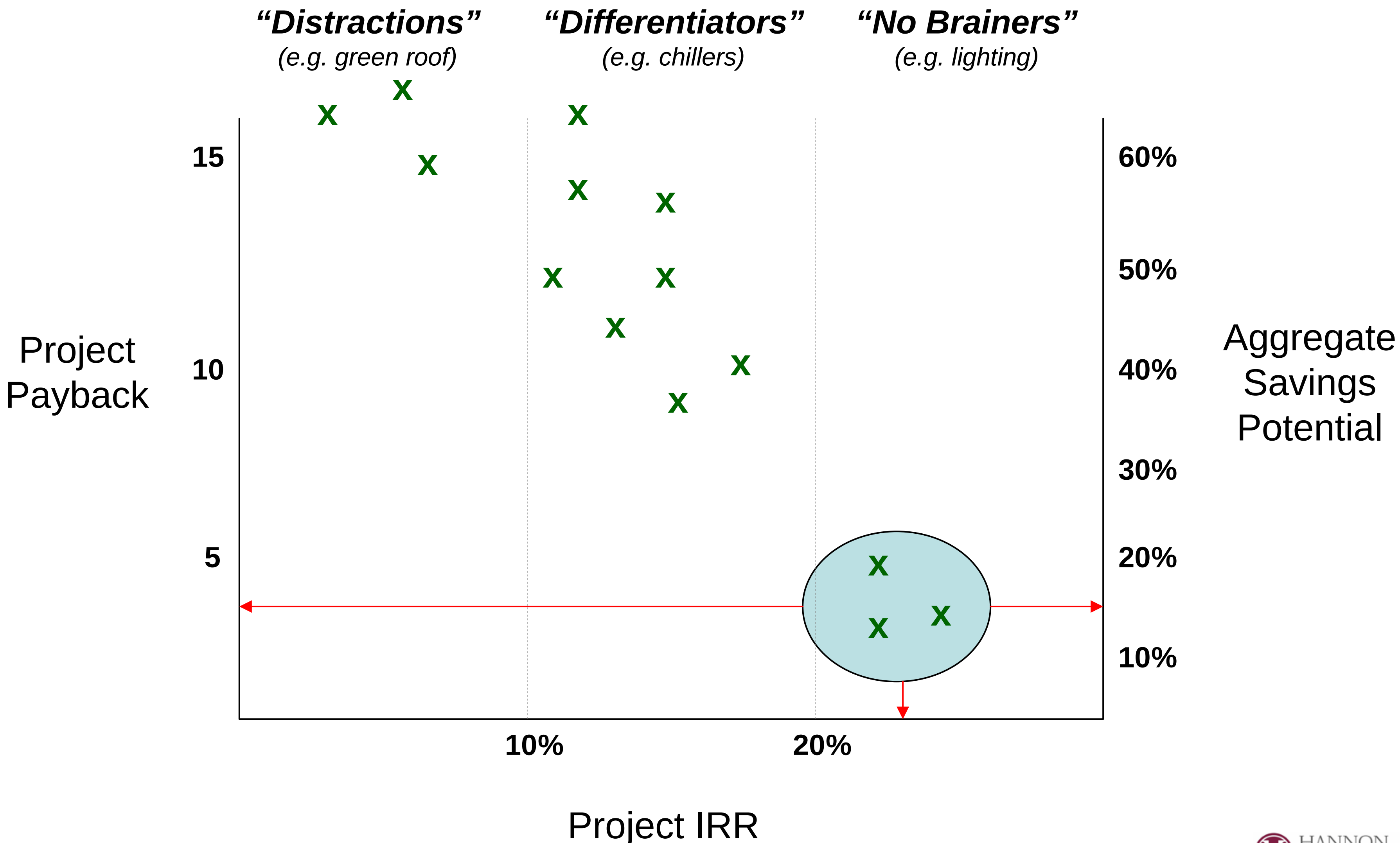
Direct Purchase

Underwriting Criteria

PRE-CONDITIONS TO FINANCING:

- Building location
- Threshold occupancy
- Proven technologies
- Contract length between 5 and 15 years
- Approved documentation
- Investment-grade contractor

Pursuing Low Hanging Fruit



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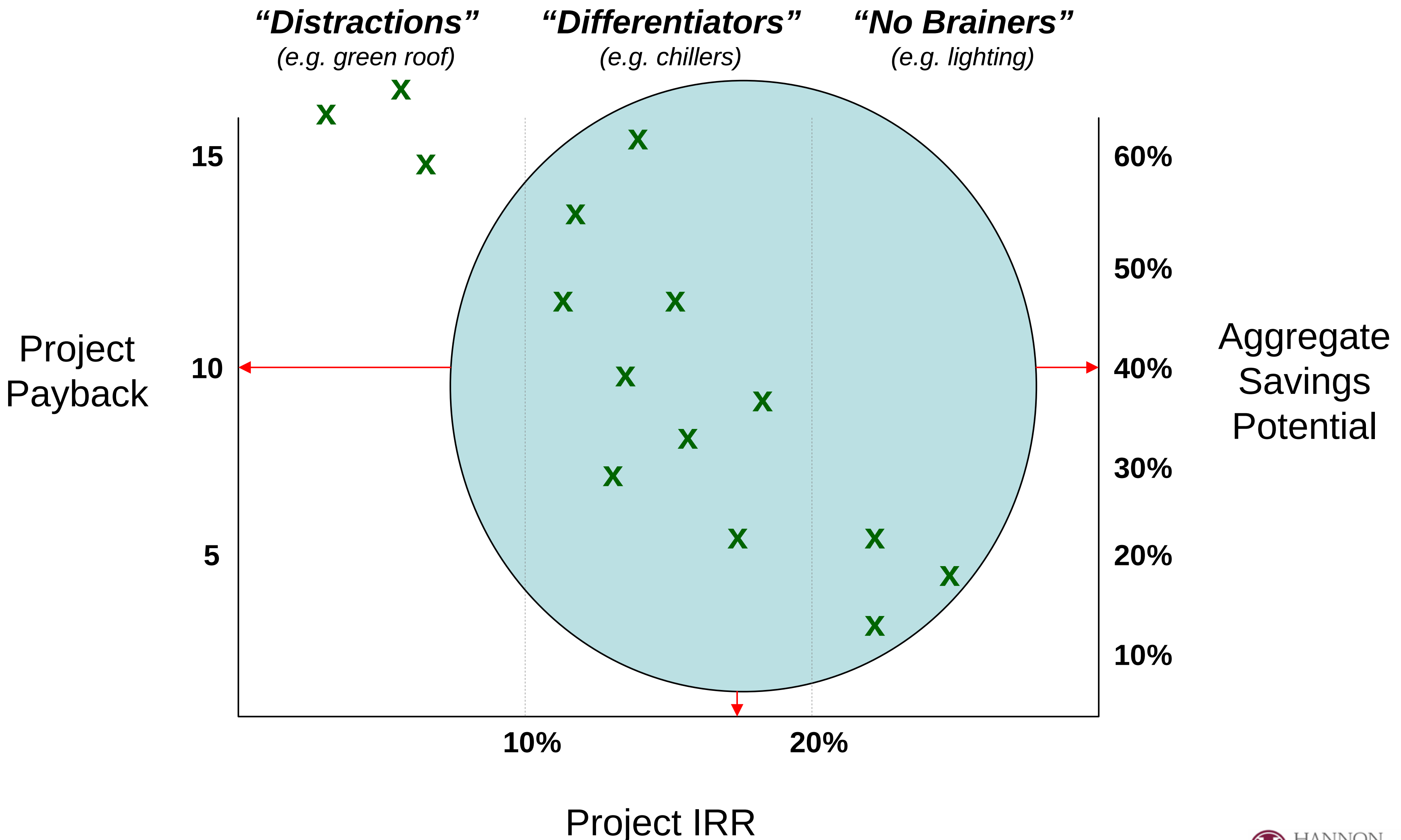
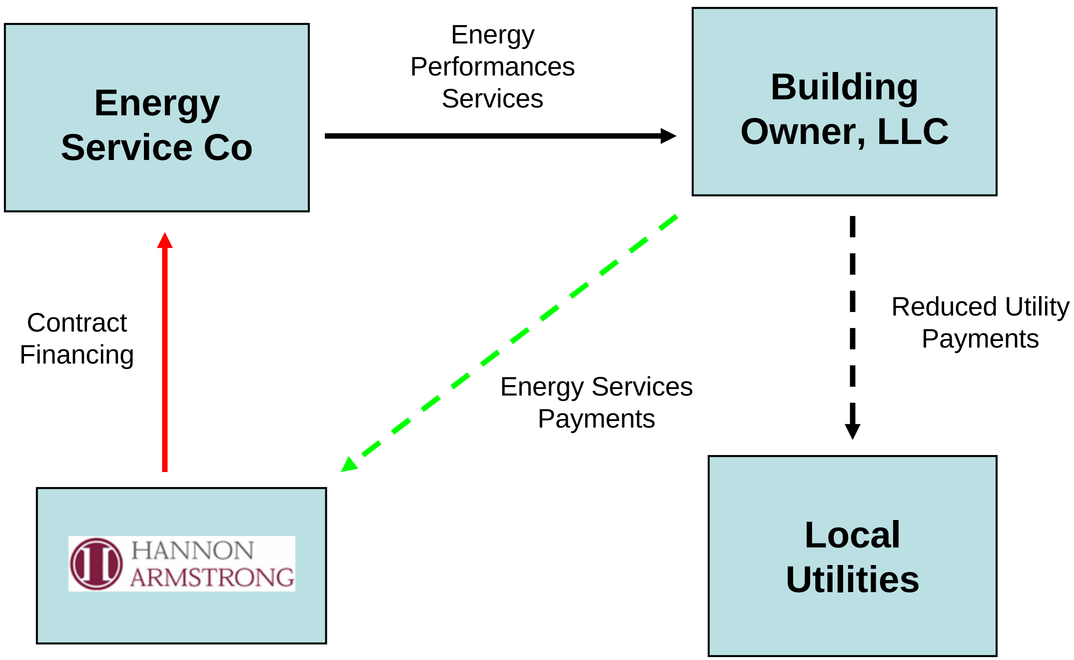
Optimum Mix above Hurdle Rate



Flow of Funds and Services –



Hannon Armstrong's Efficiency Finance Group

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