

Better Buildings Webinar Series

We'll be starting in just a few minutes....

Tell us...please send your response to the webinar organizers via the question box:

What topics are you interested in for future webinars?



Show Me the Money!

How to Find Financing,
Access Incentives, and Get
Projects Done

December 6, 2016
3:00-4:00 PM ET

Today's Presenters

Name		Organization
Joe Indvik	 A headshot of a man with short brown hair, wearing a light purple button-down shirt, smiling slightly.	JDM Associates
Brenna Walraven	 A headshot of a woman with shoulder-length brown hair, wearing a dark blue blazer over a pink top and a pearl necklace, smiling.	Corporate Sustainability Strategies, Inc.
Billy Grayson	 A headshot of a man with short dark hair, wearing a dark suit jacket over a light-colored shirt, looking slightly to the right.	Bent Branch Strategies

In the next hour, we'll cover...

1

State of the financing market

2

Better Buildings Financing Navigator

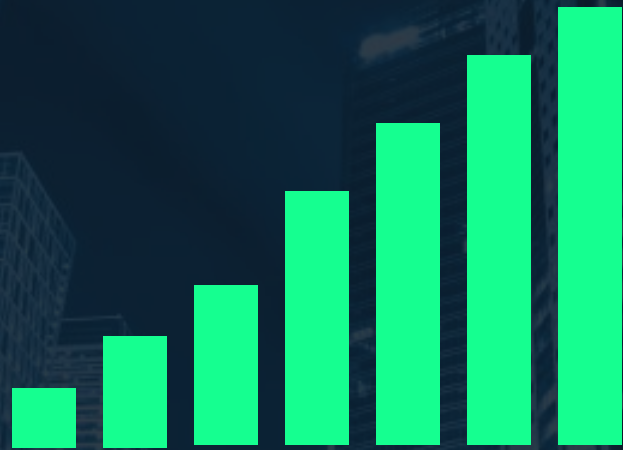
3

Advice and perspective from industry leaders



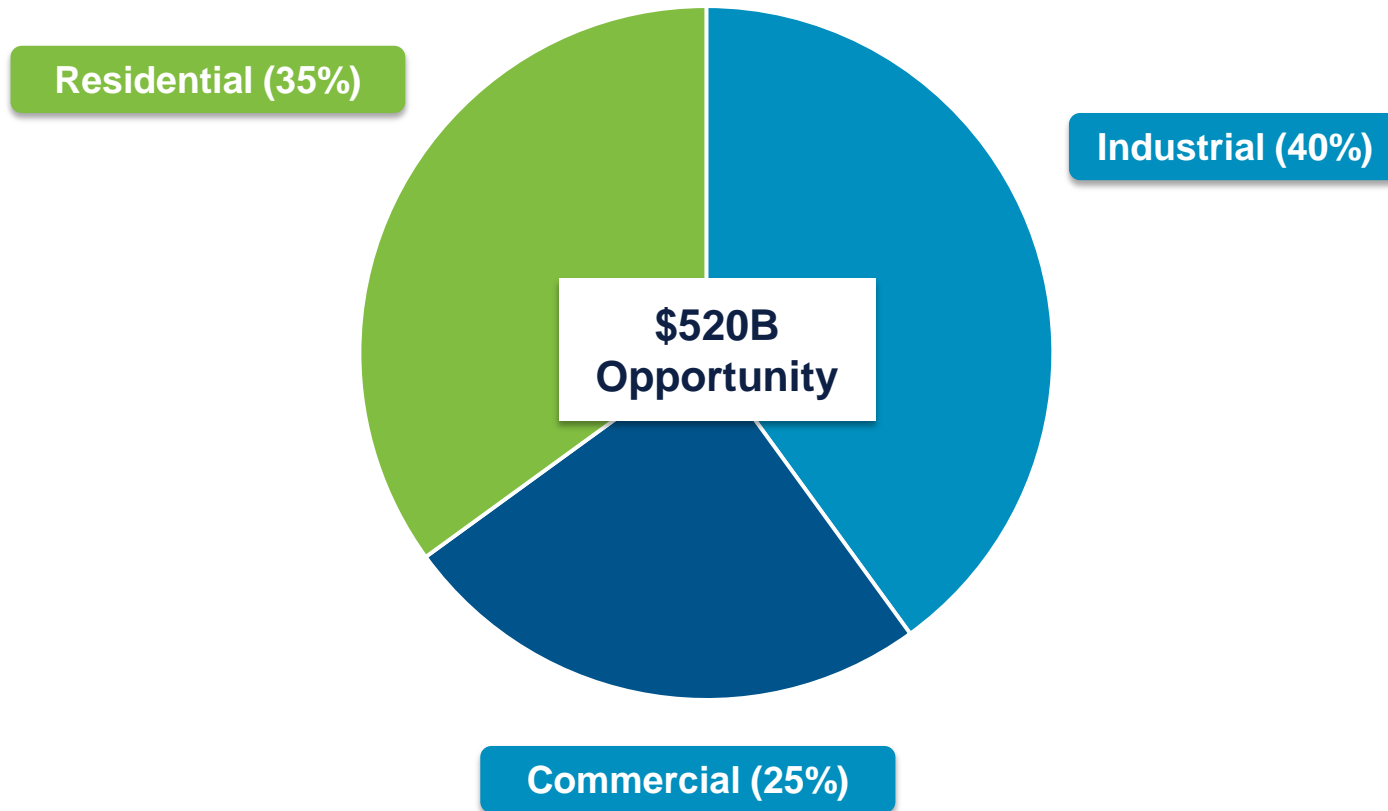
Takeaway:

Practical tools and insights to help you find funding that works for your organization



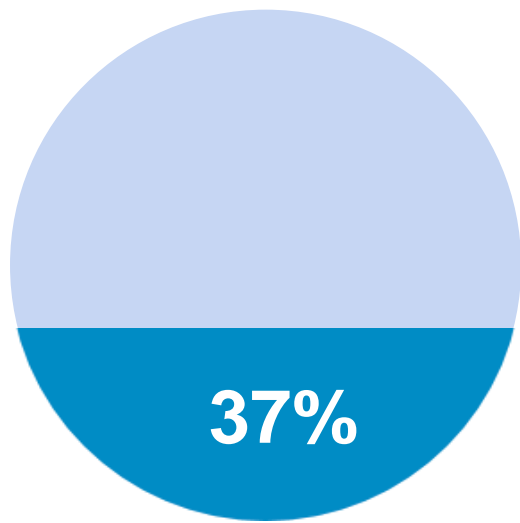
State of the third-party efficiency financing market

Opportunity by Sector

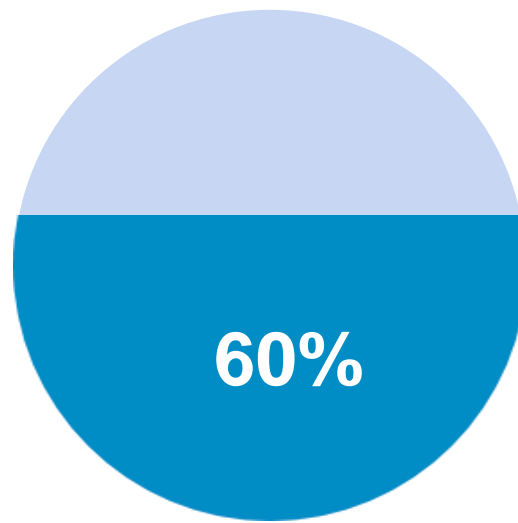


Source: Unlocking Energy Efficiency in the U.S. Economy (McKinsey, 2009)

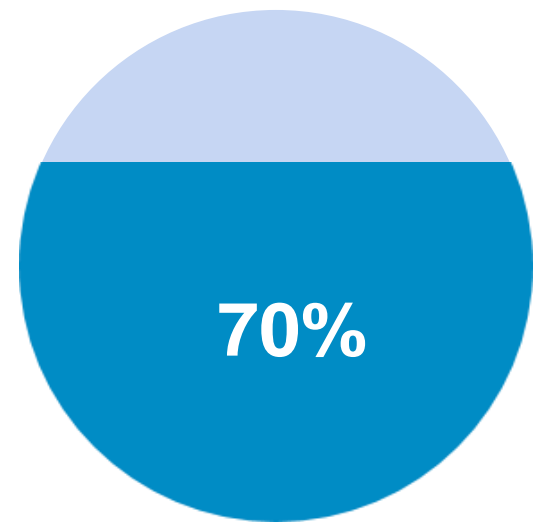
Easily accessible financing by project size



Under \$250k



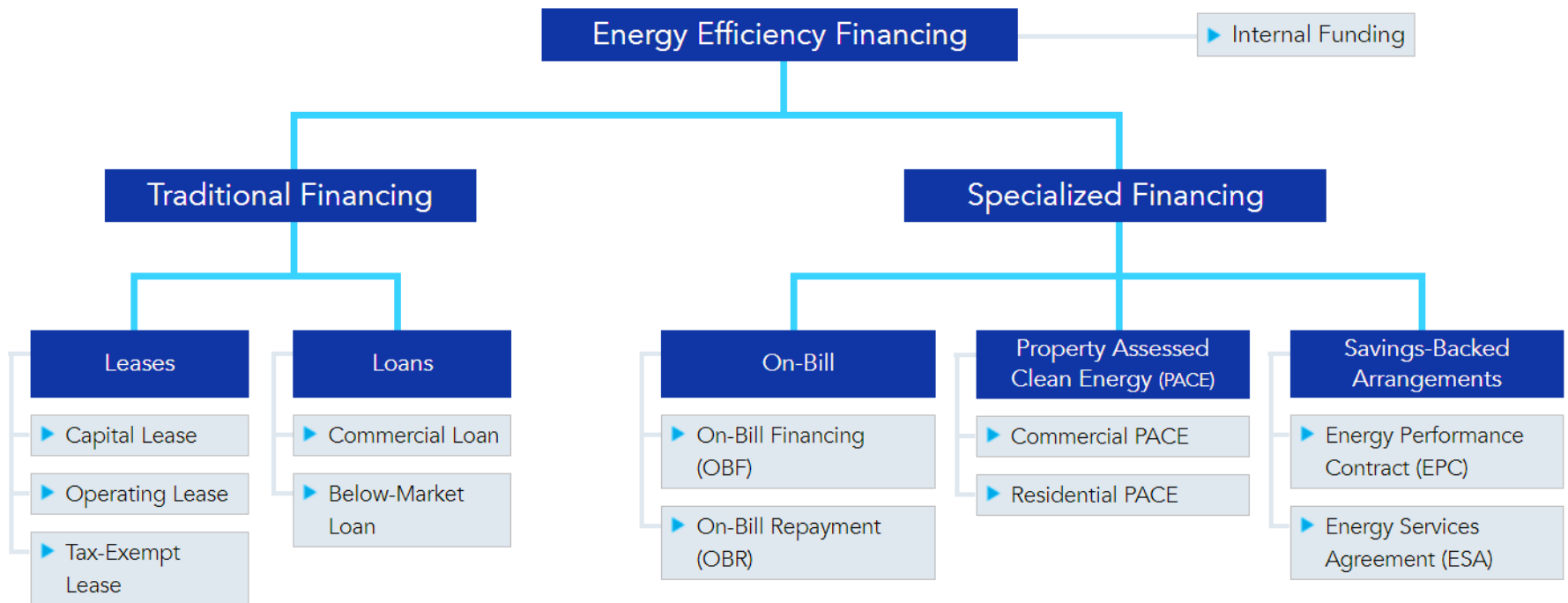
\$250k - \$1.5M



Over \$1.5M

Source: Efficiency Financing And Insurance Survey (Joule Assets, 2013)

Financing options available in the market

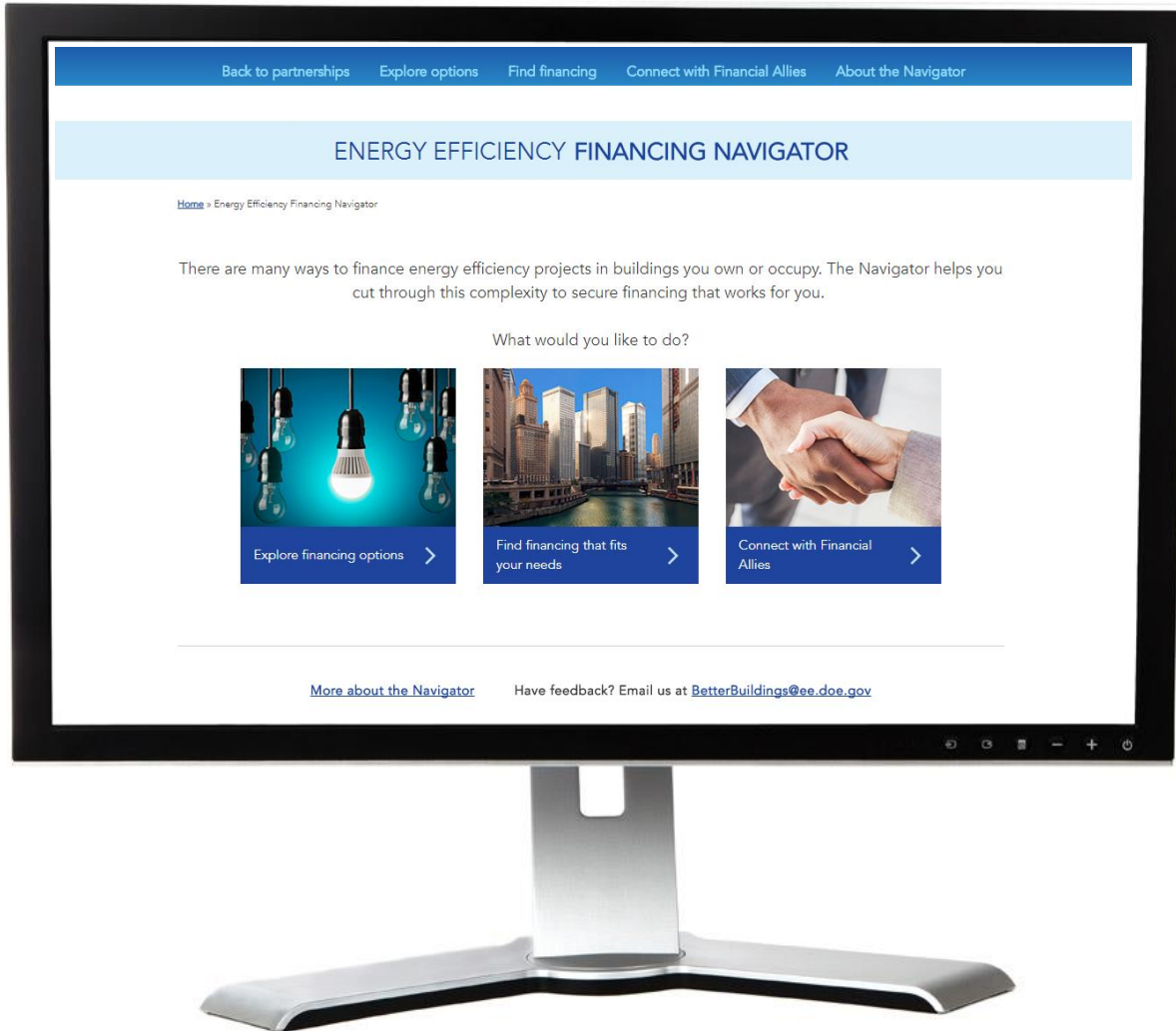


Source: Better Buildings Financing Navigator

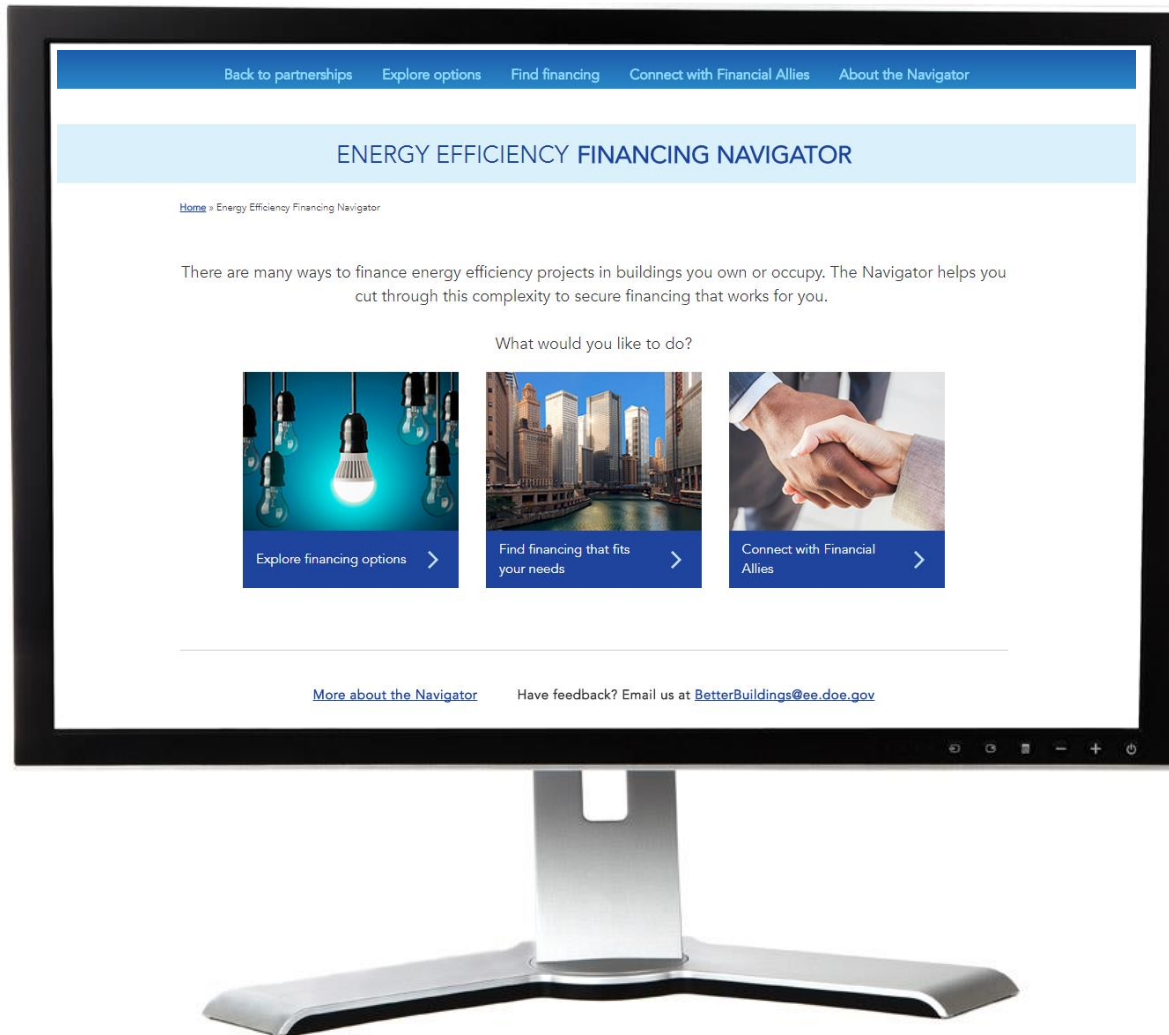


ENERGY EFFICIENCY FINANCING NAVIGATOR





[Live Demo]



Launching this week!
Stay tuned for an email with the link

Brenna Walraven

Corporate Sustainability Strategies, Inc.




Show Me the Money!

How to find financing, access incentives, and get projects done

DOE Better Buildings Webinar
December 6, 2016 – 3 to 4 pm eastern

- The economy continues to grow
 - albeit more slowly than historically but also with longer sustained growth
- But with interest rates at generational lows and Fed Funds rate close to zero
 - Owners can no longer rely on cap rate compression to drive value creation
- Owners must be *proactive* in managing assets
- Must make *strategic investments*
- Must drive tenant retention, occupancy, NOI to **create value**

- The new “four letter word” is 
- Owners are used to taking risk around leasing, maintaining and managing real estate –
 - not around sophisticated energy retrofits
- Sophisticated, larger, well capitalized Owners are executing retrofits
 - who typically have internal expertise
 - And who have the internal capital to do so
- But these Owners are 15% or less of the real estate market
- **Thus for most Owners efficiency retrofits raise real concerns about RISK and access to capital**
 - **and without the internal expertise or capital to mitigate**

- But the risk of doing nothing is also very real...
 - Rising utility and maintenance costs
 - Less reliable service
 - Tenant expectation of transparency in energy/environmental performance
 - Increasing heat load due to increased density: more people, phones, monitors, printers per SF
 - Tenant complaints
 - Market trends
 - Legislative and regulatory trends
- Doing nothing means a less competitive building



Challenges are often lack of capital and “how to execute”

- **What if there is no internal expertise on efficiency retrofits?**
 - Many agencies and utilities have retrofit resources and rebates – worth the time!
 - Los Angeles Better Building Challenge – provides technical expertise, process guidance
 - Northwest Energy Efficiency Alliance (NEEA), NYSERDA and other efficiency agencies
 - State Energy Offices
 - Building Owners and Managers Association International (BOMA) – more to follow
 - BOMA Energy Efficiency Program (BEEP) Offers education on the financial valuing of efficiency and how to sell internally
 - BOMA Energy Performance Contract (BEPC) model toolkit
 - Many projects can be run just like any other capital project –
 - Energy Service Companies (ESCO) provide project management oversight expertise and completion guarantees
 - Consultants that focus on retrofit project management
 - DOE’s Efficiency Navigator can help
 - To understand the options available
 - Better understand the pro’s and con’s of each option

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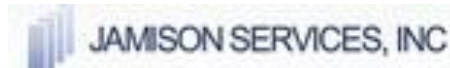
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Why do Owners consider using third party financing?

- **When there is limited capital available**
- **When an upgrade was not underwritten in the original investment proforma**
 - And the owner doesn't want to “go back” to investment partners for more capital
 - Often concerns the message would be “we missed something”
- **When there are higher priority competing demands –**
 - Large lease transactions with large tenant improvement (capital) requirements
 - Or large renovation budgets focused on aesthetics to support leasing, sale or both

How do Owners consider using third party financing?

- **Often consider traditional lending sources –**
 - Mortgage lenders like banks and insurance companies
- **But these lenders often aren't familiar with efficiency financing**
 - So if not part of original financing or re-financing more challenging
- **Hence the value of DOE's Efficiency Navigator –**
 - Often Owners focus on typical lending terms & issues
 - What's the interest rate?
 - What's the term of the loan?
 - My lender won't approve additional debt
 - Focus first on the types of questions that are important to Owners

- **What if there is no capital for efficiency retrofits?**

- Third party financing is an option

- PACE
- Energy Services Agreements
- Equipment Leasing
- On Utility Bill Financing
- 2nd Mortgage
- Equipment Loan

- Also internal funding options

- Setting up annual “capital reserve” funding within annual opex budgets
 - Build ability to “self fund” over time and “pay back” the capital reserve fund out of efficiency savings
- Can also set up an internal Green Fund –
 - external companies can manage fund for fee
- Identifying needed investments during acquisitions process
 - so that they are underwritten can help



The right questions are key to determine the right financing solution

- Is non-recourse, no personal guarantee required important?
- Is having the debt transferable or assignable upon sale of the building important?
- Is having the project with financing being “expense neutral” or create a positive effect to cash flow in year 1 important?
- Does the owner have to own the equipment?
- Does the owner want an off balance sheet or is on balance sheet ok?
- Will there be a requirement to get permission from existing lenders on the property?
- What is the owner's cost of capital – for both debt and equity?

The answers to these will help drive what type of financing should be considered

Pro's and Con's of Financing Options

Some examples:

- What's important?
 - non-recourse, no personal guarantee requirement
 - ability to transfer on sale
 - pass through to tenants as an operating cost and
 - be “expense neutral”
- Then financing options that will work better are:
 - Property Assessed Clean Energy (PACE)
 - Energy Services Agreement



Pro's and Con's of Financing Options

Some examples:

- What's important?
 - No permission required from Existing Lender
 - Balance Sheet Neutral
 - pass through to tenants as an operating cost and
 - be “expense neutral”
- Then financing options that will work better are:
 - Energy Services Agreement or Energy Performance Contract
 - On Utility Bill Financing



First ask the questions of decision makers to understand real requirements

- Is Lender Approval Important?
- Is Operating Expense Pass Through and being Opex Neutral (or net reduction in Opex) Important?
- Is Owning the Equipment Important?

Then ask for proposals from financiers

- Ask each to provide pro's and con's of offering
- Ask each to address specific criteria of Ownership
- Be flexible in allowing for “all alternatives”
- Stay focused on the outcomes and key criteria – not interest rate

Pro's and Con's of Financing Options

Key Concept that the Efficiency Navigator Can Help with

- Alignment with what's important with financing options
- Key concepts
 - Often the most important factors are not interest rate
 - What's most important is financing that addresses all of the needs of the Owner/Borrower

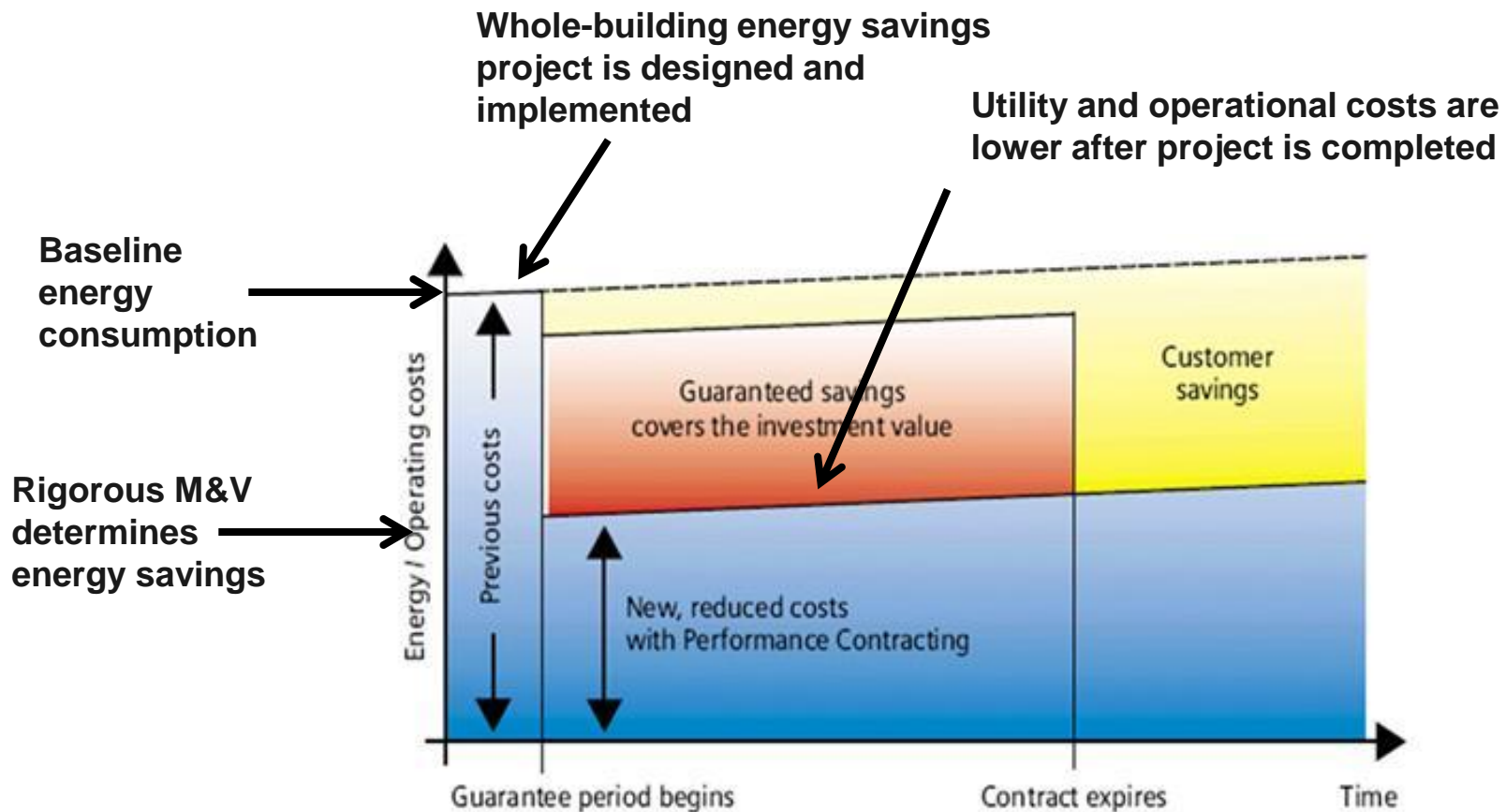


What is it?

- An industry-vetted, proven process to procure and implement successful performance-driven retrofits
- A toolkit of model contracts language that can be used or adapted for individual projects
- Additional resources to help understand and execute projects
- It's free – www.boma.org/bepc



How Performance Contracting Works



Why should you care?

- Retrofitting buildings for performance
 - reduces costs
 - increases competitiveness and
 - enhances asset value
- Not solely for energy efficiency
 - Keep older buildings state of the art
 - More competitive – opex, capacity, comfort
 - Reinforcing brand & marketing – **can include LEED & Energy Star**
- Energy savings projects that are done right show better long-term performance





Owner's investment criteria and core goals determine the project scope

Contractor provides a holistic creative innovative solution that meets or exceeds Owner's investment criteria

Third-party standards and transparency are key

BEPC is financing agnostic –

- works with ESCo financing options, PACE, owner's equity or other

Who is CSS?



Brenna Walraven, RPA, CPM, BOMA Fellow
President and Founder

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Billy Grayson

Bent Branch Strategies

Show Me the Money!

Identifying the Best Way to Finance
Efficiency Projects

Billy Grayson

12/6/16

Identifying the opportunity

- 700 industrial buildings, less than 50 with outdoor LEDs
- Outdoor lighting the only bill we paid directly
- LED price dropped 50% in last 2 years
- Green lease makes pass-through easy



How can we pay for this?

- Pay for it up front, charge it back to tenants
- Convince tenants to pay for it
- Use it as a bargaining chip in lease extensions and renewals
- Use 3rd party financing (bank, ESCO, utility company etc...)
- Lighting-as-a-service contract
- PACE (where available)



What we did – and how it worked out

- Paid for it up-front, charged it back to tenants (with interest)
- Prioritized based on payback, and focused on buildings soon-to-be-empty.
- Developed a marketing presentation to engage single-tenant buildings.

\$3.5 million up-front investment:

- \$1.5 million in annual energy cost savings
- \$1 million in interest income (over 3 years)
- \$1.5 million in lifetime maintenance savings (10 years)
- No net cost to us or the tenant
- Cash positive from day one



Sweetening the deal

- Chasing all the rebates (DSIRE, Real Win Win, EPACT, etc...)
- Negotiating national contracts with installers and manufacturers
- Using outdoor projects as an opportunity to look at indoor upgrades (and finance the same way)



Round 2 – do we get more creative?

- Lighting-as-a-service
- PACE
- Lease extensions and renewals

Even if we don't use these strategies for lighting, they may make sense for longer-ROI investments (roof, cooling tower, HVAC, solar?)

Takeaways

- Every building and every portfolio has high-ROI opportunities
- A good ROI opportunity can turn into a cash-positive long-term financed project, if you are strapped for cash (or want to deploy it elsewhere).
- You should choose a financing strategy based on your cost of capital, hold strategy of building, and lease provisions with your tenant.
- If you have a big portfolio, leverage your size for better materials and labor pricing, and better interest rates.
- Don't forget to look for rebates and other incentives
- After picking low-hanging fruit, consider long-term financing and/or PACE for the projects with a longer ROI.

THANK YOU

Billy Grayson

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Additional Resources

Resources

- Better Buildings Financing Navigator
 - <https://betterbuildingsolutioncenter.energy.gov/financing-navigator>
(Best viewed in Chrome)
- Database of State Incentives for Renewables & Efficiency
 - <http://www.dsireusa.org/>
- BOMA Energy Performance Contracting Model (BEPC)
 - <http://www.boma.org/sustainability/info-resources/Pages/boma-energy.aspx>
- Current Practices in Efficiency Financing: An Overview for State and Local Governments
 - <https://emp.lbl.gov/publications/current-practices-in-efficiency-finan>

Q & A

Better Buildings Webinar Series



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Additional Questions? Please Contact Us

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