



LEVER

REAL ESTATE CAPITAL PACE ENABLES ENERGY EFFICIENCY IN REDEVELOPMENT PROJECT

SOLUTION OVERVIEW

Better Buildings Financial Ally Lever Real Estate Capital provided \$4.6M in property assessed clean energy (PACE) financing for various energy conservation measures as part of the redevelopment of the historic Blackstone Hotel in Omaha, Nebraska. PACE is increasingly being used to fund energy, water, resiliency, and other building improvements in new construction and major redevelopment projects in jurisdictions with PACE enabling legislation.

This implementation model is part of the Better Buildings PACE for New Construction Toolkit.

CHALLENGE

Financing energy efficient equipment and systems as part of a major property redevelopment

FINANCING SOLUTION

Commercial PACE

OUTCOMES

The energy efficiency improvements made to the Blackstone Hotel are expected to generate \$116,000 in annual utility savings

AMOUNT INVESTED

\$4.6 million

LOCATION

Omaha, Nebraska

POLICIES

Nebraska passed PACE legislation in 2015, allowing municipalities to create local PACE programs that provide low-cost financing to real estate owners to support energy efficiency, renewable energy, and water conservation upgrades. The City of Omaha passed a PACE enabling ordinance in 2017, thus creating the state's first PACE program. The program's eligible project types include existing buildings and new construction/major redevelopment, which enabled the Blackstone Hotel project to be eligible for PACE financing.

PROCESS

The project came together through a local capital markets group that brought the deal to Lever Real Estate Capital for financing. Knowledgeable about creative forms of financing, the developer put together a capital stack that consisted of traditional debt, tax increment financing (TIF), tax credit financing, and PACE financing. The building owner included PACE in the capital stack because they appreciated the low cost, long term, fixed-rate nature of the financing.

This illustrates a key consideration for building owners and financiers: CPACE financing does not need to be the only or even the primary source of financing for a given project. In many instances, PACE has been used as an additional source of capital to complement other funding sources. It can also be used to finance a specific set of energy or resiliency improvements that other funding sources would not normally cover or that might be seen as optional. This approach can be applied to a renovation project, as it was here, or to new construction projects seeking to incorporate energy efficiency or resiliency measures.

By having CPACE available to slot into the capital stack—particularly during a capital-intensive exercise such as construction—the developer or property owner is able to conserve capital and often lower its cost of funds compared to mezzanine finance and equity. In addition, the longer-term repayment period for efficiency and renewable energy measures, and the 100% financing of such elements, allows for the annual carrying cost of CPACE-financed infrastructure to be far lower. This allows cash to be conserved upfront and improves overall cash flows. The net effect is that energy efficiency, renewable energy, and resiliency measures don't need to be “value-engineered” out of a property's development. Furthermore, since it is considered property tax, property owners can often assess their tenants with a charge for PACE repayments and pass through the cost of PACE financing payments.

The process of financing with PACE was relatively straightforward. First, the building owner applied for PACE financing for eligible measures through the City of Omaha Planning Department (the PACE application and instructions are available online through Omaha's Planning Department). Concurrent with the City of Omaha's approval of the PACE financing, Lever underwrote and approved the project through a process similar to that of a traditional lender. The mortgage holder on the property, First National Bank of Omaha, provided lender consent after conversations with Lever and the developer to understand the limited liability of PACE as well as PACE benefits to the property.

BUILDING DESCRIPTION

The Blackstone Hotel was originally built in 1916 and was one of Omaha's premier boutique hotels until it was repurposed for office space in 1984. Clarity Development Company and GreenSlate Development purchased the property in 2018 with the intent of renovating the building back into a hotel. The 110,000-square-foot building and 46,000-square-foot addition will be converted into a 205-room Kimpton hotel with multiple restaurants, a cocktail lounge, conference center, ballrooms, pool and fitness center.

FINANCING

Lever Energy provided a \$4.6M loan to the development team that will be repaid over 23 years through a CPACE finance agreement. The loan funded around 7% of the overall project's capital stack, which included traditional debt, TIF financing, and tax credit financing in addition to PACE financing.

Commercial PACE is a financing structure that allows property owners to finance a significant percentage of the capital stack for a new development or redevelopment. PACE can also finance 100% of the cost to upgrade an existing property. Financing is provided upfront and repaid incrementally as a line item on the building's property tax bill. Since the financing agreement is tied to the property rather than the owner, there are fewer barriers to investing long-term in building efficiency. In many cases, PACE can finance 100% of the cost of building efficiency measures at lower cost and higher leverage than other forms of financing.

TECHNOLOGIES APPLIED

- HVAC Improvements: significant energy savings can be realized by investing in upgrades to energy-intensive HVAC systems.
- Window Sealing: preventing the passage of air in and out of a building better insulates the building and lowers utility bills.
- LED Lighting: property lighting will be upgraded to LEDs to reduce energy usage.
- Building Controls: the ability to better orchestrate energy usage in a building with good building controls can greatly improve building efficiency.

OUTCOMES

The Blackstone hotel is a great example of how PACE financing can fit with various forms of real estate capital to yield a highly efficient capital stack. The redeveloped hotel is scheduled to open in the Spring of 2020 and will add to the continued revitalization of Omaha's Blackstone District.

MEASURING SUCCESS

The energy efficiency improvements made to the Blackstone Hotel are expected to generate \$116,000 in annual utility savings and over \$4.1M in total utility savings over the financing's 23-year term. The savings and revenue associated with the CPACE financing will pay for and ultimately exceed the financing payments, increasing the property's value by an estimated \$1.5M.

