

Metropolitan Washington Counsel of Governments

Climate, Energy and Environment Policy
Committee (CEEPC)

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Hannon Armstrong

Sustainable Infrastructure Capital



Hannon Armstrong Introduction

- 32 year old Annapolis, MD based firm
- April 18, 2013 – became 1st Public REIT focused 100% on energy efficiency and renewable finance
- \$4.1 billion in energy efficiency & renewable finance since 2000
- Over 450 transactions
- Originated over \$400 million on average in each of the last 5 years
- Current portfolio = \$1.6 billion

Location of Representative U.S. Transactions



Size of the US Market

Potential Commercial Retrofit Market is Huge

Commercial buildings account for ~18% of all energy consumed in U.S.

More than all cars and light trucks combined (16.5%)

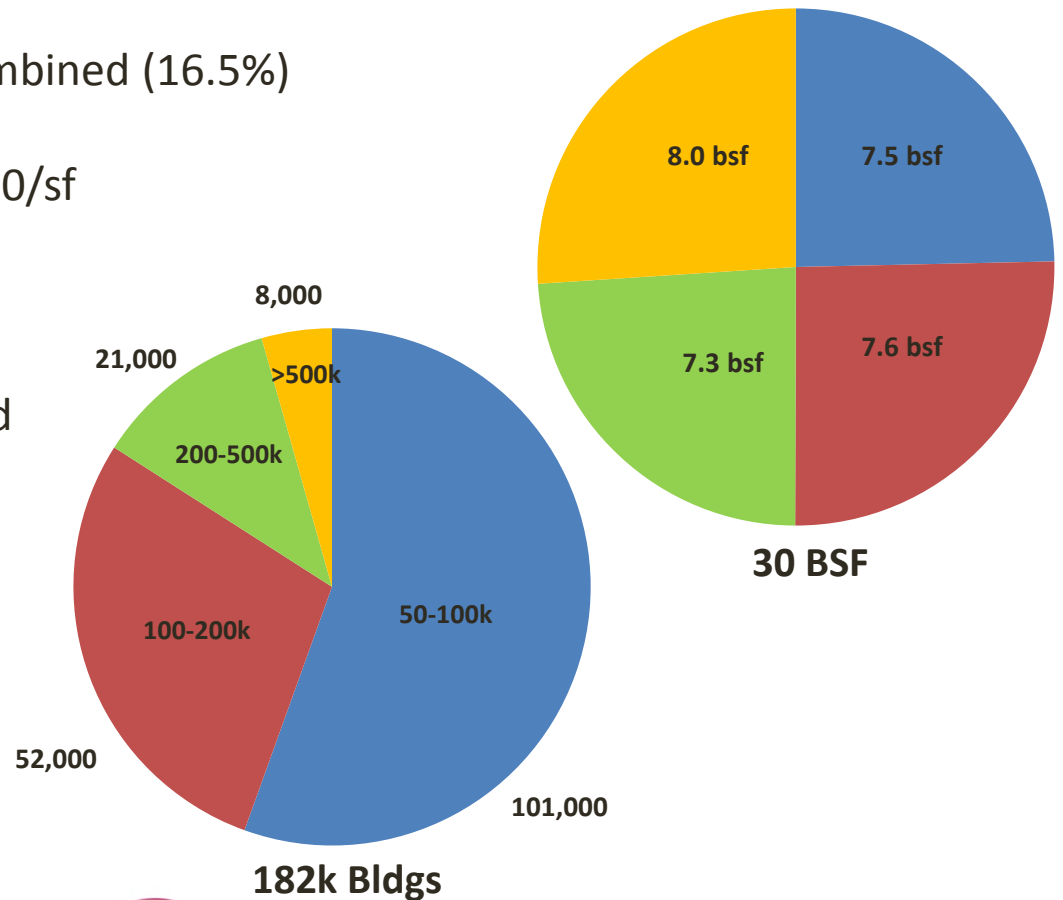
182,000 commercial buildings > 50,000/sf

Roughly 30 billion square feet

75% of these bldgs are over 25 yrs old

About 30% energy is wasted

\$50B - \$100B in investment potential



Sources: EIA, DB, Rockefeller Foundation



Lenders View

- Lenders have money to lend if they can make risk adjusted return
- Need a “bankable” investments
 - Predictability - in performance, measurement, laws, credit
 - Scalability – simple, template, able to securitize
- Risk/reward on all non-Federal transactions
 - perceived to be too risky
 - Variable credits
 - Multi-state territory – diverse & fragmented
 - Unpredictable regulatory environments



Property Owners View

- Focused on essential elements of their business – energy efficiency evaluation is complex
- Those that have good credit, also have money = self-fund
- Those that don't have money, have poor credit = looking for lending
- Split incentive – tenants pay for utilities – doesn't effect my bottom line
- Desire off-balance sheet treatment – FASB – new potential for operating leases



Many of the obstacles are now solved

Previous Obstacle	New HA Solution
<p>Institutional investors:</p> <ul style="list-style-type: none"> Require investment grade credit profiles Create large warehousing debt Transactions with various credit profiles are difficult to consolidate and securitize 	<ul style="list-style-type: none"> HA has \$600M in available capital and an ability to maintain a continuous flow of funds HA has financial independence to complete individual transactions without the need to meet restrictive institutional guidelines Individual deal flow can occur with risk adjusted pricing for each credit and property profile
<p>Lender Consent issues:</p> <ul style="list-style-type: none"> Uncomfortable with additional 3rd party debt Concerns about weakening their position Concerns about 3rd party equipment ownership Not required to consent – no motivation to cooperate 	<ul style="list-style-type: none"> HA financing is subordinate to primary loan HA can own the equipment or hold a security interest in the asset until the financing is paid off. We acknowledge we will not remove the equipment from the building under a default. Lenders have positive impacts to their debt position, improved net asset value, LTV ratios, etc.
<p>Limited financing structures:</p> <ul style="list-style-type: none"> ESPC with guaranteed savings to insure and underwrite the transaction 	<ul style="list-style-type: none"> HA is able to offer multiple financing structures including ESPC, ESA, Capital Leases, PACE, On-Bill. Owners can utilize their own contractors Optional performance guarantees
<p>Term Limitations:</p> <ul style="list-style-type: none"> Owners reluctant commit to longer term financing given desired flexibility to sell or transfer the building Institutional Lender reluctant to go long term 	<ul style="list-style-type: none"> Terminable at any time Fully transferrable to the new owner Term lengths up to 20 years



Summary

Why Hannon Armstrong?

- Long term experience using templates for scalable transaction completion
- Public Company – efficient access to capital and execution certainty
- Leading innovator of structured finance methods
- Dedicated in-house team (structuring, legal, underwriting, tax optimization, servicing and collections)
- Completed transactions throughout the US as well as cross-border financings

