

***LANCE***



# Lance Capital - Sustainable Financing Methodology

*Spring 2023*

*Version V4a*

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# Executive Summary

- The traditional project finance model and the credit tenant lease model (CTL) are two financing approaches that have been actively used for decades, and employ fundamentally different financing methodologies.
  - Project finance is the funding of long term infrastructure and industrial projects using a non-recourse debt structure. The debt and equity used to finance the project are paid back from the cash flow generated by the project. Typical project finance structures involves a 60-70% debt component, and correspondingly high DSCR.
  - The credit tenant lease model is a form of commercial real estate financing in which a loan is secured by a single investment grade company to pay debt service via rental payments under a lease, where real estate is pledged as collateral. The Tenant must pay rent regardless of what occurs to the leased premises. The typical CTL structure involves 100% debt, and DSCRs approaching 1.0X.
- Lance Capital has developed a hybrid innovative project financing methodology, the quasi-CTL model, which incorporates the best of both approaches to mitigate the risks associated with underwriting large scale sustainability projects.

# Traditional Project Finance Model

- Project is financed by a bank or private lender, or some form of municipal bonds
- Financing party dictates the terms of financing
- Credit quality is that of the developer
- Generally, a substantial equity contribution from the developer and/or developer's partners is required, as a safety buffer to debt
- Correspondingly, debt typically needs a DSCR of 1.35X or preferably higher to be considered investment grade

## *Pro*

- Familiar to all participants
- Can be accomplished quickly if the project is sound and the developers have deep pockets

## *Con*

- Funds tied up in large equity contribution
- Financing party has high risk
- Terms often onerous
- Difficult to accomplish unless developer has excellent credit

# Credit Tenant Lease Model

- Project is financed by a life insurance company, bank or specialty lender
- Investment grade long-term, fixed rate debt
- Opportunity to finance debt in the private placement bond market
- Financing for operationally essential assets; any real estate is accepted

## *Pro*

- Up to 100% loan to value
- DSCR as low as 1.0x
- Long term commitments of 15-25+ years
- No requirement for NRSRO rating; pass-through of Tenant's credit rating instead

## *Con*

- Borrowers who have less than 'BBB' credit rating won't qualify
- Tenant must pay rent come "hell or high water"

## **Lance 'Quasi-CTL' or 'Enhanced Project Finance' incorporates the best attributes of the Project Finance and CTL Models**

- Project is financed in the private placement bond market with terms and interest rate based on the credit quality of the project's contracts with IG credit rated entities
- Performance contracts (e.g., EPC, O&M) are tightly controlled
- Specialty insurance, Recovery options and Sovereign/government guarantees (if applicable) further enhance the offering
- Potential for 100% debt financing, and yet still high DSCR

### ***Benefits***

- Low interest rate for project financing
- Little to no equity contribution required from developer
- High bondholder security
- Ability to finance larger projects
- Higher project profit margins

# Lance Quasi-CTL Funding Requirements

## CTL-LIKE REVENUE STREAMS

- The starting point is that primary revenue stream of a given project must be investment grade; this could be for feedstock provision (e.g., municipal contracts for waste disposal), or for off-take (e.g., utility PPAs for electricity, or corporate purchase contracts for renewable fuels)
- The revenue contracts must be at least as long as the debt repayment term

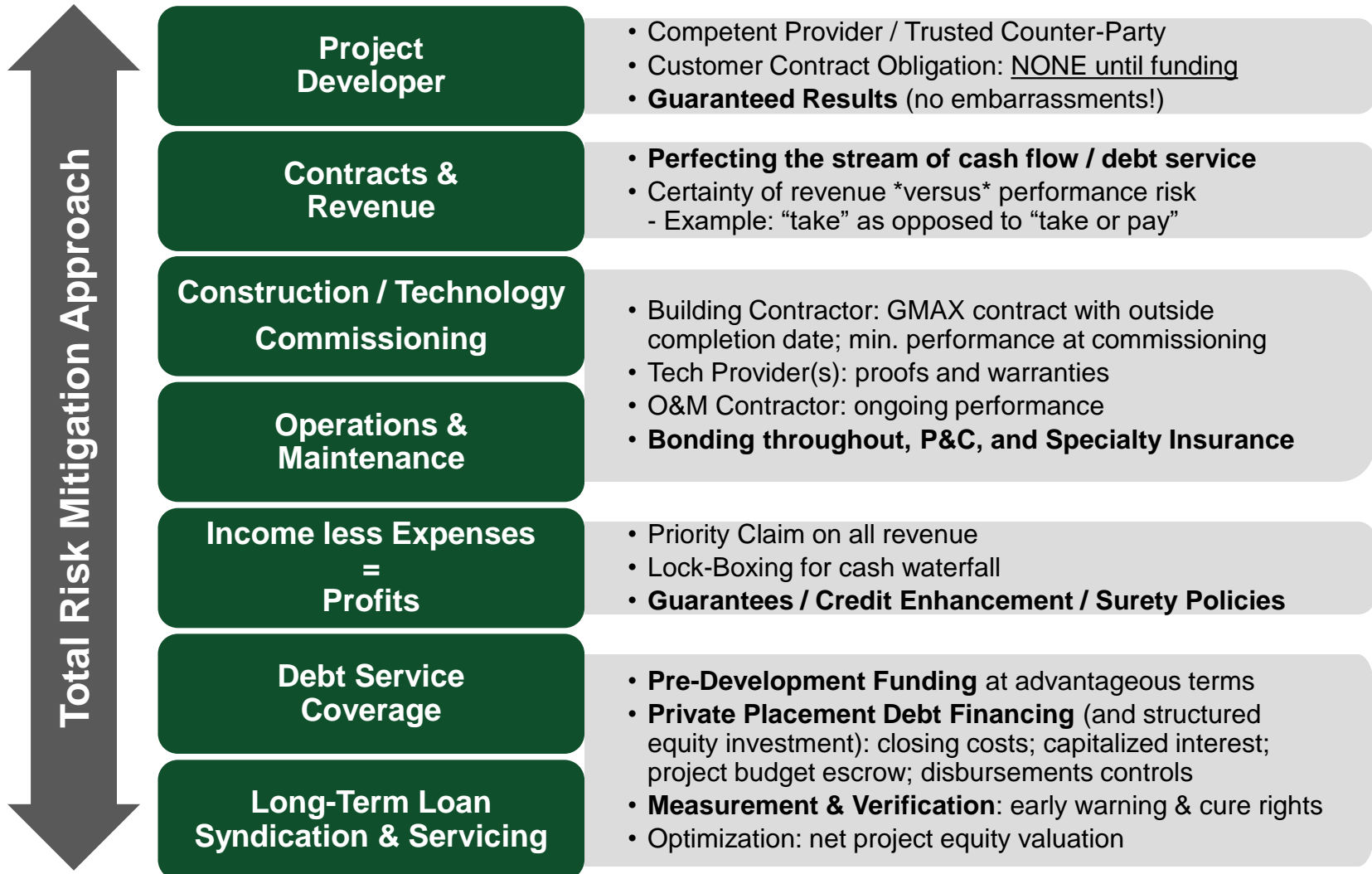
## PERFORMANCE

- All contractors, e.g., EPC and O&M, must be of very high quality, preferably investment grade, and carry appropriate performance bonds, warranties, insurance, etc.
- Servicer lock-boxes and controls all project cash flows under a defined waterfall

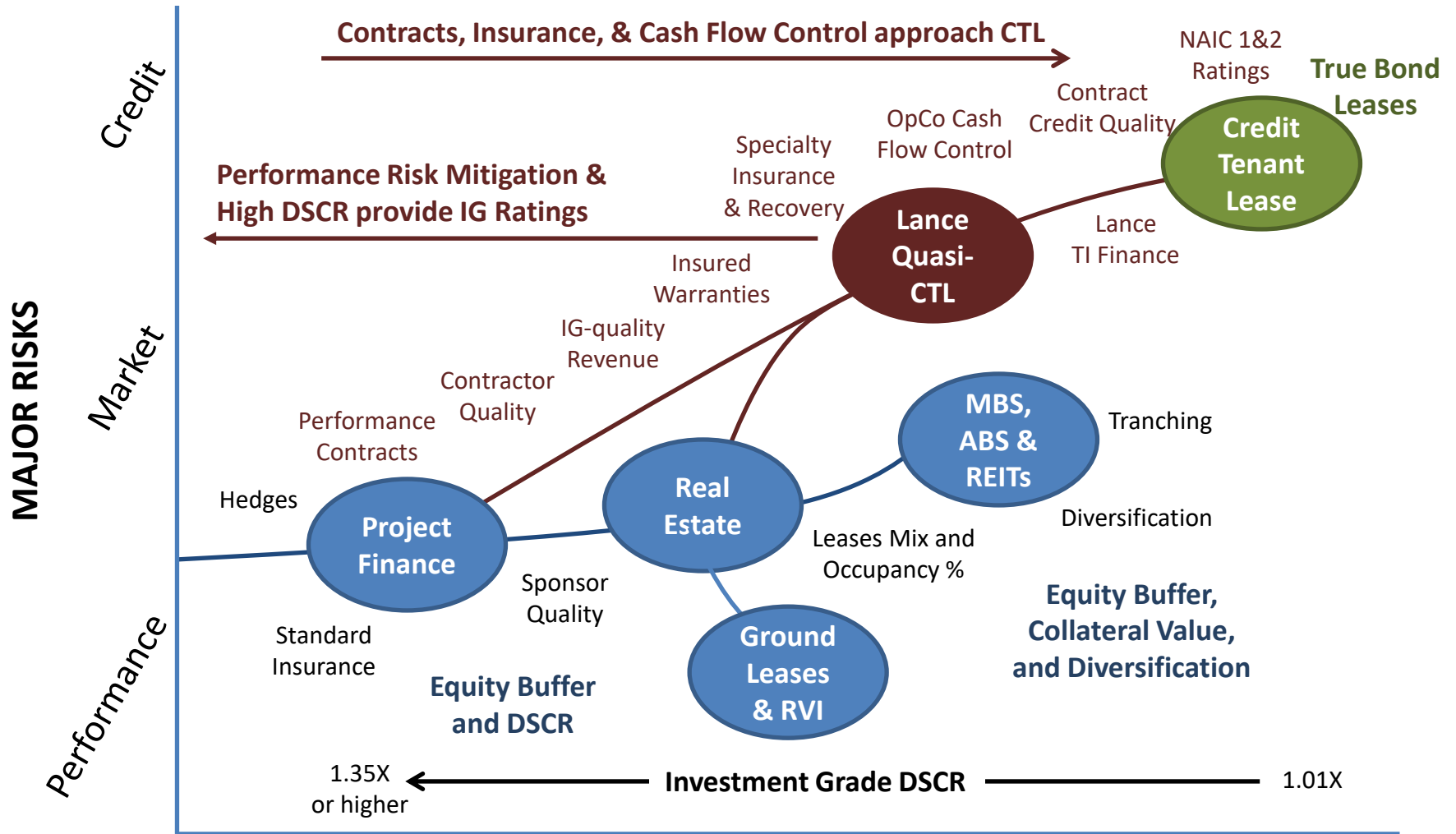
## RISK MITIGATION

- Robust specialty insurance must be obtained for inputs, production level, technology risk; again, all insurance policies must be at least as long as the debt repayment term
- Specialty insurance to cover debt service, and, where appropriate, incent insurance providers to invest additional capital to rectify any performance issues
- “Recovery” on claims may be utilized to decrease likelihood & severity of risk; recovery may extend past the loan term
- Project must be able to achieve an investment grade credit rating with NAIC Level 2 rating at a minimum

# Process – Lance Quasi-CTL Funding



# Credit Quality + Performance outperform Equity & DSCR thus reducing potential likelihood and severity of loss



## FINANCE APPROACHES AND RISK MITIGANTS



# Glossary of Terms

- Asset backed security (ABS)
  - A bond backed by various types of financial assets other than mortgage loans, including credit card receivables, auto loans, and student loans.
- Credit Tenant lease (CTL) or Bond lease
  - Commercial real estate financing in which a loan is secured by a single investment grade company to pay debt service via rental payments under a lease, where real estate is pledged as collateral. Tenant must pay rent come 'hell or high water'.
- Debt Service Coverage Ratio (DSCR)
  - A measure of cash flow available to pay current debt obligations.
- Insurance recovery
  - In the event an Insurer makes a payment under a policy for a claim or an Insurer Cure, Insurer will have the right to recover the amount under the claim through the use of a Recovery account.
- Insured warranties
  - Guarantee the functionality of a facility or technology for a determined period.
- Lance tenant improvement (TI) financing
  - A financing structure developed by Lance Capital for new, renewal or expansion properties which provide significant capital to fund tenant improvements/construction. Cost of capital is tied to tenant credit quality.
- Mortgage backed security (MBS)
  - A type of asset-backed security which is secured by a mortgage or collection of mortgages.

## Glossary of Terms - continued

- National Association of Insurance Commissioners (NAIC)
  - NAIC 1 – assigned to obligations exhibiting the highest quality. Credit risk is at its lowest.
  - NAIC 2 – assigned to obligations exhibiting high quality. Credit risk is currently low but may increase in the future.
- NRSRO (Nationally Recognized Statistical Rating Organization)
  - A credit rating agency approved by the U.S. Securities and Exchange Commission to provide information that financial firms must rely on for regulatory purposes.
- Performance contracts
  - A bond (guarantee) given by one person (usually a bank or insurance company) to secure (by means of payment not performance) all or an agreed part of another person's obligations under a contract, e.g. contractor's obligations under a construction contract.
- Real Estate Investment Trust (REIT)
  - A company that owns, operates, or finances income-generating real estate. Modeled after mutual funds, REITs pool the capital of numerous investors.
- Specialty insurance
  - Insurance that is obtained for items that are considered unique and would not fall into categories covered by standard insurance policies. Examples include insurance related to technology, feedstock and low carbon fuel standard (LCFS), and often include 'recovery' features.
- Take or Pay Contract
  - A contract under which a buyer agrees to take a service, product or raw material from a facility or project for an agreed period and price and to pay an agreed sum to the counterparty should the buyer be unable to continue to buy.

# Lance Capital – Team Background

- **The Lance team has extensive experience in numerous disciplines:**  
Corporate Real Estate, Corporate Services / Brokerage, Agency Leasing, Sustainability and Energy Efficiency, Debt and Equity Capital Markets, Institutional Real Estate Investment, Appraisal / Valuation, Tax and Accounting Advisory
- **From equally diverse previous employers:**  
AIG, Alcoa, AT&T, Bank of America, Blackstone, BT Communications, CresaPartners, Cushman & Wakefield, Deloitte, DTZ / UGL Equis, General Electric, General Motors, Goldman Sachs, ING Clarion, Jones Lang LaSalle, JP Morgan, Pfizer, Siemens, UBS
- **With a wide array of corporate and government clients:**  
AT&T, Bank of America, BNY Mellon, Chrysler Group, City of New York, Delphi Corporation, General Motors, HSBC, IBM, Kinder Morgan, Marsh USA, JP Morgan Chase, Oracle, Prudential Financial, Tiffany & Co., Travelers Insurance, UnitedHealth Group, US GSA and other agencies, Verizon, Wells Fargo, Xerox
- **... and has completed over \$20 billion in corporate real estate and sustainability financing and other transactions to date**

## Track Record

With our structuring partners, such as EF Hutton, CGA Capital, Bostonia, and First Sustainable, and book-runners / placement agents such as Bank of America, Deutsche Bank, Credit Agricole, etc.:

AT&T	\$276	Northwell Health	457
BNSF Railway	56	Novant Health	126
Bridgeport Hospital	114	PepsiCo	114
Chrysler Corporation	590	Sempra Energy	174
Citibank	67	Smithsonian Institution	77
City of New York	262	Tiffany & Co.	98
City of San Diego	92	US Army	155
Commonwealth Edison	110	US Department of Justice	193
District of Columbia	25	US Federal Bureau of Investigations	144
Eli Lilly & Co.	47	US Food and Drug Administration	207
Fidelity Investments	292	US National Institutes of Health	334
GE Energy	103	US National Nuclear Security Administration	960
General Reinsurance Co.	173	US NOA Administration	330
Greater Baltimore Medical Center	34	US National Park Service	29
HSBC	135	US Navy	102
JP Morgan Chase	125	US Secret Service	198
Kinder Morgan	469	US Social Security Administration	179
L'Oreal USA	60	US Virgin Islands	400
Macy's	25	Verizon	123
Marriott	247	Walgreens	127
Mount Sinai Medical Center	65	Xerox Corporation	60

## BEST FINANCIAL STRUCTURE

FIRST PLACE

**Property:** 470 Vanderbilt Ave.,  
Brooklyn, N.Y.

**Financiers:** Lance Capital L.L.C. (arranger) and CGA  
Capital Corp. (provider)

**Borrowers:** GFI Development, Starwood Capital and  
The Carlyle Group

**Size of Transaction:** \$44 million

**Type of Transaction:** Tenant improvement financing

**Size and Age of Property:** 400,000 square feet in a  
650,000-square-foot, 80-year-old office building

**Loan-to-Cost/Rate:** 100 percent/Less than 4.25 percent

**Length of Loan/Time to Close:** 20-year lease/30 days

**The Story:** The New York City Human Resources Admin-  
istration signed a 400,000-square-foot, 20-year lease, but  
the building required renovation as well as tenant improve-  
ments, including more than \$100 million in construction



work and recapitalization including a \$130 million senior  
loan syndication. A \$44 million loan was made to the  
building's owners, non-recourse but backed by a portion  
of the agency's rent. CGA issued bonds tied to the loan  
and privately placed with institutional investors.

**Judges Praised:** Precedent setting, very complicated,  
extremely difficult politically and completed very quickly.

**Submitted by:** *Lance Capital and CGA Capital*

## Trusted Team

Lance is a specialty corporate and government real estate finance and investment company that provides cost-effective capital for Lance invests debt and equity capital for corporate and governmental buildings and tenant improvements, energy efficiency and sustainability, real estate, infrastructure, and other major assets. Lance acts as a lender and/or investor in the context of energy services contracts, commercial real estate leasing, build-to-suits, and sale-leasebacks and other property acquisitions, as well as provides other credit tenant and net lease financing products and services.

The Lance team consists of seasoned professionals with extensive expertise in numerous disciplines, including institutional real estate asset management, acquisitions, debt and equity capital markets, corporate real estate finance, and lease tax/accounting optimizations. On an aggregate basis, Lance and its partners have completed over \$20 billion of corporate and governmental real estate and sustainability / energy efficiency financing and other transactions to date.

The logo for Lance, featuring the word "LANCE" in a bold, italicized, sans-serif font. The letters are dark grey or black. A horizontal line is positioned below the letters, with the line extending slightly beyond the left and right edges of the text.

[www.lance-intl.com](http://www.lance-intl.com)