Credit-Based Funding for:

Tenant Improvements

Specialty Buildings

Energy and Infrastructure

LANCE

TIFS – Tenant Improvements Funding Solutions

- **For large deals that involve significant tenant improvements and / or energy efficiency & sustainability investment:**
  - Lance Capital provides funding for new, renewal, or expansion properties that need significant capital for construction and tenant improvements / "build-out", whether for Landlord's contribution or Tenant's capital expenditure budget or both, as well as commissions, moving costs, etc.
  - Lance acts as a non-recourse and unsecured lender to the property to provide a larger / turnkey TI contribution, and Tenant pays additional rent or reimbursements to amortize the TI funding over the lease term.
  - Cost of capital is directly related to tenant credit quality, deal size and lease term; typically between 3% and 8%, it is more cost-effective than either the Landlord's cost of capital or the cost of Tenant's capital at WACC, while providing 100% TI funding.
  - Very effective tool for improving ROIC and ultimately P&L earnings.
  - Execution is seamless to standard leasing practices, flexible, and able to satisfy the needs of all transaction participants as well as various lease terms, property types, and locations. Tenant Improvements Funding Solutions ("TIFS") applies to investment grade and select sub-investment grade tenants across all property types.
  - Latest application is for sustainability and energy efficiency. General approach is a "funded energy services contract".

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:**
  Blackstone, BT Communications, CresaPartners, Cushman & Wakefield, Deloitte, DTZ / UGL Equis, General Electric, General Motors, Goldman Sachs, ING Clarion, Jones Lang LaSalle, JP Morgan, 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, GSA, HSBC, IBM, Marsh USA, JP Morgan Chase, Oracle, Prudential Financial, Tiffany & Co., Travelers Insurance, UnitedHealth Group, Verizon, Xerox

- **… and has completed over $20 billion in corporate real estate and sustainability financing and other transactions to date**

CPE COMMERCIAL PROPERTY EXECUTIVE Distinguished Achievement Awards 2012

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 Administration signed a 400,000-square-foot, 20-year lease, but the building required renovation as well as tenant improvements, 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.

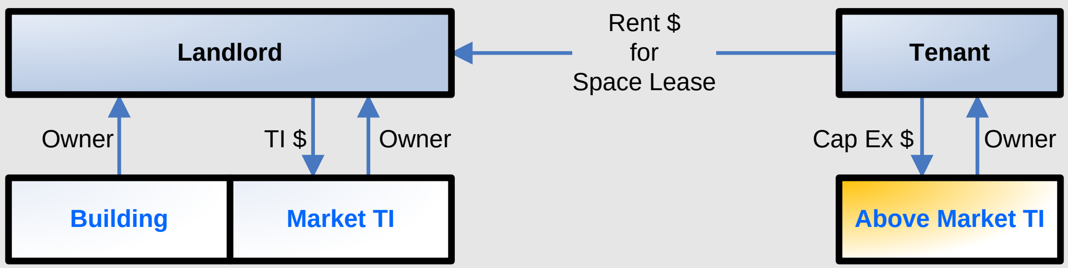
Submitted by: *Lance Capital and CGA Capital*

TIFS – Key Transaction Outcomes and Overview of the Process

Benefits from TIFS Structure

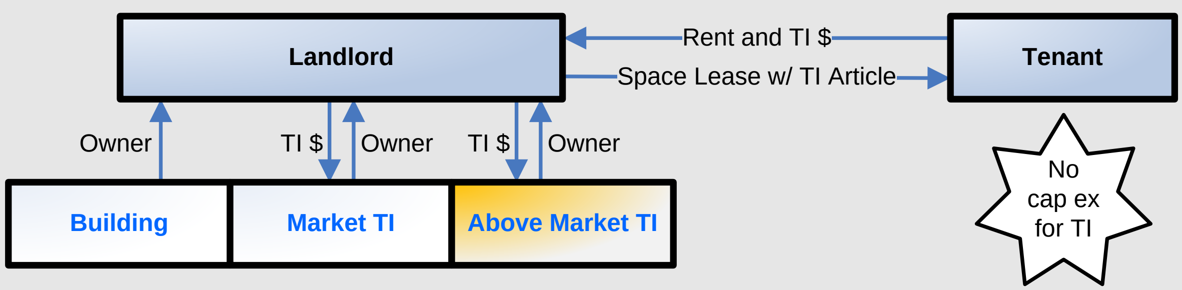
- **Fund all TI capital expenditures through rent or reimbursements**
- **Competitive cost of funds to alternative external sources**
- **Smooth quarterly cash flows**
- **Preserve capital for corporate investment in core business (vs. investment in TI, always produces negative ROI)**
- **Protect shareholder value**
- **Provide material benefits to Tenant's cash position and P&L earnings**
- **Enables Landlord to provide 100% turnkey TI financing to get leases done**

Status Quo: Typical Large Lease



VERSUS

TIFS Structure: New or Renewal Lease



Deployment of Corporate Capital

- The Lance TIFS funding rate is generally 100-300 basis points higher than a corporation's bond yields for a similar term of years, as a function of credit quality, lease term, and deal size.

- **Thus:**
  - If a corporation believes that its cost of capital is its marginal cost of debt, the TIFS approach is more expensive.

- **However:**
  - If the corporate cost of capital is considered as WACC or a hurdle rate, or where ROIC is a primary goal, the TIFS approach will out-perform:
    - http://lance-intl.com/Documents/Wharton-Evaluating-the-Decision-to-Own-Corporate-Real-Estate-Winter-2008.pdf
    - http://lance-intl.com/Documents/Wharton-Value-of-Corporate-Real-Estate-Management-Winter-2009.pdf

- There are also special circumstances where "rentalizing" TI is dramatically preferable to direct capital expenditures, e.g., federal & state healthcare reimbursements, cost-plus contracts, regulatory / statutory capital requirements, etc.

Case Study #1 – Above-Market TI Funding Facilitates Lease Transaction

- **The Situation:**
  - A large government agency (rated "AA") approved a twenty-year lease for 400,000 rentable square feet (RSF), including $150 per RSF in total TI and project cap ex to be funded in the deal. Tenant had already concluded an extensive approval process and did not want to reopen the completed process.

- **The Challenges:**
  - Landlord's lender would fund only the 'market-level' TI contribution, at approx. $58 per RSF. Landlord had no immediate options for the above-market component of $92 per RSF, other than mezzanine financing at 12% and higher.
  - Tenant was not in a position to finance, nor could it afford the cash flow impact of such a large component of its limited capital budget invested in the above-market TI, much preferring to 'rentalize' these costs over the lease term.
  - Federal reimbursement rules for administrative expenses were dramatically better for rent expense as opposed to capital expenditures.

- **The Solution:**
  - Lance stepped in on short notice and provided funding at closing for the full above-market TI budget (inclusive of transaction costs) of approximately $44 million, at a rate less than 4.25%, amortizing over the lease term. The transaction closed on schedule within the Tenant's in-place approvals.

Case Study #2 – Valuable Repositioning Tool

- **The Situation:**
  - An investor acquired a 2 million square foot vacant industrial & office complex in a tertiary market, an opportunistic play to convert to distribution and flex, purchased for less than $20 per RSF.

- **The Opportunity:**
  - Landlord attracted a credit tenant (rated "BBB+") interested in up to 1 million RSF within the complex for use as a divisional HQ and R&D requiring significant TI. The initial need was for 200,000 square feet with $20.0 million in combined Landlord contribution and above-market TI, including soft costs, moving, and leasing commissions.

- **The Challenges:**
  - The transaction required total TI funding equivalent to 5X the Property's purchase price per RSF. Landlord was unable to fund and unwilling to increase his investment basis in the asset. The Property's existing Lender could not underwrite so substantial an investment in tenant improvements. Tenant did not want to use its own capital.

- **The Solution:**
  - Lance formulated a solution to fund the entire amount of the initial TI cap ex budget (inclusive of transaction costs) at a sub-6.00% amortizing rate over the ten-year lease term with a mechanism for further TI funding as the Tenant takes down more space.
  - Landlord benefits from repositioned asset with dramatically improved asset value without additional investment

Case Study #3 – Specialty Build-to-Suit with a 10-Year Lease Term

- **The Opportunity:**
  - A Fortune 50 corporation (rated "A") had its broker issue an RFP to developers for a 125,000 RSF specialized manufacturing and distribution facility. One of the proposed developers approached Lance for funding.

- **The Challenges:**
  - The land and base building were budgeted at approximately $100 per RSF, with additional specialty tenant improvements of approximately $65 per RSF; the tenant wanted the entire project budget of $20.5 million funded by the developer, and paid for through rent.
  - The broker was authorized to receive a full commission on all rent.
  - The tenant would only commit to a ten-year lease.

- **The Solution:**
  - Applying our TIFS structure solely to the specialty TI, Lance proposed funding approx. $8.125 million (plus the above-market commission and transaction costs) at a 5.25% amortizing rate over the ten-year lease term, resulting in a competitive edge for the developer.
  - The developer secured a commitment for conventional bank financing for the land, base building, and related commission.

TIFS – Frequently Asked Questions

- **FAQs**
  - **Why would a tenant want to have Lance fund its Tenant Improvements?**
    - TIFS allows the tenant to preserve corporate capital for investment in the core business.
    - TIFS is cost-effective—When landlords are willing to supply funding for TI, the amortizing rate is typically 8-12% ; Lance typically provides funding at <u>3.0-6.0</u>% with no limitations as to use or transaction size.
  - **How does TIFS benefit the landlord?**
    - Provides turn-key solution at a low cost of capital to attract tenants; can make capital improvements to the Property without increasing investment basis.
  - **Will this transaction interfere with senior existing debt?**
    - The TIFS loan is non-recourse and secured by one of several lease-backed structures, and thus works with virtually all types of senior mortgage financing; certain Lance structures do not introduce any new debt, avoiding the issue.
  - **How long does a TIFS transaction take to complete?**
    - Lance can fund all TI costs (hard and soft), commissions, and transaction expenses within 30-45 days of execution of LOI incorporating TI lease terms.
  - **Why not simply request TI funding from corporate treasury?**
    - Corporations today deploy capital more carefully in order to achieve better IRR and ROI. Lance TIFS means no need to request capital from Treasury for TI, thus not competing with other internal funding needs.
  - **Does Lance's transaction require a separate lease in order to fund the TI?**
    - Lance documentation consists of an article imbedded in the lease but may also be structured via a supplemental lease, addendum / rider, or a multi-tier structure.

TIFS – Frequently Asked Questions *(cont.)*

- **When does Lance best fit into a deal?**
  - Capital constrained situations and those with above-standard TI needs
  - Minimum deal size of $5mm; essentially no upper limit on transaction size
  - Virtually any property type in most locations, including select international markets
- **How does Lance structure its transactions? In two primary ways:**
  - As an unsecured, non-recourse loan through a Property's existing ownership structure
  - If debt is not appropriate, via a receivables structure that does not utilize debt
- **Corporate tenant transactions and relationships are extremely important…**
  - Lance values relationships and understands their importance. Lance's multidisciplinary team includes members with both Corporate RE executive and services backgrounds
- **Does Lance's financing require the use of special purpose entities?**
  - Lance works directly through the Property's existing ownership structure, avoiding SPE or synthetic lease concerns
- **What are the risks and issues inherent in TIFS funding?**
  - The issues/risks are few:
    - Documentation: Simple but required – an imbedded lease article (or supplemental lease addendum/article). When there is mortgage debt, an inter-creditor agreement may also be required
    - Remedies/Cures: Protections under the space lease are fully maintained
    - Market Volatility: Prior to closing, credit market conditions may directly affect Lance's fixed-rate pricing
- **What happens in the event of Landlord or Tenant bankruptcy?**
  - In the case of Landlord bankruptcy, the Tenant is protected by a Non-Disturbance Agreement
  - If a Tenant defaults, the debt is non-recourse to the Property or Borrower

Representative Projects

With our structuring partners, such as EF Hutton, CGA Capital, 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
Citibank	67	Sempra Energy	174
City of New York	262	Smithsonian Institution	77
City of San Diego	92	Tiffany & Co.	98
Commonwealth Edison	110	US Army	155
District of Columbia	25	US Department of Justice	193
Eli Lilly & Co.	47	US Federal Bureau of Investigations	144
Fiat Chrysler	590	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 Social Security Administration	179
Kinder Morgan	469	US Secret Service	198
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

TIFS – Reviewing the Benefits

- **Lance Capital's Tenant Improvement Funding Solutions will:**
  - Fund up to 100% of TI capital, commissions, and moving costs; funded entirely into escrow at closing
  - Deliver funds at very competitive cost, typically below Landlord's blended cost of capital and Tenant's WACC
  - Protect shareholder value by avoiding the investment of corporate capital in TI, which always produces a negative ROI; allow the tenant to preserve capital for investment in its core business.
  - Provide material benefits to Tenant's cash position, ROIC, and corporate P&L earnings
  - Allow Landlord to benefit from improvements made to its property while maintaining its investment basis in the asset and to provide 100% turnkey TI financing to get leases done

https://www.crefc.org/crefc/crefw/Winter2016/index.html

- **About Lance:**

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 is comprised 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 optimization. On an aggregate basis, the principals and partners of Lance have completed over $20 billion of corporate real estate financings and other transactions to date.

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