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Money for Sustainability

By: Debra Hazel



With financing next to non-existent these days, how is a developer able to fund anything? One way is to go green. Lenders and government entities at various levels are looking at sustainability as a major criterion for meting out cash.

"The markets for traditional, and even non-traditional financing are just gone right now," says Toby Rittner, president and CEO of the Council of Development Finance Agencies, Cleveland. "What is getting done are [projects

that are] green-principled or that incorporate a lot of green principles."

Even contaminated land or buildings can get financing, says Ed Elanjian, executive vice president and chief financial officer at Sacramento, CA-based EnviroFinance Group, which specializes in financing the acquisition and cleanup of contaminated sites. Brownfield loans are more expensive, but are available. The reason: location.

"In a normal universe, the attraction of brownfields is their location: urban areas," Elanjian says. "The ultimate environmentalism in the ground is recycling. When you're taking something with chromium in the ground, just going from a brownfield to neutral is a big step. The next is to go to green."

Don't think, however, that the green sector is entirely immune to the credit collapse. EnviroFinance is lending from pure equity: "Leverage is a bad word at this point," Elanjian continues.

Because of the firm's specialized nature, loans tend to be on the smallish side, with \$15 million the company's sweet spot. And the lending has its limits: "Nuclear is tough, and so is mold," Elanjian says. These risks, he explains, are not insurable, leaving the lender or borrower no way to box in their costs or limit their third party liability for wrongful deaths or health hazards. "This presents the borrower and the lender with an open ended risk that could bankrupt the project," Elanjian says.

Even for more traditional monies, 'green' is an important factor. Increasingly, sustainability is becoming a hallmark of a well-run project, a baseline for attracting investment. "The money needs to be sustainable," Rittner says. "There has to be renewable energy. That's the cool side of it."

"A year and a half ago, I put together a memo [that said] 'if we're starting to make loans, we need to do some type of energy audit,'" says Leslie Lundin, former senior vice president-national director of Originations for Inland Mortgage Corp., and now principal of Walnut Creek, CA-based Lundin Capital Partners. Her new firm is putting together an opportunity fund that will include sustainability as one of its

investment criteria. Utilities and governments, even including the just-signed stimulus package, support green initiatives, Lundin noted.

Finding and coordinating those programs and financial companies may well be the next major challenge for developers in all sectors. On March 5, the CDFA is holding a Sustainable Public Finance Symposium in Washington, DC, that will explore three key areas of finance for sustainable projects: energy, green and infrastructure.

The latest developments at both the Federal and state level will be discussed, as will such vehicles as Clean Renewable Energy Bonds (CREBs), Qualified Energy Conservation Bonds (QECBs) and Energy Tax Credit Options. QECBs were created by the October 2008 Federal Stabilization Bill, which authorize \$800 million in Energy Conservation Bonds to be used by state and local governments for, among other uses, energy improvement in public buildings, green community projects, rural renewable energy development and education. Also a federal program, CREBS, launched in 2005, can fund renewable energy facilities.

"Our first goal is information," Rittner says. The CDFA has compiled more than 4,000 items and programs that may be of use to its members, and is working on organizing that knowledge so members can find what is available to them locally. The educational efforts do not just apply to borrowers. Even the financial community is uncertain about how to proceed. "The sophistication is not there," Rittner says. "How do you rate these bonds? There are a ton of misconceptions."

One goal of the symposium is to eliminate some of these mistaken ideas. Registration is complementary, so Rittner is hoping to attract a wide range of attendees, from federal agencies to lenders, to community leaders. The main challenge is to ensure that knowledge is quantifiable to attract financing.

"There is plenty of data out there," Rittner says. "We have to make sure it is properly structured. It's still too touchy-feely and needs to be pro-forma-related."

The key is to continue to talk about what is available until the more traditional funding spigots open again. "We have to get that message out. We can do this," Rittner says. "The financing is there. There are funds."