



August Breakfast Event: Building Resilience in Central Texas

August 21, 2024

Hosted by the ULI Austin Local Climate Impacts Strategic Council

Description

This panel, hosted by the ULI Austin Local Climate Impacts Strategic Council, focuses on hyperlocal challenges and strategies for enhancing climate resilience in Central Texas real estate. The strategic council's research shows that our region's changing climate is affecting every aspect of the development process, from investment strategies, codes and insurance, to design, construction and operations. Through expert panelists and strategic insights, we'll explore the impacts of extreme weather events on local projects, identify responses and adaptation methods from leaders in development and financing, and discuss solutions to enable more resilient development in the face of climate impacts we experience in the Austin region. This breakfast aims to equip participants with actionable insights and foster collaboration towards building a more resilient built environment in Central Texas.

Panel Discussion Summary

Introductions:

Moderator: Michele Van Hyfte, Sustainable Design Leader, Resiliency, HOK and Chair, ULI Austin Local Climate Impacts Strategic Council

Panelists:

1. ****Justin Westmoreland****: Regional President at Prosperity Bank in Austin, with 19 years of experience focusing on commercial real estate financing. His interest in resilience is driven by customer demands and the bank's extensive real estate holdings across Texas, which require management in the face of emerging challenges.
2. **** Mansoor Ghori****: Founder and CEO of Petro Space Finance, based in Austin. The company was acquired by Apollo Global Management to become a national commercial lender. His interest in the industry began after observing extreme weather events and the lack of financing for sustainable projects in the built environment.
3. **** Erin Nellis****: A commercial real estate developer with a career focused on large master-planned communities. Her introduction to resilience began with Home Depot's emphasis on extreme weather preparedness. She has since been involved in developing long-term, sustainable projects and recently returned to Austin to continue this work.
4. **** Doug Gilliland****: Managing Director for Whisper Valley in East Austin and a founder of Ecosmart Solution, a green energy provider. He is part of a global real estate investment group focused on innovation and risk-taking in land development. He is passionate about sharing the sustainable practices implemented at Whisper Valley and collaborating on new projects.

Question 1:

How do you approach assessing the impacts and managing risks related to extreme weather events and climate change, particularly in terms of development and financing?

Responses:

1. **Regional Variations**: The impact of extreme weather varies across different regions (Central, East, North, West Texas). Local bankers in these communities are crucial for understanding risks, which are influenced by regional regulations and permitting.
2. **Insurance and Financial Feasibility**: The availability and cost of insurance are increasingly important factors. Financially, projects must be viable, with a focus on a savings-to-investment ratio that ensures cost savings exceed financing costs. Long-term financing options can make projects more appealing.
3. **Operational Feedback**: Lessons from existing projects that weren't designed for resilience are valuable. Input from operations teams on challenges like insurance, water management, and customer comfort helps guide future designs to avoid past mistakes.
4. **Energy Grid and Public Policy**: Developers are assessing the fragility of the energy grid, especially in Texas, and are engaging with utility companies to address these risks. Public policy is also shifting, with cities beginning to rethink land use policies to address climate change, although this is not yet reflected in many current codes.

Question 2:

What strategies are you using or exploring to mitigate the impacts of extreme weather and climate change, and what is working or not working?

Responses:

1. **Geothermal and GeoGrids**: One strategy involves the creation of "GeoGrids" in a large-scale project with 7,500 housing units. This system uses geothermal energy, where water is circulated through pipes underground, heated by the Earth's natural temperature, and then used in homes via ground-source heat pumps. This reduces electricity usage, lowers utility bills, and relieves stress on the energy grid. Solar panels are added to each roof, making the homes zero-energy capable, which has been well-received by homeowners.
2. **Underground Utilities and Resilient Design**: Simple strategies like undergrounding utilities have proven effective in maintaining power during severe weather events. Solar energy has become more accessible, helping to mitigate grid interruptions. Additionally, design changes, such as using less glass and better insulating materials, are being explored to enhance resiliency while maintaining aesthetic appeal.
3. **Water Conservation**: Efforts are being made to improve water conservation, with Austin leading the charge in rainwater collection and reuse. Low-water vegetation and other simple, low-cost measures are being implemented, especially in large projects where more significant infrastructure investments might not be feasible initially. Sustainability and resilience are seen as

interconnected goals, with existing sustainability efforts providing a foundation for resilience initiatives.

Question 3:

What obstacles are you encountering when implementing strategies for resiliency, and what challenges exist in financing these projects?

Responses:

1. **Infrastructure Costs and Public Assistance**: A significant obstacle is the high cost of infrastructure in the early phases of large projects. Public assistance programs exist but are often not well-tailored to support resiliency measures. There is a need for better collaboration with municipalities and states to retool these programs, making them more economically viable and fostering community resilience.
2. **Resistance to Change**: A major challenge is changing people's attitudes, especially among developers, builders, architects, and engineers who are slow to adopt new methods. Educating these stakeholders is crucial, as many are resistant to change because they haven't done things differently before. Encouraging risk-taking and innovation is key to overcoming this hurdle.
3. **Financing Challenges**: Financing resilient projects is difficult, especially given current market conditions with high interest rates and limited comparable projects (comps) to justify investments. The opportunity lies in banks being nimble and adapting to market demands, which could eventually lead to more financing options for resilient projects as the market recognizes their value and potential for higher returns.

Question 4:

How does C-PACE financing differ from other types of financing, and what resiliency measures are eligible for it?

Response:

C-PACE financing is primarily used for energy efficiency, water conservation, and renewable energy projects. Eligible items include HVAC systems, chillers, boilers, lighting controls, building envelopes, low-flow water fixtures, irrigation systems, and renewable energy sources like solar, wind, and geothermal.

C-PACE financing differs from traditional bank financing in several ways:

- **Term Length**: It offers long-term financing, typically 20 to 30 years.
- **Fixed Rate**: The interest rate is fixed for the entire loan term.
- **Non-Recourse**: The financing is non-recourse, meaning the property owner or developer is not personally liable.
- **Non-Accelerating**: The financing does not accelerate even if the property is sold.

C-PACE can only be used for items eligible under its specific guidelines.

Question 5:

Considering the frequency and severity of past weather events and future projections, what adjustments are you making to your long-term investment strategies?

Responses:

1. **Aligning with Like-Minded Partners**: The focus is on finding investors, partners, and operators who share a philosophy centered on sustainability and resilience. These partnerships are crucial for creating developments that are embraced by the community, with a willingness to pay a small premium for long-term benefits.
2. **Geogrids, Solar, and Utility Collaboration**: Lessons learned from using geogrids and solar energy have shown that these technologies can lower utility bills and reduce stress on utility companies, which is well-received by consumers.
3. **Future Investments in Energy Storage**: Future strategies include increasing collaboration with utility companies, particularly in developing virtual power plants. These involve storing energy, with a move toward battery storage solutions, including partnerships with companies like Tesla. There is also an interest in monetizing carbon credits and optimizing the interaction between energy producers and users, which could significantly impact how energy is managed across the country.

Question 6:

What adjustments in current financing models would help more resilient projects obtain financing?

Responses:

1. **Reducing Expenses and Enhancing Leverage**: To improve financing for resilient projects, incorporating elements into the pro forma that reduce expenses can increase operating income (OI). This boost in OI provides more leverage. Additional credit enhancements, such as more equity or additional guarantor support, can also help. Demonstrating pre-leasing for certain types of projects can address market concerns and support financing.
2. **Adding Resiliency Measures and Enhancing Financing Tools**: Adding specific resiliency measures like fire and hurricane resistance can facilitate more access to PACE financing. There is also a push to create new financing tools and programs, such as using geothermal infrastructure, which currently may not qualify for existing financing options. Mortgage companies are also beginning to offer better terms for green mortgages, recognizing the value in resilient and sustainable investments. Encouraging these financial innovations and partnerships can improve financing availability for resilient projects.

Question 7:

Who are your closest partners when financing or developing a resilient project, and how do you influence them?

Responses:

1. **Design Teams and Developers**: Design teams, including architects and engineers, are crucial partners for innovative and resilient projects. They generate creative ideas that developers must then scale, finance, and present to investors and financial partners. The developer's role is to translate these innovative ideas into practical, financeable projects and effectively communicate their value to investors.

2. **Financial and Program Partners**: For financing, key partners include senior lenders, program administrators, and energy auditors. The focus is on ensuring that all parties adhere to rules and standards. The bank relies on developers to demonstrate the viability of the project and leverage existing relationships and track records to facilitate approval.

Question 8:

If you could remove one challenge or obstacle immediately to allow projects to be developed in a more resilient way, what would it be and how would its removal help?

Responses:

1. **Expanding Financing Programs**: For some, removing the limitation of current programs to only retrofits and gut rehabs, and extending them to new construction projects, would significantly boost the ability to finance resilient projects.

2. **Lower Infrastructure Costs and Interest Rates**: Lowering the costs of infrastructure and addressing current high interest rates would ease the financial burden. Greater access to creative and public financing options could make resilient projects more feasible and attractive.

3. **Improving Public Policy**: Enhancing public policy at local, state, and federal levels to support environmentally sustainable communities and crafting supportive policies can drive more resilient development.

4. **Influencing Financial Markets**: Demonstrating the value of resilient infrastructure to financial markets and showing how it improves asset value can attract more investment and financing.

Question 9:

What does success look like for building more resilience into our built environment, both in the short term and long term?

Responses:

1. **Integrated Approach**: Success involves incremental changes from various stakeholders, including financing, regulatory support, and public initiatives. It means creating projects where all these elements come together effectively, building a track record that encourages further adoption.

2. **Widespread Adoption**: Achieving success would be seeing widespread use of financing tools like PACE to reduce carbon emissions in large commercial properties, making them standard practice.

3. **Culture of Conservation**: Success would also be building a culture where conservation is standard for all new developments. This includes promoting density and shared amenities to reduce resource use.

4. **Collaboration Over Competition**: Future success involves more collaboration between developers and environmentalists, breaking down barriers and working together. Demonstrating that resilient, sustainable communities are both achievable and affordable can set a new standard and drive broader acceptance and implementation.

Question from Audience 1:

How can planners and developers provide necessary open space when insurance companies, like Nationwide, are reluctant to insure homes near such areas?

Response:

1. **WUI (Wildfire Urban Interface)**: In response to concerns, Austin has implemented WUI standards, which modify building codes and materials for homes near open spaces to address fire risks.
2. **Collaborate with Insurers**: Developers should work with insurance companies to align on risk reduction strategies and integrate them into building policies.
3. **Fire Plans**: Master-planned communities often have fire management plans that satisfy insurance requirements, making it easier to secure coverage even in areas with open space.

Question from Audience 2:

How does PACE financing interact with other types of financing, and what can be done to address lenders' hesitations?

Response:

1. **Integration with Other Financing**: PACE financing can be combined with various forms of capital, including preferred equity, senior lending, mezzanine financing, and tax incentives like new market tax credits.
2. **Changing Perceptions**: Senior lenders were initially hesitant about PACE due to concerns about rights and remedies in case of default. However, increased involvement of institutional lenders and larger deals have improved acceptance and credibility.
3. **Education and Comfort**: Educating lenders about how PACE works and its role in the capital stack helps alleviate concerns. Senior lenders are now more accepting, provided PACE is used as an additional component rather than a replacement for equity.
4. **Applicability**: PACE financing is available for commercial properties and multifamily buildings with four or more units but is not currently available for residential projects in Texas.

Question from Audience 3:

What incentives and credits are available from municipalities and government levels, and how can they be improved for resilient projects?

Response:

1. **Existing Incentives**: Various public assistance mechanisms like PIDs, MUDs, and TERS are available, but they are not always structured to support innovative resiliency measures.
2. **Need for Restructuring**: Developers and municipalities need to partner to restructure these incentives to better support resiliency projects.
3. **Grant Programs**: Cities and states are starting to set up special grant programs to support new technologies. These programs can provide funding or other forms of support for innovative solutions.
4. **Expedited Approvals and Fee Waivers**: Some municipalities offer incentives such as expedited plan approvals and fee waivers to encourage the adoption of new technologies.
5. **Local Incentives**: For example, Austin has incentives that developers should explore, and there may be a need for greater awareness and education about these opportunities.

Question from Audience 4:

Do projects need to meet specific standards, such as LEED certification, to qualify for PACE financing?

Answer:

No specific regulations require LEED certification for PACE financing, but projects must meet or exceed building codes.

Question from Audience 5: Is there local equity capital specifically targeting resilient projects?

Answer:

No one from the audience or panel volunteered specific information on local equity capital targeting resilient projects.