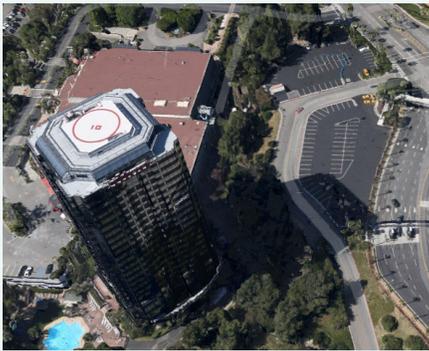


# Largest Commercial PACE Project in the U.S.

The Hilton Los Angeles/Universal City completes \$7 million upgrade



## The Site and Project Idea

Hilton Los Angeles/Universal City is located within walking distance of several major film studios, the Universal Citywalk Hollywood shopping and entertainment center, and Universal Studios Hollywood theme park, which attracts more than six million visitors a year. Its proximity to world class attractions makes the Hilton Los Angeles/Universal City hotel especially popular and challenges management to adhere to the highest hospitality standards.

This 23-story building has nearly 500 guest rooms, a top floor presidential suite, and 32,000 square feet of flexible meeting space. There are several public courts and gardens surrounding the property and banquet facilities located above a three-story hillside parking garage. Additional amenities include a lobby bar and restaurants, an outdoor pool, business center, and a fitness facility.

The idea for the project was born at a US Green Building Council workshop in Los Angeles attended by the building owner's sustainability manager. USGBC-LA connected the sustainability manager with the LA Chapter of the National Electrical Contractors Association / International Brotherhood Chapter 11 LMCC Energy Solutions Team. The Energy Solutions team brought in the Los Angeles County Commercial PACE Program. A conversation then began between the building owner and LA PACE program on ways to fund fairly modest upgrades to address maintenance that had been deferred for the past 10 years without incurring additional debt. Subsequently, the project scope was dramatically expanded and the Hilton retrofit became the largest PACE project to date.

## Project Highlights

- Total PACE Project Size: \$7 million
- Utility Cost Savings, Year 1: \$800,000
- Operations & Maintenance Savings: \$200,000
- Return on Investment: 78%
- Total Project Return: \$12.5MM



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## Project Goals

The hotel was built 30 years ago and improvements were felt to be necessary for the property to remain competitive in the current hospitality market. Initially, the goal was to focus on “low hanging fruit” upgrades that offered a quick payoff. Before long though, the Hilton Los Angeles / Universal City executive board saw an opportunity to expand the scope of improvements to encompass upgrades with a much longer payoff, including improvements such as elevators and control systems. Additionally, the hotel aspired to reach LEED certification and PACE was the first solution that helped in approaching that goal. The availability of tax incentives, which were expiring in early 2014, was also a large factor in the expansion of the scope of work. The major goals for a new expanded project included:

- Increase guests’ comfort and overall experience
- Improve overall building performance
- Replace old equipment – HVACs, lights, water pumps, etc.
- Reduce energy costs
- Reduce operating and maintenance costs
- Improve the environment
- Adhere to the “Hilton global” standard of sustainability and design

## Project Finance

PACE or Property Assessed Clean Energy financing is a new and innovative way for commercial property owners to pay for energy efficiency upgrades, on-site renewable energy projects, and water conservation measures. PACE funding can cover 100% of a project’s costs, and is repaid with an assessment over a term of up to 20 years. PACE financing is broadly applicable to commercial, industrial, agricultural, multi-family housing and non-profit properties. Since 2009, nationally the size of commercial PACE projects has ranged from \$2,000 to \$7 million proving its versatility. PACE is available in more than 400 hundred municipalities across the country.

Several real estate market leaders, including Simon Property Group and Prologis, Inc., have used PACE to fund energy efficiency upgrades to their buildings. PACE financing has many features that can easily solve barriers to the adoption of energy efficiency measures. In the Hilton case, long-term PACE financing made a deeper retrofit possible. The Hilton hotel’s owner identified the following advantages of PACE:

- 100% financing for energy efficiency improvements as well as water conservation improvements

## Hotel Ownership Structure

The hotel is owned by Sun Hill Real Estate, a San Francisco based real estate investor with multiple assets in the city. The Hilton Los Angeles/ Universal City is the only Los Angeles asset under management of a parent company - Paragon Corporation. Sun Hill’s executive board was intimately involved with the project.

## Hotel Design

The hotel building, public areas, and gardens surrounding the property were designed by Arthur Golding, of William L. Pereira and Associates, a prominent architecture firm in Los Angeles.

## Project Financing

PACE Assessment: \$7MM  
Term: up to 20 years  
NOI Year 1: \$335,000 increase (after PACE Assessment payment)  
Return on Investment: 78%  
Total Project Return: \$12.5MM  
Total Return Multiple: 1.78x  
Building Value Increase: >\$30 M

## Building Details

Hotel Area: 477,139 Sq. Ft.  
Restaurants: 5,000 Sq. Ft.  
Cafeteria: 1,500 Sq. Ft.  
Parking: 257,600 Sq. Ft.  
Valet Parking: 2,500 Sq. Ft.  
Year of Construction: 1983



## Project Finance, continued

- Long-term financing
- Preservation of borrowing capacity through off-balance-sheet financing
- Non-recourse financing

An experienced financial services provider, Structured Finance Associates, worked with Sun Hill Real Estate to design a financing solution that best fit their needs. Jean Dunn and John Krappman of Structured Finance Associates educated Sun Hill's senior management on the benefits of PACE financing and demonstrated how PACE could unlock deeper energy efficiency upgrades.

Since PACE is based on the property tax assessment mechanism and is senior to any mortgages on the property, LA County's program requires the consent of an existing lender before PACE financing can be used. During the PACE financing process, Sun Hill made a decision to refinance their existing loan with a new lender—Deutsche Bank. After successful refinancing, Deutsche Bank recognized the value proposition of PACE financing and consented to PACE assessment. The final project price tag exceeds \$7 million and includes construction costs, fees, and other expenses.

## Project Development

Hotel management was very involved with planning and project design. The contractors were selected through a competitive bidding process and ReNewAll, an LA County PACE project developer, assisted the Hilton in the selection process by pre-screening and interviewing the candidates. Hilton's general manager, Mark Davis notes, "The interest and commitment to sustainable energy and saving earth resources are largely due to being informed. It was a great opportunity to share how easily PACE empowered our decision to commit to this responsible effort on our journey to improve the property's saving of valuable resources. We are indeed grateful for the professionals who supported and collaborated in making this project a reality."

LA County's PACE program requires a building owner to complete an ASHRAE level 2 audit detailing the savings estimated for each improvement paid for by PACE. Given the extensive scope of the project, two different audits were conducted. The first audit was undertaken by Gexpro's industry experts in order to identify the retrofit opportunity and potential scope of work. The second audit was conducted by a third party, Leading Edge Consulting Services LLC. Before the start of the project, the LA County PACE program had an independent third party auditor review the Leading Edge audit and render a professional opinion regarding the assumptions made and the estimated savings expected. In addition, Structured Finance Associates commissioned a third party audit by Partner Energy to confirm the Hilton's assumptions and results.

## Financing Partner

Structured Finance Associates, LLC, which specializes in PACE project financing, arranged funding for the project. With PACE, Structured Finance Associates is empowering customers to reduce their operating expenses, increase their cash flow and add value to their properties while decreasing energy usage and lowering their carbon footprint. Founded in 2010, Structured Finance Associates, has offices in San Diego, Los Angeles, Connecticut and Washington, DC and has worked with customers across the country.

## Los Angeles County Commercial PACE Program

LA County's Commercial PACE program provides property owners with no-cost assistance from professional project developers which results in successful completion of large and comprehensive projects. The development team is comprised of sustainability firms BKi, The Energy Coalition, ReNewAll, Renewable Funding and O'Rorke. As a team they leverage their industry expertise and navigated the Hilton Los Angeles/Universal City team through the project's development, PACE financing, and closing.

## Improvements and Contractors

The Hilton's comprehensive retrofit included energy efficiency glass installations and new LED lighting, which is expected to reduce energy consumption by 50%. Additionally, 500 low-flow shower heads were installed and 250 bathtubs with showers replaced as part of the water conservation upgrade to save the equivalent to one month of the property's existing water usage. Older HVAC systems were replaced with new energy efficient ones. These and other improvements wouldn't be possible without the work of a number of local, regional, and national contractors.

**Gexpro**, the largest electrical distributor in the U.S. and in the world, helped model the project and assisted with audits.

**O'Bryant Electric**, a regional electrical contractor, and member of the Los Angeles Chapter of NECA, upgraded guestroom lighting systems and HVAC motors.

**Emcore Group - Mesa Energy Systems**, a leading HVAC contractor and a wholly owned subsidiary of EMCOR Group, Inc. Mesa Energy Systems installed two 450-ton variable speed chillers and upgraded HVAC controls & building automation system.

**Liftech Elevator Services Inc.** is an elevator service company based in California offering a range of services from regenerative energy production, maintenance, modernization, repair, and security, to fire safety. Liftech replaced all contents within the metal shell of the hotel's 14 elevators. In order to adhere to the Hilton brand, the ownership was required to re-design the elevators to meet the new standards.

### Project Rebates

This project serves as a great example of proactive use of rebates. The initial energy audit identified a number of possible rebate opportunities on the state and federal level. The local utility, Los Angeles Department of Water and Power, offered \$80,000 in incentives for replacing an old chiller. The hotel applied the \$80,000 towards a new 125 ton chiller. On the federal level, the Section 179D of the Internal Revenue Code for Commercial Building Tax Deductions allows for the deduction of 40 cents per square foot for the replacement of old lights with LED fixtures. Additionally, incentives from SoCalGas® and Metropolitan Water District are pending. Overall, the Hilton took advantage of nearly \$1.1 million in federal rebates.

### Project Success

The success of the project was rooted in the partnership between the County, through its project development team which functioned as a conduit for private capital, the building owner, multiple contractors, and the financing provider. The value of the improvements along with the additional value of added net operating income was in excess of \$13 million and the value of the property increased by more than \$30 million. Overall, this project addressed a number of concerns, including deferred equipment maintenance, compliance with the Hilton global design standards, and adherence to sustainable practices.

**Solar Art Window Film**, a premier window tinting company in Southern California, installed energy efficient window film in the hotel's guestrooms.

**Moen**, an Ohio based faucets and fixtures manufacturer supplied low-flow shower heads.

**Coast to Coast Glass Corp.**, a local glass installer, installed new dynamic glass from View Glass.

**View Glass**, a local manufacturer of a glass that changes color based on the time of day, replaces glass in the atrium areas and top floor presidential suite.

**PD&A**, is a California based design practice engaged in planning, design, and interior architectural services for hotels, resorts and restaurants. PD&A provided design for the elevators and lighting.

## Full List of Improvements

- 14 elevators - full system upgrade
- 520 HVAC fan motors in guestrooms
- HVAC controls system
- 11 refrigerators & freezer motors
- Two 450-ton chillers
- LED lighting upgrade
- Lighting controls
- Glass replacement in select areas
- 250 bathtubs and showers
- 500 shower heads
- Dynamic tinting glass units
- High capacity washers and dryers
- EV charging stations



## Principal Project Partners

Hilton Los Angeles/Universal City  
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## Project Partners

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PACENow is a foundation funded, impartial and consensus driven non-profit advocate for PACE.