

Press Release

Munsch Hardt Closes Largest Commercial PACE Transaction in Texas

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Munsch Hardt closed a \$23.9 MM commercial Property Assessed Clean Energy (PACE) finance transaction on behalf of Alterra International in connection with the Butler Brothers Building redevelopment, a \$120 MMM historic rehabilitation project located in downtown Dallas. The loan is the largest commercial PACE transaction in Texas and believed to be the second largest in the country.

PACE is a financing mechanism that provides up to 100 percent financing for property owners who want to implement energy efficiency and water reduction projects within existing buildings. This specific loan will aid in constructing energy-efficient systems and implementing water reduction technology. The updates will improve the property value and enable the owner of the project to lower the overall first lien loan for the project. The PACE loan was secured through a contractual assessment lien imposed upon the property that has the same priority as a tax lien. The key difference between a PACE loan and conventional construction financing is that the PACE assessment lien cannot be accelerated and can only be enforced for delinquent assessment amounts.

The nine-story Butler Brothers Building, built more than a century ago, is in the process of being transformed into 238 apartments; a 270-room, dual-branded Fairfield Inn/Town Home Suites by Marriott; retail; and small office complex that will be catalyst for future development in the immediate vicinity. Currently, the apartment phase and small office space is complete, and the dual-branded hotels are anticipated to be open by the end of 2017.

“PACE loans pair incredibly well with historic buildings that are typically energy inefficient and require additional capital in order to renovate the property to modern energy efficiency standards,” said Phill Geheb, Shareholder at Munsch Hardt. “In my practice, I am beginning to see greater interest in the utilization of this program for historic and nonhistoric renovation projects because of its flexibility, relative low-cost and non-recourse nature. We are excited to be a part of Alterra International’s sustainable vision for this Dallas landmark.”

In addition to assisting property owners make their buildings more energy and water efficient, PACE loans offer several benefits to property owners. PACE loans are typically non-recourse to the borrower except for a completion guaranty and are able to go higher in the capital stack than conventional financing. PACE financings are also typically less expensive than similarly positioned capital such as mezzanine or preferred equity financing vehicles. Because the PACE lien has priority over construction financing by law, consent of a first lien lender is required to enter into a PACE transaction and according to the Texas PACE Authority, a growing list of commercial banks are consenting to the transaction because the improvements can reduce operating costs and the PACE loan can de-leverage their position while only subordinating their lien to delinquent assessment amounts.

Munsch Hardt attorneys Phill Geheb, Jeff Dunn and Dustin Van Deman worked with a multitude of parties to close the transaction for Butler Brothers Hospitality Group, including the City of Dallas (local government), Clean Fund Commercial PACE Capital, Inc. (bond buyer and special administrator), Texas PACE Authority (program administrator), Public Finance Authority (bond issuer), and BNY Mellon (trustee). Munsch Hardt attorneys also worked with existing construction lender and tax credit investor (Affordable Housing Partners) to secure the required approvals for the loan.

“The PACE loan is a significant milestone for the Butler Brothers Building,” said Mike Sarimsakci, President of Alterra International, the developers behind the Butler Building project. “With the loan’s focus to increase energy-efficiency, the development will likely attract even more interest, as today’s residents and tenants look for high-efficiency and low maintenance costs for their apartments and businesses and hotel guests want to stay in buildings that are sustainable. Combined with federal and state historic tax credits, we feel the PACE loan will enable us to bring this catalytic and complicated project into a reality.”

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