GlobeSt.com™
Real estate is our domain

C-PACE Emerges as 'New Champion' to Provide Rate Relief

It's being used particularly for construction and take-out bridge financing.

By Richard Berger | June 27, 2023

Previously considered somewhat difficult to deploy in ways that made sense to borrowers, C-PACE financing has emerged as “a new champion” to provide some rate relief and, in some circumstances, provide leverage that is otherwise unattainable, particularly for construction and construction take-out bridge financing, according to a new report from Marcus & Millichap.

Commercial Property Assessed Clean Energy (C-PACE) can help to fill the gap in the lending markets previously saturated with non-recourse banks, money center banks, and regional banks by providing fixed-rate and long-term financing through a state policy-enabled channel.

Nuveen describes it as financing that allows building owners and developers to access the capital they need to make energy-related deferred maintenance upgrades in their existing buildings, support new construction costs, and make renewable energy accessible and cost-effective.

“It runs with the property so it can be easily assumed by the next buyer, and its debt service is paid as a state property tax,” according to the report. It is available in 31 states and the District of Columbia, enabling commercial building owners to potentially pass through the expense to the tenants as part of a triple-net lease. The ease of the process to obtain them and for various costs to qualify does, however, vary drastically by state, Marcus & Millichap said.

Jason Clouet, Vice Pres at Bayview PACE, tells GlobeSt.com that C-PACE financing is experiencing a strong and sustained moment because its terms and flexibility are filling in huge gaps compared to traditional options.

"One key issue is the reduced lending capacity from banks, which is largely driven by heightened requirements by regulators," Clouet said. "These tighter requirements meant to achieve a better balance of a bank's depository amounts to its lending capacity, typically mean that 10% to 20% of the loan amount will need to be held in deposits by the bank."

Clouet said that where C-PACE is solving so many borrowers' problems is that C-PACE financing is not counted on the bank's balance sheet "so the bank can decrease the depository requirement for their client by adding C-PACE into the capital stack."

Joe Euphrat, Managing Principal, GreenRock Capital LLC, notes that C-PACE financing is an accretive source with a long-term of up to 30 years and a fixed rate that is fully amortized.

Therefore, "Capitalized interest and interest only can also be included in the structure," Euphrat tells GlobeSt.com. "With C-PACE financing, there are no financial or operational covenants."

Euphrat believes that in today's market environment, C-PACE financing compares favorably to construction debt.

"We are also seeing much larger transactions due to current market conditions," he said. "GreenRock's C-PACE can also be used in most states to reimburse owners for work completed in the past two to three years. This is very helpful for accessing liquidity to pay down existing debt and/or fund operational reserves."

Jillian Mariutti, a Senior Director with JLL's Capital Markets Group, tells GlobeSt.com, "It's getting more and more popular because of the significant uptick in interest rates and borrowing costs over the past 15 months.

"Our clients are using CPACE to bring down the weighted average cost of capital," she said.

"It is not necessarily a leverage play to go higher up the stack like it once was viewed. CPACE is attractive on deals where the senior pricing is 500 bps to 800 bps over SOFR, which right now is 10% to 13% money.

“CPACE is roughly 7% fixed nonrecourse and would bring the blended rate down in those instances. We are also seeing CPACE used on a retroactive basis for tougher-to-finance sectors like office as it provides a unique source of liquidity during a time when owners could really use it.”

Another benefit, according to Laura Dietzel, real estate senior analyst at RSM US LLP, is that C-PACE payback periods span 20 to 30 years, much longer than traditional financing’s seven-to-10-year terms. “The flexibility may finally help these projects get across the finish line.”

But she also points to a challenge with this form of financing: CRE owners are weary of throwing additional capital at challenged investments within the current economic cycle.

Also, “for mortgaged properties, lender consent to utilize C-PACE is required – while once educated on the program lenders generally have no issues with this type of financing, this is difficult and time-consuming to obtain,” she said.

“Given the current lending environment, implementation of C-PACE poses an additional challenge for market participants as lenders are keenly focused on preserving as many rights as possible.”