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Rising in Popularity: A C-PACE Primer

JANUARY 23, 2025 • AN ANALYSIS BY NATALIE AMBROSIO PREUDHOMME

The average year over year growth of Commercial Property Assessed Clean Energy (C-PACE) loan volume over the past five years has been 50%. This alternative financing mechanism gained popularity during COVID and the following two years of high interest rates, when developers sought alternative source of capital. The Commercial Real Estate Finance Council (CREFC) recently published a C-PACE Primer, which serves as a resource for those aiming to get up to speed on this flexible financing mechanism. We share highlights below.

C-PACE Overview

C-PACE is a public private partnership which provides an alternative source of capital for energy efficiency upgrades. It allows private capital to cover 100% of the costs of upgrades related to energy efficiency including both during retrofits and new construction, as well as water efficiency and other resilience projects, in some states. In many states, C-PACE can also be used for retroactive financing of projects after they're complete.

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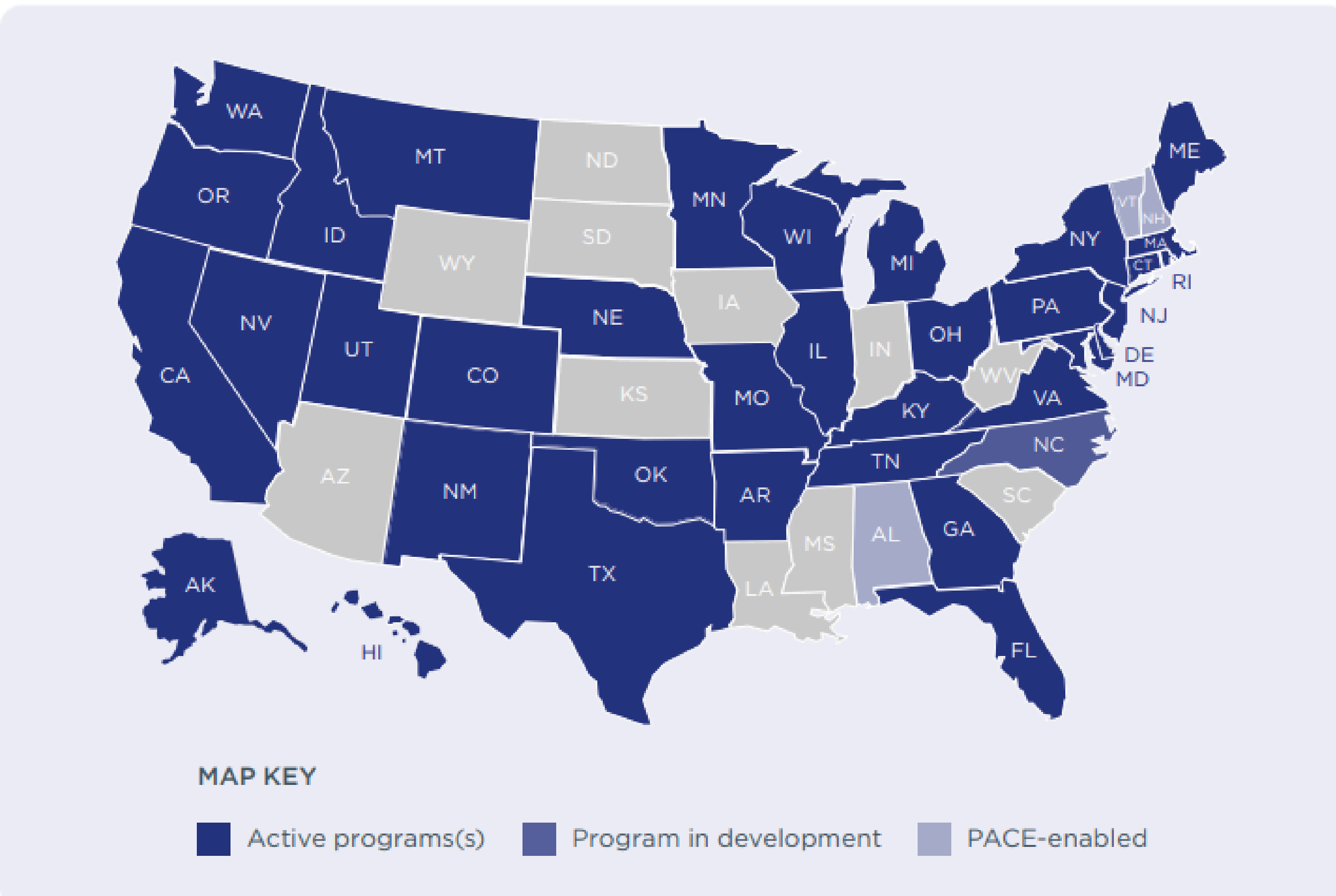
which broad categories of improvements qualify, but local ordinances create C-PACE programs. To date, there are 75 active programs in the country, in 40 states and Washington DC.

Figure 1. PACE adoption status



Source: Pace Nation, as published in the CREFC C-PACE Primer

Typical Terms

The primer outlines standard terms of the C-PACE financing, including that its self-amortizing and usually 25-30 years at fixed interest rates. Payments are made

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the responsibility of the new owner.

Relevant Stakeholders

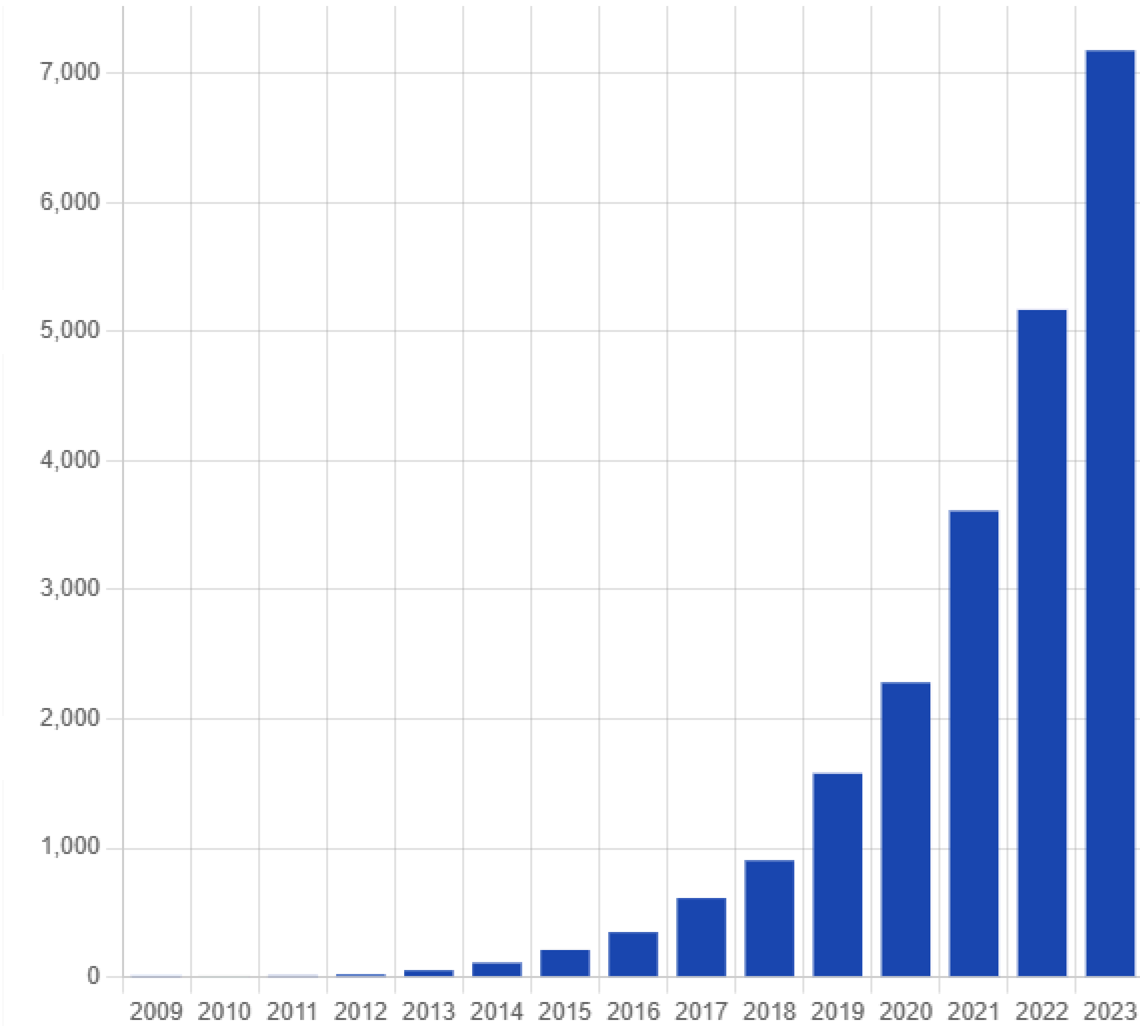
The primer outlines key considerations for investors, and also lists several other relevant stakeholders. There are many participants in a real estate transaction that contribute to a C-PACE deal.

For investors' consideration, C-PACE is usually 5-25% of a property's value, although some programs allow higher LTVs. C-PACE is considered debt and included in the DSCR calculation by lenders. Many investors treat C-PACE as an expense like property taxes.

The property owner of record is the one that must enter into the agreement with a taxing authority, which is technically what C-PACE is. Meanwhile, C-PACE requires consent of the first mortgage lender. C-PACE Administrators vary by program and can be someone in the local government, a green bank or a capital provider that enters a bond indenture with a bonding and taxing authority. Council and third-party cost reviewers are typically involved in the transaction, while master servicers monitor the assessments, collections and disbursements. Tenants and the construction industry both benefit from C-PACE, as it can support upgrades that reduce energy costs in the buildings and also provides jobs for the construction industry.

Industry Outlook

Figure 2. Cumulative C-PACE Investment



Source: Pace Nation

Uptake of C-PACE has been ramping up in recent years (Figure 2), driven partially by the challenging capital environment, but many in the industry think momentum will continue even as interest rates level. For example, Ethan Elser of PACE Equity, during a Sustainability Street podcast interview, highlighted the surge in building performance standards as another driver for C-PACE uptake. As more building owners consider options to comply with emissions restrictions on their buildings, PACE offers a flexible capital source that could be more desirable than restructuring a current loan. While the industry continues to face challenges common to new industries, including a lack of

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space.

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Natalie Ambrosio Preudhomme is an Associate Director at Moody's on the Commercial Real Estate thought leadership team, where she does research and market engagement focused on climate change. Natalie joined Moody's through the acquisition of Four Twenty Seven, a leading provider of data on physical climate risk. At Four Twenty Seven she led editorial strategy and communications. Previously, Natalie helped develop an assessment of U.S. cities' vulnerabilities to climate change and their readiness to adapt, at the Notre Dame Global Adaptation Initiative (ND-GAIN). She currently serves on the Urban Land Institute's Pacific Northwest ESG Council and the University of Notre Dame's Accountancy Department Advisory Board. Natalie holds a B.S. in Environmental Science and a Certificate in Journalism, Ethics, and Democracy from the University of Notre Dame and a Certificate in Climate and Investing from the CFA UK.

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