Green Street

Commercial Mortgage Alert

THE WEEKLY UPDATE ON REAL ESTATE FINANCE & SECURITIZATION

C-PACE Shop Targets Other Lenders

North Bridge has started reaching out to balance-sheet lenders to pitch how commercial Property Assessed Clean Energy loans can be used to help create liquidity and reduce exposure to their new and existing loans.

Like most C-PACE lenders, New York-based North Bridge usually deals with commercial real estate developers and owners that want to make their properties more energy efficient. But amid increasingly difficult market conditions, the firm recently launched an outreach program focusing on originators and holders of traditional senior mortgages.

"The lack of liquidity and market volatility has resulted in a renewed interest and focus on how to integrate C-PACE into existing and new capital stacks," said chief executive **Laura Rapaport.** "North Bridge is actively working on a number of large-scale projects with institutions who are all utilizing the capital for different types of situations created as a result of the current market."

North Bridge aims to help banks, insurers and other lenders figure out how C-PACE financing could be used to reduce the balances on new and previous originations. For example, it could be used as part of a debt extension or refinancing strategy, or to pay down construction loans connected to ongoing or recently completed projects.

Nuveen Green Capital has been making a similar push lately. In an April 21 report touting the advantages of C-PACE financing in current market conditions, the **TIAA** affiliate noted that "lenders can recapitalize their projects mid-flight or post construction (up to three years in most states) to bridge them to stabilization. This enables them to reduce their loan exposure, as well as the cost of holding risk reserves."

For its part, North Bridge is urging lenders that want to shed risk or prune their debt portfolios to consider pursuing C-PACE options with borrowers, senior originator **William Burns** said. Rising interest rates, the regional-bank crisis, leasing concerns in the office sector and other factors have contributed to widespread liquidity issues in the commercial real estate debt market, prompting many lenders to become more receptive to learning how they can use C-PACE effectively, he said.

In addition to the market dislocation, the increasing interest among lenders — and commercial real estate pros in general — stems partly from the ongoing expansion of C-PACE programs across the country. It also reflects increasing demands from lawmakers, regulators, tenants and investors that commercial properties be constructed or modified to meet environmentally friendly and sustainable building standards, said ***Dechert*** *partner* ***Jason Rozes,*** *who leads the law firm's commercial real estate lending practice. He's also a member of the steering committee for the* ***CRE Finance Council's*** *sustainability initiative.*

"That combination is encouraging first-mortgage lenders to take a hard look at C-PACE," he said. "They're trying to learn more and figure out a way to add C-PACE to more deals."

In addition to the market dislocation, the increasing interest among lenders — and commercial real estate pros in general — stems partly from the ongoing expansion of C-PACE programs across the country. It also reflects increasing demands from lawmakers, regulators, tenants and investors that commercial properties be constructed or modified to meet environmentally friendly and sustainable building standards, said **Dechert** partner **Jason Rozes,** who leads the law firm's commercial real estate lending practice. He's also a member of the steering committee for the **CRE Finance Council's** sustainability initiative.

"That combination is encouraging first-mortgage lenders to take a hard look at C-PACE," he said. "They're trying to learn more and figure out a way to add C-PACE to more deals."

C-PACE financing is repaid through an assessment collected with property taxes. It ranks ahead of other lenders in the capital stack, but the foreclosure process can take at least a year or two and it can only be used to recover missed payments — not the entire balance of a C-PACE loan, which typically runs 20 to 30 years. In the case of a default, a property owner, buyer and/or the senior lender usually has time to cover the missed payments.

North Bridge's Burns noted that while senior lenders have been hesitant to allow C-PACE on their collateral properties in the past, they "are becoming more amenable to accepting it once they realize they don't lose their first-mortgage position, C-PACE is passive. C-PACE is simply a passive assessment, so a bank still retains all their first-mortgage lender rights." ❖