Green Street
Commercial Mortgage Alert
THE WEEKLY UPDATE ON REAL ESTATE FINANCE & SECURITIZATION

# Opening Seen for C-PACE Allowances

Mortgage professionals are beginning to consider ways to accommodate commercial Property Assessed Clean Energy financing.

While the efforts still are in their early stages, they could result in the first meaningful attempts to allow commercial property owners to take out C-PACE liens alongside their securitized mortgages. And that could bring an increase in the generation of C-PACE receivables that also would be suitable for securitization.

The change comes as lenders increasingly recognize that with commercial properties nationwide needing costly energy-efficiency upgrades, C-PACE financing represents an attractive source of capital. To that end, a working group within the **CRE Finance Council's** Sustainability Steering Committee is gathering information on the market.

That undertaking so far has included inviting input from a C-PACE lender this month. **Sairah Burki,** a CREFC managing director who is overseeing the effort, said the presentation led to a wide-ranging discussion on the seniority of C-PACE assessments and how useful they might be for property retrofits. At a minimum, she said, the group wants to play an educational role.

Past resistance to C-PACE financing stemmed from the fact that the associated liens are senior to any mortgages. Commercial MBS terms, meanwhile, not only prohibit borrowers from taking on additional senior debt but typically contain categorical bans on the use of C-PACE capital.

While a few CMBS deals have contained C-PACE-friendly provisions, special servicers haven't had much incentive even to investigate whether they should consent to the additions of those facilities.

Hence, the focus on adding provisions that would be in place from day one. When it comes to specific allowances, **Dechert** partner **Jason Rozes** pointed toward terms that would minimize the risk that C-PACE lenders might step in front of bondholders in the event of a borrower default.

Mortgage documents also could be structured to permit future C-PACE financing under certain conditions. Among them: prior written notice to the mortgage lender; the absence of any event of default for the mortgage; financial measures that take total C-PACE financing into account; an updated title search; and payment of the lender's out-of-pocket costs.

The mortgage lender's prior written consent also could be a condition, as well as rating-agency confirmation for mortgages in securitization pools.

C-PACE lenders are trying to be more accommodating as well.

**Rafi Golberstein,** chief executive of **PACE Loan Group** of Eden Prairie, Minn., said the efforts are informed in part by the stalling of attempted pre-approvals of C-PACE financing within some 2017 and 2018 commercial mortgage securitizations. "The PACE world today is a lot different than it was four years ago," Golberstein said. "It is getting a lot more sophisticated, and because of that, people are paying more attention to CMBS to try to understand how it works."

He added that there is a strong incentive to allow C-PACE financing for mortgaged properties that are in special servicing due to coronavirus-induced reductions in revenue. In those cases, the added capital could help the owners avoid having to add mezzanine debt or equity as they carry out improvements mandated by law.

Other properties could see similar benefits. New York, for example, is counting on C-PACE financing to help building owners meet ambitious carbon-emission limits enacted in 2019.

The improvements also could help make properties more appealing to tenants or buyers.

"At least once a week I get a call from someone who has a mortgage in a CMBS who's interested in C-PACE," said **Michele Pitale,** managing director at **Counterpointe Energy Partners,** the administrator of Chicago's PACE Loop program.

"Owners would like to do energy efficiency or renewable [upgrades]," she said. "But they don't want to drop more equity into a building or face prepayment penalties if the loan is in CMBS, so PACE doesn't work for them." ❖