



C-PACE, an Innovative Financing Mechanism for Hotel Construction and Retrofit

By Dana White, Director of Business Development, Greenworks Lending

AS GREEN INITIATIVES CONTINUE THEIR rise in California, hotel owners and developers are increasingly recognizing the many financial and environmental benefits to clean energy. According to a recent ULI study, these initiatives increase property values by boosting net operating income and help to attract occupancy in modernized buildings. However, as the State of California takes action to protect its economy against the impacts of climate

change through increasingly strict building codes, today's developers and property owners are also being confronted with escalating raw material costs and skilled labor shortages, which can threaten profitability and long-term value creation.

Commercial Property Assessed Clean Energy (C-PACE) can close the gap with a new option for owners and developers of hotels to fund up to 100% of energy-efficient

and renewable building upgrades and new construction on a non-recourse permanent loan basis. C-PACE functions through a public-private partnership enacted by state law and is funded entirely by private lenders. The funding is earmarked solely for energy-related improvements such as water conservation, seismic resiliency, for renewables (e.g. solar power and storage), lighting, mechanical, plumbing, elevator

continues ►

upgrades and HVAC efficiency along with all related soft costs (e.g. permitting, etc.). Given the updates to the California Title 24 building code, approximately 40% of all the budgeted costs of gut rehab and new construction qualify for this financing.

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C-PACE enables flexible, long-term and inexpensive capital; works well alongside most other financing tools; and can complement pre-existing financing and development strategies. Because C-PACE funds up to 100 percent of the hard and soft costs of hotel commercial building upgrades and construction elements that improve energy

performance, this financing is becoming increasingly sought-after for hotel new construction, rehabs, PIPs, and run-of-the-mill retrofits. The projects financed with C-PACE are achieving strong increases in return on equity as well as dramatic decreases to their overall weighted average cost of capital given the unique attributes of this financing mechanism. These are two critical metrics for anyone in the industry. Funding is capped at 20%–35% of the stabilized appraised value of the property and DSCR of 1.25x.

Unique to the C-PACE program is that these funds are repaid through the tax assessment system as a special benefit. The California statute now enables the same governmental taxing authority for private use, as the State recognizes that these energy improvements have an overall public good as a result of increasing energy efficiency. Each owner's tax bill will have the annual required C-PACE debt service as a separate line item that is due and payable along with the annual municipal

property tax assessment, like an annual sewer assessment or Mello Roos bond payment. The assessments are like loans, in that they allow a property owner to pay off debt in installments over a long period of time. However, C-PACE assessments are not legally considered loans, rather it is a lien that provides strong collateral in the event the owner defaults on the assessment. Because the assessment lien is tied directly to the property, it can be transferred upon sale.


In essence, the program enhances the credit of your asset because C-PACE looks a lot like low risk municipal debt. C-PACE lenders are then able to offer repayment terms that are not available anywhere else in the capital markets, which enables owners to benefit from lowering capital costs while at the same time reducing operating costs through the energy efficient improvements financed.

Clean energy is an essential focus for today's commercial property owners and developers,



as building codes become increasingly strict and energy-efficient solutions become a requirement. As developers aim to tackle these challenges, the ability to finance green initiatives can often be one of the most strategic financial decisions an owner or developer can make. C-PACE financing can prove to be an important and beneficial source of capital that makes energy-efficient solutions more financially attractive.


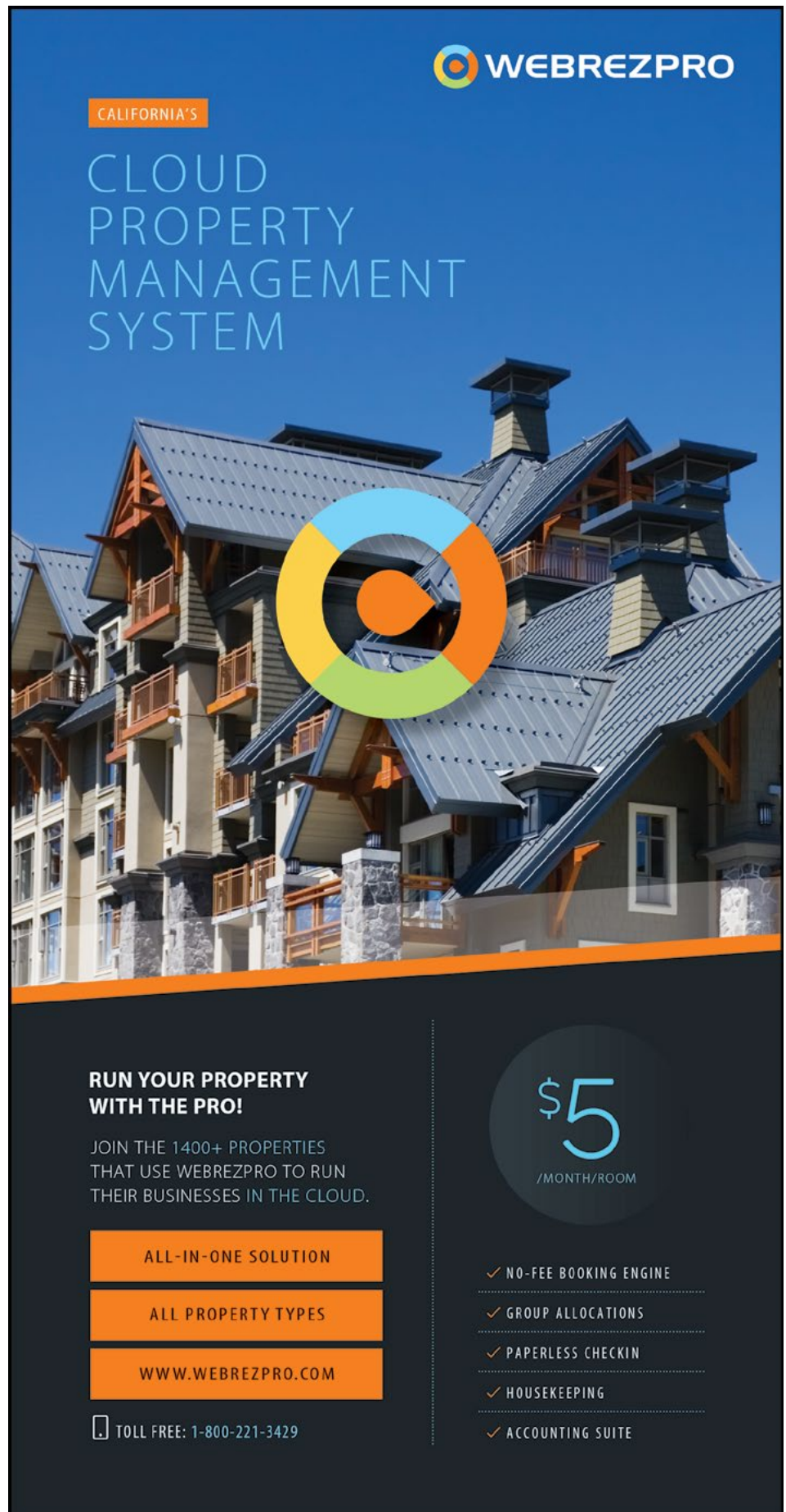
Dana White is the Director of Business Development in California at Greenworks Lending (greenworkslending.com). Dana has more than 20 years of commercial real estate lending experience encompassing more than \$2.5 billion in loan originations. Greenworks Lending is the largest C-PACE capital provider in the country, having provided financing to hundreds of commercial properties in more than a dozen states.

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