Commercial Mortgage Alert ▸ A Green Street News Title

C-PACE Gains Ground on Mortgages

Continued sluggishness in the lending market is setting the stage for an increase in commercial Property Assessed Clean Energy financing.

The outcome, market professionals believe, is that C-PACE capital will come to represent ever-larger portions of the debt on existing properties and, especially, new projects — in some cases rivaling the sizes of senior mortgages.

Several factors are at play. Property owners and developers are under mounting pressure from current and prospective tenants to improve sustainability standards. But rising interest rates and falling property values have sharply constrained the availability of traditional financing since early 2022.

C-PACE financing, meanwhile, often has been used in place of more-expensive mezzanine loans — which in turn are almost always smaller than senior mortgages. But now, C-PACE capital is available at lower costs than many first mortgages.

That's a reflection of C-PACE structures, which create liens senior to any mortgages, with repayments flowing through property-tax bills. While interest rates vary based on loan size and other factors, C-PACE financing for heavy construction often can offer savings of 3 to 7 percentage points versus heavy-construction loans.

C-PACE rates also are fixed, while construction loans often are floaters.

What's more, the amounts of C-PACE financing available can rival or even exceed what's available from mortgage lenders. That's especially the case when the improvements that qualify for C-PACE programs — mainly energy- and water-efficiency upgrades — wouldn't boost property values enough to meet underwriting standards for senior loans.

Senior mortgage lenders must consent to any C-PACE financing and can foreclose upon the properties and assume those facilities, regardless of their relative sizes. The upshot: Some might not object to supplying smaller proportions of their borrowers' financing, particularly if doing so reduces overall debt costs.

Alexandra Cooley, chief investment officer at **Nuveen Green**

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Deutsche Preps Large CMBS Loan on Hotels

The CMBS group at **Deutsche Bank** is on track to provide a **Varde Partners** joint venture with $825 million of floating-rate debt to refinance a large U.S. hotel portfolio.

The mortgage hasn't closed yet but would have an initial term of two years, plus three single-year extension options. Deutsche, which has been working on the deal for months, plans to securitize the debt via a single-borrower offering that could price by early October.

As reported in June, when the borrower was in talks with prospective lenders, the collateral would comprise most or all of the 89 select-service and extended-stay hotels that Minneapolis-based Varde and **Flynn Properties** of San Francisco bought into last November.

Under that deal, the Varde-Flynn partnership purchased an 80% stake in the pool from New York-based investment managers **Cerberus Capital Management** and

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Synovus Medical-Office Loans Nearing Trade

Kayne Anderson Real Estate has agreed to purchase a $1.3 billion portfolio of performing loans backed by medical-office properties.

The seller is regional bank **Synovus,** which announced during its second-quarter earnings call that a contract had been signed but did not identify the buyer. The deal is expected to close in the next few weeks, with pricing coming in well north of 90 cents on the dollar.

The Columbus, Ga.-based bank said it expected a $25 million negative impact to net income from the sale. Management described the portfolio as having "pristine credit quality" and said the decision was driven by profitability.

Chief executive **Kevin Blair** said during the call that the portfolio produced a return on equity in the high single digits that had been attractive in the zero-rate environment. With rates running higher, the returns were less attractive, and the sale allowed the bank to increase its liquidity while reducing its exposure to

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JPMorgan Leads Big Mixed-Use Refi in DC

The owners of the CityCenterDC mixed-use complex in Washington are lining up $400 million of fixed-rate debt from **JPMorgan Chase** and **Apollo Global Management** to refinance part of the property.

The five-year debt package, tentatively slated to close next week, would comprise a $300 million senior CMBS mortgage from JPMorgan and a $100 million mezzanine loan from New York-based Apollo. The bank plans to securitize its portion via a single-borrower offering expected to price in the next two weeks or so (JPMCC 2023-CCDC).

The collateral encompasses the leasehold interest in 714,000 sf of office and retail space at the 2 million-sf complex, which is owned by a joint venture between **Qatari Diar** and **Hines.**

Eastdil Secured is advising the partnership on the refinancing. As part of the deal, the borrower plans to put up an undisclosed amount of capital to help pay off

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THE GRAPEVINE

Former **Sound Mark Partners** managing director **Ji Won Sin** joined **SitusAMC** this week as a senior director and head of client services in New York. She reports to commercial real estate chief **Anne Jablonski.** Sin's responsibilities include developing and implementing strategies to support institutional clients. Sin was head of originations and chief compliance officer at Sound Mark, which she left in February after 10 years. Before that, she worked at **CBRE Capital Partners** and **Newmark.**

Peter Fogarty joined **Standard Chartered** in New York last week as an executive director focused on originations. He arrived from **Greystone,** where he was a director working on structuring, underwriting and closing large loans for the past year. Fogarty previously worked in the commercial

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Capital, said borrowers and senior lenders alike are interested in maximizing C-PACE proceeds. "With pullbacks in supply from traditional sources of lending, C-PACE can be among the lowest-cost options for CRE capital stacks," Cooley said. "We've seen an increasing number of capital stacks where the mortgage is closer to equal sizing to C-PACE, whereas traditionally the mortgage is two to three times [bigger]."

Other C-PACE lenders describe a similar environment.

In July, for example, **Infiniti Loft Investors** obtained $13.8 million of C-PACE financing from **PACE Loan Group** on a gutted hotel in Kissimmee, Fla., that it is converting to workforce housing. That exceeded the size of a $9.1 million mortgage from a regional bank that also was part of the financing package.

Infiniti plans to use the C-PACE proceeds for insulation, LED lighting, high-efficiency windows, new heating and cooling systems, and plumbing fixtures — at a projected annual savings of $447,990. There is no mezzanine debt on the property, which the firm plans to open in May 2024.

Another factor supporting an increase in the percentages of C-PACE capital represented in financing packages: As mortgage lenders pull back, property owners are deleveraging. Before the **Federal Reserve** began raising interest rates, **CastleGreen Finance** routinely participated in arrangements in which the first-mortgage and C-PACE proceeds represented combined loan-to-value ratios of 75% to 85%. At the time, the PACE portions were sized at one-third to one-half of the amount of the mortgage. Now, it's rare to see combined LTVs exceeding 70%. And the PACE component is typically at least half the size of the mortgage, and sometimes more.

CastleGreen recently has underwritten some C-PACE financings that were nearly as large as the mortgages.

Another lender, **PACE Equity,** is preparing to close on two projects with nearly equal or greater C-PACE funding than construction-loan financing. Both also take advantage of tax credits and other incentives.

The increased proportions of C-PACE financing are "not so much that PACE is becoming bigger; it's that first-mortgage lenders are scaling back and in some cases being more flexible as to how much PACE they will allow," CastleGreen managing partner **Sal Tarsia** said.

That said, C-PACE financing is limited to the values of the improvements the loans directly fund — meaning such arrangements are unlikely to ever displace or replace mortgage debt entirely for efficiency improvements. What's more, some jurisdictions limit proceeds as a percentage of the overall value of a property, typically at 25% to 30%, PACE Loan Group chief executive **Rafi Golberstein** said.

C-PACE terms generally coincide with the expected lives of the improvements the loans finance. When used for redevelopment or new construction, however, borrowers often refinance within a few years — something that generally is possible by negotiating prepayment penalties in advance.

In many jurisdictions, C-PACE capital also is available retroactively against previously completed energy-efficiency projects, with the proceeds used to fund other improvements or to repay existing debt. In those cases, the C-PACE financing can come two or three years after the completion of the projects, Golberstein said.

The move toward maximizing C-PACE proceeds comes as the industry is scaling up in general. The largest C-PACE loan to date, for $255.9 million, was originated in June by **Counterpointe Sustainable Real Estate** for **Westbrook Partners** on a residential-condominium development in San Francisco. ❖