Commercial Mortgage Alert A Green Street News Title

C-PACE Pros Push for NY Redraft

Commercial Property Assessed Clean Energy professionals are urging New York City officials to address conflicting guidelines they fear will keep a lid on originations for new-construction projects.

New York's C-PACE program, approved in 2019 and launched in 2021, aims mainly to finance compliance with strict antipollution laws for the city's 50,000 largest buildings — with the first deadline for compliance set for yearend 2024.

Features that minimize greenhouse-gas emissions often are highly expensive to build and operate, however. And that's at odds with a program requirement that the improvements pay for themselves via energy savings.

Given that disconnect, capital providers say a meaningful expansion of the program as currently written is unlikely. They're pushing to eliminate the conflict as soon as possible, given that compliance will be measured across 2024 with reporting to start in early 2025.

Industry professionals said discussions with program administrator **Nyceec** and the **New York City Department of Finance** on the matter have been productive. "Stakeholders are aware of the challenge and committed to a simple solution," said **Ethan Elser,** an executive vice president at originator **PACE Equity.**

C-PACE financing in New York currently is available only for existing buildings. The only projects funded through the program so far have been energy-efficiency retrofits at two Manhattan skyscrapers, although a pipeline is rebuilding after the program halted for six months in 2022.

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Key Inks Fannie Debt on Manufactured Homes

KeyBank Real Estate Capital has originated two **Fannie Mae** loans totaling $1.23 billion to refinance a massive portfolio of manufactured-housing communities.

The cross-collateralized, cross-defaulted loans are the initial advances for a credit facility and closed on Aug. 30. One is a $400 million loan with a five-year term, and the other is an $829.4 million loan with a six-year term. Both loans are fixed-rate and interest-only.

Yes Communities, a private REIT based in Denver, leases sites within its communities to owners of manufactured homes. It also offers manufactured homes for rent and for sale with its own financing. The new facility is secured by 104 properties totaling 24,716 sites across the country. The largest contingent, 41, is in Texas, followed by Tennessee (12), Oklahoma (10), Florida (9), North Carolina (7) and South Carolina (7). There are five or fewer properties in Arizona, Georgia, Indiana, Iowa,

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CityCenterDC Owner Nixes Mezzanine Slug

The refinancing of a large mixed-use property in Washington shrank by $100 million — to $300 million — on the eve of closing after the borrower decided the mezzanine debt portion was too expensive.

The collateral for the five-year, fixed-rate debt comprises the leasehold interest in 727,000 sf of office and retail space at the 2 million-sf CityCenterDC complex, which is owned by a joint venture between **Qatari Diar** and **Hines.** Qatari Diar, an affiliate of **Qatar Investment Authority,** owns 95% of CityCenterDC.

Eastdil Secured brokered the interest-only refinancing, which had been slated to encompass a $300 million senior CMBS mortgage with a 7.62% coupon and a $100 million mezzanine loan with a 10.75% interest rate. If the subordinate portion hadn't been scuttled, the all-in coupon would have been 8.4%.

The senior loan from **JPMorgan Chase** closed as planned after the bank priced a single-borrower securitization of that mortgage on Sept. 20 (JPMCC 2023-CCDC). New York-based **Apollo Global Management** was on track to provide the mezzanine

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Loan Eyed for Landmark Miami Beach Hotel

An investment shop wants to line up a $255 million loan to finance a huge renovation of the Delano South Beach hotel in Miami Beach.

Cain International is seeking the debt as it prepares to make over the property in line with a wider effort to revamp the Delano brand globally. **Newmark** is advising on the financing for the Miami Beach hotel.

The 191-room Delano South Beach, at 1685 Collins Avenue, is an Art Deco-style beachfront property constructed more than 75 years ago. It has been known for hosting a steady drip of celebrity guests and as a location for gatherings by high-powered investment shops, among other things.

The hotel was closed in early 2020 by its then-owner, a partnership including **SBE Entertainment,** as the onset of the pandemic forced operators to impose social-distancing measures or to shut down altogether. In November of that year, Cain's

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THE GRAPEVINE

Greg Greene, a debt-advisory veteran with **CBRE** in Dallas, is planning to retire at the end of next week. He and fellow executive vice president **Scott Lewis** co-head a team that helps clients arrange financing on commercial properties across the country. Greene has been with the firm for more than 20 years and previously spent nearly five years with **Ernst & Young.** He's worked on deals in a range of sectors, with an emphasis on office- and industrial-property loans. CBRE has described Greene and Lewis' team as one of its top finance groups nationally.

Counterpointe Sustainable Advisors has hired **Mark Lebowitz** as head of capital markets. He started on Sept. 26 in the firm's Greenwich, Conn., headquarters, reporting to president **Christopher Hoeffel.** Lebowitz's responsibilities include

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The cost-benefit requirement is already limiting the amount of funding available for some retrofits, and it's expected to be an even bigger deterrent for financing of new construction.

That's because a draft rule proposed in June would restrict C-PACE to buildings with low carbon emissions — using a definition of such properties that essentially excludes those with natural-gas service. The only exceptions are for hospitals and restaurants. But all-electric buildings cost more to run than those using gas, and likely will remain that way until a citywide ban on new gas hookups takes effect in 2027.

Some C-PACE professionals also argue that the all-electric requirement is at odds with the goal of reducing carbon emissions. That's because electricity in the city comes largely from carbon-based power plants, meaning emissions would not be reduced in the short to medium term and instead would shift

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from the buildings to generation sites.

"The cost disconnect is very real," said **Genevieve Sherman,** head of sustainability and policy at lender **Nuveen Green Capital.**

Sherman added that the high cost of all-electric buildings should be an argument for using C-PACE financing, not against it. "If we're going to electrify all these systems that used to be gas, you definitely want to do it as efficiently as you can," she said. "C-PACE should be playing a massive role in this process, but we've been effectively locked out of that for a variety of reasons like the cost-benefit requirement."

Indeed, C-PACE often is the cheapest financing available for commercial properties. That's a reflection of C-PACE structures, which create liens senior to any mortgage, with repayment flowing though property-tax bills. What's more, the amounts of C-PACE financing available can rival or even exceed what's available from mortgage lenders.

"New-construction guidelines sacrifice the good or even the great for the perfect," said **Sal Tarsia,** managing partner of **CastleGreen Finance.** He said a building can win a LEED platinum designation — the highest level offered by the **U.S. Green Building Council** — and still have gas-fired water heaters because they are more efficient than electric options.

The potential fixes generally fall into two categories. The first consists of tweaks to the formula used to calculate the cost-benefit ratio of a project so as to allow the borrower to qualify for larger amounts of C-PACE capital. This would require negotiation with the **New York State Energy Research and Development Authority,** in addition to the city.

The second would be to waive the cost-benefit analysis for construction of buildings that meet a certain standard for low energy use. Under that scenario, property owners might be able to finance the full costs of the efficiency measures through C-PACE lenders.

"NYC PACE, New York City and New York State are continuing to work together to achieve a simple solution that will allow PACE financing to be effectively deployed for new construction of all electric buildings and advance decarbonization efforts," Nyceec said in a statement.

Among potential changes to the cost-benefit formula would be to include the reduced cost of funding available from C-PACE financing itself in the calculation of savings. C-PACE capital can offer interest-rate savings of 3 to 7 percentage points versus heavy-construction loans. C-PACE rates also are fixed, while construction loans often are floaters.

There additionally have been discussions of changing the cost-benefit formula to reflect longer expected lives among the latest energy-efficiency products. Sources said the current formula reflects shorter life spans among products available in 2016, and as such is out of date and reduces the amount of savings in the calculation.

The price of carbon emissions, which is used to determine what's known as the avoided cost of carbon, also dates to 2016.

Waiving the cost-benefit requirement entirely would be a tidier approach and would not require a sign-off from NYSERDA, sources said. That debate centers on which energy-efficiency or clean-energy standard new buildings would have to meet to qualify.

Randy Eckers, a partner at law firm **Reed Smith** who represents several C-PACE lenders, said a great deal of time and effort has been spent on the program so that property owners could finance improvements mandated by the city. "I'd say the program is about 95% of the way there, and we're all hopeful that it will soon be able to be utilized in the manner of programs in other jurisdictions," he said.

Proposed state-level legislation also could be an option, though prospects for approval are unclear. A bill in the **New York State Assembly** would expand the purpose of the state C-PACE statute from saving energy to meeting broader climate goals, including resiliency. If it passes, the city's cost-benefit requirement would be eliminated, and resiliency and electrification costs would be eligible.

Nuveen Green Capital's Sherman said the bill would unlock billions of dollars of private capital across the city and the state. ❖