

Commercial property assessed clean energy (CPACE) financing is growing as a financing solution to overcome the upfront costs of implementing energy, water, or resilience projects. While it is most commonly used to finance projects in existing buildings, owners and developers are increasingly incorporating CPACE into the capital stack for new building construction, adaptive reuse, and major renovations.

This fact sheet provides an overview for building owners and developers who may want to take advantage of CPACE financing for a new construction, adaptive reuse, or major renovation project. It is part of the [Better Buildings Commercial PACE for New Construction Toolkit](#).

Advantages and Limitations of Using Commercial PACE for New Construction

Commercial PACE is a financing structure in which building owners borrow money for energy and water efficiency, renewable energy, or resilience projects and make repayments via an assessment on their property tax bill. The financing arrangement then remains with the property even if it is sold, facilitating long-term investments in building performance. CPACE is only available in jurisdictions that have passed the required legislation. Most of these jurisdictions allow using CPACE for new construction projects, providing owners and developers a cost-effective way to incorporate building performance improvements from a building's inception. For a complete overview of CPACE, see the [Better Buildings CPACE Fact Sheet](#).

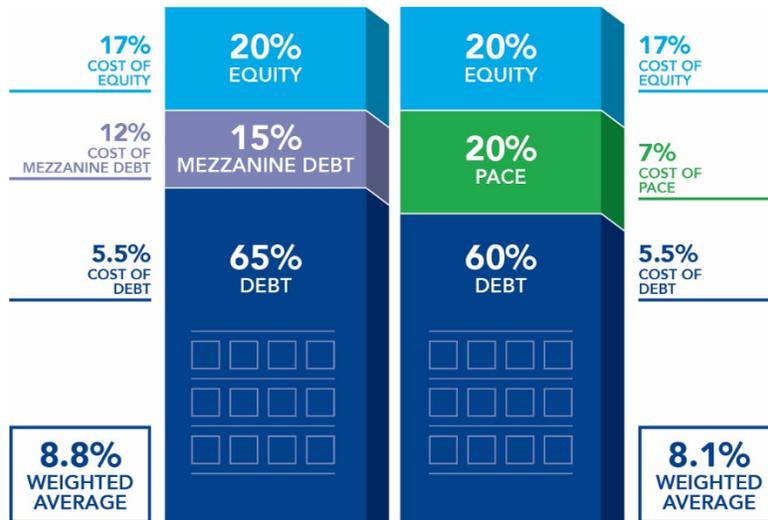
Commercial PACE has several advantages that make it attractive for new construction projects:

- ▶ **Improved economics:** Many new construction projects use traditional gap financing options such as mezzanine debt to provide short-term, immediate financing. CPACE can replace or reduce these more expensive components of the capital stack, lowering the weighted average cost of capital (WACC) of the project. The long-term nature of CPACE financing also results in lower payments when amortized over a longer period, improving both net annual cashflows on the project and a borrower's ability to service debt.
- ▶ **Favorable contracting terms:** Due to the assessment structure for repayment, CPACE financing can never accelerate, which eliminates the "call risk" associated with some other types of financing. Additionally, CPACE is typically non-recourse after construction and there are no ongoing covenants.
- ▶ **Secured building performance improvements:** Building performance measures are often "value engineered" out of projects during building design and construction. CPACE can finance a variety of costs directly related to a building's design and construction, including many energy, water, and resilience improvement measures. In addition to hard costs, CPACE can often cover soft costs such as professional installation, analysis, design, drafting, engineering, permitting, inspections, and fees. By including CPACE in the capital stack as a dedicated financing source for these measures, it ensures that energy, water, and resilience measures are locked into the building design and kept in throughout the construction process.
- ▶ **Stimulated economic development:** CPACE provides a funding solution for developers to pay for performance measures as more stringent building efficiency laws are being enacted. CPACE alleviates some of that cost burden, and it layers efficiently with other forms of economic development financing like historic tax credits, new market tax credits, and tax increment financing.

When considering commercial PACE financing, there are a few potential limitations to keep in mind:

- ▶ **Performance eligibility:** Many CPACE programs require new construction projects to exceed building codes by a certain percentage to be eligible for financing.
- ▶ **Lender consent:** Most CPACE programs require other lenders with a secured interest in the property to consent to a CPACE assessment being levied against the property due to the assessment being senior to all commercial liens.
- ▶ **Limited availability and differing guidelines:** CPACE is limited to jurisdictions with PACE-enabling legislation, and while most CPACE programs include new construction as an eligible project type, this is not always the case. CPACE programs may also have differing guidelines on project eligibility, efficiency requirements, and financing criteria. Check with your local jurisdiction to learn more about availability and guidelines for new construction projects.

Capital Stack Graphic



Source: <https://www.cleanfund.com/what-is-pace/pace-in-the-capital-stack/>

The capital stack refers to the different layers of capital sources that go into funding a new construction project. The graphic above shows how CPACE can slot into the capital stack to replace more expensive forms of financing and lower the weighted average cost of capital.

Market Status

Commercial PACE financing is one of the fastest-growing financing structures in the U.S. First appearing in 2009, CPACE's popularity increased rapidly, with incumbent banks and financiers as well as new capital providers entering the market to meet demand. According to PACENation, 36 states and the District of Columbia have passed laws enabling CPACE programs as of December 2019. However, only 20 states plus D.C. have active CPACE programs in operation. Approximately \$1.1 billion in CPACE financing has been provided to over 2,000 projects. While only 14% of total CPACE financing has supported new construction projects so far, substantial growth is expected as CPACE becomes a mainstream component of developer's capital stacks. For the latest data, see PACENation's [market data](#) and [PACE program overview](#).

Case Studies

As part of the Better Buildings Commercial PACE for New Construction Toolkit, the U.S. Department of Energy has developed case studies highlighting two recent new construction projects that took advantage of CPACE financing:



Microgrid Project in Mixed-Use Building

Financed by Greenworks Lending, this \$1 million project in Hartford, Connecticut included energy efficiency, renewable energy, and microgrid improvements as part of broader renovations in a mixed-use housing and retail space. It was the first microgrid financed with CPACE and achieved energy savings of \$316,927 in the first year. [Read more.](#)



PACE Enables Energy Efficiency in Major Redevelopment Project

Lever Real Estate Capital financed a \$4.6 million energy efficiency retrofit as part of the redevelopment of the historic Blackstone Hotel in Omaha, Nebraska. The installed measures will generate \$116,000 in annual energy savings. [Read more.](#)

Next Steps

If you would like to learn more about using commercial PACE for new construction, consider these next steps:

1. Confirm that applicable CPACE programs are available in your area. [Use this tool](#) provided by PACENation to look up your state.
2. Learn more about CPACE by reviewing the rest of the CPACE for New Construction Toolkit or reading the [CPACE fact sheet](#).
3. Speak with financing providers or connect with a contractor to move your project forward. You can find a list of CPACE financiers who are Financial Allies in the Better Buildings Challenge on the [Financing Navigator](#).