

## C-PACE: From Alternative to Essential in Today's Capital-Constrained CRE Market

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**The commercial real estate finance landscape has faced a significant recalibration in recent years. Rising interest rates, tightening credit markets, and evolving risk appetites among traditional lenders have converged to challenge the status quo of deal origination and capital stack structuring. Amid these headwinds, new tools and strategies have moved to the forefront, with Commercial Property Assessed Clean Energy (C-PACE) financing emerging as one of the most innovative and compelling options for owners, developers, and Sponsors seeking to unlock liquidity and maximize value.**

As the industry focuses on resilience, sustainability goals, and innovative capital solutions, C-PACE offers a unique blend of flexibility and cost-efficiency that can help the real estate industry navigate volatility while driving success in an increasingly complex market. These advantages have resulted in remarkable growth in the C-PACE industry, both in deal size, as well as in cumulative originations, which now total over \$10 billion.

### The C-PACE Primer: What Sets It Apart

C-PACE, now available in nearly 40 states, is a state policy-enabled commercial real estate financing mechanism designed to facilitate energy efficiency, renewable energy, and resiliency measures for commercial properties. C-PACE funding is non-recourse capital that is repaid through an assessment on the property tax bill, typically with a term that stretches over 20 to 30 years.

Key features that distinguish C-PACE in the marketplace:

- Long-term, fixed-rate structure: The extended amortization period and fixed-rate terms allow borrowers to match financing costs with

expected savings from building upgrades, improving project IRRs and cash flows.

- Non-recourse and off-balance sheet treatment: Repayment obligations are secured by the property, not the borrower or operator.
- Transferability: The assessment “runs with the land,” meaning that obligations transfer to future owners.
- Fills gaps: C-PACE can fill gaps in the capital stack, funding up to 35% of total project costs and often sitting alongside conventional senior debt, mezzanine, or equity.

The result is a product that under the right circumstances can facilitate capital investment in assets that otherwise might face prohibitively expensive or limited traditional financing – particularly in periods of market constraint.

### Credit Constraints: The New Normal in CRE Capital Markets

The last few years have reshaped lending norms for CRE. With monetary policy pivoting decisively toward inflation containment, rates have increased at a pace not seen in four decades. Traditional lenders have tightened underwriting, increased loan covenants, and retreated to lower leverage, higher margin standards.

The reverberations are visible across property types:

- Transactions have slowed, as buyers struggle to complete deals at higher all-in costs and with smaller loan proceeds.
- Refinancings demand more equity or face significant interest rate step-ups.
- Many value-add and transitional assets, particularly in office and hospitality, struggle to secure affordable bridge capital.

Yet, the need for property upgrades – to meet sustainability objectives, regulatory demands, and market preferences – has never been more acute. Building owners seeking to reposition, re-tenant, or simply maintain compliance find themselves facing a capital access paradox: more urgent demand, but less supply.

### C-PACE: Unlocking Flexibility in the Modern Capital Stack

C-PACE addresses these constraints in several targeted ways. Its flexible structure means it can be deployed at multiple points in an asset's lifecycle – from new construction and major redevelopments, to retrofits and repositionings, and at all stages of construction – new, ongoing, or recently-completed.

There are several scenarios where C-PACE can enhance sponsor flexibility and accretive value:

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### New Construction and Redevelopment

Developers of ground-up or major renovation projects have watched construction loan terms compress and leverage points decline, forcing additional equity or more expensive capital into the mix. In these scenarios, C-PACE offers a meaningful alternative.

Projects can add C-PACE proceeds to the capital stack that:

- Reduce senior lender exposure
- Replace more expensive debt, improving overall cost of capital
- Extend amortization, matching project stabilization timelines

Lenders are increasingly recognizing C-PACE's benefits — enabling stabilization and asset quality, with a growing base of institutions incorporating C-PACE into their underwriting for both new builds and extensive rehabilitation projects.

### Capital for Distressed and Transitional Assets

In today's environment, not every property faces a clean path to refinance or repositioning. Transitional assets in hospitality, office, or retail, especially those facing cash flow pressure or deferred maintenance needs, find traditional debt either unavailable or uneconomical.

Because of its non-recourse, assessment-based structure, even distressed assets can access C-PACE capital where conventional financing may be unavailable. This flexibility is increasingly critical as sponsors and servicers seek creative solutions for legacy assets caught in the credit squeeze.

### Sustainability, Compliance, and Value Enhancement

Pressure to advance decarbonization and sustainability goals now affects nearly every CRE asset class. Local mandates (NYC's Local Law 97, Boston's BERDO, D.C.'s BEPS, etc.) and investor preferences have made energy efficiency and climate resilience synonymous with property value and liquidity.

C-PACE uniquely positions owners to monetize these upgrades — not just for compliance, but for enhanced tenant demand, regulatory readiness, and eventual exit value. By collateralizing the investment through a long-term assessment, owners sidestep near-term cash flow constraints and maximize value accretion.

### Deployment Flexibility: Mid-Construction Through Stabilization, C-PACE fills these gaps with flexibility

Shrinking loan proceeds from senior lenders, stubbornly high construction costs, and ongoing uncertainty have created a financing squeeze for

new builds and in-progress redevelopments. Deals stall, cost overruns mount, and many developers find themselves needing fresh capital to cross the finish line, but with few attractive sources available.

**Mid-Construction Capital:** Sponsors can secure low-cost, fixed-rate C-PACE funds during construction to cover overruns, fund working capital, or replenish reserves — without requiring new equity injections or expensive bridge debt.

**Post-Completion Recapitalization:** In most states, C-PACE can be applied up to three years after project completion. This “look-back” provision means property owners can tap into C-PACE to pay down construction debt, restructure their capital stack as markets evolve, or restore liquidity — all with the certainty of fixed-rate, non-recourse repayments.

### Accretive Impact and the Road Ahead

C-PACE's value proposition is increasingly being accepted:

For Sponsors: It can preserve equity, reduce the weighted average cost of capital, and offer clarity and certainty in uncertain times.

For lenders: It can de-risk senior positions by addressing critical deferred maintenance and upgrades that protect collateral and potentially boosting long-term value.

For communities: It can drive sustainable, resilient development, preserve landmarks, and build economic opportunity and jobs — all through the use of private capital.

Industry acceptance continues to grow, with more states streamlining legislation, more lenders embracing C-PACE's structural advantages and gaining comfort with C-PACE's underwriting and lien priority, and more Sponsors taking advantage of its stability and cost effectiveness.

### Looking Forward:

The increasing sophistication of capital markets, combined with the growing institutional focus on sustainability and resiliency, indicates a new phase of expansion for C-PACE. While some industry perspectives are still shaped by misconceptions — particularly around its integration with senior financing and market scalability — the rapid refinement of C-PACE legislation and underwriting processes points toward a clarifying and maturing market. By embracing C-PACE, the commercial real estate (CRE) industry can not only bridge critical financing gaps but also proactively address evolving asset quality and compliance standards.