



**Building
Innovation
Hub**



Understanding PACE Financing

AOBA Metro Washington Webinar

November 2, 2023

Speakers

Who's here with us today.



Mary Thomas
Associate Director,
Building Innovation Hub
IMT



Ronald K. Hobson, Sr
DC PACE Director
DC Green Bank



Lisa Nordel
Senior Vice President
Peachtree Group
Stonehill PACE



Kelli Brooks
Managing Director,
Finance
Urban Atlantic



Agenda

The run of show.

- **Introductions and BEPS Overview**
- **PACE Background**
 - History of PACE and broad overview
- **Mechanics of PACE**
 - How the process works
- **Building Owner's Perspective**
- **Moderated Discussion**
 - Pros/Cons and Lessons learned
- **Audience Q&A**



About the Hub

Who we are.

The Building Innovation Hub, a project of IMT, helps building industry professionals in and around Washington, DC create and operate high-performing buildings. The Hub connects professionals and provides information and programming.

The goal of the Hub is to meet the current needs of the building industry while simultaneously pushing the industry towards the innovative solutions that we will need to build and operate high-performing buildings.



A program of



Hub Roles and Impact

“What would you say you do here?” – Office Space

1. Outreach and messaging

Local stakeholders; connecting dots between projects and actions

2. Community partnerships

Community-centered resources; process – connections – involvement

3. Expansion and growth

Building a thriving climate workforce in the DMV; MD-VA building support

4. Code implementation support

Translate complex regulations; tools and events for building teams

5. Making the business case

Business case for BEPS and high-performing buildings



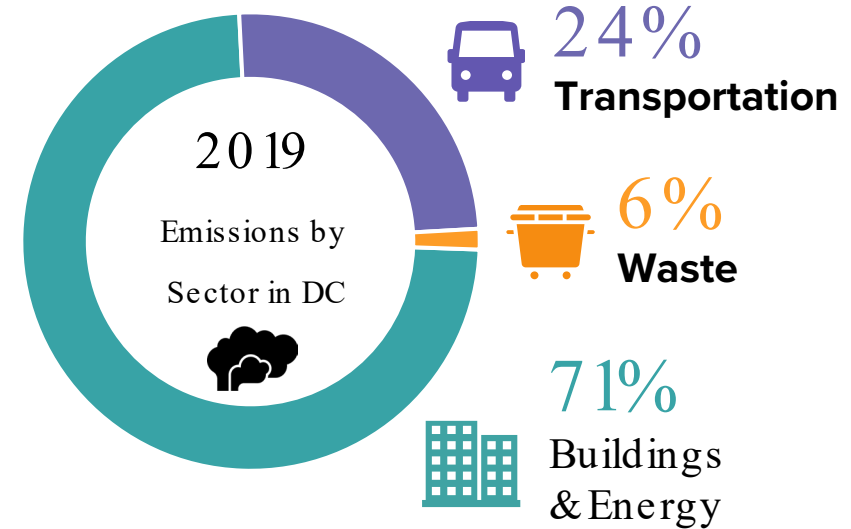
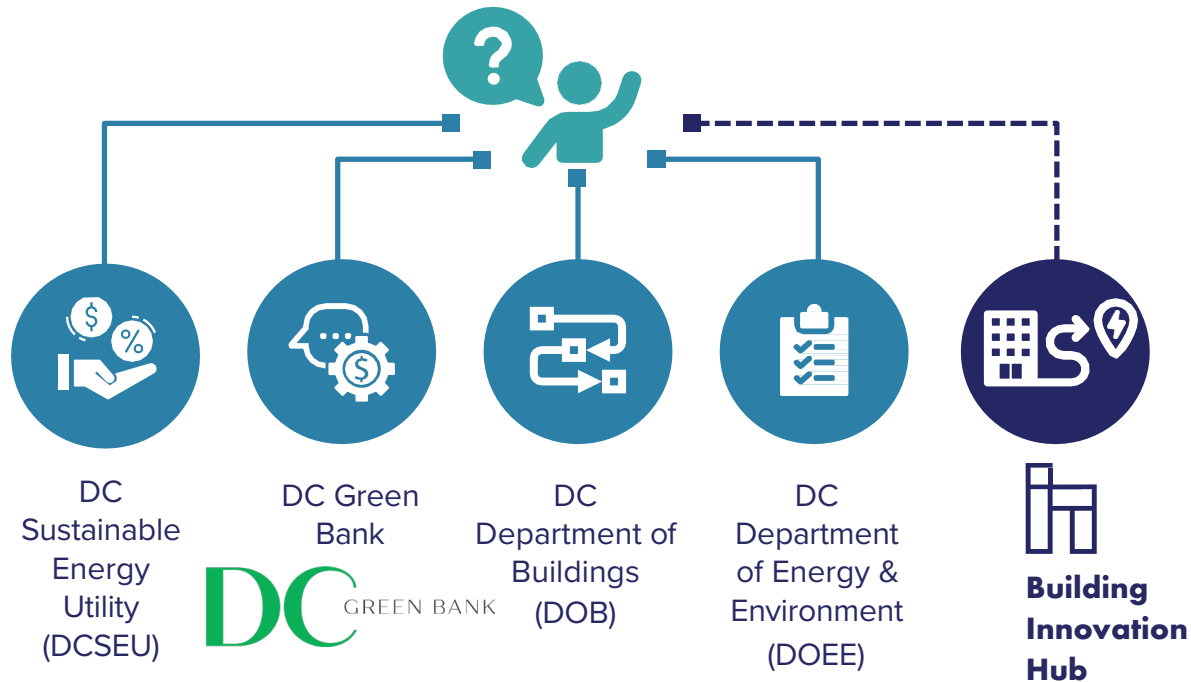


BEPS Overview

Building Energy Performance Standards

Linking to DC's Goals

DC Green Bank and the Hub.



60%
reduction in energy use by 2030

100%
reduction in GHG emissions by 2045

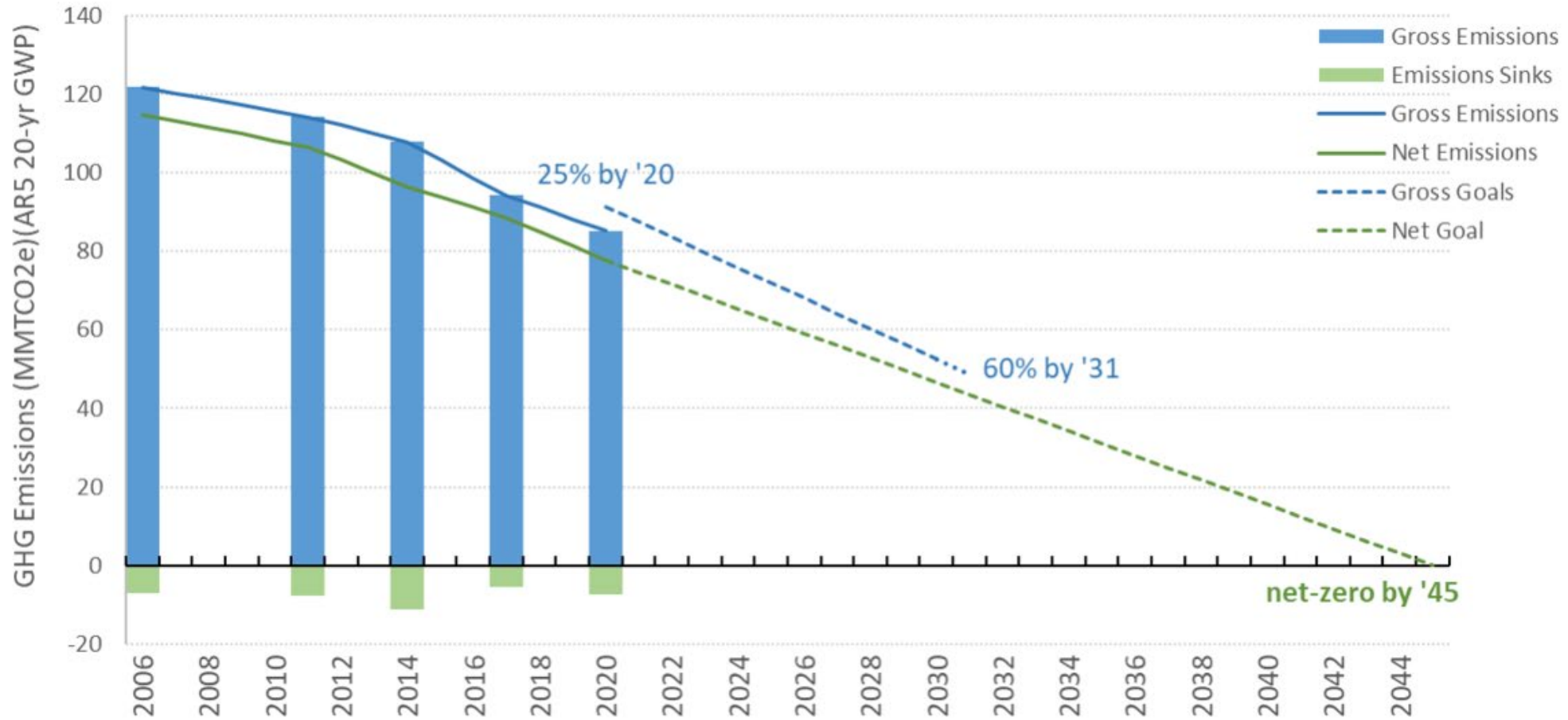
Carbon Neutrality





Maryland's Greenhouse Gas Reduction Goals

Maryland GHG Emissions & Goals



The State of Building Performance Standards in the U.S.

November 2023

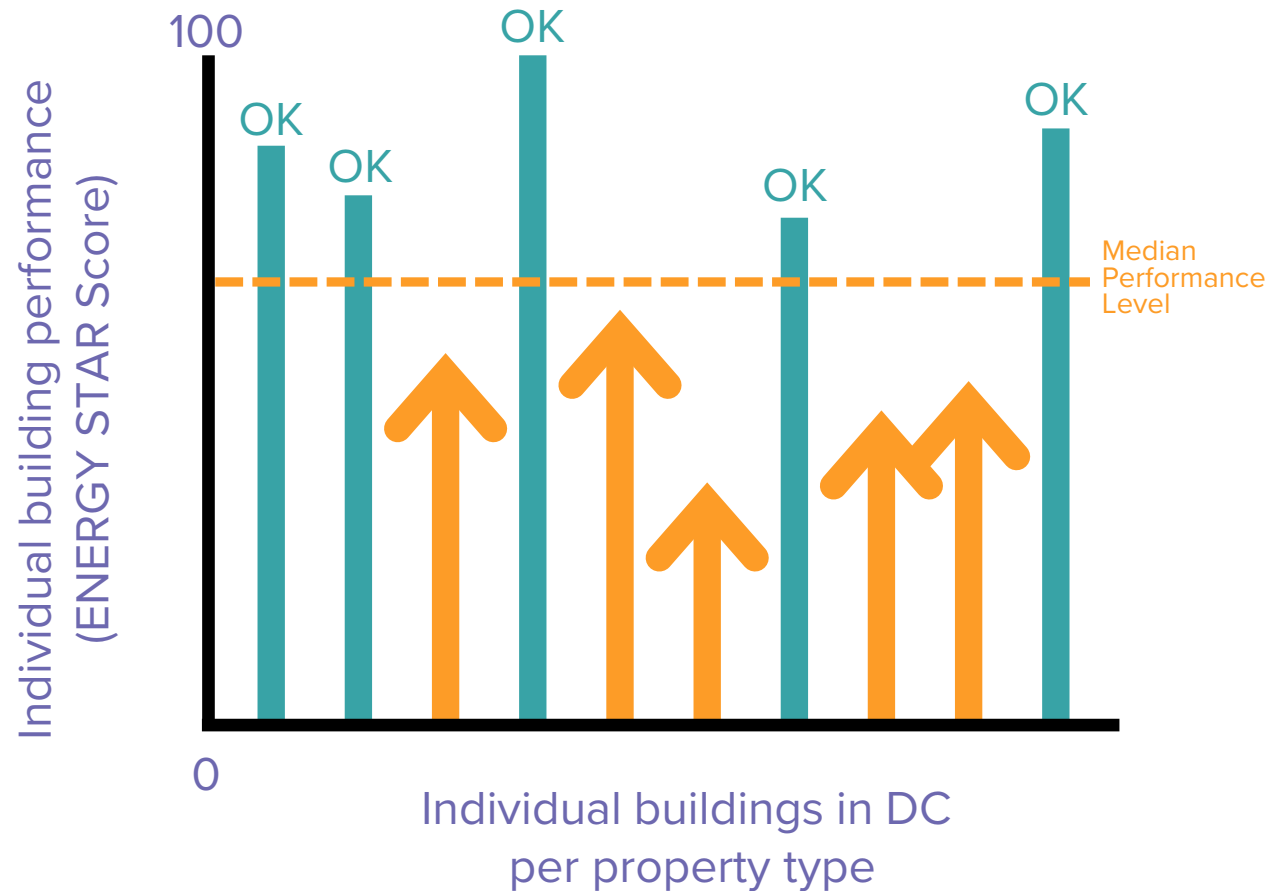


What is BEPS in DC?

The basic concept.

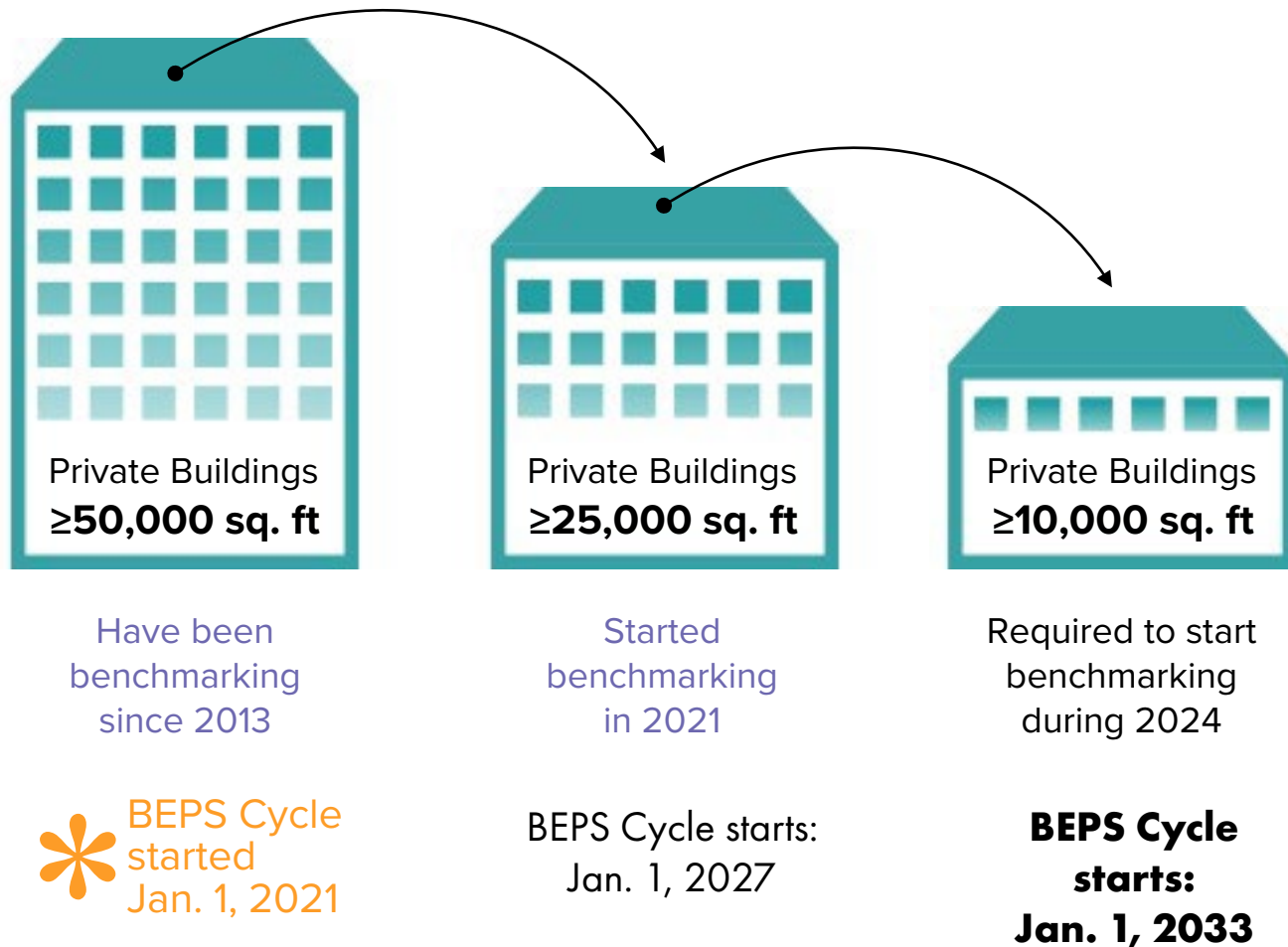
A BEPS set minimum thresholds for energy performance for existing buildings.

These standards are based on and measured against a building's demonstrated energy performance, as shown in their benchmarking data.



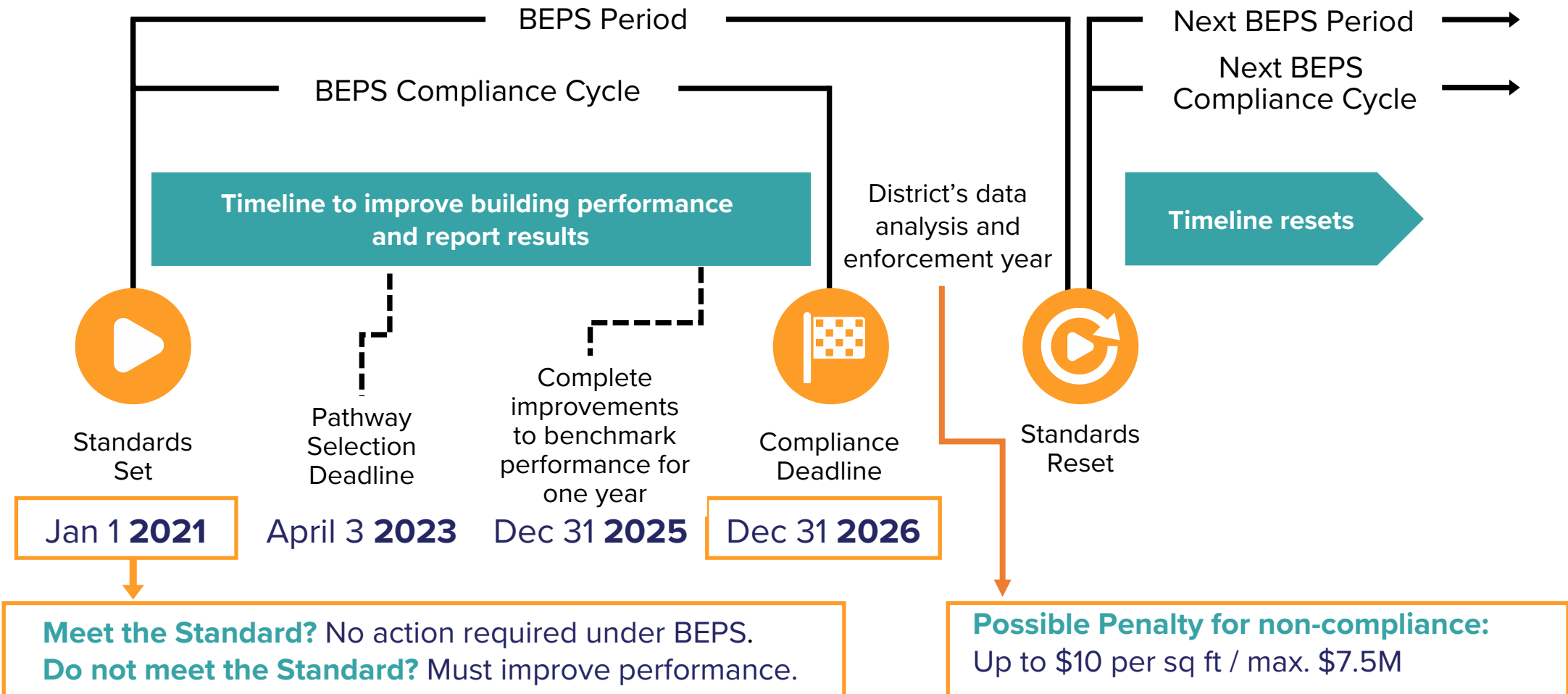
Size-based time frames

Buildings of different sizes enter compliance cycles over time.



DC BEPS Compliance cycle

The basic concept.





DC PACE: Innovative Financing Mechanism

Ronald Hobson, DC Green Bank

What Is a Green Bank?



ORIGIN

DCGB was created under the leadership of Mayor Bowser and the City Council as an independent instrumentality to support city climate, energy, development, and equity goals

VALUES

Green banks make loans and investments similar to private banks, but based on different goals and values

UNIQUE PURPOSE

Green banks do not take deposits or have consumer lines of credit

COMMUNITY FOCUS

Mission-driven financial institution that invests to deploy clean energy systems, increase energy efficiency, save money for businesses and residents, and accelerate progress toward meeting climate, energy, resilience, and public health goals

Two Financing Pathways



Direct Financing



DC PACE Program



DC PACE History

DC Property Assessed Clean Energy:

- Established in 2013 under the DOEE. The Program was administered by Urban Ingenuity. In October 2021, the DC Green Bank took over the program role.
- Public/Private partnership with 24 Capital Providers that provide innovative financing to commercial property owners through a special tax assessment with the District government.
- Is a mechanism that enables property owners of commercial & multi-family (5+units) buildings to reduce operating costs and improve property value.
- Financing can cover up to 100% of green energy project costs.
- Is paid back over up to 30 years through a special tax assessment that remains with the property, regardless of ownership changes.
- Can be structured to be off balance sheet.
- Can supplement or replace expensive mezzanine debt in the capital stack for qualifying projects.



DC PACE Benefits

- **100% up-front financing**
- **Cash-flow positive**
- **Long-term financing**
- **Stable fixed-Rate terms**
- **Off-balance-sheet accounting**
- **No guarantees required**
- **Preserves capital by replacing higher-interest debt or equity in the capital stack**

DC PACE Projects



Office



Institutional



Multifamily



Industrial

Properties:

- The Commercial property must be located within the District.
- Both for profit and tax-exempt properties are eligible
- Stand-alone / part of larger capital stack
- Must be current on taxes
- Not owned by government (but ground lease may be okay)

Measures:

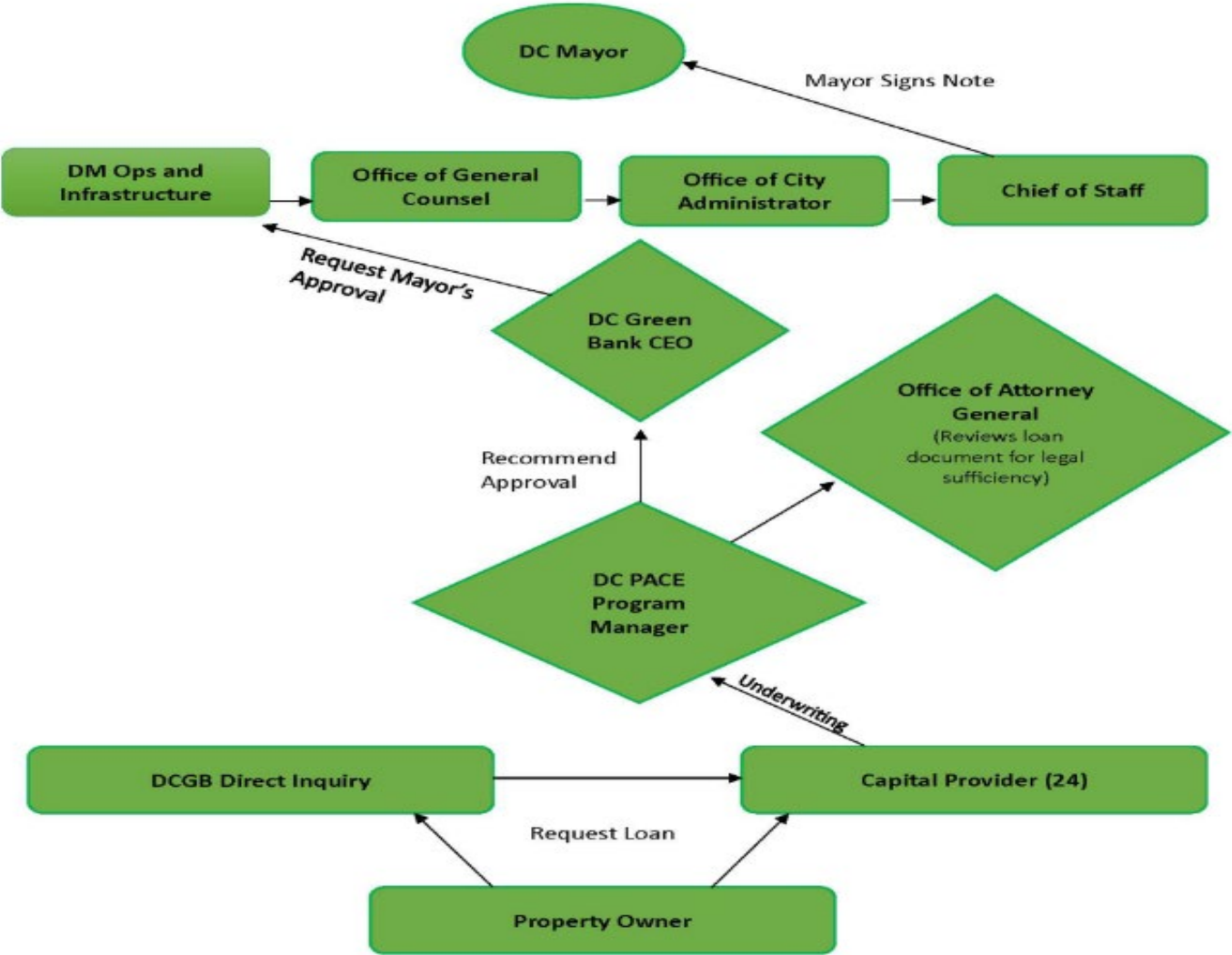
- Almost anything tied to an energy or water saving
- Large multi-measure retrofits
- Single-measure like solar panels, boiler replacements, etc.
- Clean energy improvements
- Energy efficiency upgrades (HVAC, lighting, envelope, controls, etc.)
- Water conservation measures
- Rehab or new construction



Other Eligible Criteria

- The applicant must be the legal owner of the property with clear and uncontested title to the property (and all legal owners of property agree to participate).
- The property must be a commercial, industrial, religious, or multifamily residential property (5 or more units). Single-family residential properties do not currently qualify for DC PACE.
- The property cannot be owned by the government (District Government, Federal Government, or foreign government). Publicly owned properties leased to a non-governmental entity via a long-term ground lease may be eligible.
- The property owner must be eligible to pay property taxes. (NOTE: Non-profit owners of commercial, industrial, and multifamily properties are eligible for DC PACE, regardless of whether or not they currently pay real estate taxes.)
- The property owner must be current on all existing mortgages.
- The property must be clear of any notices of foreclosure for the past 3 years, or since acquired by current ownership.

PACE PROGRAM LOAN APPROVAL PROCESS



DC PACE Underwriting Standards

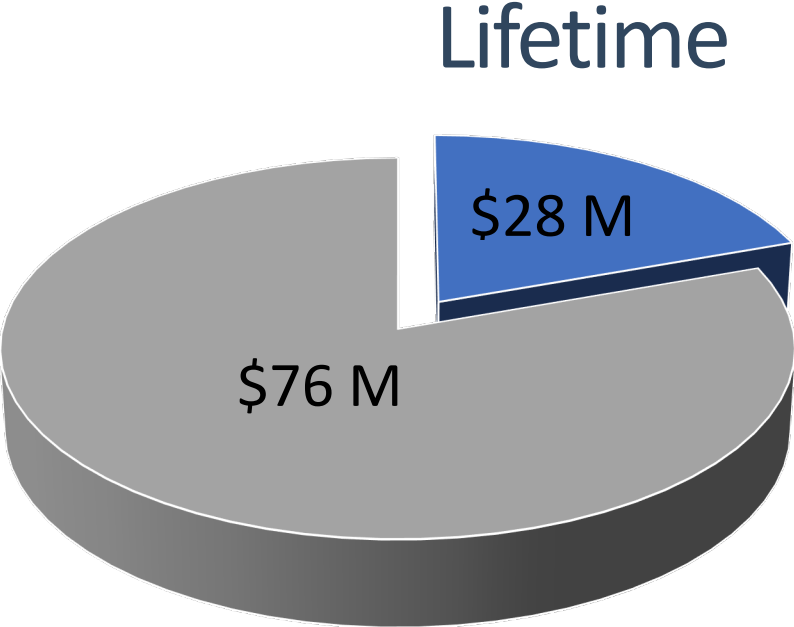
Financial Underwriting

- Debt Service Coverage: 1.2 or better
- Loan To Value Target: 80% or better
- PACE to Value Target: 20% if there is a current mortgage or up to 35% if no mortgage exist
- Lender Consent Required

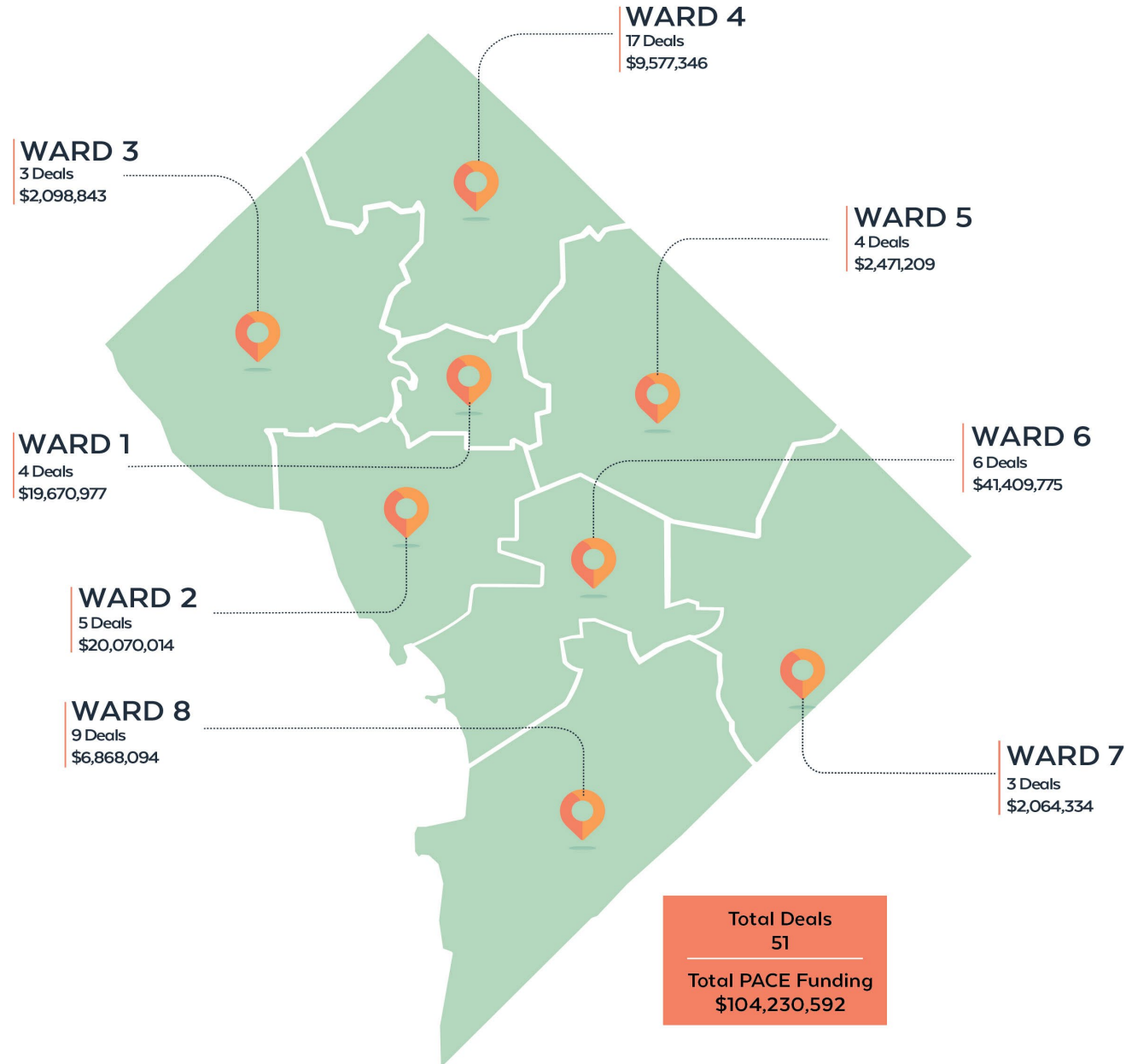
Technical Underwriting

- Energy Baseline & Modeling to demonstrate that Savings to Investment Ratio > 1
- Measurement and Verification ensures performance over time

PACE Projects by Ward



■ FY '23 ■ Previous Fiscal Years



Now 24 private capital providers participating in the program

Examples of DC PACE Impact

Audi Field

- **Total PACE Project Size:** \$25,000,000
- **Project Overview:** Multi-use stadium delivered 884 kW solar system, high efficiency HVAC, LED lighting, building insulation, stormwater infrastructure, green roofing, water conservation – LEED Gold Standard
- **Ward(s) Impacted:** Ward 6
- **Private Capital Partner(s):** Eagle Bank

2805 Jasper Street SE

- **Total PACE Project Size:** \$380,000
- **Project Overview:** Three-story multi-family property that is completely renovating the existing envelope, lighting, and HVAC systems into an energy-efficient 8-unit apt building.
- **Ward(s) Impacted:** Ward 8
- **Private Capital Partner(s):** Forbright Bank

1966 9th ½ Street NW

- **Total PACE Project Size:** \$3,448,100
- **Project Overview:** New construction multi-family development of a two-story 35,992 sq. ft. building. Energy measures include building envelope, plumbing, lighting and HVAC
- **Ward(s) Impacted:** Ward 1
- **Private Capital Partner(s):** PeachTree Group Credit (Formerly Stonehill PACE)

5600 East Capitol Street SE

- **Total PACE Project Size:** \$1,151,000
- **Project Overview:** Public charter school delivered HVAC upgrades, window replacement, LED lighting, and water conservation measures
- **Ward(s) Impacted:** Ward 7
- **Private Capital Partner(s):** City First Bank



DC PACE Market Conditions

Market Concerns

- PACE loans are first-lien loans. This means that in case of default, the PACE loan will be paid off before any other liens on the property.
- Foreclosure Rights: Senior mortgage lenders can foreclose on defaulted loans without regard to PACE loans.
- Senior lender funding is tight and impacts underserved communities such as small and medium businesses.

Mitigating Factors/Market Opportunities

- Treated as a tax that cannot be accelerated, giving senior lenders some comfort.
- Some lenders may require escrow deposits to ensure timely payments.
- Senior Lenders typically step in to pay delinquent taxes to avoid government seizure of property
- PACE loans don't restrict, prevent, or impact a foreclosure by the senior lender.
- Business models generate jobs and stimulate economic development.
- Rising interest rates stimulate PACE financing
- Capital Stack's financial structure cost is at a lower rate than Mezzanine's financial structure.



Mechanics of PACE

Lisa Nordel, Peachtree Group / Stonehill PACE

Peachtree Group

- Peachtree Group Credit, formally Stonehill PACE, is a direct commercial real estate lender offering creative financing solutions.
- The Credit team's strategic insight is informed through decades of lending experience coupled with access to real-time data.
- Headquartered in Atlanta, Georgia

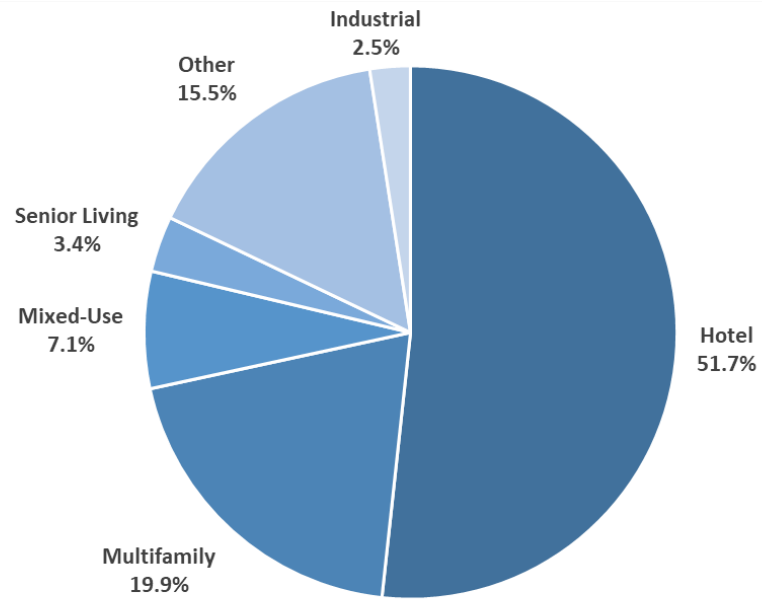


**Peachtree
Group**

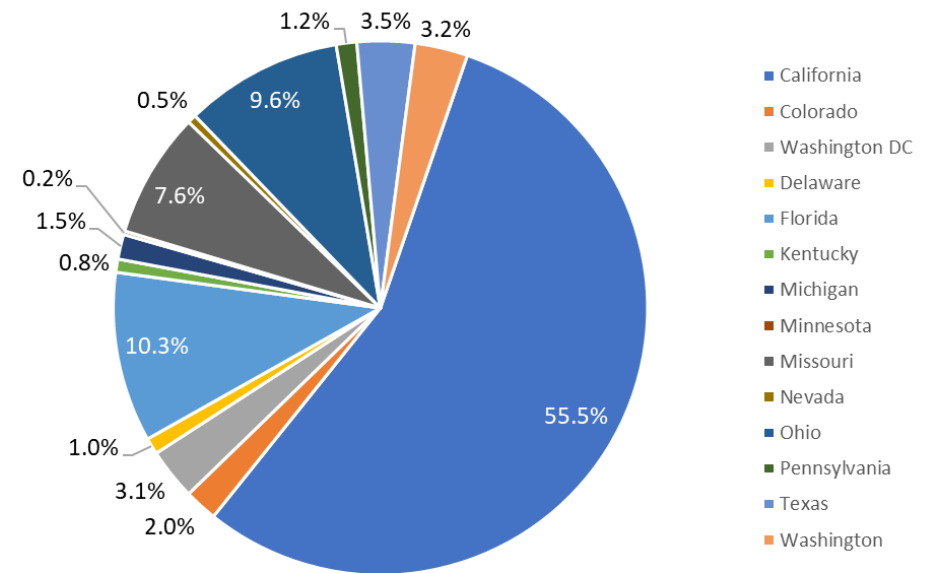
CPACE Transactions

\$600MM across real estate sectors and states

Asset Class



By State



CPACE

What is CPACE

Commercial Property Assessed Clean Energy (CPACE) financing is a state-legislated program that allows property owners and developers to finance energy efficiency and renewable energy improvements on commercial property through an optional property assessment.

Commercial property types that qualify for CPACE include Hotel, Multifamily (more than 4 units), Senior Living, Student Housing, Retail, Office, Industrial and Self-Storage.

Typical CPACE eligible items include:



Lighting and Electrical



Building Envelope

Windows, Doors, Roofing, Siding, Masonry and Insulation



HVAC Systems and Controls



Water Efficiency Equipment

Hot water heating systems and Plumbing fixtures



Elevators / Escalators

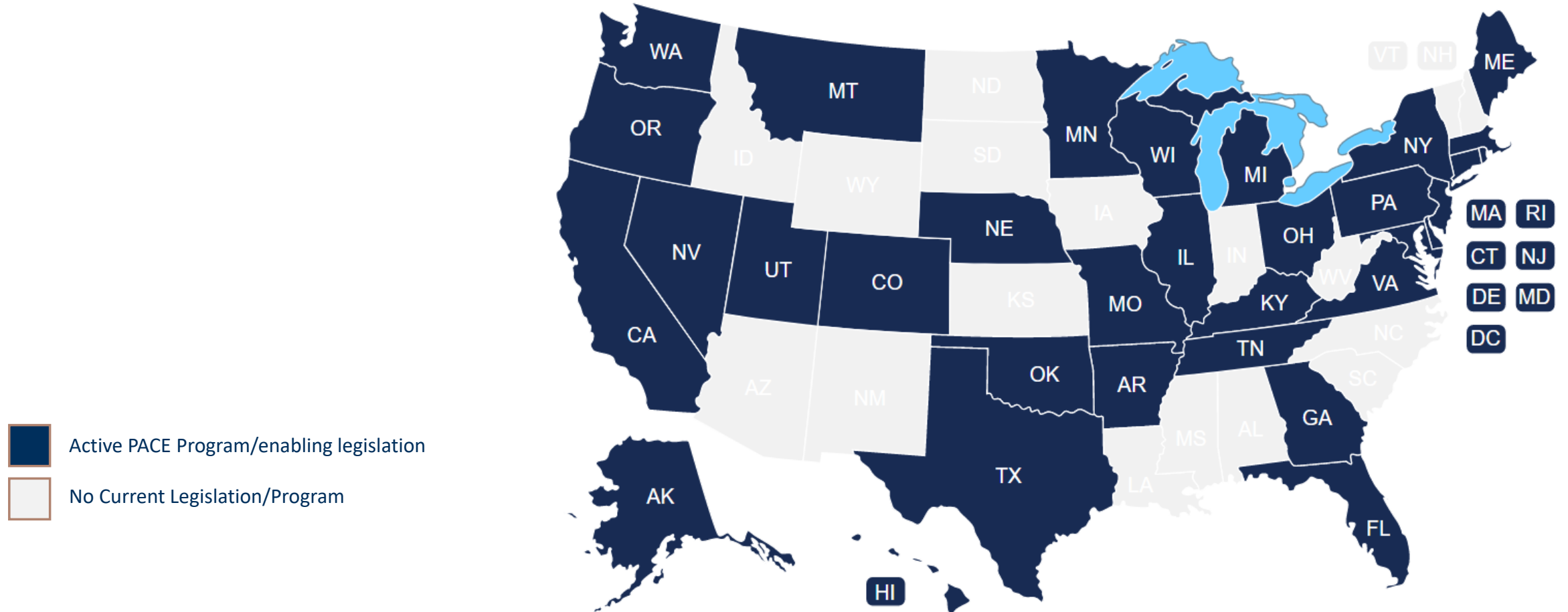


Soft Costs

Architectural, Engineering, Permitting, and Fees

CSPACE

CSPACE in the U.S.



CPACE

Loan characteristics

CPACE loans are authorized by legislation at the state and local level

Most C-PACE loan structures share the following common characteristics:

- **Term:** CPACE loans are longer-term loans, generally 15 to 20 years, with some terms as long as 25 to 30 years.
- **Recourse and Security:** CPACE loans are secured by the real property on which the subject improvements are located and are often non-recourse to the borrower. The lien of the C-PACE loan runs with the property, even after the property is transferred to a third party following a sale (including a foreclosure sale).
- **Lien Priority:** CPACE loan assessments have lien priority similar to real estate taxes and business-improvement district assessments and therefore have priority over both existing recorded mortgages and deeds of trust and subsequent mortgage financings.

CSPACE

Process

1 INITIAL INQUIRY

- High-level underwriting
- Good faith deposit and term sheet

3 INVESTMENT COMMITTEE

- Formal presentation
- Review and approval

2 DUE DILIGENCE

- Lender consent & loan documents
- Underwriting & analysis
- Third party reports

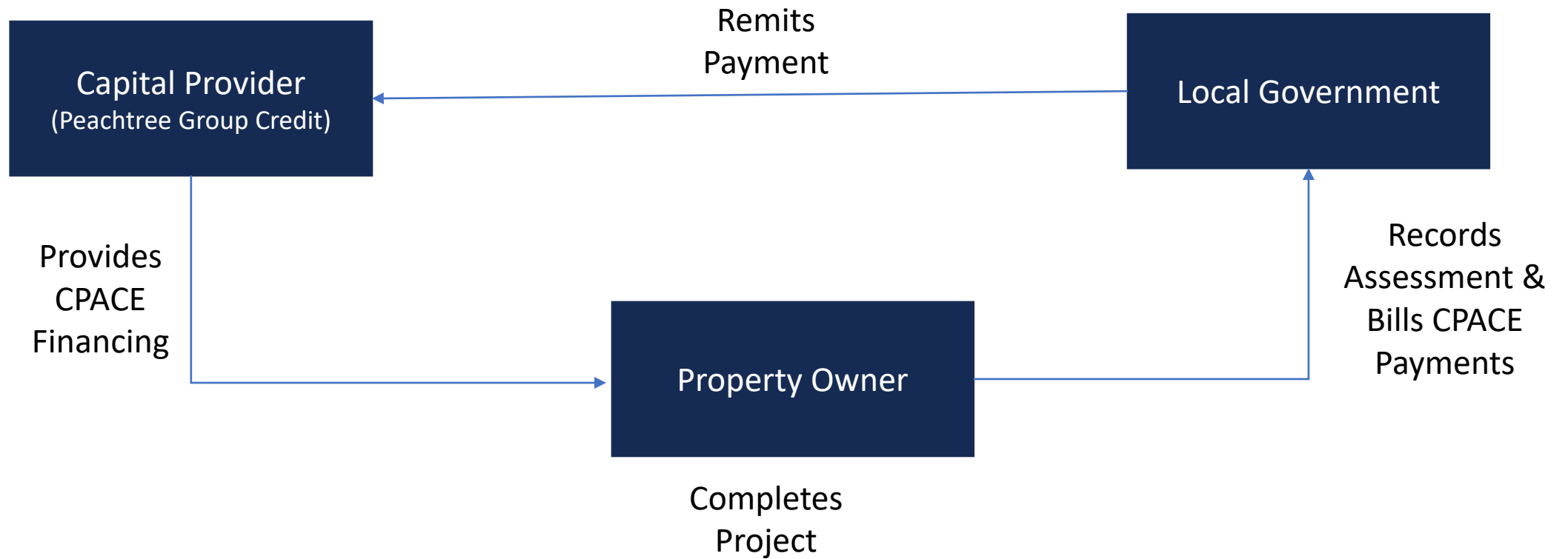
4 CLOSING

- Administrator approval
- Closing & funding

Third parties may include: legal, engineer, appraisal, phase I, PCA, seismic report, background checks, tax, insurance consultants

CPACE

Structure



CPACE

Advantages of CPACE for borrowers

- Low-cost and long-term capital solution to fill any gap in the capital stack
- Funding for as much as 35% LTV of the value of the building to be renovated / constructed
- Can be used for past retrofits and renovations
- Rates based on Treasuries and spread, fixed for up to 30 years
- Ability to delay first payment until after stabilization



Building Owner's Perspective

Kelli Brooks, Urban Atlantic

CASE STUDY

400 M Street, SE

- Why Pace?
- What did it do for the property?
- Did PACE achieve goals of Ownership?
- Would we use it again?





Moderated Discussion & Audience Q&A

Pros/Cons and Lessons Learned

Speakers

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Thank you



Check us out!

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