

IMPROVE YOUR CLOSE RATIO

by Brian McCarter



Consider adding C-PACE as a financial option for your commercial property owners

You conduct pre-call research. You listen more than you talk. You always make a point to ask for the sale.

These tactics work beautifully, but a majority of your prospects, particularly those who own Class B or Class C buildings, are concerned about preserving capital for their core business operations. (According to the Building Owners and Managers Association International, Class B buildings compete for a wide range of users and have average rents, and Class C buildings compete for tenants requiring functional space at rents below average.) One way to alleviate this concern for your customers is to offer them C-PACE.

What is C-PACE?

Commercial property assessed clean energy (C-PACE) is a tool that can finance energy efficiency and renewable energy improvements on commercial property, according to www.energy.gov. It is an innovative, new financing program designed to help make energy-efficiency

upgrades affordable (even cash-flow positive) for commercial property owners.

Although guidelines vary by state, all C-PACE programs enable owners of commercial and industrial properties to finance up to 100 percent of an energy-efficiency project with low-cost, long-term financing. The finance terms correspond to the useful service lives of the improvements installed as part of the project and can extend up to 25 years.

This means your prospects can get new roof systems with zero money down, which preserves their cash, and finance them over a couple of decades, making their projects affordable. And because the financing is tied to the property, the borrower doesn't have to sign a personal guarantee—a benefit that resonates with most building owners.

“C-PACE allows building owners to use a new form of capital to pay for high-cost, long-term payback items such as roofs,” says Keirstin Beck, a principal with Integro, a Denver-based company that advises national commercial real estate firms and corporations about strategies to “green” retrofit their portfolios. “Many times, new building codes throughout the U.S. are requiring a higher R-value when replacing a roof. If the new roof sys-

tem creates energy savings, in many states owners can finance the entire cost of the roof through C-PACE.”

Building owners who need a new roof system also can finance the addition of a new photovoltaic (PV) system to the project if the structure will support it.

How does it work?

C-PACE programs are public-private partnerships. To offer C-PACE, states first must enact legislation authorizing municipalities to establish local programs. Currently, 36 states plus Washington, D.C., have done so, and 21 states, including Washington, D.C., have active programs. Interest in C-PACE at the state and local levels lies in its myriad of economic and environmental benefits, such as improving local building stock, creating local jobs and reducing greenhouse gas emissions in communities.

C-PACE programs are voluntary; any building owner with an eligible property in a municipality that has opted in to the program may participate. Almost anything that will reduce a building's utility costs and remain permanently affixed to the property qualifies for C-PACE financing.

The list of eligible upgrades is long and includes measures such



as LED lighting; energy-efficient HVAC systems; high-efficiency chillers, boilers and furnaces; and envelope improvements such as new roof systems, new windows or added insulation. Renewables,



which produce energy on-site, also are eligible. Some programs, such as Utah's C-PACE program, even allow seismic resiliency projects and electric vehicle charging stations. And most programs allow C-PACE for ground-up new construction, provided the design and construction will exceed local energy codes.

The financing for C-PACE projects comes from private capital providers, which include private specialty PACE lenders, regional and local banks, credit unions, and the like—not taxpayers. Many programs operate an open market for capital, which means building owners receive competitive rates and terms and can choose the financing that best fits their needs.

C-PACE repayments are secured by a voluntary lien on the property, which is why these programs require local municipalities to opt in. The assessment, sometimes called a “benefit,” “energy,” or “special” assessment, is similar to

a sewer assessment, except it's voluntary and repayments are billed as a regular line item on a property tax bill. (In some states, billing and collections are the responsibility of the capital provider.)

Why building owners like C-PACE

Nationwide, building owners—your customers—are flocking to C-PACE because it enables them to modernize their buildings with no out-of-pocket costs. Even better, well-designed projects are cashflow positive, meaning the energy-cost savings outweigh the C-PACE repayments, putting money in a building owner's pocket. (In some states, such as Connecticut, a positive savings-to-investment ratio is a statutory requirement.)

C-PACE financing doesn't affect a business's working capital or credit, which is particularly important for small

businesses, and it can be combined with utility, local and federal incentive programs, helping a building owner save even more. Furthermore, because so many items on a building owner's punchlist can be included in a C-PACE project, adding certain measures with fast payback times, such as LED lighting, can make the overall project economics of a necessity, such as a new roof system, appear quite attractive.

“New roof systems and green roofs save energy. And though the energy-cost savings associated with a new roof may be small compared with the cost of the roof itself, the marriage of new roofs or other measures that have longer payback periods with quicker payback items like lighting can help make the overall economics of a C-PACE project more economically attractive,” says Colorado C-PACE Program Director Tracy Philips, CEM, CMVP, CDSM. “When your clients are ready for a new roof, it's a great time for them to consider installing a PV solar panel system, as well, which will lower or even eliminate their electric bills.”

And that's exactly what James Clark, co-founder of Room 214, a digital marketing agency in Boulder, Colo., did.

“As new building owners, we needed to replace our roof and were faced with an expense outside our planned budget,” Clark says. “Previously, we looked at solar, but we found we didn't have the cash on hand for a new roof and solar system. But with C-PACE, we rolled up the roof and solar into the financing and now have a beautiful and efficient solar system on a brand-new roof.”

Building owners in other markets also have recognized the opportunities through C-PACE.

“In Connecticut, we've seen several building owners use C-PACE to finance PV installations paired with a roof system replacement,” says Mackey Dykes, vice president of commercial, industrial and institutional programs at Connecticut Green Bank, Rocky Hill, Conn., whose Connecticut C-PACE program is widely considered one of the most successful in the U.S. “Because C-PACE can finance building improvements that are directly related to energy-saving measures, such as a roof system replacement, contractors can expand their projects, and building owners can modernize and increase the value of their buildings.”

Green, or vegetative, roofs are a hot topic in the roofing industry. Some communities are even requiring green roofs for retrofits or new construction, and though they provide a great benefit for the community and





environment, they can represent added, unexpected expenses. “C-PACE financing can provide a compelling way for owners to pay for new green roof systems without green coming out of their pockets,” Philips says.

C-PACE gives building owners the flexibility to invest money into their businesses while improving their buildings. It also overcomes their reluctance to invest in their buildings if they are unsure of how long they plan to own them. And it allows them to address all the items on their punchlists in one, comprehensive project.

“With C-PACE, building owners can address fundamental maintenance issues while also reducing their energy costs and enjoying the benefits of this unique financing mechanism,” Dykes says.

How to get started

To get started using C-PACE, first check whether your state currently offers a program. PACENation, a non-profit advocacy group, offers an interactive map with up-to-date program information at pacenation.us/pace-programs. Although C-PACE financing has many benefits, it involves adding a program administrator, which can add 30 to 60 days to the closing process.



When offering C-PACE to your customers, you already may be thinking of a few hurdles that could stand in your way. Following are a few situations you may find yourself in when selling C-PACE to building owners:

1. **You're uncomfortable talking about C-PACE.** Many C-PACE programs offer complimentary contractor training workshops, where, after the session, you'll walk out armed with the information

you need to get started, tools to help you develop projects and marketing materials you can share with building owners. Many program administrators also will attend meetings with you to provide support when you're having the C-PACE conversation with your prospects.

2. **The building owner is considering selling the building.** C-PACE financing is tied to the building, so if your prospect will be putting the property up for sale, the repayment obligation transfers to the new owner when the property is sold. This is a particularly attractive feature for property investors who don't plan on holding onto their properties long-term.
3. **The building owner is skeptical about the savings.** Many C-PACE programs provide quality-assurance review efforts and sophisticated financial modeling by an independent party, so your prospects can see what their project's energy savings and financials will look like before they commit. The program administrator will work with you and your clients to model different scenarios until an optimized, often cashflow positive, project is

developed. You also can consider partnering with a PACE project developer whose job is to structure and optimize comprehensive building retrofit projects with multiple measures for complete building rehabs.

4. **The building owner is concerned about passing through energy bills to tenants.** C-PACE costs—and benefits—can be passed through to tenants, so you should be able to overcome the split-incentive objection quite handily.

A competitive advantage

From innovative, new coatings to drone use, those in the roofing industry always are looking for new ways to gain a competitive edge. Because C-PACE was designed to make your customers' building improvement projects economically attractive, it's time to add it to your list of competitive advantages. 🌐🔗

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