Interest rate changes will increase appeal to developers for C-PACE financing - Loren Biller

November 12, 2024 - Owners Developers & Managers

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All of the recent talk about interest rates reductions is making some developers wonder if C-PACE financing will enhance their capital stacks. Since March 2022, when interest rates began their climb, more than a dozen states have improved or created C-PACE programs. These rule changes have added more flexibility to C-PACE financing, lengthening maturity dates, increasing allowable leverage, and expanding the reach of what is covered through C-PACE.

Use of C-PACE to increase in a falling interest rate environment

With interest rates expected to decrease 25bps to 50bps, the 10-year treasury rate is expected to fall. That has two positive knock-on effects. First, C-PACE pricing will have lower floor rates and lower all-in spreads. Second, as the cost of capital goes down, deals begin to pencil again!

Will it cause developers to jump off of the sidelines?

Many developers have been waiting for interest rates to go down. Few industry experts expect that rates will hit 2019/2020 levels, but market conditions offer big opportunities for developers. Multifamily, hospitality, and self-storage vacancy rates all reflect strong demand for more product. Developers need lead time to build, making the next 12-18 months critical. C-PACE financing enhances the capital stack, boosts returns, and entices developers to act.

Senior lenders benefit from bringing C-PACE into deals

Since 2022, more and more regional banks and debt funds have benefited from combining C-PACE with their mortgages. These senior lenders see the benefit of leveraging the C-PACE to allow their borrowers to get to an acceptable LTC/LTV without finding participants or extending their credit limit. This option opens up the bank’s balance sheet to lend with less risk.

More and more states adopt C-PACE legislation

The next cycle will have the benefit of leveraging C-PACE financing in nearly all states, since over a dozen have adopted expanded or new C-PACE legislation. Developers in over 30 states now have an immediate new path to make their capital stacks work. C-PACE loans can finance key portions of any project, such as windows, HVAC, roofs, roofing, plumbing, lighting, and water runoff – all of which are often PACE-eligible by their nature.

East Coast benefits most from expanded legislation

Over half of the US population lives in the Eastern Time Zone. Of the states that approved C-PACE authority, the most benefit will be felt along the East Coast, with New York, New Jersey, North Carolina, and Georgia creating or perfecting their programs.

New York has upgraded its program to apply to new construction as well as retrofits/renovations.

Given the sheer size of the New York CRE market, demand has been pent up for many years, with senior lenders ready to partner with C-PACE lenders.

New Jersey’s C-PACE legislation was upgraded earlier this year. The revised program is in development, and interest remains high to bring relief to stalled developments.

And in the Southeast, North Carolina, and Georgia are bringing statewide programs online for the first time, which will allow owners to operate properties more efficiently, realize a lower cost of capital, and leverage a fixed interest rate for up to 30 years.

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