Financing Energy Efficiency in CRE

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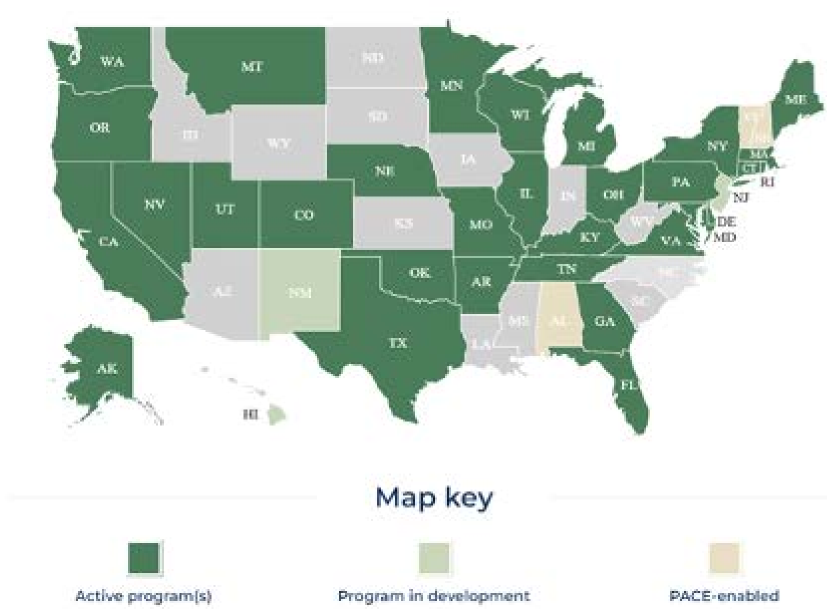
With the proliferation of local emissions reductions laws and the growing demand for energy efficient buildings, property owners are increasingly looking for green financing options. Triple net leases in particular make it hard to justify capital expenditures on energy efficiency retrofits when the cost savings are largely passed to the tenants. However, there are strategies for property owners to earn a positive near-term ROI on their energy efficiency upgrades. While green leases offer one solution for landlords to benefit from tenant utility cost savings, Commercial Property Assessed Clean Energy (C-PACE) financing is another approach, which this blog will cover.

C-PACE programs are administered at the state or local level and currently 30 states have C-PACE programs, while several others have programs under development. While the structures vary by state, in general C-PACE provides complete financing for eligible projects focused on energy efficiency, renewable energy, water conservation and sometimes resilience measures. This is then paid back over 10-30 years with a fixed interest rate as an addition to property taxes, so it's transferable upon property sale. When combined with tax incentives and energy savings from large upgrades or renewable energy installations, C-PACE changes the calculations for energy efficiency capital expenditures. In many instances the yearly repayment amount is less than the benefits, providing for positive cash flow immediately.

Figure 1. States with PACE legislation, either active or in development



Source: PACENation