MD ENERGY ADVISORS

The C-PACE Difference

There are many options to rounding out the capital stack. Traditionally, the stack features debt and equity. However, when the equity requirement is larger than 10%, the stack will often feature mezzanine financing.

There are pluses and minuses to each form of capital. Debt is traditionally the lowest cost of capital as it is the most secure with a first lien on the property. Equity requires the developer to pay a preferred return—often in the high single to low double digits—plus give up ownership in the property. Mezzanine financing bridges the gap between debt and equity financing and functions as an expensive source of capital featuring rates from 12–20% per year.

There are other more efficient options. C-PACE functions as an alternative to mezzanine and, in some cases, equity. C-PACE is more attractive than mezzanine debt to the developer as it has a lower interest rate and allows the developer to retain a large share of the project.

	Mezzanine Debt	C-PACE Financing
Financing term	3–5 years	20–30 years
Typical interest rate	8–12%	5–7%
Payment schedule	Monthly	Annual or semi-annual
Balloon payment	Yes (Interest only)	No (Fully amortizing)
Security interest	Borrower's interest in the entity that owns the property	Land/property
Ability to transfer obligation upon scale	No	Yes
Ability to pass through payments NNN tenants or hotel guests	No	Yes
Ability to delay first payment	No	Yes (Up to 2 years post funding)
Ability for off-balance sheet funding	No	Yes
Entire principal balance accelerates upon default	Yes	No
Includes financial/operating covenants	Yes	No
Requires a borrower's guarantee	Yes	No