

# C-PACE IN THE STACK



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## What began as a municipal policy tool for energy upgrades has matured into an institutional credit product embedded directly in the capital stack.

Commercial Property Assessed Clean Energy (C-PACE)—a state policy-enabled financing mechanism that allows owners and developers to make energy-related building upgrades, support new construction, and access renewable energy—has progressed from early policy experimentation to an emerging institutional asset class.

Initially developed to support energy-efficiency upgrades at the municipal level, it has become a scalable capital source embedded directly within the commercial real estate finance ecosystem. C-PACE ties repayment to the property rather than the borrower and uses a tax assessment mechanism to deliver long-term, fixed-rate, non-recourse financing that aligns with the useful life of the improvements.<sup>1</sup>

### THE STRUCTURAL SHIFT TOWARD LONG-TERM, PROPERTY-BASED FINANCE

The structure of C-PACE has proven particularly relevant in a market defined by elevated interest rates and constrained liquidity. By funding 100% of eligible capital expenditure costs, generally up to 40% or more of total project costs or 35% of its stabilized value, C-PACE reduces the weighted average cost of capital (WACC) and allows sponsors to reallocate capital more efficiently. Clearwater PACE, a leading institutionally capitalized C-PACE lender, notes that the product has become a standard part of modern capital stacks, reducing senior lender exposure while improving their debt yield and improving overall project viability.<sup>2</sup>

For investors, C-PACE offers long-duration fixed-rate yield at spreads typically between 275 and 325bps over the US 10-Year Treasury. For property owners, the ability to amortize sustainability improvements over extended periods enhances cash flow, operational efficiency, and long-term asset value. Senior lenders have broadly accepted C-PACE without requiring formal intercreditor structures, although larger and more complex transactions increasingly incorporate intercreditor agreements alongside standard lender consents.

### CAPITAL STACK EFFICIENCY IN A CONSTRAINED CREDIT ENVIRONMENT

The institutionalization of C-PACE has followed a familiar pattern observed in other structured finance products. Originations have traditionally taken the form of Delayed Draw Term Loans that fund eligible improvements over time. As volume has grown, exit strategies have evolved to include 144A securitizations, private 4(a)(2) placements, and rated feeder funds designed for direct investment by insurance companies in addition to other long-duration capital providers. These mechanisms have expanded liquidity while maintaining consistency with the statutory lien at the asset level.<sup>3</sup>

Rating agencies have codified the credit characteristics of the product. Morningstar DBRS and Fitch Ratings each maintain criteria that evaluate property cash flow, sponsor quality, lien structure, and municipal servicing reliability. These frameworks align C-PACE with large-loan and CMBS methodologies, and the resulting rated issuances have shown stable performance with minimal loss history.<sup>4</sup>

## INSTITUTIONAL CAPITAL FORMATION AND EVOLVING EXIT PATHWAYS

C-PACE's statutory design is central to its credit profile. Because the assessment is collected through the property tax system and cannot be accelerated, only the delinquent installment becomes senior to the mortgage. This produces exceptional payment stability and low loss severity. The structure combines public-sector enforceability with private-sector capital formation and has become a rare example of a credit instrument that is simultaneously yield oriented and impact aligned. Each C-PACE assessment finances measurable energy or resiliency improvements that reduce emissions, conserve water, or strengthen building resilience.<sup>5</sup>

For property owners and developers, C-PACE embeds sustainability within the economics of the project itself. Improvements that once relied on incentive programs or additional equity are now capitalized through self-amortizing, off-balance-sheet assessments that improve project economics and long-term asset performance.

At scale, this structural stability has done more than institutionalize C-PACE. It has created the conditions for its first true derivative structure.

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## THE EMERGENCE OF STRETCH PACE AND THE REDEFINITION OF SENIORITY

Traditional C-PACE executions generally cap at approximately 35% Loan-to-Value or 40% Loan-to-Cost and operate as non-accelerable tax liens senior to the mortgage. In a conventional capital stack, this leaves a 60 to 65% last-dollar position filled by a combination of senior debt, preferred equity, and mezzanine capital. In large institutional projects, particularly in hospitality, mixed-use, and adaptive reuse, that constraint can leave meaningful leverage stranded. Stretch PACE has emerged as an evolution of C-PACE to address that gap, but not by reducing a borrower's equity requirement.

In select jurisdictions, most notably Florida, statutory flexibility now permits a bifurcated C-PACE structure consisting of two tranches within a single assessment. The C-PACE A-Note retains its traditional senior tax-lien priority and long-duration fixed-rate profile. The subordinate C-PACE B-Note extends leverage beyond conventional limits while remaining embedded within the same statutory instrument.

This integrated A/B structure allows total C-PACE proceeds to reach approximately 55% or even up to 65% or more of total project cost. Functionally, it creates a unitranche execution that consolidates senior and mezzanine style capital (Stretch Senior) into a single tax-secured instrument. The result is extended leverage, fixed-rate duration, non-recourse execution, and structural simplicity without intercreditor friction.

For sponsors, Stretch PACE replaces high-cost mezzanine or preferred equity with fixed-rate, long-term capital. For senior lenders, it preserves the passive nature of the tax assessment while enabling more efficient basis management. For institutional investors, it introduces a tranching, scalable structure increasingly compatible with forward-flow programs, trust vehicles, and structured securitization formats.

In other words, as C-PACE has entered the capital stack, Stretch PACE is beginning to reshape it.

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## CREDIT MECHANICS THAT SUPPORT PERFORMANCE AND ESG INTEGRITY

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The US C-PACE model is now informing parallel programs abroad. In the UK, Property Linked Finance is being introduced across England and Wales, with Scotland expected to follow. The structure closely mirrors the U.S. approach by attaching repayment to the property and utilizing local authority collection to secure private capital for energy performance improvements.

Similar developments are underway in Canada, where several provinces have enacted enabling legislation, and in Australia, where commercial building decarbonization priorities are driving demand for property-linked finance. These emerging frameworks affirm the global adaptability of the approach. Each program anchors long-term sustainability improvements to the property while mobilizing private capital without government credit exposure.<sup>6</sup>

C-PACE and its international counterparts now represent a new category of policy-aligned, investment-grade infrastructure credit. With the emergence of Stretch PACE, the asset class is no longer limited to a narrow senior slice of the stack. It is evolving into a structured, tranching credit platform capable of absorbing duration risk, leverage demand, and sustainability mandates within a unified framework.

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## ABOUT THE AUTHOR

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Jonathan Seabolt is CEO of Clearwater PACE, an institutionally capitalized direct C-PACE lender based in New York City deploying long-duration, fixed-rate capital across commercial real estate credit and structured finance nationwide.

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## NOTES

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<sup>1</sup> Morningstar DBRS Perspective, 2023

<sup>2</sup> Clearwater PACE Proprietary Research, 2025

<sup>3</sup> Fitch Ratings, U.S. Single-Borrower C-PACE Rating Criteria, 2024

<sup>4</sup> DBRS Morningstar, PACEWELL Rating Methodology Disclosure, 2022

<sup>5</sup> Fitch Ratings, CMBS Large Loan Criteria, 2024

<sup>6</sup> UK Department for Energy Security and Net Zero, Property Linked Finance Consultation Summary, 2024