EXPERT Q&A

Amid tough times for the commercial real estate market, Alexandra Cooley, chief investment officer and co-founder of Nuveen Green Capital, highlights a new source of green finance that provides a bright spot

The role of C-PACE in sustainable investing

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Q Could you start by telling us a bit about how you came to co-found Nuveen Green Capital and help shape the C-PACE asset class?

The founding of Nuveen Green Capital was the convergence of two things that are really important to me. First, I was the daughter of two small business owners and started my first company in high school. Then in college, I researched the urgency of the climate crisis. Initially, I didn't know how to translate my concern for the climate into a professional career, so my first job was in management consulting, working on a lot of oil and gas projects, before realising that if I didn't spend time addressing climate change, no one else was going to do it for me.

I left consulting to enrol in a joint MBA/Master of Environmental Management at Yale and then joined Connecticut Green Bank, the nation's first green bank after graduating. There I met my co-founder, Jessica Bailey, and we got excited about the potential for C-PACE to make the built environment more sustainable. C-PACE, which stands for Commercial Property Assessed Clean Energy, is a US state policy-enabled financing mechanism that allows building owners and developers to access attractive capital for making energy-related deferred maintenance upgrades to their existing buildings, supporting new construction costs and making renewable energy accessible and cost-effective.

It became clear to us that other states wanted to achieve similar success with C-PACE to Connecticut, and institutional investors wanted to support it. In 2015, we co-founded Greenworks Lending, where we expanded from lending in one state to more than 30 states, from zero to nearly 600 individual assets, exceeding $1.5 billion in originations volume and executing the first securitisation of

C-PACE in action

Three deals that embody the green financing strategy

I would point to three deals, all originated in 2023. The first is a new construction 329-unit apartment complex called Spring Garden in Philadelphia, which was the largest C-PACE-financed project done in the state and only the second multifamily deal under C-PACE since it was expanded to allow for multifamily projects. Our team worked exclusively with the programme to get it set up and partnered with Southern Land Company, Valley National Bank and the Philadelphia Energy Authority to provide $40 million in C-PACE financing of the $161 million total development costs.

Second is an all-new, 217-room, nine-storey luxury boutique hotel in Miami, the Arlo Wynwood, where we provided just over $30 million in C-PACE funding to refinance extensive energy efficiency measures that had recently been completed, allowing the hotel to increase operating reserves and sponsors to recoup equity. The total project cost was $83.5 million.

Finally, we partnered with Hall Structured Finance to provide a combined $82 million in construction financing to the 164-room Somm Hotel and Spa in Woodinville, Washington, with a total project cost of $139 million. The luxury hotel will be the centre piece of the new 20-acre Harvest Wine Village, with our alternative source of financing allowing the sponsors to have a complete capital stack at a time when rates have started to challenge new developments.

C-PACE assets. Our growth story caught the attention of many, and in 2021, Greenworks was acquired by Nuveen and soon after rebranded to Nuveen Green Capital.

Q What is C-PACE, and how is it different to other financing products?

C-PACE makes it possible for commercial property owners to obtain low-cost, long-term financing for energy efficiency, water conservation and renewable energy projects. The programme starts with a state-level government policy that classifies green energy as a public benefit, allowing commercial property owners to finance upgrades with no money put down, which are then repaid as a benefit assessment on the property tax bill over a term that matches the useful life of the improvements or the new construction infrastructure, typically around 30 years. The assessment transfers on the sale of the property or bankruptcy and can also be passed through to tenants where appropriate.

So C-PACE helps to make sustainability efforts more appealing, reducing property owners' annual costs and providing attractive financing for new green construction, energy retrofits and recently completed green construction projects. Over the past decade, we have seen it grow from a small handful of state-level programmes to become an institutional asset class with more than $5 billion of total investment made.

Q With ESG becoming an increasingly popular topic, along with market volatility, why is C-PACE needed now?

At Nuveen, we find that institutional investors see ESG and impact investing as an increasing focus. In our 2023 global institutional investor survey, 74 percent said they consider or plan to consider the environmental and societal impact of their investment decisions, with 47 percent prioritising real estate as part of their climate risk mitigation strategies.

Impact investing is really about recognising the externalities associated with where your money is going, so when you look at two similar investments with the same risk-return profile, you opt to make a positive impact. The cool thing about C-PACE is every dollar we put out is going towards projects that the underlying state programme has said is a public benefit. These deals are also typically investment-grade, long-duration investments that institutional investors are looking for.

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Q How do C-PACE loans fit with an insurance portfolio, and what benefits do they offer insurance investors specifically?

What we have seen is that we typically fit within a private investment-grade fixed income bucket for many investors. There are five reasons it is particularly interesting to insurers. First is the yield on the underlying assets, where we have historically been able to enjoy higher yields compared with other similar risk-return opportunities.

Second, the underlying risk tends to be low because a C-PACE lien doesn't extinguish on bankruptcy or foreclosure. Third, especially for life insurers, the weighted average life of our assets is eight to 12 years, so that is a significant duration that is hard to find in the investment grade space.

Next, because we are fully vertically integrated, we can generate sufficient scale and volume that this product through our platform becomes interesting to the institutional investor market. We have a national platform generating a flow of C-PACE assets wherever there is a C-PACE policy, and we are sourcing from local markets with a lower average deal size than a comparable commercial real estate product.

Finally, these loans have strong historic performance with very low losses. We have never taken a loss on our book and delinquencies average below 1 percent.

> *"Refinancing is going to be trickier, so it's important for building owners to have the most competitive products in the market for tenants, customers and investors"*

Q Where do you envisage C-PACE going in the future?

We have seen three major shocks in the commercial real estate industry in the last four years, with the covid pandemic, the combination of inflation and rising interest rates and then the failure of Silicon Valley Bank all reducing liquidity in the market. In that time, we have seen interest in C-PACE on the origination side accelerate. It is an alternative source of capital for the CRE industry and it creates an optionality for sponsors to make a property better and greener using long-term, fixed-rate finance.

At the same time, in a market with less access to liquidity and banks pulling back, it has helped to fill that gap. Refinancing is going to be trickier, so it's important for building owners to have the most competitive products in the market for tenants, customers and investors. Many more institutional investors are making commitments to net zero or positive impact, which makes these projects better positioned to access scarce capital, and we know there is also a return premium on green buildings.

States are continuing to pass C-PACE policies and our team is working with trade associations to get more markets opted in, so we see the addressable market growing at the same time as demand. This is a bright spot for commercial real estate market that investors are really excited about. ■