

Takeaways from SFIG Vegas 2019

PACE's Horizon Is Expanding Beyond Energy Efficiency

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Morningstar Perspective

According to Sunday's panelists, the future of the property assessed clean energy sector will move beyond its initial selling point as a financing tool for energy efficiency projects. Francisco Flores, a partner at Winston & Strawn LLP, said that PACE is now seen as a solution for resiliency improvements following natural disasters. He has seen this play out in different states that introduced new legislation expanding the types of eligible projects to include resiliency improvements. Stephanie Mah, vice president of Morningstar Credit Ratings, LLC's ABS research, said that she's witnessed this change in the conversation to include "seismic resiliency, wind resistance, fire hardening efforts, and flood mitigation." There is more focus on being proactive to limit the damage from natural disasters. "And who would be against that?" asked Brock Wolf, executive director of Natixis' ABS banking team. He believes expanding PACE to include resiliency efforts will appeal to multiple states, regardless of their political leanings.

Wolf also expects more direct marketing to consumers, as seen in the Florida market, with advertisements on buses, the radio, and so on. He explained that the California market mainly consists of contractor networks selling to consumers instead of the other way around. Marketing to consumers directly may lead to fewer consumer complaints.

CleanFund's CEO, Greg Saunders, expects commercial PACE to include larger new construction projects. He said that he saw deals as large as \$350 million on multibillion-dollar properties in major metropolitan areas. He thinks large developers are taking notice of C-PACE's advantages, such as lowering their cost of capital. "I'm just going to really watch with fascination how this plays out in policy circles. There's different camps out there in C-PACE-land that say C-PACE wasn't meant for new construction; it's meant for retrofitting existing properties. One camp says... C-PACE is actually pretty perfect for new construction because, among other things, there are elevating standards for energy efficiency in buildings across the United States," Saunders said, citing New York City as an example. He then added that state governments "need to offer policy combinations to make it a little more palatable to make buildings efficient and higher performing... C-PACE is an anecdote for new construction on the higher cost of constructing modern buildings."

Saunders also hopes for more standardization across the industry. He believes that the statutory differences between the states and the differences among programs is an impediment. Mah agreed with Saunders, saying that rating agencies like standardization. Morningstar's process for rating PACE deals is a combined effort between the CMBS team and the ABS team. These deals are challenging to look at and are not cookie cutter. Standardizing the data and documents would make reviewing them easier.

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