

# MINNEAPOLIS/ST. PAUL BUSINESS JOURNAL

## COMMERCIAL REAL ESTATE

# Pace Loan Group plays growing role in getting CRE deals done

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After spending 10 years as a lender in New York City, Rafi Golberstein saw an opportunity to leverage a lesser-known financing tool in Minnesota aimed at boosting clean energy in real estate.

It was 2017 when Golberstein founded Pace Loan Group, a Minneapolis-based lender using a state financing tool called Commercial Property Assessed Clean Energy, or C-PACE. At the time, this type of financing had only become established seven years prior.

Now, C-PACE, also referred to as just PACE, is playing a unique role in the current commercial real estate landscape, where institutional investors have been skittish. That's where lenders like Pace Loan Group can fill the financing gap for a project that otherwise might not have been able to pencil out.

"We're often coming in to basically serve as that bridge," said Golberstein, CEO of Pace Loan Group. If a bank doesn't want to finance more than a certain amount, "we'll come in and fill the rest, and that's been a great source of business for us."

Since its founding, Pace Loan Group has closed over 150 C-PACE loans across the nation. The company represents the largest market share of any other lender in that space in Minnesota, representing 39% of the total C-PACE loan dollars provided since the funding mechanism was established, according to St. Paul Port Authority, which administers C-PACE through a program called MinnPace. Pace Loan Group has deployed \$129 million out of the total \$333 million across all C-PACE loans in Minnesota.

Some of the major projects in the Twin Cities that Pace Loan Group helped finance in recent years include the acquisition of LaSalle Plaza in downtown Minneapolis and the conversion of the former Ecolab University Center into apartments in downtown St. Paul.

### How C-PACE works

C-PACE allows commercial property owners to access funding for their projects by investing in energy-efficiency upgrades. Minnesota was one of the first states to establish a C-PACE program in 2010 and has since become among the states that use it the most.



A building owner can seek C-PACE funding for expenses like energy audits, equipment costs, permit fees, building enclosure, lighting, HVAC systems and more.

Three types of institutions provide the funding: the Port Authority's TrillionBTU program, local credit unions and national funders, like Pace Loan Group. Pace Loan Group's funds come from institutional investment firm AB CarVal, a subsidiary of Nashville-based Alliance-Bernstein.

Once a loan is secured from one of the three sources, the Port Authority as administrator works with the city or county where the property is located to establish a special assessment on the property. The owner repays the loan to the lender through the assessments.

For a while, the maximum loan term was up to 20 years, allowing for only 20% of the property's value to be financed. That changed last year, when the Minnesota Legislature voted to extend the maximum financing term to 30 years and the loan-to-value ratio to 30%.

The change was lobbied by Golberstein, who said during a House Climate and Energy Finance and Policy Committee last year that the extension would increase loan volume. "You're just going to see larger deals, in general," Golberstein said at the time.

### **C-PACE can fill gaps in financing**

C-PACE can help commercial property owners and investors make a deal viable, especially at a time when large institutional investors who typically would fund projects are out of the picture. Investors have been reluctant due to uncertainty in the commercial real estate landscape, prompted by heightened interest rates, maturing loans, inflation and lowered occupancy rates.

In Pace Loan Group's first-ever deal, the company provided a \$7 million C-PACE loan toward the redevelopment of the Treasure Island Center in downtown St. Paul, which was led by Hempel Real Estate and the Port Authority, in 2017. Hempel sought C-PACE funding for the project because it couldn't secure any additional debt or equity elsewhere, Hempel CEO Josh Krsnak said. "PACE was a great intermediary," he added.

Krsnak said he's now used C-PACE funding on nearly every Hempel project. That includes Hempel's acquisition of LaSalle Plaza, which the company purchased for \$46 million in 2023 at a major discount to its previous sale in what was the first major office deal in downtown Minneapolis since the start of the pandemic. Pace Loan Group provided Hempel with \$3.5 million to pursue upgrades like HVAC and elevator improvements.

Pace Loan Group has since moved into LaSalle Plaza, where Hempel also recently completed a major renovation to improve tenant amenities.

"It becomes the secret sauce," Krsnak said. If an investor can replace part of the needed equity for a project with C-PACE, that means the project can pencil out to a somewhat lower overall return, he explained.

"Whoever has the cheapest cost of capital wins," he said.

C-PACE is also a nonrecourse loan with a fixed rate, allowing developers and investors to reduce their risk exposure, Golberstein said.

### **More opportunity ahead**

Last year, Pace Loan Group took the top sixth spot among the Twin Cities' fastest-growing companies in the Business Journal's Fast 50 list based on its revenue growth from 2021 to 2023. In 2024, the company's revenue increased again to \$28.6 million.

The company plans to build on the growth its already seen.

For one, Pace Loan Group expects to see more adaptive reuse of office properties, which can often be more expensive than ground-up development.

"That's a good example of where PACE is a financing tool that is going to help get those done because they are actually really risky deals to pull off," Golberstein said. "If PACE can come in to help defray that cost of capital, we see that happening."

Pace Loan Group recently provided a \$15.8 million loan to the team behind a \$60 million project to convert the former Ecolab University Center tower in downtown St. Paul into apartments.

Such conversions could be good candidates for C-PACE funding because the needed project improvements often result in energy-efficient upgrades, Pace Loan Group Senior Vice President Matthew McCormack said in a statement on that loan deal.

C-PACE is a "turbo charger" for a community bank to be able to finance projects that otherwise would be reserved for large banking institutions, Carl Kaeding, founder and president of Kaeding Development Group, who is leading the Ecolab project, said on the loan deal.

St. Paul-based Sunrise Banks provided the senior construction loan for that deal.

Golberstein sees C-PACE financing as being in its second inning, with the industry still young and poised for growth. "PACE is becoming more rapidly a common mainstream financing tool, and we see it getting to the same point where you think of PACE like you think of Fannie or Freddie or CMBS."

The 24-employee company is taking steps to leverage that growth. It's looking to open offices on the West Coast and Southwest areas of the U.S., and on top of that, Pace Loan Group plans to expand its team, bringing its total employee count closer to 30 by the end of the year.

"For us, it's just continuing to sort of grow our presence in PACE and to be a leader in the space. It's what we've been doing for years," Golberstein said.

### **More on Pace Loan Group**

**Founded:** 2017

**Headquarters:** 800 LaSalle Ave., Minneapolis

**CEO:** Rafi Golberstein

**2024 revenue:** \$28.6 million

**Number of employees:** 24