CASTLEGREEN FINANCE

X-CALIBER CAPITAL

C-PACE Explained

- C-PACE is a public-private partnership that was enacted to encourage investors to provide capital to increase commercial building energy efficiency and to improve the building systems and physical structure of commercial real estate properties.

- C-PACE may be used to finance building improvements that contribute to energy and water savings, as well as resiliency or "risk mitigation" such as seismic improvements or wind resistant improvements.

- Light to heavy renovation, gut rehab, adaptive reuse and ground up development projects may all utilize C-PACE as part of the capital stack.

- The financing is similar to other long-term, self amortizing, fixed rate financing with terms of generally 10 to 30 years. Terms are restricted by the Estimated Useful Life "EUL" of the improvements for which they finance.

- At closing, the stream of interest and amortization payments are converted into a voluntary, non ad valorum real estate tax or special assessment. This grants the payments priority status similar to real estate taxes collected by the municipality.

Evidence of C-PACE Market Growth

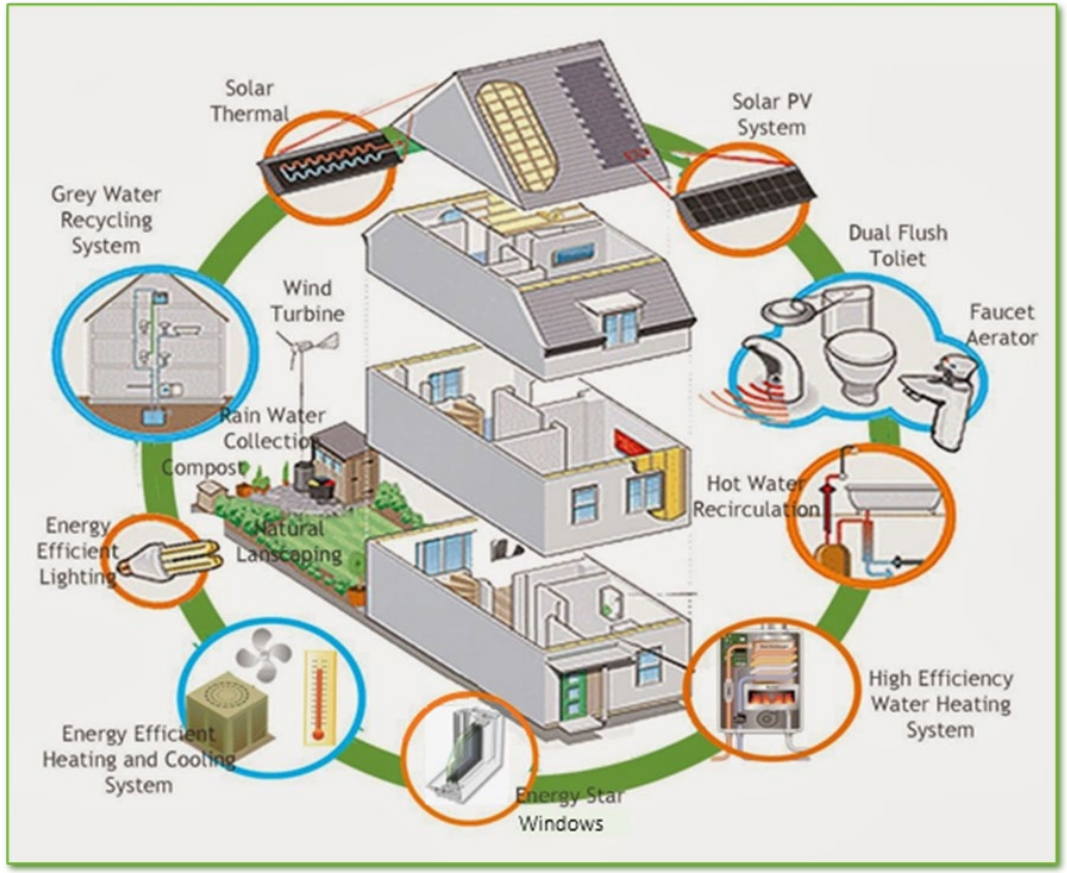
The C-PACE market is hitting a clear inflection point driven by market recognition among property owners and lenders

- Growing acceptance of C-PACE among first mortgage lenders with over 200 Lenders consenting to PACE to date
- Program launches for money center cities including Chicago and Philadelphia
- New York State revised its cost and legal structure in 2019 allowing the first transaction to close in the state in the 4th quarter 2019. In addition, New York State amended the state PACE statute to include ground up construction, which was signed into law during the third quarter 2020
- New York City passed the Climate Mobilization Act mandating over 50,000 commercial properties in the city to begin reducing CO^2 emissions by 2024. C-PACE in NYC is officially launched on Earth Day 2021
- Governor of Massachusetts signed into law technical corrections to the state program which launched during the fourth quarter 2020
- State of Washington passed PACE-enabling legislation in early 2020
- Cook County, IL program launched first quarter 2021
- Tennessee enacted PACE law April 2021

C-PACE Eligible Improvements

C-PACE may be utilized for a wide variety of building improvements for both renovations and new construction projects, many of which are already required by local building codes

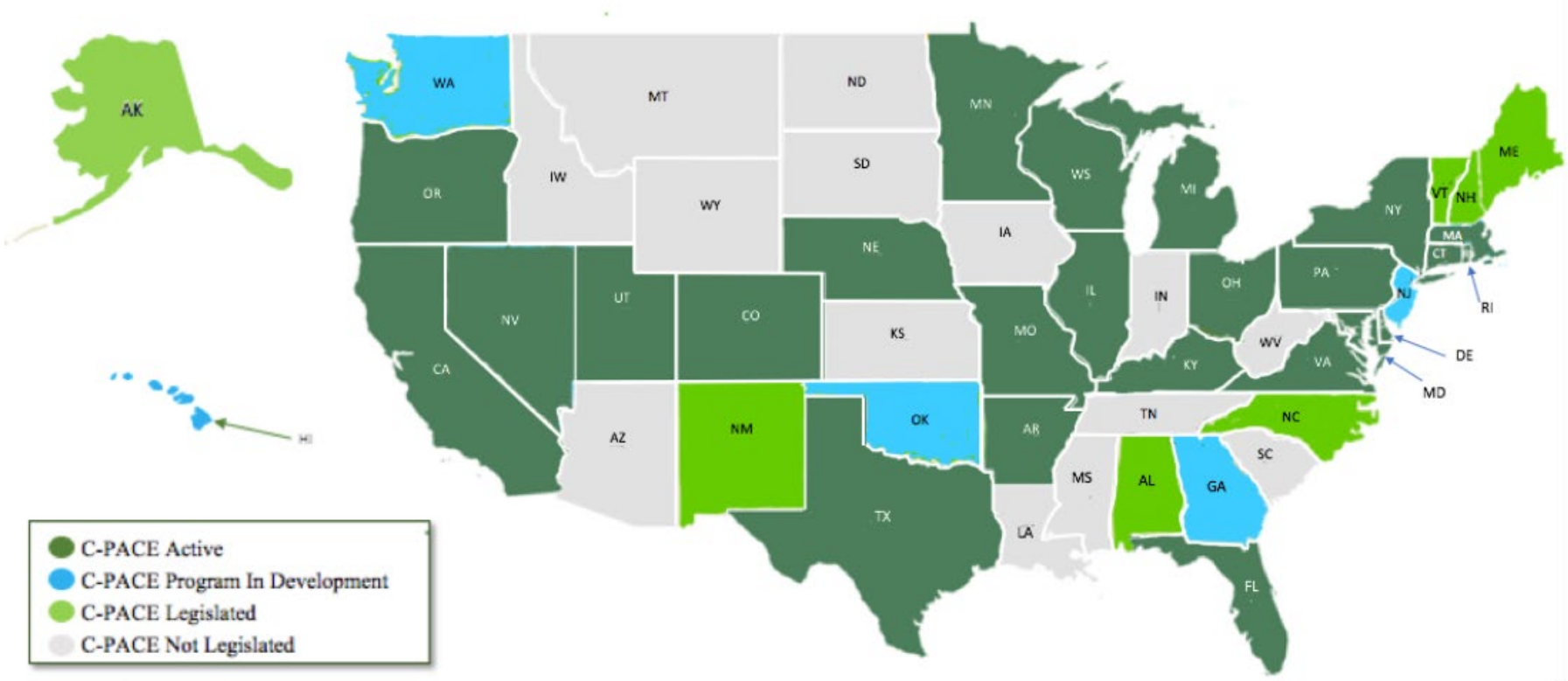
- **Renewable Energy Improvements**
  Examples include: Solar systems, wind turbines, grey water recycling, charging stations, and energy storage systems
- **Resiliency**
  Examples include: Wind mitigation[1], seismic strengthening[2]
- **Doors and Windows (Energy Efficiency or Wind Resistant[1])**
  Examples include: High efficiency glass, insulating doors, impact-resistant doors and windows, applied window film
- **Roof (Energy Efficiency or Wind Resistant[1])**
  Examples include: Wind resistant re-roof, solar reflective cool roof, fluid applied silicon coating systems, green roofs and roof gardens
- **HVAC (Energy Efficiency)**
  Examples include: Heat pumps, water heaters, chillers, building automation, central air conditioners, furnace, "smart" thermostats
- **Lighting (Energy Efficiency)**
  Examples include: Indoor and outdoor lighting fixtures, lighting controls
- **Water Conservation[3]**
  Examples include: Low flow faucets, shower heads and toilets, irrigation controls, high efficiency sprinklers,
- **Building Envelope (Energy Efficiency)**
  Examples include: Insulation, radiant barriers, air sealing, cool wall coating



Notes: 1 Available only in Florida
2 Available only in California and Oregon
3 Not available in Florida and Minnesota

C-PACE Availability

PACE-enabling legislation has been passed in 37 states plus the District of Columbia. PACE programs are now active (launched and operating) in 22 states plus D.C.



Notes: *NJ & GA – Limited Availability*

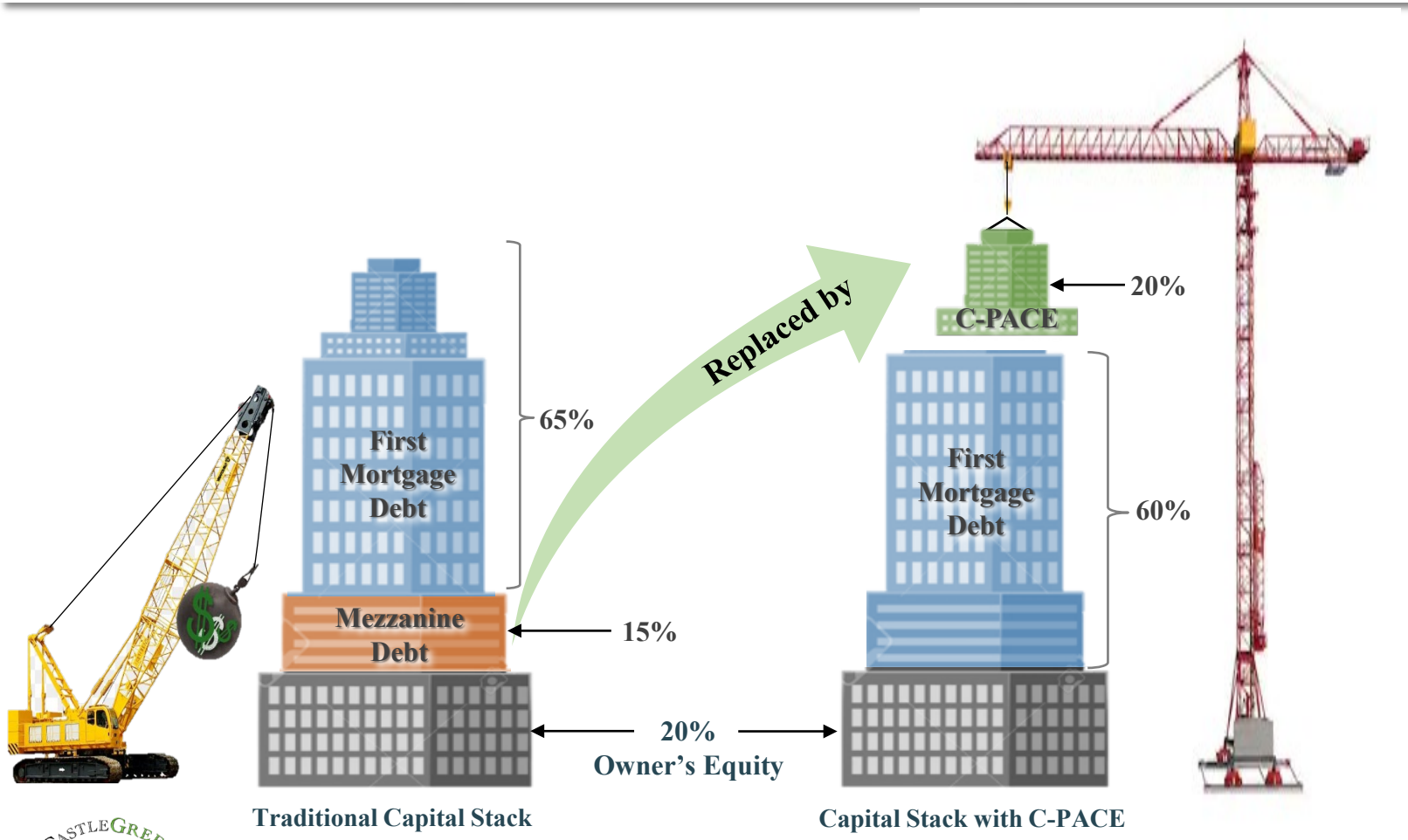
C-PACE Property Owner Advantages

There are several advantages provided by the C-PACE public / private partnership which are superior options to more traditional real estate financing instruments

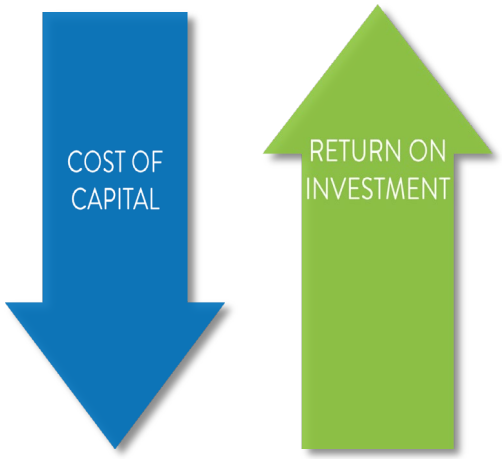
- Long term, fixed rate financing that provides predictability of borrowing by reducing carrying costs, in addition to flexible prepayment options, thereby easing the refinance burden
- Property-based, non-recourse with no financial covenants
- C-PACE is processed as a real estate tax and as such, is treated as a property expense, not a contingent liability against the owner's balance sheet
- Many jurisdictions have "lookback" features of one to three years providing the ability to access liquidity for energy efficient improvements already completed with refinancing the entire capital stack
- Low-cost alternative to expensive construction first mortgage debt or mezzanine debt
- C-PACE cost may be partially offset by recovery through tenant tax reimbursements on most commercial properties or green room taxes/fees on hotels
- No due on sale and freely transferable to real estate buyer

Building a Better Real Estate Capital Stack

The new capital stack utilizing a C-PACE assessment can replace expensive mezzanine debt or preferred equity with far more cost-effective and long term, fixed rate C-PACE financing



C-PACE is often used to close the equity gap on new construction and redevelopment transactions. Financing costs which generally range from 5.5% to 6% fixed provide significant capital cost savings over traditional mezzanine debt or preferred equity costs ranging from 9% to 15%.



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C-PACE as a Liquidity Tool

Property owners can apply C-PACE financing retroactively after a construction project or renovation has been completed, returning capital back to property owners.

- The COVID health crisis has caused unprecedented low occupancy in hotels resulting from travel bans, business shutdowns, convention cancellations and general fear of leisure travel, all unavoidable factors unrelated to the underlying asset quality, market strength or management experience
- Occupancy and daily room rate declines exceeding the most impactful hotel market shocks that existed after 9/11 and during the Great Recession.
- During this time, hotel construction projects have been delayed or stalled and Property Improvement Plans postponed.
- With little to no income generation, hotel operators have been forced to raise liquidity to carry the fixed expenses and debt service of their properties during a time when traditional lenders have pulled back on the asset class.
- C-PACE can provide retroactive financing to recover the liquidity invested into property renovations or construction costs for periods generally ranging from 12-36 month (see chart at right).
- Retroactive or "lookback" C-PACE financing can be used as a bridge to carry costs until occupancy rates recover, create interest reserves to prevent foreclosure or to pay down more expensive debt.

C-PACE "Lookback" Periods by State

State	Period Limit
California	3 years
Connecticutt	1 year
Colorado	2-3 years
District of Columbia	case by case
Florida	3 years
Illinois	3 years
Kentucky	case by case
Maryland	case by case
Massachusetts	2 years
Michigan	3 years
Missouri	3 years
Minnesota	case by case
New York	3 years
Ohio	case by case
Oregon	2 years
Pennsyvania	3 years
Rhode Island	2 years
Utah	2.5 years
Wisconsin	2.5 years

CastleGreen Finance

X-Caliber Capital

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