The Safest Money in the Building

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There is a financing product that has quietly become one of the largest sources of hotel capital in the country, and most of what is written about it describes the performing case. We underwrite the other one.

Commercial Property Assessed Clean Energy financing — C-PACE — reached a record of roughly $3.5 billion in annual originations in 2025, against cumulative originations of some $13 billion. Hospitality is not a corner of that market: several of the largest C-PACE lenders report hotels at close to a third of their volume. Deal sizes now span the industry's full width. At one end, individual financings on resort and casino assets exceed $100 million. At the other sit the select-service renovations — the systems overhauls and deferred PIP work of small owners and partnerships — where a single assessment can represent a third or more of the property's entire capital stack. For a meaningful segment of the industry, C-PACE is no longer an efficiency tool bolted onto a renovation. It has become part of the capital stack itself.

It is sold as the safest money in the building. Non-recourse. Fixed-rate. Senior to the mortgage. It runs with the property, cannot be accelerated, and requires the consent of the existing lender before it is placed.

Every one of those statements is true. And every one of them describes how C-PACE behaves in a deal that is working.

The literature simply stops at the exact point our work begins.

What the structure does in a performing asset

In an asset that covers its obligations, the design is elegant, and it deserves a fair statement before it is taken apart.

The assessment sits on the property tax bill. Only the annual installment is due in any given year; the balance cannot be called. In a foreclosure, only the *delinquent* installment primes the mortgage — not the entire obligation — which is precisely why a large and growing number of mortgage lenders have been willing to consent to sit behind it. The improvements lower operating cost, which supports value. Everyone in the stack is aligned.

None of that is wrong. We underwrite plenty of assets where C-PACE is exactly what it claims to be: patient, senior, and benign.

But we do not underwrite for the performing case. We underwrite for the one that breaks. And in that case, several things happen to C-PACE that the brochures rarely describe — and that we now price into every deal where an assessment is present.

First: seniority is a claim on priority, not on principal

Here is the distinction that governs everything, and that the promotional framing leaves out.

> *C-PACE is senior to the mortgage. It is not senior to the county.*

The assessment is collected as a property tax, and unpaid property taxes are generally the most senior claim there is — ahead of essentially everyone. When an owner stops paying, he rarely stops paying selectively. He stops paying the whole tax bill: the ad valorem taxes and the C-PACE assessment riding on the same statement. Let that run long enough and the taxing authority does what taxing authorities do. It forecloses to collect what it is owed, sells the asset for whatever the process yields, satisfies itself first, and leaves everything beneath the tax line to recover from the remainder.

In a deeply impaired hotel, that remainder can be a fraction. The “super-senior” position did not fail on its own terms. It simply discovered, at the worst possible moment, that it was never senior to the one lien that outranks the entire stack.

When we underwrite an asset carrying C-PACE, this is not a footnote. We are not asking whether the assessment is senior. We know it is. We are asking how much value stands between the county's claim and the point where seniority stops meaning anything.

Second: when the senior lender walks, the assessment inherits the problem

The second scenario is stranger, and it is the one we are beginning to see with some regularity.

When the mortgage lender is far enough underwater, he does not step in. He will not advance capital to cure delinquent taxes, will not pour money into a bleeding asset to defend a position that is already gone. He disengages.

And when he disengages, the burden falls to the C-PACE lender — the party this was sold to as passive, secure, senior money. Now it must behave like an owner. It must cure the taxes to stop the county's clock. It must carry the asset. It must keep the property alive long enough to find a buyer. And the buyer it finds is frequently one who will transact *below the outstanding assessment*, because that is what the asset is actually worth once the operating losses and the cost to cure are priced in.

That is a super-senior lender choosing a controlled loss over an uncontrolled wipeout. It is the most senior party in the building discovering that its seniority obligated it to become the reluctant operator of a hotel it never wanted to run. It is not how the product is sold.

One further mechanism completes the picture. When the PACE lender is the party that steps in to cure — stopping the county's clock to protect its own position — the assessment portion of what it pays into the county returns, in the ordinary course, to the PACE lender itself. It is routing its own money through the taxing authority and back to itself: buying time, recovering nothing on the assessment, and absorbing the ad valorem taxes and penalties as the true cost of keeping the asset alive.

The senior-most money in the building, paying itself to prevent a worse outcome.

Third: the senior lender who defends is funding the lien that primes it

There is a third path, and it is the one that reveals the structure most fully.

Suppose the mortgage lender does *not* walk. It wants to protect its collateral — to foreclose in an orderly way and preserve what claim it has. To do that, it cannot let the county move. And to keep the county at bay, the tax bill has to stay current — the bill on which the C-PACE assessment rides.

In practice, as we understand the mechanism, the senior lender has room to maneuver: the C-PACE portion can often be negotiated separately rather than simply paid in full, and how much room exists depends heavily on the jurisdiction. But the room is finite. Only so many quarters of delinquency can accumulate before the taxing authority acts, and that runway is set locally, not by the parties. So the senior lender buys time where it can, negotiates where the jurisdiction and the counterparty allow — and, where it must, cures the bill to protect itself, which can mean funding the very assessment that sits ahead of it. The position senior to the mortgage does not merely wait to be paid. In distress, it can compel the mortgage holder to spend to defend itself.

What the three paths have in common

Whether the county forecloses, the PACE lender inherits the asset, or the mortgage lender bleeds to defend its position, the same fact governs every version: seniority determined *position*, not *recovery*. And which path an asset is on is not a matter of the assessment alone. It is a matter of *where the asset sits.*

This is why, when we underwrite a distressed hotel carrying C-PACE, the jurisdiction is not a detail. It is a primary variable. The same assessment on the same asset is a materially different problem in a different county, because the redemption period, the foreclosure timeline, and the way the taxing authority treats delinquency all change what each party can do and how much time any of them has. We are not only underwriting the asset. We are underwriting the clock it sits on — and reading which of the three paths it is already traveling, because that is what tells us who the real seller is and how tired they have become.

Why this matters now, specifically

The C-PACE placed on hotels during the low-rate years is one category. The C-PACE placed since is another: fixed at today's rates, and in a number of cases used as much for rescue recapitalization as for efficiency — retiring senior or mezzanine debt rather than funding improvements.

That second category is a permanent, fixed, senior-to-the-mortgage obligation, placed disproportionately on assets that reached for it precisely because they were already straining. When those assets weaken, the assessment does not soften with them. It runs with the land. It survives the foreclosure. And it lands, in full, on whoever takes the property next.

We would observe — without characterizing anyone's conduct — that a product marketed almost entirely on its behavior in performing deals has been placed, in significant volume, on assets that were already straining when they reached for it. Residential PACE drew years of regulatory scrutiny over how it was sold. Its commercial cousin has operated with a fraction of that oversight. Whether that asymmetry is warranted is not yet a settled question. We simply note that it exists, and that we underwrite as though it does.

What it means for how we buy

For a buyer who cannot operate, a C-PACE assessment on a distressed hotel is a reason to walk. It is a fixed, senior claim that sits ahead of the mortgage and poisons the return math on a passive hold.

For a buyer who can operate, it is simply another line to underwrite correctly. We do not need the assessment to disappear. We need to know exactly what it is, model the burden it imposes across the hold, and price the asset accordingly — assessment included. Which means we can transact at a number that resolves the C-PACE lender's problem while still earning our return, because what we are buying is an operating recovery, not a discount we hope to arbitrage.

The party that placed the safest money in the building is, in the assets we watch, increasingly the party looking for someone to take the building. When the senior lender has walked and the county's clock is running, that party does not need a caretaker. It needs an operator who will step in, stabilize the asset, and buy it at a basis that clears — before the tax authority becomes the one who decides.

We intend to be the call they make.

Theosis Capital Management acquires and repositions distressed hospitality assets. We don't pursue opportunities. Opportunities pursue us.