

PACE Financing for New Minneapolis Skyscraper

The new mixed-use 37-story glass and steel RBC Gateway on Nicollet Mall is one of the most prominent and striking projects in recent years to emerge in downtown Minneapolis.

Owned and developed by United Properties, the 1.2 million square foot building boasts the city's first five-star luxury hotel, The Four Seasons; 34 private condo residences on the top six floors; and a public plaza with green space. It is the tallest building added to the city's skyline in two decades.

The mostly leased 531,000 square feet of office space in the \$433 million project will host several big-name companies, including RBC Wealth Management, JLL, and seven Pohlads Companies, including United Properties. The 222-room Four Seasons Hotel portion of RBC Gateway received a \$20 million Property Assessed Clean Energy (PACE) from the PACE Loan Group. It's the largest PACE loan in Minnesota history.

Emerging Market for PACE

Pete Klein, MinnPACE vice president of finance, said at least 10 hotel projects used PACE financing in recent years. "We've seen PACE used for hotels from Austin to International Falls," Klein said. "Hotels are a good niche for PACE."

The reason? Klein said that primary lenders have been lowering the percent of projects they will fund on first mortgages, leaving developers to find other financing or provide greater equity. Those options cost more than PACE. "Because of that PACE has come in,

reduced the amount of equity that a developer needs to provide for a project and lowered the cost of financing," he said.

According to Laura Arritt, marketing for PACE Loan Group, the building qualified because of PACE-eligible features involving the building's glass exterior and high-efficiency water, lighting and mechanical systems.

Where PACE Fits

PACE often adds to or replaces mezzanine funding and can represent 20% to 30% of project costs. In addition, Arritt says that PACE loans have interest rates around 5.35%, substantially less than mezzanine debt rates of 13% to 20%. The Four

United Properties chief financial officer Eric Skalland explained the project's structure before addressing the PACE loan. United Properties wholly owns the hotel portion of RBC Gateway and shares ownership with a venture partner on the office and condo sections. "We wanted to own the hotel ourselves and bring the first five-star hotel to the city of Minneapolis," he says. "It's a longer-term investment which the Pohlads family supported."

Construction began in 2019. Costs increased as United Properties wanted to upgrade the building and the hotel "to improve the customer experience and make it an even better asset," Skalland says. While discussing the changes, he and his team looked for ways to finance energy conservation measures United Properties had used in other projects on a much smaller scale.



One feature covered through MinnPACE was the purchase of highly efficient glass manufactured by Owatonna-based Viracon. United Properties could have used less expensive glass made in China, but the PACE loan allowed it to use higher quality glass. Since RBC Gateway is a nearly all-glass building, the investment should save money on heating and cooling for decades.

PACE also helped pay for LED lighting and occupancy sensors that turn lights off or dim them for daylight harvesting. “The PACE funds covered a lot of those costs, which then allowed us to make other enhancements to the hotel, whether it was upgrading the rooms and the restaurant, adding an indoor pool, or making the common areas in the ballrooms nicer,” he says.

Filling the Gap

Without the PACE loan, the options for more financing of energy efficiency-related equipment would have been challenging, especially with the state of the hospitality industry during COVID.

For example, United Properties would have likely secured a mezzanine loan or financing with an interest rate of 11% or 12% compared to 5.5% for PACE, Skalland says. And those loans would have had shorter amortization periods instead of PACE’s 20-year special assessment without any balloon payments, he added. United Properties had to overcome a few obstacles in using PACE. Six banks financed RBC Gateway.

The company’s lead banker told Skalland it had never approved a PACE loan on any project and had to feel secure in the project taking on more debt. PACE Loan Group worked closely with U.S. Bank and the other lenders on explaining how PACE works and how they hold no liability for payments.



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