MGBA-ESCO-JA-05

Split-Incentive Talk Track & Objection Cheat Sheet

Leading with capital, handling the triple-net conversation, and the nine objections you will actually hear

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You walk into a private commercial building and lead with savings — the audit, the measures, the guarantee. In the public sector that is the right lead, because the customer's real constraint is the operating budget. In private commercial real estate, savings are almost never the binding constraint. Capital is.

The owner is not unaware the chillers are failing. The owner knows. They have a capital plan, and your project is not in it, because it is competing with tenant improvement allowances, leasing commissions, debt service, and distributions to partners. So flip the order.

The capital-led opener

> **ROUGHLY THIS**
>
> We can do this without your capital, without touching your credit facility, over a term long enough that the annual cost is less than what the building is spending today — and in most lease structures, that cost is recoverable from your tenants.

Then your savings analysis answers the natural follow-up, which is: how do you know?

Notice what you did not do. You did not open with a payback period. Payback is a metric for somebody spending their own money, and this owner is not. What moves a private owner is annual cash flow, net operating income, and what happens to value at sale. Speak in those.

Three rules for the whole conversation

1. **You are not the lender, and you are not the assessment.** Owning that clearly is what makes you credible instead of promotional.
2. **Your guarantee is a credit enhancement to the owner, not to the capital provider.** Presenting it as though it secures the financing is inaccurate, and a sophisticated owner will catch it.
3. **Do not oversell.** Describe the mechanism accurately, present numbers you can support, and let the structure do the persuading. It is a strong enough structure that it does not need the help.

The triple-net talk track

Bring the split incentive up yourself. Do not wait to be asked. Raising it before the owner does is one of the strongest credibility moves available in this entire conversation.

Beat	What to say
They raise it	"My building is triple-net. My tenants pay the utility bills. If I spend two million dollars on mechanical, I get the invoice and they get the lower bills."

Beat	What to say
Name it	That is the split incentive, and it is why a huge share of commercial buildings never get retrofitted. It is also the objection this mechanism answers best.
Draw the distinction	A C-PACE assessment is not a loan payment. It is an assessment on the property. In most commercial lease structures that is a recoverable operating expense — it passes through under the same provision that passes property taxes through.
Correct the overreach immediately	Your tenants pay their share of it. And their share is offset — often more than offset — by the utility reduction they are getting from the same equipment. The cost lands with the party receiving the benefit. That is the whole point.
State the two conditions	Your lease language has to permit it, and leases vary — your counsel reads the actual documents, not my summary of them. And it has to be disclosed to your tenants properly and early.
Handle the tenant question	A pass-through that shows up as a surprise line item damages a tenant relationship, and that costs more than the project saved. Almost all the friction comes from surprise, not from the number. Walk tenants through it in advance — here is the equipment, here is the reduction on your utility line, here is your share of the assessment — and there is very little pushback.
Close the beat	You get a modernized building, higher net operating income, and a more competitive asset, and you do not fund it out of equity.

DO NOT OVERSELL THE PASS-THROUGH

Two sentences protect you and both belong in the conversation: the lease language has to permit it, and their counsel reads the actual documents rather than your summary. An owner who later finds their leases do not permit recovery will remember which of you said it was automatic.

Objection cheat sheet

Keep this with you until these are reflexes.

What you will hear	Say this	Have ready	Do not say
"A lien on my property? No."	It is a special assessment — like the sewer assessment already on your parcel. You consent voluntarily, the amount is fixed and known, and it does not accelerate on default. Here is the annual number.	The annual assessment figure. The parcel's existing assessments.	"It's not really a lien."
"I'm selling in four years."	The assessment transfers with the building. Your buyer acquires new mechanical systems, lower operating expense, and longer remaining asset life. Where net operating income improved, that gets capitalized into value.	Pro forma NOI with and without the project. Remaining useful life by measure.	"You'll get all your money back at sale."
"My broker will say it complicates the sale."	It is disclosed and negotiated like any other assessment on the parcel. It is not a surprise at closing, and it is not the first assessment your buyer will have seen.	A one-page disclosure summary the broker can hand a buyer.	"Brokers don't understand this."
"My lender will never agree."	Lender consent is routine, and there are well-established reasons they grant it. Let me prepare the package.	MGBA-ESCO-JA-04. The four-point answer. A realistic timeline for their loan type.	"We can do it without your lender."

What you will hear	Say this	Have ready	Do not say
"Your rate is higher than my bank's."	Compare the structure, not the coupon. Term, amortization, recourse, covenants, the borrowing capacity you keep, the pass-through, and the equity you do not spend. On annual cash, longer and fixed usually beats shorter and cheaper.	MGBA-ESCO-JA-01. Annual cash comparison at both rates over both terms.	"Rate doesn't matter."
"What if the savings don't show up?"	That is my risk, and here is exactly how the guarantee works.	Your guarantee terms in plain language. The margin above the threshold in your analysis.	Anything implying the guarantee covers the assessment obligation.
"How long is all this going to take?"	Two to four months from stable scope to funding on a clean deal. Most of that is your lender and the program review, not construction. If we start the lender conversation this month instead of after you sign, we take four to six weeks out of it.	The two-lane map from MGBA-ESCO-JA-03.	"Six weeks." An owner promised six weeks and given fourteen remembers the fourteen.
"Can I pay it off early?"	Prepayment terms are set by the capital provider and vary. I will get you the actual terms before you sign anything.	Nothing — go get the answer.	Any prepayment terms you have not seen in writing.
"I'll wait until the equipment actually fails."	Emergency replacement is the most expensive way to buy a chiller, and it happens on the vendor's schedule rather than yours. This is the mechanism that lets you replace it on a plan instead of on a Tuesday in August.	Remaining useful life and current maintenance spend on the failing systems.	Predictions about a specific failure date.

Where the guarantee belongs

Notice where the guarantee appeared in that sheet — at the end, as the answer to a specific question. Not in the opening. And be precise about what it does not cover.

> **NEVER BLUR THIS LINE**
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> Your guarantee does not guarantee the owner's assessment obligation. That is owed to MCED either way. A savings shortfall triggers your contractual remedy with the owner; it does not reduce, suspend, or offset the assessment.
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> This is the line most likely to get crossed in a live sales conversation, and crossing it is the fastest way off the registry.

Two phrases to retire

Retire	Why
"It pays for itself"	It may, and if it does you can show the arithmetic. As a headline claim it is a promise about an outcome you do not fully control, and it draws complaints.
"No cost to you"	There is a cost. It is on the tax bill. Describing it any other way is precisely how PACE programs in other states got themselves into trouble.