MGB ACADEMY

C-PACE FOR PROPERTY MANAGEMENT COMPANIES

Lease Pass-Through Review Guide

Reading recovery language before you structure anything

DOCUMENT CODE	VERSION	ISSUED
MGBA-PM-JA-06	1.0	August 2026

BEFORE YOU STRUCTURE ANYTHING

Whether a C-PACE assessment is passed through to tenants is a lease-language question, not a C-PACE question. Read the recovery clauses. Confirm with counsel. Do not assume.

This guide helps you read a lease and frame the question. It does not answer it, and nothing in it is legal advice. The answer comes from the owner's counsel on the specific document.

WHY THIS IS THE SEGMENT THAT MATTERS MOST TO YOUR JOB

The assessment is billed and collected on the property tax bill as a special assessment. In most commercial lease structures, and in triple-net especially, property taxes and assessments are passed through to tenants as a recoverable operating expense. Because C-PACE rides the tax bill, it frequently falls into that same recoverable category. Frequently is not always, and the difference lives in language your predecessors negotiated years ago.

STEP 1 — LOCATE THE CLAUSES

For each lease on the property, find and photocopy the following. Work from the executed lease and every amendment, not from the abstract.

- ☐ The definition of Taxes, Real Estate Taxes or Impositions.
- ☐ The definition of Operating Expenses or Common Area Maintenance.
- ☐ The exclusions list within Operating Expenses.
- ☐ The capital expenditure clause and any amortisation provision.
- ☐ Any gross-up, base year, expense stop or cap provisions.
- ☐ The audit and contest rights.
- ☐ Any assignment, estoppel or SNDA provisions that reference assessments.

STEP 2 — ASK THE EIGHT QUESTIONS

#	QUESTION	WHAT A PROBLEM LOOKS LIKE
1	Does the tax definition reach assessments, or only ad valorem taxes?	Language limited to "ad valorem" or "general real estate taxes" may not reach a special assessment.
2	Does it reach special assessments specifically?	Silence is ambiguity, and ambiguity in a landlord-drafted lease is often construed against the landlord.
3	Are voluntary or owner-initiated assessments excluded?	An exclusion for assessments the owner elected to incur is directly aimed at this.
4	Is there an exclusion for capital improvements?	A C-PACE assessment funds capital work; a broad capital exclusion may pull it out of recovery.
5	If capital is recoverable, on what basis?	Amortisation over useful life at a stated rate may produce a different annual figure than the assessment itself.
6	Is there a base year, expense stop or cap?	A new assessment above the stop or cap may be unrecoverable in whole or in part.
7	How long is the remaining term against the assessment term?	A five-year lease against a twenty-year assessment recovers only a fraction; the balance sits with the owner.
8	Do audit rights or contest provisions create exposure?	A tenant with audit rights will ask what this line is. Plan the answer before the invoice.

STEP 3 — RECORD THE READ

TENANT / SUITE	LEASE TYPE	TERM REMAINING	RECOVERY READ	COUNSEL CONFIRMED
			Likely / Unclear / Unlikely	Y / N

STEP 4 — COMPUTE THE RECOVERABLE SHARE

Aggregate by rentable square footage. The output is a percentage of the annual assessment that is likely recoverable across the rent roll, and a plain statement of what the owner carries. Owners forgive an imperfect estimate. They do not forgive a surprise.

THE ALIGNMENT ARGUMENT — AND ITS LIMIT

Where the assessment is recoverable and the improvement lowers tenant operating costs, the result is genuine alignment. Tenants contribute to an assessment that funds improvements reducing their own energy bills and improving their space. On a net basis, in a well-structured project, the tenant is often flat or better while the building is materially upgraded. That is a conversation you can have with a tenant without flinching.

The limit. The argument only holds where the savings actually reach the tenant. In a building where tenants are separately metered and the improvement is landlord-side, tenants may pay a recoverable assessment and see none of the savings. Identify that mismatch before it appears on a reconciliation statement.

TALKING TO TENANTS

1. Tell them before the first billing, not after. A line item discovered on a reconciliation is an adversarial conversation.
2. Lead with the improvement, not the assessment. What is being replaced, why, and what changes in their space.
3. Show the net position honestly, including where a tenant is a net contributor.
4. Give them the operating cost figures. A tenant who can see their own energy line move will accept the mechanism.

WHERE THIS GUIDE ENDS

This is a preparation instrument. Every read recorded in Step 3 goes to the owner's counsel for confirmation before any recovery position is represented to a tenant, to an owner, or to a capital provider.

Markets set in motion. It all starts with collaboration.

Missouri Green Banc · Administrator of the Missouri Clean Energy District · (866) 554-4083