

Play the PACE Card

Program for financing energy-saving building upgrades can help you close the deal

By Contributing Author, Special to Scotsman Guide

Across the nation, there is growing acceptance of a relatively new and innovative way for building owners and real estate developers to gain access to capital. It's a tool that commercial mortgage brokers should become familiar with, too, as they work to expand financing options for borrowers.

The financing vehicle is called a Property Assessed Clean Energy, or PACE, loan. Some 30-plus states have approved the financing program, and it is actively being used in about half of them. This financing tool, which is used to fund energy-efficiency upgrades for commercial and residential properties, is quickly gaining traction.

PACE loans are tied to properties via liens and are repaid through a special assessment on the property's regular tax bill. In many cases, the energy savings produced through the PACE-financed improvements exceed the PACE loan payments.

PACE offers a fresh method for addressing some of the financing challenges faced by building owners and the brokers working with them. PACE financing allows commercial building owners to obtain financing for items that have a direct impact on utility bills. Some common energy-conserving projects that can take advantage of PACE financing include lighting, roof, window, insulation and system-control upgrades; heating ventilation and air conditioning (HVAC) improvements; and refrigeration, elevator, escalator, solar and geothermal enhancements.

Value added

Across the country, obtaining construction financing is becoming substantially more challenging. Construction costs are on the rise. Simple capital stacks often require equity



Photo illustration by Karen Steichen

commitments that don't line up well with the return requirements for investors. Complex capital stacks still have financing gaps that need to be filled.

In addition, with the amount of new commercial property being delivered to the market, older properties — more than ever — need to be renovated to retain their tenants. In many cases, building owners have deferred maintenance that needs to be done.

If you are working on financing for a property and want to add value for your client, PACE can be the way to do it. If the transaction involves construction, chances are that PACE can make the project more attractive.

PACE helps mortgage brokers shine by allowing them to bring additional capital to the project while also serving as a resource for clients, above and beyond mortgage financing. It also allows brokers to stand out from the competition by offering them a solution that can be marketed as an additional financing tool.

PACE history

PACE is modeled after special-assessment methods used to fund other public benefits, such as sewers, sidewalks and firehouses. While those projects are normally funded publicly via special local property-tax assessments, PACE is voluntary and is used to finance an energy-saving project for a specific building. The building's owner then repays the loan through a special assessment on their property tax bill. The PACE lien also follows the property and can be transferred to the new owner in the event of a sale.

Special assessments for the public good have been utilized for hundreds of years in the United States. In the case of PACE, the public benefits from environmental sustainability, economic development and job creation, without putting taxpayers on the hook for the cost of the improvements.

The PACE concept was conceived more than a decade ago by Cisco DeVries, who served as chief of staff to the mayor of Berkeley, Calif. The goal was to provide a way to help achieve the city's climate-protection goals. In the energy-efficiency industry, access to capital has been a long-standing barrier for projects.

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DeVries saw the PACE concept as a way to attract capital to energy-saving projects and make more of them viable. In 2008, California became the first state to pass PACE-enabling legislation. Since then, 32 additional states and the District of Columbia have passed PACE legislation, with several additional states working to enact similar measures. PACE programs are now operating in 19 states and the District of Columbia.

Wide reach

PACENation, a national nonprofit supporting PACE advocacy and market research, reported at the end of 2016 that about 1,000 Pace-funded projects have been completed in the commercial sector, with a combined value of \$335 million. PACE financing is available for almost any property type, except government-owned buildings. PACE projects have been financed across the entire spectrum of commercial properties, including multifamily, hospitality, office, retail, medical and industrial.

A PACE-financed project involves a variety of stakeholders, including the building owner/developer, contractors, the lender and local improvement districts — which typically issue bonds to cover the costs of the PACE

energy-efficiency upgrades, and investors are then paid back over time through the property special assessments. Each state has its own requirements and, often, the local PACE improvement district does as well.

The lender also must approve the use of PACE financing on a project, given it affects the lender's lien status on financing the property. An energy audit of the property also must be completed. The audit may be a simple calculation of savings, or it could involve a far more extensive study of the property.



PACE financing is a relatively new program in many states that is designed to assist building owners and developers in upgrading new or existing buildings to advance environmental sustainability and achieve energy-cost savings. PACE has many attractive characteristics for commercial real estate transactions.

It is a tool that can be used in renovation, redevelopment or new construction projects. Whether a project needs to reduce the cost of capital, cover a gap in the loan-to-value ratio or involves replacing old equipment to increase cash flow, PACE can be a financing option. It is a valuable tool for commercial brokers working to make sure a deal comes to fruition. ■