



# What is PACE?

A way to finance a green retrofit with no upfront costs.



kango

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PACE stands for Property Assessed Clean Energy. It's a form of financing that allows property owners to pay for their energy- or water-saving improvements by means of an additional assessment on their property tax bill.

PACE financing has several advantages that could benefit hotel owners:

- > Minimal upfront cash needed.
- > Repayment is scheduled over a 5- to 20-year term.
- > Payment is off-balance-sheet and treated as an operating expense.
- > Assessment is transferred to new owners if the property is sold, which makes it good for extensive retrofits with a longer payback period.
- > Lower cost of capital because PACE transactions are bundled and funded with bonds.

PACE provides very competitive financing. It attracts lenders and investors to the energy-efficiency retrofit space by:

- > Providing security through a senior lien position.
- > Bundling and securitizing energy efficiency loans for secondary markets, much like home mortgages.
- > Standardizing loan underwriting.

Details of PACE programs vary by the jurisdiction. Some may select a single entity to serve as PACE administrator *and* financier in exchange for free program administration. Others have multiple financing entities compete in the marketplace.

PACE: Sample Project Economics	
Project cost	\$1,000,000
Interest rate	7%
Term	20 years
PACE assessment	\$110,000 / year
Energy savings/NOI increase	\$150,000 / year
Surplus savings	\$40,000 / year
Property value increase @ 7.5% cap rate	\$533,000

SOURCE: Los Angeles Better Buildings Challenge website