

Financing Post-Pandemic Building Upgrades

Due to the impact of COVID-19 many building owners are strapped for cash. Even though needed building upgrades may be long overdue, a business that has been idled for months may find it hard to produce the cash needed to launch such projects. A unique funding option known as Property Assessed Clean Energy ([PACE](#)) makes this the perfect time to fund upgrade projects with an energy efficiency component. Compared to traditional funding options, PACE not only saves the property owner money but can provide new-found capital.

PACE finances 100% of the project costs while commercial bank loans typically require a down payment of 15-25%. PACE loans are also non-recourse-it is the property that secures the loan, not the owner. PACE loans can be considered “off-balance-sheet” saving the owner’s borrowing capacity for other needs. And especially beneficial during these economic times, prior energy efficiency upgrades completed up to three years ago can be refinanced with a PACE loan at favorable terms. This provides the property owner with a new source of capital.

Here is a tool for explaining how Property Assessed Clean Energy (PACE) funding works as well as the benefits to a building owner.



- The bar on the left represents total energy expenditures prior to undertaking energy efficiency upgrades.
- The bar on the right represents the cost/savings profile following an energy efficiency upgrade funded with a PACE loan. It highlights the unique advantage of using energy savings to finance vital upgrade projects.

- PACE loans are repaid with a special assessment on the owner’s property tax bill. This is similar to streets, sidewalks, sewers, and similar upgrades. The interest rate takes into consideration the building’s value, the owner’s credit worthiness and their property equity.
- Qualifying upgrades include any improvement where the energy savings can be accurately measured. These upgrades typically include:
 - HVAC
 - Lighting
 - Energy control systems
 - Solar, wind, and combined heat & power systems
 - Geothermal
 - Wall and ceiling insulation
 - Windows and doors

- Depending on the age of the building and if there have been recent energy efficiency upgrades, these improvements often reduce energy costs by 40% to 50%. The post-upgrade energy expenditures are represented by the blue area.
- The orange area represents the total cost of the project including equipment, labor, material, audit, engineering, legal and financial-every cost associated with the energy efficiency improvements. The resultant savings are frequently greater than the entire cost which is represented by the green area. Many states require that the “savings to investment ratio” (SIR) be greater than one. That is, the project must be cash-flow positive.

To comply with building health requirements following the pandemic, owners may need to upgrade equipment. If these upgrades have an energy-saving component, financing them with Property Assessed Clean Energy is the smart funding option. It not only maximizes cash flow but may also result in a source of new-found capital.