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REGIONAL NEWS

Hilton Financing Propels L.A. County PACE Forward

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LOS ANGELES — A $7 million financing for environmental upgrades at a Hilton hotel in Los Angeles is expected to propel Los Angeles County's Property Assessed Clean Energy program forward.

PACE allows residential and commercial property owners to use municipal bonds to finance energy efficiency and water conservation projects. The costs are financed by bonds and repaid typically over a 15-to 20-year period by property owners in property tax assessments.

The financing, the largest commercial PACE project to date in the country, will pave the way for other large commercial property owners to use PACE financing for their green building upgrades, said Los Angeles County Supervisor Zev Yarovslavsky. The Hilton Los Angeles/Universal City project falls in his third district.

"We have 35 potential PACE financings in the pipeline," said John Patterson, the county's assistant director of finance. "Hopefully, this large deal will get publicity and some other people who have applied will decide to pull the trigger."

Financing was provided by Structured Finance, a company that finances the installation of alternative energy sources for commercial real estate buildings.

"Right now, we are focusing on commercial PACE and relying on private market transactions," Patterson said. "We are the conduit facilitator."

PACE liens are added to the property owner's tax bill and stay with the property if it is sold. The county will issue a PACE bond and use money from the annual tax assessment placed in a debt service fund to repay the lender.

The county's PACE bonds are one-off bonds for one property or project that have to be purchased by a qualified institutional buyer or credited investor, Patterson said.

"It also restricts the ability to sell," said Glenn Byers, the county's assistant treasurer. "You can only sell to other institutional investors or sophisticated investors. They can only securitize to the extent that any buyer has to meet the investment criteria. The average investor doesn't meet that criteria."

The financing represents the second one for the LA County PACE program since it was launched in 2010.

The first was a $200,000 energy efficiency project at the Long Beach Teamsters Hall in October that brought its energy usage to net zero, said Joe Berney, a principal with ReNewAll, a Los Angeles-based company that helps building owners design energy efficiency projects.

ReNewAll has been involved in both projects.

The Hilton project is expected to save $800,000 in annual energy costs and $28,000 yearly on water consumption, according to officials.

Energy efficient glass installations, new elevators and new LED lighting are among the projects expected to reduce energy consumption at the Hilton by 50%.

Water conservation efforts, such as the installation of 500 low-flow shower heads and the replacement of 250 bathtubs with showers, are expected to save 2.8 million gallons of water annually, equivalent to one month of the property's existing water usage. Construction began on Nov. 13.

PACE is the only “funding mechanism that is credible in providing verifiable information to our investors,” said Mark Davis, the Hilton Los Angeles/Universal City general manager.

The program is the only one that actually measures energy savings and ties it to the financing, explained Mike Bahr, a ReNewAll principal.

“If you went out for a second mortgage, the lender wouldn’t care what the energy efficiencies were,” Bahr said.

PACE is structured so repayment can be long enough that the savings from the energy upgrades are more than the actual payments, Berney said.

Like similar programs across the country, the L.A. County program was originally created in 2010 to help home owners pay for energy efficient upgrades to their homes.

Residential PACE largely stalled after the Federal Housing Finance Agency instructed government-sponsored enterprises Federal National Mortgage Association, known as Freddie Mae, and the Federal Home Loan Mortgage Corp., or Freddie Mac, to stop buying mortgages that have a PACE lien in July 2010.

Fannie Mae and Freddie Mac purchase home mortgages from banks, securitize them and sell them as mortgage-backed securities to investors.

Banks are reluctant to offer mortgages to homeowners that can’t be resold to Fannie or Freddie. The FHFA did not like that if a house is foreclosed on, repayment of the PACE lien is senior to the mortgage.

The county, like many other PACE program sponsors, switched its focus to commercial real estate.