

PACE LOANS – DOES SALE VALUE REFLECT IMPROVEMENTS?

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EXECUTIVE SUMMARY

Purpose of Research Paper: The purpose of this study seeks to examine how the resale value of homes that have gone through home energy renovations through the PACE (Property Assessed Clean Energy) program compare to similarly situated homes that have no PACE involvement. This study differs from past research in two key ways: One, it is the first such study to look at actual data of actual homes that have deployed PACE and been subsequently sold; and second, this paper seeks to determine not just whether energy renovations added value to a home, but whether the added value of the home energy renovation exceeds or falls short of its financing cost.

Methodology: This research study examines actual data of 773 homes that financed a renovation in California through HERO, a PACE program offered by Renovate America in partnership with more than 350 local governments. The authors, sought to compare the actual resale value of these 773 homes (adjusted downward for any PACE balance payoffs) compared to the resale value of similarly situated non-PACE homes using three different methodologies: 1) the actual adjusted resale price for PACE homes vs. a projected sales prices using three different home price indices; 2) PACE homes vs. a random sample of similarly situated non-PACE homes; 3) PACE homes vs. non-PACE homes using multivariate regression.

Results of Study:

- ***PACE Homes Sold at a Premium of \$199-\$8,882 over Comparable non-PACE Homes Even After Taking Into Account the Financing Costs of the Project:*** Every methodology and data point in the analysis showed a positive PACE premium at resale, ranging from \$199 to \$8,882. The home price index methodology showed PACE premiums of \$199-\$8,882. The methodology comparing PACE to a random sample of similarly-situated non-PACE homes showed a PACE premium of \$5,010. The multivariate regression methodology showed a PACE premium of \$4,042.
- ***Nearly \$7,000 PACE Premium for Homes Purchased from Foreclosure:*** Distressed sales that subsequently got a PACE improvement actually

produced a higher home value premium (our sample showed a \$6,824 PACE premium).

- ***PACE Home Energy Renovations Recover More than 100% of Cost, while Other Home Improvements Do Not Come Close to Recovering Their Investment Costs:*** Analysis from the RemodelMax and the National Association of Realtors has shown that investments in other home improvements such as kitchen and bathroom modeling on average recovered at resale 58-66% of their investment cost.
- ***Results May Be Conservative and Underestimate PACE Premium.*** We may be underestimating value of PACE improvements upon resale for two reasons:
 1. ***Deferred Maintenance:*** The majority of homeowners who utilize PACE decide to upgrade when the original equipment malfunctions or breaks. *If the improvement did not occur, the home value may well have been lower, and thus the PACE premium could be significantly higher in these cases.*
 2. ***Energy efficient improvements are a relatively recent phenomenon:*** Homebuyers may not fully capitalize the present discounted value of lower energy costs into the resale price, if they are unsure how long they will last. Over time, we may observe higher capitalization rates.