Multifamily Energy Efficiency Financing

4TH STATEWIDE ENERGY EFFICIENCY BEST PRACTICES FORUM
SACRAMENTO, CA JUNE 20, 2013

"MAKING ENERGY EFFICIENCY PROJECTS PENCIL OUT: FINANCING OPTIONS FOR LOCAL GOVERNMENTS, BUSINESSES AND RESIDENTS"

STOPWASTE.ORG
Reducing the Waste Stream for Alameda County

GREEN BUILDING
in Alameda County
www.BuildGreenNow.org
Opportunities

• In California, approximately one-third of households reside in multifamily buildings. ¹

Opportunities

- **Nationwide:**
  - > 70% of MF housing units constructed before established building energy efficiency codes.\(^2\)

- **In California:**\(^3\)
  - >2.4 million existing multifamily dwelling units, 15% market penetration would be ~336,000 Dwellings
  - A 25% energy upgrade of 336,000 dwellings =
    - 533,971 megawatt-hours (MWh) of electricity
    - 37 million therms of natural gas
    - Avoided greenhouse gas emissions would be 430,245 MTCO2E annually

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Presentation Outline

- MF HERCC
- MF Financing Mechanisms Overview
  - Low-Income vs. Market Rate
  - Emerging Mechanisms
Multifamily HERCC

- EPA Region IX convened:
  - Home Energy Retrofit Coordinating Committee (CA HERCC)
- StopWaste chairs:
  - MF Sub-Committee (MF HERCC)
- Consensus recommendations for multifamily energy upgrade programs & resources
  - Government, Utilities & Industry Professionals
  - Initiated during 2009-2013 stimulus funding
  - Continuing through 2013-2014 CPUC funding cycle
Program Design Recommendations & Tools
- Program delivery
- Individual measure & whole-building approaches
- Professional qualification & training
- Energy analysis software
- Performance measurement, tracking & benchmarking
  https://multifamily.energyupgrade.ca.org
- Low-income program access & coordination

Audit Protocol
- Combustion Appliance Safety Protocol
MF HERCC = Program Consistency

- MF HERCC Recommendations & Audit Protocol are referenced by the following California programs
  - ARRA Funded
    - Local Government (SMUD, San Diego, Los Angeles, Alameda County)
    - CSD WAP Multifamily Audit Protocol
  - CA State Treasurer Office/Tax Credit Allocation Committee’s (TCAC) Low-Income Housing Tax Credit (LIHTC) Program
    - Sustainable Building Methods for Rehabs
  - IOU EUC Multifamily Whole-Building Programs
  - SoCAL REN & Bay REN EUC Multifamily Programs
  - GreenPoint Rated Existing Home Multifamily
    - 3rd party-verified green & energy certification
Multifamily Financing - Generalizations

- MF financing is more like commercial than residential
  - Dealing with property owner/manager/investor, not homeowner
  - Financing “stack” complicates adding supplemental EE product
    - requires approval by existing lenders in stack
  - Equity investors resistant to add debt via supplemental loans

- Affordable Housing- Non-profit Owners
  - Leverage public funds & private capital through tax credits, bonds, subsidies, community development & commercial loans

- Market Rate- Independent & Corporate Owners
  - Corporate = Real Estate Investment Trusts & Joint Ventures
    - Pay-back periods can be beyond timeframe of owner’s investment (as short as 3-7 years)
Housing Finance & Energy Efficiency

- Low-Income Housing programs have EE criteria
  - State & Local Housing Finance Agencies
    - TCAC, CDLAC, Cal HFA, HCD
    - TCAC Low Income Housing Tax Credits (LIHTC) sustainable building methods aligned with CA HERS program & MF HERCC protocols
  - Housing & Urban Development: GRP, NSP
    - Green Capital/Property Needs Assessment (CNA/PNA)

- These sources of housing financing are major drivers for EE implementation in MF housing
  - Lacking equivalent drivers in the market rate sector
Emerging MF Financing

- Utility On-Bill Mechanisms
- Commercial Property Assessed Clean Energy (PACE)
- Credit-enhancement programs (co-financing, LLR)
- Fannie Mae partnership programs
Utility On-Bill Mechanisms for MF

- **IOU Statewide Commercial On-Bill Financing (OBF)**
  - Commercial meters/ MF Common Areas

- **Bay REN**
  - Pay As You Save (PAYS) – on-water-bill repayment, water & energy measures eligible, Pilot Partners - Town of Windsor, Hayward, EBMUD, SFPUC

- **Marin Energy Authority**
  - On-Bill Repayment Financing for Multifamily & Small Commercial

- **Potential pending CPUC Finance proceeding:**
  - On-Bill Repayment for master metered affordable housing
    - Tenant meter OBR – enabling legislation proposed as SB 37 (died)
Utility On-Bill Mechanisms

• Issues:
  o Complex ownership, customer & metering configurations in multifamily housing
  o Utility shut-off provisions
  o Transferability
  o Utility vs. lender functions (loan servicing)
Commercial PACE

- Commercial PACE programs available to Multifamily Owners
  - AB 811 contractual assessments require that
    - entity is eligible to pay taxes
    - senior lien
  - Debt obligation tied to property assessment
  - Repayments through property tax payment
Credit Enhancements

- Leverages existing lender infrastructure
- Makes conventional loan style products more attractive, preferably termed

Types of credit enhancements:
- Loan loss reserve
- Co-financing
- Debt service reserve
- Program Related Investments
LLR Example: Chicago’s Energy Savers

- CNTenergy + CIC (CDFI) lending partner
- City LLR from ARRA funding + 1% IR PRI
- Second mortgage, often behind CIC first mortgage
- Personal recourse
- 3% IR (vs. 5-7%), 7 year term
- 1.15 DSCR & 90% LTV
- Financed since 2008: 95 buildings / 3,238 units
Co-financing Example: NYSERDA

- Green Jobs Green NY: $11.5M through 2015
- Up to 50%, $500,000/project, $5,000/unit
- NYSERDA portion of the loan offered at 0% interest
- Term: 15 year or weighted life of improvements (by cost) whichever is lesser
- Since 2011: 4 loans + 6 in pipeline
- Very little marketing – all through trade partners
Fannie Mae- Green Refinance Plus

- Partnership with HUD & FHA
- FHA provides credit enhancement
- Limited to refinance
- Limited to subsidized affordable housing
- Must have Green PNA (PNA + energy audit + IPM)
- Up to 5% additional loan proceeds to pay for green + energy upgrades identified in Green CNA
Case Study: City Gardens, Santa Ana

- Fannie Mae Green Refinance Plus- LINC Housing
- Ratepayer rebate programs = $285,752
- Total financed = $307,214
- 10 year term
- 4.1% interest
- 1.1 DSCR
Fannie Mae NYC M-PIRE

- “Multifamily Property Improvements to Reduce Energy”
  - Available to low-income & market rate
  - Partnership with the NYC Energy Efficiency Corporation
  - NYCEEC provides credit enhancement
  - Extra loan proceeds for energy & water efficiency
  - Underwrites to a portion of projected energy & water savings in both common areas and tenant units
  - Allows up to 85% Loan-to-Value
  - Refinance or supplemental loans available
  - NY requires benchmarking/utility tracking
Looking Forward

- Develop market rate solutions to be a driver proven by low-income housing finance products
  - (e.g.; Tax Credits, Fannie Mae, Commercial Products)
- Multiple solutions necessary to serve complex market
  - Need to serve a broader portion of the market than low-income/subsidized housing & central/common meters
- Financing needed to close the gap in MF EE program offerings
  - Leverage EE programs’ infrastructure for Audits, CNAs, Quality Assurance
- Underwriting to savings
  - Savings increase NOI and therefore DSCR
  - **Better utility data access** to demonstrate pre- vs. post- savings to lenders
- Convene MF HERCC Financing Task Group in 2013
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