

# Combating Split Incentives in the Multifamily Market

ACEEE Energy Efficiency Finance Forum

Paul Cummings | May 15, 2013



# James W. Rouse

Our founder + inspiration



# Enterprise Green Communities



U.S. Department of Housing and Urban Development Secretary Shaun Donovan helped launch the next generation of Enterprise Green Communities

**Call to Action** to ensure that all housing with public subsidy and long term affordability requirements has the opportunity to benefit from green practices by 2020

**Enterprise Goal: nearly 100% green by 2013**

**Update: Still work to be done**



# One way to do this is to retrofit existing buildings

- Multifamily buildings **house our nation's poorest residents who bear double the energy burden**
- Residential buildings account for more than half of the built environment and **21% of all U.S. carbon emissions**
- **Energy reductions of only 20%** in federally subsidized buildings could **generate \$1 billion in savings**
- Need specific tools; **technical assistance and capital**

# Retrofitting buildings provides many benefits

## Property Owners

- Reduce Operating Costs
- Reduce Risk from fluctuating utility costs
- Reduce Vacancy
- Increase Durability
- Increase Regulatory compliance and access to financial incentives
- Increase public perception of brand

## Residents

- Reduced utility expenses
- Increase Healthier home and Indoor Air Quality
- Increase Sense of pride
- Increase quality of living
- Increased safety

## Lenders & Investors

- Increase quality investment
- Increase Competitive advantage over other lenders
- Increase Access to “green” investors
- Reduce risk through better operating practices

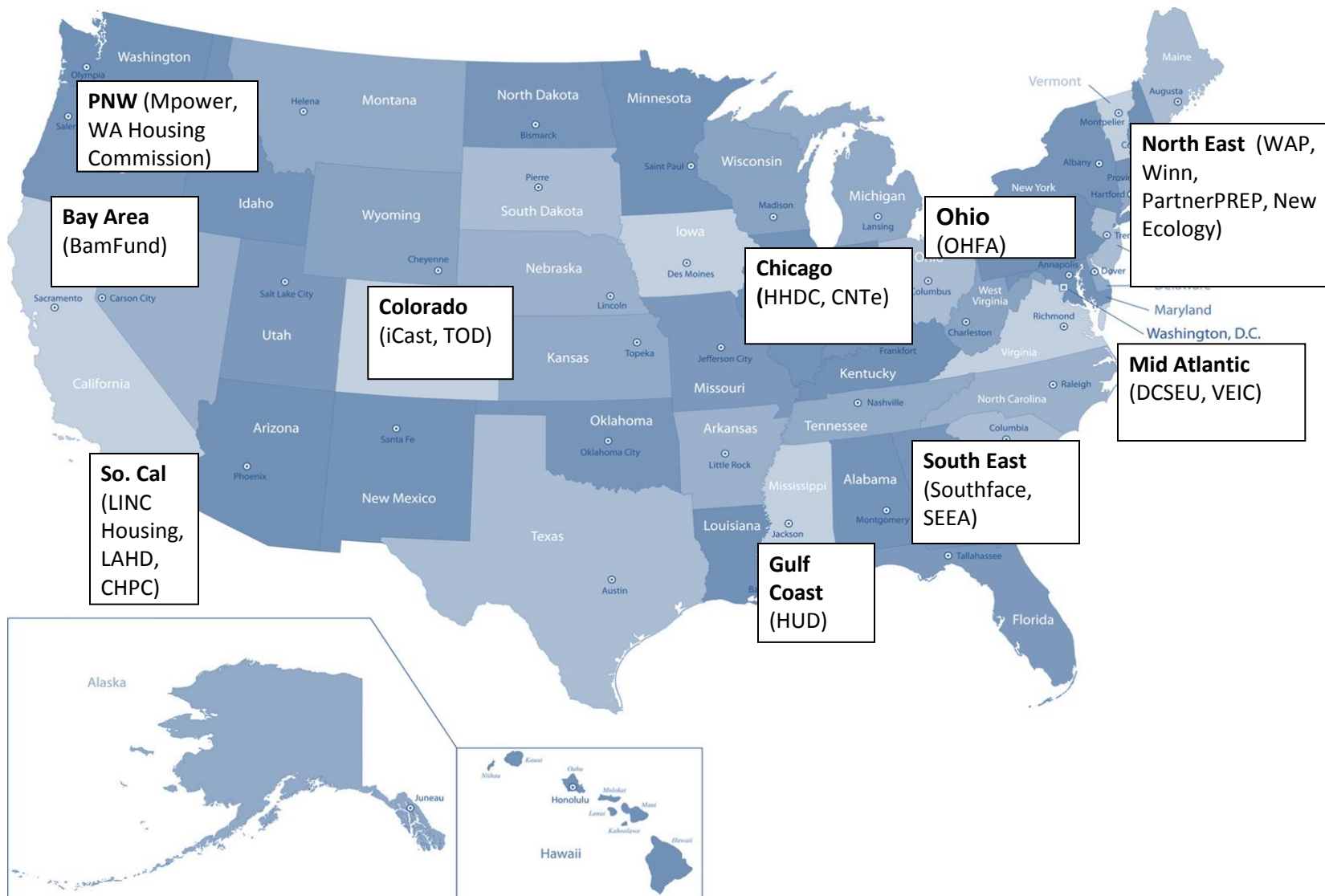


## Barriers

- Imperfect information
- Multiple energy audit tools
- Lack of comprehensive standards
- Limited technical capacity
- Inadequate financing
- Disaggregated benefits
- Split incentives



# Enterprise takes on retrofitting





# Enterprise green financing

## Innovative Products

- Addressing Split Incentives and financing barriers
- On Bill Repayment (M Power)
- OBR (LINC Housing/CHPC /SAHF)
- BOA Entity Line of Credit
- Fannie/Freddie long term green debt products
- Mission based ESCO Models

## Debt

- Short Term debt:
- Ad-On Loans (CA - \$409,000, Ohio - \$350,000)
- Entity Lines of Credit (Boston - \$1,000,000, Bank of America ~ \$5,000,000)
- Long Term debt:
- Fannie Mae Green Refinance Plus /Freddie Mac (\$31,400,000)

## Equity

- Incorporate Greening practices into existing products
- Organizational Transformation and 2020 Call to Action
- Best Practices in Green Development
- Green Communities Certification
- Multifamily Retrofit Protocols

## Policy

- Enhancing green financing efforts
- Partnering with Financial orgs, local, federal, state partners
- Fannie Mae, Freddie Mac, HUD, DOE
- Addressing barriers through comprehensive green services
- Addressing split Incentives through OBR, utility allowances

# Enterprise has made great progress

## Enterprise Technical Support

- Whole-Building Analysis
- Energy and Water Usage Data Collection
- Financing and Assembled Subsidy Sources
- Verification and Monitoring
- Training and Education

## Outcomes

- Funded **GCNA** to over **100 buildings** totaling **10,000 units**
- Funded around **300 building subscriptions** to **Energy Analysis software**
- Leveraged public and private dollars to create **\$30mm** national pilot funds across the country, and secured and are deploying **\$5mm** in BOA EE Finance capital coupled with green services
- Utilized energy analysis software to conduct ongoing M&V of all retrofits
- Through measures, trainings and education we have seen between **25% - 40% savings**

## Winn Development - Massachusetts

- **Village at Brookline**
  - Location: 77 Village Way, Brookline, MA
  - Units: 307 Affordable, Section 42, HFA
  - Property description: Three mid-rise buildings 7-9 stories high, 2-3 story townhomes, parking garage, significant green space, one senior building, family housing
  - Utility structure: All utilities paid by owner
- **Financing Structure**
  - Structure: \$964,474 line of credit, 20% equity (rebates)
  - Term/Rate: 10 yr, 3.75%
  - Repayment: 75% savings
  - Guarantee: Owner personal guarantee
- **Energy Scope**
  - Replace oil heating with natural gas considering boilers
  - Remove underground oil storage tanks
  - New pumps and controls for co-generation
  - Technology interface to manage monitoring
  - Common area, apartment lighting
- **Savings Results**
  - 25% energy savings
  - \$170,000/yr dollars saved



77 Village Way

# Case Study| ECLF Bank of America Energy Efficiency Entity Line of Credit Product

- **Adrian and Arden Avenue – New York**
  - Location: Adrian Avenue, Marble Hill, Arden Avenue, Inwood,
  - Units: Adrian Ave 55 Units, Arden Ave 80 units (72 residential and 8 commercial)
  - Utility Structure: Owner –heat and hot water, Tenant – electric, cooking gas
- **Financing:**
  - Structure: 8 year mini perm loan. BAC loan of \$730,000 at 3% and a \$905,000 ECLF mini perm loan. Sources also include WAP proceeds of \$213,500, leveraged by our BAC loan.
  - Rate: fixed blended rate of 4.34% , the interest-only term is 12 months.
  - Secured: first position on the properties
  - Repayment: assumes a 5% reductions in heating and electric costs, largely relies on the healthy cash flow of these properties.
- **Energy Scope**
  - Adrian Avenue Scope- 388 apartment windows, 12 common area windows and skylights, interior and exterior lighting upgrades, elevator replacements
  - 52 Arden Street - boiler replacement, installation of a heat computer, replacement of all wooden public hallway windows, apartment windows, an elevator motor, laundry room washer and dryer, exterior lighting upgrade and pipe insulation



9-15 Adrian Avenue

# Case Study | ECLF Bank of America Energy Efficiency Entity Line of Credit Product

## Product Highlight for the Borrower

- Very competitive low fixed-rate financing
- Self amortizing mini perm term
- Security flexibility – building collateral or full recourse to the Borrower
- Closing cost support
- Ability to blend in other capital sources for non energy scope
- Ability to deploy proceeds quickly

## Key Structuring Considerations for entity lines of credit

- Collateral
  - Real estate is not common because of other affordable covenants in place
  - Unsecured
- Recourse
  - Can be challenging in affordable housing developments
- Guaranty
  - Potential for sponsor guaranty, especially if financing is entity level
- Borrower type
  - Developer or SPE
- Credit Enhancement/Top Loss Capital
  - Typically needs to be identified from third party (public, private and philanthropic)





# Overall green financing learning's

## Learning's

- Process Takes Several Years
- Select Right Property to Achieve Savings
- Securing Sources Takes Time
- O&M and Resident Training is Key
- Ad-On Financing is Complicated
- Technical Assistance and Capacity is Key
- Streamlining the Process Saves Costs

## Solutions

- Plan Early
- Benchmark Your Portfolio
- Prescreen for Financials Early
- Build a Strategy to Ensure Success
- Utilize Existing Financing
- Assess Capacity Needs Early
- Align with Standards



## Goal: Strong Partners, Efficient Buildings and Healthy Communities

### Next Generation -

- **Simplify**- move toward simplified structures for both owners and capital providers (OBR, PACE-like structures)
- **Reframe** – move from product focus to process focus (comprehensive services and organizational transformation)
- **Collaborate** – scale portfolio level financing (public-private partnerships )





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# Multifamily Retrofit Toolkit

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### THE STEP-BY-STEP RETROFIT PROCESS



**1 Review Portfolio**



**2 Secure Funding**



**3 Select Property**



**4 Select Audit Protocol**



**5 Select Auditor and Conduct Audit**



**6 Determine Final Scope of Work and  
Select Contractor to Complete Renovation**



**7 Conduct Quality Assurance and Verification (QA&V)**



**8 Monitor Utility Use**



**9 Management, Operations and Maintenance**



Paul Cummings | Senior Vice President  
[pcummings@enterprisecommunity.org](mailto:pcummings@enterprisecommunity.org)

[www.EnterpriseCommunity.org](http://www.EnterpriseCommunity.org)  
[www.EnterpriseCommunity.com](http://www.EnterpriseCommunity.com)