



Financing Approaches to Retrofit Affordable Multifamily Housing

**Michael Bodaken
National Housing Trust**

**ACEEE Energy
Efficiency Finance
Forum**

May 7, 2012



National Housing Trust



- Protects and improves existing affordable rental homes so that low income individuals and families can live in quality neighborhoods with access to opportunities.
- Engages in public policy development that is informed by on the ground real estate development, lending and multifamily ownership.
- Why focus on energy efficiency?
 - Reduce carbon emissions and energy use;
 - Maintain affordability for low-income households; and
 - Create healthier, more comfortable living environments for families

Multifamily Challenges



- Affordable multifamily owners may lack capital and staff capacity to devote to energy efficiency improvements
- Need to integrate incentives with multiple funding sources and existing regulatory requirements
 - Potential tax implications
 - Limitations on how owners can use revenues/reserves
- Owners may be constrained from taking on new debt secured by the property
 - Subordinated debt position may be required
- Split incentive barrier
- Complex decision making process involving existing investors

Multifamily Opportunities



- Untapped market for energy reduction
- Lower administrative and transaction costs per unit = economies of scale
- Major rehabilitation projects are common in this sector- natural opportunity to include energy efficiency upgrades
- Getting to scale- A small number of owners or managers are connected with subsidized multifamily properties
 - E.g. Each of the top 50 affordable housing developers own more than 10,000 apartments on average.
- High motivation among owners driven by a need to keep operating costs low and rents affordable

Retrofit vs. Rehab



Retrofit

- Smaller scale/weatherization type upgrades
- Initiated by the multifamily owner/manager
- Shorter payback period
- Add-on financing where owners take on additional debt that is paid back through energy savings and not secured by the property.

Rehab

- More comprehensive, e.g. system replacements, etc.
- Occurs as the property is being recapitalized/refinanced
- Longer payback period
- Mortgage refinancing to pay for improvements with the debt paid back over the life of the mortgage.

Promising Approaches



- Use of grants/utility incentives to buy down the payback period;
- Low-interest or zero interest loans;
- Coordinate with major renovation and rehabilitation programs;
- Involve state housing finance agencies;
- Credit enhancements/ loan loss reserve fund for making low-interest loans available;
- Subsidize the cost of comprehensive energy audits;
- On-bill programs- Addresses the split incentive program;
- Require that the property be maintained as affordable

Sample Dev. Budget



- Scenario: Refinance of existing NHT/Enterprise asset; FHA 223(f) and Utility Funding
- 100 Section 8 apartments

DEVELOPMENT BUDGET			W/Utility Funds	No Utility Funds
<u>SOURCES OF FUNDS:</u>				
Available Debt As Calculated Above- NOI			3,269,921	3,269,921
Utility Funding			500,000	-
Existing Replacement Reserve			213,000	213,000
NHT/ Enterprise			281,130	281,130
TOTAL SOURCES:			\$4,264,051	\$3,764,051
<u>USES OF FUNDS:</u>				
Acquisition			(2,477,656)	(2,477,656)
Renovation/Rehabilitation			(1,443,200)	(1,443,200)
Soft Costs (See detailed Schedule attached)			(242,990)	(242,990)
Reserves (See detailed Schedule attached)			(100,000)	(100,000)
TOTAL USES:			(4,263,846)	(4,263,846)
SURPLUS/(DEFICIT):			205	(499,795)
<i>per unit:</i>			2	(4,998)

NHT Utility Engagement



- NHT & its partners are convening forums to engage utilities in select states: CO, IL, MD, MI, MN, OH, PA and RI.
- Utility funding for energy efficiency is \$6 B/annually. **Will be \$12 B/annually by 2020.**
- Funded by the Doris Duke Charitable & Citi Foundations
- Build the partnerships essential to create the shifts in attitude, policy and practice required to increase utility resources dedicated to multifamily affordable housing

Sample Model Programs



- Iowa Housing Finance Agency working with state utility to perform audits on all rural subsidized housing in the state; Avg. energy reduction: 20%.
- Maryland: State PUC just ordered Maryland Utilities to provide \$12 million to Maryland DHCD for retrofits;
- Rhode Island: National Grid working with Rhode Island Housing Finance on tax credit deals;
- DC Sustainable Energy Utility has set aside \$20 M for retrofits of affordable multifamily

Lessons Learned



- **Start with Local Energy Advocates** who are trusted by local/state utilities;
- Find small set of high performance, mission minded housing development organizations who can explain how the utilities' can meet their energy efficiency goals by retrofits of existing multifamily
- Key local partners: State Housing Finance Agencies; MN Green Communities, Energy Outreach CO, PA Utility Law Project, etc.

NJ PSE&G Residential Multifamily Housing Program



- \$39 million investment total; ratepayer funds
- PSE&G partnered with the New Jersey Housing and Mortgage Finance Agency to develop the program
- Building owners receive an on-site investment grade energy audit –at no cost
- All measures having a simple payback of 15 years or less will be eligible
- Buy-down incentives provided to reduce cost by 7 years –but to no less than 2 years
- 0% On-bill financing provided for remainder

State Housing Finance Agency Involvement



- Cooperative development of the program
- Pre-screening of properties to identify potential candidates
- Marketing/outreach to owners
- Review audit results with owner and advise owner during contractor solicitation
- Underwriting analysis

Maximizing Participation



- Significant financial incentives to reduce the owner's contribution to the construction costs;
- No up front cost to the owner by funding all construction costs initially
- Participating owners receive ongoing guidance and technical assistance for soliciting contractor bids.
- The repayment agreement does not place any liens or additional encumbrances on the properties, permitting the property to avoid dealing with existing debt holders.

NHTCDF Lending



- **Green Affordable Housing Preservation Loan Fund:**
Provides loans at reduced interest rates to encourage affordable housing owners to do more to incorporate green components in homes.
- Lending products include:
 - **Predevelopment Loans** to facilitate due diligence
 - **Interim Loans** allow purchasers to quickly acquire properties identified for preservation
 - **Green Retrofit Loans** to help fund the hard and soft costs related to energy retrofits of existing multifamily affordable housing.

For more information:

Michael Bodaken
National Housing Trust

- ◆ **E-mail:** mbodaken@nhtinc.org
- ◆ **Address:** 1101 30th St, NW, Suite 400
Washington, DC 20007
- ◆ **Phone:** (202) 333-8931
- ◆ **Web:** www.nhtinc.org

