Understanding Efficiency

An overview of energy and water efficiency and their positive impact on lenders, owners, and residents.

Uncommon Expertise. Unmatched Impact.

Community Preservation Corporation

ENERGY EFFICIENCY FOR ALL

Speakers

Yerina Mugica, Natural Resources Defense Council (Moderator)

Elizabeth Kelly, Community Preservation Corporation

Robert Riggs, Community Preservation Corporation

ENERGY EFFICIENCY FOR ALL

A coalition-driven, 12-state campaign to increase energy efficiency in affordable multifamily housing

** Strong presence in Atlanta, Chicago, Kansas City, Los Angles, Minnesota, New Orleans, New York City*

NRDC

NATIONAL HOUSING TRUST

ELEVATE ENERGY

ENERGY FOUNDATION

CDFI Clean Energy in Affordable Housing Learning Network

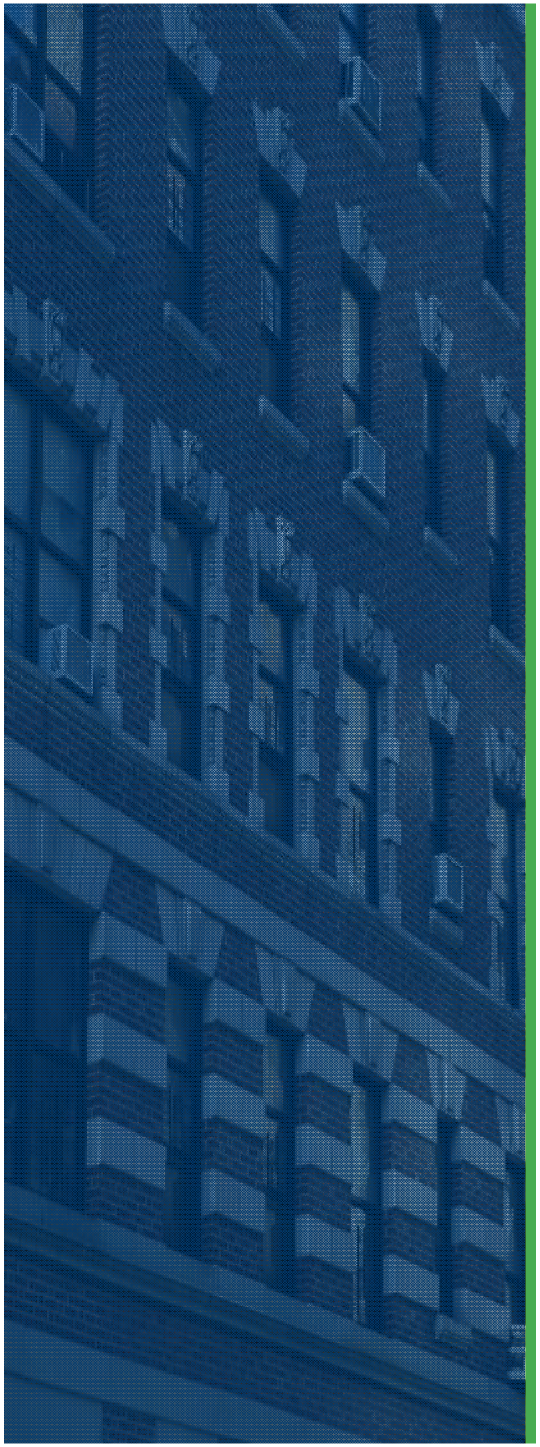
- A learning network of CDFIs that has gathered to share what has worked and explore opportunities for expanding and employing that knowledge.
  - Website with Resource Hub
  - Transaction Database
  - Webinar Series

Who We Are:
Community Preservation Corporation (CPC)

- Established in 1974, CPC is a nonprofit affordable housing and community revitalization finance company that believes housing is central to transforming underserved neighborhoods into thriving and vibrant communities.

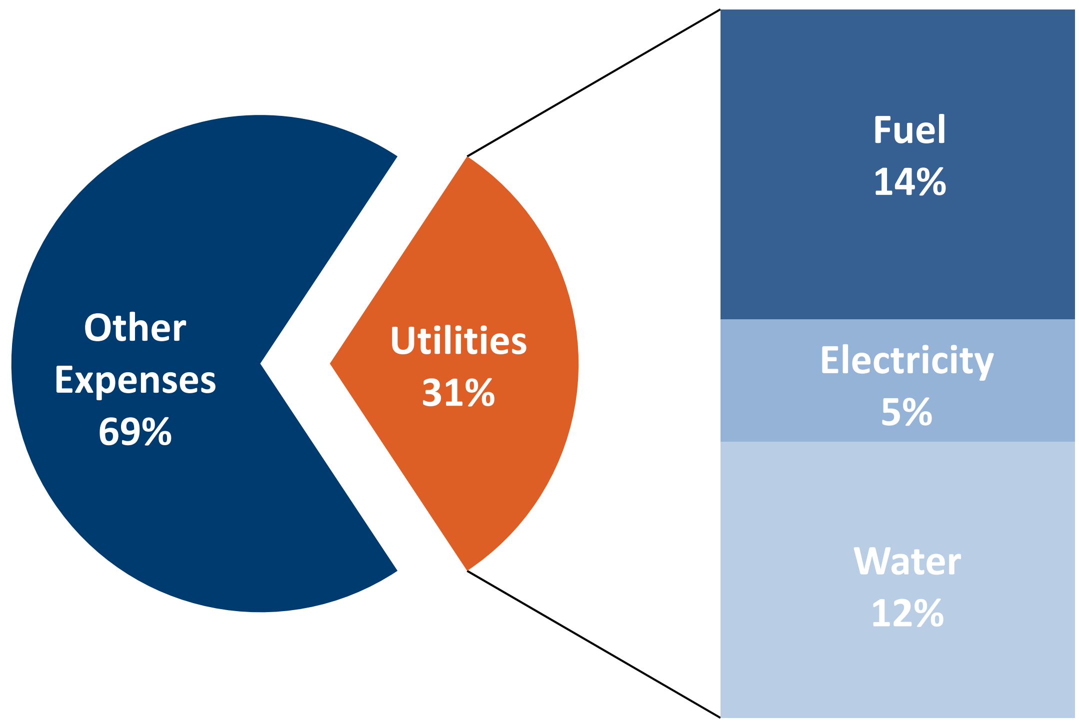
- We provide innovative capital solutions, fresh thinking, and a collaborative approach to the often complex challenges that owners and developers of multifamily housing face.

- With $9.7 billion in public and private investments, our work has helped revitalize countless neighborhoods and provided quality housing for low-income families, senior citizens, and individuals with disabilities.



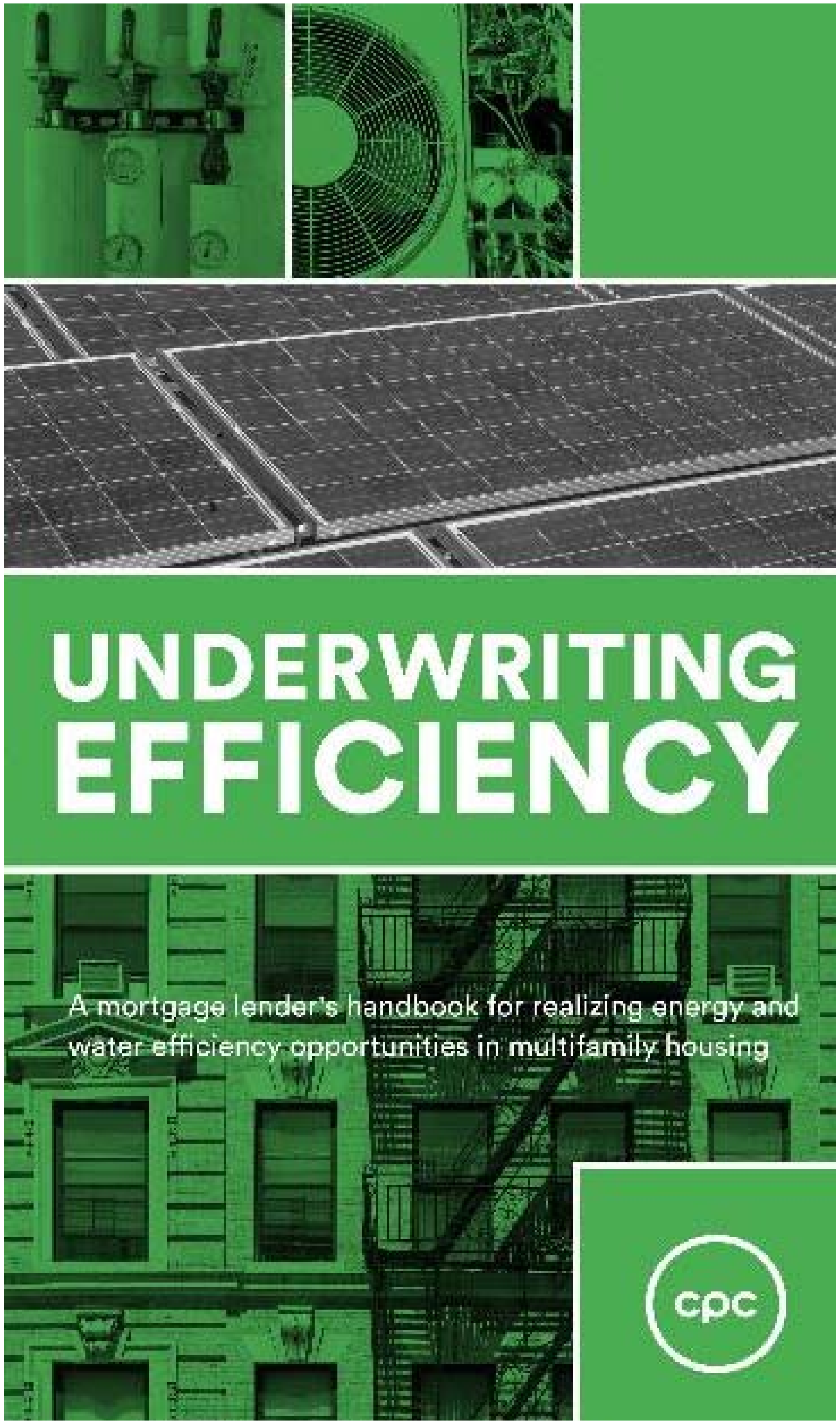
Why Efficiency? Why Now?

The cost savings associated with energy-efficient measures play a key role in ensuring the long-term economic stability of multifamily properties, which is critical to the preservation of rental affordability in our communities.



All Expenses v. Utility Costs

Derived from Income and Expenses statements annually submitted by CPC mortgage holders.



Sharing Best Practices

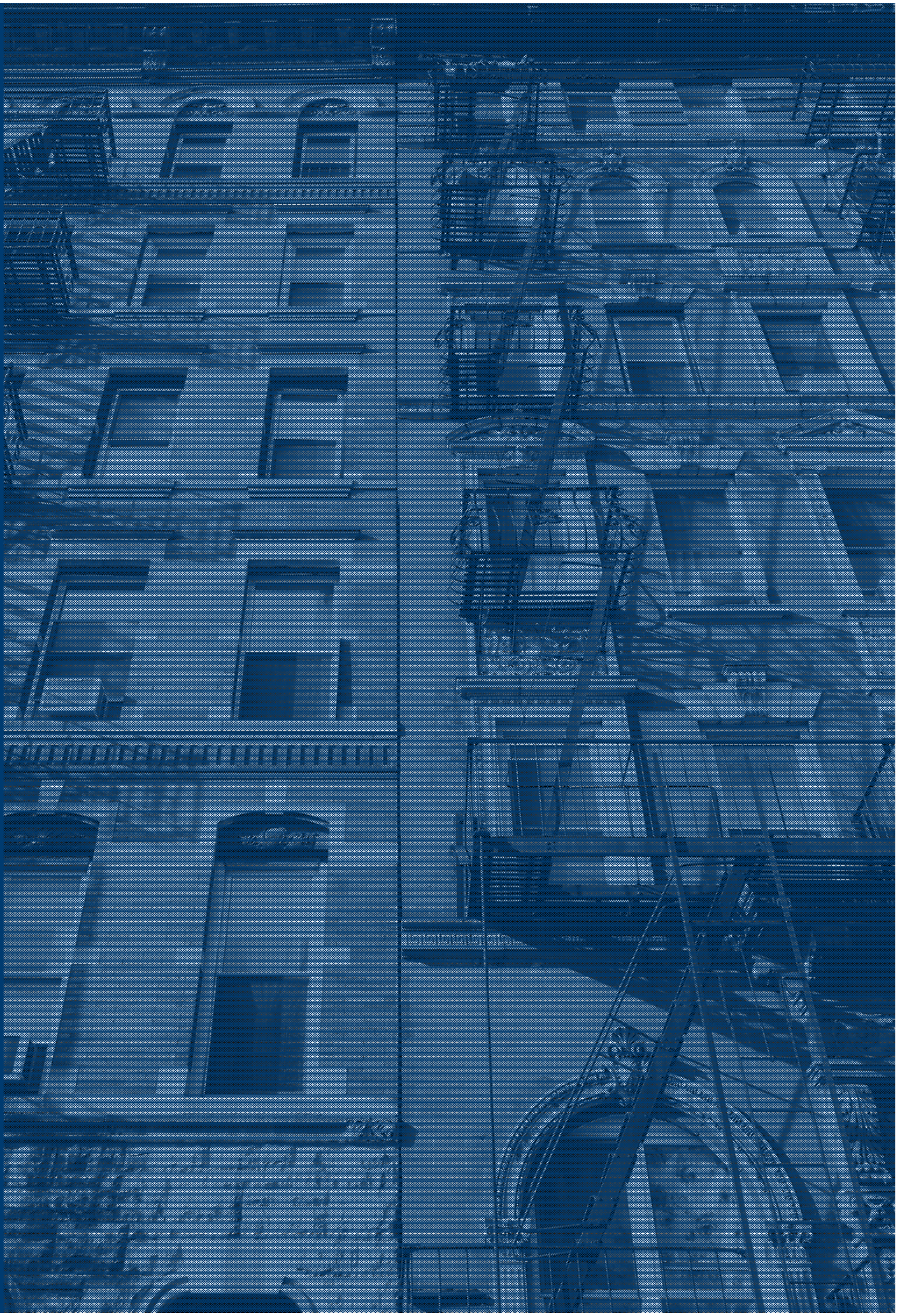
Underwriting Efficiency Handbook provides professionals with a resource to finance energy and water efficiency measures as part of a first mortgage

Overview:

- Understanding Efficiency
  - Today's Webinar Topic!
- Building Efficiency
  - Webinar 11/8, 3pm EST
- Integrating Efficiency
  - Webinar 11/29, 3pm EST

Property owners have the greatest access to capital when they obtain their first mortgages.

In every transaction, mortgage lenders have an opportunity to show building owners how to improve their financial performance by investing in building efficiency.



Understanding Efficiency

Understanding how energy and water efficiency can be beneficial to both borrower and lender is a critical step toward unlocking investment opportunities that improve loan performance and ensure long-term financial stability.

- Efficiency is straightforward
- There are real savings
- Efficiency increases cash flow
- Lenders play a role
- **THE CUSTOMERS BENEFIT**

THE SAVINGS ARE REAL

FACT: The average multifamily building can <u>cost-effectively</u> reduce annual energy bills by 15-30 percent and water bills by 15-50 percent.

EFFICIENCY IS STRAIGHTFORWARD

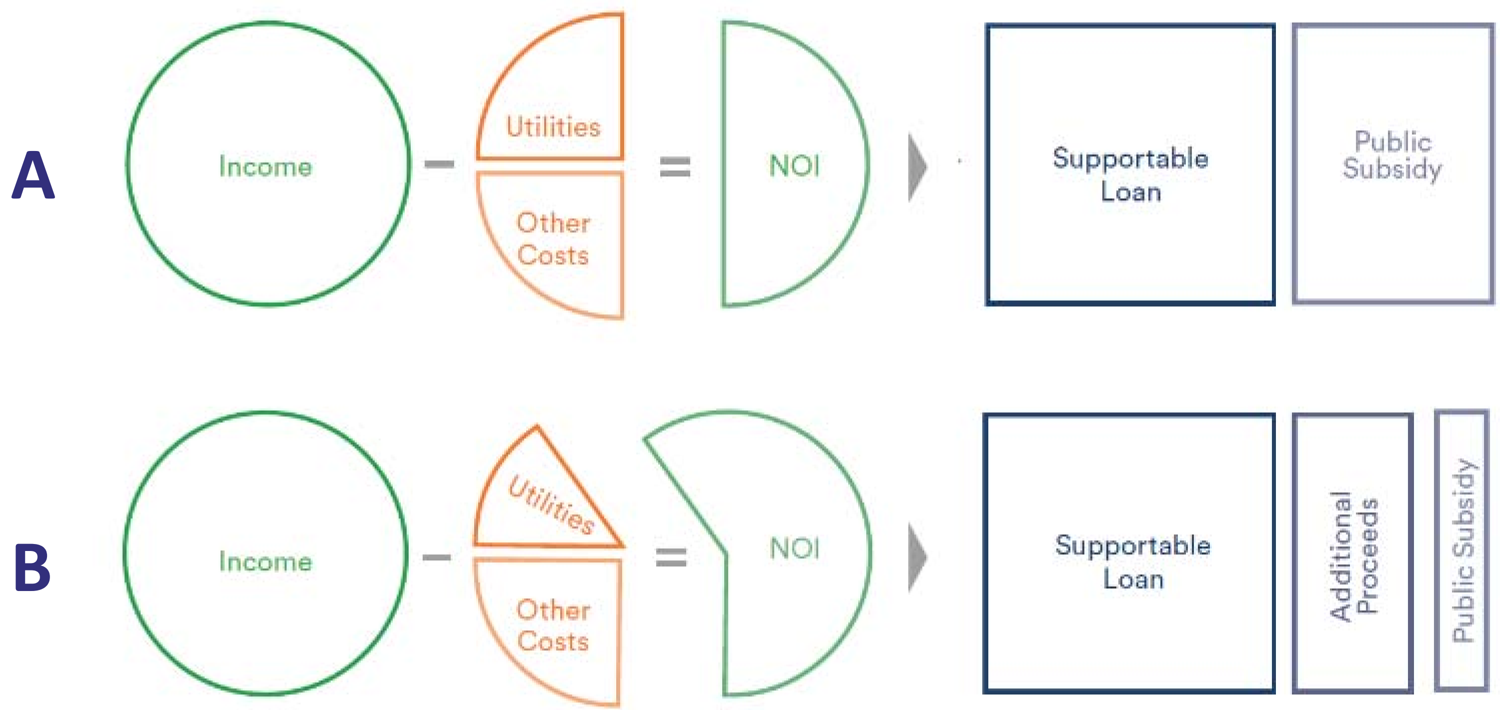
Simply, “efficiency” denotes measures that:

- ✓ Lower a property’s utility bills (electric, gas, oil, and water)
- ✓ Limit consumption of fossil fuels
- ✓ Conserve electricity and water
- ✓ Or add renewable energy generation, like solar and wind power.

	Measure	Property Type	Non-Energy Benefits	Savings
☐	Install Programmable Thermostats	Any		3%
☐	Install Low-Flow Sink Aerators	Any		3%
☐	Install Low-Flow Showerheads	Any		4%
☐	Air-Seal Common Areas	Any		2%
☐	Upgrade Common Area Lighting	Any		4%
☐	Upgrade Apartment Lighting	Any		2%
☐	Install Exhaust Fan Timers	Any		1%
☐	Repair Heating System Leaks	Central Boiler Heat		2%
☐	Insulate Heating Pipes	Central Boiler Heat		1%
☐	Tune Up Heating System	Central Boiler Heat		2%
☐	Insulate DHW Pipes and Tank	Central DHW		1%
☐	Install DHW Controls	Central DHW		2%
☐	Insulate Condensate Tank	Steam Heat		1%
☐	Install or Upgrade Master Venting	Steam Heat		3%
☐	Replace or Repair Steam Traps	Steam Heat		3%

EFFICIENCY INCREASES CASH FLOW

Efficiency reduces utility bills, maintenance costs, and vacancy, thereby increasing NOI and value.



LENDERS PLAY A ROLE

Owners may not be aware of saving opportunities or ways to obtain financing to fund improvements. Lenders play a key role by supporting borrowers in the following ways:

- Educating borrowers about the benefits of efficiency
- Helping identify opportunities for upgrades and improvements
- Financing upgrades and improvements with mortgage capital
- Connecting borrowers to private and public incentive programs, like tax credits and rebates

THE CUSTOMERS BENEFIT

There are significant benefits to owners who use mortgage loan proceeds to finance efficiency improvements at acquisition or refinancing.

Access to low-cost, long-term capital

Mortgage capital is the cheapest money available in the market.

Better loan terms

Customers can get lower interest rates and additional loan proceeds.

Marketability and Retention

Efficiency reduces housing costs while improving health and comfort.

CASE STUDY

Location: NYC
Size: 18 units
Type: multifamily, rental

Rehab Scope: $500,000
Efficiency Scope: $45,000
Projected Savings: 40%

	Historical
Income	
Effective Gross Income	$336,938
Less Expenses	
Water & Sewer	$13,500
Heat	$17,550
Electric	$7,020
Other Expenses	$108,899
NOI	$189,969
Debt Service	$151,976
Loan Amount	$2,293,470
Property Value	$3,454,000
Loan-to-Value	66%
DSCR	1.25

Start with annual income

Subtract annual expenses, including utility costs, staff salaries, insurance, and taxes

= Net Operating Income (NOI)

Determine loan amount

Calculate amount available for debt service, typically with a “debt service coverage ratio” or DSCR of 1.25 and a loan-to-value under 80%.

	Historical	Energy Efficient	
Income			
Effective Gross Income	$336,938	$336,938	
Less Expenses			
Water & Sewer	$13,500	$10,800	▼ *20%*
Heat	$17,550	$14,040	▼ *20%*
Electric	$7,020	$5,616	▼ *20%*
Other Expenses	$108,899	$108,899	
NOI	$189,969	$197,583	
Debt Service	$151,976	$158,067	
Loan Amount	$2,293,470	$2,385,393	
Property Value	$3,454,000	$3,592,000	*5.5% Cap Rate*
Loan-to-Value	66%	66%	
DSCR	1.25	1.25	

Additional Proceeds: $91,923 **Per Unit: $5,107**

Efficiency lowers expenses.

Underwriting to a percentage of savings mitigates risk.

Increased NOI means a project can support additional debt.

Additional debt supports the full cost of efficiency work.

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Loan proceeds more than cover the cost the efficiency scope.

Efficiency and the triple bottom line

FINANCIAL STABILITY

Performance

Investing in efficiency and renewable energy reduces expenses, stabilizes tenancy, and increases cash flow.

▼ Vacancy ▼ Expenses

Value

Efficiency improves a property's financial performance and physical condition, resulting in a higher market value.

▲ NOI ▲ Profit

Risk Mitigation

Healthier property economics like higher NOI and DSCR lower the risk of loan delinquency.

▲ Net Cash Flow ▼ Delinquency

TENANT SATISFACTION

Affordability

Efficiency lowers utility bills and operating cost for an owner and reduces the amount residents pay for housing beyond rent, improving long-term affordability.

▲ Security ▼ Housing Costs

Health

Modern ventilation and air-sealing practices improve indoor air quality and lower exposure to pests and other allergens.

▲ Air Quality ▼ Illness

Comfort

Updated systems help maintain a comfortable temperature and living environment and reduce resident complaints.

▲ Livability ▼ Complaints

PROPERTY CONDITION

Safety

New and efficient systems will perform better, reducing the need for emergency repairs and evacuations.

▲ Resiliency ▼ Hazards

Stewardship

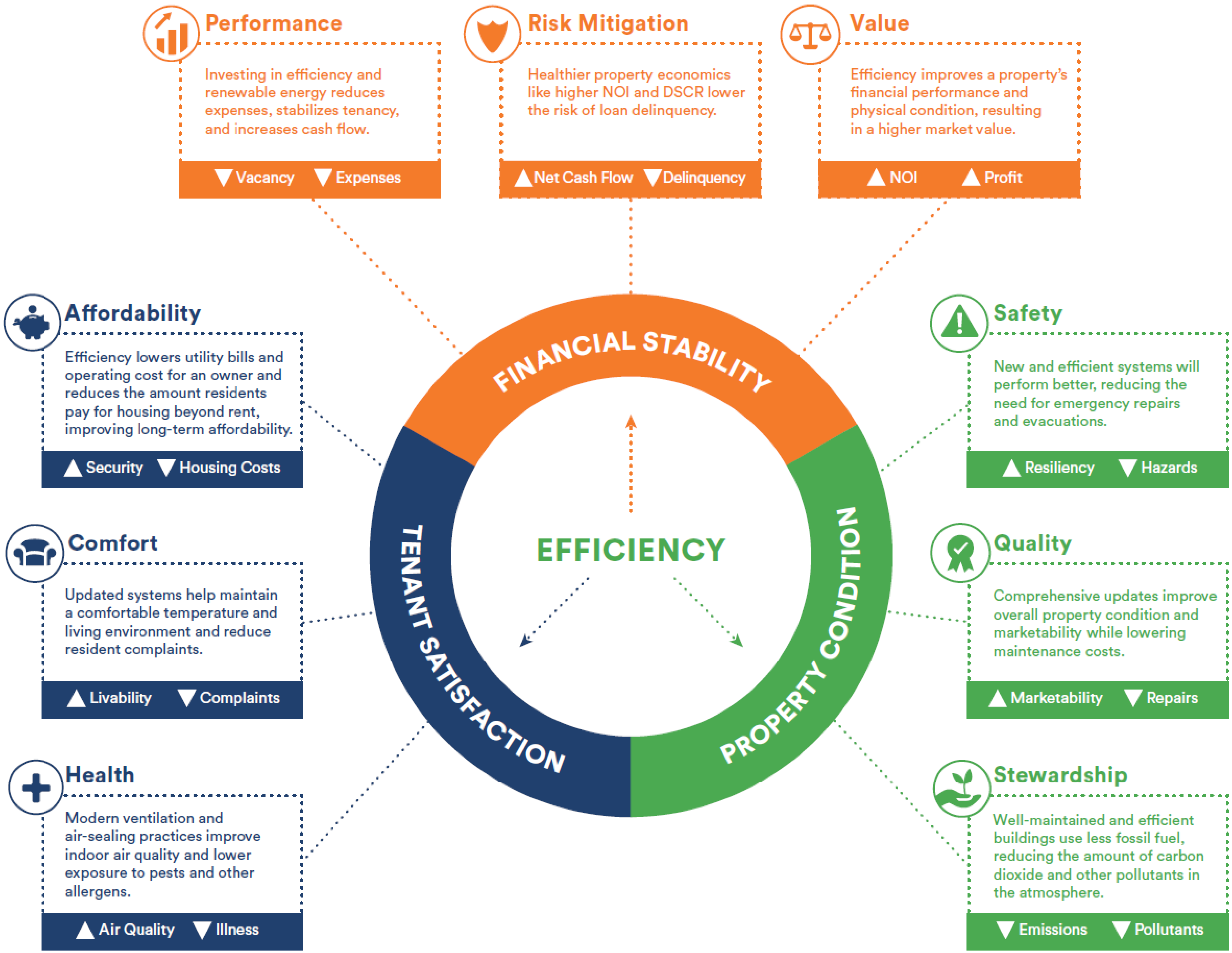
Well-maintained and efficient buildings use less fossil fuel, reducing the amount of carbon dioxide and other pollutants in the atmosphere.

▼ Emissions ▼ Pollutants

Quality

Comprehensive updates improve overall property condition and marketability while lowering maintenance costs.

▲ Marketability ▼ Repairs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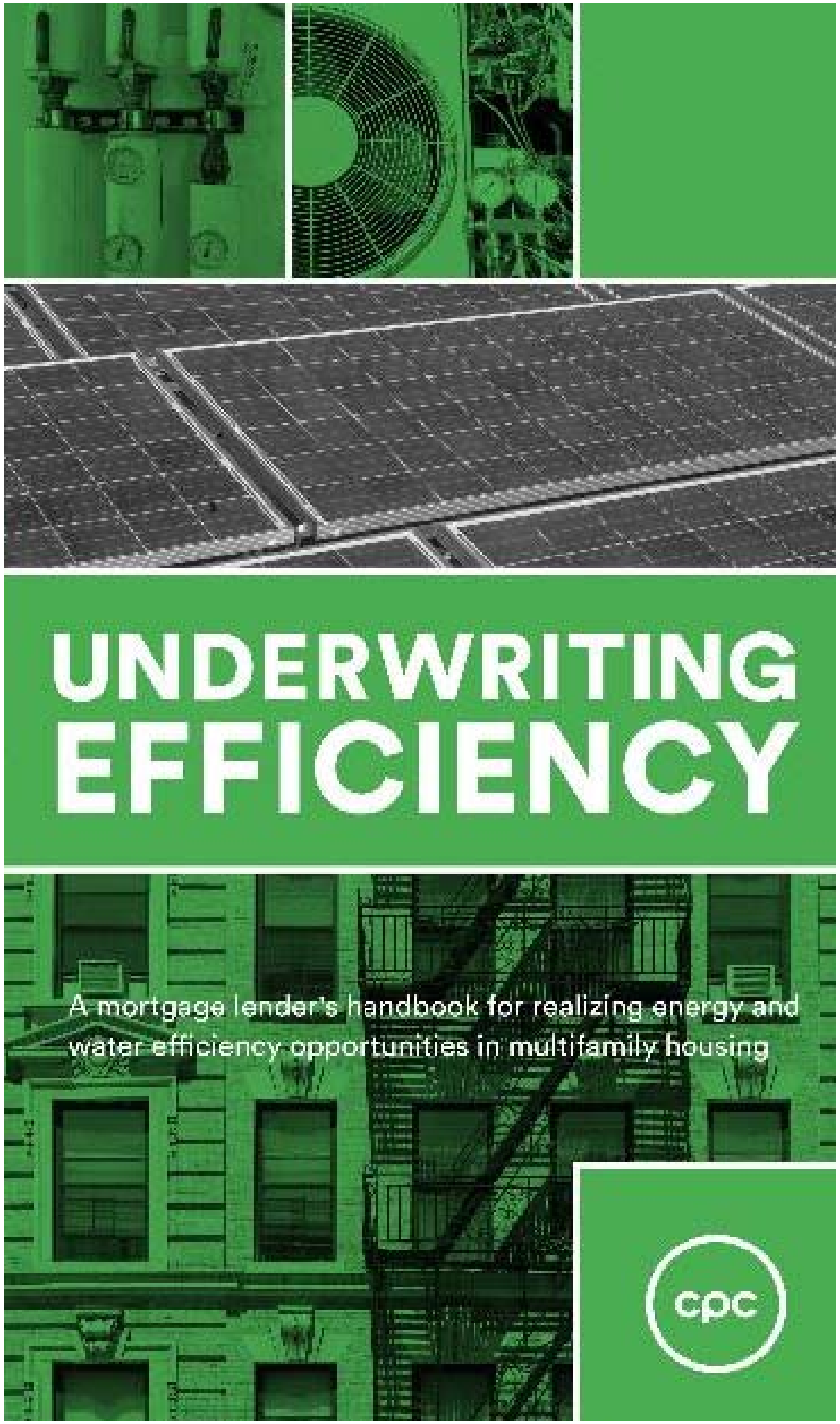

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