

Underwriting Multi-family Energy Efficiency Projects

■ Noni Ramos and Victor Agusta | April 16, 2013



Enterprise Community Loan Fund



- Size
- Total Assets \$148 million
 - Loans Outstanding \$113 million

- Impact
- Over 1,850 loans closed
 - 86,000 units built or rehabilitated
 - 10,865 educational seats
 - 400,000 patient visits
 - 3 million sq ft of community space
 - \$1.1 billion closed
 - \$11 billion in total development cost



Serviam Gardens, Bronx, NY

as of 12/31/12, unaudited



Enterprise Green Communities



Enterprise National Call to Action

2020 Green is a 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

- Green all affordable housing within a decade
- \$4 billion commitment
- 75,000 homes and facilities over the next five years



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**



Why Retrofit?

Owners

- Reduced utility expenses
- Increased durability
- Risk reduction from fluctuating utility costs
- Decreased vacancies
- Regulatory compliance and access to financial incentives
- Improved public perception of brand

Residents

- Healthier homes
- Improved indoor air quality
- Reduced utility expenses
- Sense of pride
- Better quality of living
- Increased safety

Lenders & Investors

- High quality investment
- Competitive advantage over other lenders
- Access to "green" investors
- Reduced risk



There are several market barriers to retrofitting

■ Barriers

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

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Enterprise takes on retrofitting



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What Enterprise Provides

- A whole building analysis
- Energy and water usage data collection
- Financing
- Assistance with assembling subsidy sources
- Verification and monitoring
- Training and education

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Initiatives and Approaches

Northern CA Ad-On Loans - \$409,000

- One portfolio loan with TNDC (300 units) \$205,373
- EBALDC: 1 bldg (98 units) \$83,770
- CHP: 1 bldg (58 units) \$53,774
- CHP: 1 bldg (74 units) \$66,230

Ohio Ad-On Loans - \$350,000

- National Church Residences \$250,000
- Detroit Shoreway CDC \$100,000

Boston Line of Credit - \$1,000,000

- Winn Development, The Village at Brookline

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Initiatives and Approaches

Bank of America EE Entity Level Loans ~ \$4,000,000

- PSL - \$550,000
- Lemle & Wolff \$1.6mm
- CDT- \$1,000,000
- HHDC - \$1,000,000
- LINC - \$370,000
- SAHA- \$100,000

Green Refinance Plus - \$31,400,000

- Mott Haven – New York City –MHANY (non-profit) - \$4,100,000
- City Gardens – Santa Ana, CA – LINC Housing - \$21,000,000
- Park Montgomery – Silver Spring, MD – CPDC - \$6,300,000



Green Refinance Plus

■ Fannie Mae risk-share with HUD

■ Requirements

- Term: 10 or more years
- Green Capital Needs Assessment
- Subsidy Layering Review may apply

■ Underwriting

- 85% LTV
- 1.15 DCR



Major Learnings

- Plan Early and Benchmark
- Prescreen and Build a Strategy
- Utilize existing Financing
- Assess Capacity
- Align with Standards












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



Winn Development Line of Credit

- **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



77 Village Way

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Winn Development Line of Credit

■ Financing Structure

- Structure: \$964,474 line of credit, 20% equity (rebates)
- Term/Rate: 10 yr, 3.75%
- Repayment: 75% savings
- Guarantee: Owner personal guarantee



pre retrofit work on roof HVAC system

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Winn Development Line of Credit

■ 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



Poor Condition of Window to be Replaced

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Adrian and Arden – ECLF Bank of America Energy Efficiency Product

- This **\$1.6MM** loan provides mini perm financing and includes over **\$700K** from ECLF's Bank of America (BOA) retrofit product.
- Funded **energy improvements** and building-related **maintenance items** at 9-15 Adrian Avenue, a 55 unit multifamily property in the Marble Hill section of Upper Manhattan and 52 Arden Street, an 80 unit (72 residential and 8 commercial) property located in the Inwood section of Manhattan.



9-15 Adrian Avenue

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Adrian and Arden – ECLF Bank of America Energy Efficiency Product

- The energy scope for 9-15 Adrian Avenue includes the replacement of 388 apartment windows as well as 12 common area windows and skylights, interior and exterior lighting upgrades and the replacement of an elevator.



52 Arden Street

- The energy scope for 52 Arden Street included boiler replacement, the 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.

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Adrian and Arden – ECLF Bank of America Energy Efficiency Product

- **Financing:** This 8 year mini perm loan has a fixed blended rate of 4.34% which includes a 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. The interest-only term is 12 months.



- This loan is secured by a first position on the properties. Repayment assumes a 5% reductions in heating and electric costs but largely relies on the healthy cash flow of these properties.

An example of the exterior lintel repair that is being funded along with the energy scope

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Adrian and Arden – ECLF Bank of America Energy Efficiency 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



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Key Structuring Considerations

- Collateral
 - Real estate is not common
 - Unsecured
- Recourse
 - Limited to no recourse
- Guaranty
 - Potential for sponsor guaranty
- Borrower type
 - Developer or SPE
- Credit Enhancement/Top Loss Capital/Loan Loss Reserves
 - Third party (public, private and philanthropic)

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Learnings

■ Overall

- Selecting the right property(ies) takes time
- Finding a 3rd party verifier to monitor savings
- Training the maintenance staff is critical

■ Financing challenges

- Property owners are often reluctant to take on “must pay” debt
- Securing utility rebates takes time
- Additional debt approval takes time
- Determining allowable rent based on repayment of subordinate loan
- Limited data available on savings

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