

# *Financing Green Improvements*

*July 14, 2011*

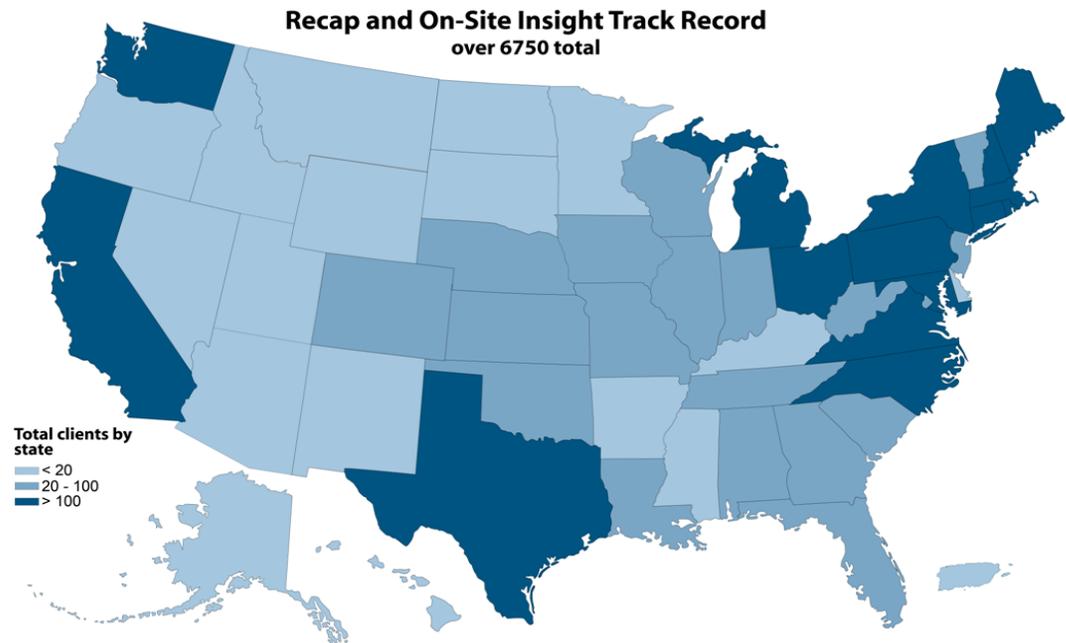
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Chief Executive Officer



# Recap Real Estate Advisors and On-Site Insight (OSI)

## 20-Year Track Record

- Recap:
  - Closed +\$2.7 billion in transactions on over 800 multifamily properties
  - Asset manage +\$1.3 billion in multifamily investments
  - Developed underwriting for \$200 million Fannie/HUD demonstration program in '90s
  - Recent study of utility usage databases and tools for multifamily
- OSI:
  - Has completed more than 6,000 capital needs assessments
  - Now provides energy audits and Green Capital Needs Assessments
  - Performed field work for Abt Associates cap needs backlog study



# Green Capital Needs Assessment overview

- Designed for retrofit lending pilot
  - Developed with Enterprise and with USGBC review
  - Used by other lenders (owners and managers, too!)
- Investment grade report, which includes:
  - 20-year capital needs assessment including reserve needs
  - Comprehensive energy audit
  - Indoor environmental quality (IEQ) analysis
  - Detailed financial analysis of potential green improvements
  - Green recommendations integrated into capital and reserve plan



# Life in the private sector – is just the grass greener?

- Public Housing's EPC program has been very successful
  - Still opportunities for improvement
  - What are other options for affordable multifamily?
- Private sector market for green improvements is fragmented
  - No programs yet operating "at scale"
  - Some different barriers: mortgages, partners, residuals
  - ESCO approach not as feasible
- Different models being piloted
  - Lend against whole property cash flow
  - Lend against projected energy savings
  - Some less common vehicles such as utilities, on-bill

# Cash Flow lending

- Finance against property's expected cash flow
  - Underwrite projected NOI (income – expenses)
  - Generally don't underwrite utility savings
  - Fund green improvements from loan proceeds based on GCNA
- Collateral is the real estate
  - New first mortgage loan
  - No savings guarantee because savings not underwritten
- Potential obstacles:
  - Can't or won't refinance entire existing debt
  - Transaction costs
- Some examples:
  - Fannie Mae/FHA Green Refinance Plus
  - Community Preservation Corporation
  - US Bank

# Energy Savings lending

- Finance projected utility savings
  - Not completely (provide for debt service coverage)
  - Savings generate proceeds to fund improvements and loan costs
  - Capitalize some interest to account for implementation period
- Collateral is generally the improvements, not the property
  - New loan is subordinate to existing debt
  - Some type of savings guarantee will be required
- Potential obstacles:
  - Subordinate debt approvals - lender, partners, regulators
  - Concerns over reliability of savings projections (good audit key)
  - Need for guarantee by ... someone
  - Small loans
- Some examples:
  - Enterprise (pilot)
  - CNT Energy Savers

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