Financing Energy Efficiency in the Multifamily Market

Energy Optimization Working Group
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What is Multifamily?

• A diverse market
  • Some owners, some renters
  • Management structures
  • Range of income levels
  • Age and size vary
• With diverse needs
  • Management and planning for capital improvements
  • Maintenance of common areas and residential units
  • Coordination between property owner and residents
Energy Efficiency Benefits for Property Owners

- Electricity in common areas always on
- Better tenant retention
- If tenants are spending less on utility bills, assumption is they can more easily pay rent
- Less risk of utility shutoff—protects properties from frozen pipes and other repair problems
- Lower maintenance costs
- Helps to resolve rodent issues
- Cost savings opportunity for properties that include utilities in rent
Energy Efficiency Challenges for Property Owners

- Split incentives
  - Tenants pay the bills but don’t own the equipment
    - Low proportion of multifamily housing includes utilities in rent
  - Difficult to move beyond direct install measures to achieve deeper energy retrofits—no payback for property owners
- Understanding which incentives are available
  - Utility incentives vary based on definition and structure of program
    - Residential + Commercial = Multifamily
  - Programs or tools vary for market rate versus affordable housing
- Access to financing
Michigan Saves: A Financing Solution

• **Benefits**
  • Drive market to deeper energy savings
  • Get property owners to move beyond direct installs
  • Focus on owner-focused solutions

• **Background**
  • Established partnership with Capital Fund Services in Q4 2013
  • Revised underwriting standards to accommodate unique nature of market
  • Received approval from MSHDA to allow subordinate financing
  • Currently working with HUD to allow subordinate financing

• **Marketing and outreach**
  • Contractor network communications
  • Reaching owners/operators through association meetings
  • Attended and presented at several regional and national conferences

www.michigansaves.org
Observations

• Affordable housing and market rate housing have different financing options.
• Property owners are relatively unaware of the benefits of energy efficiency.
• Convincing property owners to make improvements when no financial benefit exists (split incentives) is a very difficult proposition.
Michigan Saves: Example Project

• Joshua's House
  • A nonprofit organization that offers maternity assistance to homeless young women.
  • HVAC equipment and new windows will improve the comfort of this shelter for the residents and staff
  • Estimated energy savings of 652 kWh annually and 1,414 therms annually
  • Estimated annual utility cost savings of $1,244
  • $15,500 financed
Michigan Saves: Example Project

• Boardwalk Condominiums
  • A 275-unit development for association members and renters in a renovated, mixed-use, historic building in downtown Grand Rapids
  • 275 LED lighting upgrades and retrofits
  • Estimated energy savings of 216,715 kWh annually
  • Estimated energy cost savings of over $30,000
  • $76,792 financed
Michigan Saves: Example Project

• Cityview Senior Tower
  • Located in the Midtown area of Detroit and home to residents age 55 and older
  • Two boilers replaced and a new, customized air handling system installed
  • The boilers will save an estimated 3,200 therms annually and reduce energy bills by about $2,800
  • Additional savings anticipated for the more efficient air handling system
  • $268,058 financed
Green Leasing: Applications for Multifamily

- What is a green lease?
  - Most commonly used for commercial office space leasing
  - Integrates sustainability and energy efficiency with the leasing process
  - Allows for transparency and monitoring of building performance
  - Aids coordination between tenant and building owner

- What can be applied to a multifamily building?
  - Shared responsibility for investment
  - Lease contract provisions
Other Tools for Multifamily Building Owners

• Energy Star certification for multifamily properties
  • EPA Energy Star Certification now available for existing multifamily housing
  • The first 17 were announced in November 2014
  • Mostly building system/controls and lighting projects
Wish list

- Deeper and easier to understand incentives for property managers that implement whole building energy efficiency measures
Next Steps

• Continue to present to apartment and property management groups—including utility partners

• Continue to work with contractors and utilities to market and leverage resources

• Focus outreach efforts on market rate properties that include utilities in rent

• Partner with utilities to identify multifamily units that have a master meter for outreach campaign