

Financing Energy Efficiency in the Multifamily Market

Energy Optimization Working Group
December 16, 2014



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



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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



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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



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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



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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.



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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



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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



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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



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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



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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



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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—include 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



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