Financing Green Rehab for Multifamily Properties

Rehabilitation of multifamily properties has always been a difficult decision for the owner, and to make green upgrades is a tougher call because of the reputation of green upgrades being costly. The upfront cost, hassle of managing the rehab, issue of split incentive i.e. owner pays for the upgrades while the tenants receive the benefits, often leads owners to not even consider a rehab, let along green upgrades. In reality there are hassle-free and cost-effective ways to green rehab multifamily properties with ample benefits flowing to the owner including increase in value of property, lower O&M costs, improved occupancy and lower turn-over.

Besides the obvious sources: **cash reserves** and **cash from operations**, there are other financing options including:

1. **Property Assessed Clean Energy (PACE)** is a means of financing green upgrades through municipal governments who invest bond funds into green rehab. The investment is repaid for up to 20 years with an assessment added to the property's tax bill. PACE financing stays with the property upon sale and is easy to share with tenants. PACE financing is off-balance sheet. Colorado expects to announce its PACE program this Spring.

2. **Energy Performance Contract (EPC)** uses the savings of the green upgrades to pay for the cost of the upgrades i.e. the utility cost savings are guaranteed by an ESCO (Energy Service Company) or General Contractor (GC) to generate cost savings sufficient to pay for the project over the term of the contract. After the contract ends, all cost savings accrue to the owner. EPCs are difficult to execute on individually metered MF properties. EPC is also off-balance sheet financing.

3. **Power Purchase Agreement** (**PPA)** is essentially an EPC contract, except it is for energy generation (e.g. Solar). The MF owner i.e. energy purchaser guarantees to buy the energy generated by the seller by entering into a PPA. Buyers typically pay no up-front cost (capital is provided by the seller), and purchase the power generated for an agreed-upon price for the duration of the contract. The seller installs, operates and maintains the system typically sited at the buyer's property. A key advantage is that the price of energy will not fluctuate under the contract, and can help with financial planning.

4. **Utility** financing comes in two primary ways. The utility may pay for the green upgrades and collect the repayment in their utility bill or the utility merely collects for other financiers. Either way, this option is also off-balance sheet but unfortunately is not available yet in Colorado.

The above options have one drawback: they only finance the green portion of the rehab i.e. energy efficiency, renewable energy, water conservation and perhaps indoor air quality improvements. This next option typically funds the entire rehab:

5. **Debt** from Banks, Credit Unions, CDFI's or Agencies (HUD, FHA, USDA-RD, State HFA's).
   - **Banks and Credit Unions typically** require first lien position and are good for a refi and typically for large rehab projects.

- **CDFI (Community Development Financial Institution) or Agency Green Rehab Loans** are often available at below market interest rates, but typically for MF properties serving low to moderate income residents.

Besides these financing options, there are several incentives available to owners of MF properties that help reduce the cost of the green rehab.

- ✓ **Low-Income Housing Tax Credit (LIHTC)** – available to qualified affordable housing properties and allocated by state housing finance agencies (CHFA for Colorado). Major rehab is eligible for both 9% and 4% tax credits.
- ✓ **Investment Tax Credit (ITC)** is a federal tax incentive that provides a 30% credit for certain renewable energy installations such as solar PV.
- ✓ **Production Tax Credit (PTC)** is another federal tax incentive that provides a specific tax credit for certain renewable energy installations such as Wind. The amount is depending on the technology.
- ✓ **179-D** is another federal tax credit for energy efficient buildings. The amount is dependent on the efficiency improvement achieved and maximizes at $1.80 per square foot.
- ✓ **Utility Rebates** are cash incentives offered by local utilities and vary by utility and the solution installed and can be from negligible to 100% of the cost of the installed conservation solution.
- ✓ **Grants** through federal, state and local government and private foundations can fund green retrofits in MF properties so as to subsidize housing costs for tenants or achieve Carbon savings. The Weatherization Assistance Program has provided billions of grants over the past 30 years for green upgrades in affordable housing properties.
- ✓ **Accelerated Depreciation (MACRS)** allows owners to depreciate certain green upgrades such as solar PV quicker (6 years) instead of the 20+ year life of the green system.
- ✓ **State Tax Credits** are currently being discussed in the Colorado legislature for commercial properties including MF, and if passed, could offer as much as $75,000 in state tax credits to an owner.

These incentives often cover the additional cost of the green piece or subsidize it enough to bring the payback down to a few years, thus making it a no-brainer to decide in favor of a green rehab.

Triple Bottom-Line Foundation (TBL Fund) is a Colorado based Community Development Financial Institution (CDFI) with a single focus: providing access to financing for green rehab to owners of MF properties.