Financing Green Improvements
July 14, 2011

Todd Trehubenko,
Chief Executive Officer
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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