

# Commercial PACE for Underserved Market Segments: Multifamily Housing

Part of the Technical Webinar Series for U.S. DOE's Commercial PACE Working Group

March 26, 2020



# Purpose

- **C-PACE Working Group Technical Webinar Series:**  
To provide in-depth technical content about C-PACE program elements to state and local participants in DOE's C-PACE Working group with support from market experts.
- **Today's Webinar: To inform state and local governments about:**
  - Challenges and opportunities associated with financing efficiency upgrades in affordable and market-rate multifamily housing.
  - Trends, successful models, and case studies for using C-PACE in multifamily housing including existing properties and new construction.

# Housekeeping

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- The recorded webinar, transcript and slides will be available to C-PACE Working Group participants.
- Duration: 90 minutes.
- Attendees are in listen-only mode.
- Attendees are encouraged to type questions and feedback in the webinar interface tool throughout the webinar. We will have time at the end to answer questions.

# Agenda

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- **Background from DOE**
- **Featured Speakers**
  - Elizabeth Chant, Optimal Energy
  - Peter Adamczyk, Independent
  - Chris Jones, Bricker & Eckler
- **Q&A**

# Background: Why Today's Topic?

**C-PACE sponsors want programs to work for multifamily housing. Multifamily housing face unique challenges.**

***How can C-PACE programs effectively serve this market?***

- 1. What are the unique challenges facing energy efficiency upgrades in multifamily properties, how can C-PACE address those challenges, and what best practices and case studies are available?***
- 2. What can we learn from one of the first C-PACE financed multifamily, new construction projects in the U.S.?***

# Overview: Multifamily Housing and C-PACE

## Energy Savings Opportunity

- **18 million** market-rate and affordable multifamily housing units in the U.S. <sup>1</sup>
- Collective potential savings of **over \$3 billion** in cost-effective energy savings. <sup>1</sup>
- Major opportunity in multifamily rental properties:
  - The energy expenditure per square foot (\$/ft<sup>2</sup>) in multifamily rental housing is **37%** higher compared to owner-occupied multifamily, and **76%** higher compared to owner-occupied single family homes. <sup>1</sup>

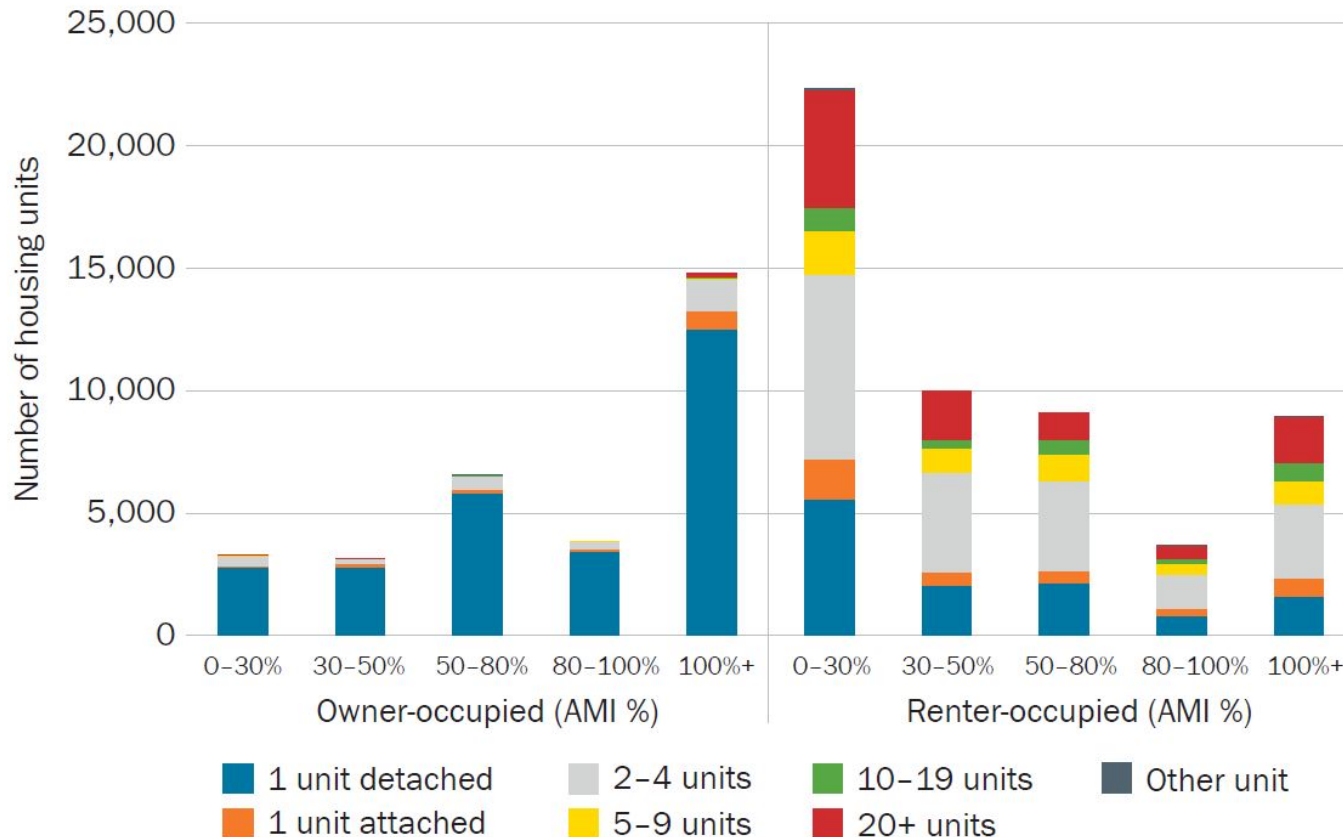
## C-PACE Opportunity

- C-PACE enabling legislation generally includes multifamily housing (4+ dwellings) as an eligible property type.
- **\$68 million** in C-PACE investments have gone towards multifamily properties. <sup>2</sup>

**Sources:** 1. U.S. Department of Energy, Better Buildings. See: <https://betterbuildingssolutioncenter.energy.gov/challenge/sector/multifamily>.  
2. PACENation, Market Data. See: <https://pacenation.org/pace-market-data/>.

# Multifamily Housing, Income, and Energy

# of Housing Units by Type and Area Medium Income; Rochester, NY (2015)



**RESOURCE:** U.S. DOE's Low-Income Energy Affordability Data (LEAD) Tool at:  
<https://www.energy.gov/eere/slsc/maps/lead-tool>

# Speakers

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**Elizabeth Chant**

- Managing Consultant, Optimal Energy



**Peter Adamczyk**

- Independent Consultant



**Chris Jones**

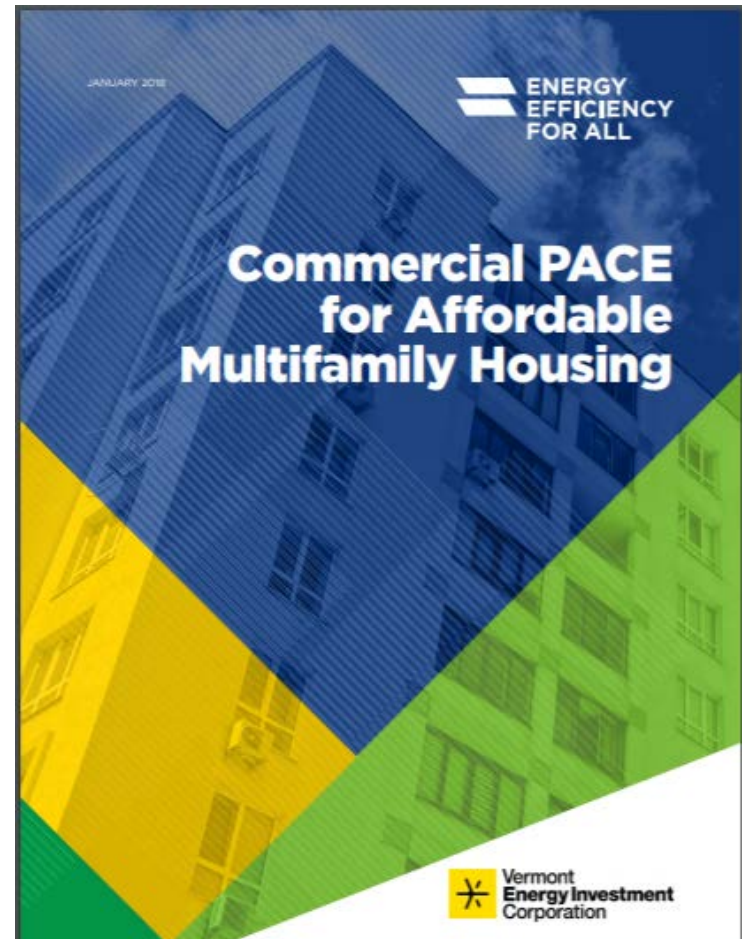
- PACE Financing Consultant, Bricker & Eckler LLP



Energy Efficiency for All  
commissioned  
Vermont Energy  
Investment Corporation

Research Team:

Peter Adamczyk (now independent)  
Elizabeth Chant (now with Optimal Energy)  
Stephanie Morse  
Kate Cahalane



# About Elizabeth

## **Elizabeth Chant**

### **Managing Consultant, Optimal Energy**

- 25+ years energy efficiency program and policy for low-income people and multifamily buildings
- Helped to create Efficiency Vermont and DC Sustainable Energy Utility
- Ten years with Weatherization Assistance Program; directed Vermont's largest agency
- Current & prior board memberships, NEAUC, National Housing Trust, Home Performance Coalition, Three<sup>3</sup>



# About Peter

## **Peter Adamczyk, Independent Consultant**

- (*mostly...*) retired
- 33+ years investment and finance experience, the last 10 exclusively focused on renewable energy and energy efficiency finance
- Led the development and implementation of financing strategies and services that support VEIC's goal of reducing the economic and environmental costs of energy use
- NABCEP Photovoltaic Certification and HERS Rating Certification





A collaborative, coalition-driven, 13-state campaign to increase energy efficiency in affordable multifamily housing



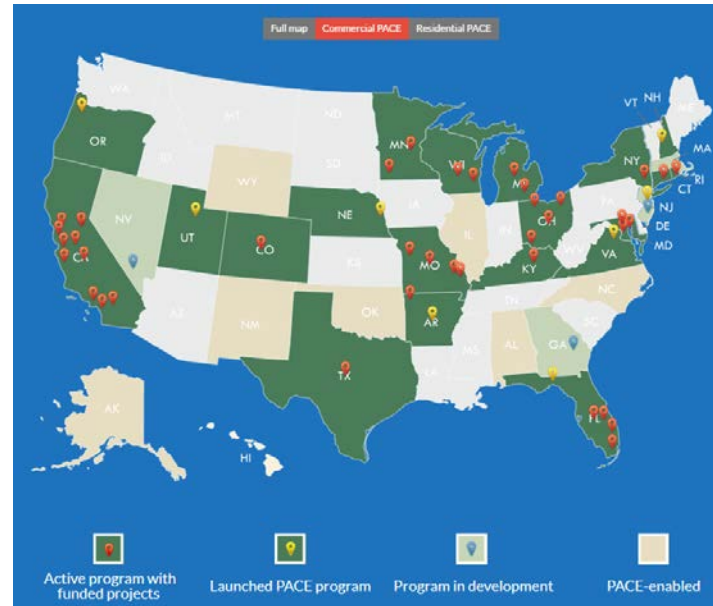
*\* Strong presence in Atlanta, Chicago, Kansas City, Los Angeles, Minnesota, New Orleans, New York City*



**Our Long Term Vision:** EEFA's success catalyzes equitable access to clean energy resources for healthier homes, reduced poverty, a cleaner environment and more climate-resilient communities

# Research Approach

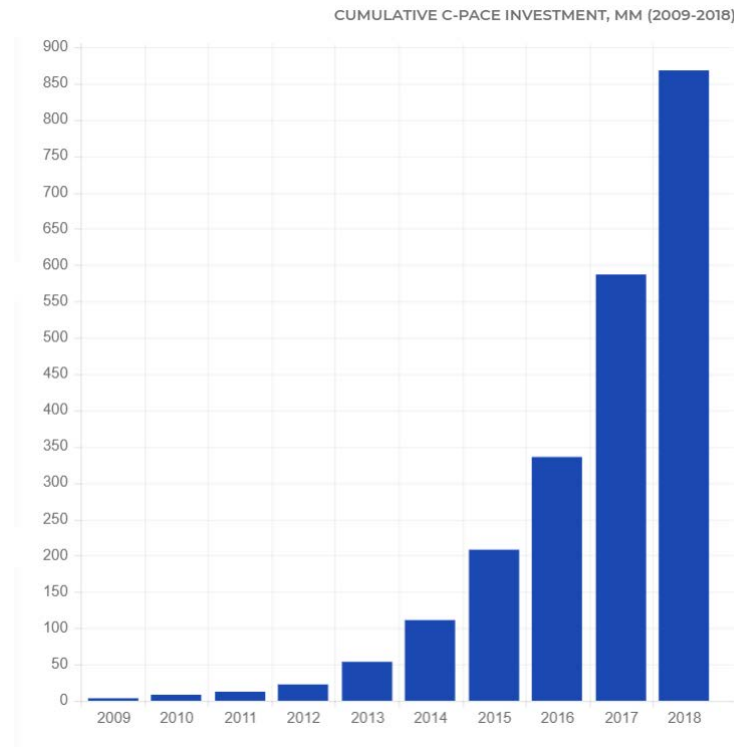
- Data review on PACENation
- Outreach to program administrators of active programs
- Conducted interviews with programs of interest



Source: PACENation (<http://pacenation.us/pace-programs/commercial/>, accessed April 12, 2018)

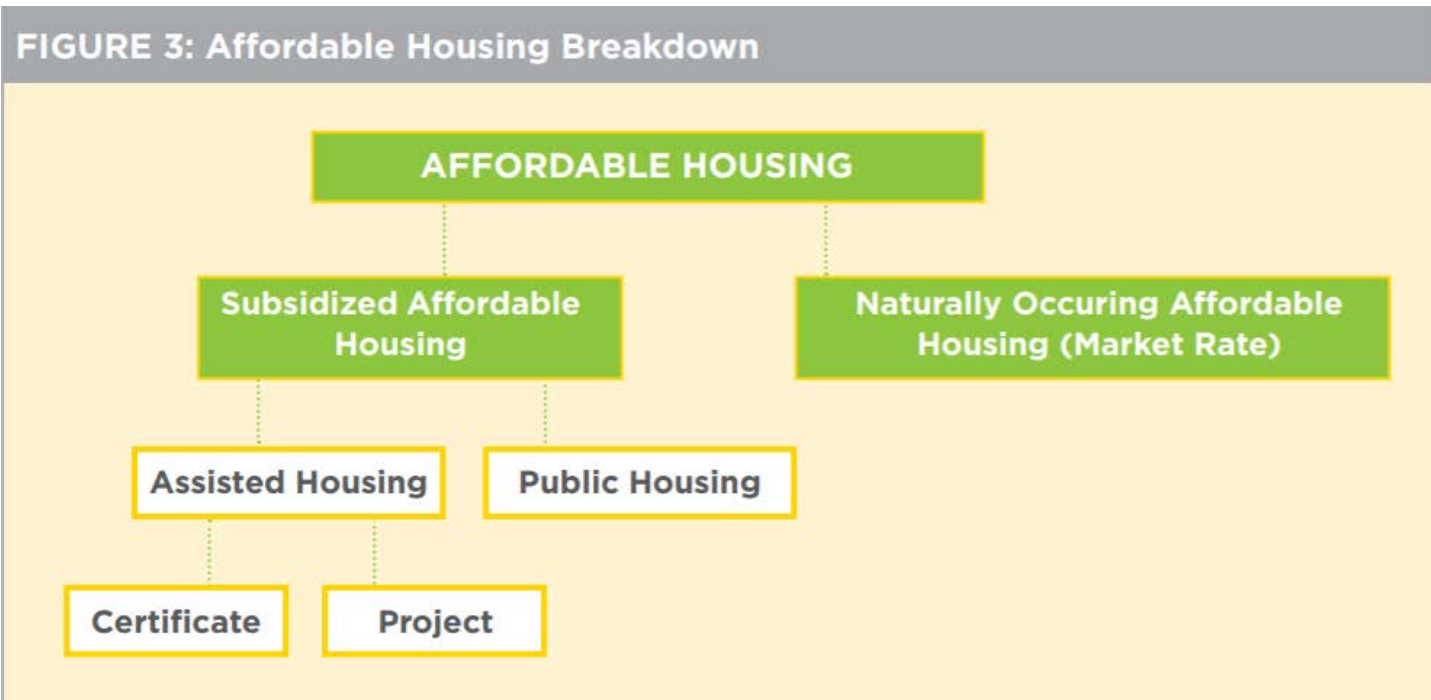
# C-PACE, from start to now

- C-PACE – since 2009
- 37 states have enabled
- > 2,000 deals
- 15 MFAH deals
  - Assisted housing
  - NOAH
- \$68 million MFAH financing



Source: PACENation (<http://pacenation.us/pace-market-data/>, accessed March 23, 2020)

# Multifamily Affordable Housing (MFAH)



## Efficiency Barriers in MFAH

- Split incentive gives no one an incentive to act.
- Efficiency improvements are nearly always discretionary.
- Resource constraints mean discretionary improvements rarely happen.
- Beyond resources, why don't improvements happen?



# Complexity of Financing MFAH

FIGURE 2: Illustrative Capital Stack for a Hypothetical Recapitalization of a Subsidized Affordable Multifamily Development	
Federal Home Loan Bank Affordable Housing Program	Direct subsidy (grant)
Utility Incentive	Based on energy savings
Housing Finance Authority	Forgivable loan
Long-term government debt — city, county and state with three separate loans	“Soft second” loan payable only from percentage of cash flow, principal payments deferred, long-term affordability covenant
Deferred development fee	Payments made with funds available after debt payments
Historic Tax Credits	Tax credit equity available to developers, 20% of qualified project expenditures for eligible historic projects
9% Low-Income Housing Tax Credits (LIHTCs)	Bank, syndicator, insurance company allocated based on costs  No payments required, but ongoing compliance is necessary
Subordinate second lien (mezzanine)	Hard debt — no guarantees
Senior debt — first lien mortgage	Hard debt — payments must be made on bank loan insured by HUD

# C-PACE Deals in MFAH

## AFFORDABLE MULTIFAMILY HOUSING C-PACE TRANSACTIONS

### **Naturally occurring affordable housing transactions:**

- Connecticut Green Bank (4 transactions)
- Florida SELF (1 transaction)
- Energize NY (1 transaction)
- CaliforniaFirst (2 transactions)

### **Assisted affordable housing transactions:**

- CaliforniaFirst (1 transaction)
- DC PACE (2 transactions)
- Lean & Green Michigan (1 transaction)
- Energize NY (3 transactions)

## Why not more uptake in MFAH?

- Complexity of MFAH deals
- Access to favorable financing
  - Longer term
  - Lower rates
- Absence of technical support
- Owner struggle with competing priorities



## Why not more uptake in MFAH?

- Noticeable that HUD properties were not evident in these first deals
- Queried more deeply
- HUD criteria
  - Assessed pursuant to law; sent with tax bill
  - Payment collected with tax bill
  - No accelerated payment
  - If default, mortgagee has notice and time
  - State Attorney General opinion required

## Strong case for using C-PACE for MFAH

- Tax assessment (not a loan)
- Off balance sheet
- Based on equity not future income
- Structured to recoup savings to cover costs
- Potential to fill financing gaps
- Consent of existing lienholders typically required

# PACE in the Capital Stack: *Affordable Rehab*

Uses	
Acquisition	\$16,000,000
Hard Costs	\$29,000,000
Soft Costs	\$7,000,000
<b>Total Costs</b>	<b>\$52,000,000</b>

Sources	
LIHTC (4%)	\$22,000,000
Tax-Exempt Mortgage	\$18,000,000
Local Govt. Soft Debt	\$10,000,000
<b>Total Sources</b>	<b>\$50,000,000</b>
<b>Gap</b>	<b>\$2,000,000</b>



## *Options for addressing a \$2M gap...*

1. **Do Nothing:** *Project stalls or dies*
2. **Owner's Equity:** *High opportunity costs*
3. **Value Engineering:** *Lock in high op ex*
4. **Tax-Exempt PACE:** *Displace equity* ★

*Note: Project financials have been simplified for illustrative purposes.*

## PACE in the Capital Stack: *Increasing NOI*

### Project Basics

Gap filled	\$2,000,000
+ 350 kW solar	\$1,000,000
Total PACE =	\$3,000,000

PACE improves project  
& property value

### Average Annual Cash Flow

Utility Savings	\$110,000
O&M Savings	\$80,000
Solar (Energy + RECs)	\$120,000
Total Savings	\$310,000
PACE Payments	-\$240,000
<b>Net Cash Flow</b>	<b>\$70,000</b>

- \$190K in annual savings offsets debt service for \$2M+ in PACE
- Self financing \$1M more in solar PV further improves cash flow
- Solar tax credits are attractive to LIHTC investors

*Note: Project financials have been simplified for illustrative purposes.*

	Self-Funded	PACE
Investment by Property Owner	\$3,000,000	\$0.00
Annual Benefits	\$310,000	\$310,000
Annual PACE Payment	\$0.00	\$(240,000)
Net Benefit Year 1	\$(2,690,000)	\$70,000
Annual Net Benefit Years 2-20	\$310,000	\$70,000
<b>5-year NPV of Cash Flows (@ 6% discount rate)</b>	<b>\$(1,524,000)</b>	<b>\$295,000</b>
<b>10-year NPV of Cash Flows (@ 6% discount rate)</b>	<b>\$(549,000)</b>	<b>\$515,000</b>
<b>5-year IRR</b>	<b>-19%</b>	<b>Infinite</b>
<b>10-year IRR</b>	<b>1%</b>	<b>Infinite</b>

*PACE is a valuable structure for multifamily housing!*

*Note: Project financials have been simplified for illustrative purposes.*



## Best Practices – Policy & Programs

- Encourage “open” C-PACE
- Pursue deals with few barriers to start
- PHA opportunities
- Document HUD communication
- Require cost-effective investments
- Consider local development corp.
- Consider longer term over lower (subsidized) rate
- Consider opportunities with
  - PHAs
  - USDA RD

## Best Practices – MFAH Owner / Operator

- Consider C-PACE as “gap” financing
- Prioritize C-PACE at major financing points
- Encourage HFA involvement
- Document & Codify

Thank you!

## Contact Information

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# Property Assessed Clean Energy Financing

C-PACE for Underserved Market Segments: Multifamily Housing

**Chris Jones**  
*PACE Consultant*  
Bricker & Eckler



# Ohio & Bricker are national PACE leaders!



## 2018 PACE Financing in Ohio

31 transactions

\$79.1 million invested

\$158.6 million invested  
in PACE projects in  
Ohio since 2012.



**Bricker & Eckler LLP**

[www.bricker.com](http://www.bricker.com)  
[www.developohio.com](http://www.developohio.com)

## 2019 PACE Financing in Ohio

46 transactions

\$112.7 million invested

\$273.6 million invested  
in PACE projects in  
Ohio since 2012.

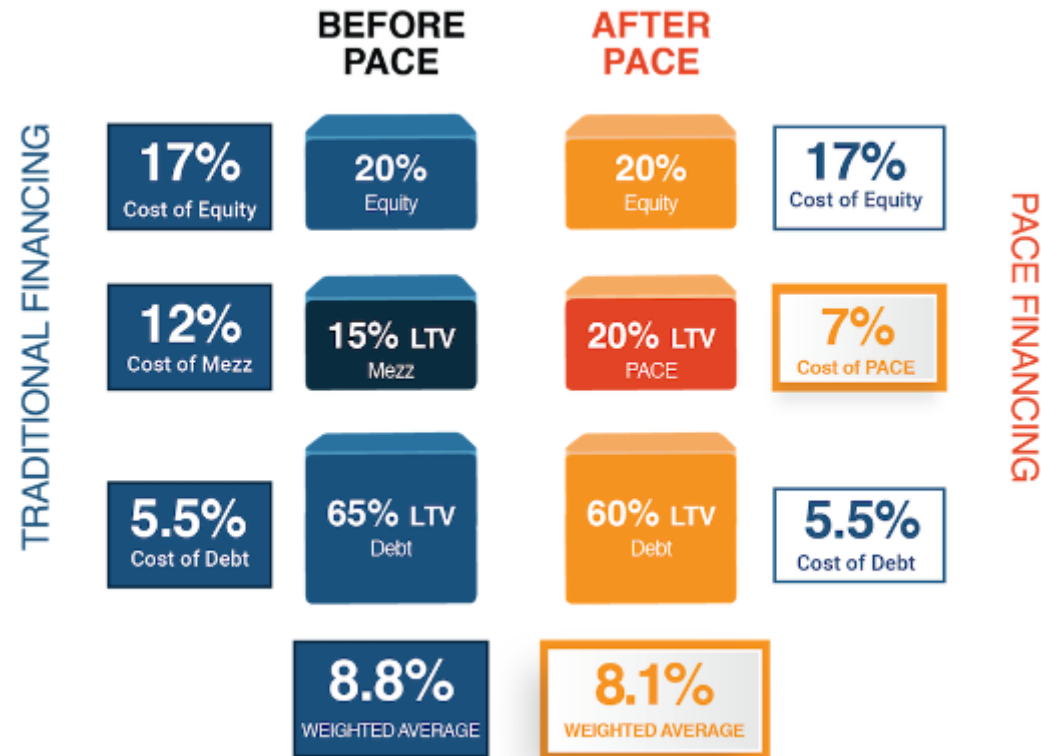


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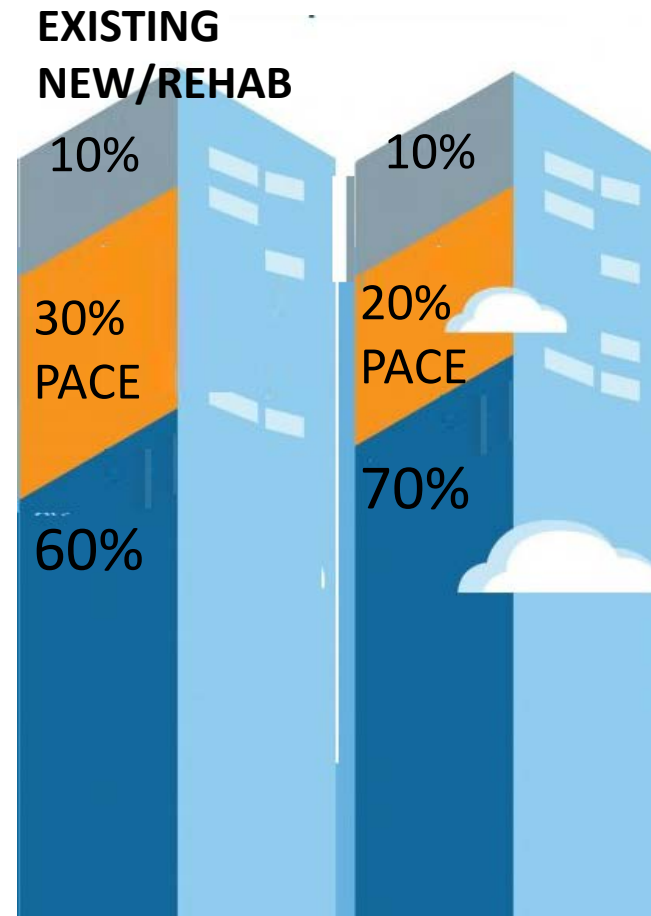
[www.bricker.com/PACE](http://www.bricker.com/PACE)  
[www.developohio.com](http://www.developohio.com)



# Why PACE?



# PACE Underwriting Overview



PACE Loan + Mortgage Loan(s) < 90%  
Property Value

Prepayment option is available

Mortgage lender consent

# Case Studies





# Riverhaus Multifamily

Covington, Kentucky (Cincinnati)

- \$4MM PACE (2017)
- Class A New Construction
- 187 Units / 1<sup>st</sup> floor retail
- Subsurface parking garage
- City-owned parcels
- Ground lease to developer
- City-issued IRB Bonds for Tax Abatement purposes



# Airy Hills at Northbend Crossing

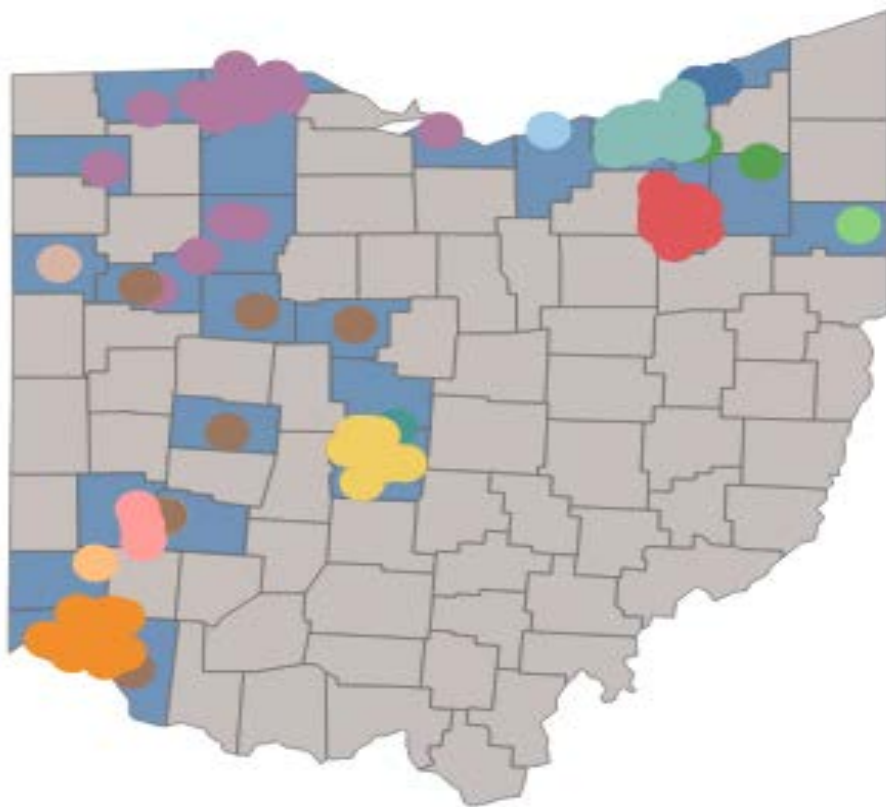
Cincinnati, Ohio

- \$5.5MM PACE (2019)
- \$29MM total budget
- New Construction
- 82 Sr. Living Housing Units
- Owner/developer motivation was to “retain” equity with PACE



# PACE Resources

[www.bricker.com/PACE](http://www.bricker.com/PACE)



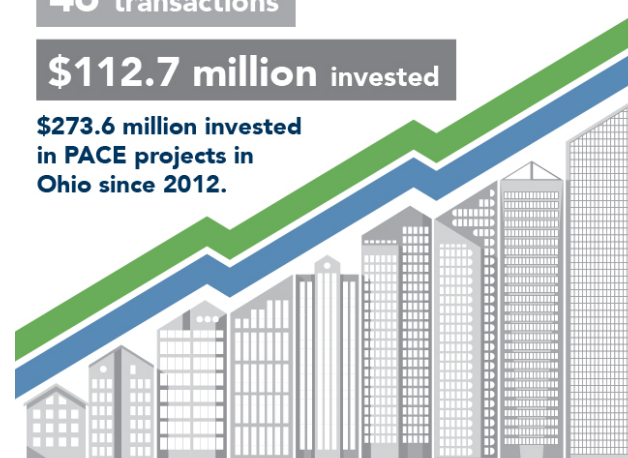
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# Questions?

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**Please type all questions into the webinar dialogue box.**

# Thank You

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<http://energy.gov/eere/slsc/state-and-local-solution-center>