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Financing energy efficiency: Multifamily is getting SLEEC

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By Matthew McNerney, Research Assistant, Economic Program

This winter, ACEEE, in partnership with Energi Insurance Services, will host a second gathering of select members of the Small Lenders Energy Efficiency Community (SLEEC) in Washington, D.C. The initial SLEEC convening in October 2013 brought together small- to medium-size lenders to discuss strategies for expanding activity in the market for energy efficiency financing. Building off the success of that first meeting, the second SLEEC gathering will focus exclusively on financing in the multifamily sector, a traditionally underserved but recently active space in the energy efficiency world.

The goal of the upcoming SLEEC meeting is to discuss how recent developments inform the lender perspective on the size, attractiveness, and viability of the finance market for multifamily efficiency. We chose to address multifamily this year because potential savings are phenomenal at an estimated $3.4 billion per annum, and multifamily has traditionally been characterized by the label "hard to reach" due to significant barriers to entry. Single-family residential, large commercial, and MUSH (municipal, universities, schools, and hospitals) markets pose fewer barriers and have therefore been easier to approach, while multifamily is a more complex market posing greater obstacles.

The first and most commonly cited obstacle is known as the split-incentive problem: Landlords and building owners don't always have an incentive to pursue energy efficiency improvements since their tenants would be the ones benefitting from reductions in energy bills. The next most bemoaned roadblocks are a lack of information and lack of available capital. Landlords and owners are experts at running their buildings, but may be in the dark on energy efficiency. Utilities and many loan agencies, while knowledgeable about energy efficiency, lack experience interacting with tenants. The resulting information gap inhibits energy efficiency projects from getting off the ground. This problem is exacerbated by a lack of capital, especially in the affordable housing market, where many buildings owners hold 30-year mortgages on their property with only one refinancing opportunity after 15 years. Unless building owners and potential lenders can capitalize on this small window, many projects would not have another opportunity to finance efficiency improvements for another 15 years.

Despite these barriers, there are a number of successful initiatives that are poised for impact. Perhaps the most successful is Energy Savers, a Chicago-based partnership between Elevate Energy and the Community Investment

Corporation (CIC) that has retrofitted 17,500 apartments since 2008. A one-stop shop for energy efficiency, Energy Savers addresses both the lack of information and capital by assisting with every step of the retrofit process, from helping owners to understand the benefits of an energy efficiency retrofit to connecting interested customers with financing options and underwriting loans through CIC. The success of Energy Savers has led to other programs being developed, such as Ratepayer Integrated On-bill Payment Program (RIOPP) in California. RIOPP began in 2012 and seeks to address the split-incentive problem through on-bill repayment, whereby retrofit costs are included in tenants' energy bills, thus eliminating the discrepancy. Innovative programs such as these are paving the way for energy efficiency in the multifamily housing market.

A perceived lack of capital may be attributable to issues surrounding the valuation of energy efficiency from a building owner's perspective that manifests as low demand. Lauren Ross's recent blog post, "Better information is transforming energy use in multifamily buildings," discusses the recent surge of activity in the multifamily space. Notably, the article discusses Fannie Mae's recently released Multifamily Energy and Water Market Research Survey and the newly implemented 1 – 100 ENERGY STAR score for multifamily buildings, an innovative new system which will allow straightforward access to the energy efficiency profile of multifamily buildings around the country. This new protocol could improve insights into the value of energy- efficient buildings, and potentially catalyze market activity in this sector.

There is a lot happening for energy efficiency in the multifamily sector between the intersection of innovative programs, thoughtful forums, and new technologies, and here at ACEEE we are working hard to continue driving momentum. The coming SLEEC meeting will share insights from lenders that want to engage and deploy capital into this market. It will also seek lender input on opportunities for expanding and replicating best practices. Those interested in learning more about this exciting community should check out our new LinkedIn page and our Technical Assistance Page for Lenders. Interested in learning even more? Then be sure to check back for updates on ACEEE's 9th annual Energy Efficiency Finance Forum, "A Critical Moment," May 31-June 2 in San Francisco. It's the must-attend event for energy efficiency finance.

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