

Building owners of multifamily affordable housing are more able and likely to consider investing in energy efficiency and renewable energy during times when major renovations are being planned. A state or utility program administrator can incentivize energy efficiency and solar audits for low-income multifamily housing in conjunction with a capital needs assessment (CNAs) or at the time of recapitalization or refinance. A CNA is property inspection to estimate the cost of maintaining it over a 5- to 20-year time span that sets a budget and brings up immediate needs. An elevated level of incentives can be made available for properties primarily occupied by low-income households, helping to cover a substantial portion of the cost of improvements.

Benefits

Savings opportunities are more likely to be realized when they are integrated into broader plans for capital improvement, refinancing, or recapitalization. Building owners are more likely to approve energy upgrades if they are already participating in refinancing and recapitalization as they have the capital to make the improvements. Private capital is most effectively leveraged during recapitalization or refinance. Grants provided by states or Community Development Finance Institutions (CDFIs) can provide the necessary flexibility to bridge the gaps that remain after incentives and other sources of funding are utilized.

Key Elements

Partnerships and timing are critical. By evaluating energy efficiency and renewable energy opportunities before or during the CNA, energy improvements that reduce operating costs can be identified and included in the standard refinancing or recapitalization process. Programs that offer free energy assessments and efficiency measures in this process can be ratepayer-funded, state-funded, or a combination of the two.

CDFIs, which are often a key source of capital for low-income housing renovations, are key partners when engaging and packaging energy retrofit proposals as part of applications for Low Income Housing Tax Credit Applications or other types of financing. They are mission-oriented and often well-positioned to structure programs to integrate these proposals in a seamless way that aligns with the overall refinancing process.

Example

The Massachusetts Affordable Access to Clean and Efficient Energy Working Group (AAWG) recommended aligning energy audits and improvements with recapitalization or refinance cycles to leverage private capital for the greatest possible impact. With funding from the Massachusetts Department of Energy Resources and the Massachusetts Clean Energy Center, Local Initiatives Support Corporation (LISC) Boston is providing matching grants for ASHRAE Level II Energy Audits and design kickoff meetings (covering 50% of the cost, up to \$7,500) for affordable housing that is approaching refinance. Approximately 60 energy audits will be funded over three years (previously, the program funded 24 audits at 100% of the cost). LISC also assists owners throughout the refinancing process, including helping owners understand why they should incorporate efficiency and renewable energy into their buildings, helping owners understand results of their energy audit, working with the Mass Save[®]/LEAN program to maximize what is funded by that program, and working with finance agencies to incorporate deeper energy retrofits and renewables into the scope of refinance.

Applicability

This practice is applicable to owners who already are required to complete a CNA for a loan product application or program they are participating in. For example, all owners applying to FHA 221(d)(4) loans, which are used for the construction or substantial rehabilitation of multifamily properties by developers and investors, must conduct a CNA, and in most cases, provide 10-year CNA updates. The energy efficiency and solar assessments should be aligned with relevant requirements to support the ability to streamline timing and allow underwriting and justification of the desired measures. The [Energy Efficiency for All Program Design Guide](#) includes 12 best practices, one of which is focused on this practice of intervention at critical times of investment.

Implementation Considerations

To align with existing utility programs, it is important to ensure that incentive timelines also align with financing timelines, as the length of time between receiving a CNA and being able to start the capital improvements can be quite lengthy. Although CNAs are only a requirement for multifamily properties with FHA loans, the strategy of targeting multifamily building owners for energy assessments at a time of recapitalization can be applied more broadly as energy planning goes hand-in-hand with capital planning.

Links

- [Massachusetts Affordable Access to Clean and Efficient Energy Initiative](#), State of Massachusetts
- [LISC Boston Green Retrofit Initiative](#), LISC Boston (Local Initiatives Support Corporation)
- [Mass Save Multi-Family Program Frequently Asked Questions](#), Mass Save
- [Capital Needs Assessment Tool \(CNA E Tool\)](#), U.S. Department of Housing and Urban Development
- [HUD 221 \(d\) \(4\) The Ground-Up Development Loan of Your Dreams](#), U.S. Department of Housing and Urban Development
- [Overview of Multi-Family Efficiency Programs in Massachusetts](#), Massachusetts Institute of Technology
- [Mass Save Multi-Family Energy Assessment](#), Mass Save