Making Gold from Green

Prepping Properties to Save Money, Benefit Residents as the Recovery Takes Hold

By Allen Feliz, TCAM

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Operating costs have held relatively steady the past couple of years for affordable apartment properties, including those funded by low-income housing tax credits. But as the nascent recovery takes hold and strengthens, inflation and operating costs are certain to tick upwards. Given this, LIHTC owners and property managers should consider steps to manage and reduce energy and water usage at their properties through efficiency improvements.

As a specialty investment manager providing asset and portfolio management services for affordable housing properties, TCAM helps its owner clients improve the financial and physical performance of their properties and maximize their value. From properties in our portfolio and from direct experience, we have witnessed and counseled owners and property managers making energy- and water-efficiency improvements, to cut utility costs and improve living conditions for their residents.

For example, we guided one owner to replace more than 70% of the refrigerators at a Massachusetts property with Energy Star refrigerators and to replace the light fixtures in the common area and apartments with Energy Star fixtures. These improvements were fully paid for by a local utility company program and should reduce annual electric usage by 10% to 15%. Our asset managers and LEED-certified engineer assisted the owner by analyzing the property's historical utility expenses, identifying programs that could help pay for the upgrades, and finalizing the contract with the utility program. We will continue monitoring the asset's progress toward meeting the expected benchmarks going forward.

Efficiency, continued on page 31

Efficiency, continued from page 30

Numerous Benefits

Rewards from making efficiency improvements at a LIHTC property include:

- Saving money on utility costs (e.g., electricity, water), maintenance, and repairs.
- Providing a leg up in competing for housing tax credits and other development subsidies.
- Possible approval of smaller LIHTC utility allowances, thereby increasing net rental income.
- Enhancing the quality of life for the property's residents, which may contribute to stable occupancy and strong financial performance.
- Favorable public recognition for the property and company.

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Factors that the owner should consider in deciding whether efficiency improvements make sense include:

- The current efficiency level of the building(s).
- The size and time frame of the economic payback.
- Funds available that can be used for improvements (e.g., operating budget, replacement reserve accounts, redevelopment sources (in the case of rehabilitations), or state and local utility programs).
- Certain non-economic benefits that may lead to long-term economic rewards and other benefits (e.g., upgrades that help to enhance tenant satisfaction or efficiency projects that serve as magnets for public soft funding).

A prudent first step when exploring efficiency improvements is to analyze past actual gas, electric, and water expense trends across different properties using metrics that control for variables such as climate and building size. This will help zero in on the best candidates for efficiency improvements. Recording these figures also provides a base against which post-improvement utility usage can be measured. Upgrades can be prioritized by first focusing on those properties requiring the most improvement and using the best performing properties as benchmarks.

To get help, LIHTC owners may wish to use a utility auditor, at least to identify some basic steps. For a more comprehensive assessment, green consultant Heather Clark of Biome Studio recommends using a contracting company accredited by the Building Performance Institute (BPI).

Start Simple

In making improvements, start with the "low-hanging fruit" – simple, low-cost measures with short payback periods (generally less than 12 months). Examples include:

- Replacing incandescent lights with compact fluorescent lights (CFLs). An Energy STAR CFL bulb uses 75% less energy than a standard incandescent bulb and lasts up to 10 times longer.
- Replacing leaky toilet flappers and installing a modulator in the toilet bowls.
- Replacing faucet aerators and showerheads to reduce water flow.
- Installing timer switches to manage lighting in common areas.
- Reducing heat and cooling usage in vacant apartments and unplugging refrigerators.
- "Air sealing" openings or cracks in walls, ceilings, and other areas to enhance the building envelope and improve the efficiency of heating and cooling systems.

Implementing these modest measures can often reduce the costs of efficiency investments made during capital replacement. For instance, if a property's boiler is to be replaced, having a more efficient building envelope may permit the installation of a smaller (high effi-

Efficiency, continued on page 32

Efficiency, continued from page 31

ciency) boiler, saving dollars.

Timing is Everything

Clark says the optimal time to make efficiency investments is when the property is undergoing a major rehabilitation or capital expenditures, or when it can obtain low-cost financing from state or local utility programs. Such low-cost financing or subsidies can allow for efficiency improvements with even longer payback periods.

Coordinating improvements with the property's replacement reserve schedule is another smart strategy. By making efficiency upgrades at the same time as scheduled work identified in the replacement reserve schedule, funds can be amassed to pay for the improvements.

Owners and developers interested in making more expensive efficiency investments, such as installing a new heating/cooling system or solar photovoltaic panels, should be aware of the trade-offs between the capital spent, long-term cost savings, and available capital sources and financing/subsidy programs. A useful tool for this analysis is the Green Capital Needs Assessment, which combines a conventional 20-year capital needs assessment with a comprehensive energy audit and financial analysis of retrofit options. Boston-based On-Site Insight, a Recap Real Estate Advisors company, in collaboration with Enterprise Community Partners, performs these assessments.

Capital Sources for LIHTC Projects

State and local utility programs and state tax credit allocating agencies generally offer the most direct benefit to LIHTC projects for energy-efficiency or renewable energy upgrades. Public agency programs include the federal Weatherization Assistance Program, under which grantees use federal dollars to pay for energy efficiency improvements to housing units occupied by low-income persons, and the Aspen (Colorado) Community Office of Resource Efficiency, which offers grants for energy efficiency and renewable energy projects. A comprehensive list of state, local, and utility programs and incentives can be found online at http://www.dsireusa.org.

Including energy efficiency improvements in the rehabilitation scope of work can also help obtain low-income housing tax credits for a rehab or acquisition/rehab project. Many state allocating agencies offer points for energy efficiency and other green features in their qualified allocation plans and application scoring criteria.

Keep in mind that projects planning efficiency improvements generally do not command higher tax credit pricing from equity providers.

There can be other benefits, however. For instance, efficiency improvements that will lower the property's utility expenses or increase net rental income (from a smaller utility allowance) can help rehab projects during the underwriting process. The expectation of lower expenses or higher revenue may enhance the syndicator's and investor's comfort with the project from a risk perspective, possibly translating into better deal terms. On the debt side, the potential for greater higher net operating income may help obtain a higher loan amount.

Supporting the long-term health of our environment is a great reason to enhance the energy efficiency of existing LIHTC portfolios. But, especially as the pace of economic growth accelerates, energy upgrades can yield many tangible and immediate benefits for owners and developers. TCA

Allen Feliz is Director of Research & Development for TCAM, a Boston-based specialty independent investment manager that provides asset and portfolio management services nationwide to capital providers of affordable housing and renewable energy, including investors, lenders, guarantors, government agencies, and housing authorities. TCAM also provides other services including owner's representation, risk mitigation, workout support and advisory. Feliz may be reached at 617-717-6071, afeliz@taxcreditam.com.

Multifamily Cited in DOE Weatherization Guidance

Grantees receiving federal Weatherization Assistance Program funds, which are used to pay for energy-efficiency improvements to housing units occupied by low-income persons, may not exclude multifamily buildings in their priority plans for spending weatherization dollars, the U.S. Department of Energy strongly suggests in recent guidance. It says multifamily buildings may often be high residential energy users, one of the stated priorities that grantees must favor in spending funds. The memo says about 17 million renter households are eligible for weatherization assistance. **(http://tinyurl.com/46t4gkt)**

Separately, HUD has issued guidance outlining procedures for self-certification by owners to have their multifamily housing properties added to the list of properties eligible for weatherization assistance funding. **(http://tinyurl.com/4erdtqb)** TCA