

NYCEEC Green Predevelopment Loan **Catalyzing energy efficiency in affordable multifamily housing**

A NYCEEC CASE STUDY

SPRING
2019





GREEN PREDEVELOPMENT LOAN

Thelma McIntosh's low-interest construction loan from the NYC Department of Housing Preservation and Development (HPD) required several steps before work could begin. First among them was obtaining an Integrated Physical Needs Assessment (IPNA). An IPNA is an assessment of a building's capital needs that includes recommendations for energy conservation measures and their likely payback period based on projected energy cost savings. Although the IPNA expense was wrapped into the HPD financing, McIntosh needed to pay the provider first and would be reimbursed from loan proceeds later.

HPD referred McIntosh to New York City Energy Efficiency Corporation (NYCEEC) to bridge this cost with a predevelopment loan. The NYCEEC Green Predevelopment Loan is a flexible, low-cost bridge loan for soft costs required by HPD financings. The product is currently available through [**HPD's Green Housing Preservation Program**](#) (GHPP), and NYCEEC hopes to expand access to affordable housing programs in the months ahead. The most common predevelopment cost financed is the IPNA, but any soft cost that is eligible for GHPP financing at closing is eligible for NYCEEC financing during the predevelopment phase.



Gary, building employee



NYCEEC is a leading non-profit finance company that provides loans and alternative financing solutions for clean energy projects. NYCEEC finances projects that save money, save energy and reduce greenhouse gases.

NYCEEC GREEN PREDEVELOPMENT LOAN

NYCEEC Green Predevelopment Loans have closed an important financing gap for affordable residential building owners while improving HPD's ability to preserve new affordable units. After providing 25 loans and catalyzing almost \$10 million in energy efficiency improvements and rehabilitation work, NYCEEC sees four important advantages to predevelopment lending:

- 1. Access:** NYCEEC Green Predevelopment Loans remove a cost barrier for affordable multifamily buildings with limited resources to adopt energy efficient technologies.
- 2. Synergy:** NYCEEC Green Predevelopment Loans do not require additional investment of time and resources from housing agencies or lenders. In turn, NYCEEC relies on the lender for due diligence and the source of repayment in order to streamline its own process.
- 3. Impact:** Based on construction completions to date, NYCEEC estimates that every dollar of Green Predevelopment Loan funding unlocks \$25 of investment in energy-saving rehabilitations.
- 4. Scale:** The structure NYCEEC developed for HPD's Green Housing Preservation Program can be replicated for other affordable housing development and preservation programs across New York State and the region.

Our dollars are magnified:

\$400K → \$10M

invested in 25 projects in project costs

25X multiplier



Learn more about
HPD's Green Housing
Preservation Program
by [clicking here](#).

*Eligible predevelopment expenses
include: IPNA, technical assistance
services, and predevelopment
work identified by the IPNA.*



Learn more about the
NYCEEC Green Predevelopment
Loan and review our term
sheet [on our website](#).

ACCESS

Value for Affordable Housing

The NYCEEC Green Predevelopment Loan incentivizes owners to work with HPD and increases the uptake of energy conservation measures. Building owners can borrow up to \$15,000 interest-free—which exceeds the cost of a typical IPNA—and up to \$40,000 in total. NYCEEC's loan fills a critical gap, since restrictions on the use of New York City's capital prohibit GHPP from disbursing loan funds before construction begins.

On average, four out of every five projects that apply for financing from GHPP also express interest in NYCEEC's Green Predevelopment Loan. Of the first 25 projects to utilize Green Predevelopment loans, 18 had no prior financing or regulatory agreement from HPD. **Therefore, by removing the predevelopment cost barrier, the Green Predevelopment Loan has helped increase the City's supply of protected, affordable housing, while also improving the energy efficiency of these buildings.**

Although predevelopment costs seem small in comparison to project size, these preliminary costs are felt acutely by buildings with limited resources. HPD's Green Housing Preservation Program targets affordable residential properties of 50,000 square feet or less. These smaller buildings, often owned by individuals or state-regulated Housing Development Fund Corporations (HDFCs), are constrained by limited cash flow and reserves; they may also lack the technical capacity or time to manage complex financing and energy efficient rehabilitation work. Therefore, the NYCEEC Green Predevelopment Loan addresses a significant barrier to modernizing systems and conserving energy use.

"Without NYCEEC's predevelopment loan, GHPP would not be able to reach and assist the type of owners HPD sought to target with this program: small-and mid-size building owners who have never previously worked with the agency."

Typically, these owners do not have the upfront capital to cover the predevelopment costs associated with closing on a loan with HPD, so the ability to easily and quickly access a predevelopment loan product at such great terms has made all the difference in ensuring these properties are able to obtain financing for energy efficiency projects and remain affordable for the long term."

Dara Yaskil

Director, Preservation Finance
NYC Housing Preservation & Development



SYNERGY

NYCEEC's flexible financing solution

GHPP loans typically require 6 to 18 months to close, during which time HPD conducts due diligence on its borrower, develops the scope of rehabilitation work required based on the property's IPNA, and finalizes the project budget and loan documents.

NYCEEC tailored its **Green Predevelopment** Loan term sheet to work within these parameters.

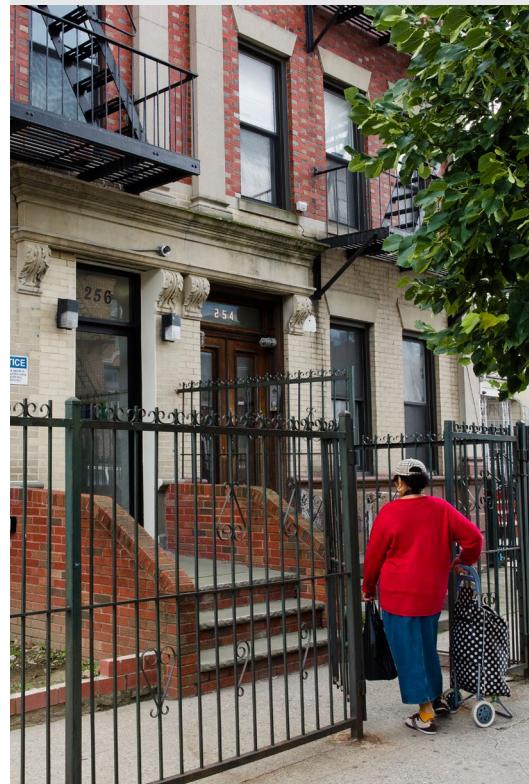
Along with the borrower's application, HPD provides a "soft commitment letter" confirming that the borrower has applied to GHPP and the project meets its minimum criteria. NYCEEC relies on HPD's soft commitment to expedite its own due diligence process and approve each credit based on the assurance that HPD will provide takeout financing.

NYCEEC and the borrower then enter into an 18-month loan agreement, allowing the borrower to draw up to \$40,000 for HPD-eligible predevelopment costs. This means that the borrower can access funds to keep the project moving forward in step with HPD's process.

NYCEEC receives regular updates on each project from HPD and may provide one no-cost six-month extension to projects that need more time to close on construction financing. Thus, the NYCEEC Green Predevelopment Loan is a convenient, voluntary option to move projects forward without requiring significant additional time or investment from the lender or borrower.



Read more about
256 Martense Street in our
deal spotlight, available on
our website.



DEAL SPOTLIGHT: 256 MARTENSE STREET, BROOKLYN



Let's return to Thelma McIntosh, the owner of a 6-unit apartment building in Brooklyn. After McIntosh attended an HPD owner's resource fair and applied to the GHPP program, HPD referred McIntosh to NYCEEC to fund predevelopment expenses.

- McIntosh drew **\$30,000** from NYCEEC to pay for her IPNA energy benchmarking report, weatherization study, and asbestos mitigation. The first \$15,000 was interest free, and the additional \$15,000 accrued 5% annual interest. The upfront cost to McIntosh was limited to \$500 in fees.
- The total project cost leveraged was **\$477,611** and included full window replacements, new common area lighting, oil-to-gas boiler conversion, thermostatic radiator valves, roof and pipe ventilation, and low-flow water fixtures.
- The building will **reduce its utility expense by 27%** due to the improvements.
- Tenants will benefit from increased comfort, better air quality, and efficient ventilation.
- McIntosh signed a 30-year regulatory agreement with HPD preserving low- and moderate-income rents in the building.

Utility	Baseline property expense	Post-upgrade expense	Savings
Gas & electricity	\$800	\$876	0%
Water & sewer	\$6,028	\$4,125	32%
Heating	\$7,500	\$5,523	26%
Total	\$14,328	\$10,524	27%

IMPACT

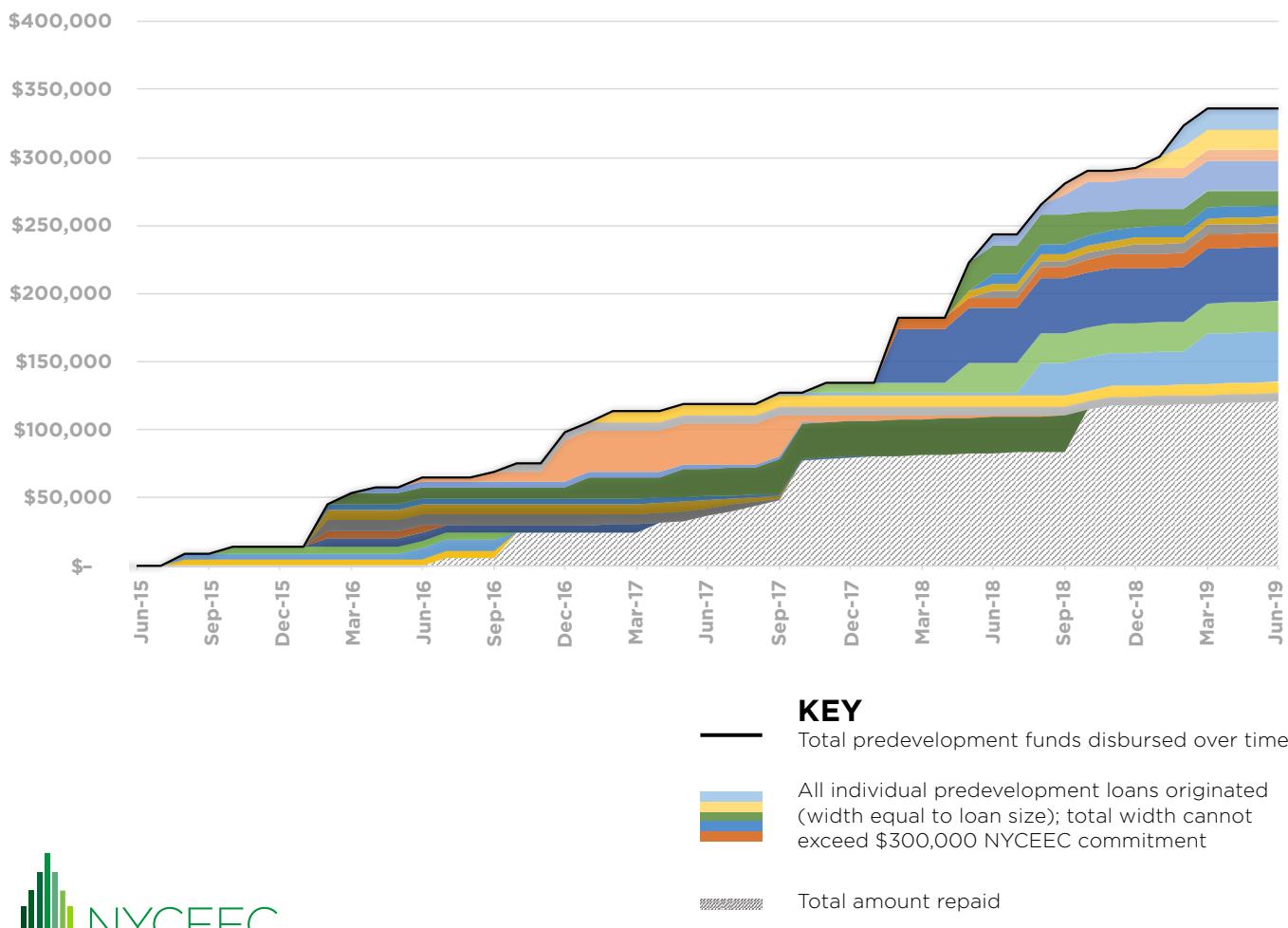
Maximizing investment impact

Major financing events are often-cited opportunities to incorporate energy conservation measures in a building. Identifying the right measures, however, requires technical expertise. The NYCEEC Green Predevelopment Loan enables building owners to obtain that expertise through the [IPNA report](#) with no money down. It is an innovative way to leverage buildings' capital cycles to promote incremental energy conservation measures.

Predevelopment lending also offers an excellent opportunity for NYCEEC to "leverage" its capital resources for significant impact. To date, six projects have already completed construction, resulting in over \$4.8 million in energy efficient rehabilitation work based on a \$95,000 investment by NYCEEC. Based on the most common energy efficiency measures employed by GHPP and per unit cost data, NYCEEC projects at least \$25 in energy efficient rehabilitation investment for every dollar of its predevelopment funding.

NYCEEC Predevelopment Loans

Disbursement and Repayment Over Time (FY16 – FY19)



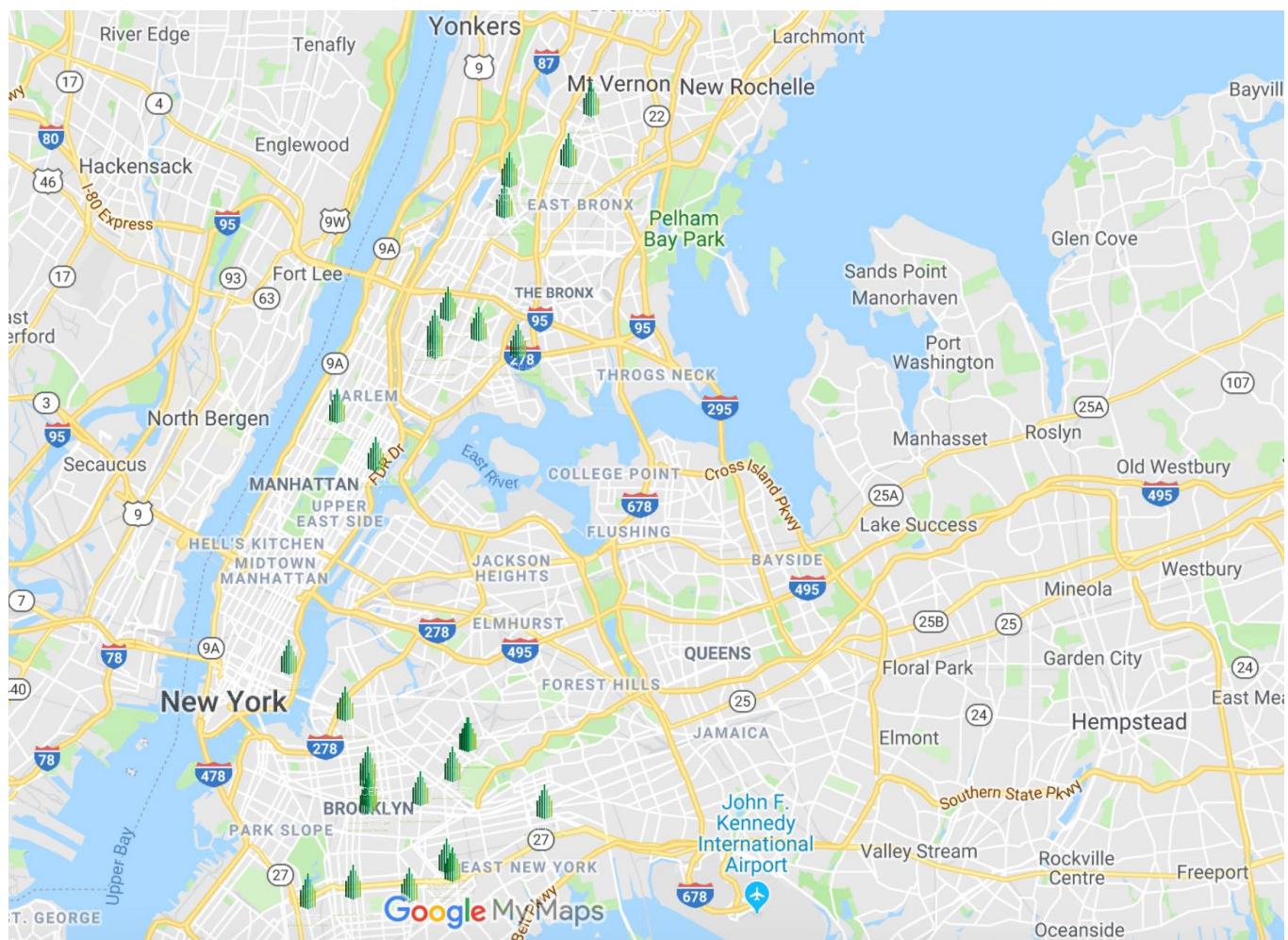
SCALE

PROSPECTS FOR SIMILAR PROGRAMS

The NYCEEC Green Predevelopment Loan is designed to be as practical for borrowers as it is replicable for new affordable housing programs and lenders. Through its partnership with GHPP, NYCEEC developed an efficient loan approval and servicing process. Processing time is typically two weeks from application to disbursement. The average loan term to date (based on the time required for the HPD funded construction loan to close) is 16 months. With these mechanisms in place, NYCEEC is prepared to meet increased demand.

Map of NYCEEC's Green Predevelopment Loans

[Visit online](#)



THE BOTTOM LINE

The NYCEEC Green Predevelopment Loan is proven and replicable. As its portfolio of predevelopment loans with GHPP grows, NYCEEC also seeks new partnerships to reach all affordable residential buildings that are preparing for rehabilitation work. Let's help phase out the "replace-in-kind" rehabilitation model and integrate energy efficiency into every project!

NYCEEC is available for work with public agencies, CDFIs, owners, and managers.

[**Contact us**](#) to learn more



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