HOUSING PARTNERSHIP NETWORK

Multifamily Portfolio Screening Method – version 1.0

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This document is meant to accompany the Screening Data Collection Template and be used to screen properties for inclusion in a full portfolio analysis. This is an interim product of the Housing Partnership Network (HPN) "Readiness" program that provided direct technical assistance to 24 nonprofit HPN member organizations, including 16 multifamily affordable housing developer-owners.

What do we review during a portfolio screening?

The primary purpose of portfolio screening is to identify a limited number of properties that are likely to be among your highest priorities for decarbonization. The screening is meant to identify properties that have upcoming investment needs, limited restrictions on taking on new debt, and the financial ability to take on new debt, and also identify properties that are in locations where the external regulatory environment pushes up the schedule for decarbonization. The screening process does not focus on the physical characteristics of properties – this comes later, during a full portfolio analysis.

This screening also focuses on existing properties – GGRF can also be used for new development, but that is not the focus of this screening process.

Factors to review during the screening include:

1. Investment plans and timing
    - Why look at this?
        i. The most likely use of GGRF, or any rebates/incentives, is for projects for which an upcoming recapitalization, substantial renovation, or equipment replacement is planned – or, for new acquisitions that are being renovated before being occupied.
    - What questions do we need to answer to assess this?
        i. Is this property expected to receive significant capital investment within the next several (3-5) years?
            - Notes: organizations with multi-year capital plans should use those plans to answer this question. Those without formal multi-year plans would need to use their knowledge of their properties to estimate.

        ii. Is this property likely to require one-off investments due to deferred maintenance, equipment replacement, or other needs, even if these are outside of the official capital plan?
            - Notes: equipment replacement is an ideal time to start a decarbonization process. Even buildings without upcoming capital events can take steps toward decarbonization through smaller improvements like equipment replacement, and then make more significant improvements in future years. Having decarbonization plans in place for properties with upcoming equipment

replacement can avoid the tendency to default to like-for-like equipment replacements. This question relies on the knowledge of the organization's asset management team.

iii. Is this property a recent acquisition and requires some investment?
    - Notes: acquisitions present a good opportunity for decarbonization, as some improvements are often needed anyway.

2. Existing debt restrictions
    - Why look at this?
        i. We will need projects that have some flexibility in stacking additional debt. Too many levels, too restrictive terms, restrictions on new debt, etc, will make it difficult to add GGRF financing.
    - What questions do we need to answer to assess this?
        i. How restrictive is your current first mortgage provider?
            - Notes: if your first mortgage is held by an organization with strict regulations, like Fannie Mae or Freddie Mac, your ability to take on new debt is likely to be very limited. The property owner does not need to specifically identify their lenders to answer this question, just assess how restrictive they are.
        ii. Is the property in the midst of a compliance period for another funding source, such as LIHTC?
            - Notes: properties within compliance periods often have restrictions that make it difficult for them to take on additional debt.
        iii. Are there other financial restrictions on this property, or a very complicated capital stack, that would make it difficult to add another financing source?
            - Notes: this question is meant to cover any other situations not included above. The number of sources in the capital stack does not necessarily indicate problematic restrictions, but can be an indicator of high complexity.
3. Financial operating information
    - Why look at this?
        i. In most cases, it is difficult to see potential for new financing if the building does not have positive cash flow to repay debt. However, in cases where the cash flow issues are being caused by some issue that will be fixed by making a major reinvestment, this represents an opportunity rather than a constraint. For example, in properties where there is older equipment requiring continual maintenance (or with deferred maintenance), and this maintenance is causing cash flow issues, a substantial investment and recapitalization may be useful.
    - What questions do we need to answer to assess this?
        i. Does the property have a positive cash flow situation?
            - Notes: positive cash flow means that debt can be repaid.

   ii. If cash flow is negative, could the cash flow problems be solved or reduced by a new decarbonization investment?
      - Notes: if cash flow is negative, but the reasons for its negative performance would be improved with a decarbonization project that reduces utility costs or deferred maintenance costs, the property is a good candidate for a decarbonization investment. If its negative cash flow is caused by other unrelated reasons, it is positioned less well.

4. External regulatory environment
   - Why look at this?
      i. For multi-state portfolios, it is helpful to evaluate how much state/local regulations support or prevent decarbonization. In locations with Building Performance Standards (BPS) requirements, for example, there is external pressure for building decarbonization and it may need to occur on an accelerated timeline. In other locations, some elements of decarbonization are more difficult due to regulatory barriers or a lack of incentives and rebates. This factor does not mean that it is impossible to conduct decarbonization projects in challenging regulatory environments, and in fact there is great benefit in doing so; the questions below are recommended as considerations rather than central determinants. Affordable housing providers may find other HPN resources, like this 50-state comparison, useful in answering the below questions.
   - What questions do we need to answer to assess this?
      i. Does your state, county, or city have requirements for decarbonization, such as Building Performance Standards?
         - Notes: if so, this may significantly drive the timeline in which improvements are needed, and may move properties in these geographies to the top of priority lists.
      ii. Does your state, county, city, or utility have extensive rebate or incentive programs that further encourage decarbonization, or award points for sustainability features within the LIHTC Qualified Allocation Plan?
         - Notes: taking full advantage of public programs that reduce the cost of decarbonization is recommended, and these vary greatly by location.
      iii. Does your state, county, or city have requirements that discourage or restrict decarbonization projects?
         - Notes: some states or utilities have created barriers to decarbonization, such as through policies that make it difficult to install solar on residential properties.

What information – beyond the specific questions above – is needed?

A few additional pieces of information are helpful when conducting a portfolio screening:

- If your organization has a multi-year or one-year capital plan, please share it.
- Please tell us whether you have a regular cycle for updating your capital plan that this portfolio evaluation process should align with.
- Please give us a general sense of the buildings in your portfolio – are they similar in location, size, and age, or are they very heterogenous?
- Same question for the financing of your buildings – do all they have income restrictions, or were developed through consistent financing sources (e.g. LIHTC), or are they highly varied?
- How many of your properties have utility data entered into ENERGY STAR Portfolio Manager?

It is also helpful to collect some basic building information at this stage, which will contribute to the portfolio analysis later. While GGRF may be relevant in many types of buildings, it is worth understanding the opportunities and constraints facing each. For example, buildings that are heated through electric resistance heat can gain significant efficiencies with an upgrade to heat pumps, with savings for both carbon and utility costs; on the other hand, buildings heated with natural gas powered boilers can generate very high carbon savings, but electrifying them is likely to be costly and may not reduce utility costs. Understanding these pros and cons early on can help property owners prioritize projects that meet their particular goals. However, these questions are not “scored” but simply asked to provide additional context.

Property information (if easily available):

- Building information
  - What fuel type is used for heating this property?
  - What heating distribution system is used on this property?
- Utility payment information
  - Is this property individually metered or master metered?
  - Does this property have a utility allowance for tenants?

How does scoring work?

Housing providers and consultants will review data and score properties according to the following table (used as a starting point and can be modified):

Category	Question	High	Medium	Low
Investment plans and timing	Is this property expected to receive significant capital investment within the next several (3-5) years?	Yes	Maybe	No
	Is this property likely to require one-off investments due to deferred maintenance, equipment replacement, or other needs, even if these are outside of the official capital plan?	Yes	Maybe	No
	Is this property a recent acquisition and requires some investment?	Yes	Maybe	No

Existing debt restrictions	How restrictive is your current first mortgage provider?	Not restrictive	Somewhat restrictive	Very restrictive
	Is the property in the midst of a compliance period for another funding source, such as LIHTC?	No	Maybe	Yes
	How many capital sources do you have supporting this property?	Fewer than five	Five to ten	Over ten
	Are there other financial restrictions on this property?	No	Some, but minor	Yes, major ones
Financial operating information	Does the property have a positive cash flow situation?	Yes	Neutral	No
	If cash flow is negative, could the cash flow problems be solved or reduced by a new decarbonization investment?	Yes	Maybe	No
External regulatory environment	Does your state, county, or city have requirements for decarbonization, such as Building Performance Standards?	Yes	Somewhat	No
	Does your state, county, city, or utility have extensive rebate or incentive programs that further encourage decarbonization?	Yes, major programs	Some minor programs	No
	Does your state, county, or city have requirements that discourage or restrict decarbonization projects?	No	Somewhat	Yes

Once initial scoring is done, housing providers will then be supported by consultants to do a rough review of projects and prioritize those with the most “high” scores and fewest “low” scores.

Who should participate in a portfolio screening?

- Needed:
  - Asset management team member
  - Real estate development team member
  - Sustainability team member
- Very helpful (may not be relevant to all organizations):
  - CEO/COO/CFO
  - Chief engineer
  - Finance team member
  - Green buildings technical staff (if present)

What is the screening process?

- Meeting 1:
  - Relay Network consultants and housing providers meet to discuss the project intent, process, and outcomes.

- After providing context and space for questions, consultants list the information needed to conduct the screening and the follow-on assessment. Housing providers discuss their ability to collect this information.
- Outcome: list of necessary information.
- Time: 45 minutes

- “Homework” 1:
  - Housing providers collect the agreed-upon information.
  - For higher-capacity providers, they do this themselves.
  - For providers with staff limitations, consultants meet with relevant staff to help collect and analyze relevant information.
- Meeting 2:
  - Housing providers come to the meeting with the agreed-upon information assembled for each of their projects.
  - Consultants talk through any questions of methodology or how to fill in information gaps that may occur.
  - Housing providers and consultants discuss how to turn the information into a “score” for each property. Consultants will have a starting point, but housing providers will customize this to reflect their priorities. Note that the “scoring” is not going to be particularly quantitative, but used for comparative purposes (e.g. green / yellow / red) to help prioritize properties for deeper analysis.
  - Housing providers and consultants assign scores and discuss which projects seem most suitable for a GGRF-focused analysis. This should include no more than ~20 properties, and generally should not represent more than 20-30% of a housing provider’s portfolio. These numbers are rough and may vary. For smaller housing providers, this may simply be a handful of properties.
  - Outcome: rough consensus about priority projects.
    - Note: if this outcome is not reached, schedule another meeting to discuss further. The consultant team will be available for further data analysis as needed. This is most likely for housing providers with limited staff capacity to devote to this activity.
  - Time: 90 minutes to 2 hours
- “Homework” 2:
  - This occurs only after a rough consensus is achieved, as noted above. If this outcome is not reached, repeat the Meeting 2 format until it is.
  - Leadership team of housing provider reviews the priorities and confirms them. Consultants can attend if valuable.
  - This ends with the housing provider telling the consultants to proceed with deeper analysis of selected financially pre-screened projects.
- Meeting 3:
  - Kickoff of deeper analysis phase. At this point the Relay Network member will ask for more building and utility data on priority properties. This moves us beyond the screening phase so is not further described here.
  - Time: 45 minutes

HOUSING PARTNERSHIP NETWORK

For more information, contact:

The Housing Partnership Network (HPN) is a membership organization of affordable housing owners, developers, and financial institutions. HPN funded the research that led to this product and contributed substantially to its content. Contact: Adam Meier, Director, Green & Healthy Communities, meier@housingpartnership.net.

Elevate is the lead consultant on this project, and was supported by the New Ecology, Green Coast Enterprises, and the Association for Energy Affordability. These organizations are all members of the Relay Network, a national coalition of mission-driven organizations who share a commitment to equity and climate action. Contact: Bob Dean, Principal Director of GGRF, bob.dean@elevatenp.org.