



2013 Annual Awards Entry Form
(Complete one for each entry.)

Entry Name Sustainable Energy Trust

HFA Washington State Housing Finance Commission

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013**.

Use this header on the upper right corner of each page.

HFA: WSHFC _____

Entry Name: Sustainable Energy Trust___

Communications	Homeownership	Legislative Advocacy	Management Innovation
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input type="checkbox"/> Empowering New Buyers <input checked="" type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Federal Advocacy <input type="checkbox"/> State Advocacy	<input type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input type="checkbox"/> Operations <input type="checkbox"/> Technology
Rental Housing	Special Needs Housing	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs	<input type="checkbox"/> Special Achievement	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO

Sustainable Energy Trust: A “Green Bank” for Energy-Efficient Development

Accepting the challenge of the state legislature to support energy efficiency without using state funds, the Washington State Housing Finance Commission created an innovative “green bank” for pilot projects that test finance and business models to break down barriers to energy efficiency in private development.

Background

Energy costs are often overlooked among all the others associated with homeownership. Buyers and lenders determine the affordable monthly mortgage without taking into account the necessary heating, cooling, lighting, cooking and washing that can make hundreds of dollars of difference in a monthly budget. Nevertheless, these costs are a critical part of a home’s affordability. In fact, a March 2013 study by the Institute for Market Transformation found that owners of energy-efficient homes are 32% less likely to default on their mortgages.

Meanwhile, residential buildings account for 22% of carbon dioxide emissions nationwide. In Washington state, the built environment accounts for 31% of energy consumption and 26% of energy costs in the state—and everywhere, the demand for energy keeps increasing. Improving efficiency alone can alleviate much of this growth in demand, offering a potential to save an average of 30% of energy used in residences across the country.

Furthermore, peer-reviewed studies have shown that there are health benefits to living in homes that meet third-party green certification standards.

Unfortunately, very few residences in Washington undergo energy-efficiency improvements. Highly energy-efficient homes (old or new) are seen as luxury product, “green” being a selling point for civic-minded, affluent buyers.

The Commission aimed to change that—to prove to builders and real-estate agents that green can be a competitive element in profitably selling all homes, including those within reach of low- and moderate-income buyers.

Legislative Mandate

A new charge by the state legislature in 2009 gave the Commission the ability to address this issue by empowering us to help with financing and issue bonds for energy-related projects. The law also asked us to create, if feasible, a program to finance energy efficiency and renewable energy without the use of state funds or credit—the Sustainable Energy Trust.

The Commission seized on this mandate and began to shape an innovative solution. Immediately, we undertook several studies of the economic challenges and benefits to establishing a viable and enduring trust that would meet the legislature’s directive. We invested \$3 million of our program revenue, none of which touched state funds, to create the trust. We also hired a full-time staff person with energy expertise to coordinate the program.

Challenges in Residential Energy-Efficiency

In the homeownership area, we identified two critical barriers to energy-efficiency improvements. A typical home-improvement loan is at once a large investment of time and money for the homeowner,

while also being a low-margin product for the lender. The homeowner is taking on new debt (and usually a large inconvenience) for improvements that may or may not be reflected in the home's resale value, even if they do have a positive return on investment from the resulting energy savings. A new kitchen or bathroom is often more desired and more easily valued by traditional appraisals. Meanwhile, from the lender perspective, a small loan requires the same due-diligence costs, while the possible returns in the form of interest income are necessarily smaller than on larger loans.

Green Canopy Homes Partnership

While building the Commission's energy strategy, the Commission's senior energy coordinator, Avi Jacobson, reached out to energy-focused environmental groups, industry associations, local governments and others with similar goals.

One of these connections was with Green Canopy Homes. A Seattle-based corporation, this for-profit developer takes an innovative approach to sidestepping the barriers we had observed, guided by the mission of "inspiring resource efficiency in residential markets."

Like many of the acquisition/rehabilitation of multifamily facilities that the Commission already finances, Green Canopy Homes identified the point of sale as the ideal time to make deep efficiency improvements. Using a buy-fix-resell model, Green Canopy Homes can take advantage of total site control to make improvements leading to at least 30-50% reductions in energy usage. Third-party energy audits of the homes before and after the work is complete hold them accountable, as do performance guarantees to the homebuyers.

More impressive than the success of energy improvements is the bottom-up approach Green Canopy Homes uses to educate real estate agents—the population that functionally buys and sells homes for a living—on the value of an energy-efficient home. Finally, rather than demanding a green premium, the homes are priced competitively and have very short time-on-market periods (22 days average) as a result.

The Commission saw that the overlap in missions and the scalability of the Green Canopy Homes business model made partnership a natural. Working collaboratively with the company, Avi and David Clifton of the Commission developed a model of short-term, below-market construction loans, to be repaid in a lump sum when the home/homes are sold.

This model reduces the pressure on margins that a builder faces when selling to lower- and middle-market buyers. Green Canopy Homes is now able to consider and profitably complete projects that bring efficient homes to buyers who most benefit from lower utility bills—bringing the economic, environmental, and health benefits of sustainable housing to the low and moderate income home owner.

The Triplets

The Commission's first project with Green Canopy Homes targeted three dilapidated homes in West Seattle. Side by side in a modest neighborhood, the three had been long neglected and were ripe to be torn down and replaced with townhouses or "McMansions" that would fill every corner of the lots.

Instead, using \$720,000 borrowed from the Sustainable Energy Trust at 2% interest, Green Canopy Homes bought all three and transformed them into highly energy-efficient and modern homes. Called "the Triplets" and named Clara, Zelda and Louise after stars from the 1920s era in which they were built, the homes generated great enthusiasm from neighbors who were glad not only to see the eyesores gone, but

also that the remodeling would stay in scale with the neighborhood. As the work progressed, neighbors were even invited to vote on the paint colors.

The finished Triplets went on the market in June 2013, with about 50% more living space. They are expected to use 25 to 50% less energy than before the remodeling, as determined by a pre- and post-work energy audit.

The three-bedroom, two-bath homes range from 1,300 to 1,600 square feet, on lots of 7,440 square feet. Each includes a surprising addition at the rear: a “great room” with 11-foot ceilings that connects a common living, dining and kitchen space with the back yard. Two of the homes also have detached garages. The homes are priced within reach of homebuyers of moderate income—homebuyers who would qualify for the Commission’s assistance.

“This project was possible because of the Commission’s flexibility and willingness to explore ideas with us,” say Aaron Fairchild, CEO of Green Canopy Homes. “We went from conversation to speculation to implementation in less than a year. We greatly appreciate how the Commission engages proactively with the business community.”

Maritime Lofts

The second collaboration between the Commission and Green Canopy Homes is the construction of four affordable row houses in Ballard, one of the city’s most desirable neighborhoods. The Maritime Lofts (so called because of the neighborhood’s seafaring history) will be two-bedroom, two-bath homes with three floors for living space and individual rooftop gardens. They will also use at least 30% less energy than comparable row houses once the work is completed, drastically lowering the cost of ownership.

The Green Bank

The Commission also used the Sustainable Energy Trust to establish a loan participation fund that encourages renewable-energy and energy-efficiency financing by local lenders. With this \$2 million fund, the Commission will participate in up to 20 percent of a loan under \$2.5 million—up to \$500,000—at an interest rate of 2%. The program assists lenders and their clients by helping to lower costs and risks.

In partnership with the Seattle Foundation, two commercial buildings in Seattle will soon borrow from the SET to finance a 20% improvement in energy efficiency.

Next Steps

The Green Canopy Homes team has enthusiastically embraced the challenge of finding homes that can be improved and sold to those who benefit from the Commission’s Home Ownership assistance programs. Furthermore, the company’s commitment to its goal of inspiring resource efficiency in residential markets has led to a willingness to share information and help other builders follow their lead. The Commission anticipates working with more contractors on similar projects as the word spreads that energy-efficient homes can be sold profitably to all home buyers, and not just as a luxury product for the affluent.

The current story of the relationship between Green Canopy Homes is of neighborhoods preserved and working families gaining access to more efficient homes. The future is one in which the efficient house that seems exceptional today has become the standard for all.

THE TRIPLETS, TRANSFORMED

l-r: back in the day > before construction > today

Clara



Zelda



Louise



These three homes in West Seattle were purchased and remodeled by Green Canopy Homes for energy efficiency and modern lifestyles, using the financing of the Washington State Housing Finance Commission's Sustainable Energy Trust.



Opening doors to a better life

