Citi Community Capital

Lending to Green Affordable Housing Developments

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Citi Community Capital

Citi's Commitment to the Environment

- Our approach is embedded in our business
  - Citi's commitment to the environment dates back several years
  - The company works at solving environmental challenges in a way that supports our business and our clients.
- Our programs
  - We invest in renewable energy and clean technology via our Alternative Investment group's Sustainable Development Investment Program
  - We are working to reduce our own Green House Gas emissions in the buildings we lease or own globally.
- Reporting
  - Annual progress updates in our Corporate Citizenship Report

Citi's Leadership in Affordable Housing

	Top Affordable Housing Lenders*	
Company	**2006**	**Mid-Year 2007 (June 30, 2007)**
Citi Community Capital	**$1,400**	**$733**
RBC Capital Markets	1,250	1,210
Capmark Affordable Debt	1,200	(Now part of Citi)
Wachovia	1,114	49.4
U.S.Bank	1,100	620
New York City Housing Development Corp.	784.1	621.5
Wells Fargo	515	N/A

*Affordable Housing Finance Magazine: Feb. 2008

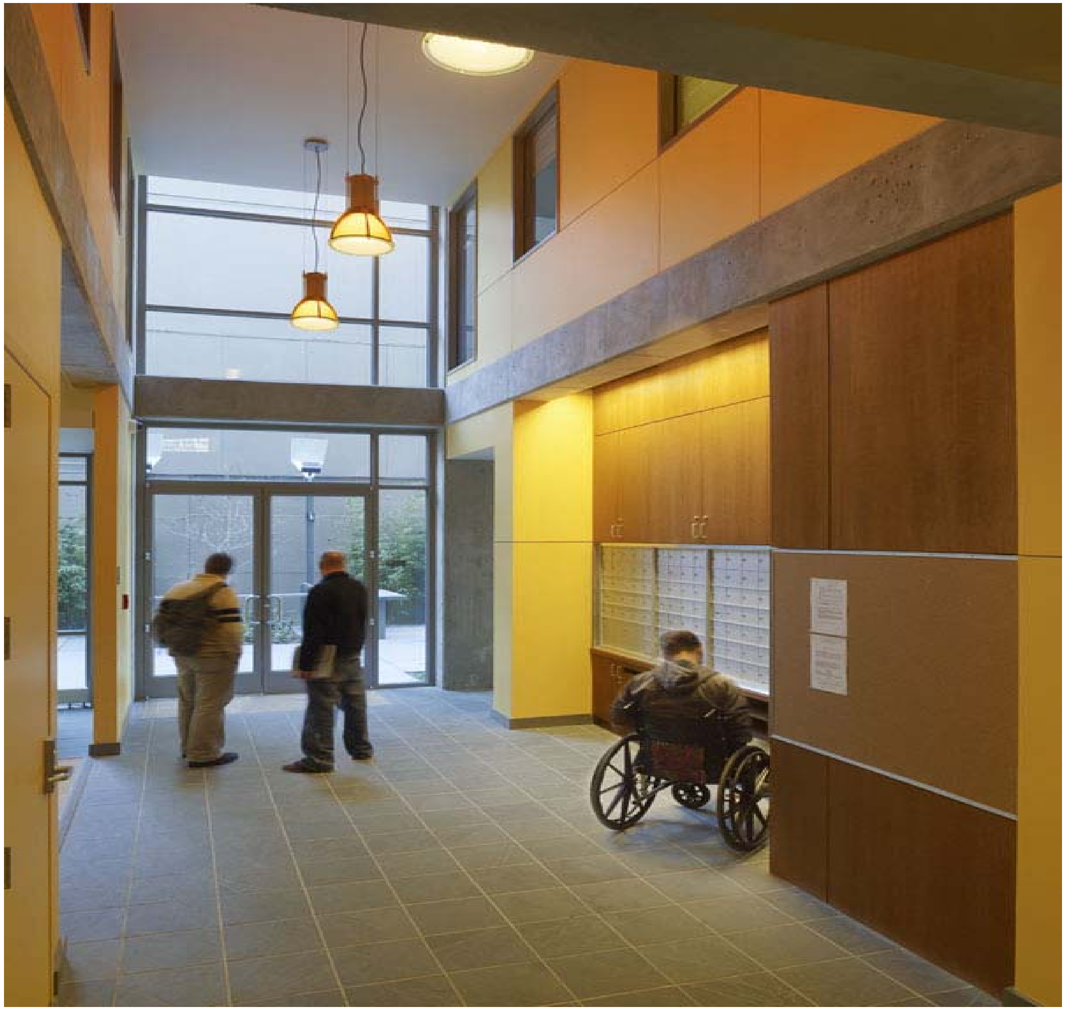
Plaza Apartments: Financing Green Affordable Housing

- Location
  - SoMa neighborhood in San Francisco (988 Howard Street at 6th Street)
- Developer
  - Affiliate of the San Francisco Redevelopment Agency
- Project
  - 106 units housing formerly homeless adults
  - Completed in 2006
- Citi's role
  - Provided a $10.5 million construction loan
- Green Elements
  - Approx. 75% of construction waste was recycled and diverted from landfills
  - Solar provides about 12% of the building's energy needs
  - Cabinets are formaldehyde-free, low voc paints and sealants
  - Exterior panels are recycled craft paper covered with veneer
  - LEED Silver Certification

Plaza Apartments

Photo courtesy of Tim Griffith Photography

Plaza Apartments



What do lenders look for?

- Green Building can be more expensive on the front end but holds the promise of lower costs due to energy saving efficiencies on the back end.

- Two Important Next Steps in the ongoing conversation about green building and affordable housing:

1. Focus on how greening can enhance <u>project cash flow</u>

2. Engage <u>appraisers</u> in the current conversation about greening

What do lenders look for?

- *Do Think Cushion:*
  - Lenders want to know that there is more than enough money available to fix problems.
  - For example, they won't lend an amount equal to 100% of the property value.
  - Also, they want projections to show cash flow in excess of 10% or 15% of the amount necessary to service their debt
- *Don't Think Cost Benefit:*
  - It is important for owners to know if the upfront investment in greening will pay back over time.
  - But that is not an important question for most debt providers. Lenders are not owners.

What do lenders look for?

- The size of a loan for a project is driven by many things. Two of the most important are:

  1. Debt Service Coverage Ratio: the Amount of Cash Available to Pay Debt Service

  2. Loan to Value Ratio: the Value of the Real Estate Relative to the Loan

- A key determinate in both calculations is Net Operating Income.

What is NOI?

A project's Net Operating Income gets to the heart of a lender's cushion.

- Net Operating Income is the amount of cash flow left over after expenses have been deducted from revenue

Revenue	$850,000
Less Expenses	-$450,000
= NOI	$400,000

Debt Service Coverage

- Lenders want to see that the project is generating more cash than is necessary to pay debt service.

$$\frac{\text{NOI}}{\text{Debt Service}} = \text{DSC}$$

$$\frac{\$400{,}000}{\$347{,}000} = 1.15$$

- In this case there is 15% more cash than necessary to be at breakeven to pay debt service.
- If the loan is too big for the project to support and the DSC is less than the lender's DSC requirement, the loan will have to be smaller.
- NOI is a key determinate of DSC and of the size of the perm loan.

Loan to Value

- The Loan to Value Ratio looks at the amount of the loan relative to the value of the project.
- There are many ways to derive the value of real estate. The Income Approach uses a rate (the Cap Rate) to determine value.

$$\frac{\text{NOI}}{\text{Cap Rate}} = \text{Value}$$

$$\frac{\$400{,}000}{6\%} = \$6.6 \text{ Million}$$

- Lenders won't lend 100% of value. If the project is worth $6.6 Million, a lender who will only lend up to 90% will lend no more than $6 Million.
- Project NOI is a key determinate of value and thus the size of the loan.

Why do debt coverage and loan to value matter?

- Determining DSC and LTV are two of the first things many lenders do in deciding if they want to make a loan.
- DSC and LTV will drive the amount of financing a project gets
- NOI is a key determinate of both DSC and LTV
- NOI is driven in part by Operating Expenses.
- Lower Operating Expenses = Higher NOI = Larger Loan
- Larger Loans may be necessary to pay for larger upfront green improvements

Lenders, Cash flow and Greening

- If Green Building advocates can demonstrate that greening enhances project cash flow, it will strengthen the case for financing green projects.
- Studies documenting the data to demonstrate the cost savings have been done and others are underway.
- Some of those studies look at the cost benefit analysis which is important for owners but less relevant for lenders.
- The data needs to be gathered in a way that is compelling to lenders.

Bringing Appraisers into the Conversation

- Appraisers often have the last word in projecting operating expenses.
- Credit Committees rely heavily on appraisers as knowledgeable, objective third parties to gather the operating expense information that projects cash flow.
- The next step in the conversation needs to be involving people in the appraisal community in a rigorous study of the cost savings from going green.

For More Information

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