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Wells Fargo Housing Affordability and Climate Change Dialogues

Multifamily Workshops Summary Report

WELLS FARGO

RMI

Partners

About Wells Fargo

This report was sponsored by Wells Fargo's Institute for Sustainable Finance. The Institute supports the deployment of $500 billion in sustainable finance by 2030, advocates for public policies that support clients' transitions, funds science-based research on carbon reduction, and advances climate justice.

About RMI

Through generous support from Wells Fargo, RMI facilitated both workshops and prepared this report for broader industry knowledge. RMI is an independent nonprofit founded in 1982 that transforms global energy systems through market-driven solutions to align with a 1.5°C future and secure a clean, prosperous, zero-carbon future for all. We work in the world's most critical geographies and engage businesses, policymakers, communities, and NGOs to identify and scale energy system interventions that will cut greenhouse gas emissions at least 50 percent by 2030.

Statements and opinions in this publication and related materials are suggestions offered by workshop participants and do not represent the opinions of Wells Fargo or RMI. This document is presented for informational purposes only and is not intended to recommend any particular investment or inform investment decisions.

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Overview

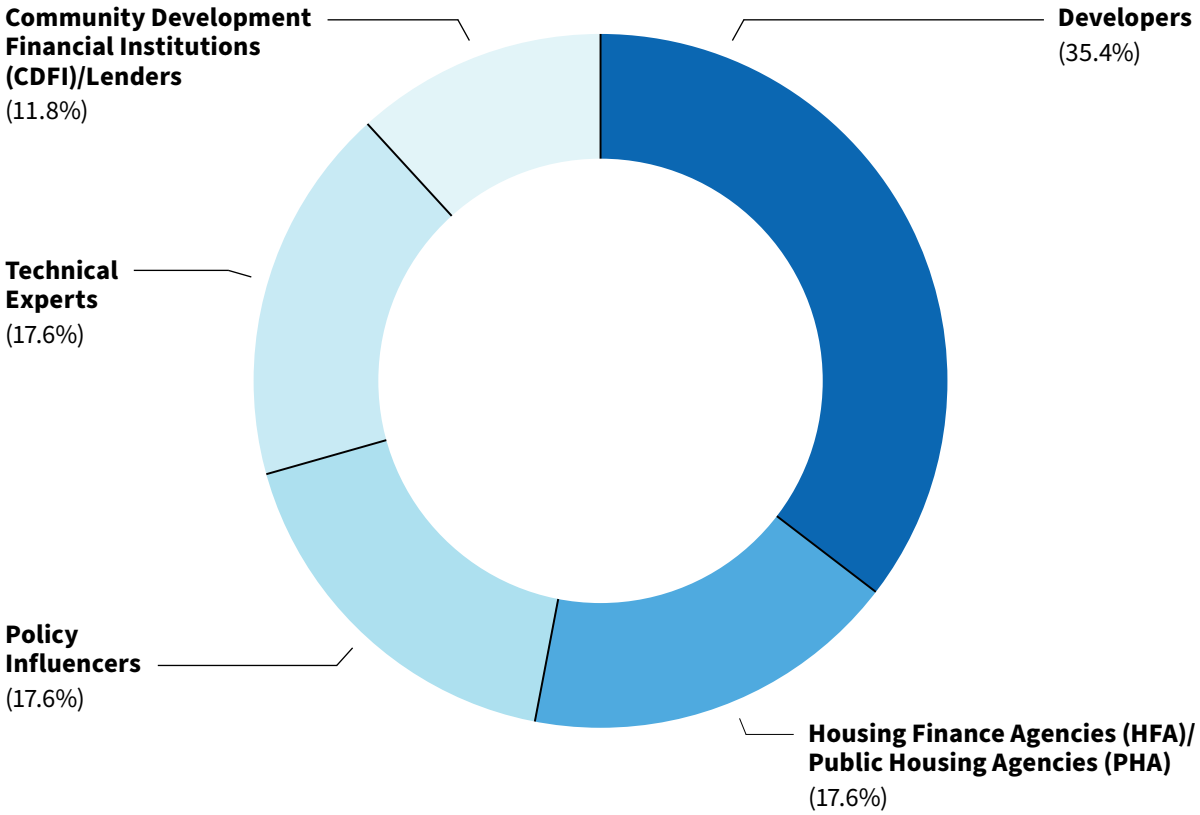
On October 21 and 22, 2021, Wells Fargo convened over 30 industry experts and thought leaders in two 90-minute virtual workshops about decarbonizing affordable multifamily housing (AMFH) in the United States. The stated objectives of the workshops were to:

1. identify key challenges to equitably decarbonize AMFH at scale, and
2. elevate potential solution areas and approaches that Well Fargo's philanthropic and business lines can explore further.

Exhibit 1 below highlights the diverse backgrounds and skill sets of workshop participants.

Exhibit 1

Industry Participant Representation



RMI facilitated both workshops and prepared this report to summarize key findings and takeaways from the workshop discussions, as well as the pre- and post-event survey responses from participants, for use by Wells Fargo and other financial institutions in advancing this important work. The findings and recommendations presented here from the workshops are suggestions offered by the workshop participants and do not represent the opinion of Wells Fargo or RMI.

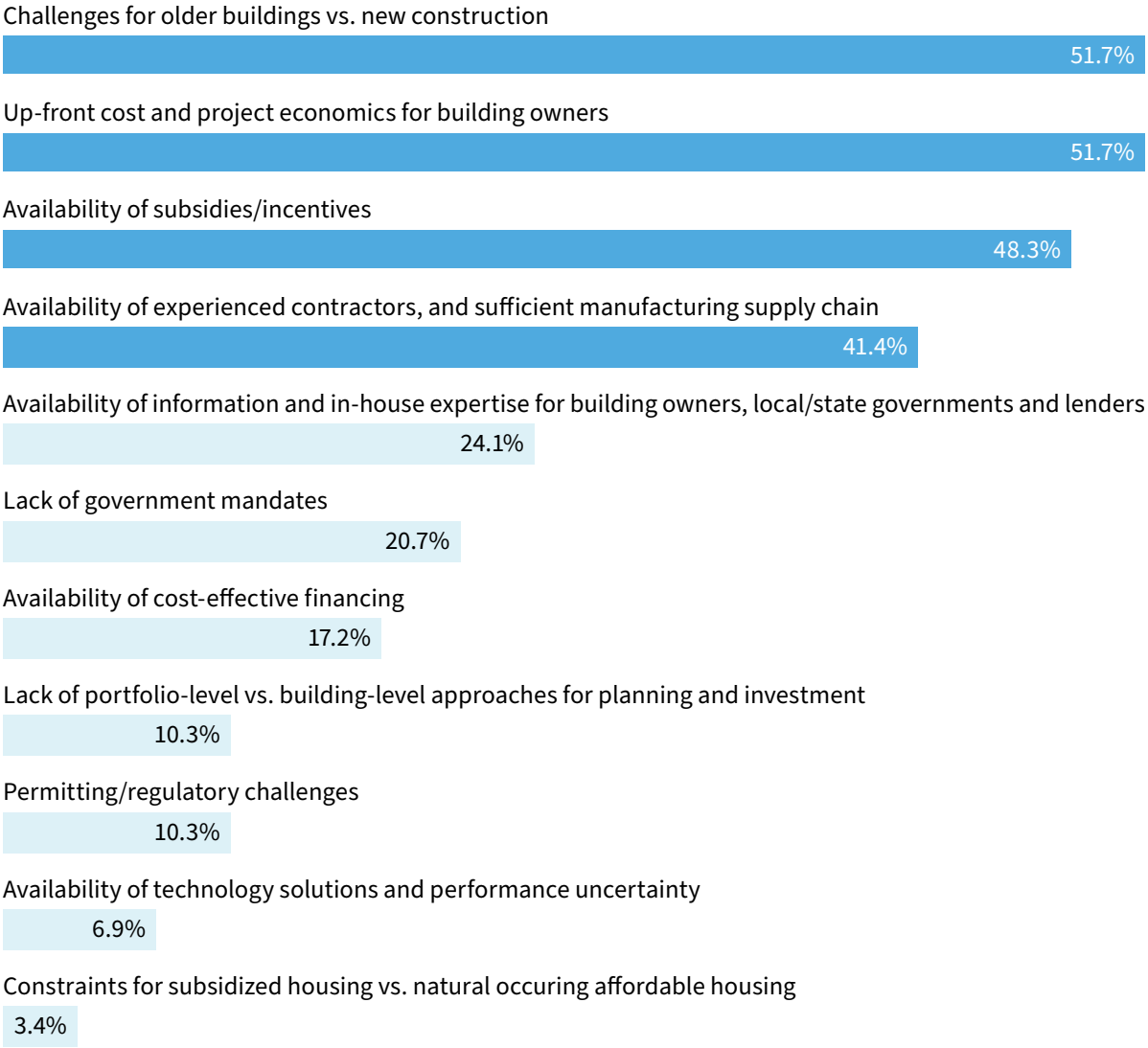
Pre-Event Survey Findings

Attendees were asked to complete a pre-event survey to gauge perceived challenges, investment opportunities, and solution ideas for Wells Fargo's consideration. As shown in Exhibit 2 below, 29 participants who completed the survey in advance of the workshops identified the following as top challenges:

- Up-front project economics
- Challenges for older buildings versus new construction
- A lack of available subsides and incentives
- Concerns regarding the availability of experienced contractors, sufficient supply chains, and technical assistance

Exhibit 2

Survey Findings: Problem Definition



Additionally, attendees emphasized limited government investment in clean energy, inadequate shared performance data, and upstream challenges regarding utilities' capacity to support a clean energy transition as other major barriers to scaling decarbonization efforts across the AMFH sector.

Key Themes

In summary, the two workshop discussions focused in large part on opportunities for Wells Fargo and other major financial institutions to deploy capital, incentives, technical resources, and strategic advice to advance decarbonization strategies across existing AMFH and new construction, with the hope of producing long-term cost savings for borrowers and widespread market adoption of advanced decarbonization technologies. Key themes that emerged from both workshops included the following:

- **Increased deployment of innovative financing mechanisms will be essential in scaling decarbonization measures for AMFH.** Whether through grants, increased incentives/subsidies for investments in net-zero carbon upgrades, or the origination of new financing products, financial institutions including Wells Fargo can aid in alleviating burdensome up-front costs felt by owners and developers incorporating net-zero carbon solutions in their buildings.

- **Aggregation of standardized building-level performance data will support financial institutions in making more informed investment decisions.** Workshop participants agreed that a lack of aggregated building and portfolio energy data has created significant barriers to financing deep efficiency projects. Financial institutions can play an integral role in standardizing data collection across the sector.

- **Investments must support social, racial, and economic equity while decarbonizing the AMFH sector.** Attendees emphasized the importance of prioritizing investments in low-income communities, communities of color, and areas of historic disinvestment. Given the substantial financial, energy, and social burdens experienced most widely by low- to moderate-income households, commercial investment institutions should be prepared to assess and mitigate unintended consequences and cost burdens faced by low-income communities. For example, electrification upgrades that are not directly paired with additional efficiency, solar, or storage can increase tenant utility bills and exacerbate energy burdens in underserved households.

- **Scaling workforce education, training, and technical assistance programs for energy efficiency upgrades and net-zero carbon technologies will increase market penetration across the AMFH sector.** Given current workforce shortages, the overall lack of education resources across the industry, and severely underfunded technical assistance programs, workshop participants noted that deep energy retrofits can become incredibly costly, difficult to navigate, and time-consuming for developers and building owners. However, through investments in technical assistance opportunities and existing workforce development initiatives, philanthropy can aid in advancing social equity and driving decarbonization.

Challenge and Solution Identification

Workshop participants engaged in deep dive discussions in breakout groups to explore potential solutions for philanthropy, including Wells Fargo Foundation, and financial institutions, including Wells Fargo Bank (WFB), to consider when looking at future investments to support decarbonizing the AMFH stock.

Project Economics

Participants identified project economics as one of the largest hurdles to decarbonizing the AMFH sector. Unpredictable energy savings, inadequate supply chains, and costly materials often result in burdensome up-front costs or unattractive payback periods for AMFH owners.

Recommendations for Financial Institutions

Expand lending activity and borrowing limits for lines of credit to Commercial Property Assessed Clean Energy (C-PACE) lenders, increasing lower-cost capital funding available to these lenders, and allowing them to ramp up lending activity at lower interest rates on their C-PACE loans.

Provide greater liquidity to C-PACE lenders by accelerating the C-PACE capital cycle. For instance:

- Syndicate PACE loan portfolios to community development financial institutions (CDFIs) and larger PACE lenders (and/or WFB retaining portion).
- Securitize loan portfolios of C-PACE lenders, thereby replenishing capital at a lower cost than C-PACE lenders' existing funding costs, enabling them to reduce their current high loan rates.

Provide an integrated national program for an alternative fixed income product made available to state housing finance agencies (HFAs) as part of a national loan pool with credit support from a well-capitalized (e.g., $100 million) loan loss reserve, perhaps funded by a fee charged to participating HFAs, with standardized term sheets across the country. As front-line lenders to affordable housing across the country, HFAs are well positioned to deploy capital for decarbonization.

Integrate an electrification plan into the bank's multifamily mortgage loan application process, which requires borrowers to provide an electrification plan as part of their loan application. This would help drive building owner demand for net-zero carbon retrofits across the country. Such a plan might be analogous to mortgage lender requirements for removal of asbestos or leaking underground storage tanks.

Benchmark and target high-performance developers to test changes in underwriting standards. If electrified systems have longer life spans, financial institutions could benchmark and target high-performance developers for alternative underwriting standards that permit such developers to set aside fewer reserves, freeing up cash flow at an individual property and portfolio level. Many building owners are "far ahead" in this area, and financial institutions could support such borrowers.

Recommendations for Philanthropy

Support buyers' alliances by engaging with industry coalitions, such as the Advanced Building Construction Collaborative, REALIZE, Clean Energy Buyers Association, and RetrofitNY in order to accelerate the efficient and cost-effective procurement of clean energy and efficiency upgrades for AMFH buildings.

Advocate for policy changes with state housing finance agencies, which have the authority to allocate federal Low-Income Housing Tax Credits (LIHTC) and tax-exempt private activity bonds.

- Make competitive awards of private activity bonds (where states are volume cap- constrained) to 4% LIHTC projects that meet high-performance standards for energy efficiency and solar upgrades.

Support development of a building performance warranty program by funding a backstop reserve fund that supports performance guarantees for energy and cost savings of whole-building deep efficiency retrofits.

- Building owners need performance guarantees to be able to underwrite full savings when evaluating retrofit investments, and lenders need them in order to underwrite maximum loan proceeds for financing deep efficiency upgrades.
- Currently, insurance companies provide the credit support for energy service companies (ESCOs) to provide performance guarantees in energy savings agreements (ESAs). However, ESCOs are largely not yet providing whole-building deep efficiency retrofits. An enhanced backstop reserve may be needed to enable insurers to cost-effectively support performance guarantees that ESCOs would need to make for deep efficiency retrofits.

Challenges for Retrofitting Existing Buildings vs. New Construction

Attendees called attention to increasing challenges regarding operations and maintenance of emerging high-performance technologies in both new and existing buildings. As high-performance energy and carbon technology adoption becomes more mainstream and the transition to building electrification becomes more widespread, substantial infrastructure upgrades across the United States will be required to support adequate electrical loads across a multitude of building typologies and climate zones.

In identifying barriers for both existing and new construction, participants had widespread concerns regarding the lack of accurate, accessible, standardized, and comprehensive building-level performance metrics and data. Without sufficient access to such asset-level data, major challenges exist for evaluating high-performance systems. Without standardized data measurement and reporting systems, it is difficult for owners, investors, and lenders to accurately underwrite energy efficiency and electrification upgrades, inhibiting the flow of capital necessary for decarbonization at scale.

Recommendations for Financial Institutions

Scale standardizing data aggregation and analyses for underwriting energy efficiency upgrades across the industry by:

- Convening industry lenders to adopt standardized best practices for data collection and benchmarking.
- Incorporating requirements for data collection and benchmarking of building-level performance data into lenders' underwriting standards and loan documents.

Offer bridge financing for retrofitting existing buildings that rolls into a more traditional loan. An example might be bridge financing taken out through refinancing and upsizing the building's mortgage loan.

Recommendations for Philanthropy

Deploy grants to existing technical assistance programs that provide consulting and predevelopment services to AMFH owners regarding strategies for deep efficiency retrofits of existing buildings.

- Organizations such as New Ecology or the Association for Energy Affordability offer services to help owners manage their buildings' energy use with energy audits, retro-commissioning, and construction oversight services.

Provide grants to developers using Passive House principles in regions where utilities or state/local governments do not prioritize subsidies for new construction built to Passive House standards.

Deploy grants to help offset the cost of street-level or citywide infrastructure upgrades that are necessary to allow buildings to be all-electric ready, including capacity for sufficient rooftop solar.

Support scaling standardized collection, analysis, and benchmarking of performance data across the industry, including wider access to such data. For instance:

- Foundations can play a role in enhancing lenders' understanding of long-term cash flow savings of whole-building efficiency upgrades.
- Foundations can offer financial incentives and grants to mitigate up-front data collection costs for building owners.
- Foundations can aid in convening industry leaders to help building owners, contractors, and lenders understand how high-quality building-level data and benchmarking can demonstrate long-term savings from efficiency upgrades.

Encourage widespread broadband access in buildings to address the digital divide and ensure internet connectivity for tenants working or learning remotely during the pandemic.

Subsidies and Incentives

Workshop participants identified a lack of subsidies and incentives as a major obstacle to scaling decarbonization efforts in AMFH. They noted that current incentives offered by lenders and utilities often do not provide sufficient benefits for owners to make them worth pursuing. They also emphasized the lack of government subsidies necessary to scale decarbonization. Inconsistent and complex subsidy offerings across geographic locations can make pursuing subsidy funding incredibly tedious, unpredictable, time-consuming, and cost-prohibitive. Participants also noted that a lack of readily available technical guidance on securing available subsidies has left many building owners and builders without the tools to know which subsidies/incentives are available to them.

Recommendations for Financial Institutions

Offer loan and lease products to solar developers and inform potential building owners about contract financing tools, such as power purchase agreements (PPAs). Owners who do not want to own solar systems can utilize PPAs as a way to avoid the up-front costs of installing solar as well as operation costs associated with maintaining solar systems.

Recommendations for Philanthropy

Apply philanthropic capital to de-risk conventional lending investments, such as:

- PRIs to replace conventional debt for part of the capital stack
- Grant programs to "buy down" conventional loan rates
- Grants to fund a pooled first-loss reserve for a portfolio of borrower loans

Provide low-rate "predevelopment" loans that allow borrowers to access funds for energy audits, benchmarking, etc., and that could be refinanced into permanent financing for retrofit capital costs.

Availability of Experienced Contractors, Technical Assistance, and Sufficient Supply Chains

Attendees emphasized the lack of experienced contractors and sufficient supply chains for efficiency retrofits as other major barriers. Because net-zero retrofits and net-zero new construction are not yet widespread in the construction industry, there is a critical need to increase the availability of technical resources to contractors, building owners, developers, and borrowers. Furthermore, the construction sector is experiencing pervasive workforce shortages, making it difficult for AMFH owners and developers to find available and experienced contractors. Across the nation, the current construction industry workforce lacks expertise in high-performance efficiency solutions for buildings. Participants also identified the need for a more diverse construction workforce, drawing on local labor pools, to support a just clean energy transition.

Recommendations for Financial Institutions

Expand lines of credit available to contractors to support more diverse hiring and training practices, which in turn expands technical expertise and skill sets across Black, Indigenous, and people of color (BIPOC) workers.

Expand lines of credit to support minority- and women-owned business enterprises (MWBE), increasing opportunities for members of disadvantaged communities to become successful entrepreneurs.

Recommendations for Philanthropy

Make grants to support existing workforce education programs designed to expose professionals to industry-wide decarbonization best practices. For example, philanthropic foundations could:

- Partner with housing finance agencies and nonprofit or quasi-public housing development corporations throughout the country that offer fellowship programs to train young professionals for building energy efficiency technology careers.
- Provide grants or scholarship funding to AMFH professionals or students to enroll in technical training programs, such as the Building Performance Institute, which offers relevant energy certification courses.
- Partner with workforce development organizations, such as Emerald Cities Collaborative or BlocPower, which have workforce and contractor training programs for energy efficiency and net-zero carbon building technologies.
- Provide grants for technical resources or training of ASHRAE auditors to ensure that they are up to date on the electrification transition.

Educate building owners on how to use other tax credit and incentive programs in addition to LIHTC, including brownfield credits and the Commercial Buildings Energy-Efficiency Tax Deduction (179D) for existing commercial and multifamily buildings.

Provide grant opportunities for building owners to expand technical capacity, including funding for owners to work with consultants that provide expertise on implementation, operations, and maintenance of high-performance envelope, mechanical, appliance, and solar/storage systems across the AMFH sector.

Invest in community-based programs that educate stakeholders and advocate for reducing energy burdens and promote environmental justice in underserved communities.

Conclusion and Post-Workshop Findings

Following the conclusion of the workshops, participants were asked to complete a post-event survey to inform future institutional activities and research. Attendees agreed that the workshop sparked innovative industry-wide approaches and noted the impacts that could be achieved if such solutions were enacted. As Wells Fargo and other financial institutions consider opportunities for future investments, workshop participants concluded that:

- Continued climate leadership and collaboration across the AMFH sector will be essential in driving market change.
- Greater deployment of capital in the form of incentives and grants will aid in improving up-front project economics.
- Targeted engagement with external partners will support greater market adoption of asset-level decarbonization measures, while also contributing to enhanced workforce development and industry-wide education regarding low-carbon technologies and solutions.
- Considering future investment opportunities with a justice lens will be essential in mitigating social, racial, economic, and environmental inequities experienced most widely in already underserved communities.

Through leadership and the solutions addressed in this report, financial institutions have the opportunity to play a key role in advancing decarbonization solutions throughout the affordable multifamily housing sector. As Wells Fargo and other large financial institutions continue to engage in this meaningful work, RMI looks forward to providing ongoing support and strategic guidance.

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