ENERGY EFFICIENCY ("**EE**") AND YOUR MORTGAGE

Apartment investors have been exposed to numerous initiatives geared to savings in the use of water, fuel (heat) and hydro. Most are justified on the basis of rebates available to owners and the "payback period" – the amount of time it takes to recover the cash outlay required to install the **energy efficient ("EE")** equipment via reduced operating expenses. Generally, the payback period is years. The payback period is influenced by the cost of utility consumption and which utilities are most affected.

Regardless of the payback period, the conversion to EE equipment is worth it because of the long term savings, reduced maintenance required on newer equipment and the improved marketability of a building that has been upgraded to modern standards.

However, there is another perspective on the rationale to convert to EE equipment and it is connected to the availability of CMHC insured financing for apartment investors. In the current market, and indeed over the last 5 years or so, CMHC insured mortgage loans have been the financing solution for most investors.

On new CMHC insured loans, for either purchases or refinances, borrowers are able to implement a strategy that permits them to install EE equipment as part of the new loan.

A recent deal is a case in point. The borrower acquired a 44 unit building in the western GTA that had not been upgraded with current EE equipment. As part of the acquisition, the borrower wanted to install new toilets, faucet aerators, low flow shower heads (water efficiencies), radiator reflector panels (gas efficiencies) and new lighting (electricity efficiencies). The total cost of the new equipment was approximately $43,000. The borrower was required to install the equipment at his own expense. Upon receipt of evidence that the equipment was installed and paid for, a second loan advance was made in the amount of $180,000. The second advance of $180,000 was made because EE measures would produce a reduction in expenses – and an increase in net income and building value – that permitted a larger loan. In this case, energy costs were reduced by about 18%.

There are some key points and timing issues to consider if a borrower is contemplating this:

1. The borrower has to decide to pursue this course of action at the time of application for mortgage insurance.
2. A report is required from an authorized consultant. The report will identify the reduction in energy **consumption** as well as costs.
3. The EE equipment that is required to address the issue is identified and estimates of cost are provided by the consultant.
4. The borrower has the equipment installed and paid for.
5. The consultant provides confirmation that the EE equipment that was recommended has been installed and reconfirms the projected reduction in energy consumption.
6. The lender forwards the report to CMHC and recommends that the relevant conditions in the mortgage insurance approval have been satisfied and the advance of additional funds is warranted.
7. CMHC authorizes the lender to release the second advance of funds.

8. The borrower is also able to obtain a partial rebate of the CMHC insurance premium.

As mentioned above, this option is available on new CMHC insured loans. Since EE is here to stay, prudent landlords might want to consider this approach to funding these investments in the property.

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