CASE STUDY: BUFFALO, NY

# UNDERWRITING HIGH-PERFORMANCE IN THE FIRST MORTGAGE

## SUBJECT PROPERTY

**Location:**
Buffalo, NY

**Construction Type:**
New Construction

**Building Size:**
3 floors, 59 units, 181 rooms, 50,445 gross sqft.

**Metering Configuration:**
Owner paid heat, hot water, water & sewer

**Information:**
Former Brownfield site

**High Performance Building Elements:**

**Envelope:**
Thermally broken, highly insulated, airtight envelope

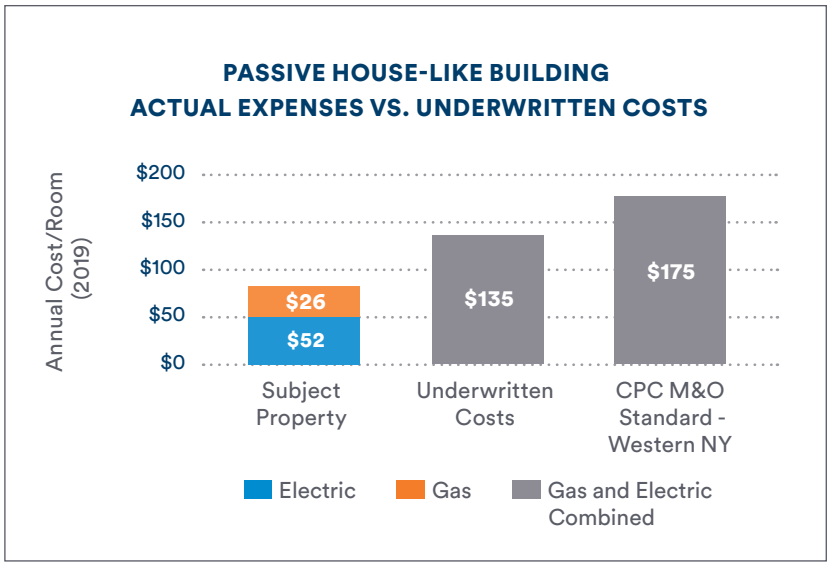
**Heating:**
Gas-fired unitized condensing boiler

**Domestic Hot Water:**
Gas-fired, on-demand hot water heater

**Renewable Energy On-site:**
Rooftop (carport) solar photovoltaic (PV) array

**Incentives:**
NYSERDA Low-Rise New Construction (LRNC), NYSERDA Tier-3 Net Zero EPA v3.1

When lenders look to establish appropriate expenses for a specific project, they look first to their own portfolio of buildings and the reported income and expenses to establish a baseline. The CPC Maintenance and Operations (M&O) underwriting standard is based on income and expense (I&E) statements collected from buildings in CPC's lending portfolio. This information is organized by lending region — New York City, Hudson Valley, and Upstate/Western New York — and becomes the baseline against which CPC underwrites typical building expenses.



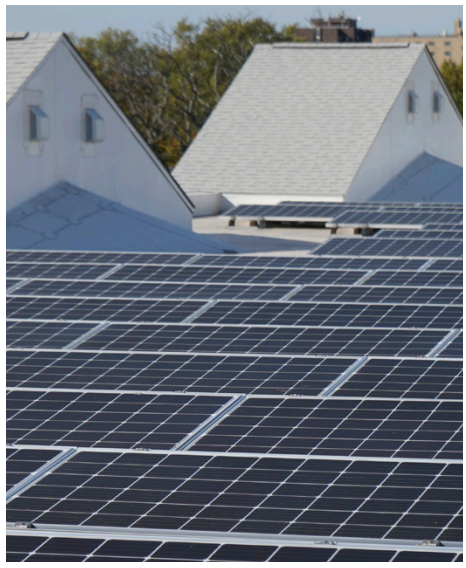



**Chart A:** Actual owner-paid utilities for the year 2019 broken out into electric and gas. The Subject Property exhibits a 42% reduction compared to the underwritten costs at permanent conversion and a 55% reduction in costs compared to the CPC underwriting standard.

The Subject Property is a market rate (naturally occurring affordable), new construction development built incorporating Passive House design principles. The building serves tenants making between 65% and 75% of area median income (AMI) so predictable utility costs were important to both the owner and the tenants to maintain affordability. This was the developer's first experience building to a high-performance standard.

The developer approached the project with the intent to have all of the building systems — heating, ventilation, domestic hot water (DHW), envelope, on-site renewable energy generation — work together to create an environment in which each system helps the other perform to its highest potential.

In this case, gas-fired heating and DHW systems were chosen as the most cost effective for the owner. The remainder of the owner's energy usage for common area electric is offset by the rooftop solar photovoltaic (PV) array.

When underwriting the construction loan for this building, CPC considered the energy efficiency measures prioritized in the scope of work but ultimately underwrote utilities to the CPC M&O standard for a typical elevator building in Upstate/Western NY before adequate performance could be proven.

At conversion to permanent financing, the utility cost reductions and the on-site electricity generation were incorporated into the underwriting, reducing the owner's assumed costs by $40 per room per year, resulting in higher calculated net operating income (NOI) and additional loan proceeds for the owner.

**Based on a full year of stabilized, operational data, the evidence shows that the high-performance measures result in a 55% reduction in utility expenses compared to CPC's standard underwriting ($78 vs. $175 per room), and a 42% reduction when compared to the underwritten costs based on anticipated performance.**

Reliable utility costs that better reflect the reality of high-performance projects can help support more accurate underwriting and provide more confidence that the adopted measures do, in fact, yield improved performance.

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