

How to get financing for the renovation

The first step before planning the financial scheme for the energy efficient renovation of a privately owned multi-unit building is to have proper information on the expected costs. You may think that your property manager is educated enough to have the necessary information, but you can be sure that technology in the field of energy efficiency develops fast and only companies that are involved in planning and/or implementing renovation projects on everyday basis can have exact enough information on the most up-to-date costs and technical content.

There are companies that do not carry out energy efficient renovation but take part in planning, tendering and monitoring the processes. These companies can be independent enough from constructors in order to make proper energy audits and calculate the costs of it. Use them as a starting point!

It is worth working out options with different technical and consequently different cost content. There are two main strategies in general: executing a large scale intervention in one instance or plan the renovation in stages. In case the financial possibilities are favorable it is worth implementing a larger scale, complex renovation as the intervention pieces will fit at once and the whole energy system can be optimized. In case there is no possibility to implement a larger scale intervention than carefully planned stages should be executed, however special attention should be paid to the sequence of interventions and their interconnectedness. (E.g. in case insulation is implemented the installment of the proper ventilation system in the first stage is essential as mould can easily appear soon.) It has one additional advantage to implement the interventions in stages (besides the financial advantages): always the most up-to date technologies can be implemented as time goes by.

If we have a more or less concrete idea on the content of interventions we can look for the financial scheme. (In practice, however, in many cases the appearance of a financial possibility, like a grant encourages the communities to start thinking of energy efficient interventions and look for proper technical solutions.)

Counting on own resources

- It is quite easy to assess the own resources which are already available (just take a look at the amount on your renovation account and deposits you have). In case you do not have a specific renovation account than you have to judge how much funds you will need on the short run for the operation of the building and see how much remains on your account.
- Always make a cash-flow plan for the renovation. It will show you when payments for the renovation can be expected and you can calculate how much money you may accumulate as the regular payments from the owners come in (taking into account the expected rate of arrears).
- In many cases – and mainly if smaller scale intervention is implemented - an extraordinary payment from the owners can be decided in a general assembly (you may organize a special meeting for voting on extraordinary payments). If most of the owners (according to the regulations valid on the certain location) agree on the extraordinary payment, than it is compulsory for all the owners. However some of the owners can have financial difficulties. In order to avoid that the better off owners may provide the poorer ones short term personal loans. In many cases home owners' association is reluctant to decide on extraordinary payment, however practice shows that in case the renovation goal is welcomed by vast majority of the owners than people are more willing to mobilize their resources.

Generating income

- Make a list of possibilities you may have that can help income generation. Think of the following:
 - Is it possible to rent out any part of the building to generate income? E.g. unused bicycle storage can be converted into a hair salon or a small office space.

- Is there a possibility to place an antenna on the rooftop, if the building is high enough and have a special opportunity which fits to the needs of telecommunication companies?
- Does the building have a favorable location which makes it suitable to put a billboard onto its façade?
- A reliable source of income can be good collateral for commercial loans either as a facility to put a lien on it or a cash stream that can be pledged.

Applying for a grant

In most member states and in many cities it is known that energy efficient interventions may have a long financial return period which is why there are subsidy schemes available to support these activities.

However, before trying automatically to apply for grants (non-repayable subsidies) there are some aspects that are worth checking:

- The national and the local subsidies (and other possible sources) may have different focus and different conditions. It is worth gathering as much information as possible in order to choose the right subsidy scheme.
- We have to examine if our goals (in best cases the technical plan which is already elaborated) and conditions meet the requirements of the call for applications or not. Subsidies tend to have preconditions (like type, size of buildings, the minimal technical content of interventions, the own share to be available, etc.). It is a typical problem for example that the required rate of energy savings is so high that can result in far higher costs than what owners on average can afford.
- Each subsidy scheme results in high transaction costs due partly to the fact that the management of a home owners' association hardly has the competence to fulfill all the tasks that are required by a subsidy scheme: like filling in the application form, contracting, tendering and then making the official accounting and monitoring the processes. Most probably there is a need to contract all these tasks to a company specialized to energy efficient subsidy schemes. It is important to prepare such a contract with assisting companies that way that the most possible share of their costs is eligible for the subsidy.
- It is worth examining if the additional costs that are the result of the subsidy scheme still make applying reasonable or not. (Sometimes it is not much more expensive to finance a renovation without a subsidy thanks to getting rid of all the transaction costs and the high technical contents required.)
- In most subsidy schemes there is a strict deadline for the implementation. Keep an eye on this time limitation.
- It is important to be aware of how the cash-flow model will be influenced by the subsidy scheme: either the home owners' association has to pre-finance all the costs, or the grant provider pays for the contractor directly and only the own share should be available.

How to get a loan?

If you discovered that your own resources plus the possible grants are not enough to reach your goals you may apply for a loan. You have to decide first if you go for individual loans for the dwellings (where necessary) or you apply for a joint loan for the association. Individual loan can be a good solution if there are only few owners in the association and all of them (at least the ones that need a loan) are creditworthy. In addition to it might be that higher subsidies are tied to the individual loans - like favorable rates for housing loans – or to the joint loan. In many cases there are interest rate subsidies on loans serving energy efficient renovation purposes, so you have to be aware that which entity (the individual or the community) can request more favorable loan conditions.

Joint loans are more rational to choose if there are quite a high number of owners affected and the payment capacity and creditworthiness of them are diverse. There are different loans for communities in all member states, but there seems to general conditions that have to be examined in all joint loan cases:

- The banks usually require the increase of the common costs with the amount of the monthly installments. The decision on the increase is a pre-condition of contracting.
- Banks usually prescribe a limit which is the maximum share of arrears (concerning the common costs) acceptable to them. Banks do not finance home owners' associations with financial difficulties. However, you should not take this limit as bottlenecks impossible to meet. Experience shows that banks usually give some months for the home owners' association to pay some of the arrears, so the status of the association may improve in some months' time.
- The collateral system for joint loans improved in the last decades and the main collateral seems to be the cash-flow of the association. All the banks pledge all the accounts of the association, but they usually require additional collaterals, like deposits – the size of which heavily depends on the rate of arrears the association has and the amount of loan it intends to take.
- Taking a commercial loan also result in transaction costs and time, but it seems to be much lower than to obtain grants from public entities.

Third party financing

In case there is no possibility to obtain a grant or a loan and the own reserves of a home owners' association is also limited, than you can think about third party financing, thus finding a company which can provide financing and implements the energy efficient interventions at the same time, and you have to pay it back in a certain period of time from the energy savings. These are the typical ESCO (energy service/savings companies) solutions which are strictly regulated in the EU. In some cases and in some countries ESCO companies have access to favorable sources of financing which they can divert to residential buildings combined with technical, organizational services. In an ESCO contract (typically signed for 8-15 years) the energy saving is guaranteed by the company and in case of a third party financing scheme it will serve as the payback of the investment loan as well. In case of an ESCO contract you will need to be cautious as there is an information asymmetry between you and the ESCO company and you have to build a position to be able to monitor the quality of the services and the exact amount of the energy saved (as naturally the ESCO company will guarantee you the minimum rate of savings but you might have higher saving rate). The ESCO contract should be transparent for each party and should detail the risk sharing methods between the two (or more) parties. In case a service is officially called 'ESCO service' than it has to keep several rules laid down in European regulations (Directive 2010/31/EU), so you have the right to insist on all pieces of this legislation.