



ENVIRONMENTAL OPPORTUNITIES ENERGY EFFICIENCY FINANCE

Sustainability in Housing Finance

Sustainability in the Housing Sector

Developers and households can incorporate relatively simple efficiency improvements in homes to reduce energy consumption and costs. Projects encompass either new construction or renovation of existing homes by installing energy efficient and renewable energy fixtures for heating, cooling, and lighting; improved insulation and water efficiency; and use of sustainable building materials, such as certified timber. Finance for sustainability projects in the housing sector is a promising market for financial institutions (FIs) as demand for housing and energy continues to rise. IFC has unique products and technical expertise to help them access it.

What Does the Market Look Like?

- **Rising demand for affordable housing and energy:** More than two billion people will be added to the growing global demand for housing, energy, and urban infrastructure over the next 25 years. Energy demand in the housing sector can represent as much as 50% of a country's total energy consumption, increasing costs for households in many countries. Making room for efficiency is critical.
- **Large potential for energy efficiency in housing:** Energy efficiency improvements are increasingly economical and have large potential for application in existing residential housing blocks and individual family homes. Activity in some developing countries is also focused on construction of sustainable housing (e.g. South Africa).

What Are the Benefits of Financing Sustainability in Housing?

- **High energy cost-savings:** Renovations to residential housing blocks can reduce energy use by up to 30%. Energy efficient eco-homes can reduce energy use by up to 50% compared to traditional homes of the same size. This greatly reducing costs for homeowners.
- **Simple paybacks:** Projects usually pay for themselves as energy cost-savings contribute to financing the upfront investment.
- **Social empowerment:** Projects are desirable for their social benefits as households enjoy increased comfort, living standards, and property value from affordable home improvements.
- **Environmental impact:** Sustainable housing projects encourage responsible resource and energy use to reduce carbon emissions.

Key Issues and How IFC Can Help

- **Financing expertise:** IFC offers sector knowledge and flexible financing to enable its client FIs to develop projects with confidence. Since individual transactions may be small, IFC can assist in designing larger scale but economically viable projects by standardizing transactions to build a portfolio and reduce transaction costs. IFC also offers risk sharing instruments to share risks and incentives among project partners.
- **Technical expertise:** IFC leverages its sector knowledge and technical expertise in energy efficiency to help structure projects that capture energy savings and raise property value to improve collateral and project outcomes.

What Are the Opportunities for Market Actors?

FINANCIAL INSTITUTIONS

- Access to largely untapped market with good growth potential
- Higher than average margins
- Energy-cost savings serve as security for a loan without significantly increasing the LTV ratio once increased property value is considered following upgrades
- New business line enabling market differentiation from other banks
- Energy efficiency savings increase borrower's willingness and ability to pay

HOUSEHOLDS

- Access to credit for home improvements or construction
- Long term energy-cost savings
- Energy savings finance all or at least part of investment over time
- Desirable property features and increased property value
- Increased comfort and living standards

DEVELOPERS

- Access to credit to expand business offering

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What are Typical Projects?

Sustainability in the housing finance sector falls into two categories: sustainable housing construction and home renovations:

Construction Finance

- Financial institution extends credit facility to developers for construction of residential properties with specific sustainability features:
 - energy efficiency and renewable energy installations
 - sustainable resource use (local materials, recycling, water efficiency)
 - environmental rehabilitation (planting, landscaping)
 - community development and revitalization
- IFC offers financing and technical assistance on best practice energy efficiency and sustainability features

Sustainable Housing Construction

Purpose	IFC credit line to mortgage finance institutions for construction finance targeting sustainable housing projects for low and middle-income families.
Initial Portfolio Size	US\$20-30 million
Maturity	4-5 years after commitment and 2-3 grace period
Borrower	Construction companies/developers
Eligible Loans	to eligible developers for max. tenor of 24 months and max LTV of 60 percent to cover construction cost of building residential properties
Debt repayment	Energy savings, family income
Energy efficiency	at least 25% of project cost
Sustainability activities	Efficient lighting, solar energy features, water use efficiency and community wastewater treatment, landscaping, sustainable and locally-sourced building materials

Home Renovation Loan/Second Mortgage

- Bank extends "home improvement loan" to housing association tenant or a "second mortgage" where a primary mortgage is already in place on the property
- Financing covers energy efficiency installations in two residential segments:
 - Shared communal areas in residential housing blocks
 - Single family homes and apartments
- Homeowners finance total investment from energy cost-savings over time.

Residential Block Housing Renovations, Estonia

Purpose	Energy efficiency renovations to residential block housing "communal areas"
Initial Portfolio Size	\$5-7 million
Financing institution	Major Estonian bank
Borrower	Housing cooperatives
Average Loan Size	\$40,000 to \$200,000
Debt repayment	Energy savings
Energy efficiency criteria	Minimum 25% of project
Simple payback	8-12 years
Sustainability activities	Window and door replacements, heating improvements, wall and roof insulation, reconstruction of hot water systems

Who to Contact at IFC?

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