

Traditional Financing Summary

Internal Financing

Owners can finance energy efficiency by allocating funds from internal capital or operating budgets. This financing may be the most appealing option for efficiency projects with low upfront costs.

Benefits

- Not complicated; the way these improvements have traditionally been done
- The savings are not shared with lenders, ESCOs or other capital providers

Challenges

- Many owners are capital constrained and unwilling to bear all performance risk
- There are competing uses for this capital that may be more appealing to ownership
- Real estate ownership structures can be complicated, making decision making more difficult
- Up front costs may not be possible to pass through to tenants with traditional leases

Debt Financing

Traditionally, credit-worthy owners can access capital from private markets by borrowing money from banks to pay for energy efficiency projects. Regional and local banks have been primary drivers of these offerings to date but larger lenders have shown increasing interest in energy efficiency.

Benefits

- Borrowers with good credit may be able to take advantage of today's low interest rates
- The potential capital available through these channels is significant
- Lenders recognize (in concept) that EE buildings preserve value better; [tools](#) are increasingly available to help lenders gain a better understanding of building performance and project risk

Challenges

- Many buildings are owned in single asset LLCs with low creditworthiness
- Existing mortgages may prevent additional lending
- Many buildings already have higher debt levels than lenders are comfortable with
- Lending terms may not be attractive to owners (rates would need to be too high & leverage, too low)
- Owner takes performance risk

Resources – Internal and Debt Financing

- [ENERGY STAR Building Upgrade Manual: Financing Chapter 4](#)
- [ACEEE Energy Finance 101: Understanding the Marketplace](#)
- [ENERGY STAR SBA Loan Summary](#)
- [Green Lease Library](#)
- [The Buildings Performance Database](#)