



Verve by Tridel

# How Green Condos Became the Norm in Toronto

## Toronto's Innovative Green Condo Financing



By

Jim Harris

A 2008 study sponsored by the US Green Building Council shows that green buildings cost on average 2.5 per cent more on construction, but generate more than ten times that amount over the lifetime of the building in reduced energy and operating costs. So going green costs a little more up front and saves a lot on the back end.

In Toronto, a staggering 90 per cent of all new residential construction is condominiums. So if you want to make Toronto housing more energy efficient to combat climate change then condos are the place to start.

That's where the Toronto Atmospheric Fund (TAF) came in. TAF was created in 1992 by Toronto City Council and given a \$23 million endowment. Its' mission: to invest in developing cutting-edge energy efficiency solutions to fight climate change.

Condo developers hadn't really embraced cutting edge energy efficient solutions, because of the classic problem of split incentives: The builder bore the incremental cost while buyers got the benefit of lower operating costs over the lifetime of the unit. Condo developers worried that if they added the cost of green features into condos they'd lose price sensitive buyers.

So, in 2005 the TAF and Tridel pioneered the Green Condo Loan Program – financing to pay for energy efficiency upgrades so that a new green condo used 25% less energy than the Canadian average. Upgrades included heat-recovery ventilation, better insulation, high-efficiency heating and cooling systems and Energy Star appliances that would be ultimately be paid for out of utility savings enjoyed by the buyers.

These upgrades cost up to \$3,000 per unit and Tridel typically builds 200 to 300 units in a development. So the upgrades added up to \$1,000,000 to the price of a typical new development.

With the TAF loan paying for the bulk of the upgrades, the purchase price was kept competitive – and TAF rolled the loans into the condo corporation once owners took possession. The loans were designed so that the monthly dollar savings from energy efficiency were greater than the loan payments – so the result was cash flow positive for a new owner from the first month on.

### Adding up the Wins

The program was a major win for condo buyers because:

- 1) They got a unit with \$3,000 of green extras included in the purchase price for free;
- 2) The energy savings were greater than the monthly loan payments;
- 3) After seven years when the loans were paid off, all the operating savings accrued directly to the owners;
- 4) Owners were insulated from energy prices rise – which are inevitable. As prices rise, their savings increase; and
- 5) Green buildings yield higher occupancy; premium rents, and higher re-sale prices.

It was a win for the developer because they got to market a green product, which these days is hot with young condo purchasers.

And, it was a win for environment because it accelerated the adoption of more energy efficient buildings in Toronto.

The initial program was so successful that today Tridel has developed eight million square feet of green condos making the company the largest provider of green high-rise residential buildings in Canada. TAF has since made green loans to other condo developers including Monarch, Daniels and TAS DesignBuild.

Minto, another large condo developer, saw the benefit of green condos and carried the financing charges on its own books. The reason: The “sales velocity of green buildings is much better than the average market,” says Andrew Pride, Vice President, Minto Green.

TAF's pioneering role eventually helped to change the market: green condos became the de facto new norm in Toronto, to a point where green developers began complaining about having to engage in the financing of the green costs. They argued that Toronto City Council should just create a level playing field and require all new condos in the city to be 25 per cent more energy efficient, then developers could include the upgrades in the purchase price. Energy efficiency would become the new minimum standard for Toronto condos.

So on February 1, 2010, the City of Toronto adopted the Green Building Standard. To receive a building permit after this date any new development has to be 25% more efficient than the Canadian average. But the city didn't stop there: it created an incentive for developers to achieve even greater energy savings. If a developer voluntarily builds new units that are 35 per cent more energy efficient than the Canadian average, the City will rebate part of the fees the city charges the developer.

To be cutting edge in 2010, new green condos are 35 to 40 per cent more energy efficient compared to the national building code.

So TAF and Tridel's pioneering effort has resulted in Toronto becoming a leader in green condos. In hindsight, achieving a 25 per cent energy efficiency gain wasn't difficult. Green upgrades also include more air tight units, energy efficient windows, low volatile organic compound (VOC) paints resulting in better air quality, low-flow faucets, showerheads, and dual flush toilets and tying into Toronto's Deep Lake Water Cooling (DLWC).

DLWC reduces energy use by 90 per cent compared to traditional air conditioning systems: Water drawn from deep in Lake Ontario is at 4°C. It's pumped to downtown; the cold is extracted through heat exchangers to cool buildings in the downtown core attached to the system. And then the 70,000 gallons a minute are sent on to serve as the source for Toronto's drinking water.

Ultimately all this has been of benefit to developers because research shows that 80 per cent of Canadian consumers want to deal with a company that offers green products and services – and 41 per cent will change their brand because of sustainability features. Condo buyers are typically younger, and the younger you are the greater the predisposition is that you'll be concerned about environmental issues.

Given that over half of all greenhouse gas emissions in Toronto are due to buildings, TAF and Tridel's pioneering work is very important to the environment and shows how industry-lead green initiatives can transform markets.

*Jim Harris is the former leader of the Green Party of Canada and the author of Blindsided, a #1 international bestseller published in 80 countries worldwide. He speaks at 40 conferences a year around the world. Reach him at jimh@jimharris.com*

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102 Hastings Avenue  
Toronto, ON M4L 2L2  
Tel: 416-491-2922  
Fax: 416-491-7710  
mwade@mwla.ca  
www.mwla.ca