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Fannie Mae Lowers Rates for Green-Certified Multifamily Properties

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After announcing it would offer lower interest rates on loans made on certified energy efficient multifamily properties earlier this year, Fannie Mae closed the first deal under the program in April. By offering price breaks to borrowers whose investments meet sustainability and energy efficiency criteria, Fannie Mae aims to further incentivize property owners to improve energy performance, and therefore the quality and affordability, of multifamily housing.



Early indications show Fannie Mae's mortgage discount program is encouraging an increasing number of multifamily owners to not only build green, but to invest in retro-commissioning of existing buildings in order to qualify for the price cut.

The details

Fannie Mae currently offers multiple green lending solutions including Green Rewards, Green Preservation Plus and the Green Building Certification Pricing Break. Through these initiatives, Fannie Mae grants a 10-basis-point reduction in the interest rate of a multifamily refinance, acquisition or supplemental mortgage loans, and securitizes the loans as Green Mortgage Backed Securities (Green MBS) also known as Green Bonds. To qualify, properties must be certified under [LEED](#), EPA's Energy Star or Enterprise's Green Communities criteria. The incentive applies to both new and existing buildings.

Many investors have started pursuing these lower interest rate loans through the program as an attractive, socially responsible option to expand their portfolios. The financial benefits of the program are significant, with market interest rates cut by around 0.1 percent. For the first loan made through the program – on a 50-unit property in New Jersey originated by Wells Fargo – the savings were reportedly more than \$100,000 over the life of the loan.

The [Green Rewards](#) product feature, which was launched in 2015, provides up to an additional five percent of loan proceeds by including up to 50 percent of projected energy and water savings in the loan underwriting. Conventional and affordable multifamily properties are eligible for this product feature. The properties may be located anywhere in the United States, and must be able to project a 20 percent minimum consumption savings in energy and/or water to qualify

for a Green Rewards loan. The catch is that the selected property upgrades must be completed within 12 months of loan closing.

The incentive

Fannie Mae's program is created in response to the fact that LEED and other green certified buildings have lowered utility costs (estimated to consume 25 percent less energy and 11 percent less water) lower maintenance costs (19 percent), higher occupant satisfaction (27 percent) and lower greenhouse gas emissions (by 34 percent). The U.S. Green Building Council says this results in more disposable income for families and the creation of healthier and more comfortable indoor environments for occupants.

In announcing Fannie Mae's commitment to the lowered interest rates, Jeffery Hayward – the organization's executive vice president for multifamily said that as the nation's largest provider of multifamily loans, Fannie Mae is leading the way in providing financial rewards for energy efficiency in buildings. "We clearly see the value in the triple bottom line of 'certified green buildings': financial benefits of lower operating costs for owners and tenants, social benefits of better-quality housing for renters, and environmental benefits for everyone."

Fannie Mae has stated that the tax cuts create a competitive advantage by increasing cash flow, attracting a broader investor market and enabling faster execution and closing.

Building green is getting easier and cheaper

The financial argument for multifamily owners to pursue energy efficiency and green certifications continues to gain strength: there are an increasing number of sustainable development and [energy disclosure regulations](#); [numerous funding and rebates programs](#) are available that offset the costs associated with implementing energy efficiency measures (to the extent that they often pay for themselves); and market forces are increasingly rewarding sustainability. For example, energy efficient buildings have been shown to perform better in terms of resident attraction, retention and rental rates. In addition, these buildings have reduced operational and maintenance costs. All of this is leading more commercial property owners to invest in measures to obtain LEED, Energy Star or other certifications that recognize buildings that are designed, maintained and operated to be highly energy efficient and promote renewable energy. Increasingly, tax and interest breaks like Fannie Mae's new program provide an additional incentive to commit to green building improvements and/or systems.

Drew McCreery serves as technical director of agency services at Partner Engineering and Science Inc. based in Valencia, Calif. McCreery has more than 20 years of experience providing project, engineering and architectural consulting services focused on due diligence and construction management for clients around the country. He frequently shares his deep knowledge of the policy, regulatory and quality requirements as they pertain to the agency lending landscape through blogs, bylines and speaking engagements.