

## BANKING & FINANCE

### New lending program advances appeal of green building



**Freddie Mac has launched a green financing program that provides beneficial loan terms to borrowers who have a Green Building Certification.**

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Earlier this month, Freddie Mac announced the launch of its Multifamily Green Advantage suite of offerings, a green financing program that provides beneficial loan terms to borrowers who have a Green Building Certification, or who commit to assessing and improving a multifamily property's energy or water performance.

In order to obtain the benefits of financing through Green Advantage, borrowers are required to perform an assessment to identify specific energy-efficiency and water-conservation measures.

Based on the findings, discounted interest rates and additional loan proceeds can be offered. Buildings that are already green-certified can also get rewarded through the offering.

Because Freddie Mac will reimburse up to \$3,500 for the cost of the assessment used for the approved loan, Multifamily Green Advantage provides borrowers with a low-risk incentive to obtain better financing by improving their building's operational performance.

With Green Advantage, a borrower may participate in one

of two options: Green Up or Green Up Plus. The Green Up option requires a Green Assessment, which is a straightforward property analysis that identifies energy and water conservation measures.

Borrowers who commit to making identified improvements may be eligible to increase their loan amount, as Freddie Mac will underwrite up to 50 percent of the projected owner-paid cost savings.

For the Green Up Plus option, borrowers are required to order a more detailed property analysis based on an ASHRAE Level II Energy Audit, known as a Green Assessment Plus. For this, Freddie Mac will underwrite up to 75 percent of the projected owner-paid cost savings identified in the report.

Borrowers are given two years to implement measures, with work commencing within 180 days of loan origination that will reduce owner-paid energy or water consumption by at least 15 percent.

Both options also include requirements for energy benchmarking, which involves the recording of a property's energy and water usage in the ENERGY STAR® EPA Portfolio Manager® before closing, as well as annually until two years after the project is completed.

As an alternative to Green Up and Green Up Plus, Freddie Mac's Multifamily Green Advantage offering also offers a Green Certification route for buildings that carry one of eight industry-standard green building certifications.

Freddie Mac isn't the only agency proposing green lending options.

Earlier this year, Fannie Mae increased the pricing break up to 33 basis points for loans made on multifamily properties with certain green building certifications. This was done in an effort to incentivize borrowers to improve their building's energy performance and therefore the quality and affordability

of multifamily housing.

Similarly, earlier this year the Department of Housing & Urban Development's Federal Housing Administration introduced the Mortgage Insurance Premium (MIP) Reduction.

This insurance rate reduction aims to encourage capital financing of affordable and energy-efficient multifamily buildings.

In order to qualify for HUD's Green MIP Reduction, borrowers must certify that properties have achieved or will pursue and achieve an ENERGY STAR score of 75 or better on a 1-100 ENERGY STAR score, using EPA's Portfolio Manager.

In addition, borrowers must provide evidence that the property has achieved or will pursue an industry-recognized green certification.

Across the multifamily landscape, the financial argument for improving energy efficiency continues to gain strength.

Market forces are increasingly rewarding green buildings: more efficiently operated assets yield improved ROI through reduced operational and maintenance costs, improved tenant attraction and retention, and greater asset value.

In addition, there are a growing number of green building codes and energy disclosure regulations that promote more sustainable building and operating practices.

The availability of numerous funding and rebate programs helps offset the costs associated with implementing energy-efficiency measures to the extent that they often pay for themselves.

And, there is a growing expectation across the corporate commercial real estate (CRE) industry to display a commitment to sustainable practices that is encouraging owner/operators to pursue green upgrades.

As a result, more and more CRE owners and operators are opting to invest in measures to improve energy efficiency and obtain LEED, ENERGY STAR, or other certifications that recognize a building is designed, maintained, and operated to be highly energy-efficient.

Now, the rise of loan programs that link property financing and energy-efficiency and sustainability, like Freddie Mac's and other green lending programs, provide a market-transforming incentive to motivate property owners to invest in improving their building and operating practices.

Green Lending programs offer benefits that make it more financially attractive for building owners to make energy-efficiency upgrades.

By providing better loan terms, such as "preferred pricing" or discounts in interest rates, increased underwritten Net Operating Income (NOI), and additional loan proceeds, these programs play an important role in advancing the appeal of green building.

With the availability of these new programs from Fannie Mae, Freddie Mac, and HUD, 2016 has been the most popular year to date to take advantage of green lending – and we expect this movement to continue to quickly gain strength in coming years.

Partner Energy and Partner Engineering and Science, Inc. are hosting a webinar on September 15 at 2pm EST to clarify requirements of green financing programs, and help borrowers take advantage of them most efficiently. Register at [www.ptrenergy.com](http://www.ptrenergy.com).