ARE YOU MISSING OUT ON

PRICING DI$COUNTS

FOR INVESTING IN YOUR MULTIFAMILY ASSETS?

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Institutional investors are increasingly being asked by those in their capital stack to actively support sustainability through their CRE investments. Fiduciary advisors that acquire high quality, but aging, core and core-plus assets face tough decisions when attempting to underwrite capital to implement sustainability measures, due to economic pressure from cap rate compression inherent with acquiring institutional-quality assets in a very competitive environment.

However, new multifamily loan programs launched in 2016 are beginning to make sustainability improvements a financial no brainer. Many institutional investors are still unaware of these programs, but a small and growing number are beginning to take advantage of Green Loans offered by Fannie Mae, Freddie Mac, and HUD. These programs provide substantial pricing discounts – up to 39 basis points – in return for implementing projects that improve asset value and reduce energy and water costs or for projects that are certified green.

WHAT ARE THE BENEFITS?

These programs offer several financial incentives that include:

- **Lower interest rates** – discounts of 10-39 basis points are available in return for meeting sustainability and/or energy efficiency targets.
- **Higher underwritten NOI & Value** – depending on the program, up to 75% of owner-paid utility cost savings may count toward the net operating income calculation
- **Additional loan proceeds** – the borrower can utilize these for energy or water efficiency improvements.
- **No spending caps** – green lending programs are not subject to the annual FHFA lending cap, allowing agency seller/servicers an avenue to do substantially more deals than before. Q4 2016, normally quiet for agency lenders whose annual budget has been spent, saw a tremendous volume of deals go through.
- **Audits are paid for (Freddie and Fannie)** – Freddie Mac will reimburse the borrower $3,500 for their required energy study and Fannie Mae will reimburse in full for their required ASHRAE Level II energy / water efficiency study. The caveat: to receive this reimbursement, one must follow through and close the green loan with the associated agency lender.

Flexibility is another key to the success of these programs. Both Freddie and Fannie offer multiple versions of programs with different requirements and benefits, so borrowers can "choose their own adventure" that makes the most sense for their asset and business plans.

WHAT ARE THE PROGRAMS AND REQUIREMENTS?

Fannie Mae's Green Programs

Fannie Mae's products include:

- Green Rewards
- Green Building Certification Pricing Break

The Green Rewards product requires borrowers to perform an ASHRAE Level II Energy Audit, which Fannie calls the High Performance Building Module. Ideal for refinancing and acquisition loans, this report identifies various energy and water efficiency measures that the borrower can choose from in order to achieve a 20% savings in either water or energy annually. Borrowers who commit to making the recommended improvements to achieve the 20% cost savings will be able to underwrite up to 75% of all owner-paid savings.

The program gives borrowers 12 months to complete the improvements and require energy and water benchmarking to be recorded in the EPA Portfolio Manager® before closing as well as annually after the project is completed.

Under the Green Building Certification Pricing Break program, a Borrower chooses to Green Certify the property through industry standard green building certifications (prior to the close of the loan). These include EarthCraft, ENERGY STAR®, Enterprise Green Communities, Green Globes, Greenpoint Rated, Leadership in Energy and Environmental Design (LEED) and National Green Building Standard (NGBS). The program can include properties that already had a green certification, not just those that pursue it for the loan program.

Freddie Mac's Green Advantage

Freddie Mac's programs include three paths within the Multifamily Green Advantage offering:

- Green Up
- Green Up Plus
- Green Certified

The Green Up option requires borrowers to order a Green Assessment, a straightforward property analysis that identifies energy and water conservation measures. Borrowers who commit to making improvements based on the findings of this assessment are eligible to increase their loan amount based on underwriting 50% of the projected owner-paid cost savings.

With the Green Up Plus option, borrowers are required to order a Green Assessment Plus, a more detailed property analysis based on an ASHRAE Level II Energy Audit. If they commit to implementing measures identified in the report, this option will allow borrowers to increase their loan amount based on underwriting 75% of the projected owner-paid cost savings.

Both options require the implementation of measures that reduce owner-paid energy or water consumption by at least 15% and give borrowers up to two years to complete the improvements with work commencing within 180 days of loan origination. Both options also include benchmarking requirements, which require property energy and water usage be recorded in 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 also offers a Green Certification route for buildings that carry one of the above discussed industry-standard green building certifications. Freddie Mac requires that at least 20% of the units be considered affordable in order to take advantage of the Green Certification pricing discount.

HUD's MIP Reduction

HUD offers a Mortgage Insurance Premium (MIP) Reduction for owners that (a) have, or will pursue and achieve, an Energy Star score of 75 or better on a 1-100 scale using Energy Star's Portfolio Manager and (b) have, or will obtain a pre-approved Green Certification. This is offered for both new and existing buildings – for new buildings the score is based on the plans and drawings. For existing buildings that score lower than 75, the owner can conduct a Capital Needs Assessment and ASHRAE Level II Energy Audit then implement improvements to raise their score to 75 and qualify for the MIP reduction.

KNOW BEFORE YOU GO

Consultant Credentials

It is important to work with the right energy/sustainability consultant. Freddie Mac has a select list of national vendors for this work. Furthermore, depending on the program and sustainability strategy selected by the borrower (reduce consumption versus certify) different consultant credentials are required to assess and/or implement the objectives.

Look for a firm that has staff with certifications such as:

- Professional Engineers (PE)
- Certified Commissioning Agents
- Registered Architects (AIA)
- LEED AP BD+C – GBCI
- Certified Energy Managers (CEM)
- HERS I & II Raters
- LEED for Homes Green Rater
- Green Point Rater
- BPI Building Analyst/Multifamily Analyst
- BPI Proctor

Timeframe and Planning Ahead

The energy/sustainability part of the due diligence can take longer than the typical timeframe. The Environmental Site Assessment and Property Condition Assessment timeframes can often occur independently, but completion of Energy Benchmarking can take longer due to the additional data collection requirements, and must be completed just prior to deal closing or a refinance rate lock.

For new construction, developers should consider incorporating sustainability into the design from the start in order to achieve green certification. Pursuing certification as an afterthought can be more challenging, as may be demonstrating improvements in energy or water efficiency for a brand new, already-efficient building.

MORE GREEN AHEAD IN 2017

These programs are considered game changers in the industry by freeing up cap space for market rate deals, providing a trickle-down effect to renters who will ultimately save on utility costs, and helping Fannie Mae, Freddie Mac, and HUD accomplish their missions. As such, all three agencies have indicated they will continue to support green financing in the year ahead.

Rising interest rates may drive even more demand for these loans as multifamily investors and developers seek ways to reduce financing costs. And beyond the benefits of these specific programs, efficiently operated properties yield financial benefits through lower operating and utility costs, improved tenant satisfaction, and increased property values. All this brings new meaning to the phrase "green is good."