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# Multifamily Preferential Financing for Energy Efficiency & Green Building Certifications

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The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, colloquially known as Fannie Mae and Freddie Mac, as well as the United States Department of Housing and Urban Development (HUD), all offer financing incentives for energy efficiency and green building. Industry recognized certification programs are used as the benchmark for demonstrating compliance.

The financing incentives can be utilized by both new construction developers as well as existing building owners. The incentive is in the form of a reduced annual interest rate or Mortgage Insurance Premium (MIP). The reduction can be up to 35 basis points. Often, new construction developers will target the reduced rate when converting their construction loan to permanent financing. However, the reduced rate is available for construction loans as well.

There are two options available to achieve an eligible building certification that can qualify the property for the reduced rate.

The **first option** is to earn an energy efficiency or green building certification during construction, which is typically awarded around or closely following building occupancy. The certification programs that can be used for this purpose require certain energy efficiency or green building measures to be designed, implemented, verified, and reviewed.

See below for a non-exhaustive list of programs that can be used for this purpose:

- ENERGY STAR Multifamily New Construction (administered by the Environmental Protection Agency)
- National Green Building Standard (administered by Home Innovation Research Labs)
- LEED (administered by U.S. Green Building Council)
- Passive House (administered by Passive House Institute or Passive House Institute US)

Project teams should consult with lenders or agency representatives for comprehensive lists of current certification programs and the associated interest rate or MIP reduction.

The programs listed above will typically require the developer to identify the preferential financing during the design phase of the project in order to ensure that the construction of the building will meet all certification program requirements. In some instances, a program can be implemented during the early phases of construction but generally cannot be applied after construction completion unless the building is undergoing substantial rehabilitation work.

If a developer intends to use Fannie, Freddie or HUD for construction or permanent financing, they should evaluate in design stage the incremental cost of earning a certification during construction. The cost of earning the certification can often be marginal compared to the potential benefit.

The **second option** is to access the preferential financing rates by participating in the ENERGY STAR for existing buildings program. This certification is based on building wide annual utility consumption. Projects that earn a benchmarked ENERGY STAR score of 75 or better (out of 100) are awarded the ENERGY STAR certification following a verification inspection.

The ENERGY STAR score is a comparison of the given building's energy usage against the average energy usage of similar buildings nationwide. A score of 75 represents energy performance in the top quarter of all similar buildings. The required performance is often exceeded by newly constructed projects that are built to meet modern energy codes.

Thus, this can be a good option for recently constructed projects that that didn't earn a certification during construction. However, the certification requires the project team to provide one year of benchmarked energy usage data and the building must be at least 80% occupied during that duration of that year. This can present an obstacle for developers who look to quickly refinance.

Owners of existing buildings are also able to use the ENERGY STAR for existing buildings certification program to access the preferential financing. Again, one year of benchmarked energy usage is required to earn an ENERGY STAR score. The same score of 75 or better is required of existing buildings. An alternative approach is to earn the LEED Operations and Maintenance (O&M) certification, which requires benchmarked energy data like ENERGY STAR as well as a variety of additional requirements and optional credits.

It is important to note that ENERGY STAR for existing buildings requires that benchmarking 100% of the building's energy usage with no exceptions. This can present an obstacle for both new and existing projects when tenants are individually metered. In some regions, the utilities are able to provide anonymized and aggregated building utility data which can be used to generate an ENERGY STAR score. This is extremely useful because it allows the owner to circumvent two issues.

1. The first issue circumvented is that aggregated data allows the building to be benchmarked without requiring the collection of individual tenant data or obtaining utility data release forms. If utility data release forms are not included in lease language, this would otherwise be a very difficult task.
2. The second issue circumvented is that if the project has not previously collected utility data, the utility can typically provide historical usage. This gives existing building that have been operating for more than a year the ability to benchmark and generate an ENERGY STAR score with no waiting period. If the utility does not provide aggregated data, the project will need to collect usage for one year before they are able to generate a score.

It is also important to note that HUD has recently announced that it is requiring an ENERGY STAR score of 90 in order to use ENERGY STAR Existing Building Certification to qualify for the preferential financing, and that it is eventually phasing out this option altogether.

Additionally, there is preferential financing available to building owners who are intending to make energy or water efficiency upgrades. Both Fannie Mae and Freddie Mac will cover the cost of an energy audit for an existing property. Borrowers who commit to making improvements based on the audit, and which are able to save 30% in energy or water usage with a minimum of 15% from energy, are able to access better pricing and more funds. Fannie Mae does this through its Green Rewards – Competitive Advantage program and Freddie does this through its Green Up and Green Up Plus programs.

Additional information about these programs is available online on the agency websites.

→ [HUD](#)

→ [Fannie Mae](#)

→ [Freddie Mac \(bottom of page under Already Green?\)](#)

Contact ReVireo to learn more about discounted financing for your project.