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Could Fannie/Freddie green programs be right for you? - by Solomon Rosenbaum

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Investing in energy efficiency is something that sounds great in theory and one which most people would agree is a worthwhile endeavor. However, in the end, it all comes down to the ROI recognized by the reduced utility costs versus the investment. In my 15+ years in the energy engineering world, I have always believed that the most important person in any energy project is the CFO.

When you are dealing with an owner occupied structure, selling the idea of efficiency investments can be pretty straight forward. There is a direct line between the money invested and the return that one sees from an energy savings project.

The sticking point comes in a situation where the one who has to invest the money in these measures is not the one that pays the utility bills. The most common example of this is in multifamily properties where the tenants are often individually metered or the owner bills the tenants back for utility usage (RUBS). In these situations, what is the impetus for the landlord to invest money in energy or water efficiency upgrades? The saving will be recognized by the tenant who ends up paying the lower utility bills. This negates the whole foundation of the ROI driving energy savings projects.

This is where the Fannie Mae Green Rewards and Freddie Mac Green Up programs for multifamily properties can help align the interests of these divergent desires. This is possible because program qualification is possible irrespective of who pays the energy bills and who will save from the implemented measures. FHFA has set the general guidelines for these programs and those that meet the required energy and/or water reductions receive a lower loan interest rate. As of January 1, 2019, the program required a property to save a total of 30% in energy and/or water reductions with a minimum of 15% coming from energy savings. This is in contrast to the 2018 requirement of 25% in either water or energy.

In order to qualify for this program, a property will need to perform a site inspection to identify potential energy and water reduction projects. This additional assessment is generally performed as part of the due diligence process in conjunction with a Property Condition Assessment (PCA). However, they can be performed as a stand-alone report as well. During the site inspection, additional information beyond the standard ASTM PCA scope will be gathered and limited non-invasive testing/sampling will be performed.

The property will need to provide a minimum of 13 months of owner paid utilities for the site. Tenant data is not required as the data can be modelled, but there are underwriting advantages to the borrower if full data is passed along.

The site and utility data is then analyzed by the engineering team to determine potential measures and present the options to the borrower. It is up to the borrower to decide which measures they would like to implement in order to reach the threshold. Of course, the cheapest options are more popular, but some of the more expensive options are often utilized if they are part of a planned renovation regardless of this program.

It is important to note that not all multifamily properties will be good candidates for this program. In general, properties that are at least 10 years old and have not had a recent renovation are potential candidates. To aid in the decision process, GRS has developed a pre-qualification module to determine with a high degree of certainty if a property will meet the program thresholds.

Confused and need some direction? Want to understand the borrower benefits to these green initiatives? Please reach out to me at srosenbaum@grs-global.com and I would be happy to assist you.

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