



Multifamily Market Commentary – November 2016

Green Multifamily Housing Update

In the last 15 years, businesses across all sectors and industries have been engaging in discussions and activities that focus on how buildings, cars, and people can use fewer natural resources while maintaining profitability and customer satisfaction. In the last five years, green building, sustainability, and energy efficiency principles have become increasingly integrated into the multifamily housing sector. A prime driver for developers, owners, operators, and even tenants toward sustainability is cost reduction, rather than natural resource use reduction; yet sustainability principles achieve both. Given the multitude of benefits realized through implementing sustainability measures, even lenders are now offering programs to incentivize investment in green property improvement in the multifamily housing sector.

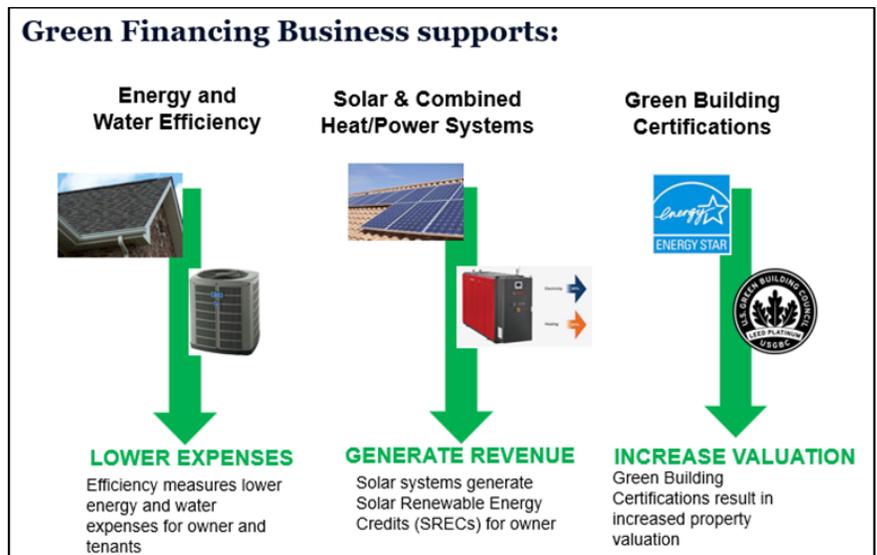
What is Sustainable or Green Multifamily Housing?

There has been strong market demand for sustainability by all industry players in the multifamily housing sector over the last several years. Developers and owners are looking for ways to save money when it comes to building and maintaining multifamily housing; property managers see sustainability principles as reducing tenant turnover and increasing tenant satisfaction with building temperatures and overall quality; and tenants are attracted to the lower costs in their utility bills while also living in a healthier home.

Sustainable or green multifamily housing can be identified when it has at least one of these three features: energy- or water-efficient systems and equipment, renewable energy system, or a green building certification. There are other broader definitions of sustainability or green housing; however these three are the most common today.

Energy and Water Efficiency features include additional insulation, heat-reflecting roofs, and ENERGY STAR® appliances and systems.

Renewable Energy systems include solar power and combined heat/power systems that recycle otherwise wasted heat put out by systems. Solar and renewable energies are incorporated into buildings through the installation of rooftops on buildings in an effort to use sunlight as a renewable energy that transfers into electricity or heat for the building. The use of these various forms of sustainability leads to lower expenses for owners and lower rents for tenants. Solar and renewable energies also help generate revenue as their use authorizes owners to gain Solar Renewable Energy Credits (SREC). SRECs are tradeable credits that represent all the clean energy benefits of electricity generated from a solar energy system.



Lastly, green building certifications are recognitions through a third-party certification system that uses a consistent, transparent rating system of a property’s energy- and water-efficient features, management of waste material, and other environmental considerations.



How Multifamily Properties are Certified, Scored, or Rated as Green

Sustainable features may not always be visible immediately at a property. One sustainable activity is to set timers on all systems, such as garage lighting and water irrigation systems, to minimize or eliminate unnecessary use. Similarly, additional insulation in walls and energy-efficient doors and roofs may not be conspicuous. To capture the green features and summarize the “amount” or “level” of sustainability embodied by a property, green building certifications have been created. There are internationally and nationally recognized certifications, such as Leadership in Energy and Environmental Design (LEED) and ENERGY STAR®, to regional and local certifications such as Earthcraft, used mainly in the Southeast U.S. and Build It Green used primarily in California. Through these systems, third-party organizations verify that a property was designed and constructed with the intention of improving performance through various green qualifiers such as energy savings, water efficiency, carbon dioxide emission reductions, etc.

For example, LEED – which was developed and maintained by the U.S. Green Building Council – certifies across all building types including both commercial and residential. LEED grants buildings with four different types of ratings: certified (40-49 points), silver (50-59 points), gold (60-79 points), and platinum (80+). The certifications also include five categories: sustainable sites, water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality. In parallel, the ENERGY STAR 1-to-100 score and resulting certification was created by the Environmental Protection Agency (EPA) and has existed for 15 years. The ENERGY STAR Score and certification for Existing Multifamily rating system was launched in 2014 with the assistance of Fannie Mae. In contrast to LEED, the EPA focuses on energy use and carbon emissions rather than water efficiency, materials, and resources for example. On a scale of 1 to 100, an ENERGY STAR score of 50 indicates the property is performing better than 50 percent of peer buildings in the U.S., and a score of 75 or above also grants eligibility to a building to receive an ENERGY STAR certification.

These rating systems and others are increasingly being applied to multifamily new construction and existing properties. Below is a table of the top 10 states ranked by their per capita square footage of LEED certified projects in 2015.

Top 10 States with the Highest LEED Certifications Issued in 2015 for All Asset Types

State Listed With Ranking	# of Projects	Per Capita Sq. Ft.
1. Illinois	161	3.43
2. Maryland	127	3.06
3. Massachusetts	112	3.03
4. Washington	101	2.60
5. Colorado	95	2.43
6. Nevada	30	2.42
7. California	618	2.34
8. Texas	237	2.09
9. Virginia	121	1.63
10. Utah	31	1.63
Washington, D.C.*	84	19.30

*Note – Since D.C. is not a state, it is not ranked.

Source: USGBC



Fannie Mae's Green Products

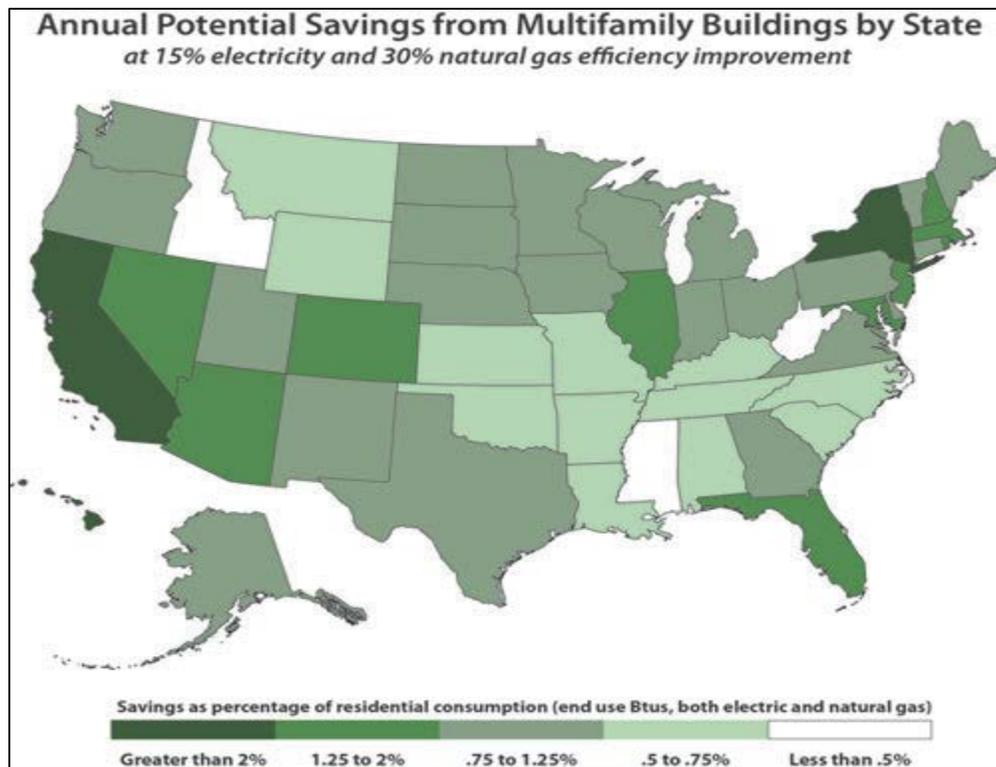
Fannie Mae's multifamily housing business currently offers three green financing products for its customers. The Green Rewards, Green Building Certification Pricing Break, and Green Preservation Plus products offer customers a myriad of options and savings for incorporating green and sustainable features in their properties. Each product is unique in the rewards it offers by being dependent on the type of green and sustainable implementation that a property contains. A chart highlighting the characteristics of each multifamily green product is below.

	Green Rewards	Green Building Certification Pricing Break	Green Preservation Plus
Ideal fit	Existing properties ready to make energy- and water-saving improvements	New construction or existing properties awarded a green building certification	Existing properties ready to make energy- and water-saving improvements
Loan type	Refinance, acquisition, supplemental, and 2nd supplemental	Refinance, acquisition, and supplemental	Refinance and acquisition
Affordability requirement/AMI	None	None	Multifamily Affordable Housing only
Energy and water audit report cost	100% paid by Fannie Mae	N/A	100% paid by Fannie Mae
Pricing incentive	Lower interest rate	Lower interest rate	Lower interest rate
Additional loan proceeds	Up to 5% more than standard DUS Loan; underwrite 75% of owner and 25% of tenant projected cost savings	Standard DUS	Up to 5% more than standard DUS Loan
Minimum projected consumption reduction	20% energy or 20% water consumption	None	None
Minimum green improvement budget	None	None	At least 5% of loan proceeds
Maximum LTV	Standard DUS	Standard DUS	Up to 85%
DSCR	Standard DUS	Standard DUS	1.15x
Documentation requirements	Energy and water audit report	Current, Fannie Mae-recognized green building certification	Energy and water audit report; Pest Management Report
ENERGY STAR® reporting	Annually	Annually	Annually



The Significance of Green Housing

With all the talk about green and sustainable implementation in commercial real estate, a relevant and easy question to consider is why should anyone care about green? From a pure business and economic standpoint, green is important because of the money it saves for both property owners and tenants. The implementation of energy- and water-efficient features in a property helps owners save money and can qualify the property for various tax breaks and specialty products. When owners save money, it reduces the pressure to raise rents while it extends the useful life of the property. Most importantly, the biggest significance of green is the positive outcome on the environment. There have been numerous studies that have concluded that green multifamily housing properties can decrease overall energy use by 10 percent, decrease building operating costs by 11 percent, and also reduce water consumption by 15 percent annually. Furthermore, buildings that have been certified to a LEED Gold certificate consume 25 percent less energy, 11 percent less water, and have maintenance costs that are 19 percent lower than buildings without the gold certificate. The tenants in LEED Gold-certified buildings are also 27 percent more satisfied than living in other buildings as a result of the sustainable features. Below is a map highlighting the annual potential savings from green multifamily building in each state.



The Future of Green

The benefits of green and sustainability in the multifamily sector are plentiful. All industry players benefit from energy efficiency, water efficiency, and renewable energies. With more multifamily buildings being rated using ENERGY STAR, LEED, and other certifications, the desire to incorporate green and sustainability is higher than ever before. However, even though there are numerous benefits, sustainability and green do not come without their challenges. Since both are relatively new to the multifamily sector, the sector as a whole has not fully absorbed the benefits of green and sustainability, especially in older buildings. The future of green and sustainability in multifamily is very bright. With more awareness about the benefits of savings and effectiveness, we expect that green will become more widespread in the multifamily housing sector.



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