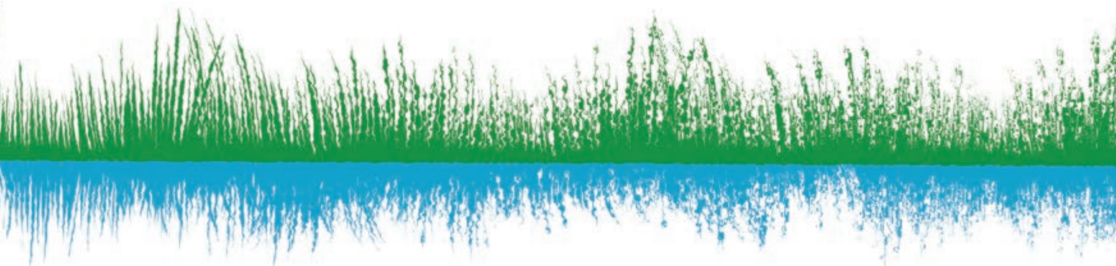
HOW GREEN FINANCING BENEFITS THE 'TRIPLE BOTTOM LINE': TENANTS, INVESTORS AND THE ENVIRONMENT

By Bob Simpson



DO GOOD *BY* DOING WELL

Sustainability and green initiatives, while good for the environment, are often perceived as more costly than the "old way" of doing things. But in the case of green financing for multifamily properties, the opposite is true. Green financing is actually *more affordable* than traditional financing. And as more investors are using green financing, they're discovering a surprising number of benefits they hadn't anticipated: better quality assets, lower tenant turnover, fewer tenant complaints and higher cash-flow.

Stratford Partners—a San Diego-based private real estate firm focusing on multifamily properties in the Western U.S. with a portfolio including approximately 3,000 units valued at around $350 million—is a case in point. Mark Halling, principal and director of portfolio management, said that last year the firm closed two green financing deals.

He called those deals "game changers."

"What initially attracted us was that the terms were better than the standard options," said Halling. "The interest rate was 20-30 basis points lower, which meant a few hundred thousand dollars more in proceeds," he added.

MULTIPLYING THE BENEFITS

The increase in net proceeds, however, turned out to be just the tip of the iceberg.

"By going through the process, we received a tremendous education on the utility efficiency of our buildings," he said.

Halling and his partners said they gained expertise that they now apply to all properties in their portfolio. "Once we became educated about the value of green financing, we began tracking utility billing on all of our properties by using an online software, green-space benchmarking tool that evaluates utility expenses and other efficiency projects," said Halling.

Stratford Partners realized significant utility savings on all the deals across its entire portfolio without incurring significant expense. Halling reports a 10 to 20 percent reduction in the cost of utilities, which translates into tens of thousands of dollars a year in net income.

WHAT IS GREEN FINANCING?

Fannie Mae offers several different green financing programs for apartment buildings and cooperatives. The financial incentives include a lower interest rate than traditional multifamily for loans with a Green Building Certification, such as LEED or ENERGY STAR®.

The process of obtaining a Fannie Mae Green Rewards loan is the same as traditional multifamily mortgage financing yet includes a few key additional components. The borrower contacts the lender to acquire or refinance a property. A standard, third-party appraisal and a property inspection is conducted in conjunction with an energy audit. The energy audit reveals opportunities for water and energy savings like switching out faucet heads or dishwashers, upgrading heating or air-conditioning units and more.

There's no additional time or burden to the underwriting and approval process since the energy audit is done concurrently with the other third-party reports. From there, it's up to the borrower to determine which improvements they want to implement.

To be approved, the borrower needs to commit to property improvements that are projected to reduce the whole property's annual energy or water use by at least 20 percent. The money for the selected improvements goes into escrow and the upgrades need to be completed within 12 months of the loan closing.

Once delivered to Fannie Mae, all Green Mortgage loans are marketed as "Green MBS" (mortgage-backed securities), which means access to a broader bond investor market interested in environmentally-focused investments.

The borrower is required to report the property's ENERGY STAR score annually to Fannie Mae to document the actual energy saving. A score of 75 or above (out of 100) indicates the property is more energy efficient than 75 percent of peer properties and may receive an ENERGY STAR certification.

APPEAL TO TENANTS

Aside from the benefits to investors, green financing is a boon to tenants. Buildings with good lighting and better heating and cooling equipment increase tenant comfort, resulting in fewer tenant complaints and maintenance requests.

Halling said Stratford Partners promotes its energy efficiency improvements on its website to attract renters. "In Boulder, for example, we see renters who care about sustainability and the environment. As individuals, it's part of their lifestyle. They find our properties attractive," he said.

Reducing utility expenses also saves renters money. While the building receives an overall utility bill, Stratford Partners breaks that bill down to bill-back individual units.

"There's a trickle-down effect. They see the bill go down, and that impacts their satisfaction," said Halling. "When you ask for a rent increase, it helps them be more receptive to that."

Lower utility bills also mean tenants can afford other necessities and amenities, including access to transportation, education and healthcare.

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PHOTO COURTESY OF STRATFORD PARTNERS

Indian Springs Apartments in Mesa, Arizona. In conjunction with local utility providers, Stratford Partners installed 2,652 CFL light bulbs, 600 water-reducing toilet tank banks, 1,060 faucet aerators and 600 low-flow showerheads at the property.

IT JUST MAKES SENSE

Halling said Stratford Partners has had such a good experience, they've integrated what they've learned from green financing into how they forecast energy reduction annually on all their properties. "We talk to other owners and we share how much we enjoy the program. It's structured in a way that's very thoughtful and streamlined. It just makes sense."

His advice to other property owners and managers?

"Give one deal a shot," he said. "You'll come to see how much easier it is, and after a few months, you'll see the benefits and improvement to your asset." ■

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DO GOOD BY DOING WELL

The concept behind green financing is to "do well by doing good" on three different dimensions, or what we call the triple bottom-line: **financial, environmental and societal.**

- **Financially** through net income growth for investors and property owners.
- **Environmentally** by recycling, using less energy and reducing or eliminating any negative impact.
- **Societally** by creating healthier and safer affordable housing.