

## FINANCING FOR GREEN BUILDING AND ENERGY EFFICIENCY MAKES INCREMENTAL GAINS

Access to financing continues to challenge the green building movement. The Environmental Defense Fund provides an excellent discussion of these challenges in its recently released [whitepaper](#) entitled *Show Me the Money – Energy Efficiency Financing Barriers and Opportunities*. Overcoming these challenges over the long term will require sustained commitment by the lending and appraisal communities, among others. There are, however, three recent developments specifically addressed to the issue of green building and energy efficiency financing which signify some positive movement. The first of these is the launch on May 31 of an energy efficiency improvement initiative coined “Green Refinance Plus”. The program, jointly administered by FHA and Fannie Mae, aims to make available additional financing proceeds to owners of older multi-family affordable housing properties to support the installation of green systems and appliances. The goal of the program is to reduce both energy use and greenhouse gas emissions and generate contemporaneous savings on utility bills. According to [Fannie Mae’s press release](#):

Green Refinance Plus is intended to refinance the expiring mortgages of low income housing tax credit and other affordable projects and to lower annual operating costs by reducing energy consumption. Fannie Mae and HUD anticipate approximately \$100 million in initial refinance volume with an average loan amount of \$3.5 to \$5 million. FHA will insure up to an additional four-to-five percent of the loan amount, or an average of approximately \$150,000 to \$250,000 per loan, to provide additional loan funds to pay for property improvements that save energy and water costs for owners and tenants, such as energy efficient windows and ENERGY STAR appliances, as well as other needed property renovations. While admittedly a modest investment tailored to a relatively narrow market need, the program is noteworthy in that there is some *implicit value* associated with energy efficiency improvements that justifies higher loan amounts.

It is precisely the difficulty associated with objectively quantifying the added market value of green building improvements that is the subject of the second development: the announcement in mid-June of a [Memorandum of Understanding](#) between the Appraisal Foundation (the Congressionally sanctioned source of appraisal qualifications and standards) and the Department of Energy, Office of Energy Efficiency and Renewable Energy (EERE) to collaborate on green building and energy efficiency valuation issues. Although the MOU fails to specify any particular deliverables or associated timeframes, it does commit both parties to leverage their complementary program strengths to create additional guidance under the Uniform Standards of Professional Appraisal Practice to address energy performance and green valuation. In the statement of “Collaborative Objectives”, EERE affirms its intent to:

- Develop one or more databases that aggregate and provide the appraisal community with a set of building performance data for particular building types and upgrades;
- Identify Federal government energy and green building-related policies and programs, including those related to leasing requirements for Federal buildings, and transparently make available additional information about applicable programs;
- Develop an educational course curriculum for appraisers on valuing energy performance and sustainability in buildings based, at least in part, on guidance issued by the Appraisal Practices Board which can be approved through the Appraiser Qualifications Board Course Approval Program, and
- Serve as a subject matter expert for the Appraisal Practices Board on issues relating to energy performance and green buildings.

For its part, the Appraisal Institute affirms its intent to:

- Engage its Appraisal Standards Board, Appraisal Practices Board and Appraisal Quality Board towards developing additional guidance to show how to apply existing appraisal standards and recognized valuation methods and techniques to energy performance and green appraisals;
- Educate and engage the Appraisal Foundation Advisory Council on energy efficiency and green buildings and their valuation, and make a complimentary video available on its website for all appraisers; and
- Provide valuation expertise to the EERE's Building Technologies Program to assist in the development of the green building data project.

The significance of a developing platform to foster consensus on green building valuation issues should not be underestimated. In the course of a recent conversation with a community banker, he related to me a situation in which an appraiser reduced the value of a commercial property that had a geothermal HVAC system because the technology was unfamiliar to the majority of market participants, and would therefore act as a “drag” on a potential sale. Huh? Additionally, in the wake of the recent real estate market meltdown, appraiser independence has been reinforced, leaving lenders little or no flexibility to make underwriting decisions based upon the real economic benefits (in terms of both reduced operating costs and higher terminal values) of green building features not considered by the appraiser. Because the appraisal community acts very much as gatekeeper on this issue, the speed with which new practices and standards are developed and implemented could have an immediate positive impact.

Finally, on July 14, the Senate Committee on Energy and Natural Resources reported out [Senate Bill 1000](#) (Bill), the *Energy Savings and Industrial Competitiveness Act of 2011*. Sponsored by Senator Jeanne Shaheen (D-NH), the Bill includes a proposed amendment to the Energy Policy Act that would make available credit guarantees associated with the “installation of efficiency or renewable energy measures (including metering) in a building (or in multiple buildings on a given property) that are expected to increase the energy efficiency of the building (including fixtures).” Responsibility for developing underwriting guidelines and associated requirements is delegated to the Secretary of Energy. In addition to that program, the Bill mandates establishment of a “revolving loan program under which loans are provided to commercial and industrial manufacturers to implement commercially available technologies or processes that significantly reduce systems energy intensity, including the use of energy-intensive feedstocks, and improve the industrial competitiveness of the United States.” This latter initiative would entail provision of “cost-matched” federal funds to lenders for projects that are co-funded by at least one state government agency and a private lender.

As I conclude this post, our nation sits at the precipice of a potential default on its financial obligations, unemployment remains persistently high, and progressive thinking appears to be on life support. But if you haven't figured it out by now, I'm a chronic optimist. It may be my greatest character flaw, but I tell myself that one day we will look back on this period as but one more crucible in which our mettle was tested and we emerged stronger, better and smarter. Progress continues to be incremental. But progress is progress. Continued investment of our time, talent and treasure to expand access to funding for green building and energy efficiency projects will pay significant dividends for future generations.