Sustainability

Green MIP Reduction program is a useful tool

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U.S. households residing in multifamily housing – one in four households – spend approximately $40 billion on energy every year. A 20 percent increase in energy efficiency for these homes would save $8 billion per year and cut greenhouse gas emissions by 430 million tons, according to the Department of Housing and Urban Development.

To address these issues, HUD now offers a reduced annual mortgage insurance premium for energy efficiency and green building standards: The Green MIP Reduction. The Green MIP Reduction cuts the MIP from current rates, which generally are between 45 and 70 basis points, to 25 basis points for properties that meet one of the listed industry-recognized energy efficiency and green building standards. Fiscally minded taxpayers will be pleased to know that even with the reduction in MIP for energy-efficient loans, HUD predicts that loans under this program will generate net revenue for the federal government.

To earn the Green MIP Reduction, the project owner must demonstrate that the project has achieved – or must certify that it will pursue, achieve and maintain – an industry-recognized standard for green building. Further, the owner must certify that it has achieved, or will achieve, a score of at least 75 on the 1-100 Energy Star score using Portfolio Manager and maintain that score for the life of the loan, with certifications done annually.

For existing buildings, the owner must benchmark the building, then process a statement of energy performance in the Portfolio Manager with a score of 75 or greater and apply for Energy Star certification. If the existing property has a score of less than 75, a qualified green building professional would need to audit the building and design a program to achieve the green building certification and meet the required energy score.

• **Developer's perspective.** Tyler Downs, principal of Wazee Partners LLC, is utilizing the Green MIP Reduction for the upcoming 165-unit multifamily, mixed-use development known as West End 38 Apartments in Wheat Ridge, which is being financed through HUD's 221(d)(4) program. Downs' advice to other developers using the Green MIP Reduction in the 221(d)(4) program is to select an experienced, HUD-compliant green building consultant and to continually involve the consultant in your engineering and architecture meetings as early in the process as possible.

The program will provide the West End 38 project around $90,000 a year in MIP savings, according to Downs. The cost to participate in the program also was in the neighborhood of $90,000 for the green program certification fees and the cost of Group14's consultant fees, which include commissioning and application – the ongoing monitoring will be separate. Most notably, Downs does not believe there will be a significant increase in actual construction cost (and perhaps no increase) to achieve green program compliance for this project. The program cost was not significantly burdensome, perhaps in part, because the construction industry has made progress in adopting some of the standards of the certification program Wazee Partners chose as baseline construction standards, he said. For this project, the payback for the cost to achieve green program compliance will be within one to two years.

• **Sustainable design consultant's perspective.** Building green doesn't cost more; you just have to "design smart to build green," said Josh Marceau, sustainable design consultant at Group14 Engineering, the consultant for the West End 38 project. Many studies show that there is no cost to build green, or that the cost is very low, he said.

"For example, think about the balance between the building envelope and its mechanical systems," said Marceau. "A green building that has better exterior insulation than a standard building will allow you to save money by downsizing the mechanical system, which is one of the biggest costs to a project."

There are many opportunities to save money as well. For example, water-efficient fixtures are more energy efficient and will save owners money.

One of the benefits of the Green MIP Reduction program is the exposure and education it provides. Any time we can expose builders or designers who would otherwise build a standard product to a third-party green building rating system, they will learn something and change their practices, he said. We are seeing an increase in developers whose decision-making is based on the triple bottom line of people, profits and the planet.

• **Lender's perspective.** Most of the borrowers Scott Graber, vice president of multifamily and senior housing at Gershman Mortgage, works with are using HUD's Green MIP Reduction program. One reason for this is that since most loans are on a balance between being either replacement-cost constrained or debt-service constrained, the impact of not using the Green MIP Reduction is too much of a risk, he said.

"In approximate terms, on a roughly $17 million debt-service constrained new construction loan, a 40-basis-point increase – if the developer did not pursue the Green MIP Reduction – would result in a reduction in mortgage proceeds and increase in equity requirement by $940,000," he said. "On the flip side, in that same example, utilizing HUD's Green MIP Reduction, there would be roughly $120,000 of upfront MIP reduction savings, plus 40 basis points of effective interest rate savings (approximately $67,000 per year), and $940,000 more in mortgage proceeds."

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There are other benefits to the program as well. For example, you have a marketability benefit compared with a nonenergy-efficient property with similar rents if your utility cost to the tenant will be less.

Graber's advice to owners is to keep in mind that they have to recertify annually and maintain the Energy Star score above 75 for the life of the loan. So, designing to meet a minimum score threshold is risky because the design score is just theoretical, born out of the Statement of Energy Design Intent test.

Once the building is constructed, owners need to collect and certify actual data. If the score is below 75, they will have to remedy it. We do not yet know what that will look like from HUD, as the program is still new. The bottom line is that the design should have plenty of cushion built in.

One challenge Graber has seen with the program with respect to refinancing existing properties is that certain utility companies are not willing to release information about tenant energy use, which will make it difficult for borrowers to participate. Whereas, on the new construction side, owners can place a requirement to share energy use information into the tenant's lease. However, "Rest assured that utility companies in Colorado play nice in the sandbox and gladly provide data to property owners in a timely manner, typically in a format that is easily uploaded to Energy Star's Portfolio Manager," said Graber.

• **Certification institute perspective.** At the cutting edge of building energy efficiency is the International Living Future Institute, whose Living Building Challenge is one of the certifications that will qualify for HUD's Green MIP Reduction. The Living Building Challenge is the world's most rigorous performance standard for buildings, creating ecologically restorative buildings that give more than they take. For a glimpse of the living buildings that are the realization of this concept, see www.living-future.org.

Although no one has yet completed the LBC in conjunction with HUD's Green MIP Reduction, there are seven affordable housing projects currently using the LBC Affordable Housing Pilot Program. According to Alicia Daniels Uhlig, policy director at the Institute, all property owners could benefit from the concepts created at the Institute. She cites its concept of transparency labels, which are like nutrition labels for the built environment, and provide information such as the construction material ingredients (declare), organizational social equity (just) and building energy performance (reveal). These tools are available to all projects – not just projects pursuing LBC. The idea is transparency leads to transformation in the built environment: If you know how something is performing, you can improve it as needed, or inspire others by your example.

• **Conclusion.** HUD's Green MIP Reduction is working well as a market incentive for developers to build green projects. More subsidies like this would help to move the market, including non-HUD projects, toward greater energy efficiency.

Developer Downs' suggestion is to create a deeper subsidy that has a payback period inside of a typical developer's average hold time of a property. For example, if a deeper subsidy accelerated the payback on a solar power system to inside three or four years, many owners would undertake the investment on a purely economically rational basis, putting aside that it is the environmentally responsible thing to do. As the Green MIP Reduction program proves, these incentives do influence development and can be fiscally sustainable.▲

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ers overlap too much and competitive advantage has become scarce. In technology, it's impossible to be good at everything, and innovation can't grow when the ground is trampled over by the herd.

The rumblings of disruption are everywhere and it's an amazing time to be in the multifamily technology space. We know that virtual reality will have a major impact soon; we're just not sure where or how yet. It probably won't be in apartment tours. Smart-home tech is coming quickly and connected fixtures, locks and appliances are going to shift control to the resident. We just need to figure out how to operationalize these advancements. As technology creeps in from other verticals, renters will insist we follow suit. We're collaborating with many clients on creating smart leasing offices that not only serve the leasing team and residents, but also replace the need for the old interfaces they're stuck with now.

And like the travel, hospitality, online shopping and banking industries, we can certainly streamline and automate the sales and leasing process. We can adapt our software to allow for location-based wayfinding and data visualization, and we can allow renters to select their own apartments and take control of their experience. After move-in, we can support and integrate with the myriad personalized service and delivery apps coming to market.

To embrace this interconnected future, we must shift our focus to the end user's experience. Technology ultimately defines where value is. To create fertile ground for disruption in multifamily, we should obsess on the experience of the residents and the team of people serving them.

Walking the apartment associations' tradeshow floors, nestled between the large islands, is where the seeds of disruptions are budding. There you can find dozens of technology providers who are beginning to offer solutions to multifamily problems. To support innovation, we should insist on seamless integrations in our technology stacks. And we can move faster to adopt and test new technologies that find their way into our sector. In addition, we should provide quick feedback to tell these innovators how they can solve our needs.

It's time to shake things up. ▲