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Fannie Mae: Taxpayers Back Luxury Apartments Through 'Green' Loans

When billionaire developer Greg Fowler wanted to grow his upscale apartment empire two years ago, he turned to taxpayers for help.

Fannie Mae (FNMA), the government-owned housing company, was ready to loan Fowler $168 million to purchase five buildings in cities across the country to expand his Arrive brand of luxury apartments but there was a catch.

Fannie Mae is not supposed to dabble in high-end real estate so if Fowler wanted the money, he had to go green.

That would be easy. Fowler could install low-flow toilets, sinks and showers—upgrades that are common in an apartment refurbishment—to qualify for a "Green Rewards" loan from Fannie Mae.

In the end, everyone got what they wanted. Fannie Mae got a big-dollar deal. Fowler got a loan that likely will save him a couple million dollars.

Even Warren Buffett got in on the act—the billionaire investor has a stake in Berkadia Commercial Mortgage, the company that brokered financing for Fowler.

Rental properties are known as 'multifamily' in the real estate business. Fowler's investment fund, FPA Multifamily, declined to discuss its Fannie Mae loans. Berkadia did not respond to several emails and phone calls seeking comment.

So far, the 'green' program that has boosted developers has also benefitted taxpayers—the loans have been profitable and so sent money back to the U.S. Treasury.

But if the rental market sours, taxpayers could face big losses and once again be left to rescue a housing sector where Fannie Mae and Freddie Mac (FMCC), a sibling agency, played an outsized role.

And even now there are questions about who benefits from 'green' loans. The program that was conceived to help ordinary tenants and the environment is largely boosting wealthy landlords, according to a *Capitol Forum* review of the program.

Green Promise

With the backing of taxpayers and the federal government, Fannie and Freddie have the financial heft to dominate any real estate market.

That's why the Federal Housing Finance Agency (FHFA), the companies' regulator, has capped the amount each company can invest in the rental housing market at $35 billion each year.

But there is an exception. Fannie and Freddie can make unlimited investments in certain projects deemed to promote the public good—like energy conservation.

The companies backed a modest $5 billion in 'green' loans in 2016—the year the program began in earnest—but those totals have since ballooned.

Last year, Fannie and Freddie financed about $43 billion in 'green' loans. In 2017, that total was more than $45 billion.

Jeff Hayward, Fannie Mae's head of rental housing, said the company is enthusiastic about 'green' loans because they help developers, tenants and the environment—a "triple bottom line."

"You can make money (profit) while positively and measurably impacting the social bottom line (people) and the environment (planet)," he wrote in Multi-Housing News in 2017.

But while 'green' loans have certainly boosted developers, it is harder to see benefits for tenants and the environment, according to a *Capitol Forum* review of the program.

Fannie Mae's roughly $20 billion in Green Rewards loans last year backed about 1100 developments, but $2 billion of that total went to just 26 of the largest apartment sites. At all but four of those properties, the rent matches or exceeds the average of the neighboring community, according to a *Capitol Forum* review of Fannie Mae loans and rent data from both apartments.com and Yardi Matrix that tracks rents across the country.

The Capitol Forum shared the rent analysis with Fannie Mae. Fannie Mae declined to comment.

The two largest Fannie Mae 'green' deals financed luxury housing in California.

Developer Douglas Emmett borrowed roughly $420 million in 2017 to refinance The Shores, a beachfront property in Santa Monica, and Barrington Plaza, a Los Angeles apartment building.

Emmett will likely save more than $5 million by borrowing from Fannie Mae rather than banks, insurance companies or other investors willing to lend.

The developer did not respond to comment for this story.

Fannie and Freddie now finance half the rental housing market and that makes a mockery of federal rules meant to limit the companies' power, said Alfred DelliBovi, a former federal housing official and the Chairman of the Board of Flushing Bank of New York.

"These companies are supposed to face some limits on their business. But the rules are lax," said DelliBovi. "When other lenders are ready to deal, Fannie and Freddie step forward with better terms - thanks to taxpayers."

The discount Fannie and Freddie offer is often one-fourth of a percentage point, said brokers who handle such deals. And that modest concession amounts to huge savings.

Developers are positioned to save hundreds of millions of dollars through the nearly $100 billion in 'green' loans offered by Fannie and Freddie in recent years.

Fannie Mae publishes more details about its 'green' loans than Freddie Mac, but that program also benefits developers of market-rate and high-end apartments.

Of the 230,000 units backed by Freddie Mac 'green' financing last year, roughly 14 percent are not affordable to tenants who earned the median income in the community, according to a *Capitol Forum* review of Freddie data.

The enthusiasm for 'green' loans is easy to understand and has nothing to do with the public interest, said DelliBovi, who was deputy Secretary of the Department of Housing and Urban Development under President George H.W. Bush.

"Fannie and Freddie are the just same as any other lender. They look for profits. The 'green' deals allow them to get the loans they want while boosting their public image."

Fannie and Freddie have said the benefits of 'green' loans trickle down to tenants through lower utility bills, but those benefits are so far hard to see.

Developers have largely satisfied the 'green' loan mandate by reducing the use of water - a cost that is often paid by the building owner.

"The most commonly selected improvements are replacements for shower heads, kitchen aerators and bathroom aerators," Freddie Mac said in a recent report on its 'green' lending program.

The FHFA recently tightened 'green' loan rules so that landlords cannot just rely on reducing water use to qualify. Beginning this year, landlords will have to reduce both water and energy use by 15 percent to receive 'green' financing.

“We want developers to reach for significant energy savings and have those savings directly passed on to the tenant,” an FHFA official said in a recent interview.

But there is no guarantee that tenants will directly benefit from reduced energy use.

When it comes to conserving energy, Freddie Mac said, developers often install high-efficiency lighting first in common areas where they pay the costs themselves.

Fannie Mae said in a recent report that tenants in ‘green’ financed buildings should see their utilities bills reduced by 10 percent. Fannie declined to share the Ernst & Young study that it said substantiated that claim.

“Lower utility costs are crucial for families and individuals because energy and water bills account for a substantial share of the cost of living in rental housing,” said a Fannie spokesman.

Regulators will only know exactly who has benefitted from ‘green’ loans in the next year or two when developers have to report concrete numbers on conservation.

“We don’t have a total picture of actual energy and water savings yet,” said an FHFA official. “But we are dedicated to collecting this information and ensuring the (green) programs create savings for multifamily tenants.”

Nothing in the terms of ‘green’ loans requires landlords to pass savings onto tenants.

Fannie and Freddie have dodged scrutiny while they returned profits to taxpayers, but that could change as lawmakers are debating whether to privatize the companies.

"Fannie and Freddie have made money in the rental market so who wants to take issue?” said David Stevens, a former head of the Federal Housing Administration under President Barack Obama. “But some policy makers are asking whether taxpayers should be supporting high end apartments. We could hear that more and more as people debate the future of these companies.”