NATIONAL REAL ESTATE Investor

Green Gains Clout With Commercial Lenders

Matt Hudgins

Jul 1, 2008 12:00 PM

In San Francisco, Houston and across the country, a handful of community banks and some of the nation's largest lenders are discovering fertile ground for construction loans and mortgages targeting sustainable commercial real estate.

“In some markets it has become almost de rigueur that you're building to green standards if you're doing a Class-A product,” says Paul Brumbaum, senior vice president of environmental finance at Wells Fargo & Co. The San Francisco-based bank has provided more than $1.7 billion in construction and permanent financing for about 35 commercial projects that have pursued certification under the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program.

Wells Fargo's green-lending program stems from a growing interest in sustainability on the part of its customers. Office development projects launched in the last two or three years have garnered most of the bank's green loans. Anecdotal evidence suggests interest in green lending is growing nationally, according to Marc Heisterkamp, manager of corporate and investment real estate at the U.S. Green Building Council.

“About a year ago, the investment community really started to embrace green building, both new and existing operations,” he says. “With that came increased demand on insurance, finance, and appraisers to understand the unique nature of these projects and to see if they do have a financial benefit.”

Product vs. process

Wells Fargo considers a project's environmental design elements — including boosts to net income connected with energy savings — along with other factors in its standard underwriting. That provides consistency from green to non-green projects and is the typical approach large institutions use to ramp up loan volume for sustainable projects.

“They aren't necessarily following a separate financing track,” Heisterkamp explains, “but if green building enhances the financial viability of the project, their models can and should capture that benefit and possibly result in better financial terms for the borrower.”

Underwriters are learning that green design can enhance marketability as well as income, adds Clay Wilson, executive vice president for commercial real estate at BankUnited in Coral Gables, Fla. For example, net rent in a given office market may include $15 per sq. ft. in base rent and another $8 in common area costs, which are largely driven by energy and water consumption. “If you can lower that common area cost to $7 or $6 or $5, then pass that savings on to the tenant, the tenant will take your building over a non-green building where operating costs could be higher,” says Wilson.

Some community banks offer standard loan products with terms that favor green building. Those banks tend to be in markets where environmental concerns rank high, or where local building requirements foster enough green projects to merit special consideration.

San Francisco-based New Resource Bank offers qualifying green projects a generous loan-to-value ratio of perhaps 80% and a slightly better interest rate than it provides developers of conventional projects. “We provide projects that meet green leadership levels with lower interest rates and fees,” says Peter Liu, president of New Resource Bank. “This truly makes a difference to developers who build green.”

Green features alone won't suffice for a Wells Fargo loan, however. Based on experience through several real estate cycles, the lender evaluates commercial real estate deals based on the borrower's resources and track record more than it does on the project, Brumbaum says.

A growing niche

Green lending is still in its infancy because there are few sustainable multi-tenant buildings, according to Scott Muldavin, executive director of the Green Building Finance Consortium in San Rafael, Calif. “Even as recently as a few months ago, there was only a handful of small banks and no life companies that offered green mortgages,” says Muldavin.

Such indifference began to change this spring as demand increased for loans to finance sustainable investment and development. “Many larger banks and insurance companies have started to explore offering green mortgages,” he says.

A challenge for green finance is the ongoing struggle among appraisers and underwriters to put a dollar value on the benefits of sustainability, says Muldavin.

“The smaller lenders that have programs and the larger lenders that are planning programs are focusing on relatively incremental steps. That includes preferential review, quarter-point interest rate discounts, longer amortization and similar relatively small changes in return for LEED or EnergyStar certification,” Muldavin says.

This spring Houston-based Green Bank moved into a new 20,000 sq. ft. headquarters that is designed to earn the LEED gold certification. Houston banker Manny Mehos acquired Redstone Bank in 2006 and rebranded it to Green Bank, which launched in January 2007 with a focus on sustainability.

Today, Green Bank has $275 million in assets and is building a stable of environmentally minded companies and individuals, says Geoffrey Greenwade, president and CEO. “We're trying to educate our team members on identifying more green-oriented customers, be it recyclers or LEED-certified construction,” he says.

Customers seeking leverage for green development or acquisitions can depend on the bank to appreciate the technologies they plan to incorporate into their project, Greenwade says. “That's what we provide — a deeper understanding than a traditional bank.”

Wave of the future?

Elsewhere in Texas, a group of local business leaders and banking executives in Austin is forming One Earth Bank, a full-service community bank that will focus on sustainability. While the charter is pending, the concept is more evidence that green banking is a growth niche.

Liu maintains that green building is less a niche and more the leading edge of technology. “If it can be built economically,” he says, “it will be mainstream.”

Developers, landlords, tenants and lenders will soon see for the first time how green finance survives the bottom of a real estate cycle. Heisterkamp is curious to see how green projects will perform compared with conventional developments. “In a capital-constrained market, we may see that green projects are better financed,” he says. “I don't think we've seen that yet.”

Find this article at:
http://www.nreionline.com/brokernews/greenbuildingnews/real_estate_green_gains_clout_0701/index.html

☐ Check the box to include the list of links referenced in the article.