Rehabilitation and Energy Upgrades for Affordable Multifamily Units

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Green And Inclusive Corridors

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The U.S. renter share reached a total number of 43 million by 2013 (Harvard Kennedy School, 2013) and further demographic change will generate 4.7 million more renter households by 2023 (JCHS, 2014). Additionally, more than one third of all renters are cost-burdened, which means they spend 30% or more of their income on housing (CAN, 2013). Deterioration and default, especially in distressed neighborhoods, can cause the loss of affordable multifamily properties. In particular, many properties built during the 1960s through 1980s are physically deteriorated due to deferred capital improvements but owners have no or limited capital reserves (Khadduri & Wilkins, 2007; Wilkins, 2002). These trends create the need to preserve the existing affordable multifamily units and find suitable strategies to improve the conditions of the existing properties.

One strategy to preserve affordable multifamily properties is the implementation of utility efficiency programs. Utility efficiency programs for multifamily buildings vary significantly and range from simple incentives to comprehensive energy efficiency improvement programs that combine energy audits, contractor selection and oversight, financing from multiple sources, and post-retrofit review of actual energy savings (Engaging as Partners in Energy Efficiency, CNT Energy & ACEEE).

Based on the previous trends and issues our research question was:

What are the barriers and challenges to promoting energy efficiency upgrades in unsubsidized affordable multifamily properties?

A comprehensive literature review was conducted of energy efficiency programs in Austin and other cities uncovering national best practices and shared challenges. A series of lectures presented by guest speakers throughout the semester served as valuable source to understand the implementation of energy efficiency programs in Austin and other cities. These lectures allowed us to analyze which are the different barriers that each type of program faces when reaching affordable multifamily property owners.

Challenges to Energy Upgrades

Split Incentive
Energy cost savings are seen by residents, not the building owner. Other non-energy benefits can be communicated to owners, but some are difficult to quantify (e.g. maintenance cost savings), while others are benefits beyond an individual building owner (e.g. environmental and societal benefits).

Economies of Scale
The cost of energy improvements could be greater for properties with less units. Adjacent properties with the same owner could benefit from economies of scale.

Absence of Regulatory Systems
There is no regulation that requires existing residential buildings to be brought up to today’s energy efficiency standards. Costly renovation programs are created on a strictly voluntary basis, which results in most buildings remaining as they are.

Lack of Awareness
Building owners are usually unaware of the benefits (including non-energy benefits) of energy efficiency programs. However, marketing programs focused on non-energy benefits can be unconvincing due to insufficient information available regarding savings and benefits.

Financial Reasons
Upfront capital costs are usually lacking for small property owners nationally. Rebates usually only cover up to 50% of the project costs.

Selected Recommendations

Studies have shown that regardless of whether units are individually metered or paid by the owner, benefits of energy upgrades will not cover the full upfront costs of performing the retrofits. Large subsidies would be needed to keep rents affordable after a retrofit.

In the Austin market, some small property owners have expressed that upfront capital cost is not a major problem for them, but that other financial incentives such as property tax rebates would be helpful in ensuring affordable rents after retrofits. If small properties need upfront capital, CDFIs and nonprofits have provided low-interest loans in other cities.

Opportunities exist through the proposed Good Landlord Program and Green and Healthy Homes Initiative to provide incentives such as tax rebates to incentivize energy efficiency retrofits. However, any future policies should go beyond partial rebates to attract small, defacto affordable multifamily properties.

Future energy efficiency programs should also be structured to meet targeted sectors of the multifamily market. A program targeted toward large multifamily properties will likely look very different from one seeking small multifamily properties. Typologies segmenting the market should be created to build packages that work for the target market.

Different financial incentives could overcome the split incentive problem, as well as more public outreach and education regarding the ECAD audit and landlord disclosure. This is a powerful and underutilized tool to bring interest in energy efficiency to the real estate market.