

Multifamily Policy and Program Horizons, and the Implications for Energy Efficiency Finance

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Dollars; comfort; health: these are the benefits that energy efficiency and clean energy promise to deliver. The case for energy efficiency is especially poignant for low-income tenants in multifamily residences, who struggle with heavier energy cost burdens than in any other type of housing.¹ Yet, only small pockets of activity around the country have advanced multifamily energy efficiency in a meaningful way. In fact, even where local efforts have been successful, they operate in a policy and regulatory landscape that overwhelmingly caters to commercial properties or single-family homes.

Recent developments are signaling a shift in this landscape, powered in large part by innovative partnerships. The following national, state, local, and utility actions and collaborations show promise for furthering efforts to improve building performance, increase available resources, and ultimately help communities and tenants realize the benefits of energy efficiency for multifamily buildings. Importantly, they may remove barriers that have prevented many building owners from taking action on efficiency and enhance the ability of financial institutions to deliver financing to this market.

Advancing awareness of how multifamily buildings use energy: In September 2014, the U.S. Environmental Protection Agency (EPA) announced the new ENERGY STAR® score for multifamily buildings. The 1 - 100 standardized score provides building owners and tenants a simple way to assess their property's energy performance in comparison to similar buildings. High performing, energy-efficient multifamily buildings now have the opportunity to be certified ENERGY STAR®, a widely recognized national rating. The EPA and Fannie Mae, the major collaborators behind the multifamily ENERGY STAR® score, expect to see the kind of benefits that have been demonstrated in commercial and industrial buildings as a result of making energy efficiency more tangible and tractable for building owners. By making energy data easier to understand and more accessible, these efforts are likely to spur demand for energy efficiency among owners and tenants as well as encourage utilities to make whole-building data more accessible. According to a recent report, Fannie Mae also sees this as a win for investors and more generally, multifamily finance.² Fannie Mae, as part of its *Green Initiative*, will build on these efforts by disclosing the Source Energy Use Intensity (EUI) and ENERGY STAR® score for properties securing multifamily loans in several cities where energy performance data reporting is already required by the local government so that their investors can have greater insight into energy performance of multifamily buildings and the financial performance of associated loans. As energy consumption in multifamily buildings

¹ Benningfield Group. 2009. "U.S. Multifamily Energy Efficiency Potential by 2020. Benningfield Group. Folsom, CA.

² Fannie Mae. 2014. *Transforming Multifamily Housing: Fannie Mae's Green Initiative and ENERGY STAR® for Multifamily*. Fannie Mae. Washington, DC.

becomes more transparent, we expect these developments at the national level to support the growing market for investments in multifamily energy efficiency.

Designing investor-owned utility programs to better reach multifamily tenants: While multifamily buildings may be eligible for some commercial and residential efficiency programs, few ratepayer-funded efficiency programs are dedicated to multifamily housing. According to ACEEE, out of the 50 metropolitan areas with the largest multifamily housing markets, only 30 metropolitan areas have one or more customer-funded programs targeting multifamily buildings.³ Due to diverse and complicated ownership, financing, and utility structures, among other factors, program administrators typically deem the multifamily sector as “hard-to-reach” and subsequently, it is commonly overlooked.

Efforts in California, New York, Minnesota, and elsewhere are helping reverse this trend. In 2014 the California Public Utilities Commission (CPUC) passed program changes that will revise eligibility criteria for the largest statewide energy efficiency program for low-income households, Energy Savings Assistance (ESA), to ensure that multifamily buildings are eligible and participation is made easier for owners and tenants. As it stood, the sector was widely underserved by efficiency programs throughout the state. Under the program redesign state’s utilities will now offer whole-building incentives targeted at multifamily buildings and will improve outreach to multifamily building owners, or other key decision-makers. In addition, to overcome the confusion resulting from multifamily buildings being eligible for commercial and residential rebates, the CPUC is also requiring California’s IOUs to establish a single point of contact to simplify program participation for building owners. This is a reminder that regulatory policies and agencies can also ensure that programs are designed and marketed in ways to overcome the well-known barriers of traditional efficiency programs that face the multifamily sector.⁴

While California’s PUC is one of the few to mandate multifamily targets under its low-income requirements, several utility programs target multifamily properties within their existing multifamily energy efficiency programs. For example, in New York, NYSERDA offers income-eligible buildings higher incentives through its Multifamily Performance Program and in Minnesota, CenterPoint Energy offers higher rebates to property owners of low-income buildings through its commercial heating and hot-water rebate program. These and similar efforts on behalf of regulators and program administrators can ensure that utility programs are designed in such a way that accounts for unique challenges associated with many multifamily buildings.

³ Johnson, Kate and Eric Mackres. 2013. “Scaling up Multifamily Energy Efficiency Programs: A Metropolitan Area Assessment.” American Council for an Energy-Efficient Economy. Washington, DC. Accessed at: <http://www.aceee.org/research-report/e135>

⁴ For more information on the traditional barriers facing rate-payer funded multifamily efficiency programs, see Johnson, Kate. 2013. “Apartment Hunters: Programs Searching for Energy Savings in Multifamily Buildings. American Council for an Energy-Efficient Economy. Washington, DC. Accessed at: <http://www.aceee.org/research-report/e13n>.

Pushing the frontiers of multifamily efficiency in state policy and planning: Changing demographics, aging apartment stock, shifting homeowner and tenant preferences, and urbanization are increasingly putting multifamily energy use on the radar of state energy planners and policy makers. These dynamics have accelerated the search for policy tools and state-local partnerships to promote efficient and clean energy in multifamily housing. Correspondingly, states' efforts to pilot multifamily retrofit programs, energy codes, incentives, and exploration of innovative energy financing structures are heightening awareness of the range, cost-effectiveness, and technical feasibility of options to scale the multifamily energy efficiency market.

For instance, the state of Connecticut's activities in multifamily properties exemplify how coordination among state policies, plans, and programs can help facilitate the market and expand opportunities for clean energy. The state's 2013 Comprehensive Energy Strategy, signed by Governor Malloy and prepared by the Department of Energy and Environmental Protection (DEEP, Connecticut's State Energy Office), explicitly calls for the development of program tools promoting efficiency and alternative energy improvements in multifamily properties. It also recommends that DEEP work with utilities, financial institutions, and other organizations to coordinate and streamline financing and incentives to make efficiency improvements more affordable.⁵ Similarly, in 2014 Governor Malloy signed an executive order creating the Affordable Housing Energy Efficiency Program, targeting energy efficiency upgrades in multifamily properties owned by the Connecticut Housing Finance Authority (CHFA).⁶ This policy and planning framework has helped spur a partnership among CHFA, the Connecticut Green Bank, and the U.S. Department of Housing and Urban Development (HUD) and to engage multifamily building owners, support the finance of multifamily efficiency projects, and mitigate the split incentive barrier.

Beyond Connecticut and beyond building efficiency, broader state policy and planning directions have helped give more shape and momentum to the market for clean energy in multifamily properties. In Hawaii, for instance, the State Energy Office has initiated a multi-stakeholder process to develop the state's Transportation Planning Strategy, a significant emphasis of which includes the identification of financing and incentive structures to integrate electric vehicle charging capabilities in multi-unit dwellings, helping support Hawaii's ambitious petroleum reduction goals. In New Jersey, the Energy Resilience Bank was launched in 2014 to promote resiliency and minimize the impacts of future major power outages, with a focus on hardening critical infrastructure and enhancing distributed energy resource and microgrid technologies. Importantly, the Bank expects to explore potential financing products that increase the resilience of

⁵ Connecticut Department of Energy and Environmental Protection, "2013 Comprehensive Energy Strategy for Connecticut," February 2013, http://naseo.org/Data/Sites/1/documents/stateenergyplans/2013_ces_final.pdf.

⁶ State of Connecticut Executive Order No. 40, March 2014, http://www.governor.ct.gov/malloy/lib/malloy/EO_40_Affordable_Housing_Energy_Efficiency_Program.pdf.

multifamily housing and better integrate these properties into the state's electricity restoration and emergency response process.

The snapshot provided above underscores a growing consensus on the efficiency and clean energy potential of multifamily buildings, as well as a growing desire to act on this opportunity. The confluence of national, state, and local actions offers unprecedented opportunities for further coordination and resources for reaching multifamily building owners, thus creating a more conducive market for investing in energy efficiency. More importantly, as investments in energy efficiency grow, more building owners and their tenants will benefit from dollars saved and a healthier home.