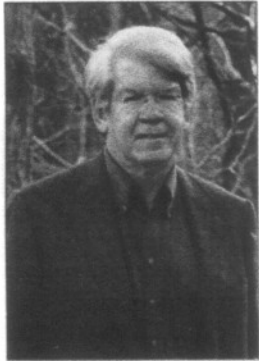


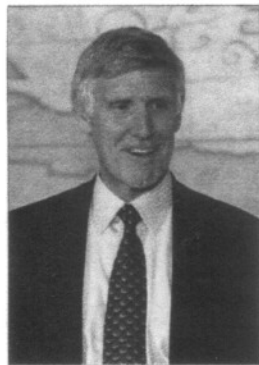
GUEST COMMENTARY

Energy Efficiency in Affordable Rental Housing: Getting Serious

BY BILL KELLY AND DOUG FOY



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The related issues of climate change and ballooning utility bills have become fashionable in the housing industry. While many builders are moving toward building green, greening new construction cannot be our primary response. Sixty-one percent of the residential units that will exist in 2030 have already been built, so to a great extent the buildings of the future already exist. The Department of Housing and Urban Development already spends, directly or indirectly, about \$5.3 billion on utility bills, and the tab is growing.

We know that modest investments in the buildings where we live can reduce carbon emissions and utility bills by as much as 20 percent or 30 percent. Yet those investments are being made in only a trivial percentage of affordable rental properties.

Most owners and lenders in our sector are reluctant to commit to renovating existing buildings. Why? Understandably, their lack of experience leaves them uncertain about the true cost savings of energy-efficiency renovations. Regulatory and subsidy complexities and perverse incentives between owners and renters break the link between investment and cost savings.

The 2005 Energy Policy Act enacted some energy-efficiency tax credits but failed to create effective incentives for efficiency in the country's vast stock of existing rental buildings.

Bluntly put, without incentives, energy-efficiency investment in existing affordable rental housing will at best stumble forward. Capital must be accessible and affordable to owners of properties stressed by high energy bills, and they must see a financial benefit to the property and to their bottom lines.

At Stewards of Affordable Housing for the Future (SAHF), we are working on four ideas to jump-start energy-efficiency investments. The first, a demonstration, would create an "energy difference" to be added to Sec. 8 project-based contracts where renovations would result in energy savings. The increase would cover all or part of the debt service on loans taken out to pay for energy-efficiency renovations. When the loans have been amortized, the "energy difference" would disappear, and thereafter Sec. 8 savings would

be split between the owner and the taxpayer.

The second approach would create a new energy-efficiency tax credit equal to a percentage of the cost of qualifying renovations. Like the low-income housing tax credit (LIHTC), the credit would be monetizable, drawing in capital from a range of sources. But unlike the LIHTC, the new credit would not be tied to new construction or substantial rehabilitation. Instead, the energy-efficiency improvements would be treated as a separate "bundle" of property, which could be independently financed and later reincorporated into the property's ownership structure through options. The credit would incentivize owners to act now rather than wait 10 or 20 years until a property undergoes substantial rehabilitation.

The third approach would provide full or partial federal guarantees of pooled loans to lower interest rates, speed amortization, build a database, and provide a model for the financial sector. Much as Federal Housing Administration insurance launched the 30-year amortizing home mortgage by removing lender uncertainty, guarantees of pools of energy-efficiency loans would launch widespread lending to the affordable rental sector.

The fourth approach moves to the state level. In the 1990s, many states created public benefit funds to address the high cost of energy. Few of those funds have been used for existing rental properties, but there have been some first steps. New York's public benefit fund supports the New York State Energy Research and Development Authority, producing rate reductions of up to 400 basis points on loans supporting energy-efficiency renovation. Creative, leveraged use of public benefit funds could produce far greater carbon and utility bill reductions than do current uses of those funds.

Each of these approaches takes on the same daunting fact: High energy costs will be an ever greater burden on preservation owners and low-income renters. Existing rental buildings should be seen as a renewable, not a disposable, resource. Every day that we emit more carbon and waste money on utility bills, we suffer permanent effects. The time to act is now. ■

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