

# Regional Housing Legal Services

## Issue Brief 11-1: The Case for Targeting Energy Efficiency Improvements in Subsidized Multifamily Properties and Low-Income Communities

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## Summary

The housing market is a critical target for advocates and policy-makers focused on reducing energy consumption. While there are areas in the energy efficiency industry that affect all market segments, such as a dearth of adequate financing mechanisms, those problems are tightly tied up with or rely on first solving the issue of consumer demand. One of the key challenges with the housing market is that it is fragmented, requiring significant education and outreach to convince households to invest in energy efficient measures. At the same time, this fragmentation makes it harder to create the standardization which is needed to accelerate implementation.

There are, however, segments of the housing market that are more consolidated and organized and therefore more likely to be able to quickly adopt and spread new practices and technologies such as energy efficiency. Subsidized multifamily properties and low-income communities, in addition to being configured in a way that facilitates adoption of new technologies, also have strong vested interests in the benefits that can come from energy efficiency. These market segments are also supported by a strong network of advocates who are working to facilitate resident and owner understanding of the need for energy efficiency and to encourage these communities to adopt energy efficiency measures.

The purpose of this Issue Brief is to outline the potential for energy efficiency to move to scale in the subsidized multifamily and low-income communities. These households have some of the greatest need for weatherization and energy efficiency services. The properties tend to, at least in urban areas, exist in relatively close geographic proximity, making it easier to target them for outreach. The clustered nature of the properties also has potential to create real economies of scale. In addition, the owners in these two groups are part of social networks that could provide the necessary technical support to help them navigate the existing administrative, regulatory, and financial obstacles.

## Energy Efficiency Potential in the Housing Market

Housing accounts for nearly a quarter of all energy consumption in the United States.<sup>1</sup> Given the significant size of this market, it must be a key part of any serious national effort to reduce energy consumption. There are a myriad of reasons to reduce energy consumption in the US. However, for community advocates, a key benefit of energy efficiency efforts is the financial savings to households. According to a report from the White House's Middle Class Task Force and Council on Environmental Quality, home energy efficiency improvements could reduce home energy bills by as much as \$21 billion each year.<sup>2</sup> The energy savings should help stabilize households, which will help stabilize neighborhoods.

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<sup>1</sup> Residential Sector: Homes & Appliances, American Council for an Energy-Efficient Economy, <http://www.aceee.org/portal/residential> (last visited Dec. 26, 2011).

<sup>2</sup> *Recovery Through Retrofit*, White House Task Force on the Middle Class and White House Council on Environmental Quality, 1 (Oct. 2009), [http://www.whitehouse.gov/assets/documents/Recovery\\_Through\\_Retrofit\\_Final\\_Report.pdf](http://www.whitehouse.gov/assets/documents/Recovery_Through_Retrofit_Final_Report.pdf).

There is also significant job creation potential. “A report on a German residential energy efficiency initiative showed more than 140,000 jobs were saved or created in retrofitting 200,000 homes.”<sup>3</sup> Similarly, “DOE estimates that every \$1 million invested in weatherization programs creates 52 low-income community jobs.”<sup>4</sup>

The biggest challenge to large-scale adoption of energy efficiency measures within the residential market is that it is spread out among millions of individuals, each needing to be reached and convinced to take the often confusing steps to increase energy efficiency. As with other segments, there are challenges with financing and data, but without clear demand from the residential market, financing mechanisms are unlikely to be developed or, if they are, they will not be widely used.

By focusing efforts on subsidized multifamily housing and low-income communities, the obstacles related to outreach are significantly lower than focusing on non-subsidized housing which tends to lack the cohesive factors discussed above. Therefore, focusing on subsidized multifamily housing and low-income communities is likely to increase the rate of energy efficiency improvement adoption more significantly than if advocates focused on the non-subsidized segment.

### Subsidized Properties

Subsidized properties are those properties that are able to offer reduced rents to tenants through some combination of federal, state, or local subsidies. Five million households get rent subsidies or live in project subsidized properties.<sup>5</sup> These properties are typically rental properties.

Once major category of subsidized properties are those financed through the Low-Income Housing Tax Credit (LIHTC) program. LIHTC units are a significant portion of the federal inventory of subsidized properties; representing nearly all of the “newly created very low-income rental units.”<sup>6</sup> The LIHTC program has produced at least 1.9 million apartments.<sup>7</sup>

While these units are newer than the HUD-assisted housing stock, a significant number of LIHTCs units were placed in service at least 15 years ago.<sup>8</sup> The age of the properties means that there is significant potential for energy savings. The energy efficiency savings potential for LIHTC is estimated at more than 3,000 GWH and 167 million therms.<sup>9</sup> “[I]t is clear that with

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<sup>3</sup> Stockton Williams, Bringing Home the Benefits of Energy Efficiency to Low-Income Households: The Case for a National Commitment, Enterprise Community Partners, Inc., 10 (2008), <http://www.practitionerresources.org/cache/documents/663/66381.pdf>.

<sup>4</sup> *Id.*

<sup>5</sup> Addendum Report: U.S. Multifamily Housing Stock Energy Efficiency Potential, Benningfield Group, Inc., 2 (April 9, 2010), <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAA&url=http%3A%2F%2Fwww.livingcities.org%2Frelated%2Fdownloads%2F%3Fid%3D8&ei=GOT4TtOdLcjy0gGak8mXAg&usg=AFQjCNF5C1u-yIcly26-xx8bMAkkeyV4RQ>.

<sup>6</sup> Williams, *supra* note 3, at 4.

<sup>7</sup> Addendum Report, *supra* note 5, at 4.

<sup>8</sup> *Id.* at 4-5.

<sup>9</sup> *Id.* at 7.

proper investment and incentives, assisted housing is a prime source of energy savings and greenhouse gas reductions.”<sup>10</sup>

One of the known benefits of focusing on multifamily properties is the potential to achieve economies of scale due to the close proximity of many units and often very similar, if not identical, layouts and equipment. But, subsidized multifamily buildings have an additional benefit – a relatively small number of owners or managers are connected with subsidized multifamily properties.

For example, doing a cursory review of the LIHTC properties listed in the HUD LIHTC database, it appears that by convincing the 25 LIHTC contacts with the largest number of units to make energy efficiency improvements, you could reach approximately 35% of Pennsylvania’s LIHTC stock (approximately 14,800 units).<sup>11</sup>

These LIHTC projects all also have tight relationships with the state LIHTC allocating agency. The LIHTC allocating agency awarded the tax credits and perform ongoing compliance reviews. The allocating agency can take the lead in educating property developers and managers about the need and opportunity for energy efficiency. In addition, where regulatory barriers remain, the state allocating agencies can made excellent advocates for federal policy change.

Another benefit of targeting this segment of the housing market is that there is strong self-interest among owners and managers to keep costs low and, at least where the owners are nonprofits, to ensure the stability of the families in the units. Owners of LIHTCs are very likely, so long as there are not countervailing regulations or perverse incentives, to take the steps needed to increase the energy efficiency of their properties. Similarly, the LIHTC allocating agencies are often motivated to help bring energy efficiency measures to the LIHTC projects as a way to reduce operating costs and preserve the long-term affordability of the properties.

### Low-Income Communities

Another segment with significant need for energy efficiency improvement is the low-income, non-subsidized housing segment. These homeowners tend to live in older homes. These older homes tend to be less energy efficient. “For example, homes in the Northeast built prior to 1970 use 30 percent more energy per square foot than homes built since 1990.”<sup>12</sup>

This portion of the population is least able to afford high utility bills, but are the most likely to be impacted by rising energy costs. “Home energy costs have increased much faster than incomes for very low-income households in recent years, rising 33 percent since 1998. Families eligible

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<sup>10</sup> Charlie Harak, Up the Chimney: How HUD’s Inaction Costs Taxpayers Millions and Drives Up Utility Bills for Low-Income Families, National Consumer Law Center, 10 (Aug. 26, 2010), [http://www.nclc.org/images/pdf/pr-reports/up\\_the\\_chimney\\_082610.pdf](http://www.nclc.org/images/pdf/pr-reports/up_the_chimney_082610.pdf).

<sup>11</sup> A review of HUD’s LIHTC database (available at <http://lihtc.huduser.org/>) on December 26, 2011 shows 1,468 projects with 42,836 units. The top 25 contacts have a total of 14,810 units among them (almost 35% of the total LIHTC stock in Pennsylvania).

<sup>12</sup> Williams, *supra* note 3, at 8.

for federal home energy assistance spend one-fifth of their income on home energy bills – six times more than the level other income groups spend.”<sup>13</sup>

High utility costs in low-income households result in families having to make impossible choices.

A survey of households that received federal home energy assistance over a five-year period found that 47 percent went without medical care, 25 percent failed to fully pay their rent or mortgage and 20 percent went without food for at least one day as a result of home energy costs.<sup>14</sup>

There is also evidence that inability to pay utility bills which leads to the utility being shut off often results in abandonment of the home.<sup>15</sup> Home abandonment has a variety of serious consequences not only for the former resident, but for their neighbors.

There are several challenges in targeting low-income homeowners for energy efficiency improvements. First, they typically have relatively little if any money to finance energy efficiency improvements. Second, they are often suspicious of people who bring them a “great deal”. Third, homeowners are unaware of the possibility of making relatively limited investments that can significantly reduce their energy bills.

Many of the challenges to bringing energy efficiency to low-income communities are also present in higher income communities. Challenges that straddle most income brackets include lack of cash to make the improvements and lack of awareness of the possibilities. But, there are some unique opportunities to overcome those challenges in low-income communities.

First, there are a number of programs at the federal, state, and local levels that provide funding for free energy efficiency work. While the spike in Weatherization Assistance Program funding has ended, there are scores of utility-funded programs in states throughout the country. These programs, if coordinated with other resources (including the remaining WAP funding) could help to make significant impact in households – significantly reducing the amount that the homeowners or other funders need to pay for improvements.

Another major opportunity comes from the fact that in most urban areas in the US, low-income households are clustered into limited geographic areas. While this economic segregation is problematic in many aspects, it makes outreach easier. In many of these areas there are long-standing high performing community-based organizations with relationships in the community. These community-based organizations are the perfect partners for performing outreach and

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<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> See Energy Coordinating Agency and Institute for Public Policy Studies of Temple University, *An Examination of the Relationship Between Utility Terminations, Housing Abandonment, and Homelessness: Preliminary Findings*, (June 1991), See also Press Release, Pennsylvania Utility Commission, .PUC Urges Consumers: Call Now to Restore Utility Service as Report Shows 17,475 Homes Without Heat-Related Utility Service, an Additional 2,559 Use Potentially Unsafe Heat (Dec. 19, 2011), [http://www.puc.state.pa.us/general/press\\_releases/Press\\_Releases.aspx?ShowPR=2901](http://www.puc.state.pa.us/general/press_releases/Press_Releases.aspx?ShowPR=2901).

education about the need for energy efficiency improvements. They also have the staffing, knowledge, and skill to help remove the barriers that prevent residents of low-income communities from accessing the available free and low-cost energy efficiency resources.

Third, the clustering of low-income households also presents real possibilities for capturing economies of scale, which will further extend the value of the dollars invested.

Low-income communities are filled with households with very serious needs to contain their utility costs. At the same time, many low-income communities have been hard hit by both the housing crisis and the unemployment crisis. Bringing energy efficiency work to scale in these neighborhoods could address both issues.

A national commitment to increase energy efficiency of the homes of our nation's lowest-income citizens would significantly reduce energy use and carbon dioxide (CO<sub>2</sub>) emissions. At the same time, it would create conventional as well as "green" job opportunities. Large-scale efforts could also help stabilize neighborhoods hard hit by high concentrations of home foreclosures.<sup>16</sup>

## Conclusion

Expanding energy efficiency measures to the residential market will significantly decrease energy consumption, increase economic activity and jobs, help preserve existing investments in affordable housing, and stabilize household budgets.

One of the primary obstacles to scaling energy efficiency work is creating demand. By targeting subsidized multifamily properties, you reduce the number of initial targets but reach a very significant number of households. In addition, most of these owners are highly sophisticated and understand the economics of energy improvements. These owners, with the right regulatory framework in place and access to reasonable financing, are likely to be eager participants in energy efficiency improvements.

Similarly, targeting low-income communities allows local community-based organizations to draw upon their relationships in the community to build demand and help homeowners understand and combine the existing fragmented resources. The community-based organizations can also use their strengths in providing education, training, and facilitating access to resources while also helping them further their missions of improving the quality of life in their targeted neighborhoods. There are already programs at place at the federal, state, and local level that are targeted at low-income households. These programs provide free or low-cost energy efficiency assistance, but many households are not familiar with the programs or may need assistance in navigating the programs or successfully combining multiple programs. Community-based organizations can facilitate adoption at scale on the local level, which will help to decrease costs and increase the speed of implementation.

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<sup>16</sup> Williams, *supra* note 3, at 3.

These two sub-markets have serious need and unusual characteristics that make them prime targets for significant energy efficiency expansion. After reaching critical mass in these two sub-markets, the industry should have the additional data needed to support additional financing mechanisms and spread energy efficiency improvements to market rate housing.

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