



ENERGY **TRANSPARENCY** IN THE **MULTIFAMILY HOUSING** SECTOR

Assessing Energy Benchmarking and Disclosure Policies

ANDREA KRUKOWSKI

| ANDREW C. BURR

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IMT
Institute
for Market
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On the cover: The Dempsey Apartments is a new 80-unit affordable housing development in Harlem, sponsored by the Phipps Houses Group and West Harlem Group Assistance. The project is participating in the NYSERDA Multifamily Performance Program and incorporates sustainable features including a well-insulated and well-sealed envelope, energy efficient lighting and mechanical equipment, and ENERGY STAR appliances.

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Andrea Krukowski
Andrew C. Burr

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Executive Summary

Mirroring recent trends in other real estate sectors, the multifamily housing sector is subject to an increasing number of rules and regulations related to energy-performance benchmarking and performance disclosure. State and local governments are moving rapidly to institutionalize benchmarking and make energy-performance information available in the real estate marketplace, while major lending institutions are taking initial steps to factor building energy performance into financial products.

The goal of these new rules is to enable transparent building energy-performance information to drive energy efficiency improvements in multifamily housing that lower energy bills for residents; contribute to greater local housing affordability; and create new jobs and services related to energy efficiency. Many multifamily owners and operators have never benchmarked the energy performance of their buildings, while other parties – including state, local, and federal policymakers, tenants, utilities, and lenders – have little or no access to building energy-performance information that can help shape real estate decisions or inform the development of policies, incentives, and financial vehicles to advance energy efficiency. This critical shortage of information about building energy performance has prevented property markets from valuing energy efficiency and severely undermined both public and private efforts to increase the energy efficiency of multifamily housing.

While energy benchmarking and disclosure policies are an innovative approach to overcome energy-performance information gaps in the multifamily sector, several challenges must be addressed. The multifamily sector is fragmented and resists a one-size-fits-all approach, ranging from low-income public housing to luxury properties, all with varied sources of public and private financing. Policies must reflect and accommodate the diversity of both the building stock and its stakeholders. In many cases, underlying barriers continue to limit the ability of many multifamily owners to conduct benchmarking and other energy-performance assessment measures.

This report is intended to serve as a guide for policymakers and multifamily stakeholders on benchmarking and disclosure rules and regulations. It provides an introduction to the multifamily housing sector, followed by a thorough review of existing benchmarking and disclosure policies and an assessment of continuing policy challenges and opportunities.

Policy Overview: Benchmarking and Disclosure in the Multifamily Sector

Benchmarking and disclosure is a market-based policy tool to overcome informational gaps that limit energy efficiency awareness and investment. As its name implies, benchmarking and disclosure policy has two key elements: A requirement to comparatively assess the energy performance of a property (a process known as benchmarking), and a requirement to make energy performance metrics available in the marketplace. The goal of benchmarking and disclosure policies is to drive and sustain market-based demand and competition for energy-efficient buildings by making energy-performance information universally available and accessible to property owners, tenants, investors, lenders, and other parties.

Over the past decade, benchmarking and disclosure policies have emerged around the world as a key strategy to address energy performance in the existing buildings sector, where most building energy efficiency opportunities are found. Since 2001, major policies have been adopted by the European Union, China, and Australia.

In the United States, two states (California and Washington) and five major cities (Austin, New York, Philadelphia, San Francisco, and Seattle) plus the District of Columbia have adopted benchmarking and disclosure requirements for privately owned buildings, four of which apply to the multifamily housing sector. Those policies, in Austin, New York City, Seattle, and the District of Columbia, combine to cover approximately 13,400 multifamily properties totaling more than 1.3 million housing units and 1.8 billion square feet of space – almost half of the total space covered to date under all benchmarking and disclosure policies.

Key Findings

This report finds that benchmarking and disclosure policies display significant potential to overcome many primary barriers to energy efficiency in the existing multifamily housing stock, and that best practices in policy design and implementation are rapidly emerging. Cities that have adopted policies are gaining important knowledge and experience that is already informing the development of new policies. However, the multifamily sector presents unique challenges in the application of benchmarking and disclosure requirements, many of which have not been fully addressed. Continued policy evolution and improvement is critical to overcome remaining

challenges and ensure policies are effectively promoting energy efficiency.

Key findings of this report include the following:

- 1. Policy best practices are emerging as leading cities gain knowledge and experience in policy design and implementation.** This “policy pathway” can help guide the development of new policies and includes the following key concepts:
 - **Ensure building owners have access to energy-consumption data for benchmarking.** Utilities, regulators, policymakers, and real estate leaders should work together prior to policy adoption to ensure that benchmarking requirements are accompanied by whole-building energy consumption data accessibility measures from utilities that support an owner’s ability to conduct benchmarking.
 - **Focus initially on large buildings.** Policies should initially apply only to larger multifamily housing properties, which are better positioned to comply with policy requirements. Policymakers should analyze the composition and ownership structures of the local multifamily housing stock to determine specific building-size thresholds. Most existing policies initially apply only to multifamily buildings larger than 20,000 square feet. Success with this subset of buildings should increase the likelihood of achieving success with smaller properties.
 - **Establish an industry advisory group.** Policymakers should establish a small working group comprised of key representatives from the private sector to provide important guidance and feedback on implementation activities. Ideally, this group should include five to ten individuals representing the real estate, utility, and financial sectors, including representatives from different segments of the multifamily sector. Representatives from the financial sector can provide guidance on key opportunities related to multifamily benchmarking data that may enable their use of data in lending practices and policies.

- **Develop robust stakeholder outreach and benchmarking training activities.** Policymakers should anticipate that to achieve policy goals, multifamily stakeholders may need more time to comply with benchmarking requirements and a robust public education and benchmarking training program during implementation. Stakeholder resources should include live informational and training sessions and a dedicated benchmarking help center to assist stakeholders with compliance.
 - **Establish robust data quality assurance measures.** Policymakers should establish robust quality assurance measures prior to policy implementation to ensure market confidence in benchmarking data integrity is high. Such measures may include a combination of data audits, third-party verification, and penalties for submitting inaccurate benchmarking data.
2. **Policies can help close the data gap in the multifamily housing industry.** Benchmarking and disclosure policies have significant potential to help address data barriers that have undermined energy efficiency efforts in the multifamily sector. Very little data on the actual energy performance of multifamily properties is currently available, making the benefits of energy efficiency improvements difficult to quantify and weakening efforts to design energy efficiency incentive and financing products. The adoption of benchmarking and disclosure policies is overcoming these barriers by making data more transparent, giving government policymakers, utilities, and lenders the ability to design and deploy new policies, incentives, and financial products that advance energy efficiency efforts.

As a result of New York City's benchmarking and disclosure policy, city officials received benchmarking data on nearly 900 million square feet of multifamily space in 2011, data that can inform future policy decisions. Large utilities in Massachusetts, California, and other states are already using benchmarking data to target energy efficiency incentives and rebates to certain customers. In the financial services sector, Deutsche Bank Americas Foundation recently identified potential benefits to lenders that consider building energy performance in loan underwriting, and Fannie Mae, the nation's largest multifamily mortgage

investor, is now requiring benchmarking and energy audits in its Green Physical Needs Assessment, a prerequisite for loan applicants to Fannie Mae's Green Refinance Plus mortgage product.

Additionally, most existing benchmarking and disclosure policies were accompanied by measures enabling multifamily owners to gain access to whole-building energy-consumption data directly from local utilities, allowing many of them to assess the energy performance of their buildings for the first time.

3. Energy disclosures can be improved. Determining the most effective disclosure methods for multifamily energy-performance data will maximize the ability of policies to advance energy efficiency within the sector. While the public disclosure of benchmarking data is one effective conduit to deploy information, policymakers should consider other disclosure conduits and options that are more tailored to the needs of residential tenants and the multifamily sector in general:

- **Integration with listing services.** As with single-family housing energy disclosures, one of the most effective information conduits for renters is listing services. Integrating energy-performance data into listing services would ensure that information reaches renters early in the rental process.
- **Integrated public and direct disclosures.** While jurisdictions have adopted either public or direct disclosure requirements, a more effective strategy may be to adopt both. A disclosure regime that integrates public disclosure with requirements to disclose information directly to transactional counterparties and existing tenants has greater potential to impact the market.
- **Consumer-friendly metrics.** Particularly for residential renters, it is significant that energy-performance data disclosures be simple and compelling, similar to fuel economy stickers on vehicles and nutritional labels on food. At present, the lack of an ENERGY STAR 1-to-100 energy-performance score for multifamily buildings negatively impacts the value of the disclosure. In place of the performance score (currently under development), several jurisdictions are requiring the disclosure of each

building's energy use intensity (EUI), a numeric metric measured on a per square foot basis. While the EUI has value for building operators, its impact on consumers is expected to be limited. One option policymakers should consider for the multifamily sector is a monthly cost-based metric, similar to the information contained in Austin's "Energy Guide" disclosure within its multifamily energy disclosure program.

- 4. Policy customization may be beneficial for affordable housing.** Policymakers should consider customizing policy provisions to meet the needs of affordable housing, which displays characteristics that sets it apart from typical market rate housing. For example, whereas market rate tenants may consider energy-performance information before leasing a property, low-income tenants are much less likely to be impacted by that type of disclosure, because they receive utility allowances or are subject to waiting lists for public housing, or other factors. In those cases, energy disclosures to HUD may be more impactful.

Additionally, the difference in operating budgets between owners of government-assisted housing and market-rate housing may be significant. The owners of government-assisted housing that receive a benchmarking score may not have available capital to implement even low-cost improvements. Austin and New York City allow waivers for owners demonstrating financial hardship with more capital-intensive requirements, such as audits, retrocommissioning, or submetering. But rather than simply exempt these properties, policymakers should explore the use of subsidies or other financial assistance to assist owners with financial hardship, enabling them to conduct measures that may result in energy and financial savings.

- 5. Other opportunities exist to integrate benchmarking and disclosure.** Benchmarking and disclosure requirements may be embedded within the multifamily housing sector in ways other than legislative policies. The U.S. Department of Housing and Urban Development should consider requiring benchmarking and the disclosure of benchmarking data for all government-assisted properties, and state housing agencies should consider integrating ongoing benchmarking requirements into qualified allocation plans (QAPs) that determine tax credit allocations. Building on Fannie Mae's integration of benchmarking and other energy performance assessment measures into its Green Refinance Plus program,

multifamily lenders (including GSEs) should consider integrating energy performance into loan underwriting as a risk mitigation strategy.

The goal of these new rules is to enable transparent building energy performance information to drive energy efficiency improvements in multifamily housing. Many multifamily owners and operators have never benchmarked the energy performance of their buildings, while other parties – including state, local and federal policymakers, tenants, utilities and lenders – have little or no access to building energy performance information that can help shape real estate decisions or inform the development of policies, incentives and financial vehicles to advance energy efficiency. This critical shortage of information about building energy performance has prevented property markets from valuing energy efficiency and severely undermined both public and private efforts to increase the energy efficiency of multifamily housing.

While energy benchmarking and disclosure policies are an innovative approach to overcome energy performance information gaps in the multifamily sector, several challenges must be addressed. The multifamily sector is fragmented and diverse, ranging from low-income public housing to luxury trophy properties with varied sources of public and private financing, and resists a one-size-fits-all approach. Policies must reflect the needs of diverse stakeholders. In many cases, underlying barriers continue to limit the ability of many multifamily owners to conduct benchmarking and other energy performance assessment measures.

This report is intended to serve as a guide for policymakers and multifamily stakeholders on benchmarking and disclosure rules and regulations. It provides an introduction to the multifamily housing sector, followed by a thorough review of existing benchmarking and disclosure policies and an assessment of continuing policy challenges and opportunities.