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Within Our Reach

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Executive Summary

The incoming Obama administration is poised to join with the 111^{th} Congress on an ambitious agenda of reducing energy consumption, curbing greenhouse gas emissions, and creating a viable green jobs sector. To achieve these goals, we cannot afford to ignore housing, in particular the currently existing affordable housing. Our proposal, "Green Affordable Housing: Within Our Reach," shows that:

- Greening our 6 million existing units of affordable rental housing offers important fiscal, economic, and environmental gains.
- Without certain policy changes our nation is unlikely to see investment in green improvements by private owners of federally subsidized housing and public housing authorities.
- If properly targeted, green retrofitting can create an expansion of job opportunities and help bring disadvantaged groups into an expanding pathway to opportunity.
- These investments can spur a green renovation industry with best practices and technologies applicable in the non-subsidized market.

In short, affordable housing, consisting of almost 6 million apartments (nearly 17 percent of the nation's 35 million rental units), is federally assisted in some way and thus open to clearly targeted green policies. Much of this housing is at least 20 years old, with more than 65 percent of public housing stock built before 1970. Construction of these federally assisted properties predated today's green technologies. A targeted emphasis on energy conservation means they are prime candidates for necessary renovation work that will generate significant energy and CO_2 reductions.

Furthermore, current federal government annual spending on affordable housing energy costs is approximately $5 billion, according to a recent Government Accountability Office report, yet the government can increase energy efficiency by 25 percent to 40 percent through rehabilitation work that is relatively inexpensive—at an estimated cost of just $2,500 to $5,000 per unit. Once upgrades are completed, savings are locked in for the long term. Spending today on a large scale to retrofit millions of units stimulates construction activity, creates jobs, and produces better-quality housing and long-term energy cost reductions.

Policy changes can promote investment in green improvements

While the economic and other benefits of widespread retrofitting are compelling, a welter of existing rules and policies inhibit green retrofitting by private and public owners of affordable housing. Our proposal details areas for policy changes that incentivize and enable the green transformation of affordable housing, including:

- **Decreasing energy costs by increasing cash flow to owners.** Department of Housing and Urban Development programs generally limit distributions of net cash flow from affordable housing operations to an amount that is not more than 10 percent of the private owner's initial equity investment—a percentage fixed decades ago—and are even more restrictive for non-profit organization owners. Generally, there is no exception from profit distribution limitations even when cost savings are generated from a green retrofit. That means owners have no economic incentive to implement energy-saving measures. To create such an incentive, we propose a "green dividend" to provide an annual return on the cost of green improvements funded from reduced energy costs.

- **Drawing capital for renovations from existing reserves.** Energy conservation improvements require up-front capital. Mature HUD-assisted properties have few sources of capital for renovations beyond normal maintenance and capital replacements. We detail the need for clearer guidance to encourage the use of so-called Reserves for Replacement, and also propose allowing the use of existing Residual Receipts trapped in thousands of reserve accounts for green retrofits.

- **Advancing additional private capital for improvements.** More ambitious green retrofits involving significant capital outlays may require policies that attract private capital or additional public appropriations. Existing rules and regulations tend to tightly limit additional affordable housing project debt and discourage lender interest. Such rules and regulations need to be overhauled to stimulate green investment.

- **Installing improvements owned by third parties.** Certain models for funding capital-intensive green improvements, such as rooftop solar equipment, involve an investment by a third party that owns the improvement and locates it on the owner's building by way of a perpetual easement or a lease. Current limits on such arrangements need to be reconsidered and revised to encourage the expansion of energy-savings improvements.

- **Entering energy agreements with third parties.** Privately owned, HUD-subsidized properties suffer from a so-called split-incentives problem—owners who finance energy conservation measures often do not benefit from reduced utility costs. The split incentives problem adds to market barriers to energy performance contracting, in which third parties are engaged to implement energy conservation measures paid for by savings in energy costs. Where utility savings do not accrue to owners under HUD program rules, we need to develop subsidy reforms or new subsidies so that energy conservation benefits flow in part to owners and provide appropriate savings incentives for tenants.

- **Policy changes for Public Housing Authorities.** HUD already encourages the use of energy performance contracting by PHAs, but many barriers exist to its widespread use. HUD should consider how best to remove those barriers and investigate alternatives to energy performance contracting that would provide similar benefits at a greater return to PHAs, their tenants, and HUD.

Greening assisted housing as market stimulus

Knowledge gained from green rehabilitation of the types of older buildings characteristic of the 6 million HUD-assisted housing units can create "best practices" for similar unsubsidized buildings. Moreover, HUD affects a sufficiently large number of units to produce demand for workers and products on a scale to stimulate development of a green renovation industry. Early action by HUD on green retrofitting can boost green workforce development and training through recognized federal programs such as YouthBuild and other national service programs, as well as fulfill a longstanding mandate to promote local economic development and improvement and individual self-sufficiency for low- or very-low income residents in connection with projects and activities in their neighborhoods.

About the Author

David M. Abromowitz is a Senior Fellow at American Progress, focusing on housing policy and related federal and state programs and issues. A partner in the law firm Goulston & Storrs, he is nationally known for expertise in housing and economic development, over the past 25 years working on projects around the country involving housing and historic tax credit investment, HUD-assisted housing, public housing revitalization, assisted living, community land trusts, shared-equity homeownership, multifamily rental housing development, planned homeownership communities, and other multilayered public/private projects.

Abromowitz is a past chair and founding member of both the Lawyers' Clearinghouse on Affordable Housing and Homelessness and of the American Bar Association's Forum Committee on Affordable Housing and Community Development. He is a board member of the National Housing and Rehabilitation Association, and a member of the Multifamily Leadership Board of the National Association of Home Builders. In 2004 he was awarded the Trailblazer award of the National Economic Development and Law Center of Oakland, California, and in 2007 he was honored by the Fair Housing Center of Boston.

Abromowitz co-chaired the Housing Policy Working Group of then Governor-elect Deval Patrick (D-MA) and has served on other housing advisory groups for public officials, such as Mayor Tom Menino of Boston's advisory task force during his first term. He serves on a number of charitable boards, including YouthBuild USA, The Equity Trust, Jewish Community Housing for the Elderly, and B'nai B'rith New England.

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