



Retrofitting Foreclosed Homes: A Matter of Public Trust

How to Protect U.S. Taxpayers by Upgrading Federally
Owned Housing for Greater Resale Value While Giving
a Lift to Our Economy

Bracken Hendricks and Adam James April 2012

Introduction

This past February Fannie Mae initiated a pilot program in six of the hardest-hit metropolitan areas to offer pools of repossessed homes to eligible investors looking to rent them out.¹ The need for this program sprung out of the two mortgage finance giants Fannie Mae and Freddie Mac—both currently in government conservatorship—collectively owning about 179,000 foreclosed homes, mostly from mortgages they insured or securitized before the housing bubble burst several years ago. Unfortunately, only a small subset of these foreclosed properties are in good enough shape and in strong enough markets to be sold directly to families looking for a place to call home. For the rest, low home prices and weak demand for owner-occupied homes mean that selling hundreds of thousands of them into that market will depress prices for a long time to come.

This pilot program followed most of the recommendations we made in an earlier paper, where we argued for a process we call “rehab-to-rent.”² In this process a portion of these properties are removed from the glutted for-sale market and converted into affordable rental units. Yet the pilot program did not include a consideration of retrofit strategy as a part of the bidding process because those properties were occupied.³ This issue brief argues that bidders should present a strategy for retrofitting properties where it is cost effective, including labor provisions and proof of capacity to ensure quality of work. Here, we look at the wise economics of retrofitting some of these homes so they are made more energy efficient before being rented out, which would:

- Boost the value of the homes when federal government agencies eventually sell the properties
- Spur hiring in local construction markets in the meantime
- Help renters pay less for energy and more for other goods and services in their communities

How would this work? The Federal Housing Finance Agency, an independent agency that regulates the activities of Fannie Mae and Freddie Mac, could allow the two mortgage finance giants to sell a portion of their large portfolios of foreclosed homes to investors who would partner with them when appropriate to create a pool of energy-efficient rental housing that the federal government could eventually sell alongside their private-sector partners. We argue that the Federal Housing Finance Agency should capitalize on the rehab-to-rent process to promote more energy-efficient housing for renters and boost the long-term value of these properties for U.S. taxpayers.

Moving these properties back into private ownership over the long term through a so called “disposition strategy” is the core function of the Federal Housing Finance Agency. To that end, the agency has put forward the idea that they should conduct a disposition strategy that reduces taxpayer losses and stabilizes neighborhood and home values.⁴ In evaluating bidders for portfolios of these properties, the agency already boasts a set of criteria which applicants must meet in order to qualify for consideration—a procedure that could easily be modified to include criteria allowing property managers to present a plan for how they will make energy-efficient retrofits to those properties when doing so is cost effective.

This requirement is crucial to meeting the Federal Housing Finance Agency’s dual mandate, succinctly expressed by its acting director, Edward J. DeMarco, as an objective to both “reduce taxpayer losses” and “stabilize neighborhoods and home values.”⁵ His agency can do just that enabling Fannie and Freddie through an energy-efficient rehab-to-rent program. In this issue brief we show the real and calculable net benefits to performing cost-effective energy retrofits to federally owned foreclosed homes and we demonstrate why the Federal Housing Finance Agency should seize this opportunity to protect the public interest and realize its dual mandates by:

- Reviewing energy retrofit strategies from future bidders for appropriate foreclosed properties—strategies that consider the capacity to perform the retrofits and include key labor provisions to boost good-paying jobs in these communities
- Considering public-private joint-venture structures in the future sales of these homes so that taxpayers profit from the upside of the retrofitting

We demonstrate that energy savings create real and substantial value in both reducing taxpayer losses—or more positively by maximizing taxpayer returns—and in stabilizing housing values and neighborhoods.

But the ability to capture these benefits for taxpayers will be possible only if the Federal Housing Finance Agency pursues joint-venture structures that allow taxpayers to profit from the operational savings that result from retrofits, and certainly profit when the energy-efficient homes are eventually sold when market conditions are better and the

communities they are in are more prosperous. If taxpayers are to profit from the sale of a more valuable property down the line they must have some ownership stake.

Likewise, if taxpayers are to reap the benefits of operational savings, they must have access to revenue streams as property managers. Additionally, the strategies outlined here will promote the solvency of Fannie and Freddie over the long term by diverting homes from the sales inventory into other productive uses such as generating rental income.

But retrofits also compellingly advance the Federal Housing Finance Agency's larger public purpose of stabilizing neighborhoods and home values. In addition to keeping these properties off the for-sale market, energy retrofits make properties more affordable for tenants, reduce tenant turnover, and create jobs within local communities. By increasing affordability, tenant retention, and assessed property values, energy retrofits uniquely provide neighborhood and home-value stabilization.

These public-good benefits should not be glossed over. The benefits of creating energy-efficient housing stock are both global and local, from improving housing access and affordability, to creating good jobs, to reducing dependence on foreign oil and offsetting climate change. The case study contained in this issue brief makes clear that the Federal Housing Finance Agency should not ignore the tremendous benefits of joint ventures and cost-effective energy retrofits in the course of both future pilots and the broader disposition strategy for this backlog of homes currently held in public ownership.

Below we provide detailed analysis to show that it is in the public interest to use energy retrofits to gain maximum total returns for taxpayers from the foreclosed homes owned by Fannie and Freddie, and to encourage ownership structures that allow taxpayers to participate in the upside when the value of these properties increases.

An energy retrofit strategy is crucial to meeting the dual mandate of the Federal Housing Finance Agency

The acid test for any strategy to move these homes to market is the agency's dual mandate to maximize returns to taxpayers and stabilize home values. The disposition process is a unique opportunity on both of these fronts because the agency can put forth guidelines on what bidders can present for evaluation as part of participating in the purchase of these homes.

Currently these guidelines vet bidders for certain characteristics, such as financial solvency, because without meeting those criteria, ensuring returns and stabilization would be impossible. We argue that performing energy-efficient retrofits is a clear-cut way to meet this dual mandate, and therefore should be considered at the front end of the bidding process.

There are two conditions that frame this case for retrofits. First, the Federal Housing Finance Agency has the capacity to enter into some of these transactions as a partner in a joint-venture structure. This enables the taxpayer, via the agency, to maintain a financial stake in the properties. Second, the added cost of undertaking an energy retrofit at the time when investors are already making capital improvements to ensure the safety or rehabilitation of the properties is small compared to the increased economic value it will generate. (There is also a strong case to be made for performing retrofits in situations where the property is sold outright instead of a joint venture, or if no rehabilitation occurs, but this issue brief restricts its scope to circumstances where these conditions are met.)

During the disposition process the Federal Housing Finance Agency and the taxpayers it serves will be best protected by the decision to consider entering into joint ventures, and give consideration to property managers who present a plan in the bidding process to perform energy-efficient retrofits where appropriate. This provides both an avenue for taxpayers to access value and the mechanism for creating that value.

Below, we will detail how exactly this mechanism works, and how it relates to the agency's mandate. Specifically, we argue that energy retrofits:

- Maximize returns in the case of joint ventures both incrementally through decreased operating costs or increased property competitiveness, and terminally upon sale of the property as a higher-quality asset
- Stabilize neighborhood and home values by holding these homes off the for-sale market, increasing the affordability of the property through decreased utility costs, and employing local laborers to stimulate regional economies.

Unfortunately, to date the Federal Housing Finance Agency has focused too strongly on minimizing near-term costs for taxpayers without looking at the total costs and foregone benefits for citizens. While the rapid sale of foreclosed homes does indeed move these assets off the government books, it can also destabilize housing markets, weakening the value of Fannie and Freddie's larger mortgage portfolio, sacrificing future opportunities for taxpayers to benefit when markets recover, and creating a massive wealth transfer from the public trust to private investors.

Real success means seeing the bigger picture. This is why the Federal Housing Finance Agency must consider the net value of the housing stock in the context of the broader market if they are to succeed in meeting either, or both, parts of its mandate. The lens for looking at bidders should include these longer-term considerations if the taxpayers are truly going to make good on their investment. American taxpayers, who have held a stake in these homes at considerable risk, should be provided with the opportunity to participate in the up side of their value creation instead of just facilitating a value transfer.

Maximizing returns: Retrofits increase property values and generate revenue

Performing energy-efficient retrofits on homes creates returns for taxpayers in two ways when Fannie or Freddie maintains some ownership stake. First, retrofits increase the underlying value of the property, which means that taxpayers profit at the point of sale. Second, property managers can either increase the competitiveness of the property for tenants by offering lower utility costs or creatively structure leases that internalize reduced utility costs depending on the types of properties for rent. Both these options allow taxpayers, through a joint-venture structure, to participate in the ongoing benefits from energy savings and their end game.

Of course, energy efficiency creates real economic value in U.S. housing markets overall. Efficient measures are as much investments in the underlying value of property as installing granite countertops and hardwood floors, and efficiency not only improves resale values but also offers improved profitability and reduced costs of ownership. Improvements to homes in the form of thermostats, insulation, and mechanical-system upgrades all increase the underlying value of the property, reduce operating costs, and where rental properties are concerned, enhance the net operating income or reduces the total operating cost of the investment property.

In the case of real estate owned by Fannie and Freddie as a result of foreclosure, taxpayers will in certain situations receive the greatest value by maintaining a stake in the long-term value of these homes through joint ventures instead of cashing in on bulk sale of housing portfolios. Taxpayers are rewarded by profiting from the eventual sale of more valuable properties into a stronger future housing market, realizing a double win.

The effect of energy-efficient retrofits on resale value is measurable and significant. A comprehensive upgrade has been shown to increase property values by as much as \$40,000 after five years in the context of a small multiunit apartment building.⁶ Specific retrofit measures (including low-flow shower heads, efficient water heaters, efficient lighting, weather stripping, and attic insulation) have likewise been demonstrated to provide an increased net value of more than \$5,000 apiece over five years.⁷ These economic benefits mean that a deep retrofit package can double the total profitability of a property over a five-year holding period.

Performing work on multiunit apartments and scattered-site single family home rentals obviously present different cost formulas because the utility considerations and physical layout of the buildings are different. Still, the multiunit example provides an important measure for the core value proposition that retrofits increase the underlying value of the property by showing the affect these investments can have in translating decreased operating costs into increased property value.

Retrofits also create value by lowering operating costs. This value accrues over time to property managers, and therefore to taxpayers, in several different scenarios. The property manager could advertise the lower utility costs of the apartment, increasing the competitiveness of the property in the rental market. This competitive edge could in turn translate to marginally higher rents, which can be proportional to projected savings to create a scenario where tenants still save more than moving into a comparable property without retrofits. To illustrate: A tenant could pay an increase of \$50 more in rent, but save \$60 in energy costs every month. The tenant's net savings would be \$10 a month, but the property manager would still capture reimbursement for their capital investment in the property.

Another possibility is that the property manager could internalize utility costs by including them in rent. This way, the monthly energy savings would go directly to the manager, allowing them to take advantage of the impressive payback periods from installing different efficiency measures. This approach would make more sense in small multifamily rental properties. To encourage tenants' responsibility with conserving energy, the lease agreement could be structured to include a reasonable price cap based on projected energy consumption for the home, over which the landlord wouldn't be obligated to pay. This way, tenants can take advantage of an energy-efficient home, which often boasts higher quality systems, while being held accountable to energy conservation.

All things being equal, both these scenarios should create increased affordability for tenants because the properties have lower operating costs. The ancillary benefits of increased affordability will be discussed in the next section.

By the time these homes make it to the for-sale market they will have significantly increased their profitability either through landlords recouping benefits of operational savings and through greater affordability for tenants. In either case the economic value will be enhanced and residential property investment returns show that improved cash flow translates into greater underlying asset value and improved pricing. This approach improves the quality of that property when reintroduced into the for-sale market place in the future, creating greater public value and healthier markets for future sales of other foreclosed homes in the portfolios of Fannie and Freddie.

Stabilizing home and neighborhood values: Retrofits increase affordability, employ local labor, and spur local economies

Energy retrofits are also an essential tool for protecting taxpayer value in the context of stabilizing neighborhood and home values in the broader market. Lower utility costs from retrofits directly reduce tenants' energy bills, thus improving their ability to meet their monthly housing payments while increasing the quality of their home. This protects tenants from fluctuating energy prices and also protects property managers by reducing transaction costs associated with vacancies and collections. Additionally, renters can spend

their investment dollars on goods and services within the local economy instead of spending them on energy bills, creating improved local economic development outcomes.

Prioritizing an energy retrofit strategy in the bidding process for foreclosed Fannie and Freddie homes would also shift the focus to a different type of investor, biasing against short-term speculators by filtering for candidates who understand the value of a long-term investment in residential real estate. There are significant advantages for retrofitting and holding properties. Property managers who plan for this are qualitatively different from speculators who seek short-term profits at the taxpayers' expense. Some bidders with a long-term interest in community stability, such as Greenlet Investments LLC, based in Bellaire, Texas, also often provide services for their tenants such as financial counseling, which improves the overall rental market over time.

There is no doubt that these practices are for the public good: more responsible tenants keep finances and budgets under control instead of being funneled away to creditors. Also, this will directly translate to the type of bidding that occurs when long-term investors are willing to pay more for an asset understanding its full market potential as opposed to just flipping property to get it off the books. With long-term investors, taxpayers benefit both directly at the time of sale and also indirectly through the creation of stable markets stocked with high-quality homes and responsible tenants.

Creating the right conditions: Joint venture and marginal additional costs

With joint-venture structures, taxpayers can recoup the long-term value created from reduced operating cost when energy retrofits are part of the equation. In addition, when a property manager has to rehabilitate a home anyway, retrofits make even more sense because the marginal cost is very low. Together, these benefits are compelling, and taxpayers risk foregoing them without the Federal Housing Finance Agency encouraging bidders to present a plan for undertaking retrofits as part of the disposition of these assets.

Joint venture, as used here, is a broad category implying the Federal Housing Finance Agency would undertake a partnership with a property investment management company. In this partnership Fannie and Freddie would contribute title to the property. In exchange a partner or partners would cover the cost of all rehabilitations and retrofit work. There are many possible approaches to disposing government-controlled foreclosed homes, finding a tenant, and managing the rental property throughout a hold period of, say, five years. The partner retains most of the rental income, possibly remitting a percentage back to Fannie or Freddie. This could take the form of a series of payments that are predetermined or related to the appreciation of rents in the neighborhood.

For their part Fannie and Freddie get an improved asset to sell at more than the current value at the end of the hold period, along with the ability to closely monitor the property and assert control over it if the joint-venture partners don't perform as expected. And

taxpayers in the community get a tenanted, improved property that doesn't sell for a period of years, lowering property turnover and permitting the market to recover.

Furthermore, because Fannie and Freddie are not interested in long-term property management, the partner has the opportunity to purchase the property outright at a point where the home is more valuable in the for-sale market, which translates into direct benefit for taxpayers. This is not to say that joint ventures are always the appropriate option, but that there are times where preventing portfolios of homes from hitting the market to begin with would greatly assist in stabilization overall and also provide the potential to increase returns for taxpayers.

Fair labor provisions also ensure that more profitable housing is created through retrofit contracts. Ensuring that the quality of work being performed is up to par is important for truly capturing operational savings, ensuring that homes are tenanted, and decreasing risk for the Federal Housing Finance Agency (and thus taxpayers) in joint-venture arrangements. Indeed, our analysis of the five "hardest-hit" cities identified by the Federal Housing Finance Agency for pilot program showed:

- The 10-year savings in operating expenses averaged \$6,406 per home
- The payback period for the added cost of retrofit averaged 6.14 months

In future pilot programs bidders should present a strategy for how they will retrofit homes where appropriate in order to capture these benefits to the taxpayer and increase overall neighborhood stabilization. Now let's turn to our detailed analysis.

Using retrofits to capture operational savings: A case study

Comprehensive energy efficiency retrofits can capture the full potential value of foreclosed homes owned by Fannie and Freddie where rehabilitation is necessary. There are measurable and verifiable net benefits from retrofits that we can quantify using the average home in each of the existing jurisdictions of the pilot disposition project launched in February by the Federal Housing Finance Agency. The benefits are substantial across the entire portfolio of foreclosed properties owned by the two mortgage finance giants, but the future opportunity to realize these net savings will be lost unless action is taken at the portfolio level during future pilot programs and once the disposition process begins.

The agency's February pilot program was launched in some of the "hardest-hit metropolitan areas" to begin testing the disposition process. This case study examines sample homes in five out of the six areas to assess the potential returns from a comprehensive retrofit program.

Methodology and Assumptions

Traditionally, energy retrofits are classed by payback period—how long it takes to break even on the initial investment through energy savings. Rehabilitation fundamentally changes the cost calculation for this payback because an investment is already being made in the property and acquiring homes at the portfolio level helps property managers achieve economies of scale when purchasing materials and hiring workers to do the retrofits. Yet property owners are used to equating initial capital investment with total capital costs in determining payback periods. In other words, property investment managers compare the *total amount* on the check they are writing against *projected savings* when sorting out payback periods.

This approach is flawed in cases where homes are already in need of rehabilitation because rental property are choosing between upgrading to an energy-efficient retrofit or a cheaper alternative—not replacing something that works with something new. In economic terms this means the calculation should really be based on the *marginal additional cost* of the retrofit, not the *total capital cost*.

Why does it matter? Because in order to calculate the payback for the retrofit, you now consider how long it takes to recoup an entirely different number. For instance, a property owner purchases a home that requires a new thermostat as part of its rehabilitation. The cheapest thermostat costs \$100, whereas a “smart” thermostat costs \$250. The “smart” thermostat will save \$10 a month in energy costs. To justify the extra expense of a smart thermostat, the property owner needs to recoup the *extra* \$150 dollars he spends on it, which will take 15 months. If no rehabilitation were needed, the property manager would have to recoup a \$250 capital investment for replacing a working thermostat, which would take 25 months.

Combining this calculation of the incremental cost of upgrading to the most energy-efficient retrofits with the advantages of economies of scale, it is clearly possible and profitable for rental property owners to retrofit multiple properties. This allows them to buy products in bulk, which takes a bite out of the sometimes intimidating capital costs for goods such as high-quality insulation, super-efficient heating, ventilation and air conditioning systems, and energy-management technology such as those smart thermostats. When factoring in the marginal additional cost argument, the economies of scale are even more persuasive because property owners can evaluate payback on bulk payments. A discounted order of 1,000 thermostats will pay itself off quicker than just one, although the labor and tools would have the same marginal efficiencies.

To assess these marginal additional costs, we examined the average home within five of the six “hardest-hit” pilot areas using the Department of Energy’s Home Energy Saver tool.⁸ The purpose is to quantify the decrease in the total energy operating costs from a comprehensive retrofit against a case where only basic rehabilitation was performed.

What percentage of these savings gets passed along to the property owner versus the tenant obviously depends on the structure of the rental agreement. Also, because each home is unique, this analysis does not indicate which retrofit improvements should be implemented on any given home but rather shows that choosing a cost-effective basket of retrofit strategies will have a net positive impact on the cash flow of these rental properties over the long term.

Key findings

The average energy savings over 10 years for a single home in our analysis is \$6,406, and that value rises exponentially as you consider larger portfolios of homes that would be available for upgrade with the bulk sale of Fannie- and Freddie-owned foreclosed homes under the Federal Housing Finance Agency’s rehab-to-rent program. These savings are apparent across different geographical regions in our analysis. (see Figure 1)

FIGURE 1

Energy retrofits produce real savings over time

The value of clean energy retrofits versus traditional rehabilitation in five cities where federal rehab-to-rent pilot programs are now in operation

	Yearly energy costs (rehab only)	Yearly energy savings from retrofit	Marginal additional cost of retrofit	Payback period in months for marginal cost	10-year savings with retrofit
Las Vegas	\$2,008	\$736	\$472	7.5	\$6,888
Chicago	\$1,922	\$734	\$417	6.8	\$6,923
Miami	\$1,613	\$476	\$232	4.8	\$4,528
Los Angeles	\$1,163	\$382	\$168	4.3	\$7,542
Phoenix	\$1,987	\$693	\$507	7.3	\$6,423

Source: Author’s calculations.

As Figure 1 shows, there are significant net benefits for average homes in all representative zip codes for every pilot city in five of the hardest-hit metropolitan areas. The first two columns show information that should be common knowledge to most property managers. But the third column reveals a number that is new and crucial for cost calculations—the added cost of doing retrofit in addition to rehabilitation in the home. As the data in the fourth column shows, the added cost is recouped through less than eight months of energy savings in all pilot cases.

The final column show how Fannie and Freddie and its joint-venture partners in the private sector can profit from the 10-year savings delivered by energy retrofits. By investing in energy-efficient retrofits the joint-venture partners will have established a track record of energy savings that will accrue to the new owners of the properties when they are sold. This will boost the value of the properties, especially if Fannie and Freddie sell to their joint-venture partners, who have already realized a major portion of the cumulative

investments in the energy retrofits. To be sure, not all of these savings will go to Fannie and Freddie in every case, but in a joint venture there is the potential for those benefits to accrue to the taxpayer depending on how the arrangement is structured.

Of course, every home does not need rehabilitation and must be evaluated on a property-by-property basis. But this exercise proves that performing cost-effective retrofits generates large amounts of real value in each of the areas considered. It is in the best interest of the taxpayers for potential bidders to present a strategy for addressing and capturing this value while under consideration by the Federal Housing Finance Agency when it expands its ongoing rehab-to-rent program.

Using retrofit provisions to improve job quality outcomes

Energy retrofits also create more and better jobs, which further benefit community stability. Including responsible contracting provisions on skills, job quality, and local hiring for energy-efficient retrofits can also play a central part in enhancing the long-term community benefits realized through a retrofit strategy. Retrofit work is almost exclusively done by local construction workers to install largely domestically manufactured products. These are two industries that were hit especially hard by the economic downturn.

To ensure that rehab-to-rent leads to job creation in the communities hit hardest by the foreclosure crisis, the federal government can favor investors with a retrofit workforce comprised primarily of local employees earning family-supporting wages and benefits. Using local workers and promoting investment in contractors who pay their employees well stimulates local business, boosts production and manufacturing, and helping contractors pay their bills.

We offer several thoughts on a framework for further maximizing the long-term public value of nurturing a stable, skilled, and middle-class workforce through rehab-to-rent programs. The following framework offers a set of measures that can help achieve good jobs at good wages for energy retrofits done through this federal program.

Certification of energy-efficiency employees

If energy-efficiency measures are to achieve the cost savings intended it is vital that the workers installing these measures are properly trained. A recent McKinsey study reported, “Contractors install some 90 percent of HVAC equipment and insulation suboptimally, reducing efficiency by 20 to 30 percent.” They recommend a federally facilitated certification program for heating, ventilation, and air conditioning systems to “overcome the barrier of homeowner risk and uncertainty.”⁹

The accreditation of training programs such as those of recognized industry experts—among them the Building Performance Institute and the Laborers’ International Union—should follow the forthcoming Department of Energy protocols for efficiency-personnel training. These skills certifications ensure that workers are properly trained in energy-efficiency practices to ensure that jobs are done to the highest standards and the economic benefits of energy savings are ultimately realized by property owners and tenants. Such a certification will offer a measure of investor-risk mitigation and will also help strengthen the value of the department’s energy-certification program generally.

Local job creation

Communities hit hardest by home foreclosures are generally those most in need of economic development through jobs and reinvestment. A policy framework that offers incentives for creating jobs in these neighborhoods will spur a virtuous cycle of reinvestment in local housing markets that will in turn raise the long-term value of rental housing assets for investors.

Locally targeted job creation can best be achieved by using the capacity of existing labor in these communities, since local community organizations are ideally suited to prescreen job seekers and partnerships with union training centers create viable career pathways with connections to employers. This is why we recommend that the investment partners in any Federal Housing Finance Agency energy-retrofit program incentivize the hiring of local workforces for at least 50 percent of any new hires.

Proper classification of employees

Construction, especially in the residential sector, is an industry plagued with the improper classification of workers as “independent contractors” when they serve in all aspects as regular employees. Such an illegal misclassification¹⁰ is used by employers to avoid paying costs for workers, such as payroll taxes, unemployment insurance, and health care contributions where mandated by state law.¹¹

Misclassification is commonly associated with poor performance standards and lack of investment in training. The use of contracting standards in this program would require that contractors strictly comply with their legal obligations to properly classify workers. This measure would provide further benefits by helping to improve the long-term structure of residential construction labor markets.

Responsible contractor policies

The Home Star Energy Retrofit Act of 2010 (H.R. 5019)—passed by the House of Representatives but blocked in the Senate—offers an example of a light-touch

framework for a quality-assurance program that incorporates appropriate worker-certification standards for all energy-efficient retrofits under our proposed program. In order to ensure quality performance of all work undertaken in the program, the Federal Housing Finance Agency should require participating investors in the rehab-to-rent energy-retrofit program to adopt best practice industry standards for audit, inspection, and work performance, at least comparable to the Quality Assurance Framework in the Home Star Energy Retrofit Act.

Conclusion

In this issue brief we have argued that the Federal Housing Finance Agency should consider plans for cost-effective, energy-efficient retrofits in the bidding process. Retrofitting these properties, where appropriate, would enable the Federal Housing Finance Agency to meet their dual mandate of maximizing returns to taxpayers and stabilizing neighborhood and home values.

Pursuing joint-venture structures on retrofitted properties enables taxpayers to participate in the aggregated savings from this program as well as the upside at the point of sale. The increased assessed property value, tenant retention, and affordability ensure neighborhood and home-value stabilization in communities hit hard by the home foreclosure crisis. Additionally, a framework for effectively engaging skilled local labor can protect workers, investors, and homeowners and ensure not only the creation of good jobs but also the quality of work and the realization of anticipated energy cost savings, all of which is in the taxpayers' interest.

We have demonstrated in our analysis the real and calculable net benefits to performing cost-effective energy retrofits to foreclosed homes owned by Fannie and Freddie. This is why we urge the Federal Housing Finance Agency to seize this chance to create more energy-efficient rental homes while maximizing value to taxpayers and maintaining a greater public good by requiring retrofit strategies from future bidders. In Fannie Mae's pilot series, the average savings on operating expenses for properties were \$6,406 per home and the average payback was 6.14 months. According to our analysis, the business case for the taxpayer is too good to ignore.

Indeed, if well managed, these assets can create wealth and help create strong and stable communities and allow taxpayers to participate in the benefits of the upside of this economic recovery. It is now incumbent on the Federal Housing Finance Agency to take advantage of these opportunities offered from cost-effective energy-efficiency retrofits and rebuild the housing market while improving the quality of life for thousands of Americans who will live in and work on these homes.

Bracken Hendricks is a Senior Fellow at the Center for American Progress. Adam James is a Special Assitant with the Energy Policy team at the Center.

Endnotes

- 1 Federal Housing Finance Agency, "FHFA Announces Pilot REO Property Sales in Hardest-Hit Areas," Press release, February 27, 2012, available at <http://www.fhfa.gov/webfiles/23403/REOPR22712F.pdf>.
- 2 Alon Cohen and others, "Rehab-to-Rent Can Help Hard-Hit Communities and Our Economy" (Washington: Center for American Progress, 2012)
- 3 Alon Cohen and John Griffith, "Scoring Fannie Mae's 'Rehab-to-Rent' Pilots" (Washington: Center for American Progress, 2012)
- 4 David Abromowitz and others, "RE: Reponse to Federal Housing Finance Agency Request for Information, Enterprise/FHA REO Asset Disposition" (Washington: Center for American Progress, 2011)
- 5 Federal Housing Finance Agency, "FHFA Announces Pilot REO Property Sales in Hardest-Hit Areas."
- 6 Evan Mills, "Amplifying Real Estate Value through Energy & Water Management: From ESCO to 'Energy Services Partner'" (Washington: Lawrence Berkeley National Laboratory: 2004)
- 7 Mills, "Amplifying Real Estate Value through Energy & Water Management: From ESCO to 'Energy Services Partner.'"
- 8 A representative zip code for each region was used to inform the Home Energy Saver tool. Zip codes used are: Las Vegas—89109; Chicago—60634; Miami—33177; Los Angeles—90044; and Phoenix—85024. "Home Energy Saver" available at <http://homeenergysaver.lbl.gov/consumer/>.
- 9 McKinsey and Company, "Unlocking Energy Efficiency in the US Economy" (2009).
- 10 Françoise Carre, "The Social and Economic Costs of Employee Misclassification in Construction" (Construction Policy Research Center: 2004).