Conserve to Preserve

Illinois Housing Development Authority

Rental Housing: Multifamily Management

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Background

The Illinois Housing Development Authority (IHDA) has historically recognized that a commitment to sustainability and energy efficiency is complementary to its mission. Efficiency upgrades help to improve the long-term financial viability of the state's affordable housing stock, preserve affordability for families who need cost savings the most, and offer documented health benefits for residents and neighbors. Over the years we have encouraged greening at every stage of the development life cycle, beginning with financing, leading to construction and continuing with operations and long-term maintenance. However, despite the reported benefits of energy efficiency improvements – including increased cash flow and greater tenant stability – many property owners are reluctant to make efficiency measures.

More specifically, while IHDA has seen success with incentives that encourage the incorporation of energy efficient features or systems features in the financing and new development stages, it has been more challenging to sell the benefits of sustainability improvements for existing buildings. As we worked with our management partners, we found this to be partly the result of the upfront costs of making energy retrofits to existing buildings. Affordable housing providers run on very thin margins even under ideal circumstances, and routine maintenance needs often take priority.

Just as often, however, we discovered that a lack of reliable data about energy use and the long-term benefits of retrofits was just as great of an obstacle that caused many property managers to miss opportunities for efficiency improvements. It became clear that additional guidance and support would be needed to help housing providers understand their utility costs, approach efficiency improvements from an informed perspective, and access the resources necessary to recoup the upfront costs of efficiency upgrades.

Making Retrofits Make Sense

IHDA's Asset Management department collects a multitude of data points annually from its 1,300+ active properties for compliance monitoring. This data yields valuable information on various trends, including utility costs, but historically was not shared further beyond the department. However, as high and increasing utility costs have had significant impacts on operating budgets in IHDA-financed properties across the state, this data became increasingly valuable.

Towards this end, IHDA collected data on water, electric and gas use as it translates into monthly costs at all IHDA-assisted properties. IHDA analyzed this monthly utility cost data over a three-year period and identified 25 property owners and managers whose properties' utility costs trended towards the high cost range compared to similar-sized properties in the remainder of their own portfolio as well as the broader group of IHDA-assisted properties.

With the target group identified, IHDA formed new partnerships with Elevate Energy (a local energy benchmarking organization), ComEd (a local electric utility provider) and Slipstream (a ComEd-contracted benchmarking organization) to achieve several shared goals:

1. Share data and snapshots of utility costs on an individual property and aggregate property portfolio by property owner/manager agency basis to illustrate trends in usage and costs over time, help property owners/managers understand these trends, and see how they compare relatively with peer properties and portfolios.

2. Conduct demonstrations of Energy Star Portfolio Manager software for improved collection/analysis of utility costs.

3. Present and market free and low-cost resources, including free energy audits provided by Elevate Energy, to help properties with energy benchmarking and reducing their water, gas, and/or electric consumption/costs.

The utility cost data is invaluable to aid property owners in understanding whether their costs are reasonable given property size, type, geography and tenant population. At the individual property level, these snapshots and trends spotlight potential billing errors as well as leakage or other maintenance issues. At the portfolio level, they give management agencies a realistic assessment of how much they could potentially save from energy improvements. Importantly, they also illustrate what accounts for the majority of their energy use so they can better target their upgrades as they pursue energy benchmarking and efficiency resources. This project also laid the groundwork for similar innovative partnerships and external provision of internal data for improved decision-making and cost savings.

Why Now?

There is a critical need for sustainability and energy efficiency in multifamily housing. The Census reports that over 70 percent of all renter-occupied units in Illinois were built before 1980 and 42 percent were built before 1960. Nationally, 57 percent of all renter-occupied housing was built before 1980, and 29 percent before 1960.[i] Many of these properties lack features that are energy efficient, environmentally conscious, cost saving, and health preserving that can be seen in newer construction properties today.

Effective Use of Resources

Furthermore, investments in sustainability, whether in development, operation or maintenance, improve the performance and long-term viability of a significant public investment. IHDA has invested $10.9 billion in state, federal and leveraged housing resources for the creation or preservation of 152,600 units of multifamily rental housing since 1967.[ii] Housing finance agencies (HFAs) across the country have collectively financed 2.9 million low and moderate-income apartments over the past 50+ years.[iii] HFAs play a central role in the nation's affordable housing finance system, and thus have an opportunity to promote sustainable practices on a wide scale through the allocation of state and federal resources.

Weighing the Costs and Benefits

Despite the upfront costs, energy efficiency upgrades offer returns through improved building conditions and lower operating and maintenance costs, which in turn frees up resources that can be reinvested into the building over the long term. A Fannie Mae survey of annual energy performance found the least efficient multifamily properties use over three times as much energy and six times as much water per square foot as the most efficient properties.[iv] This leaves room for substantial savings from energy efficiency improvements.

A study sponsored by Deutsche Bank found that after energy retrofits, properties experienced savings of 19 percent in fuel costs and 7 percent in electricity bills.[v] Property owners also reported fewer vacancies and more timely rent payments.

Most importantly, efficiency improvements provide financial and health benefits to residents who need them most. For low- and moderate-income families who already struggle with a housing cost burden, increasing energy costs only exacerbate this issue. But when residents spend less on utilities, they are more stable, less likely to move, and better equipped to pay other essential expenses like healthcare, groceries and education. Reducing energy costs is an effective way to ensure housing remains affordable to residents. Finally, the National Center for Healthy Housing cites several health benefits of going green, including improved respiratory health for residents in housing built or retrofitted to green building features, better ventilation resulting in less mold and mildew, and natural lighting improving mental health.

Results

Although it is still early, this initiative has produced positive results, and many property owners are using the data provided to inform decisions regarding key efficiency features. Historically, approximately half of the IHDA-assisted developments that take advantage of the free energy efficiency assessments provided by Elevate Energy elected to have some type of energy efficiency measure installed. The most common efficiency measures installed are roof cavity insulation and air sealing, with other measures including the installation of energy efficient appliances, lighting retrofits, energy efficient systems upgrades (i.e. hot water and furnace replacements), and low-flow shower heads. Moving forward, IHDA will continue to work in partnership with Elevate, ComEd and Slipstream to identify projects that report year-over-year increases in utility costs and help owners understand their trends in more detail than utility bills alone will allow.

IHDA's goal was to provide clear and accurate data, education and guidance for property owners as they work to improve the quality and sustainability of their rental communities on behalf of renters throughout Illinois. Through innovative partnerships and new applications of existing data, IHDA has been able to achieve this while reducing related costs in affordable housing properties with narrow budgets.

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[i] U.S. Census Bureau, 2018 American Community Survey 5-year Estimates: Physical Housing Characteristics for Occupied Housing.
[ii] IHDA Fiscal Year 2019 Annual Report
[iii] National Council of State Housing Agencies – About HFAs
[iv] Transforming Multifamily Housing: Fannie Mae's Green Initiative and Energy Star for Multifamily
[v] Deutsche Bank – Recognizing the Benefits of Energy Efficiency in Multifamily Underwriting