



To Promote Cleaner Energy and Cheaper Rents, Realign Building Incentives

Nancy Biberman November 13th, 2008

Rent-stabilized affordable housing could well be the next casualty of the faltering economy. The economic tsunami flooding the country has already begun to erode the foundations of housing affordability in New York City:

- Last June, the city's Rent Guidelines Board enacted the largest rent increases in rent-stabilized housing in two decades.
- Expiring Mitchell-Lama and Section 8 buildings are entering the open market at whatever rents a landlord can collect.
- Predatory equity is on the rise: after quietly acquiring hundreds of rent-regulated apartment buildings by private firms over the last several years, private firms are promising investors returns that can only be achieved by deregulating apartments through tenant vacancy—often by outright harassment.
- Some Low Income Housing Tax Credit syndicators estimate that, due to the credit crunch, the number of affordable housing deals will halve by next year.
- The number of families in the shelter system is at a new all-time high, with today's residents arriving after leaving apartments they can no longer afford.
- Out of this grim picture, however, there are some nuggets of opportunity.

The city and state can reduce tenants' financial burden and in the process reduce the city's carbon footprint by requiring multi-family rental property owners to retrofit buildings for energy efficiency. A first step toward this requirement is to re-align the incentives around building investments and rent increases.

Investing in energy-efficient systems for existing buildings is clearly the right thing to do: in New York, buildings are responsible for significantly more carbon emissions than

automobiles, and the Mayor's Office of Long-Term Planning and Sustainability has called for fully one-third of the city's planned carbon reduction by 2030 to come from buildings. New York State has a well-funded and thoughtful program already in place to pay for building-wide energy upgrades that would reduce both emissions and expenses.

The problem is that as laws are currently written, landlords have an incentive to do nothing, because they can simply pass along rising utility expenses to tenants as the Rent Guidelines Board annually authorizes. Alternatively, they can invest in energy-efficient building-wide upgrades and pass on the expense to tenants twice—first through annual rent increases, but, more worrisome, through the Major Capital Improvement (MCI) provisions of the Rent Stabilization Law and Code.

Under MCI provisions, when an owner of a rent-regulated building buys a new boiler or invests in waterproofing, for example, the rent can be adjusted upward based on the cost of the improvement. The MCI law is designed to encourage landlords to keep their buildings in good condition. But in effect it is allowing landlords to lower their energy bills while raising the rents, instead of passing on the savings to tenants.

If the city and state were to remove energy-related building improvements from Rent Stabilization's classification as MCIs, how might it affect a property owner who wants to install a new efficient boiler costing \$270,000 in an affordable building with 130 apartments?

Rather than passing the cost on to tenants, that landlord would participate in New York State Energy Research and Development Authority's Multi-Family Performance Program for existing buildings. NYSERDA provides owners with consulting services and cash incentives to develop an energy reduction plan aimed at reducing overall building energy usage at least 20 percent. The program is divided into four incentive tiers; for our hypothetical landlord, it would add up to almost \$1,700 per unit, the bulk of which would be available for the initial investment cost of upgrades.

Correctly sized, high-efficiency boilers for this building would save the owner about \$29,000 in the first year alone, with a payback period of 9.4 years. In other words, it would take 9.4 years for the boilers to pay for themselves through energy cost savings. Considering that the lifespan of a boiler can be 20 to 30 years, it's clear that the boilers will continue to save the owner money well after they pay for themselves.

With the NYSERDA incentives and some initial capital investment by the owner, annual operating expenses would be reduced and these savings might even roll back prior rent increases the Rent Guidelines Board had authorized based on higher utility costs. Imagine: a rent decrease!

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