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## Striving for Green Affordable Housing

By Sule Aygoren Carranza

WASHINGTON, DC-Improving sustainability and energy efficiency is one of the primary goals of the incoming Administration. There is a place within this effort to revamp the nation's inventory of affordable housing, maintains David M. Abromowitz, a partner with the law firm of Goulston & Storrs and a senior fellow with the Center for American Progress--a nonpartisan research and educational institute.

Green affordable housing is indeed within reach, says Abromowitz, a 25-year industry expert who focuses on housing policy and related federal and state programs and issues. According to him, greening the existing US affordable housing stock--some six million units--would provide important fiscal, economic and environmental benefits.

Included in President-elect Barack Obama's sustainability goals is the creation of green jobs. Targeted green retrofitting, notes Abromowitz, can lead to a growth in employment within the sector. Further, investment in making low-income housing more efficient has the potential to stimulate a green renovation industry with best practices and technologies that would apply to the market-rate housing sector.

Affordable housing currently accounts for almost 17% of the 35-million-unit US housing inventory and because it is federally assisted, targeted green policies would apply. A good portion of subsidized housing is at least 20 years old; more than 65% was built before 1970, before the sustainability trend even emerged. "A targeted emphasis on energy conservation means these units are prime candidates for necessary renovation work that will generate significant energy and carbon dioxide reductions," says Abromowitz.

While current government spending on affordable housing energy expenses totals \$5 billion, according to the Government Accountability Office, implementing relatively inexpensive improvements--about \$2,500 to \$5,000 a unit--could result in a cost savings of between 25% and 40%.

"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," relates Abromowitz.

Public housing authorities and private owners of federally subsidized housing aren't likely to invest in green improvements themselves, given the costs and existing rules and policies to overcome. Therefore, sustainability would have to be mandated through policy changes that entice owners to give their affordable projects a makeover.

Economic incentives are part of one step. Under a guideline established decades ago, most programs under the Department of Housing and Urban Development today limit the distribution of net cash flow from affordable operations to an amount that is no more than 10% of the private owner's initial equity investment. That number is even tighter for owners who are nonprofits. The creation of a "green dividend"--funded from the reduction in energy costs--that offers owners

annual returns on the cost of green improvements would drive more landlords to implement energy-efficient measures in their complexes.

Most low-income communities also don't have much capital beyond what is necessary for maintenance and upkeep, so the availability of funds for energy conservation improvements is minimal. One way to unlock capital, says Abromowitz, is to encourage the use of "Reserves for Replacement." He also proposes that the money in existing Residual Receipts trapped in thousands of reserve accounts be used toward green retrofits.

The private sector could provide another source of capital, if the rules of public-private partnerships are relaxed a bit. "More ambitious green retrofits involving significant capital outlays may require policies that attract private capital or additional public appropriations," he explains. "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."

Allowing third parties to install and run green improvements, such as rooftop solar equipment, within the property through, say, a perpetual easement or lease, is another step. "Current limits on such arrangements need to be reconsidered and revised to encourage the expansion of energy-savings improvements," he advises.

Third parties can also be helpful when entering energy agreements. Privately owned, HUD-subsidized properties, says Abromowitz, "suffer from a so-called split-incentives problem." That is, those owners who finance energy conservation measures often don't enjoy the benefit of reduced utility costs. This setup also hinders energy performance contracting, in which third parties are tapped to implement energy conservation measures paid for by the 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," he urges.

Finally, it's important to make a few policy changes at public housing authorities, which face a number of barriers to the widespread use of energy performance contracting. HUD should work to remove those obstacles and look into alternatives to energy performance contracting that would provide similar benefits at a greater return to PHAs, their tenants and HUD.

The experience gained from the green retrofit of federally subsidized communities can be applied to the market-rate segment of the housing industry, and a widespread effort to make affordable units more environmentally friendly would result in an increase in green products and workers, leading to a full-fledged 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," points out Abromowitz.

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