



# Increasing Energy Efficiency in Existing Multifamily Buildings

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## An Overview of Challenges, Opportunities, and Policy Tools Executive Summary

Prepared by the Cities of Berkeley, Oakland, and Emeryville  
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# Executive Summary

This report is designed primarily for local government policy makers. It is one component of a joint project between the cities of Berkeley, Oakland, and Emeryville aimed at developing effective strategies to increase energy efficiency in our communities' multifamily properties, including apartment buildings, cooperatives, and condos. The project, called *Building Energy Efficiency Solutions* (BEES), seeks to develop local solutions to the formidable barriers tenants and building owners face when trying to lower their energy and water consumption and reduce their utility bills. Solutions to address these barriers must not only be designed to increase energy efficiency, but must also be consistent with our communities' existing commitments to diversity and to providing healthy, affordable housing for residents.

Common barriers to increasing energy efficiency in existing multifamily buildings include:

- *Misaligned incentives between property owner and tenant.* When units are individually metered, the building owner has no direct financial incentive to make investments in in-unit energy upgrades. When a building is master-metered, tenants have no direct financial incentive to conserve energy.
- *High initial costs.* Many property owners do not have access to the upfront capital needed to invest in energy upgrades.
- *High transaction costs.* Property owners often feel overwhelmed by the process of identifying relevant upgrade opportunities and matching incentive programs.
- *Uncertain return on investment.* A range of variables affect the actual energy and money savings realized from a property owner's investment in energy efficiency. Many property owners lack access to technical assistance services that can help them to identify cost effective energy efficiency strategies and to calculate the payback.
- *Limited knowledge and motivation.* Property owners and tenants often have limited knowledge of the potential benefits and process of making energy improvements, and limited motivation for engaging in this work.

While government and utility efforts to reduce energy use in existing multifamily buildings remain relatively limited compared to resources aimed at the single-family residential and commercial sectors, there are a growing number of government agencies and utilities across the country that are leveraging ratepayer dollars, one-time stimulus funds, and other resources with private sector investment to remove barriers to energy efficiency in existing multifamily buildings. The ultimate goal is sustained transformation in how the market functions, so that energy efficiency is business-as-usual amongst multifamily property owners, property managers, and tenants.

A fundamental takeaway from interviews with policy makers and multifamily property owners and managers that informed the study for this report is that achieving market transformation requires policy mechanisms that enable property owners to realize an economic return on investments in energy efficiency. Put

another way, unless energy-related capital investments result in increased revenues or increased property value/equity, there is limited economic rationale for a multifamily building owner to make such an investment. Increased revenues can come in several forms, including:

- Increased building sale valuation
- Cost savings due to reduced energy use
- Less tenant turnover and the associated transaction costs and interruptions in rent payments
- Higher rents

This report outlines a range of policy mechanisms local and state governments and utilities are employing to achieve market transformation in existing multifamily buildings:

- *Mandatory improvement and disclosure requirements* designed to capture a baseline level of energy savings across a community's existing multifamily building stock and to make energy efficiency an explicit component of a building or unit's value
- *Rebates* to lower the cost of energy upgrades and to help property owners go beyond the minimum
- *Financing programs* to minimize the upfront cost of energy upgrades and to amortize costs over time
- *Tax-based incentives* to encourage private investment in energy efficiency
- *Strategies that help calculate benefits and align incentives for the affordable multifamily housing sector*, with potential relevance to rent controlled housing
- *Tools for removing the split incentive barrier* by increasing the capacity of property owners to make energy improvements and recoup their costs in a manner that enables appropriate, equitable sharing of costs and benefits between owners and tenants
- *Streamlined technical assistance* designed to minimize property owners' transaction costs associated with identifying upgrade opportunities and matching incentives and financing
- *Workforce development* tailored to the existing multifamily building context
- *Marketing, outreach, and education programs* used to connect multifamily stakeholders with the services available to them and to encourage the behavior changes necessary to achieve increased energy efficiency

The intent of this report is to identify these policy mechanisms and to derive lessons learned that may inform multifamily energy efficiency policy design in the cities of Berkeley, Oakland, Emeryville, and beyond. These lessons will be considered in developing policy recommendations in later phases of the BEES project.

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