



$$1 + 3 = 7$$

The equation is rendered in large, stylized numbers. The number '1' contains an illustration of a two-story house. The number '3' contains a circular speedometer or gauge with numbers 1 through 10 and the text 'HALF FOOT' and 'WATER REV'. The number '7' contains an illustration of a ceiling fan.



## Government might soon affect property values based on energy efficiency.

*BY SCOTT VAN VOORHIS*

**F**rom Washington, D.C., to Washington state, apartment building owners are suddenly finding themselves thrust into the brave new world of energy scoring. City officials across the country have been busy rolling out new green regulations that would require owners of multifamily rental properties to closely track their energy usage and report it for the public and prospective residents to see. But while the proposals may seem harmless, building owners around the country say complying with the new rules can add yet another burden, requiring countless hours collecting detailed utility information from residents.

In fact, the end result threatens to be anything but a win-win for apartment owners. Too often, local officials are looking to these new scoring systems as a modern version of the old scarlet letter, aiming to shame owners of older and less-efficient buildings into undertaking expensive improvements, industry experts say. Worse, some industry officials fear the scoring systems may simply be the first step toward mandates by local officials that would require owners of less energy efficient buildings to make costly improvements.

“City and state governments are not awash in money to give out [tax] incentives,” says Greg Brown, NAA Vice President of Government Affairs. “They may say, ‘Do it or I am going to penalize you.’”

### **Jumping on the Energy Bandwagon**

After initially rolling out rating systems for commercial buildings, several cities are now trying to extend these new scoring systems to residential buildings. Washington, D.C., Seattle, San Francisco, New York, Chicago and Austin are among the cities that have been out front pushing for energy scoring.

Washington was the first in the country to vote in a scoring system, starting in 2008 with commercial buildings. The city then extended it to residential buildings in 2010, says Shaun Pharr, Senior Vice President of Government Affairs with the Apartment & Office Building Association of Metropolitan Washington (AOBA).

The only saving grace has been the slow pace at which Washington officials have moved to roll out the system, with plans for a website that would allow

# Energy Scores Don't Add Up

residents to compare the energy ratings of various buildings nowhere near ready to roll out.

“They have green blinders on in this city,” Pharr says.

Seattle officials passed their own energy scoring ordinance two years ago, with the new regulation kicking in Oct. 1, says Joe Puckett, Government Affairs Director for the Washington Multi-Family Housing Association. Building owners now have to report their energy use yearly to the federal Environmental Protection Agency, which works with the local utility company to produce a report scoring the building’s energy use.

## Greater Boston Study: No Added Burden

The idea of energy scoring may seem like a consumer and environmentally friendly slam-dunk. But it is anything but that, say trade groups representing rental property owners.

For starters, simply gathering all the energy information on a building can be a painstaking, laborious task for building owners. In the Washington area, building owners are faced with prying loose sensitive utility billing information from various apartment renters. Just collecting and collating dozens and sometimes hundreds of utility bills can be an added burden on already busy residential building owners and managers, experts say.

“You need to have the resources and staff to gather this information and put it into the format these jurisdictions are asking

you to use,” says Paula Cino, Senior Director of Energy and Environmental Policy at National Multi Housing Council. “That can be a very onerous process.”

Seattle and Chicago have resolved this issue by enlisting the help of their local utilities, getting them to provide the energy data on various buildings to city officials, but this system has yet to be road tested.

“The red tape won’t be too horrible if it works the way they say it will,” Puckett says.

## Serious Questions About Fairness

Even with all the information in hand, there also are serious questions about whether it is currently possible to devise a fair way of rating and comparing residential buildings on their energy use.

The Environment Protection Agency’s Energy Star® system has been in place for commercial buildings for years, but cities like Washington are mistaken if they think it can be easily modified for use in residential buildings, Pharr contends.

Commercial building owners are likely to have advantages in monitoring and controlling the energy use of their residents, which is typically spelled out in a lease. It’s also easier to keep heat in during the winter and cool air in the summer, with simpler building envelopes to seal off and insulate. But apartment

# No Credible Evidence to Support Building Labeling

**T**he Greater Boston Real Estate Board (GBREB) and The Building Owners and Managers Association (BOMA) International recently announced the release of “An Economic Perspective on Building Labeling Policies,” a report co-authored by Harvard University Environmental Economist Robert N. Stavins.

It examines the extent to which mandatory building energy labeling results in reduced energy use. The research and the resulting report were sponsored by BOMA International and GBREB.

The project was prompted by increased interest in laws mandating energy scores and energy-efficiency programs throughout the United States and Massachusetts. It seeks to answer the question of the effectiveness of these programs.

The City of Boston is currently considering mandated reporting for office buildings, apartments and condominiums. In April, Professor Stavins presented his findings in testimony before the Boston City Council, which was to vote on the legislation later that month.

Although BOMA and GBREB are committed to energy efficiency and many other measures intended to protect the environment, both organizations are opposed to policies that arbitrarily intervene with market forces, assign market value to buildings, stigmatize property or otherwise interfere with transactions.

According to Professor Stavins and his colleagues, there is no credible evidence to date that a regulatory approach is effective in achieving these goals for which they are intended. The report analyzes the effectiveness of mandatory energy labeling for commercial buildings in the United States, finding:

- Building labels could affect property values, with properties that receive a “green” score seeing appreciation in their market value and properties receiving a “brown” score experiencing depreciation.
- Building labeling programs that are now in effect in select cities throughout the United States vary in the quality and usefulness of the information developed and the requirements and costs imposed on property owners. There is insufficient

history, therefore, for any city to employ best practice in this area.

- Building energy labels differ greatly from the energy labels currently placed on many consumer products, such as refrigerators and automobiles. While product labels provide consumers with information on the energy savings from their product decisions, building labels provide no information on energy costs or savings. Moreover, they provide no information on how building owners can cost-effectively improve their building’s energy use. Building labels are also unique to each building, thus making them more costly to produce and more prone to error.
- The premium associated with labels may “overvalue” the underlying energy savings, suggesting that other factors could be affecting market decisions.
- If building scores are concentrated in particular neighborhoods, it could affect property values across neighborhoods. Likewise, building sectors may see overall appreciation or depreciation if scores tend to be high or low within individual sectors.

— GBREB

building owners may be dealing with dozens, if not hundreds, of residents, each setting the thermostat to his or her personal preference. One resident may be energy conscious, but another may be running multiple TVs and computers all at once, Brown says.

“People talk a lot about building envelopes, making tighter envelopes, and that’s fine. So, say we make a building that is hyper-efficient and the resident has three television sets and likes to run them all day. How does an owner control that?” Brown asks.

Apartment buildings can be harder to compare, with modern buildings likely to come out ahead in any energy scoring system compared to older rental properties.

“It would be difficult—if not impossible—to compare one property to another because of age and other factors,” Puckett says.

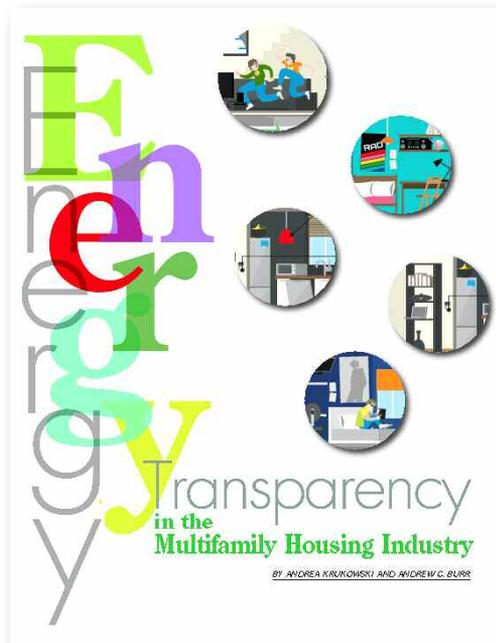
It may also be difficult to decide how to rate garden-style developments, which may have a dozen or so smaller buildings. Should each building be scored individually, or should the entire complex be lumped together? Moreover, owners of older, rent-controlled buildings, which the metro-Washington area has quite a few, would face added challenges, Pharr says.

“No one is at liberty to make capital improvements and pay for them through rents,” he says.

## Mandates Next?

Building owners fear the new energy scoring systems may wind up being used as a cudgel against them to make expensive improvements.

In an era where all things are green, a low score could act as a “scarlet letter,” forcing a building owner to take on extensive renovations or risk losing potential residents.



For more coverage on energy benchmarking disclosure requirements, please see “Energy Transparency in the Multifamily Housing Industry” in the March 2013 issue of *units*.

It could also scare off investors looking to buy an apartment building as well, Cino notes.

“What their scoring proposals are driving toward is a shaming system that identifies those properties that are poor uses of information and forces them to improve,” she says.

And some industry observers fear that energy scoring is but a first step toward what could be an even more onerous and expensive regulatory system. In particular, once government officials have the data on hand to make superficial comparisons on energy usage by different buildings, a next logical step may be to mandate improvements.

Puckett in Seattle is worried that such a scheme may already be taking place. He notes that state lawmakers are discussing proposals to give tax incentives to residential building owners who make improvements.

That is a first for Seattle, which has given incentives to individual homeowners, but never to apartment building owners.

Puckett fears the carrot will be followed by a stick—actual mandates for properties which don’t make improvements. While efficiency boosters like to say new windows and insulation will save money, there is still the small matter of coming up with the money to do the work. And the payoff may be over 20 years.

“We certainly have concerns that this is going to end up in some kind of mandatory retrofit,” Puckett says. “[State lawmakers] have never seen fit to give any kinds of incentives for multifamily property owners.” ■

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