

Energy Benchmarking and Labeling

Energy benchmarking is the practice of measuring the performance of a single building over time, relative to other similar buildings or established energy standards.ⁱ These performance metrics can be valuable for an apartment owner or management company in evaluating properties across a portfolio. However, as a public policy tool, benchmarking mandates can be detrimental to the industry. Owners and operators may be expected to meet a local community's aggressive energy reduction goals (or greenhouse gas protocols). Subsequent scoring or labeling of buildings could result, making an apartment building's energy efficiency success, or apparent shortcomings, transparent to the public.

As a business practice, benchmarking encourages owners and operators to invest in energy efficiency upgrades and lower buildings' energy usage.ⁱⁱ It can help to identify building inefficiencies, detect malfunctioning equipment through spikes in usage, determine cost effective retrofits, and promote the return on investment or value of capital projects or improvements to owners, investors or renters of a particular building.ⁱⁱⁱ Yet, local laws that mandate benchmarking do not induce the deep retrofits necessary to produce drastic increases in efficiency and subsequent reductions in greenhouse gas (GHG) emissions, as they fail to address three key market and behavioral barriers.

First, a series of factors, commonly referred to as split disincentives, deter both property owners and residents from making energy investments.^{iv} ^v For property owners large energy efficiency investments across the entire building (i.e. HVAC, ventilation heaters, building envelope) result in residents reaping most of the benefits, through lowered utility bills. Moreover, On the other hand, residents have no incentive to make energy investments to a unit they may leave when their lease expires, especially if they don't pay utilities. Subsequent occupants would benefit from upgrades they did not purchase.

The second barrier is the general lack of bankability of energy investments. Bankability indicates an investment's level of performance certainty and cash flow reliability.^{vi} Contractors are usually unwilling to make engineering estimates that guarantee the operational performance of energy efficiency upgrades. This creates technical and financial uncertainty for investors, who would be left unprotected against default should the project fail to perform.

Traditional mortgage finance mechanisms discourage, and sometimes outright prevent, mid-cycle retrofit investments.^{vii} Owners pledge the buildings they purchase as collateral in exchange for financing. Even with access to capital, commercial leases prevent mid-cycle owner financed retrofitting projects. Any third party that agreed to finance a project would be subordinate to the mortgage holder and not entitled to repayment without permission.

A potential solution to these barriers is a Public Private Partnership (PPP) similar to Boston's Renew Boston Trust (RBT). The program, run by the City Energy Project through the Boston Department of Environment, Energy, and Open Space, utilizes a Special Purpose Entity (SPE) organized as a nonprofit. The SPE will help develop and implement the project while facilitating financing from private investors for energy efficiency retrofits and requiring energy savings guarantees from contractors to improve project bankability. It will then collect repayments as utility charges from building owners and transfer these to investors. The private side of the partnership will include multiple large loan investors involved in equipment leasing, project development, commercial real estate finance, and social or environmental impact investments.^{viii} This model solves all three energy retrofit barriers and could be applied to other areas as well.

NAA's Position

NAA opposes mandatory benchmarking and labeling policies. Such policies expose apartment owners and operators to a community's overly ambitious and aggressive climate goals. Policymakers should instead develop voluntary programs that remove financial and behavioral barriers to adoption.

ⁱ <https://www.energy.gov/eere/slsc/building-energy-use-benchmarking>

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ⁱⁱⁱ <http://aceee.org/sector/local-policy/toolkit/benefits-benchmarking>

^{iv} Trencher, G., Takagi, T., Nishida, Y., Downy, F. 2017. Urban Efficiency II. Seven Innovative City Programmes for Existing Building Energy Efficiency. Tokyo Metropolitan Government Bureau of Environment, C40 Cities Climate Leadership Group, CSR Design Green Investment Advisory, Co., Ltd. London

^v Robert N. Stavins, Todd Schatzki, and Jonathan Borck. 2013. An Economic Perspective on Building Labeling Policies. Analysis Group, Inc.

^{vi} Trencher, G., Takagi, T., Nishida, Y., Downy F.

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