

Engaging as Partners: *Introducing Utilities to the Energy Efficiency Needs of Multifamily Buildings and Their Owners*

Overview

The multifamily building sector presents a unique set of challenges and opportunities for utilities seeking to implement effective energy efficiency programs. In order to meet the challenges and capitalize on the opportunities, utilities must understand what motivates building owners to take part in these programs as well as barriers that may prevent participation.

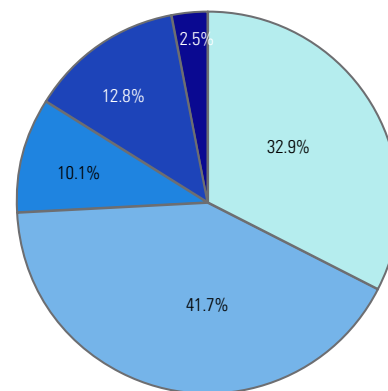
In [“Engaging as Partners: Introducing Utilities to the Energy Efficiency Needs of Multifamily Buildings and Their Owners,”](#) CNT Energy and the American Council for an Energy-Efficient Economy (ACEEE) examine the factors that contribute to effective energy efficiency program design for multifamily buildings and recommend strategies for utilities to implement them. Key findings are outlined below. A PDF of the full report and its companion report, [“Engaging as Partners in Energy Efficiency: Multifamily Housing and Utilities,”](#) are available at cntenergy.org. These reports are part of ACEEE’s ongoing the [Multifamily Energy Savings Project](#). More information about that project is available at aceee.org/multifamily-project.

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Multifamily Housing Offers Opportunity for Utilities Facing More Ambitious Efficiency Goals

Collectively, building owners and their tenants spent nearly \$22 billion on energy in 2009, an average of \$1,141 per household. If the best current multifamily energy efficiency programs were expanded nationwide, they could save owners and tenants up to \$3.4 billion per year. Improvements to current program models could result in even greater savings.

COMPOSITION OF US MULTIFAMILY HOUSING MARKET



- 2-4 unit multifamily housing (10.5 Million units)
- 5+ unit market rate (13.3 M units)
- 5+ unit subsidized (3.2 M units)
- 5+ unit owned (condos not rented) (4.1 M units)
- 5+ unit public housing (0.8 M units)

The U.S. multifamily housing market includes more than 16 million rental units in buildings with five or more units

Source: American Housing Survey, HUD, Joint Center for Housing Studies

In addition to its large potential for savings, the multifamily rental housing sector offers relative ease of recruitment to energy efficiency programs relative to the single family and small commercial sectors. For example, each building owner makes decisions for many housing units, which means enrolling one decision maker in this sector can have a greater efficiency impact than in programs for single family homes or small businesses. In addition, multifamily building owners have formed tight networks in cities nationwide. Consequently, utilities can enlist building owners in efficiency programs relatively easily through existing networks. And, with an understanding of the diversity of local multifamily building types, utilities can create strategies to increase savings from each one.

Overcoming Barriers to Participation Is Key to Designing Effective Multifamily Energy Efficiency Programs

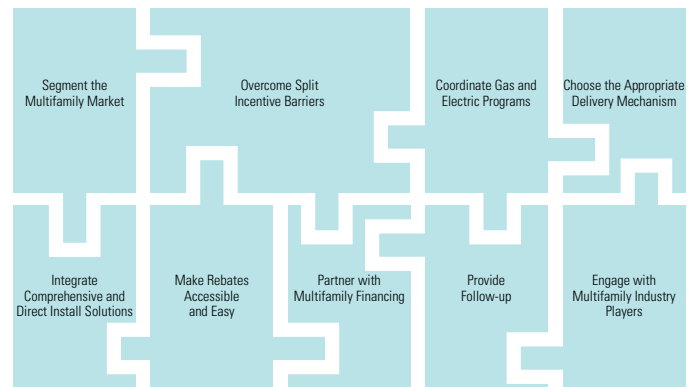
While the advantages of targeting multifamily housing for a utility energy efficiency program are significant, utilities must manage existing barriers. One key challenge is the split incentive that exists when building owners are responsible for investing in energy efficiency improvements, while tenants reap the benefits via lower energy bills. This problem is not universal, and some utilities are currently offering programs that address the problem. Energy efficiency is also a relatively low priority for multifamily building owners and so must be seen as a better investment than general building maintenance; other bills; or building, security, or landscaping improvements. The decision to invest in efficiency is complicated by the fact that it is hard for building owners to predict the full benefits of energy efficiency investments, including non-energy benefits, such as reduced tenant turnover, which can be significant. Multifamily programs are further complicated by confusion in determining whether a multifamily building is eligible for residential or commercial programs.

However, multifamily building owners reap significant benefits from energy efficiency investments. In addition to direct energy cost savings, owners appreciate the benefits of programs that also reduce water bills by installing low flow showerheads and faucet aerators. Energy efficiency investments also reduce maintenance and equipment costs by replacing aging equipment and tuning up and repairing

existing systems to make them run more efficiently and increase their lifespan. Many owners, however, may not realize that energy efficiency also reduces tenant turnover and related costs by providing a more comfortable, affordable, and pleasant living space. Tenant turnover is a major cost for multifamily building owners, who experience lost rents when they have to clean and prepare units to recruit new tenants.

Nine Ways to Make Energy Efficiency

RECOMMENDATIONS FOR CREATING ENERGY EFFICIENCY PROGRAMS THAT ATTRACT MULTIFAMILY BUILDING OWNERS



In order to design effective energy efficiency programs for multifamily buildings, utilities need to first understand the specific barriers that building owners in their service territory face in implementing building upgrades. Utilities should then develop programs that overcome these barriers and emphasize the long-term benefits to building owners. These long-term benefits include direct savings on utility bills, reduced maintenance costs, and decreased tenant turnover. The recommendations below provide a framework to help utilities develop successful programs that maximize energy savings and create benefits for building owners, tenants, and communities.

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1. Segment the multifamily market

Segmenting the market into several common local building types, ages, and split incentive structures can help improve program efficiency. Based on this segmentation and knowledge of multifamily financing needs, utilities can choose the most promising building types and develop a strategy to address the relevant barriers to program participation.

2. Design programs that overcome split incentive barriers

Multifamily efficiency programs can overcome split incentive barriers. To do so, they must provide sufficient incentives to make building owners prefer efficient appliances and equipment and provide that incentive either at the time the building owner is making a replacement or in support of an early replacement. Well-designed efficiency programs can also encourage building owners to undertake low-cost building shell improvements—such as air sealing and insulation—and equipment tune-ups in buildings where tenants pay their own utility bills. In these situations, coupling rebates with a focus on reducing common area costs, increasing tenant comfort, lowering tenant costs, and reducing tenant turnover will often convince the building owner to make the investment.

3. Coordinate gas and electricity programs

Single-utility programs that address electricity or gas measures separately are daunting for building owners, particularly owners of smaller portfolios who want to do a comprehensive efficiency upgrade. Utilities can simplify and speed up the program by coordinating administration across utilities. Coordination can take the form of using similar paperwork, timelines, and eligibility requirements, as well as using the same administrator to serve as a single point of contact throughout the process.

4. Choose the most appropriate delivery mechanism for the program

A successful multifamily efficiency program requires program delivery that takes the unique characteristics of the multifamily industry into account. Utilities should consider whether their programs are best delivered by a broad trade ally network, a one-stop shop model that centralizes program administration and provides a single point of contact, or by a combination of the two. For example, programs that replace equipment when it fails are well suited to be delivered by a trade ally network of multifamily contractors who respond to these emergencies. In contrast, programs that encourage more proactive and comprehensive efficiency upgrades

that involve a building energy assessment, construction, and quality assurance follow-up are better suited to a one-stop shop or hybrid delivery model.

5. Integrate comprehensive and direct install solutions

Wherever possible, utilities should integrate comprehensive, whole-building programs that address HVAC systems and the building shell with programs that provide low-cost, easy-to-install improvements, such as low-flow showerheads. Direct install programs coupled with an on-site energy assessment can serve as an entry point for building owners to consider more extensive retrofits.

6. Make rebates accessible and easy

Rebates offer an excellent way to induce multifamily building owners who pay utility bills to replace HVAC equipment and appliances before they fail. However, to achieve the greatest possible enrollment and energy savings, rebate programs should be easy for building owners to use. Utilities should ensure that every aspect of the rebate process, including application processes, forms, and protocols for determining the rebate amounts for multi-utility improvements, are as simple as possible and cater to the customer.

7. Partner with sources of attractive multifamily financing

Comprehensive (or whole-building) multifamily energy efficiency upgrades often require a source of financing. Consequently, utilities should partner with lenders that offer loan products that are attractive to multifamily building owners. Utilities should seek out organizations that lend to multifamily building owners and consider opportunities for the financing partner to educate its multifamily clients about energy efficiency upgrades when they seek other financing.

8. Provide post-installation follow-up and aggregated building energy use data

Utility efficiency programs routinely contain a quality control element, but they should also include a more thorough follow-up process to steer building owners toward more comprehensive multifamily retrofits. Follow-up work as far as one to two years from the time of installation can be useful to ensure customer satisfaction and suggest further building efficiency improvements.

9. Engage with key multifamily industry players

Delivering effective multifamily programs requires continuous engagement with a number of multifamily industry participants. Participants include building owners, contractors, energy efficiency program implementers, public housing authorities, financial institutions (including Community Development Finance Institutions or CDFIs), government entities, housing advocates, and others. Collaboration with these organizations can heighten the impact of a multifamily energy efficiency program.

Well-Designed Multifamily Housing Programs Deliver Energy Savings

Multifamily housing presents sizeable opportunities for utilities to create cost-effective energy efficiency programs. As utilities seek to expand their energy efficiency program offerings to serve more customers, multifamily buildings can provide deep savings, comparable to those achieved in commercial buildings. While multifamily building owners in many areas historically have not made energy efficiency investments a high priority, utilities can and have designed effective programs to deliver on the opportunity presented by the multifamily sector.

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The American Council for an Energy-Efficient Economy (www.aceee.org) is a nonprofit organization founded in 1980 that acts as a catalyst to advance energy efficiency policies, programs, technologies, investments, and behaviors.



CNT Energy (www.cntenergy.org) combines rigorous research with effective solutions to help consumers and communities control energy costs and become more energy efficient. We design and implement programs and conduct research in the areas of dynamic electricity pricing, building energy efficiency, and regional energy planning to achieve significant savings and job creation for low-income communities.