



## MEMORANDUM

**TO:** Mayor and City Council Members

**CC:** Marc A. Ott, City Manager

**FROM:** Larry Weis, General Manager

**DATE:** May 7, 2013

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**SUBJECT:** The Relationship Between Energy Efficiency Rebates and Rent Changes

This memo is in response to questions received from Council following Austin Energy's February 4, 2013 memo addressing Council Resolution 20121213-068. This memo serves to provide additional information, research, and feedback related to the relationship between energy efficiency rebates and rent changes that may arise as a consequence of efficiency improvements. Austin Energy staff conducted comprehensive research that provides no evidence that energy efficiency rebates to upgrade equipment (predominantly in multi-family properties), leads to rent increases to offset a building owner's investment in said equipment. In fact, the review suggests that attaching a conditional rent freeze to the multi-family program could have unintended negative consequences on the customers that this program seeks to benefit (multi-family building owners would not use the program). Due to the relatively larger energy burden for many living in rental communities, reducing utility bills has a larger and more positive impact on disposable household income.

### **Austin Apartment Information**

The average rent growth in Austin was 4.6% over the past 3 years. Current estimates predict a similar increase through 2015. This is lower than similar metro areas that reported increases of 4.5% to 7.8%.

Median monthly rents in Austin across *all apartment sizes* are \$1,119. This amount falls within the range of comparable cities, with Columbus OH at the low end (\$703) and San Francisco CA at the high end (\$1,548). Tables 1 and 2 below depict this data.

**Table 1 – Median Rent by Bedroom***Source: average-rentfindthedata.org*

City	County	Studio-Low	Studio-High	1 Bed-Low	1 Bed-High	2 Bed-Low	2 Bed-High	3 Bed-Low	3 Bed-High
Austin, TX	Travis	560	950	720	1170	860	1470	1230	1990
San Antonio, TX	Bexar	410	830	520	1040	650	1310	850	1860
Fort Worth, TX	Tarrant	470	880	570	1050	720	1330	960	1480
Charlotte, NC	Mecklenburg	570	800	600	830	750	980	1010	1320
Cincinnati, OH	Hamilton	370	670	470	840	620	1110	860	1540
Columbus, OH	Franklin	380	560	480	700	620	910	800	1170
Nashville, TN	Davidson	490	830	570	950	710	1140	940	1520
Portland, OR	Multnomah	580	800	680	930	810	1110	1190	1640
Seattle, WA	King	460	980	540	1150	660	1710	970	2060
San Francisco, CA	San Francisco	700	1440	850	1760	1050	2170	1440	2970

Table 2 below provides the average rent for 2-bedroom apartments in comparable metropolitan areas. The information is based on number of bedrooms per unit and not square footage per unit.

**Table 2 – Average 2 Bedroom Apartment Rent**

Metro Area	Low Average	High Average
San Antonio, TX	\$650	\$1,310
Seattle, WA	\$660	\$1,710
Nashville, TN	\$710	\$1,140
Fort Worth, TX	\$720	\$1,330
Charlotte, NC	\$750	\$980
Portland, OR	\$810	\$1,110
Austin, TX	\$860	\$1,470
San Francisco, CA	\$1,050	\$2,170

*Source: average-rentfindthedata.org*

According to Forbes, many of these metro areas, including Austin, are in the top 20 in terms of growing economies.

Current apartment occupancy in Austin is 95.6% and is expected to increase. This occupancy rate is above the national average of 94.1%. Scheduled inventory for Austin has an expected growth of 4.3%, higher than many other areas in the US.

### **Relationship between Rebates and Rent**

According to the Austin Apartment Association, there is no evidence that rent increases are the result of energy efficiency program participation. Rent increases are based more on market fluctuations and less on internal upgrades to individual complexes. Additionally, rent increase practices are not uniform, but are based on tenant occupancy and length of lease. A report from the Austin Investor Interest supports this premise. Their report indicated an 82% correlation between occupancy rate changes and rent increases.

Analysis of multifamily rebate participation produced no evidence that there is a relationship between rent increases after energy efficiency improvements. Based on the sample shown below (Chart 1), rents are higher at apartments with no energy efficiency rebate participation.

### **Multifamily ECAD Ordinance**

The current ECAD ordinance has resulted in a positive impact on the multifamily properties and tenants. Through FY12, 574 apartment complexes completed an energy audit. The audit information is made available to current and perspective tenants as part of their decision-making process. The ordinance and audit process help educate rental property occupants on the current condition of their residence. Property owners are informed about their property's comparable energy efficiency and provided ways to make their properties more energy efficient.

The ECAD ordinance allows AE to recognize those apartment complexes that demonstrate the greatest levels of energy efficiency, energy savings, and energy improvement. Some complexes use this information as an additional amenity.

Based on the analysis shown in Chart 1 below, apartment complexes with participation in both the ECAD ordinance and AE rebates were found to have the lowest average rent. The conclusion could be that through education and energy efficiency participation, both the property owners and residents benefit.

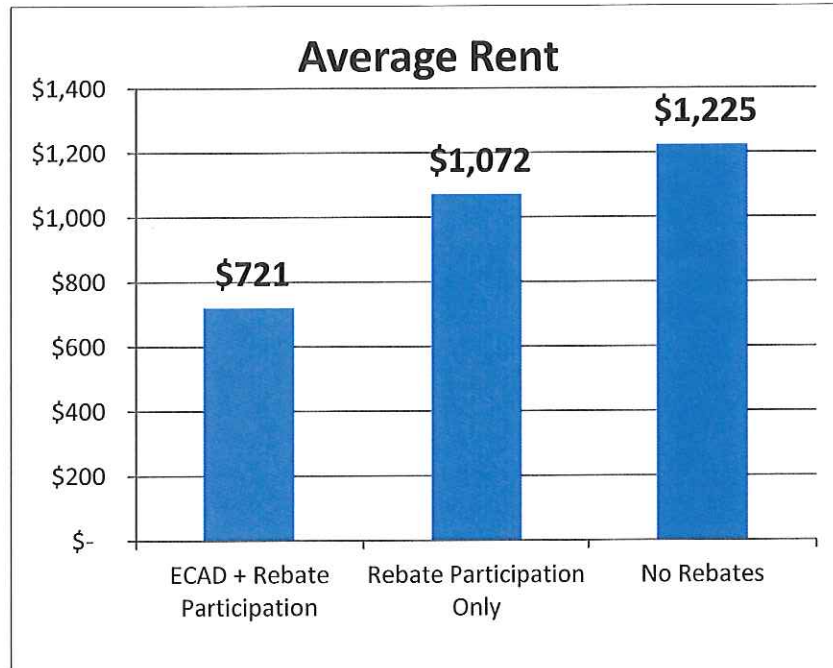
### **Multifamily Impact on Achieving the 800 Megawatt Savings Goal**

In FY12, the Multifamily Energy Efficiency program represented 36% of all demand savings captured for residential programs and 11% of the total demand savings across all programs. This has been a fairly consistent percentage since the inception of the program. The Multifamily Energy Efficiency program is instrumental in creating energy savings for a large portion of the customer base as well as supporting the overall efforts to achieve the 800 megawatt goal by 2020.

When compared to other energy efficiency program measures on a per application basis, the Multifamily program exceeds the overall program average in terms of demand savings and energy savings. When compared to other Residential programs, the cost for incentive is lower on a per demand (kW) and per energy (kWh) basis. In other words, the Multifamily program provides more energy and demand savings per utility dollar spent than other residential programs, and on average each completed application moves Austin Energy closer to the 800 megawatt goal than any of our other programs.



**Chart 1 – Average 2 Bedroom Apartment Rent by ECAD and Rebate Participation**



Information based on average rent for 2-bedroom unit.

### **Considerations from Property Owners and Managers**

According to the National Apartment Association, policy makers should consider customizing policy provisions to meet the needs of affordable housing which displays characteristics that set it apart from typical market-rate housing. Market-rate residents may consider energy performance information before leasing. However, low-income residents are much less likely to be impacted by energy efficiency disclosures because they receive utility assistance or are subject to waiting lists for public housing. The decision-making process contains more variables than energy efficiency. Additionally, owners of government-assisted housing may not have the available capital to implement even low-cost improvements. Policy makers should explore using subsidies or other financial assistance to assist owners with financial hardship, enabling them to conduct measures that may result in energy and financial savings.

In a 2013 focus group conducted by CCR Market Research for Austin Energy, apartment owners and managers were asked to respond to the potential rent freeze resolution. Unanimously, the owners stated that they would not participate in energy efficiency rebates if they came with the conditional rent freeze. Removing owners and their properties from the energy efficiency process could be more detrimental to the tenants than potential rent increases as the increase in energy costs has a greater burden to the household than current standard rent increases. The savings achieved from energy efficiency measures will outweigh the typical increases in rent.

### **Feedback for the Energy Efficiency Stakeholders Meeting**

The second Energy Efficiency Stakeholder meeting was held May 6 at Austin Energy. Twenty-one citizens attended the meeting, representing various constituencies. These included low income advocates, apartment association representatives, realtors, and conservation supporters. The proposed data collection resolution was shared with the stakeholders. The feedback was mixed.

The majority of the stakeholders believed there is a need for data in any decision-making process. However, there was no consensus that the data collection in the resolution was under the purview of Austin Energy. Some of the meeting attendees believed there were other entities more appropriate to such information gathering.

Some of the participants expressed concern that attaching rent data collection conditions to energy efficiency measures could be a deterrent to property owners pursuing efficiency measures. Indeed, one participant noted that apartment owners should be encouraged to pursue more than the minimal level of energy efficiency upgrades.

Other issues were raised in relation to multifamily residents. Many of the participants felt more education and awareness is needed. While energy efficiency may not be a key decision factor for limited income citizens when deciding on an apartment, awareness of the average utility bills would be helpful planning information.

Additional feedback from the meeting indicated a lack of awareness of the current rate-related affordability index that could limit overall spending on energy efficiency. Meeting participants shared that their initial understanding was that Austin Energy could support an 'endless variety' of rebate programs. When the affordability index (maximum of 2% increase per year) was explained to the group, they suggested seeking other means of funding energy efficiency.

### **Summary**

Attached to this memo is additional information regarding energy efficiency rebates and rents. Consistently, the information demonstrated no discernible evidence that a conditional rent freeze (attached to the cost of measures that were installed) was an effective measure in obtaining impactful energy efficiency. However, the research does support promoting energy efficiency as a way to decrease overall household costs.

## Multifamily Data – Austin, Texas

### The Relationship between Energy Efficiency Rebates and Rent Changes

#### 1. Assess data relative to apartment rents in the greater Austin area.

Median rents for past 3 years for January/February

2011 = \$1175

2012 = \$1250

2013 = \$1300

Annual rent growth = 4.6%

This is below average for similar metro areas. Range = 4.5% to 7.8%. National average = 3.7%.

Rent growth in better projects is 3.8% and 5.5% in older communities.

Rent growth is projected to be between 2.4% and 4.5% between 2012 and 2015.

*Source: Texas/Southwest Apartment Markets Conference*

#### 2. Correlate rental rates to other factors.

Rent growth experienced negative increases in 2001-2004 and 2009-2010. Rent was a reflection of current economy.

Net supply of available apartments is at or less than demand. Austin rentals are currently at 95.6% occupancy rate. National average was 94.1%.

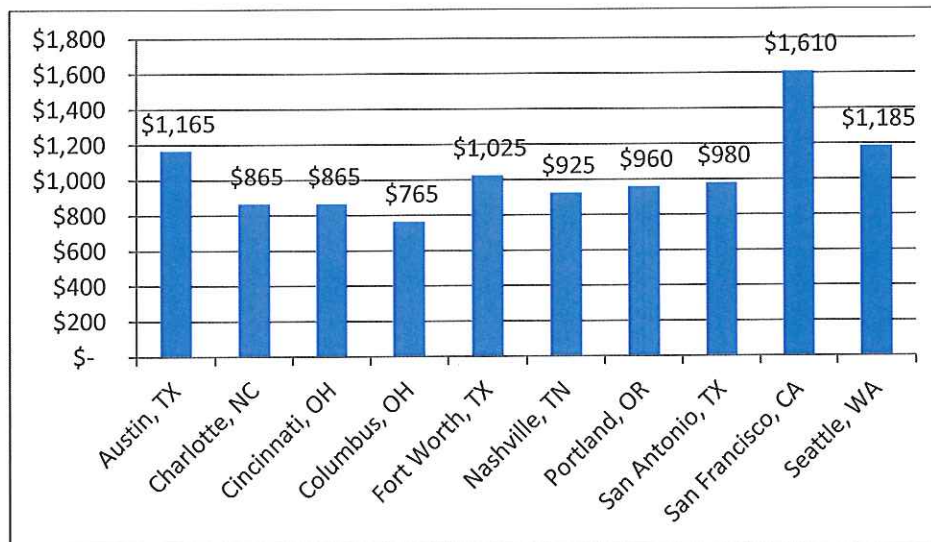
Scheduled inventory (units under construction) is highest in Austin with 4.3% growth rate.

Only 8% offer rent concessions. This is less than other large markets across Texas.

*Source: Texas/Southwest Apartment Markets Conference and AXIOMetrics Inc.*

#### 3. Assess Austin rental rates compared to other communities, in the state and nationally

Austin is 9<sup>th</sup> in terms of large US cities and median rent for 2011. The graph below shows average rents for 2-bedroom apartment for comparable metro areas. Rents are based on number of bedrooms and not square footage.



*Source: 2011 US Census ACS.*

The table below provides additional apartment rent detail across comparable metropolitan areas. The data depicts the range of average rents across varying apartment sizes.



4. Assess data for AE/Austin residents – e.g. what percent of housing cost is rent vs. utility bill costs (i.e. tenant is enjoying lower costs due to our rebates). How does AE/Austin compare in terms of relative emphasis on multi-family energy programs?

Energy burden is negatively correlated to household income and monthly household costs, meaning that as household income and monthly household costs increase, energy burden decreases. Energy burden is positively related to other utility costs, indicating that as one utility cost increases, so increases the energy burden.

Overall household costs to tenants that can be reduced are more impacted by reducing utility costs than housing costs.

Energy burden is not related to number of people in household, number of people under 18, and age or reference person.

Source: Census 2010 data analysis.

Based on a recent ACEEE study, Austin ranks among the top 25 metropolitan areas with the largest multi-family housing markets, representing significant potential for energy efficiency savings.

Table 2: Metropolitan Areas with the Largest Multifamily Housing Markets

Rank	Metropolitan Area	Multifamily Units	Percent of Households in Multifamily Units Buildings (5+ units)	Percent of Multifamily Units Occupied by Renters
1	New York-Northern New Jersey-Long Island, NY-NJ-PA	2,818,320	37	82
2	Los Angeles-Long Beach-Santa Ana, CA	1,437,828	32	90
3	Miami-Fort Lauderdale-Pompano Beach, FL	953,273	39	60
4	Chicago-Joliet-Naperville, IL-IN-WI	936,293	25	72
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	662,719	30	80
6	Dallas-Fort Worth-Arlington, TX	622,931	25	97
7	Houston-Sugar Land-Baytown, TX	591,647	26	95
8	San Francisco-Oakland-Fremont, CA	487,807	28	87
9	Atlanta-Sandy Springs-Marietta, GA	449,217	21	92
10	Boston-Cambridge-Quincy, MA-NH	440,215	23	80
11	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	388,356	16	87
12	Seattle-Tacoma-Bellevue, WA	379,306	26	86
13	Phoenix-Mesa-Glendale, AZ	339,587	19	92
14	San Diego-Carlsbad-San Marcos, CA	332,190	28	88
15	Minneapolis-St. Paul-Bloomington, MN-WI	295,312	22	86
16	Tampa-St. Petersburg-Clearwater, FL	291,525	22	77
17	Denver-Aurora-Broomfield, CO	288,718	27	84
18	Detroit-Warren-Livonia, MI	285,384	15	91
19	Baltimore-Towson, MD	225,296	20	84
20	Las Vegas-Paradise, NV	215,647	26	92
21	Orlando-Kissimmee-Sanford, FL	213,306	23	90
22	Portland-Vancouver-Hillsboro, OR-WA	196,174	21	93
23	Riverside-San Bernardino-Ontario, CA	186,899	12	95
24	Austin-Round Rock-San Marcos, TX	182,130	26	97
25	Cleveland-Elyria-Mentor, OH	172,178	18	93
26	St. Louis, MO-IL	162,761	13	90





**6. What does census data reflect relative to rental trends in Austin? How does that correlate to other cities? Demonstrate the factors that are most highly correlated with rent increases.**

Austin annual rent growth = 4.6%

This is below average for similar metro areas. Range = 4.5% to 7.8%. National average = 3.7%.

Rent growth in better projects is 3.8% and 5.5% in older communities.

Rent growth is projected to be between 2.4% and 4.5% between 2012 and 2015.

Rent growth has seen negative increases in 2001-2004 and 2009-2010. Rent was a reflection of current economy.

From Q2-2010 to Q4-2012, rents have shown a quarterly increases of 1.6% increase with the highest being a 4.2% increase in Q3-2010 and the lowest being a 0.9% decrease in Q4-2012. Changes in rent are a reflection of the economy and occupancy rates. There is an 82% correlation between occupancy rate changes and rent increases.

*Source: Austin Investor Interest, LLC*

Apartment rent is a function of supply and demand as well as local economy and employment rates. As supply decreases and demand increases, along with increased job growth and improved overall economy, rents increase. As these indicators trend downward, so do rent prices.

*Source: MPF Research*

Class C apartment complexes universally have lower rent rates per square foot. They also have the greatest occupancy levels.

*Source: Austin Investor Interest, LLC*

**7. What are the demographics of apartment dwellers and occupants of rental properties?**

55.5% African American; 52.0% Hispanic, 40.5% Asian; 29.1% Caucasian

Primary age range 20-34

Increasing percentage of 55-to-64-year-olds

Increasing number of middle-aged professionals "displaced from home ownership"

Increased interest in price savings than amenities

38% of all housing is apartments

53.4% of all housing is renter-occupied.

Average household size of renter-occupied = 2.2

*Source: US Census 2010*

**8. Seek input from Property Owner/Manager associations.**

Policy makers should consider customizing policy provisions to meet the needs of affordable housing which displays characteristics that set it apart from typical market-rate housing. Market-rate residents may consider energy performance information before leasing. However, low-income residents are much less likely to be impacted by energy efficiency disclosures because they receive utility assistance or are subject to waiting lists for public housing. Additionally, owners of government-assisted housing may not have the available capital to implement even low-cost improvements. Policy makers should explore using subsidies or other financial assistance to assist owners with financial hardship, enabling them to conduct measures that may result in energy and financial savings.

*Source: National Apartment association*

In a 2013 focus group, apartment owners and managers were asked to respond to the potential rent stabilization resolution. Unanimously, the owners stated that they would not participate in energy efficiency rebates if they came with the conditional rate stabilization.

*Source: CCR Market Research*

An informal survey during an Alliance for Energy Analytics meeting (12 utilities represented) indicated little to no support for rent stabilization as part of an energy efficiency rebate program. All utility representatives reported that it was more important to reduce the overall household cost through energy efficiency than through rent freezes.

*Source: Alliance for Energy Analytics*

## **9. Information from Neighborhood Housing Downtown Affordable Housing Strategy**

The vast majority of affordable rental units in Austin are privately-owned. Austin's Affordable Housing Preservation Study found that the majority of privately-owned, non-subsidized affordable housing is in older housing stock, and most is Class C – with “fewer amenities, are found in poor locations, and are not well maintained” – or Class D – “generally older than 30 years and are typically marginally maintained or substandard”. About 45% of Austin's housing stock was built prior to 1980, with the age of the stock compounded by environmental health hazards such as asbestos and lead-based paint. Older, affordable units will continue to deteriorate over time as rents are not sufficient to support capital investments by owners for renovations, and/or units will be rehabilitated and converted to market-rate units as market demand continues to grow.

Recommendations range from the SMART Housing process (fee waivers and expedited approvals) to continued subsidized housing to a comprehensive financing system enabling developers to layer incentives and resources from a variety of private and public entities.

Recommendations focus on affordable housing, continuation of housing subsidies, and seeking private and foundation partners.

Examples of rental property improvements:

Summit Housing Partners, LLC (Birmingham, AL) is one of 17 applicants that submitted proposals for funding as of Oct. 1, 2010, to the Austin Housing Finance Corporation (AHFC) for the purpose of creating or retaining affordable housing. Summit submitted an application Oct. 17<sup>th</sup> for \$2.5 million of Rental Housing Development Assistance (RHDA) funding for the rehabilitation of the Marshall Apartments. On Oct. 27<sup>th</sup>, Summit submitted an application to AHFC for a multi-family Private Activity Bond application for \$5,000,000.

Renovations are expected to include:

- Replacement of appliances with Energy Star-rated appliances.

- Replacement of windows with “low-e” windows.

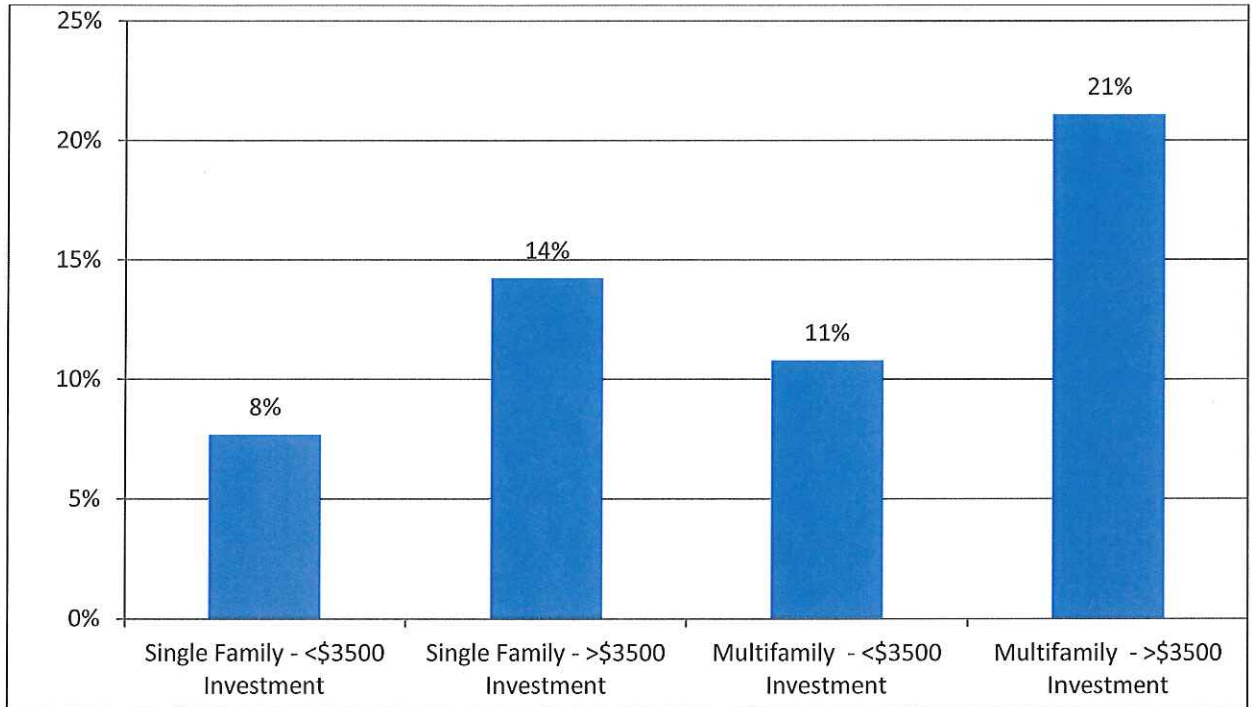
- New flooring; new kitchen and bathroom cabinets and bathroom fixtures; and ceiling fans in living areas and all bedrooms.

- Exterior improvements will include painting, additional landscaping and fencing, a community room, a social services office, and a computer learning center.

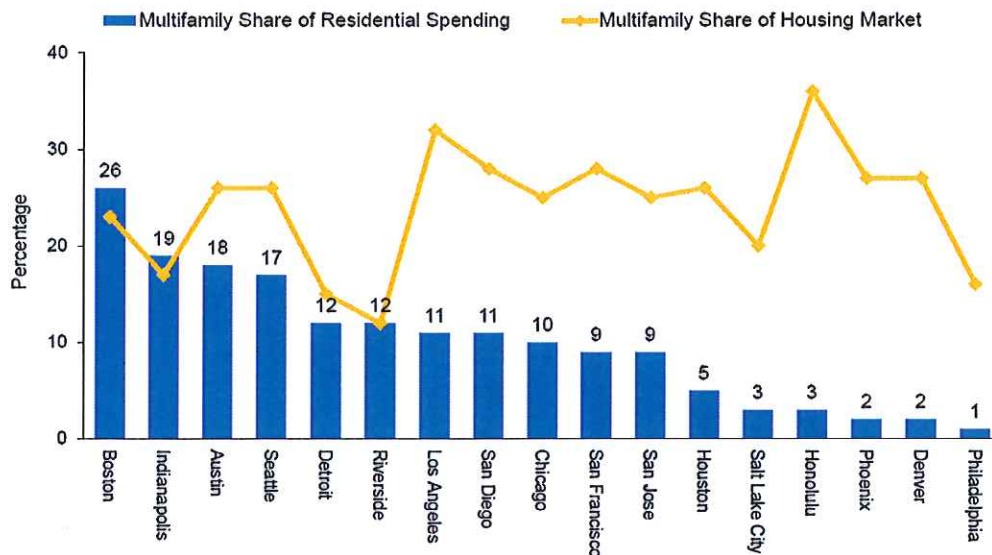
## **10. Analysis of Energy Savings by Investment**

With the completion of the ARRA grant, analysis shows a significant increase in energy savings with a greater energy efficiency investment. This was most evident with multifamily dwelling where the energy savings averaged 21%. This translates into direct utility bill savings for residents.

## Energy Savings Through Efficiency



The comparison of energy efficiency spending within the multifamily market and the share of the housing market represented by multifamily housing is relatively close for Austin. What this graph shows is that we have some room to grow in our proportional spending within the multifamily market. There are untapped opportunities to bring more energy efficiency to the multifamily properties.



Source: Johnson, Kate and Erik Mackres, *Scaling up Multifamily Energy Efficiency Programs: A Metropolitan Area Assessment* (Washington, DC: American Council for an Energy Efficient Economy, 2013)