

## Green Building Principles Take Root in Affordable Housing Community

By Michael J. Novogradac, CPA

Until recently many developers had the perception that building “green” low-income housing tax credit (LIHTC) properties was both costly and inefficient. But with the growing focus on dwindling energy resources and an endangered environment, sustainable development is becoming an essential component of development in which elements of sustainable design are making their way into developers’ business practices.

To assist owners and developers of affordable housing go green, recently proposed legislation would set higher standards for environmental performance in affordable housing and authorize new federal resources for green affordable development while providing incentives to private investors in green affordable homes for low-income people.

In April, at a commemoration of Earth Day at the Center for American Progress in Washington, D.C., Rep. Ed Perlmutter, D-Colo., highlighted his Green Resources for Energy Efficient Neighborhoods (GREEN) Act. Perlmutter’s bill, H.R. 6078, was introduced on May 15 and provides incentives to lenders and financial institutions to provide lower interest loans and other benefits to consumers, who build, buy or remodel their homes and businesses to improve their energy efficiency.

“This legislation proves that it is easy to be green ... [it] helps revitalize our economy by making energy efficiency practices more affordable, accessible and achievable by consumers, businesses and government entities. By prioritizing energy efficiency practices, we can ease the woes of homeowners, lenders, financial markets, builders and our environment,” said Perlmutter, who noted that his proposed legislation is about going green to save green.

H.R. 6078 also emphasizes ensuring that community development organizations have the resources and expertise necessary to be successful in incorporating green elements into their affordable housing developments and on April 22 Enterprise Community Partners Inc. (Enterprise) released a statement in support of the bill’s provisions. “Green affordable housing has clear benefits for low-income families and entire communities as well as our environment,” said Stockton Williams, senior vice president and chief strategy officer for Enterprise. “We commend Rep. Perlmutter for his commitment to ensuring the federal government plays a role in helping affordable housing become healthier, more efficient and more sustainable.”

### The GREEN bill gets a hearing

House Financial Services Committee Chairman Barney Frank, D-Mass., held a hearing June 11 to examine H.R. 6078, which authors say reflects the input of a broad coalition of housing advocates, financial institutions, government leaders, developers, and the environmental community.

In his opening remarks, Frank noted the great deal of concern the country has on energy efficiency and consumption. He acknowledged that much of the concern focuses on transportation but, he added, “the way in which we live physically has a great deal to do with energy consumption.”

The genesis of the proposed legislation, Frank said, lies in the debates surrounding the proposed regulation of the government sponsored enterprises (GSEs). It was during these discussions, Frank said, that some House members promoted the idea to provide incentives for the GSEs which

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would in turn provide incentives for people to do more in the way of energy efficiency. "We decided it really made sense to do this in a comprehensive way," he said. "We want to go forward with legislation that maximizes our ability to improve energy efficiency."

The GREEN Act would amend the GSEs' charters to include as a statutory purpose the promotion and facilitation of energy-efficient and location-efficient mortgages. It would also require the GSEs' regulator to establish two new enforceable annual housing goals for purchases of energy-efficient and location-efficient mortgages and require them to develop a plan for the use and purchase of energy efficient mortgages in a way that would help achieve by 2020 a 50 percent reduction in aggregate home energy use of fossil fuels.

Calling the proposed bill a "thoughtful and comprehensive approach," Frank said there is little likelihood that H.R. 6078 would become law before year's end but he held hope that it would pass the House by then. House passage would "put us in a position that, come next year

we would be ready to move fairly quickly on this." Frank predicted there was a good chance the initiative would be welcomed by both the Democrats and Republicans. "This is a very hopeful initiative [that will make] a contribution to [solving] a national problem," he said.

Taking part in the hearing were, among others, Doris Koo, president and CEO of Enterprise, Jerry Howard, president of the National Association of Homebuilders (NAHB) Alan George, executive vice president and CIO of Equity Residential, and Patrick J. Lawler, chief economist and associate director of the Office of Policy Analysis and Research, Office of Federal Housing Enterprise Oversight (OFHEO).

In her testimony, Koo underscored the linkage among housing, transportation, health and environmental challenges facing low-income families. "Affordable green development can make progress toward improving low-income families' health and wealth while simultaneously tackling climate change by making the places where low-income people live more energy efficient and envi-

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ronmentally sustainable. The federal government must act swiftly and boldly to help make energy efficiency the mainstream in affordable housing.”

NAHB’s Howard, voicing less support for H.R. 6078, told the committee that while his organization strongly supports the goal of increasing energy efficiency in all housing, including that which is affordable to low- and moderate-income families, it does not believe that the legislation as currently structured will produce the long-term energy savings that it envisions. Howard added that NAHB hoped the Committee would consider its several recommendations and revisions that “could improve the chances of the GREEN Act achieving its goals for sustainability while simultaneously supporting the broader affordable housing mission.”

George, representing the National Multi Housing Council (NMHC) and the National Apartment Association (NAA), told the Committee that those groups appreciated the inclusion of provisions in the bill that encourage incentive-based investment in energy efficiency. “We believe that the overall approach taken in Rep. Perlmutter’s Green Resources for Energy Efficient Neighborhoods (GREEN) Act of 2008, which emphasizes incentives to assist developers and property owners in undertaking activities aimed at improving the energy performance of a property, is a prudent path to pursue.” However, it too had reservations and specific suggestions for improving the bill.

In its written statement Freddie Mac expressed its support of the underlying goals of the GREEN Act but noted the requirements of the proposed bill were outside the scope of their mission. Freddie Mac’s statement read in part: “While well-intentioned, we believe that the direct promotion of energy-efficient housing is outside the scope of the public purpose for which Freddie Mac was created to fulfill.”

Reservations on broadening the mission of Fannie Mae and Freddie Mac to promote energy efficiency and conservation were also expressed by Lawler, who noted several areas of concern. Among his concerns was language that would expand the GSEs’ purchase and guarantee authorities to include energy-efficient and location-ef-

ficient mortgages. “As drafted, it would appear that the new authority would include loans in excess of the conforming loan limits, and loans in excess of 80 percent of property value that are not covered by mortgage insurance or other credit enhancements. Such authority would create considerable safety and soundness concerns. If energy- and location-efficient loans are broadly defined, this could constitute a significant expansion of Enterprise charter authorities into areas with much more risk than is currently permitted,” Lawler said. “The size of the losses the enterprises have absorbed over the past year and their current importance to the successful function of our residential mortgage market recommend against substantial expansion of their risk-taking authority at this time.”

## Study identifies energy efficiency needs for low-income housing

Enterprise recently released a study that called for a national commitment to rehabilitate and retrofit low-income housing with energy-efficient features that will offer substantial financial savings for the residents and ensure long-term gains in environmental and energy sustainability. The study, *Bringing Home the Benefits of Energy Efficiency to Low-Income Households: A Case for a National Commitment*, found that the Department of Housing and Urban Development (HUD) spends more than \$4 billion each year to pay utilities in government-assisted properties; yet, the funds only cover a fraction of the families and individuals in need of financial help. In contrast, with an investment of \$5 billion annually during a 10-year span to rehabilitate low-income homes, considerable gains can be made in energy savings, carbon reduction and cost savings to the renters and homeowners.

The study found that home energy costs have increased much faster than incomes for very low-income households in recent years, rising 33 percent since 1998. Families earning \$20,000 to \$50,000 spend nearly half their incomes on housing and transportation costs combined. And residential units consume 22 percent of the nation’s energy and cause 20 percent of greenhouse gas emissions.

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The report recommends a comprehensive, 10-point plan that would, among other aspects, be able to:

- ♦ Build capacity to implement low-cost improvements
- ♦ Ensure climate change legislation supports low-income home energy efficiency
- ♦ Green the revitalization of distressed public housing communities
- ♦ Improve and expand federal tax credits for residential energy efficiency and solar power
- ♦ Incentivize major financial institutions to finance energy-efficient very low-income homes

These recommendations would engage public-private partnerships to help overcome the market barrier of financing the cost of improvements. The points also of-

fer suggestions for federal support to incorporate private capital investment such as credit enhancements and tax incentives as structures to diversify direct governmental spending.

## End notes

Like H.R. 6049, the Renewable Energy Job Creation Act that was approved by the House on May 21 by a vote of 263-160 but shot down in a 50-44 vote in the Senate, H.R. 6078 appears headed for a struggle. That said, a national commitment to energy efficiency in low-income homes would not only save money but would ensure that more developers and owners of low-income housing will find responsible solutions in designing, producing and managing affordable housing properties.

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