

CANADIAN FEDERATION OF APARTMENT ASSOCIATIONS

Making ecoENERGY Retrofit Incentives work for rental housing

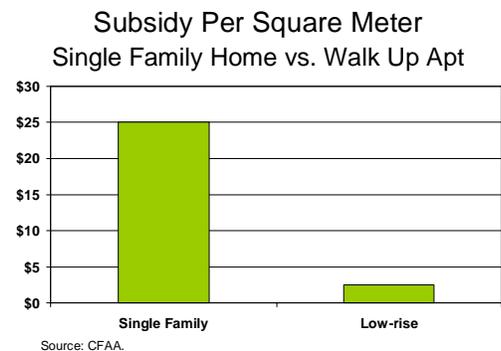
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The Canadian Federation of Apartment Associations (“CFAA”) represents the owners and managers of close to one million residential rental homes in Canada. We want to help Natural Resources Canada to incentivize energy retrofits which would not otherwise be performed in 2009, in order to create jobs and to assist both landlords and tenants to reduce energy consumption.

Of 12 million homes in Canada, 3.9 million are occupied by tenants and owned by landlords. Of those 3.9 million rental homes, 500,000 are single family homes. Another 2 million are other forms of low-rise housing with less than four floors, including attached houses, duplexes, triplexes and purpose-built walk up apartments from 6 to 30 units. All together, the low-rise rental stock is home to over 6 million Canadians. On average, low-rise rental homes are older than owner occupied homes. For that and other reasons, low-rise rental property is more likely to use energy inefficiently than owner occupied homes.

Current Unfair Treatment of Tenants and Landlords

The low-rise rental stock is eligible for rebates under the ecoENERGY Rental Incentive for HOMES Program. However, because of program design issues the rental stock has been badly served by that program. As just one example, a home owner is entitled to a grant of up to \$5,000 for their home, which might be 200 square meters. The very same limit of \$5,000 applies to the grant available for 30 rental homes in a 3 ½ story walk up apartment building, which has ten times the floor area¹. In other words, single family homes are eligible to receive ten times the level of subsidy per square meter that rental homes are eligible for. The net result is that the current program is not widely used by a large portion of the housing stock, and opportunities to achieve greater energy conservation goals are being missed.



Characteristics of Rental Housing Owners

Many members of the public perceive landlords as wealthy individuals with high incomes. This view is largely incorrect. One million Canadians report some amount of rental income, but for most of them renting is a part time occupation which supplements a modest income. In 1998 for example, between 81% and 85% of individuals reporting rental income earned less than \$60,000 total income each year.² Even for individuals earning over \$50,000 in total income per year, the average net rental income in the year 2000 was only \$15,936.³ For low-rise rental owners the average incomes would be lower than that.

Characteristics of Rental Housing Tenants

On average, tenants have half the income of home owners. For example in 2000 in Ontario, the mean average income of families residing in owner-occupied residences was \$79,838; while the mean income of renting families was \$39,883. The median income of families residing in owner-occupied residences was \$66,328, while the median income of renting families was \$31,966.⁴ The same point can be seen by looking at the breakdown of tenure by household income quintiles (i.e. fifths) from high incomes to low incomes.

Tenure by income quintile, 2001⁵

Income quintile	High	Upper	Middle	Moderate	Low
Own	89.7%	79.9%	67.3%	54.8%	36.9%
Rent	10.3%	20.1%	32.7%	45.2%	63.1%

Increasing Energy Conservation in the Rental Housing Sector

EcoENERGY for HOMES is working for owner occupied homes, for which it is likely generating an overall federal subsidy rate of between 10% and 15%. Ontario and New Brunswick match the ecoENERGY for HOMES grants dollar for dollar so that the total subsidy rate for homeowners in those provinces is between 20% and 30%. (15% was chosen as the subsidy rate for the new Home Owner Renovation Tax Credit, which will produce a total federal subsidy rate of 25% to 30% for energy saving work over the range in which the programs are stackable.)

However, EcoENERGY for HOMES is experiencing little take up for MURBs. According to CFAA's estimates, the ecoENERGY for HOMES subsidy rate for low-rise rentals is about half the rate for homeowners, or in the range of 5% to 8%, depending on the building size and the work. The Ontario and New Brunswick matching grants extend to the whole low-rise rental sector⁶, doubling that to a range of 10% to 16%, but there is still relatively little take up. Therefore, a higher subsidy rate is needed to achieve a reasonable rate of take up, and to include MURBs in Canada's energy conservation measures.

Fairness would dictate the same subsidy rate be available for tenant occupied homes as for owner-occupied homes. Since various factors may constrain landlords, a higher level of subsidy may be required than the level provided to homeowners. However, the government asked CFAA what rate would lead to a significant amount of take-up, leaving aside the fairness question. Through most of our 17 member associations CFAA surveyed landlords as to the subsidy level they would need in order to perform various energy saving work on their rental properties.

Before addressing the survey results we need to address a particular issue landlords express about the ecoENERGY for HOMES program, namely the cost of the energy assessments that are required both before and after the work in order to qualify for the subsidy. Depending on the work done and various other factors, the assessment costs can easily reach 5% or more of the cost of the retrofit work. Given those assessment requirements, achieving a particular subsidy rate as a percentage of the cost of retrofit work requires a subsidy of 5% higher. For example, to achieve a subsidy rate of 25% of the cost of the retrofit work requires a gross subsidy rate of 30% (25% against the work and 5% to pay for the assessments). Therefore our table reports both the net subsidy rate required by landlords (column 1) and the gross subsidy rate required as the subsidy payout (column 2). Column 2 is shows the relevant subsidy rate needed given the ecoENERGY for HOMES design.

The results are that take up will be very light (5%) at a 20% subsidy level and light (13%) at a 25% subsidy level, but take up will become significant (30%) at a 30% subsidy level. These results appear to be consistent with the current experience with the program.

Take-up rates for different subsidy levels

Subsidy level (if there were no assessment nor audit costs)	Subsidy level required assuming a 5% assessment and audit cost	Percentage of landlords who would perform energy saving work in 2009
10%	15%	0%
15%	20%	5%
20%	25%	13%
25%	30%	30% ⁷
30%	35%	35%
40%	45%	45%
50%	55%	68%

The provincial matching issue in including rental housing

Harmonized provincial matching means that any design failings or design flaws at the federal level are automatically amplified by the provincial matching. Therefore, it is critical that the federal program design not leave out a large portion of Canada's housing stock. The key issues concerning provincial matching are to ensure that increases for MURBs in the federal program are matched, and to encourage all the provinces to match the revised program, preferably with harmonization so that the paperwork is minimized.

Recommendations for reforms to ecoENERGY for HOMES

CFAA is satisfied with the high-level program design of ecoENERGY for HOMES, and in particular with the program's design as a rebate program, rather than a contribution agreement program. In other words, providing subsidies of specific amounts for specific work is a good design. In principle, using multipliers to adjust the rebate amounts for larger buildings is also a good design. What is required is a change in the program details to make the rebate amounts realistic and suitable for low-rise rental properties, which can easily be ten or twelve times as large as a single family home.

To achieve energy savings among low-rise rental property it is critical that the ecoENERGY for HOMES provide an adequate subsidy level for rental properties, similar to the subsidy level provided for owner-occupied homes. For the program to do that CFAA advocates the following specific changes:

1. Additional types of work should be listed in order to cover work needed in MURBs which does not apply to single family homes, such as heating boilers. (See Appendix A for suggestions)
2. The MURB multipliers should be increased.
 - a. The multipliers in the existing table should be at least doubled (for example, a multiplier of 2.0 should become 3.0.)
 - b. The MURB multipliers should be extended to cover buildings with more units. Based on the floor area, a building within the HOMES program could potentially have as many as 30 rental units, yet the current maximum multiplier is reached at 10 units. (See Appendices B1 and B2 for the suggested MURB multipliers.)
3. Additional MURB multiplier tables should be provided which is based on the footprint or the gross floor area of the building. An owner should be entitled to the higher of the multipliers for the unit count, or for the footprint or floor area as applicable. (See Appendices B3 and B4 for the suggested MURB multipliers based on footprint or floor area, and when they should apply.)
4. MURB multipliers should apply to furnace and boiler replacements, heat pumps and domestic hot water systems (unless the building size is already accounted for in the rebate amount).
5. The dollar limits should be raised for low-rise rentals. At the least, the maximum rebate amount should be raised to \$10,000 for buildings with 4 to 7 units, to \$15,000 for buildings with 8 to 12 more units and to \$20,000 for buildings with 13 or more units.
6. The program should be divided so that there is a program known as ecoENERGY Rental Incentive for LOW-RISE RENTALS. At the least, a promotion campaign should be undertaken in cooperation with CFAA to make the program known, along with any provincial matching grants.
7. Ensure that provincial matching is available, with the least possible administrative burden.

APPENDIX A – Different work needed in MURBs

Type of work or item to be replaced	Approximate Cost to Building Owner	EcoENERGY subsidy suggested (15%)	Matching subsidy needed to reach 30% ⁸
Heating boiler (3 - 5 units)	\$7,500	\$1,125	\$1,125
Heating boiler (6 – 10 units)	\$15,000	\$2,250	\$2,250
Heating boiler (11 – 16 units)	\$20,000	\$3,000	\$3,000
Heating boiler (17 + units)	\$25,000	\$3,750	\$3,750
Integrated boiler system (less than 21 units and 1700 m ²)	\$30,000 to \$45,000	\$4,500	\$4,500
Integrated boiler system (more than 20 units or 1700 m ²)	\$40,000 to \$60,000	\$6,000	\$6,000
Duct work for a new furnace or boiler (minor)	\$1,500	\$225	\$225
Duct work for a new furnace or boiler (major)	\$5,000	\$750	\$750
Direct Digital Controls (DDCs)	\$3,000	\$450	\$450
Rainwater harvesting system (1 to 5 units)	\$2,000	\$300	\$300
Rainwater harvesting system (6+ units)	\$5,000	\$750	\$750

APPENDIX B

B 1. Requested multipliers (based on the current table)

Number of dwellings	2 - 3	4 - 6	7 - 9	10 - 12	13 - 16	17 - 20	21 +
Current multiplier	1.0	1.5	2.0	2.5			
Requested multiplier	1.5	2.0	3.0	4.0	5.0	6.0	7.0

Consultation with CFAA's members reveals that per unit costs do not necessarily fall when there are more dwelling units in a building. In fact, there are break points at which costs rise dramatically. For example, due to the vast size of the market for it, fibreglass roof insulation for houses or triplexes is extremely affordable, whereas blue rigid insulation for flat roofs is comparatively expensive. Carrying insulation up to an attic is economical, whereas having insulation hoisted to a flat roof with a crane is comparatively expensive. Therefore, below as Table B2 is an alternate suggested set of multipliers which reflects those realities of the market for the retrofit work.

B2. Alternate Requested MURB multipliers

Number of dwellings	Pitched roofs		Flat roofs				
	2 - 3	4 - 5	4 – 6	7 - 9	10 - 14	15 - 20	21+
Current multiplier	1.0	1.5	1.5	2.0	2.5		
Alternate requested multiplier	1.5	2.0	3.0	4.0	5.0	6.0	7.0

The building footprint would drive the costs of basement or attic/roof insulation since it is the footprint which determines the area to be insulated. Therefore, here is a suggested multiplier table based on footprint. CFAA's suggestion is that an owner be permitted the higher of table B3 and whichever of tables B1 or B2 is selected.

B3. Suggested additional MURB multiplier table based on FOOTPRINT – for attic/roof or basement insulation

Footprint (m²)	76-99	100-149	150- 199	200- 299	300- 399	400-499	500+
Requested multiplier	1.5	2.0	3.0	4.0	5.0	6.0	7.0

For wall insulation the measure should be the perimeter times the building height. While not a perfect proxy, footprint times the number of building stories would correlate with the wall area better than footprint alone. Footprint times the number of building stories equals the gross floor area. Therefore CFAA submits that the gross floor area is a relevant measure for wall insulation, as shown in Table B4.

B4. Suggested additional MURB multiplier table based on BUILDING AREA – for wall insulation and miscellaneous work

Gross floor area (m ²)	300 - 499	500 - 799	800 - 1,099	1,100 - 1,399	1,400 - 1,699	1,700 - 1,999	2,000 + ⁹
Requested multiplier	1.5	2.0	3.0	4.0	5.0	6.0	7.0

Endnotes

¹ The eligible gross floor area can reach just short of 2,400 m² because a building with a footprint of 600 m² and 3 ½ stories has gross floor areas of 600 times 4, as the ½ refers to the height of the building, but the floor which is half below and half about grade is usually a full floor for the purpose of building area calculations.

² Canada Mortgage and Housing Corporation. 2002. Research Report: An Evaluation of Housing Taxation Measures. Ottawa: Canada Mortgage and Housing Corporation. p.33.

³ Calculated from Table 2-2 *ibid*, p.34. (\$421,490,000 + \$336,652,000 + \$738,510,000) divided by (46,958 + 19,956 + 27,004), i.e. \$1,496,652,000 divided by 93,918 = \$15,936.

⁴ Statistics Canada, 2001 Census.

⁵ Canadian Housing Observer 2006, CMHC, p. 68.

⁶ Other provinces and many utilities provide subsidies for similar work but not yet with full harmonization.

⁷ The fact that the take up percentages equal the subsidy percentages for this and the next two levels is a coincidence.

⁸ The matching subsidy could be provincial, or an extension of the new federal Home Owners Renovation Tax Credit, or a supplementary subsidy from NRCan specific to low-rise rental properties.

⁹ See endnote 1.