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HOUSING MATTERS

All-Electric Affordable Housing Poses Challenges, But There's Hope

We're Learning Lessons from First-Generation Buildings

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SPECIAL TO BANKER & TRADESMAN

It feels like a perfect storm when it comes to developing all-electric multifamily housing.

The requirement in municipalities like Boston and Cambridge new construction of multifamily housing projects be all-electric is worthy from a sustainability point of view, but higher construction and operating costs make it harder to build desperately needed housing. The dilemma poses a vexing policy problem – especially in the short term.

Massachusetts has the nation's third-highest electric rates behind Hawaii and California. Among the reasons why rates are more than double the national average are that half our supply comes from natural gas, the price of which is very volatile; an aging power grid that requires expensive upkeep; and a climate with both cold winters and increasingly hot summers.

One way to drive prices down would be to diversify our energy grid with sustainable energy sources. But the Trump administration has eliminated many sustainable energy investments along with programs like greenhouse gas and solar credits.

What Drives Higher Costs

On the construction side, in addition to overall costs increasing rapidly since the pandemic and rising interest rates, all-electric buildings bring unique costs that are not limited to the technology within the building. We must also factor in supersized transformers and the hidden costs of upgrading municipal infrastructure, also known as "backcharges" levied by utility companies, to bring the needed level of service to development sites.

The combination of rising electricity and building costs makes it harder than ever to make the math work for multifamily housing generally, and affordable developments in particular.

Higher electric costs mean higher operating costs and more strained property budgets. For new multifamily buildings, increased operating costs reduce the size of the private mortgage the property can support, requiring developers to find other resources, including public subsidies, to fill financing gaps.

When planning a new 110-unit housing facility in Cambridge, we at B'nai B'rith Housing initially projected annual electricity costs at about $1,500 per unit. However, based on the input of more sophisticated all-electric building underwriting, we discovered that the amount should be closer to $2,300 per unit, per year, which reduced the supportable debt by over $1.5 million.

Industry Learning to Trim Expenses

Currently, most cost-cutting efforts for all-electric developments center around improving the building envelope to reduce leakage. Innovations like digitized building management systems are also being used to optimize efficiency.

"Learning how to cut costs for these 'first-gen' all-electric projects has been an iterative process," said Emily Jones, deputy director of LISC Massachusetts, a nonprofit that connects local groups across America with the capital and technical know-how to help build inclusive, resilient communities of opportunity. "Owners are getting better at it with each new project."

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Many low-income housing residents qualify for income-based electricity rate discounts, but it's much harder for operators of low-income multifamily developments to qualify. Easier access to discounts for low-income housing owners would ease the strain of trying to make projects financially viable.

"If we want safer, healthier housing for low-income tenants, affordable housing owners should get the same discounts as their residents do," Jones told me. "The Boston Housing Authority alone could save an estimated $11.5 million annually if it were allowed to qualify for the discount."

Help is on the way. The state Department of Energy Resources is compiling information on operating costs in all-electric buildings that should yield more granular data about cost and which systems or approaches have been most effective at controlling it. But since most of the buildings have only been in operation for a year or two, it will be a while before enough data to draw important lessons is available.

In terms of overall electric rates, state energy legislation that could impact all-electric multifamily housing is currently in conference committee, where House and Senate representatives have been engaged in difficult negotiations.

Careful Choices Needed

Some argue that the Mass Save program, which performs energy audits and provides rebates to help pay for updates that make buildings less expensive to operate and more sustainable, is inefficient and that its funding should be reduced. While the program is far from perfect, the savings from cuts would be de minimis compared to what could be achieved if utilities allowed owners of affordable multifamily housing developments to qualify for residential electricity rate discounts.

Over time, technology should go a long way toward solving all-electric multifamily housing's financial crunch. More immediately, ameliorating operating costs by adding solar appears to be the most promising development on the horizon. Exploring distributed demand approaches to reduce system burden when rates are high would be highly impactful. Currently, few batteries can store enough solar power to make a difference during peak periods, but battery technology is progressing quickly.

In the not-too-distant future, it should be much easier to simultaneously pursue housing creation and sustainability goals. But until advances in technology facilitate that, Massachusetts must make careful choices about how to meet all-electric mandates for multi-family housing without exacerbating the commonwealth's housing crisis. ◀

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