

Eric Myers, Director of Government Affairs
Minneapolis Area Realtors
5750 Lincoln Drive
Edina, MN 55436

December 4, 2018

Dear Mr. Myers,

Thank you for your November 27, 2018 letter regarding our proposed energy disclosure ordinances, and specifically the Truth in Sale of Housing (TISH) aspect of those policies.

As our offices shared in our meeting with Realtors – that we are grateful to you and the Minneapolis Area Realtors for helping to organize – the purpose of this ordinance is to address two ongoing and worsening crises: a local housing affordability crisis and the global climate crisis. The number of cost-burdened households continues to rise in our city and region. And the evidence is clearer with every passing day that we must dramatically reduce carbon emissions to avoid catastrophic climate change – an environmental threat that is already contributing to disasters around the world, including here in the U.S.

It's important to start with a good description of the status quo. 90% of Minneapolis homes were built before the first energy code was adopted. We know from the Minneapolis homes that have received energy audits that a large majority – 70% – lack wall or attic insulation, and are not adequately air-sealed. Year after year, thousands of homes are sold in Minneapolis. New homebuyers are not, in most cases, informed that the home they are buying lacks air sealing and insulation. We know that air sealing, insulation, and furnace upgrades in older homes are among the most cost-effective ways to reduce residents' total costs of housing, and reduce the carbon emissions that are actively changing our climate in potentially catastrophic ways. That's why the City has an adopted goal, as part of its Climate Action Plan, of completing energy efficiency retrofits in 75% of Minneapolis homes, and why the Climate Action Plan specifically names energy disclosure as a key suite of policy levers to achieve that goal.

Energy Disclosure will increase housing affordability

Though we understand your concerns that energy disclosure policies will increase transaction costs to some extent, we believe that these policies will substantially reduce homeowners' total housing costs over time. The long-term, ongoing financial and environmental benefits of upgrades like insulation and air sealing far outweigh a modest potential increase (estimated to be less than \$200) to the one-time cost of selling a home.

Energy costs represent one of the largest costs of housing that homeowners can directly affect after they have purchased a home. At the same time, there is virtually no transparency about energy costs for homebuyers. Giving homebuyers, especially first-time homebuyers, access to information that enables them to understand the full cost of a home is not a barrier to homeownership – it's a way to help make their homes more affordable over the long term, and promote housing stability. By showing homebuyers the energy costs associated with the home they're buying, and opportunities to lower those costs, while at the same time connecting them to grants, loans, and other programs that the City is funding in partnership with the utilities, this program will reduce overall housing costs.

And as you know, the party that is responsible for the cost of the already-required TISH report is not the buyer, but the seller.

We need faster progress on reducing carbon emissions

The City clearly agrees with you about the value of opt-in home energy audit programs and incentives for homeowners to take action to improve the energy efficiency of their homes. That's why, working with our energy utilities, the City has used our own funds to buy down the costs of Home Energy Squad audits to \$0, market the program, and buydown the interest rate on loans for energy efficiency improvements to 0%.

But while these investments have increased the number of opt-in energy audits, the number of audits is still much too low. In 2017, there were 620 Home Energy Squad visits in Minneapolis. In 2018, we anticipate there will be between 850-900 visits, a year-over-year increase of around 45%. But to get to our stated goal of retrofitting 75% of Minneapolis homes, at this rate it will take decades.

As the recent International Panel on Climate Change report (<http://www.ipcc.ch/report/sr15/>) makes clear, we don't have decades. We need to act now to substantially curb carbon emissions as soon as possible.

You are correct that only a subset of Minneapolis homes is offered for sale every year. But your own data show that that number hovers around 4,000 homes annually. Including an energy assessment in each of those home sales would drive an increase of over 300% in energy assessments in Minneapolis, compared with the rate we see today.

Consumer protection

When looking to buy a car, consumers can vet their options based on the miles per gallon of the vehicles they are considering. There is transparency -- at the time the consumer is making their choice -- about the cost of operating different cars. That is what we are attempting to do for homes in Minneapolis: ensure consumers have the same level of transparency about actual costs, the way we expect for other goods and services in the marketplace. This is especially significant given that energy costs can be quite substantial yet remain totally hidden in the standard homebuying process.

Adding the proposed energy report to TISH will make the existing inspection a more useful one that is less redundant to the other, opt-in inspections that you rightly note occur for most homes. We disagree that this level of consumer protection will create a competitive disadvantage for Minneapolis homes. In fact, we believe that over time, homebuyers will be drawn to Minneapolis homes specifically *because* of this level of transparency. Would you prefer to buy a car from a dealership that discloses miles per gallon of each model, or one that doesn't?

Ultimately, our intention is that properly valuing energy efficiency, including through the TISH energy report, will result in more Minneapolis homes receiving energy efficiency upgrades. This will make Minneapolis homes more attractive to purchasers and cheaper to own in the long term.

Correcting market deficiencies

As your letter makes clear, there are significant deficiencies in the market's pricing (or lack of pricing) of the most basic energy efficiency characteristics of homes. The current system is not working. Homes that lack the most fundamental energy efficiency features -- like wall insulation and air sealing -- do not have that deficiency incorporated into their sale prices. In fact, it would be impossible to do so because, in a vast majority of cases, this information is not known. Likewise, houses that have these basic, fundamental forms of energy efficiency don't have that added value reflected in the price.

We should note that what we're looking to incentivize is not only the more noticeable energy improvements like those listed in your letter (geothermal, solar, electric vehicle chargers, etc.). It is easy to conceive of the market pricing in those kinds of conspicuous improvements through appraisals and Competitive Market Analysis. It's much harder to imagine the market adequately pricing in hidden,

unglamorous basics like wall insulation and air sealing. We know that this does not happen today. And beyond that, it's telling that you do not even mention any of these basic energy efficiency needs in your letter.

While utility bill disclosure would be a small step towards correcting this market deficiency, it falls short of the City's goals in two important ways. First, a significant portion of energy use is due to behavior of residents, not to the structure itself. Utility bill disclosure alone can't disentangle these two drivers of overall energy cost. And second, the TISH energy report that we propose will not only describe the existing conditions of a home, but also provide tangible, concrete steps that the new homeowner can take to improve the house's efficiency and immediately reduce their energy costs while increasing the comfort of their home.

As our offices expressed earlier this year, we are very excited by the possibility of including more energy efficiency information in the Multiple Listing Service (MLS). In order for this information to be included in the MLS, however, it must first exist. Currently, there is no reliable data about whether a given Minneapolis home has adequate insulation, or whether it is sufficiently air-sealed. The proposed TISH energy report is not in conflict with the goal of including more energy efficiency information in the MLS, but rather a necessary first step: creating a pathway to access the information that will be shared via the MLS platform.

Conclusion

Again, we want to express our appreciation for your interest and willingness to engage in this important discussion about how best to provide housing affordability and reduce the threat of climate change. We will continue to advocate for improving the TISH inspection process and making it more relevant by adding the proposed energy report, as one of many strategies to reduce carbon emissions across all building types and industries. We look forward to working with you on issues where our interests align, such as improving Realtor and appraiser education about energy efficiency, incorporating energy information in the MLS, and more.

In cooperation,



City Council Member Jeremy Schroeder
Ward 11



City Council Member Cam Gordon
Ward 2