CALIFORNIA ASSOCIATION OF REALTORS®

December 13, 2021

Liane Randolph, Chair
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: 2022 Scoping Plan Update – Building Decarbonization Workshop

Dear Chair Randolph:

Over the decades, the California Association of REALTORS® has been, and continues to be, an active partner in the development of energy related legislation and regulations as they pertain to housing. We thank you for the opportunity to help inform this important discussion with information about how some proposed decarbonization policies and strategies could have adverse consequences for homeowners and working Californians who wish to buy a home.

Housing Affordability – To begin, it is important to highlight that the current median price of a home in California is over $800,000, making this state alarmingly unaffordable to most people who would like to buy a home. Any recommendations to meet decarbonization goals via "retrofit on resale" will only drive-up home sale prices and exacerbate California's housing affordability crisis.

Home retrofits are frequently expensive, time consuming, and depending on the retrofit(s), subject to a government or third-party inspection. Major appliance retrofits will require significant additional work such as electrical panel upgrades which involves finding, bidding, and scheduling professional contractors, installation time, and then scheduling a government inspection. As the recent and ongoing labor and materials shortages have put in sharp relief, retrofits requirements can and will result in considerable delays or increase costs so significantly, especially in "hot" markets that they would reduce the inventory of homes available further driving up prices and limiting access to the housing market.

Also, even in less stressed markets and times, the time to complete any upgrades or repairs negotiated in a real estate transaction is already narrowly constrained by the window of time offered by the buyer's financing company, often a 30-day window. Those timeframe constraints dictated by financing requirements can also put working Californians competing to buy homes at a disadvantage as those who are paying cash or have substantial down payments have more financing flexibility and therefore an advantage over those using more conventional financing methods or the FHA and VA loans used by many working Californians with limited cash resources.

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Currently, in home sale transactions, the condition and amenities of a home are points of negotiation between the buyer and seller. Buyers and sellers have the flexibility to negotiate how and when perceived deficiencies are addressed. This ability to negotiate helps sellers vacate quicker and/or buyers stay within their financing window and loan value limits. Therefore, any "retrofit on resale" mandate is guaranteed to not only drive-up the cost to get into a home but will also severely disrupt the home purchasing process.

Electrical Upgrade Costs for Existing Homes – Limited information exists on the average electrical upgrade costs for existing homes which includes appliances such as electric heat pumps, water heaters, solar PV systems, electric vehicle chargers, etc., in addition to the panel upgrades and contractor prices. Additional research is needed to quantify the cost to upgrade electrical infrastructure in existing California homes, and the proportion of homes requiring different levels of upgrades. Also, in light of recent shortages, such research needs to look at how labor market and materials availability can affect such costs. One estimate of $25,000 per existing home was given by energy consultant Peter Turnbull in the August 17, 2021, Joint Legislative Hearing on Climate Change Policies. This is an outrageous expectation to place upon Californians.

Equity Considerations – Most existing homeowners do not have the ability to incur debt on demand specifically to meet the decarbonization goals being created by the State. This is especially true in the context of electrification policies that force the replacement of appliances before the end of their useful life.

As identified in the Energy Commission's 2021 publication *California Building Decarbonization Assessment, Building Decarbonization in California: Market Transformation at Scale (CEC 2021),* "Investments in decarbonization, whether accelerated or emergency replacement, will often be outside of the scope of a business's investment plans, or beyond a homeowner's planned home repair budget."

Decarbonization mandates will create a disproportionate burden on homeowners that are neither able to afford additional debt nor qualify for publicly subsidized programs. These burdens will fall especially on those working Californians who have fixed incomes or jobs with limited income growth potential and new homeowners who are not eligible for more debt or expenses as they are carrying heavy mortgage debt and possible student loan debt as well.

All-Electric Homes Are *NOT* Cheaper to Operate – ConSol conducted an annual operating cost-analysis comparing new, minimally compliant all-electric and mixed-fuel homes. Using current utility rates, this analysis found that all-electric homes are more expensive to operate in almost all cases. In the Central Valley, from Sacramento to Bakersfield, new home buyers should expect to pay $250 more per year to operate an all-electric home. With California utilities (e.g.: SCE, PG&E and LADWP) poised to raise rates 30% or more in the coming years, the cost of operating an all-electric home will disproportionately rise compared to a mixed-fuel home. Again, this increase in operating costs will make overall housing costs even more astronomical and will again disproportionately burden California's low to middle income families.

Grid Reliability –As we make the shift towards electrification and replace gas water and space heating and gas cooking devices with those powered by electricity, how is that "fuel switch" going to impact the typical peak-load electrical energy use? The potential impacts of emission reduction strategies and grid reliability has yet to be adequately evaluated per the requirement in PRC §25403(a)(5). This section of law specifically directs the *CEC 2021* report to consider and evaluate "***The potential impacts of emission reduction strategies on ratepayers, construction costs, and grid reliability".*** *CEC 2021* failed to provide the detailed analysis required by law. This lack of adequate consideration is unacceptable and indicates that the lack of grid reliability will potentially put vulnerable populations at risk.

Interim Steps Need to be Considered – As was brought forth in the August 17, 2021, Joint Legislative Hearing on Climate Change Policies, the ability and costs associated with interim alternate strategies such as natural systems or direct air capture have yet to be meaningfully considered. It is imperative that alternate decarbonization strategies be evaluated as reasonable steps to meet overall greenhouse gas reduction goals while technologies and costs evolve to reasonably meet consumer budgets and demand. As part of decarbonizing existing buildings, we respectfully recommend that proposed strategies do not further stress the housing market, working homeowners, and generally further exacerbate the state's housing crisis.

We thank you for the opportunity to bring our experiences, expertise, and perspectives to this discussion. We hope you take our concerns into your considerations.

Thank you,

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Cc: Board Members, California Air Resources Board