Are Stretch Codes a Barrier to Affordable Housing in New Jersey?

A stretch energy code is an energy code municipalities can adopt that is more energy efficient than the base energy code. Stretch energy codes allow communities to achieve higher energy savings and for these communities to be better prepared for future iterations of model codes that aim to be zero energy by 2030. Stretch energy codes are typically 10 to 15 percent more energy efficient than the base energy code and are updated as a state or city updates the base energy code.

New Jersey is among the most expensive states to live in and there are numerous existing barriers to constructing new affordable housing. Excessive regulations have been found to drive up the already high housing costs by 35 percent, which pushes out those with lower incomes. In the past, the financial viability of inclusionary zoning sites was not considered when developing new affording housing. The actual production of affordable housing in New Jersey has been inhibited by high mandatory set asides and unrealistic site selections. Additional barriers to building new affordable housing in New Jersey include mandatory parking space requirements and unregionalized school districts, which causes the state to have the most school districts per county resulting in duplicative buildings and equipment driving up property taxes and housing costs.

Many in New Jersey fear that developing and implementing a statewide opt-in stretch code will exacerbate the existing barriers and block affordable housing development even further. Many of these same concerns arose in 2020 when Connecticut introduced House Bill 5008, An Act Concerning the Establishment of High-Performance Green Building Standards for Voluntary Adoption by Municipalities. Residents of Connecticut feared changing the current code adoption process because of concerns that the Connecticut Department of Energy and Environmental Protection (DEEP) would not consider cost of construction and affordability in stretch codes. Additionally, claims were made that DEEP's new stretch code would give wealthier communities in the state greater ability to "circumvent their affordable housing responsibilities under the guise of embracing energy efficiency." These growing concerns regarding fair housing issues established an anti-stretch code movement in Connecticut at the time.

Research shows that borrowers living in energy efficient homes have a lower loan default rate than those living in conventional homes.

However, many of these concerns have been proven to be misguided. In fact, Maine has implemented a statewide opt-in municipal stretch code with little harm done to housing affordability. In order to address concerns of increased costs of construction with the new stretch code, Maine worked with the Pacific Northwest National Laboratory (PNNL), and conducted a cost analysis on the costs associated with building to the new stretch code. PNNL found that the Maine base energy code would increase costs by $2,629.39 per new home, but would generate $847.77 in savings per year. In 30 years, energy savings were calculated to be $13,954.72 per household, showing that the upfront increased costs of construction are minimal compared to the energy savings associated with building to the new stretch code. The stretch code was also shown to decrease utility costs while providing additional benefits

of preparing the new home for increasingly unpredictable weather. Another benefit Maine found with developing and implementing a stretch code is job creation, since it has generated even more jobs for energy auditors, contractors, and third-party private sector inspectors.

New Jersey is already aware of the struggle constructing new affordable housing units in the state. In response, the state has generated programs to support and incentivize affordable housing construction that already exist. The programs can also assist in financing housing for those who are concerned that a municipal opt-in stretch code will increase new affordable housing construction costs. In 2021, the Economic Recovery Act in New Jersey was established. Under this legislation came the Aspire Program, which grants housing an award (prior to the project commencing) for a tax credit ranging from 45 percent to 60 percent of the total project costs. Additionally, in March 2022, state legislation was proposed in New Jersey to create tax credits to build affordable housing. If passed, Senate Bill 2352 would create a tax credit or grant for the amount of a project financing gap up to 20 percent of the total project cost and up to 30 percent if the property meets certain requirements.

Despite the existing arguments that a stretch code in New Jersey will increase housing costs, specifically affordable housing costs, research from other states and existing programs in the state show that a stretch code will benefit every household that is built to the new code. For example, the state of Massachusetts has a stretch code that has been adopted by 289 of its 312 municipalities. The stretch code became effective in the beginning of 2011 for most of the communities to adopt. Many in the state opposed to the stretch code claimed that the stretch code would slow construction, but this thinking turned out to be unmerited. In the Boston metropolitan area, 6,672 building permits were issued in 2010, according to data from the U.S. Census Bureau and by 2018, the number was up to 14,183. In conclusion, New Jersey implementing a stretch code will generate energy savings for market rate construction, new affordable housing units and their occupants, and will not negatively impact new construction of affordable housing.