

To the Committee Secretary,

**Re: Treasury Laws Amendment (Improving the Energy Efficiency of Rental Properties)
Bill 2018**

Thank you for the opportunity to make a submission regarding this bill.

Better Renting is a community of renters working together for stable, affordable, and liveable homes. With more Australians locked out of homeownership, more people are renting, and renting for longer. While you may not be able to own a home, you should at least be able to rent one.

This requires that homes be energy efficient enough that people in them can afford to live at a healthy and comfortable temperature the whole year round. We thus support this bill as a positive step that acknowledges the existing challenges facing people who rent and proposes a measure to begin addressing these challenges.

Sincerely,

Joel Dignam
Executive Director
Better Renting

Rental properties have appallingly low energy efficiency

Around Australia, people who rent live in properties that are more expensive to heat and cool because they are less energy-efficient. Renters are four times more likely to live in a home without insulation, and they are less likely to have window treatments such as curtains. While almost two in homeowners have draught-proofed their doors and windows, only one in five private renters has.¹ Renters' homes are also more likely to have major structural problems such as major cracks or windows out of plumb.² In the ACT (the only Australian jurisdiction requiring disclosure of energy efficiency ratings), only 5% of properties advertised for sale have an energy efficiency rating (EER) of 0, compared with one in four properties advertised for rent.³ In short, people who rent live in draughtier and less-insulated properties that are harder and costlier to cool in summer and heat in winter.

This is a consequence of 'split incentives'. Landlords who would bear the costs of energy efficiency improvements would not experience the direct benefits of reduced energy costs and improved comfort. As COAG has put it, "there is little incentive for owners of rental properties to invest when tenants reap the benefits from improved energy performance."⁴ Renters themselves are not able to make significant changes themselves and cannot be confident of remaining in the property for long enough to benefit from changes.

The outcomes of this are severe. Because inefficient properties are harder and more expensive to heat in winter and cool in summer, renters face inflated power bills and worse health outcomes. Cold, damp housing is strongly linked with worse mental and physical health,⁵ and these effects are worse for low-income households⁶ or people with disabilities⁷. Low-income households - who are more likely to be renting - also spend a greater proportion of their income on utility costs.⁸ This expense is avoidably increased due to inefficient housing.

¹ Australian Bureau of Statistics, 'Household energy consumption survey, 2012'. Canberra, ABS 4670.0, 2013.

² Australian Bureau of Statistics, 'Housing Mobility and Conditions, 2013-2014'. Canberra, ABS 4130.0, 2015.

³ Data sourced from Fuerst, F, & G Warren-Myers, 'Does voluntary disclosure create a green lemon problem? Energy-efficiency ratings and house prices'. in *Energy Economics*, 74, 2018, 1–12.

⁴ COAG, National Collaborative Approach To Residential Building Ratings and Disclosure - Principles. 2016.

⁵ Public Health England, 'Local action on health inequalities: Fuel poverty and cold home-related health problems'. 2014.

⁶ Pape, A, Energy Efficiency and People on Low Incomes. Strawberry Hills, 2013.

⁷ Hodge, C, More Power To You: electricity and people with physical disability. Sydney, 2012.

⁸ Australian Competition and Consumer Commission, Restoring electricity affordability and Australia's competitive advantage. 2018.

We need to drive improvements in the energy efficiency of rental properties

The best response to this problem is likely a ‘carrot and stick’ approach that combines incentives alongside legal requirements.⁹ We believe that state and territory governments should establish legal requirements in the form of minimum energy efficiency standards for rental properties. The Commonwealth can and should adopt the complementary approach of offering tax incentives.

Research has found that both landlords and renters support tax incentives for landlords to improve the energy efficiency of their properties. In a survey of Victorian renters and landlords, tax incentives won above 90 percent support from both landlords and renters. of renters and over 70 percent of landlords. It was also found that the availability of tax incentives also increased landlord support for minimum energy efficiency standards.¹⁰

We note that this bill would most likely result in minimal uptake and thus have negligible budgetary impact. Past experience of energy efficiency incentives demonstrates limited interest from landlords. For example, fourteen times more homeowners than landlords participated in the Home Insulation Program; a similar program, LEAPR, aimed specifically at landlords, was discontinued due to low up-take.¹¹ A Low Income Energy Efficiency Program (LIEEP) trial by CitySmart resulted in no up-take by landlords, despite engagement.¹² A second LIEEP project could not induce any landlords to accept a discount to upgrade to a solar hot water system.¹³ In 2008, Sustainability Victoria ran an insulation rebate scheme; a survey found only 12% of participants were tenant households.¹⁴

However, although most landlords are unlikely to take advantage of tax incentive, this bill is still worthwhile. While this bill may not result in proactive improvements from landlords, it could have a valuable influence on reactive improvements. This bill could help to address a perverse situation in which a landlord might repair an inefficient appliance instead of upgrading to a more efficient appliance. Currently, repairs are tax-deductible, but an upgrade would not be. This bill could incentivise energy efficiency improvements in response to the failure or breakdown of inefficient appliances. In addition, it could function as a ‘carrot’ to complement any regulatory ‘sticks’ created by states or territory legislation. One way or the other, it will serve to build knowledge and understanding of what interventions are effective in this space.

⁹ Bradbrook A. The Development of Energy Conservation Legislation for Private Rental Housing *Environmental and Planning Law Journal* 1991:8(2): 91-1107.

¹⁰ Wrigley, K, & RH Crawford, 'Identifying policy solutions for improving the energy efficiency of rental properties'.in *Energy Policy*, 108, 2017, 369–378.

¹¹ Gabriel, M. et al. (2010) *The environmental sustainability of Australia's private rental housing stock*, AHURI Final Report No. 159. Melbourne: Australian Housing and Urban Research Institute

¹² Swinton, T, J-A Little, R Russell-Bennett, R Mulcahy, R McAndrew, & C Passion, Reduce Your Juice Digital Social Marketing Program (LIEEP): Final Report. Brisbane, Australia, 2016.

¹³ The Nature Conservation Council of NSW, United Voice NSW, & Institute for Sustainable Futures, Final Report of the LIEEP Power Savers Program (PSP). 2016.

¹⁴ Tenants Union of Victoria. Submission No 13 to the Inquiry into the Energy Efficient Homes Package, 2009.

Improved energy efficiency would deliver significant benefits

Improving the energy efficiency of rental properties would deliver a range of benefits to individual renters and to the broader community.

Analysis conducted by Better Renting earlier this year found that, in the ACT, a minimum energy efficiency standard of 5 stars would result in annual benefits to renters worth around \$39,000,000. For an average-sized property initially rated at 0 stars, the annual benefit would be worth \$2,800. Renters would experience this benefit as either lower power bills or as improved health and thermal comfort.¹⁵ The value of improved health and thermal comfort is substantial: research in NZ and Scotland has found that energy efficiency retrofits result in improved health metrics such as fewer days away from work or school, lower medication usage, reduced overnight hospital stays, and reduced blood pressure.¹⁶

Other benefits from energy efficiency standards include improved property values, reduced pollution, reduced family tensions and social isolation, and increased employment. All energy consumers would benefit from reduced peak demand, avoided generation costs, and deferred network investment. These benefits are well documented in ACIL Allen's report, "Multiple Impacts of Household Energy Efficiency".¹⁷

Cost and price impacts

We note that the proposed policy includes no mechanism to prevent property investors from making improvements to their property, subsidised by the Commonwealth, and then being able to charge more rent - in effect, making windfall gains. We are sceptical that property investors who could charge increased rent would not do so, regardless of the costs that they themselves incurred.

However, this is a conditional tax offset with clear potential benefits for people who rent, targeted towards needier households. Given that property investors have access to other tax offsets that are unconditional and disproportionately benefit wealthier property investors, we do not think the bill should be criticised on these grounds. It's also likely that making energy efficiency features more widespread will reduce their scarcity value and thus reduce the extent to which landlords can use them to extract increased rents.

We note the \$300 threshold in the bill. Given the significant increases in rental costs, this threshold would prevent a vast number of households from benefiting. Many low-income, vulnerable households would also be excluded, as many are renting properties costing more than \$300 per week. If the threshold is retained, we believe that the review flagged in Part 2 of the bill should consider whether it is appropriate to remove the threshold. In particular, if a state

¹⁵ Better Renting, *Frozen out: The Burden of Energy Deficiency on People who Rent Better Renting*. Canberra, 2018.

¹⁶ Chapman, R, P Howden-Chapman, H Viggers, D O'Dea, & M Kennedy, 'Retrofitting houses with insulation: a cost-benefit analysis of a randomised community trial'. in *Journal of Epidemiology and Community Health*, 63, 2009, 271 LP-277; Chapman, R, P Howden-Chapman, H Viggers, D O'Dea, & M Kennedy, 'Retrofitting houses with insulation: a cost-benefit analysis of a randomised community trial'. in *Journal of Epidemiology and Community Health*, 63, 2009, 271 LP-277.

¹⁷ ACIL Allen Consulting, *Multiple Impacts of Household Energy Efficiency*. 2017.

or territory establishes minimum energy efficiency standards, then reasonable costs involved in meeting those standards should be tax-deductible as at that point they become a non-negotiable cost of doing business.

Eligibility and conditions

Regarding 381-10, we believe the definition of 'energy efficiency measure' should be extended to include energy efficiency assessments using state or territory measurement systems (for example, Victoria's Residential Energy Efficiency scorecard or the ACT's Energy Efficiency Rating Scheme).

In addition, as mentioned above, we believe that 'energy efficiency measure' should include any measures taken to comply with state or territory specific minimum energy efficiency standards. In this case, this amount of the tax offset should not be limited to \$2,000.