To the NEPP Secretariat,

Re: Draft report, Trajectory for low energy existing homes

Thank you for the opportunity to provide feedback on the draft report on the trajectory for low energy existing homes. I appreciate the work that the Department has put into describing the current context and identifying possible policy instruments.

Better Renting is a community of renters working together for stable, affordable, and liveable homes. A key issue that affects people who rent in Australia is low-quality rental housing, including housing with poor energy performance. Inefficient rental housing means that people who rent face unhealthy indoor temperatures and higher power bills. This creates challenges around affordability and health, as well as reduced quality of life.

In our work with renters, we have spoken with students living in sharehouses who plan their schedules to avoid spending time at home in winter. They take a packed dinner with them in the morning and stay out late in the heated university library. We've spoken with parents who worry about the health of their children, both from cold indoor temperatures and the resultant mould. Some of these people report ice forming on the inside of their house. We've spoken with older renters – a small, but growing group – who struggle to keep their homes at a temperature that will help them to stay healthy. All these people are being harmed by inaction on this issue. All stand to benefit from minimum rental standards.

In addition, this work is happening against the backdrop of climate change. In this sense, minimum rental standards are especially important. Reducing avoidable energy consumption in rental properties is an important step in climate mitigation. At the same time, improving the energy efficiency of rental properties is essential for climate adaptation, in improving the resilience of our energy grid and Australia's housing stock.

Responses to specific questions are outlined below.

Yours sincerely,

Joel Dignam
Executive Director
Better Renting

Chapter 1: Setting the context

Are there any other key facts about the existing building stock that should be included?

This chapter does a good job of setting the context for the challenge of improving the energy efficiency of existing homes in Australia. However, there are two important points that should be made as part of setting the context

This chapter should identify that Australia's homes have poor energy efficiency by international standards. According to an international comparison conducted in 2008, "housing in the USA, Canada and UK is significantly out-performing the Australian 5-star national requirements."[1] While this research is now old, it is likely that the conclusions remain true. This is important to note in establishing the context of the significant losses that Australians are currently experiencing due to our inefficient homes.

Secondly, the context compares existing properties with new properties, but makes no mention of tenure. Tenure has a dramatic impact on the energy efficiency of existing properties, and this point should be foregrounded, especially as it informs the necessity of policy interventions targeted to the rental sector. Our analysis of data from the ACT, the only jurisdiction where disclosure data are available, has found that over two in five disclosed Energy Efficiency Ratings for properties for rent are 0, compared with less than one in twenty for properties advertised for sale.[2] The situation is likely to be even worse in other jurisdictions. What this means is that the greatest need and the greatest opportunity to improve the energy efficiency of existing house exists in the private rental sector.

Chapter 2: Understanding the challenge

Are there any other key challenges that should be included?

Chapter 2 describes split incentives as a challenge that leads to the poor energy performance of Australia's rental properties. While this is a common way of understanding the situation, in our view it is lacking in that it assumes that property investors are rational actors and thus fails to account for the non-rational factors limiting property investor action in this area.

If property investors were purely rational actors, they would invest in energy efficiency. Although they wouldn't benefit directly from the improvements, they would benefit from improved rental income and an increased property value.[3] Property investors fail to invest in energy efficiency, not because it doesn't make economic sense, but because property investors are not influenced by what makes economic sense.

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1 Horne, R, & C Hayles, 'Towards global benchmarking for sustainable homes: an international comparison of the energy performance of housing'.in *Journal of Housing and the Built Environment*, 23, 2008, 119–130.
2 Better Renting, Baby it's Cold Inside: Energy Efficiency Ratings in the ACT.Canberra, 2019.
3 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.

It is more accurate to understand the decision-making of property investors as demonstrating "bounded rationality", in the words of the Australian Housing and Urban Research Institute.[4] As such, the reluctance to invest in energy efficiency is better characterised as a demonstration of cognitive biases such as status-quo bias and loss aversion. While split incentives are a factor, the problem can be better understood with reference to psychological factors such as these. These sorts of barriers are discussed elsewhere in the report and should be more explicitly linked to the situation of small-scale landlords.

Chapter 4: Understanding our options

*Is there anything that should be removed or included for the **minimum energy efficiency standards for rental housing** policy instrument and what are the key considerations to take into account if implemented?*

Minimum energy efficiency standards for rental housing are an essential policy intervention to improve the energy efficiency of rental housing and Australia's existing housing in general. Minimum standards will maximise energy efficiency uptake by property investors and ensure that the benefits of energy efficiency are shared with vulnerable households. They are the best means of securing the diverse economic and non-economic benefits of energy efficiency.

We are concerned that the report imagines voluntary standards prior to the phase-in of mandatory standards. What this would mean is that the benefits of minimum standards are further delayed; the report itself acknowledges that this would reduce the net present value. We understand that it may take time to develop and implement suitable standards. However, once a suitable framework is in place, then the standards should be mandatory from that point on.

The current proposal is that the standard is triggered only when a lease is renewed or a new lease created. Given this, there is reduced risk of a sudden and overwhelming demand. Implicitly, such an approach would result in staggered compliance across the rental sector, which could have benefits. Further, beginning with a low mandatory standard and raising it over time is another way to stage the transition, without prevaricating with voluntary standards.

If minimum standards are to start at a low level, and only apply when a lease is signed, then it is especially important that standards start out as early as possible, and that they are mandatory from the beginning. A deadline should also be set, after which all properties must be compliant. Otherwise, long-term tenants on a periodic tenancy (ie, who haven't signed a new lease or renewed an existing lease) would miss out on the benefits.

A minimum standards scheme must include a mechanism for enforcement which doesn't leave the prerogative with people who rent. While renters should be able to initiate enforcement action and obtain compensation (as in New Zealand), a regulatory authority should also play a role in

4 Seelig, T, A Thompson, T Burke, S Pinnegar, S McNelis, & A Morris, Understanding what motivates households to become and remain investors in the private rental market.in AHURI Final Report No. 130, Melbourne, 2009.

proactively monitoring compliance and, if necessary, issuing penalties. This could look like random auditing of a fraction of rental properties, perhaps identified through online advertising or following bond lodgment.

The trajectory report notes concerns regarding potential impacts on rental costs. Typically, these concerns are brought up by property investors, not by groups with an actual interest in avoiding rent increases. We are as yet unaware of property investors who are opposed to making increased rental income. Rather, these concerns seem to be a fig leaf for investors' opposition to a policy that would imply costs for them that, indeed, they may not be able to recover through increased rents.

It is generally true that a property that is more energy-efficient can attract higher rents.[5] However, this is because energy-efficiency is valuable to renters and, more importantly, it is scarce. It is not a natural consequence of landlord expenditure, and reducing landlord expenses would not necessarily reduce rent increases. Indeed, a property investor whose property is improved with a free air conditioner would still have every incentive to increase rents.[6] The best way to avoid rental increases due to energy-efficiency is to make energy-efficiency ubiquitous, so that it doesn't command a premium.[7]

Even if improved energy efficiency does have an effect on rents, people who rent are still likely to be better off. Although their rent may increase, their utility costs may decrease by an equivalent or greater amount. Or, they may benefit from a healthier, more comfortable living environment: reducing healthcare costs and providing non-economic benefits. In addition, a reduction in utility costs would help to reduce 'bill shock' and the challenge of paying a large quarterly bill.

*Is there anything that should be removed or included for the **Tax and Financial Incentives** policy instrument and what are the key considerations to take into account if implemented?*

We support the thrust of the report's argument with respect to tax incentives. Specifically, that tax incentives are unlikely to assist on their own with overcoming barriers, but that they may be effective in combination with other policies.

We note, however, that a tax incentive in the form of tax deduction would disproportionately benefit landlords with higher incomes. These landlords are already likely to be able to afford any compliance costs. If the purpose of a financial incentive is to facilitate cost-effective compliance by landlords, then it should be designed to provide the greatest benefit to property investors on lower incomes.

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5 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.
6 As demonstrated by SA landlords following the 'Beat the Heat' piloted as part of the LIEEP.
7 AHURI, 'When it comes to rental property standards, what can Australia learn from New Zealand?' , 2018, <https://www.ahuri.edu.au/policy/ahuri-briefs/when-it-comes-to-rental-property-standards-what-can-australia-learn-from-new-zealand> [accessed 17 October 2018].

In general, we believe that finance, potentially including a subsidy, could effectively complement minimum rental standards by enabling a property investor to defray their costs over a greater length of time. This could help to reduce the 'pain of paying' or mitigate cash-flow concerns.

Chapter 5 Modelling and Synthesis

Are the input parameters and values appropriate for each scenario?

Minimum rental standards

We are sceptical that the rental turnover rate is as low as 8.5% and suggest further work is needed in this area. In 2018, for example, 299819 bonds were refunded by the NSW bonds office; and there were 867310 bonds lodged in total at the end of that year. This implies a turnover rate closer to 33%.[8]

It's also important to note that properties in the rental market do not turn over uniformly. That is, there are likely some properties that turnover frequently, and a 'long tail' of properties that turn over rarely. A turnover rate of 33% doesn't mean that every three years every property will have turned over. Thus it would still be necessary to have a deadline for all rental properties to be compliant, regardless of whether a lease has been created or renewed.

Data on the number of rentals in each jurisdiction are currently drawn from the 2016 Census. These figures could be updated to reflect the latest data available from the ABS in their recent update regarding Household Occupancy and Costs.[9]

Chapter 6 Modelling and Synthesis

What should be the focus areas for the next version of the modelling and report, noting the short timeframes?

The current modelling neglects the non-economic benefits of energy efficiency. As such, it is likely to drastically understate the argument for urgent and ambitious change. Future modelling should at the very least note these benefits qualitatively, if not attempt to quantify them.

Previous research has suggested that the non-economic benefits of energy efficiency are worth more to occupants than the financial benefits. People describe improved comfort, environmental benefits, and not having to move as much. In the case of rental properties, landlords also stand to benefit from longer tenancies and increased occupancy, improving the security of their income.[10]

8 State of New South Wales (NSW Fair Trading), 'Rental bond data'.<https://www.fairtrading.nsw.gov.au/about-fair-trading/data-and-statistics/rental-bond-data> [accessed 2 August 2019].
9 Australian Bureau of Statistics, 'Housing Occupancy and Costs, 2017-18'.Canberra, ABS 4130.0, 2019.
10 Stoecklein, A, Y Zhao, L Christie, & L Skumatz, 'The value of low energy technologies for occupant and landlord'.in *ANZSEE 2005: 'Ecological economics in Action'*, 112, 2005, 1–15.

In addition to these more subjective benefits, there are significant and well-documented health benefits. In at least some cases, the health benefits of energy efficiency are greater than the benefits from energy savings.[11] In addition to the health benefits that accrue to the occupants of energy efficient homes, there are broader health benefits due to a reduction in the combustion of fossil fuels and the associated harms caused by associated pollution. It would be worthwhile to attempt to quantify this benefit and include it as a benefit of improved energy efficiency.

As an illustration of this idea, we note a 2001 paper from Clinch and Healy that attempts to perform a cost-benefit analysis of energy-efficiency improvements. Clinch and Healy's approach accounts for energy savings, health benefits, comfort benefits, and environmental benefits. They arrive at benefit-cost ratio of 3.0. Most of the benefit is in the formed of reduced energy costs; health benefits and comfort benefits account for 25% and 10% of the total benefit, respectively.[12]

Improving the energy efficiency of Australia's housing won't just improve comfort and reduce power bills: it is a long overdue public health intervention that is highly likely to improve both physical and mental health.

Do you have any other comments or suggestions?

Over the last few months, Better Renting has been visiting people who rent and speaking with them about their experiences of cold homes. Below is a list of things we have heard from renters. We include this to give a better picture of the impact of inefficient housing on people's lives.

Cold houses

"Winter is pretty terrifying in this house. I always dread it."

- Mia, 22

"How cold does it get in here in winter? Well, your feet will be burning if you're not wearing two pairs of socks and shoes."

- Christina, 33

"After a cold night, it's often colder inside the house than outside by mid-morning."

- Cameron, 30

"In winter, it's been warmer in the fridge than the rest of the house."

- Christina, 33

"This house is a tent. There's no insulation, so it absorbs heat if there's any, but it loses it in about ten seconds."

11 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.
12 Clinch, JP, & JD Healy, 'Cost-benefit analysis of domestic energy efficiency'.in *Energy Policy*, 29, 2001, 113–124.

- Kat, 45

“I can usually see my breath in bed at night.”
- Mia, 22

“In winter, I sometimes open all the windows because it’s warmer outside than in.”
- Madeleine, 21

"[This house] is cold and windy. When the wind picks up, there are so many gaps that you can hear and feel it."
- Kat, 45

“My housemates and I are walking around with puffer jackets, beanies and scarves when we’re not in bed.”
- Cameron, 30

“We’ve found ice on the inside of the windows and windowsills.”
- Christina, 33

“I had mould growing on my bed in my last house from the condensation.”
- Eliza, 26

Making sacrifices for affordable bills

“This is a cold house… and we’re always conscious of the potential cost of the energy bill. We’re always juggling the cost and our health.”
- Elaine, 82

“I don’t turn on the heater in my bedroom until it gets to about 5 or 6 degrees in there”
- Sam, 24

“We absolutely froze renting [in the retirement village]. The bills were so high, we couldn’t turn on the air conditioner. We would only turn the heater on at 4pm and turn it off at 8pm… I got pneumonia twice and I had a partially collapsed lung.”
- Elaine, 82

“I’ve got arthritis from head to toe, so I’ve got to keep warm… I tried to cut back on heating to save money, but my arthritis got too bad.”
- Judy, 72

“The first bill will be coming up any day and it’s gonna be pretty bad. I go to bed early... partly to save power, because I’m very conscious of it. The heater does work, but within a few minutes of turning it off, the heat is just gone - it’s like a tent.”
- Kat, 45

“We have to pay a lot for heating, because we’ve got kids. If it were just me, I’d try to brave the cold.”

- Dinora

“We don’t use any heating to save money on bills. I just wear lots of jumpers. I’d prefer to not use the heater.”

- Madeleine, 21

Disempowerment

“As renters, we’ve been expected to live in substandard accommodation our whole lives”

- Elaine, 82

“I’ve never felt so poor. I’m spending two-thirds of my income on rent, but I feel like I am living in squalor even though I clean for about an hour every day… being cold really contributes to that feeling.”

- Kat, 45

“The landlord doesn’t care about improving this place because he said he wants to knock it down”

- Sam*, 24

“It shouldn’t be a lottery for tenants. When you move into a place, you’re not likely to know what the bills are going to be… I could’ve worked out this place would have low energy efficiency, but I didn’t know it would be so low. Would I have reconsidered? Maybe... But the rental market is so tight, I don’t know what I could’ve done.”

- Kat, 45

Impacts of the cold

“It’s hard to be in the house unless you’re in bed, but you can’t stay in bed all day.”

- Eliza, 26

“Older renters tend to go to bed early and use an electric blanket to stay warm.”

- Judy, 72

“The cold in this house can stop me from getting up in the morning and getting motivated. It can make you feel depressed - you just want to lay in bed for hours.”

- Jess, 33

“I packed my dinner to eat at uni, to avoid going home to my cold house at night.”

- Mia, 22

“When I was a student in a cold house, you’d just sort of stay at the library, or I would just stay in bed, or I wouldn’t want to go home… At home we’d all hang out in the kitchen when someone was cooking because it’d be warm.”

- Holly, 24

“Being so cold at home is a bit miserable. It’s no way to live.”

- Eliza, 26

“I haven’t been getting colds for ten years, and I have been quite sick since coming here... I’m cold all the time - my hands are cold now. I don’t want to get up at night, I get to bed to get warm and just stay there. It’s been tough, I’ve never been this cold, all the time, almost in pain from the cold all the time.”

- Kat, 45

“I was studying in bed the other day and I couldn’t type because my hands were too cold.”

- Madeleine, 21