

The environmental sustainability of Australia's private rental housing stock

WHILE PRIVATE RENTAL INVESTORS SUPPORT ENVIRONMENTAL SUSTAINABILITY, DIFFERENT SEGMENTS OF THE PRIVATE RENTAL MARKET REQUIRE DIFFERENT POLICY INITIATIVES TO REDUCE THE FINANCIAL AND OTHER BARRIERS TO INVESTMENT IN ENERGY AND WATER SAVINGS MEASURES.

KEY POINTS

- Private rental investors consulted in this study expressed concern about recouping their costs of investing in any energy or water saving technologies (such as energy efficient heating and cooling systems, hot water systems and solar power).
- Programs to retrofit private rental properties have been developed in Australia, though knowledge of and confidence in such programs was not great among investors. The take up by tenants was also low, especially where the programs were not marketed or targeted to private renters.
- Policy and program responses need to be adapted to reach different segments of the private rental market, including those on low incomes. This can be done by ensuring the financial incentives are appropriate and by addressing other non financial concerns of investors and tenants such as awareness of programs, investor confidence in programs and access to properties.
- Mandatory disclosure by landlords of the environmental performance of the property could also help inform consumers to reward better performance. However, encouraging the adoption of energy and water saving measures at the lower end of the private rental market might require the introduction of a green minimum standard to drive reform.

*This bulletin is based on research by **Dr Michelle Gabriel** and **Ms Phillipa Watson** of the AHURI Southern Research Centre, **Professor Gavin Wood** of the AHURI RMIT Research Centre, **Dr Rachel Ong** of the AHURI Western Australia Research Centre, and **Associate Professor Maryann Wulff** of the AHURI Swinburne-Monash Research Centre. The research examined the opportunities for, and barriers to, improving the environmental sustainability (in terms of energy and water consumption) of Australia's private rental housing stock.*

CONTEXT

There are a number of large scale policy interventions that may have significant influence on residential energy and water usage patterns, including the introduction of carbon pricing, further use of a water and energy price to influence consumer behaviour, strengthening of building codes, mandatory disclosure of sustainable housing performance, a green minimum standard and a new national retrofit program GreenStart.

This project seeks to better understand how best to improve the environmental sustainability of Australia's private rental housing stock, and the potential barriers to improvement, especially with regard to reducing energy consumption through retrofit programs.

Of particular relevance to policy-makers is knowing whether there are particular problems with investment in energy and water efficiency technologies in the private rental sector. It is often assumed that there is a split incentive operating that limits investment in such technologies in the private rental sector, because landlords are responsible for the cost, while the benefit of reduced energy and water bills accrues to tenants. This study examined whether the split incentive impacts on the introduction of energy and water efficiency technologies in private rental homes, compared to those that are owner-occupied.

RESEARCH METHOD

The study consulted 29 stakeholders that engage or deliver services to private rental landlords and tenants (including government and non-government organisations), and included interviews and focus groups with 52 private rental investors in Victoria and Tasmania to consider how to improve take up of environmentally sustainable technologies.

Modelling, to examine whether there was evidence of split incentives operating in the Australian private rental housing market, utilised the 2006 data from the Household Income and Labour Dynamics in Australia (HILDA) Survey.

KEY FINDINGS

Is there evidence that the split incentive operates to reduce investment in energy and water efficient technologies?

The private rental investors interviewed expressed concern for environmental sustainability, however the lack of financial incentive to invest in energy and water efficient technologies was highlighted. While many had made straightforward changes, such as installing energy efficient light bulbs and ceiling insulation, there was great concern about the inability to recoup the cost of major investments in water and energy efficient technologies. Many felt this type of investment was unlikely to increase their rental yield, particularly at the lower end of the market, despite providing savings on bills for tenants.

Does the split incentive increase energy consumption in private rental households?

There was mixed evidence on the impact of the split incentive however, because the financial disincentive for landlords to invest in water and energy efficient technologies did not correspond to greater energy use among rental households. In fact, the opposite is true—rental households use less energy than owner-occupiers. The evidence on energy expenditure based on tenure indicated that home owner households have 13 per cent higher energy expenditure than private renters, even when controlling for income, household size and dwelling type, location and climate.

This finding suggests that the split incentive is not particularly significant in understanding the difference in energy use by tenure. However, the data set used did not have adequate detail available to better understand this discrepancy (this would require further detail about housing stock, e.g. about types of heating and cooling systems, solar technology and water tanks). More comprehensive analysis (similar to that available in the US or Europe) using data on energy consumption and housing infrastructure is still required to definitively determine the impact of the split incentive in the Australian private rental market.

What other barriers to investment in energy and water saving technologies exist?

Investors reported a number of barriers to change apart from financial barriers. These included disinterested tenants, potential for property damage by tenants when investments in expensive additions such as curtains are made, problems with property access to make renovations, difficulties with the present housing design, and specifically for investors who held strata-titled properties, difficulties with obtaining agreement through the owners' corporation.

What drove landlords to make energy and water efficiency home improvements?

Investors reported a mix of motivations for making changes, from a concern to lessen impact on the environment, through to increasing the comfort and reducing costs for tenants, and to attract and retain good tenants. Some also had already lived in the property or were intending to return to it in the future. Regulation was also seen as important in motivating action—those that had recently built properties were aware of how they needed to conform to new standards under the Building Code of Australia.

How do we engage landlords and tenants in retrofit programs?

Retrofit programs have been devised in all jurisdictions and some that have been specifically targeted to private renters. For example, Goes Green, a program run through real estate agents in Melbourne has already had some success (see Box).

Coordinators of retrofit programs highlighted difficulties in engaging with the private rental sector and encouraging up-take of programs. Likewise, many of the investors consulted reported that they had limited awareness of existing government programs and the eligibility criteria of most schemes. Where they were aware, they also were frustrated by changing policy rules (especially around the Green Loan scheme) and perceptions of profiteering and fraudulent practices by contracting companies.

Low-income tenants interviewed noted that they were hesitant to initiate contact with their property manager or landlord regarding the possibility of a retrofit as they did not want to be viewed as a *trouble maker* nor risk a potential rent increase or eviction.

GOES GREEN (VICTORIA)

As part of their property managing services, a Victorian real estate agency (Compton and Green) developed the Goes Green initiative to inform landlords about the energy and water efficiency of their property and assist landlords to reduce water and energy usage. A report is completed for all new tenancies and monthly inspections, identifying the key energy and water saving features of the property. Property managers then assist landlords to obtain quotes for major works (such as water tanks) and provide fixed price costs for minor works (such as replacing a shower head). It presents the industry with a good demonstration model of what can be achieved by property managers who are already well-versed in repair and maintenance issues and who are experienced in dealing with landlords and tenants.

Coordinators of retrofit programs observed that recruitment could be aided by better information dissemination including explicit promotion of the benefits (such as reduced costs and reduced environmental impacts). There was scope to expand programs and provide longer term funding.

How can a market for sustainable rental properties be developed?

Consultation with the real estate sector indicated that the market for environmentally sustainable private rental properties is relatively underdeveloped in Australia, largely because potential renters were not informed of the environmental sustainability characteristics of properties.

Investors in private rentals were split over the value and impact of regulatory approaches to informing renters. Most stakeholders were supportive of a mandatory disclosure scheme requiring landlords to provide prospective tenants with information about the energy and water performance of their property. Those that preferred a voluntary scheme were concerned about the costs associated with regular auditing by an accredited assessor. They envisaged that such costs would likely be passed onto the tenant through higher rent, would increase administrative burdens and would be difficult to monitor.

Is there a role for a Green minimum standard?

Given that low-income tenants are less able to exercise choice in the marketplace, a mandatory disclosure scheme may not benefit the lower end of the housing market. For this reason, some (such as the community sector) proposed the introduction of minimum rental standards that address energy and water efficiency to protect low-income households from rising energy and water costs. However, those in the property sector were opposed to the introduction of minimum rental standards as they felt that it would impact negatively on housing affordability and availability.

POLICY IMPLICATIONS

A range of financial and non-financial measures will be needed to support take-up of energy and water saving technologies.

Financial assistance through government rebates or tax relief will continue to be required to overcome affordability concerns around investors making significant energy and water improvements to properties. These might need to be made more generous for those investors providing affordable housing or currently serving low-income tenants.

Non-financial measures are needed for the take-up of programs:

- Awareness needs to be built around programs currently available—this might be done through public information and education campaigns that target landlords who hold property in low cost suburbs and use of local non-government organisations to engage low-income tenants.

- Investor confidence in programs also needs to be rebuilt in the wake of uncertainty with the Green Loans scheme and termination of the Home Insulation program, while also minimising policy change over time to ensure consistency.
- Access to the property to make renovations is also a concern for investors as is approval from bodies corporate for strata titled properties.

Finally, introducing mandatory disclosure of energy and water standards and a green minimum standard might direct property managers to audit the environmental features of each property, better inform available consumers about the environmental qualities of the residence and force changes in consumer behaviour to favour higher environmental standards.

FURTHER INFORMATION

This bulletin is based on AHURI project 40560, *The environmental sustainability of Australia's private rental housing stock*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting the AHURI National Office on +61 3 9660 2300.

ahuri.edu.au



HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

ACKNOWLEDGMENTS This material was produced with funding from Australian Government and the Australian States and Territories. AHURI Limited acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

DISCLAIMER The opinions in this publication reflect the results of a research study and do not necessarily reflect the views of AHURI Limited, its Board or its funding organisations. No responsibility is accepted by AHURI Limited, its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.