

Opportunities and challenges for building environmentally sustainable social housing

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Background

- › Climate change is seen by the WHO as the greatest **threat to global health** in the 21st century.
- › Not only is it changing the environment in which we live, through rising temperatures, more heatwaves, less predictable rainfall variability, it is also increasing the likelihood (and severity) of disasters including more frequent and intense storms, floods, droughts and bushfires.
- › These changes can have significant impacts on health and wellbeing, and – along with impacts on the social determinants of health – will be felt earlier and will be most pronounced for vulnerable communities.
- › They will also have a significant **financial impacts for vulnerable communities**

Housing's role in adapting to climate change

- › Australian households are directly responsible for around 20 per cent of Australia's greenhouse gas emissions
- › Up to 40 per cent of Australian households who rent their housing (renters) may be experiencing energy hardship.
- › Housing has a key role to play both in reducing the impacts on vulnerable communities as well as reducing emissions and preventing further climate change.

How?

1. **Build better** - Build new housing to higher standards
2. **Retrofit** - Adapt existing housing to improve its performance

Build better

- › Existing initiatives aim to improve the baseline performance of new housing by raising the minimum standard of energy efficiency in the NCC 2022
- › **Driving best practice requires additional incentives**, or else a way to drive the cost of building net zero emission homes for the same cost as the minimum standard.
- › **Timeline to achieve transformational change is slow** – 10.7M residential dwellings as of September 2021 but only around 200,000 new dwellings constructed per year = approx. 50 years to transform the entire housing system (not factoring in population growth)
- › **Capital grants are essential to build new social housing.** Victoria's community housing (CH) sector is building 4,200 new units in 4 years under the BHB (2020-2024) but only built 1033 new units between 2010-2019 (an average of 115 units per year)
- › Funding bodies also need to build up expertise in the requirements and associated cost to build to higher ESD standards, and factor this into assessing value for money.

When to retrofit (and when not to)

- › One common recommendation to improve the quality of rental housing is the creation of minimum standards for thermal performance. However, **not all community housing properties will be suited to retrofits to meet these standards.**

Why?

- › Location is high risk due to impacts of climate change
- › Limitations of the existing property make it cheaper to demolish and rebuild to new energy efficiency standards
- › In both cases this means that **the community housing organisation (CHO) will need to find funding** for a new build, raising all of the challenges highlighted in the previous slide (although there may also be opportunities to increase the yield of the site when rebuilding)

Retrofitting rentals

- › In addition to mandating minimum standards for thermal performance, other policies aiming to improve the quality of rental properties include:
 - › Mandating the disclosure of the thermal performance of rental properties prior to letting
 - › Schemes that encourage the installation of energy-saving measures, either through the tax system, grant programs or co-funding
 - › Change tenancy legislation to allow renters to make improvements to the thermal comfort of the property
- › Although these would likely benefit higher income renters it's unclear how much of an impact these changes would have for low-income renters.
 - › Limited choice of properties, with only 1% of all rentals affordable to low-income renters in the 2021 Anglicare Rental Affordability Snapshot
 - › Low income limits the ability for households to pay for improvements themselves

Retrofitting community housing

- › No matter how policies aim to improve the quality of existing rental housing there are a few challenges in accomplishing this goal unique to the social housing system.
 1. Larger portfolios mean community housing organisations and public housing departments face a big cost to upgrade their properties, which may be unsustainable depending on the timeframe to phase in the requirement
 2. There are equity issues associated with an open ended obligation to upgrade properties at the next vacancy as 43% of community housing renters (and 63% of public housing renters) have a tenure length of 5 years or more
 3. Management transfers have split the responsibility for asset management, with CHOs responsible for ongoing maintenance but not disposal/redevelopment
 4. In the absence of additional funding to meet minimum standards the social housing system would have to divert funds from other maintenance and new development projects

Split incentive problem

Split incentive → landlord pays for upgrades but does not benefit
→ renter benefits from upgrades but does not pay for them

- › Usually means that these types of upgrades don't occur
 - › In the private sector it's because the landlord doesn't receive any benefit so it's not worth the effort
 - › Social housing providers see the benefit but cannot afford to upgrade at scale because they don't share in the savings
- › Both challenges could be resolved by a system that allowed both landlord and tenant to benefit from the savings generated by energy efficiency and solar upgrades
- › Currently prohibited by residential tenancy legislation but NSW shows one option for how this could be addressed in their RTA regulations when they allow tenants to repay renewable energy rebates to their landlord.

Policy considerations

- › A ‘carrot & stick’ approach is needed to achieve the goal of net zero emissions by 2050
- › This includes **raising minimum standards for both new build and rental housing**, with a transition period built in to allow for decisions on whether to redevelop/relocate
- › **Incentives are needed** to encourage sufficient demand for highly efficient building supplies and contractors to establish a market and drive down prices
- › This could be done via the **social housing system**, with capital grants available for new construction and substantial retrofits. Not only would it provide safe and affordable housing for low-income households, it would avoid future costs from the significant health and economic impacts predicted to affect this cohort
- › Incentives could also be provided to the **private market**, to be phased down/out as build costs for highly efficient homes come down due to increased demand

Policy considerations for social housing

- › Funding is needed to support climate change adaptation, otherwise it comes out of the rents paid by **low-income renters** and is at the expense of other priorities (such as growing the supply of new social housing)
- › Policies need to take into account **complex ownership/management arrangements** or else we are disadvantaging social housing tenants solely on the basis of who owns their property
- › **Better data** on the condition of social housing properties would assist in designing policy to improve their efficiency, but can come with a significant administrative burden on already stretched social housing workers. Look at ways to leverage existing platforms and data being collected, and consider one-off exercises rather than annual ongoing reporting obligations (or else fund it appropriately)
- › Consider whether **disclosure tools give useful and accurate information** to tenants opting to accept a social housing offer. Would information on how to get the most efficient performance out of the property be more useful (and less discouraging for inefficient properties)?

