

EXECUTIVE SUMMARY

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Warm, cool and energy-affordable housing policy solutions for low-income renters

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Executive summary

Key points

This report presents the findings of an Investigative Panel that examined the prevalence and experience of energy hardship, in its different forms, within Australia's rental housing market. The research considered the strategies and policy actions that could be taken to reduce the impact of energy hardship on the lives of Australian households. Important findings include the following.

- Exposure to energy hardship is particularly likely when vulnerable people—i.e. those with very low or no income, existing health issues, lack of support networks, or who face entrenched disadvantage—live in dwellings that are in poor condition.
- Across the private and social rental sectors, the challenges are different with respect to resident/tenant and landlord/property manager relationships, tenants' rights, and the material condition of housing. Hence, the responses required to improve thermal efficiency and reduce energy hardship need to be tailored to the different tenant cohorts.
- No single set of policies or governmental actions will be able to meet the challenge of improving energy efficiency in the rental housing stock. Instead, a portfolio of measures is needed—including, for instance, mandatory building standards, targeted financial or material assistance for very vulnerable households, and investment in the public housing sector.

- **Setting minimum standards for the energy performance of rental properties is a critical starting point in the process of reform, which some jurisdictions have already begun to undertake, independent of national leadership. Mandating acceptable levels of thermal performance across the nation’s rental housing stock is likely to deliver a population-wide benefit. However, such requirements are also likely to encounter resistance from many stakeholders within the property industry due to perceived added costs.**
- **Developing a consensus on what constitutes ‘safe’ housing—and tenants’ rights to it—among key government players, non-government stakeholders and housing providers would greatly assist in enabling policy action.**

This research examined the incidence of energy hardship within Australia's rental housing market, and considered the strategies and policy actions that could be taken to reduce its impact on the lives of Australian households. Energy hardship is conceptualised in this present work in its broadest sense, to include absolute measures of financial hardship, consensual or subjective reflections on households' lived experiences, and circumstances where residents are limiting their energy use for normal daily activities.

This work was undertaken in recognition of the fact that tenants, and especially private tenants, are often the poorest and most vulnerable within Australian society—and that, significantly, as tenants, they do not have the legal right or authority to modify their dwellings in order to improve thermal performance and energy efficiency. Too often, Australians in the private rental market find themselves paying a significant percentage of their income for housing that offers inadequate protection from temperature extremes during summer and winter. Heating and cooling efforts to achieve acceptable temperatures result in elevated energy usage and higher costs for an already financially disadvantaged population. In some instances, households cannot afford, or choose to go without, substantial energy use and may suffer adverse impacts on their health and quality of life.

Key findings

The research brought together a review of the existing literature and current Australian policy, secondary data analysis, and the perspectives of key stakeholders and experts to provide essential evidence on the vulnerability of public and private tenants to energy hardship and poor housing conditions.

The research found that exposure to energy hardship is particularly likely when vulnerable people live in dwellings that are in poor condition. The cohorts mostly likely to be exposed to energy hardship follow existing, broader patterns of social and economic disadvantage. This was reflected in our review of the existing literature and the target cohorts for current intervention strategies, as well as our analysis of the Australian Housing Conditions Dataset (AHCD) and the Housing Energy Efficiency Transitions (HEET) interviews. Discussions with key stakeholders and the Project Panel revealed that existing forms of assistance are likely not reaching these particularly vulnerable cohorts, and that these groups are often difficult to assist because they face multiple and complex barriers to improving their living environments.

Our review of current programs that aim to improve energy affordability and efficiency in people's homes found that many of the schemes are not specific to tenant households and are small in scale or have limited eligibility. In some cases, the programs are regressive (i.e. the benefits are granted to people who have the capital to 'buy in' to the scheme, while costs increase for those unable to participate). The outcomes of current programs remain largely unevaluated.

The Panel discussions highlighted the need to scale up existing effective programs; to more consistently and holistically evaluate the benefits afforded by such programs across a range of outcomes (not only economic); and to better target assistance to those households most in need, ideally prior to adverse effects becoming acute.

Overall, the research documented several key barriers to policy change that targets improved conditions within the public and private rental sectors. A significant barrier raised by many of the key stakeholders and panellists centred on funding issues, whether across federal or state/territory governments, private investor landlords, or community housing providers. This barrier was closely linked with the prevailing view of housing as a commodity in Australia, which some stakeholders cited as a deterrent for major policy change in this area. Another important challenge in the governance and formation of various intervention strategies, identified by the Project Panel, is the need to work collaboratively across government departments, different levels of government and jurisdictions to overcome discrete departmental mandates, which frame funding opportunities and areas of potential influence.

The research findings highlight a need to prioritise tenant households' health and wellbeing as the primary objective of policy intervention and evaluation. Doing so not only opens up a wider range of strategies that might be used to assist households in improving their living environments, but also presents a compelling narrative to support allocation of government resources and funding. Narratives around potential co-benefits—for example, in relation to carbon emissions reduction, employment and training opportunities—are complementary to the central priority of health and wellbeing, and have the potential to strengthen overall advocacy in this area. However, there is currently a lack of comprehensive, population-based Australian evidence on the specific causal relationship between improved living conditions and benefits to health and wellbeing. While the international evidence suggests the need for a strong reform pathway, there is considerable scope for Australian-focussed work to contextualise and validate the global evidence.

The Project Panel discussions clearly identified important roles for government and non-government organisations (NGOs) in initiating and delivering energy hardship and housing support services. The primary role of government, at all three levels, should centre on attaining adequate funding and creating pathways for regulatory change (e.g. minimum building standards). NGOs, including community housing providers, welfare support organisations and tenant advocates, play powerful roles in identifying and generating awareness about specific problems, and can potentially provide more effective delivery of services through their existing client networks. Notably, while investor landlords were identified by participants as incredibly important actors within this setting, few solutions that relied on their voluntary participation were considered potentially effective or feasible.

Based on the findings of the research, we propose policy pathways for interventions by government and non-government service-providers to improve the living environments and health and wellbeing of tenants.

Policy development options

This project was finalised as the impacts of COVID-19 on the health of the Australian population and the buoyancy of the national economy were only just being realised. In many ways, this crisis has brought to the fore questions around the relationship between housing and health, as individuals and households are focussed on their wellbeing and the adequacy of their home.

The need for wholesale improvement of the energy performance of housing stock across Australia's rental sectors was a persistent theme throughout this research—evident in the published literature, the Panel discussions, and the primary data collected from affected individuals. Importantly, however, the Panel concluded that, to date, and likely into the future, there is no single set of policies or governmental actions able to meet the challenge of improving energy efficiency in the rental housing stock. Instead, a portfolio of measures is needed. The potentially most impactful policy options are discussed here.

Setting minimum standards for the energy performance of rental properties is a critical starting point in the process of reform. As Panel discussions and interviews with key informants noted, 'there's no point putting water in a leaky bucket'. That is, the thermal performance of the built stock needs to be improved if better outcomes are to be achieved with respect to improving health and minimising energy costs. Some jurisdictions have already taken steps to achieve this goal, but it is important to differentiate the policy levers and actions available in the private rental market relative to social housing.

Additional policy options thought to be feasible within the context of Australia's private rental sector include the following.

- Mandating a higher standard of thermal performance for all new properties, with the expectation that a high percentage of properties will pass through the rental market at some stage.
- Mandating the disclosure of the thermal performance of rental properties prior to letting. This would provide potential tenants with information on their likely energy costs and/or impacts on comfort.
- Providing platforms that assist the voluntary disclosure of thermal performance such that landlords or tenants could provide this information to prospective residents.

It is important to acknowledge that current market dynamics present some barriers to the viability of these policy opportunities. Mandating higher levels of thermal performance across the rental sector is likely to deliver a population-wide benefit, but is likely to encounter resistance from many within the industry, especially on the grounds of negative impacts with respect to housing affordability. However, such opposition is largely unjustified, as regulating for a higher level of thermal performance does not erode the market position of any individual builder or operator, and the large-scale adoption of energy-saving technologies will drive down the price of these innovations.

Setting higher standards for new builds will exert only a marginal impact on the thermal performance of the housing stock overall, because new dwellings account for a small percentage (as low as 2% each year) of the total accommodation pool. Other policy measures are therefore needed. These could include schemes that encourage the installation of energy-saving measures, either through the tax system, grant programs or co-funding. For example, landlords could be allowed to write-off, within the tax system, the cost of upgrades that improve thermal performance (e.g. replacing conventional hot-water systems with heat pumps, or installing solar panels)—this would provide a strong incentive for some landlords. Currently, landlords can write-off the cost of replacement features in a home (i.e. replaced on a 'like-for-like' basis) but not upgrades. Alternatively, both the Australian Government and state/territory governments could introduce grant programs to facilitate investment. Conceivably, such programs could be tied by linked to investment income or property portfolio size, and accessible on the basis of achieving set minimum building standards. Critically, such programs could provide an important stimulus to the Australian economy during recovery from the economic ill effects of COVID-19, while providing long-term benefits to the health of the nation.

The second major policy option to be considered here is mandating the disclosure of the thermal performance of properties—as now widely established within the public and private rental sectors in the United Kingdom (UK), for example. Such actions have been implemented in some Australian jurisdictions, such as the Australian Capital Territory (ACT), and could be introduced at a national level. However, we need to acknowledge that such measures represent an additional form of regulation that may have little real impact in a tight rental market in which tenants often take the property they can afford and can get into, not the property they would choose.

In policy terms, there seems to be greater value in focussing on the development of web-based platforms where landlords—or tenants—are encouraged to provide information on the energy efficiency of their dwelling or approximate energy costs based on the current lease. In a competitive market, such information sources will no doubt be taken up and landlords will come to appreciate the advantage of having a better-performing property. This approach seeks to facilitate or enhance the market rather than impose additional regulation.

The private rental market presents one set of challenges for improved thermal efficiency in housing, while the social housing stock presents another set of issues. As a series of reports by the Australian Institute of Health and Welfare (AIHW) (e.g. see AIHW, 2019) has shown, Australia's public housing stock represents some of the poorest-quality and unhealthiest housing in the nation. This is due to the age of much of that stock, backlogs in maintenance, and the selling off of better-quality properties over the past fifty years. Much of the remaining stock was built to a relatively low standard and has now passed its reasonable economic life (i.e. though occupied, it is not able to be maintained or retrofitted cost effectively). The challenge of housing quality is evident within the stock managed by housing associations and other not-for-profit providers, as a significant percentage of their rental properties have been transferred from public housing. In some instances, these organisations have been able to—or required to—elevate their maintenance programs, but many of the shortcomings in the stock remain.

The attitude of tenants is a compounding factor in attempts to find a resolution to the problem of thermal performance of social housing. As our fieldwork shows, while private tenants view themselves as consumers and advocate for better outcomes, many social housing sector tenants are grateful for the security and low cost of their tenure, and are more accepting of homes that do not offer thermal comfort and impose high energy costs.

Investment in the public housing stock—both through a comprehensive knock-down-and-rebuild program as well as enhanced maintenance expenditures—may be one of the most viable pathways for enhancing thermal performance in Australia’s social housing stock. Such large investment in construction would also serve to stimulate employment and economic activity at a low point in the economic cycle. In addition, it is desirable that existing rebates and improvement schemes be made available to the public sector (i.e. not just to community housing providers or the private rental market) in order to improve the material condition of the public housing stock.

The study

The Investigative Panel considered how best to improve energy affordability and dwelling energy efficiency in Australia’s rental sector, bringing together stakeholders from the private landlord sector (investor landlords), the energy market and energy-efficiency professions, social and government housing providers, developers, and tenant organisations.

Up to 40% of Australian households who rent their housing experience energy hardship. Many of these households are forced by market pressures to live in homes that are expensive to heat and cool due to a lack of minimum energy performance standards. Formulating effective solutions to problems of unaffordable energy and thermally inefficient housing in the low-cost rental sector is particularly challenging because of ‘split incentives’, and other tenancy and financial barriers. Existing and new technologies present an opportunity to improve housing energy efficiency through retrofitting, and to reduce the cost of energy through ‘bulk-buy’ pricing schemes (i.e. collectively negotiated energy retail contracts). However, current policy settings focus mainly on home owners—further specific attention for renters is required.

There are now a number of programs and projects, developed both in Australia and internationally, which have attempted to address rental energy affordability. To understand which solutions should be prioritised, and for whom, the Investigative Panel project was organised into four components:

- a review of academic and grey literature on energy hardship and housing conditions within the Australian social and private rental sectors
- analysis of secondary qualitative and quantitative data focussed on tenant experiences
- a series of focus groups in Port Augusta, Melbourne and Sydney to reveal and document key barriers to improving housing conditions and energy-affordability, and emerging opportunities
- two national Project Panel deliberations.

Bringing together the ideas, discussions and outcomes of these four components, this report aims to provide a roadmap for the better design and targeting of energy hardship intervention measures for low-income renters in Australia.



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