Community Housing
INDUSTRY ASSOCIATION

TREASURY LAWS AMENDMENT (IMPROVING THE ENERGY EFFICIENCY OF RENTAL PROPERTIES) BILL 2018

Summary

The Community Housing Industry Association (CHIA) supports the provisions in this draft Bill to establish a three-year pilot program under which landlords could claim a tax offset of up to $2,000 per annum for energy upgrades to rental properties leased at $300 per week or less. We consider the program would provide a valuable incentive for landlords renting properties at the more affordable end of the spectrum to invest in measures that could improve the energy security of low-income households. Energy efficiency measures such as those contemplated in this Bill can reduce energy demand across the whole system, delaying the need for power in infrastructure. In addition to improving energy security for low-income tenants, this could reduce costs to State and Territory governments over the longer term.

Community housing industry commitment to energy security for low-income households

Community housing providers approach the cost of housing from the perspective of the 'whole of life' cost of the dwelling over its usable life and from the perspective of its operating cost as well as its construction cost. Where possible and where resources permit, community housing providers are actively retrofitting older social housing stock to improve energy efficiency. Community housing providers are very conscious of the impact of energy bills on our tenants, most of whom are on very low to low incomes.

Home owners are more able to reduce energy costs than renters

CHIA welcomes the focus of the Bill on improving energy security of tenants, including those in community housing. Home owners have many more options than renters do to reduce their energy bills and improve the thermal comfort of their homes, by investing in energy efficient appliances, upgrading insulation, installing rooftop solar panels or heat pumps, or planting shade trees, for example.[1] Data from the 2015 Victorian Utility Consumption Household Survey found that, of those surveyed, private renters (58 per cent) and public renters (55 per cent) were much less likely than home owners/buyers (95 per cent) to live in a house with some level of ceiling insulation.[2] Similarly, a 2017 survey of Queensland households with energy efficiency features reported that 81 per cent of home owners had homes with insulation compared to 41 per cent of renters, and 40 per cent of homeowners lived in homes with solar panels compared to just 4 per cent of renters.[3]

[1] Australian Council of Social Service. Energy efficiency and people on low incomes: improving affordability. 2013
[2] Department of Health and Human Services 2016, Victorian Utility Consumption Household Survey 2015 Report, Roy Morgan Research Ltd, State Government of Victoria, Melbourne.
[3] 'Choice and Control? The experiences of renters in the energy market', QCOSS, June, 2017,

Over the past two decades, State and Territory governments have implemented a range of measures to improve energy efficiency including energy audits of homes, replacement of incandescent light globes with more efficient alternatives, solar power subsidies and so on. However, unlike community housing landlords, individual landlords are less likely than home owners to take up these measures since the benefits of lower operating costs or improved thermal comfort are captured by the resident of the property, rather than the owner who makes the investment. Rare examples of two initiatives targeted at renters are a New South Wales government offer of discounts for upgrades to enable 20,000 low-income renters to benefit from energy efficiency measures, and low-interest loans from the Clean Energy Finance Corporation Community Housing Program to improve the energy performance of low-income rental housing.[4]

Landlords have few incentives to improve the energy efficiency of their properties

Tenancy laws generally prevent tenants from making permanent changes to the properties they live in to improve energy efficiency. Equally, there are no incentives for landlords to improve the energy efficiency of the properties they own; they cannot depreciate capital investment in energy efficiency improvements since these improvements must be added to the cost base for capital gains purposes. As ACOSS notes, under current tax settings the incentive for energy efficiency upgrades is only realised at the point of property sale – if at all.[5] Further, in the tight rental markets that have prevailed across most capital cities over the past decade, landlords have not needed to invest such improvements in order to secure tenants.

Refundable tax offset mechanism

CHIA considers that offering landlords a refundable tax offset is an appropriate form of delivery for this program. A refundable tax offset would be of particular benefit to community housing providers by allowing a prompt return from the Australian Taxation Office of all or part of the capital investment in energy security measures required under this program.

A consequence of providing assistance via a tax offset rather than a grant is that landlords will need to incur costs up-front. This may encourage better-researched investments by landlords and limit potential gaming of the system whereby suppliers of energy saving products price their products at the maximum available funding. However, it may also discourage individual 'mum and dad' landlords from investing in energy efficiency measures.

[4] Government programs and financial help', NSW Office of Environment & Heritage; Clean Energy Finance Corporation. Community Housing Program. www.cleanenergyfinancecorp.com.au/where-we-invest/a-better-built-environment/cefc-community-housing-program.aspx

[5] Australian Council of Social Service. Energy efficiency and people on low incomes: improving affordability. 2013

Targeting the program to those renting homes at up to $300 per week

CHIA supports the proposal that this program be restricted to homes rented at $300 per week or less. We recognise that this is extremely tight targeting, however $300 pw would consume 57 per cent of the weekly age pension payable to a single person, including maximum rate rent assistance. The vast majority of tenants in community housing pay far less than $300 per week. A single age pensioner would typically pay $365 rent per fortnight to their community housing landlord, for example. While prima facie this low rental charge improves the rental affordability for the tenant, it requires the community housing provider to operate on very fine margins which in turn impairs its capacity to make capital investments into energy security measures that would reduce a tenant's large, lumpy power bills and lower their overall cost of living.

Looking beyond community housing, the rental cap of $300 per week or less would target the program at landlords making modest rental returns who are least likely to have free cash flow to invest in capital improvements. Data from the Australian Taxation Office on the income profile of investor landlords suggests that the majority have taxable income below $80,000, after accounting for the impact of negative gearing on taxable income assessments. While the true financial circumstances of landlords with this level of taxable income is unclear (since taxable income is not such a good measure of actual income), it is clear that those with annual rental incomes of less than $15,600 will not generate significant surpluses from their rental properties to invest in energy efficiency measures.

The $2,000 cap on annual expenditure

While there is no doubt that energy efficiency investments can dramatically reduce energy bills, it is difficult to assess how much can be achieved within the $2,000 per annum cap on proposed in this Bill. Choice magazine estimates that good roof insulation reduces household energy consumption by as much as 45 per cent, with wall insultation saving an additional 2 per cent. Draught sealing (downlights, doors and bathroom exhaust fans) can cut 25 per cent of heating and cooling and shading from external blinds or vegetation can block up to 90 per cent of heat gained from direct sunlight.[6] It is estimated the 1.27 million houses retrofitted with insulation as part of the Federal government's Home Insulation Program introduced in 2009 saved around $300 in energy costs each house, each year.[7] Other estimates suggest that raising a home from a 2-star to 5-star energy rating can more than halve the energy needed for heating and cooling in Victorian homes, delivering a 32 per cent total energy saving.[8]

[6] Potter, A. Spot the home that will save you money. Choice magazine 3 May 2018 https://www.choice.com.au/home-improvement/energy-saving/reducing-your-carbon-footprint/articles/how-to-spot-an-energy-efficient-home accessed 28 September 2018
[7] The Greens. Renewing public and community housing. 2016
[8] Australian Council of Social Service. Energy efficiency and people on low incomes: improving affordability. 2013

However, dramatic improvements in energy savings should not be expected from the relatively modest level of investment available under this program. For example, a 2016 cost-benefit assessment of a voluntary energy efficiency rating system for residential property by the Cooperative Research Centre on Low Carbon Living estimated that estimated energy bill savings of between $1,000 and $2,000 per year from lighting improvements, insulation, draft proofing, solar PV and water heating upgrades would require energy efficiency investments of between $5,500 and $9,600.[9]

Nonetheless, the $2,000 per annum under this pilot program could make an immediate and substantial difference to energy costs of low-income households. For those on very low incomes, even small reductions in energy bills will be significant. As a benchmark, the average energy concession received by eligible Victorian households in 2014 was $186.[10]

The size of the pilot program

We note the need to need to find a reasonable balance in this pilot program between providing a sufficient incentive to undertake energy efficiency measures and containing costs. It is difficult to assess the likely take-up of the program at the level of the refundable tax offset offered. A 2016 evaluation of an ACT Government program which involved an energy assessment of 216 rental properties reported that just one-third of landlords (31%) would be likely to install additional liveability features into their rental properties at their own cost.[11] Similarly, the CRC on Low Carbon Living Report projected that (at most) 30 per cent of owners would make energy efficiency improvements at their own cost under a voluntary energy efficiency reporting regime.[12] Even landlord take-up of free initiatives such as LED light replacement is reported to be low. On this basis, we suggest that although the program will receive strong support from community housing providers it is unlikely to be swamped with demand from individual investors. However, to provide solid data for the evaluation of this program we would encourage the government to set a target of at least 6,000 low-income rental energy upgrades over the three-year period.

The risk that landlords will increase rents

It is possible that individual landlords who invest in energy efficiency measures will increase rents, countering any improvement in energy security for the tenant. The 2016 evaluation of the ACT Government's Liveability pilot program suggests that 45 per cent of landlords who

[9] Cooperative Research Centre on Low Carbon Living. Enhancing the market for energy efficient homes. Final report. 2016
[10] Department of Health and Human Services 2016, Victorian Utility Consumption Household Survey 2015 Report, Roy Morgan Research Ltd, State Government of Victoria, Melbourne. The figure of $186 pales in comparison to the $596 subsidy received by 19% of Victorian households that received solar generation credits
[11] Budden, C. and Weldon, C. Final report; energy efficiency information for tenants pilot. Centre for Liveability real estate and the ACT Government Environment and Planning Directorate. 2016
[12] Cooperative Research Centre on Low Carbon Living. Enhancing the market for energy efficient homes. Final report. 2016

were 'inclined to invest' in energy improvement measures were motivated by the potential to increase rents. This response is unsurprising since that study did not offer landlords direct assistance with the costs of those improvements (requiring landlords to recoup the cost from tenants).[13] A more rigorous 2018 study of the impact of the ACT government's residential energy efficiency rating disclosure regime found that it resulted in a 'small but statically significant' increase in rental prices; 5-star properties rented for 3.5 per cent more than 3-star properties, which in turn rented for 2.4 per cent more than 2-star rated properties.[14] This suggests that the savings to the tenant from energy efficiency measures is likely to exceed any rental increase, however it is a program impact which the evaluation should carefully assess.

Evaluation

It will be important for the evaluation of this program to measure the actual impact of the measures taken on household energy consumption and thermal comfort, any changes in rent paid for the property and, if possible, to compare the motivations of landlords undertaking energy measures under this program and the investment choices they make with those of landlords outside the program who own similar properties.

Other matters that could improve energy security of tenants

CHIA considers that there are measures beyond those listed in this Bill that could improve the energy security of tenants, particularly those on low incomes. Improving the quality of information provided to tenants about a property's energy efficiency rating would enable tenants to make an informed judgement about the likely (full) cost of making a particular property their home. However, for the most part prospective tenants are not supplied with even basic information about a property's energy efficiency or the efficiency of its major appliances such as hot water systems. Although the ACT government conducted a pilot program in 2016 on improving information to tenants on the energy efficiency of homes and appliances, it has not yet introduced legislation (mooted in 2012 as part of its climate change policy) to require landlords to provide such information to prospective tenants.[15]

A range of approaches could be taken to improving information to tenants:

- Introduce voluntary energy efficiency ratings for all properties offered for lease, or
- Require all properties which *have* an energy efficiency rating to disclose that information when the property is advertised for lease, or
- Require all properties offered for lease to be advertised with an energy efficiency rating.

[13] Budden, C. and Weldon, C. Final report; energy efficiency information for tenants pilot. Centre for Liveability real estate and the ACT Government Environment and Planning Directorate. 2016
[14] Fuerst, F., Warren-Myers, G. Does voluntary disclosure create a green lemon problem? Energy efficiency ratings and house prices. Energy Economics, Vol 74 August 2018
[15] Budden, C. and Weldon, C. Final report: Energy efficiency information for tenants pilot. Centre for Liveability real estate and the ACT Government Environment and Planning Directorate. 2016

We consider that the third of these is likely to be most successful. The ACT government's mandatory energy efficiency rating disclosure for house sales has resulted in Australia's highest level of energy efficiency improvements to owner-occupied dwellings.[16] Introducing a mandatory disclosure code for rental properties also could be expected to increase energy efficiency investments by landlords, but the additional cost of obtaining an energy assessment may deter some owners from offering their properties for lease. Introducing a voluntary energy efficiency rating scheme for rental properties may be more politically palatable. However, the difficulty of a voluntary scheme is that tenants in socio-economically disadvantaged areas are likely to face a double disadvantage of disproportionately low levels of energy efficiency rating disclosure, and a concentration of poor quality, low–energy efficiency housing.[17]

A further difficulty with energy efficiency rating schemes is that in tight rental markets, tenants have little real choice of accommodation even when armed with information about the energy performance of a property. This is particularly so for those on very low incomes. Anglicare's 2018l Rental Affordability Snapshot found that only 6 per cent of the 67,000 properties available for rent across Australia were affordable for people on income support payments.[18] An alternative to introducing EER notifications to tenants would be to introduce minimum energy standards for rental properties. The opportunity to do this was recently passed up by the New South Wales and Victorian governments which have both introduced legislation to apply new minimum standards for rental properties, including basic access to electricity and gas, structurally sound buildings, adequate natural or artificial lighting and ventilation, and adequate outlets for lighting, heating and appliances. Those measures, while welcome, are long overdue and fall well short of introducing minimum energy standards for rental properties.

[16] Australian Bureau of Statistics. Energy Efficiency Ratings and house Prices in the ACT. 2008. Cited in Fuerst, F., Warren-Myers, G. Does voluntary disclosure create a green lemon problem? Energy efficiency ratings and house prices. Energy Economics, Vol 74 August 2018

[17] Fuerst, F., Warren-Myers, G. Does voluntary disclosure create a green lemon problem? Energy efficiency ratings and house prices. Energy Economics, Vol 74 August 2018

[18] Anglicare Australia. 2018 Rental Affordability Snapshot. 2018