

# BRINGING RENTAL HOMES UP TO SCRATCH

EFFICIENCY STANDARDS TO CUT ENERGY BILLS,  
REDUCE POLLUTION AND CREATE JOBS

September 2017

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# 01

## INTRODUCTION

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**AS A COMMUNITY, WE ARE ALREADY COMFORTABLE WITH THE IDEA THAT CARS ARE REQUIRED TO PASS A ROADWORTHY TEST. WHY SHOULDN'T A HOUSE MEET A BASIC 'HOMEWORTHY' TEST BEFORE IT CAN BE LEASED?**

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Rising energy costs are a major worry for many Victorian households. While thousands of home owners have improved the efficiency of their homes to cut bills, improve comfort and help tackle climate pollution, renters are missing out. Unlike home owners, renters have little control over efficiency improvements such as insulation, which make the biggest difference to costs and comfort. There is little incentive for landlords to invest in upgrades because the benefits largely accrue to tenants.

This is known as the 'split incentive' problem, and it leaves renters bearing an unfair share of the financial and health costs of inefficient housing. Given that low-income Victorians are more likely to rent, the growing quality gap between owner-occupied and rented housing is entrenching disadvantage. And with more and more Victorians locked out of home ownership and renting long-term, the impacts of inefficient housing are being felt across a growing proportion of our community.

The Victorian government's Fairer Safer Housing review of rental laws is an opportunity to fix this problem, which has been in the too-hard basket for too long. Recently announced reforms providing for longer-term leases are a positive step, but they need to be accompanied by measures to ensure tenants are not locked into substandard housing over the longer term.

**The only way to address this market failure and improve the efficiency of rental properties is to require them to meet minimum efficiency standards.**

**The revised *Residential Tenancies Act* must create the power for the Minister for Consumer Affairs to make standards for health, safety and efficiency.**

Encouraging investment in efficiency upgrades across the rental sector would unlock billions of dollars in investment and support around 4000 jobs (gross) per year over the five-year implementation period. Jobs in the efficiency sector tend to be in small- to medium-sized businesses and community organisations, and cover a range of occupations in trades, services and manufacturing. These are jobs which can't be relocated



off-shore, because they are locked into Victoria's local economy. At the same time, money freed up by energy bill savings would be available for spending elsewhere in the economy, supporting an estimated 1600 more local jobs on an ongoing basis.

Environment Victoria has been working with our One Million Homes Alliance partner organisations to highlight the opportunity to deliver this long overdue reform. This report maps out how efficiency standards for rental properties can be introduced in a way that protects tenants and keeps costs affordable for landlords. The keys to a successful roll-out are to set initial standards at a low and achievable level, give landlords plenty of notice and access to affordable finance, and provide strong protections against unjustifiable rent increases.

Establishing efficiency standards for rental properties will help tackle energy hardship, housing affordability and health problems, delivering significant economic and environmental benefits for Victoria. Let's not miss this important opportunity.

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**INTRODUCING  
EFFICIENCY STANDARDS  
FOR RENTAL PROPERTIES  
WOULD SUPPORT AN  
ESTIMATED 4000 JOBS  
OVER FIVE YEARS, AND  
FREE UP HOUSEHOLD  
EXPENDITURE TO  
SUPPORT AN ESTIMATED  
1600 ONGOING JOBS.**

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# 02

## WHY INEFFICIENT RENTAL HOUSING MATTERS

### SPIRALLING ELECTRICITY AND GAS BILLS

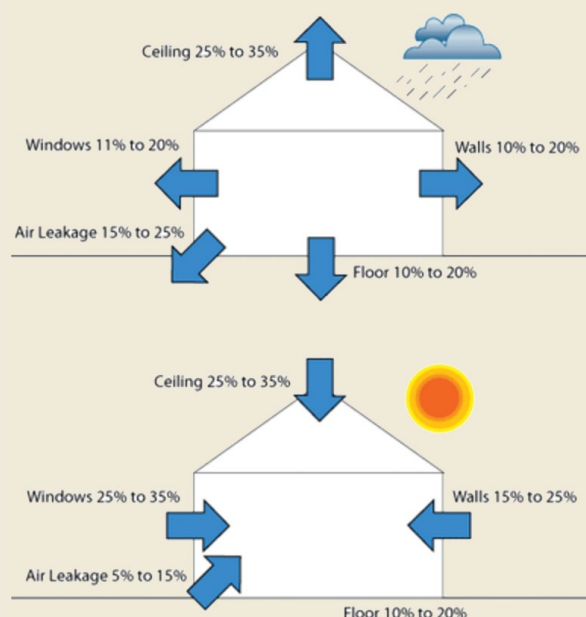
Heating and cooling account for about 40 percent of the average Victorian household's energy costs, but much of that energy is wasted because most of our housing stock is relatively inefficient, averaging only 2 stars compared with the 6-star standard required for new homes.

With electricity and gas prices rising, more and more Victorians are struggling with their energy bills. According to Essential Services Commission data, the number of households disconnected for non-payment of utilities bills doubled between 2010 and 2016.<sup>1</sup> The energy we waste in our homes is needlessly adding to energy hardship for a large and growing proportion of Victorian households.

The financial impact of inefficient energy use is particularly severe for low-income households, who are more likely to rent than to own their

<sup>1</sup> Essential Services Commission, 2016, Energy Retailers Comparative Performance Report – Customer Service, Table 4.1

<sup>2</sup> <http://www.sustainablelivingguide.com.au/house/insulate-shade-weatherproof-your-house>



**Figure 1.** Where an inefficient home gains and loses heat.<sup>2</sup>



own homes. Higher energy bills add to the pressure on limited household budgets, forcing many renters to make trade-offs between paying the rent and other essentials such as buying food. A 2015 analysis of ABS data found private renters were the largest group of households unable to heat their home (37 percent) or unable to pay their bills on time (42 percent).<sup>3</sup>

## RENTED HOMES ARE LESS EFFICIENT THAN OWNER-OCCUPIED HOMES

Rental homes are currently only required to meet whatever building standards were in place when they were constructed – which for some homes could have been 100 years ago.<sup>4</sup> Landlords are required to provide a clean dwelling at the start of the tenancy and to maintain the premises in good repair, but this only requires a property to be returned to the condition in which it was leased, not to bring it up to any defined standard of liveability.

There is little incentive for landlords to invest in improving efficiency, because the benefits of lower bills and better living conditions accrue to tenants. Meanwhile, tenants typically lack the financial capacity to make changes that would improve efficiency, or may be denied permission to do so. In delivering Environment Victoria's Future Powered Families efficiency retrofit program, we found that many tenants were unable to obtain the landlord's approval for upgrades or were reluctant to seek it.<sup>5</sup> Many private landlords do not take advantage of voluntary incentive programs even when they offer subsidies, as is evident from their low rates of participation in the federal government's home insulation scheme.<sup>6</sup>

While research undertaken for the Fairer Safer Housing review concluded that about two-thirds of rental properties are in good condition,<sup>7</sup> this is not an accurate measure of efficiency. Many homes that are in generally good repair are nevertheless likely to be inefficient.

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<sup>3</sup> F. Azpitarte, V. Johnson and D. Sullivan, 2015, Fuel Poverty, Household Income and Energy Spending: An Empirical Analysis for Australia using HILDA data, Brotherhood of St Laurence

<sup>4</sup> Retrospective requirements for smoke alarms and pool fencing also apply

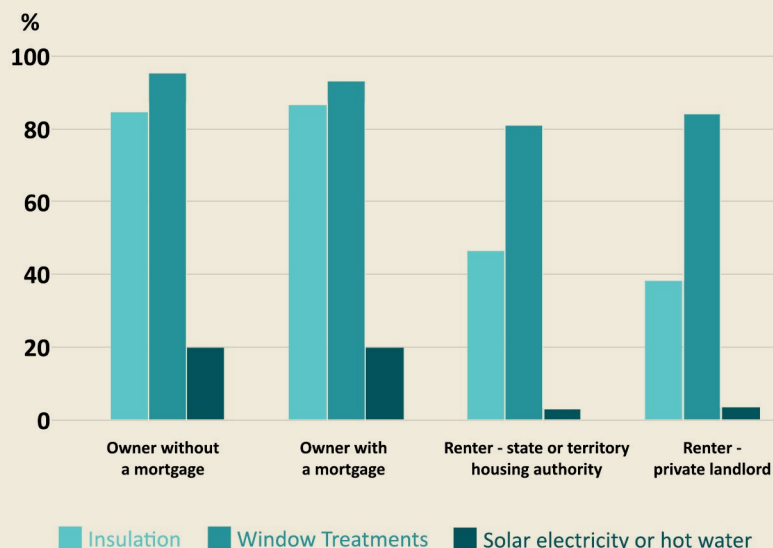
<sup>5</sup> Environment Victoria, 2015, Future Powered Families 2013–2016 – Final Report

<sup>6</sup> M. Lovering, 2013, Can Low-income Tenants Rent an Energy-efficient Home?, AHURI Evidence Review 040

<sup>7</sup> Consumer Affairs Victoria, 2016, Rental Experiences of Tenants, Landlords, Property Managers, and Parks Residents in Victoria, Final Report, prepared for CAV by EY Sweeney

## CHAPTER 02

### WHY INEFFICIENT RENTAL HOUSING MATTERS



**Figure 2.** Household dwelling characteristics by tenure and landlord type.<sup>8</sup>

**“OUR HOUSE GETS TO 35 DEGREES INSIDE IN SUMMER AND AS LOW AS 10 DEGREES IN WINTER. I’M WORRIED ABOUT CLIMATE CHANGE, SO I DON’T WANT TO RUN THE HEATER ALL DAY IF I KNOW ALL THAT ENERGY IS JUST BLOWING STRAIGHT THROUGH THE ROOF.”**

– Margaret, Balwyn

If Victoria’s entire pre-2005 housing stock has an average rating of less than 2 stars, the rating for rental homes is likely to be even lower because few have basic efficiency measures such as insulation (see Figure 2). As a result, renters are hit particularly hard by rising prices.

## INEFFICIENT RENTAL HOUSING PUTS PEOPLE’S HEALTH AT RISK

Living in homes that are hot in summer or freezing in winter has significant health impacts, particularly for the elderly, the very young and those with pre-existing health conditions. Inefficient housing also magnifies people’s vulnerability to extreme weather events such as heatwaves, increasing the pressure on health and emergency services.

For example, the heatwave in southeast Australia in January and February 2009 led to a 46 percent increase in ambulance call-outs and a 12 percent increase in emergency department presentations in Melbourne, and was estimated to have contributed to an additional 374 deaths.<sup>9</sup> At the other end of the scale, a recent international study concluded that more people die from the effects of chronic cold in Australia than in Sweden, largely due to the poor quality of our housing.<sup>10</sup>

<sup>8</sup> Australian Bureau of Statistics, 2013, Household Energy Consumption Survey, Australia: Summary of Results, cat. 4670.0

<sup>9</sup> Department of Human Services, 2009, January 2009 Heatwave in Victoria: an Assessment of Health Impacts, State Government of Victoria, Melbourne

<sup>10</sup> A. Gasparrini et al., 2015, “Mortality risk attributable to high and low ambient temperature: a multi-country observational study”, *Lancet*, vol. 386, p. 369



Charlotte and James have been renting in North Fitzroy and Clifton Hill for 14 years. They and their two daughters have put down roots in the community, but they now can't afford to buy in the area.

**“I THOUGHT WE WOULD OWN OUR OWN HOME AT THIS LIFE STAGE,” SAYS CHARLOTTE. “HOUSE PRICES ARE SO HIGH, THERE’S JUST NO WAY WE CAN SAVE HUNDREDS OF THOUSANDS OF DOLLARS TO GET A DEPOSIT TOGETHER FOR A HOME LARGE ENOUGH FOR A FAMILY WHEN WE’RE RENTING A HOUSE TO ACCOMMODATE A FAMILY. IT’S NOT A DECISION. WE’RE NOT RENTING BY CHOICE. IT’S JUST HOW OUR LIFE IS.”**



## MORE PEOPLE ARE RENTING FOR LONGER

As home ownership slips out of reach for an increasing number of Victorians, renting is becoming a more mainstream long-term housing type. Nearly one-third of all Victorian households now rent in the private market, while the share of households renting for longer than 10 years has more than doubled since the mid-1990s.<sup>11</sup> There is also a growing group of people, particularly older women and single parents, who have fallen out of home ownership as a result of relationship breakdown or job insecurity and have little chance of re-entering the housing market.

The types of households that rent have also seen a marked shift. Whereas once singles and young people dominated the private rental market, since 2011 families with young children have represented the largest group of renters in Victoria.<sup>12</sup>

The health and affordability impacts of poor-quality, inefficient housing can no longer be treated as a marginal or temporary problem. These impacts are being felt by a large and growing cross-section of the Victorian community, particularly young families.

**“OUR HOUSE IS SO POORLY INSULATED THAT IT’S BASICALLY UNINHABITABLE IN HOT WEATHER. WE’VE HAD TO BUY A PORTABLE COOLER, WHICH HELPS A BIT BUT COSTS A LOT TO RUN. I’M ON A DISABILITY PENSION, SO WE’RE HAVING TO DIP INTO MY SUPER TO PAY BILLS.”**

**– Duncan, Box Hill South**

<sup>11</sup> Australian Bureau of Statistics 2017, 2016 Census: Victoria, [http://www.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/quickstat/2?opendocument](http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/2?opendocument); W. Stone *et al.*, 2013, *Long-term Private Rental in a Changing Australian Private Rental Sector*, AHURI Final Report No. 209

<sup>12</sup> W. Stone *et al.*, 2013

## CHAPTER 02

### WHY INEFFICIENT RENTAL HOUSING MATTERS

AS RENTAL HOUSES REPRESENT ABOUT A QUARTER OF VICTORIA'S TOTAL HOUSING STOCK, ENERGY USE IN RENTAL PROPERTIES HAS A SIGNIFICANT BEARING ON OVERALL EMISSIONS.

<sup>13</sup> GWA, 2008, *Victoria's Greenhouse Gas Emissions: End-use Allocation of Emissions*, prepared for the Department of Sustainability and Environment by George Wilkenfeld & Ass.

<sup>14</sup> Department of Environment, Water, Heritage and Arts, 2008, *Energy Use in the Residential Sector 1986–2020*

<sup>15</sup> ClimateWorks, 2014, *Pathways to Deep Decarbonisation in 2050: How Australia can Prosper in a Low Carbon World*

<sup>16</sup> International Energy Agency, 2015, *World Energy Outlook: Special Report on Energy and Climate Change*, [www.iea.org](http://www.iea.org)

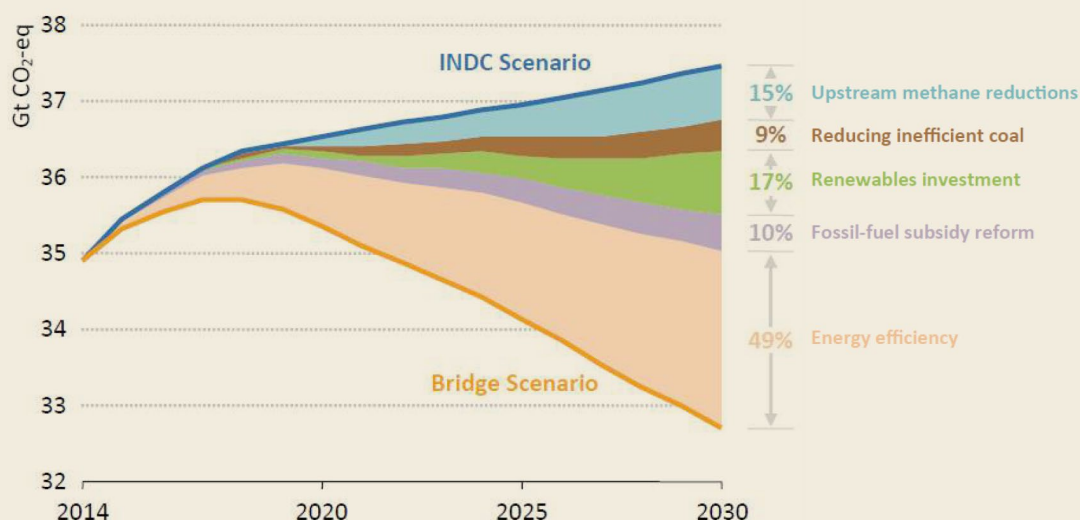
## A QUICK AND LOW-COST WAY TO CUT CLIMATE POLLUTION

Energy used by the residential sector accounts for about 20 percent of Victoria's total emissions, influenced largely by our reliance on brown coal for electricity.<sup>13</sup> Despite having a smaller population than NSW, Victoria has the highest residential energy consumption of any state, reflecting our cooler climate and greater reliance on winter heating.<sup>14</sup> As rental houses represent nearly a third of Victoria's total housing stock, energy use in rental properties has a significant bearing on overall emissions.

Cutting waste by improving efficiency is one of the quickest, most cost-effective ways to reduce emissions. Efficiency improvements represent about half of the opportunities for cost-effective emissions reduction in the Australian economy.<sup>15</sup>

There is no way to meet the Victorian government's emission reduction targets and achieve a fair and far-reaching response to climate change without significant improvements in efficiency and demand management across the economy.

Unnecessarily high energy use by inefficient homes also puts additional pressure on our energy supply system during peak periods such as



**Figure 3.** Relative contribution of measures to reduce global emissions.<sup>16</sup>

# 03

## THE OPPORTUNITY – DELIVERING LOWER BILLS AND SAFER RENTAL PROPERTIES

### SETTING EFFICIENCY STANDARDS UNDER THE REVISED RESIDENTIAL TENANCIES ACT

The current review of the *Residential Tenancies Act* presents a unique opportunity to address a long-standing problem by introducing minimum standards for health, safety and efficiency for rental properties. Standards for health and safety should include measures such as ensuring structural soundness, electrical and gas safety, and freedom from damp and vermin.<sup>17</sup> These basic standards for safe habitation need to go further by including requirements for minimum energy and water efficiency performance.

In the context of rising energy prices and the increasing frequency and severity of extreme weather events under climate change, energy efficiency needs to be considered a core element of any standards regime seeking to improve the health, safety and affordability of rental housing. Growing climate and population pressures on our precious water resources mean we should not miss this opportunity to include sensible water-saving measures at the same time.

Standards are not a new concept. Regulations governing rental properties were allowed to lapse in the 1990s, leaving a critical gap in Victoria's regulatory framework. Furthermore, New Zealand introduced insulation standards for rental properties in 2016, while the Queensland government introduced legislation for rental standards into parliament in mid-2017.

Efficiency standards for rental properties are the missing piece of the jigsaw in the government's social justice and environmental agenda. Addressing this problem will deliver real reform that helps tackle energy hardship while cutting climate pollution.

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NEW ZEALAND INTRODUCED INSULATION STANDARDS FOR RENTAL PROPERTIES IN 2016, WHILE THE QUEENSLAND GOVERNMENT INTRODUCED LEGISLATION FOR RENTAL STANDARDS INTO PARLIAMENT IN MID-2017.

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<sup>17</sup> See submission to the Fairer, *Safer Housing Review* by the Victorian Council for Social Service, <https://engage.vic.gov.au/fairersaferhousing>



# 04

## THE SOLUTION – EFFICIENCY STANDARDS FOR RENTAL PROPERTIES

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**“I TRIED TO GET OUR LANDLORD TO DO DRAUGHT-PROOFING, BUT THEY DECLINED AND INSTALLED DUCTED HEATING INSTEAD, BECAUSE IT IMPROVED PROPERTY VALUE. BUT WE COULDN'T AFFORD TO USE IT, PARTICULARLY WITH THE HOUSE BEING UNINSULATED.”**

**– Richard, Pascoe Vale**

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### MARKET FORCES ARE NOT ENCOURAGING INVESTMENT IN EFFICIENCY

There is ample evidence that market forces are not encouraging investment in improving rental properties' efficiency. Prospective tenants are not provided with the information required to help them choose more efficient properties, while efficiency measures such as insulation are difficult to assess on the basis of a short inspection. In any case, tenants face a highly competitive private rental market in which they have little market power to choose between properties of differing quality. As a result, rents tend not to reflect disparities in efficiency, and there is no price signal to encourage landlords to invest in upgrades.

Furthermore, even where landlords do take steps to improve the efficiency of their properties, they often prioritise measures that will improve asset value over less visible but potentially more effective measures that would deliver higher benefits to tenants and the wider economy.

### THE SOLUTION IS STANDARDS

The only way to address this market failure and improve the efficiency of rental properties is to require them to meet minimum efficiency standards.

The revised *Residential Tenancies Act* must create the power for the Minister for Consumer Affairs to make standards for health, safety and efficiency.

Effective action requires an integrated whole-of-government approach. While the Act establishes the power to make standards, the expertise of the Department of Environment, Land, Water and Planning can then be harnessed to define the content of standards in accompanying regulations.

**TABLE 1. ESTIMATED AVERAGE COSTS OF EFFICIENCY MEASURES AND HOUSEHOLD SAVINGS.**

Efficiency measure	Retrofit opportunity (%) <sup>18</sup>	Estimated maximum cost per house (\$) <sup>19</sup>	Investment across rental housing stock (\$m) <sup>20</sup>	Estimated annual savings per household (\$/yr)
Ceiling insulation <sup>a</sup>	75 <sup>b</sup>	1125 <sup>c</sup>	506.3	133.5
Draught-sealing	50	1037	311.1	157
Hot water <sup>d</sup>	30	818	147.2	100
Low-flow shower rose	60	86 <sup>e</sup>	31.0	102
Efficient lighting	93 <sup>f</sup>	574	320.3	100
Heating upgrade <sup>g</sup>	80 <sup>h</sup>	1388	666.2	157
Dual-flush toilets	20	450	54.0	100 <sup>i</sup>
<b>Total</b>		<b>\$5478</b>	<b>\$2036 million</b>	<b>\$849.5/year</b>

a. Average of cost of insulation deemed 'easy' or 'difficult' to install

b. Estimate based on 36-50% of rental homes being uninsulated with a further 20-25% requiring a top-up

c. Planned re-inclusion of ceiling insulation under the Victorian Energy Upgrade Program would lower costs for landlords

d. End-of-life replacement Gas price increases since this research was done could mean lower-emission heat

pump systems now a better option (see Alternative Technology Association 2014, *Are we still cooking with gas?*)

e. Free to property owners under the Victorian Energy Upgrade Program

f. It is likely that some of this upgrade potential has been taken up in owner-occupied homes since research was done.<sup>21</sup> However, participation in VEUP has been lower for rental homes, so original upgrade opportunity has been retained.

g. End-of-life replacement. Gas price increases since this research was done could mean lower-emission reverse cycle systems now a better option (see ATA 2014)

h. End-of-life replacement. Sustainability Victoria 2016, *Energy Efficiency Upgrade Potential of Existing Victorian Houses*

i. From Yarra Valley Water at [www.yvw.com.au/help-advice/saving-water/home](http://www.yvw.com.au/help-advice/saving-water/home), 35,000 litres saved per year at \$2.87/kl (average of two lowest block tariffs)

## EFFICIENCY STANDARDS ARE AFFORDABLE

Research by Sustainability Victoria suggests that a package of the most cost-effective energy and water efficiency measures – including insulation, draught-sealing and low-flow shower heads – would cost about \$5500 per house (see Table 1). This is likely to represent the upper end of compliance costs, as responsible property investors who recognise the benefits of keeping their properties in good condition are likely to have already installed many of these measures.

The specific content of efficiency standards would be defined in separate regulations, based on technical work currently being undertaken by the Department of Environment, Land, Water and Planning.

Without pre-empting the outcome of this work, Environment Victoria sees value in defining the initial standards in terms of basic, prescriptive requirements that target the bottom 10 percent of the market, and then moving to more performance-based standards in subsequent tranches, ideally linked to the Victorian Residential Efficiency Scorecard.

At the household level, costs of this magnitude are affordable, particularly given that subsidies for several of these measures are available through the Victorian Energy Upgrade Program.<sup>22</sup> Median rental income for Victoria is currently \$20,000 per year, and obviously well above that across much of metropolitan Melbourne. Spreading investment over the five-year implementation period correlates to maximum compliance costs of less than \$1155 a year or around 5 percent of total rental income of \$100,000 for that period.<sup>23</sup>

<sup>18</sup> Department of Sustainability and Environment, 2009, *Housing Condition/Energy Performance of Rental Properties in Victoria*, prepared for DSE by EnergyConsult Pty Ltd

<sup>19</sup> Unless otherwise specified, data sourced from Sustainability Victoria, 2014, *Household Energy Report*, Tables 3 and 4

<sup>20</sup> Based on 600,000 total rental households in Victoria, from [http://www.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/quickstat/2?opendocument](http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/2?opendocument)

<sup>21</sup> I. McNicol, 2017. "Energy Efficiency Upgrade Potential of Existing Victorian Houses", Improving Residential Energy Efficiency International Conference, IREE 2017

<sup>22</sup> Formerly the Victorian Energy Efficiency Target scheme

<sup>23</sup> *Rental Trends – March Quarter 2017* at <https://www.dhhs.vic.gov.au/publications/rental-report>

# CHAPTER 04

## THE SOLUTION - EFFICIENCY STANDARDS FOR RENTAL PROPERTIES

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**“AS A LANDLORD, KEEPING YOUR HOUSE UP TO A GOOD STANDARD MEANS THAT YOU GET RESPECT FROM THE RENTER. EVERYONE SHOULD BE ENTITLED TO A MINIMUM STANDARD IN THEIR HOME, EVEN IF YOU DO NOT OWN IT.”**

– Martin, Yarraville

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Furthermore, the majority of property investors are in the top two quintiles for income, and over 50 percent are in the top wealth quintile.<sup>24</sup> Recent research suggests there is a high level of support for efficiency standards amongst landlords provided standards are introduced in a staged way and accompanied by appropriate incentives and information to enable compliance.<sup>25</sup>

## RENTERS CAN BE PROTECTED

If standards are initially set at a low and achievable level and landlords are given plenty of notice as well as access to affordable finance, unreasonable rent increases should not occur. There is little evidence that the introduction of standards in other jurisdictions such as the UK, Canada and New Zealand has had any significant impact on rents or the supply of rental housing.

However, additional protections are also needed in the revised legislation to guard against any unjustifiable increases which do occur, and to make compliance simpler and more effective.

- **New legislative protections against excessive rent increases:** These would mandate a maximum annual rent increase and establish a new, simple mechanism to allow tenants to challenge increases that are disproportionate to the cost of complying with the standards.
- **Right for tenants to challenge non-compliance:** The revised Act should make compliance with standards a duty and specifically permit tenants to use the Act’s existing compensation and compliance mechanisms to deal with breaches.
- **Repairs and maintenance bond:** Landlords would be required to set aside a bond (mirroring the bond already required of tenants) that could be accessed up to a defined amount if they did not carry out repairs within statutory periods or refused to comply with mandated standards. This would allow tenants to remedy straightforward breaches without having to navigate complex administrative processes through Consumer Affairs Victoria or the Victorian Civil and Administrative Tribunal (VCAT). It would also give landlords an incentive to minimise claims by bringing homes up to standard before tenancies begin.

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<sup>24</sup> R. Wilkins, 2016, *The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14 – The 11th Annual Statistical Report of the HILDA Survey*, Melbourne Institute of Applied Economic and Social Research

<sup>25</sup> K. Wrigley and R. Crawford, 2015, “Bridging the gap: energy efficiency improvements for rental Properties” in R.H. Crawford and A. Stephan (eds.), *Living and Learning: Research for a Better Built Environment: 49th International Conference of the Architectural Science Association 2015*, pp.322–331



## CAREFUL IMPLEMENTATION WILL MAXIMISE BENEFITS WHILE MINIMISING COSTS AND RISKS

The key to maximising economic and social benefits while minimising adverse impacts is to introduce standards in a staged way. This reduces upward pressure on rents by allowing landlords to spread costs over several years and ensuring that the demand for goods and services does not exceed supply.

- 1. Introduce standards at a low, achievable level.** Standards should initially target the worst-performing properties, which represent about 10 percent of the rental housing stock. Landlords who already keep their properties in liveable condition should have little trouble meeting these basic standards.
- 2. Design initial standards as a features-based list.** This will enable easy and cost-effective assessment, including by landlords themselves. Allow existing assessments to be used to demonstrate compliance. Consumer Affairs Victoria and the Department of Environment, Land, Water and Planning should collaborate on developing an integrated set of standards for health, safety and efficiency.
- 3. Give landlords time to comply.** Government should collaborate with the real estate sector to develop clear, accessible communication materials about what the standards require, who is affected, when changes need to be made and how to access advice and assistance. Government should also provide eligible landlords with concessional finance to support compliance and avoid upward pressure on rents.
- 4. Require compliance at the start of a new lease.** This will deliver rolling compliance across the total housing stock as leases take effect at different times, avoiding sudden shocks to the market and minimising the risk of evictions. Final dates for compliance would also be set to avoid disadvantaging tenants with longer-term leases.

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THERE IS LITTLE EVIDENCE THAT THE INTRODUCTION OF STANDARDS IN OTHER JURISDICTIONS SUCH AS THE UK, CANADA AND NEW ZEALAND HAS HAD ANY SIGNIFICANT IMPACT ON RENTS OR THE SUPPLY OF RENTAL HOUSING.

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# CHAPTER 04

## THE SOLUTION - EFFICIENCY STANDARDS FOR RENTAL PROPERTIES

**5. Use existing compliance mechanisms.** Enforcement costs can be minimised by making use of existing processes for both regulator and consumer enforcement. Regulator enforcement would be achieved by making non-compliance with the standards an offence under the *Residential Tenancies Act*, enabling the Director of Consumer Affairs to use existing powers to ensure compliance. Regulator enforcement is vital to protect the interests of vulnerable and disadvantaged tenants. An additional consumer enforcement mechanism which makes compliance a duty under the Act, would allow tenants to deal with breaches of the standards through the normal compensation and compliance mechanisms in the Act.

**6. Progressively tighten requirements for efficiency performance.** Once the worst performing properties are brought up to scratch, efficiency standards should be progressively tightened over several years so that all tenants benefit over time. It would make sense for these subsequent tranches of standards to be linked to performance-based tools such as the Victorian Residential Efficiency Scorecard to ensure that investment is targeted to the most cost-effective measures for each home.

# STAGED IMPLEMENTATION TIMETABLE

2018	2019 - 2020	2021 - 2022	2023
Legislation drafted and passed in Parliament			
<b>“On/off” prescriptive standards for health, safety and efficiency targeting bottom 10% of rental housing stock are developed and outlined in accompanying regulations. Regulatory Impact Statement completed.</b>	Properties are required to comply with basic standards at end of lease or by end of 2020.  By end of 2020, all properties comply with basic standards for health, safety and efficiency. Only 10% have required upgrades.		
	Development phase for next stage of standards targeting the bottom 50% of the rental housing stock. <sup>26</sup>	Rolling compliance with next stage performance-based energy and water efficiency standards at end of lease or by end of 2022.	Rolling compliance with final-stage performance-based efficiency standards at end of lease or by end of 2023.
CAV works with DELWP to develop and disseminate clear, accessible information to real estate sector and landlords about health, safety and efficiency standards, compliance obligations, eligibility for assistance and where to get assessments and advice.			
CAV works with DELWP to develop and deliver training for assessors and advisers to assess compliance against standards and provide advice about upgrade options. <sup>27</sup>			
Rollout and promotion of the Victorian Residential Efficiency Scorecard continually builds evidence base for development and refinement of subsequent tranches of efficiency standards.			
Government provides affordable finance to eligible landlords to facilitate compliance.			

<sup>26</sup> Linking subsequent tranches of standards to the Victorian Residential Efficiency Scorecard avoids duplicating time and investment in developing a parallel rating system and capitalises on the public awareness of efficiency ratings created by the roll-out of the scorecard. It also means that property owners’ obligations under subsequent tranches of the standards would be known at the beginning of the process, simplifying communication with property owners and property sector.

<sup>27</sup> Linking next stage efficiency standards to the Victorian Residential Efficiency Scorecard would avoid duplicating training being delivered for Scorecard assessors.



# 05

## BENEFITS FOR VICTORIA'S RENTERS, ECONOMY AND ENVIRONMENT

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**INTRODUCING  
EFFICIENCY STANDARDS  
FOR RENTAL PROPERTIES  
WOULD SUPPORT AN  
ESTIMATED 3000 TO 5400  
JOBS OVER FIVE YEARS,  
AND FREE UP HOUSEHOLD  
EXPENDITURE TO  
SUPPORT AN ESTIMATED  
1600 ONGOING JOBS.**

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### QUALITY JOBS FOR VICTORIA

Encouraging investment in efficiency upgrades across the rental sector would unlock billions of dollars in investment and support an estimated 3000 to 5400 jobs (gross) over the five-year implementation period. Jobs in the efficiency sector tend to be in small- to medium-sized businesses and community organisations, and cover a range of occupations in trades, services and manufacturing. These are jobs which can't be relocated off-shore, because they are locked into Victoria's local economy. At the same time, money freed up by energy bill savings would be available for spending elsewhere in the economy, supporting an estimated 1600 more local jobs on an ongoing basis.<sup>28</sup>

This investment and job creation will not occur without efficiency standards for rental properties.

The *Victorian Energy Upgrades Program* (formerly the *Victorian Energy Efficiency Target* scheme) was estimated to be supporting 2000 jobs in 2014<sup>29</sup> and this has likely increased since higher targets were set in 2015. However, as most activity under the scheme is currently being generated through commercial lighting upgrades, there is substantial scope for expanding residential activity.

Introducing minimum efficiency standards for rental properties will create a predictable market for services, encouraging long-term investment and job creation. This would help avoid the boom–bust cycles that have sometimes attended programs reliant on government funding or incentives.

A stable investment market and a larger pool of efficiency opportunities

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<sup>28</sup> Based on methodology outlined in *Environment Victoria 2015, Six Steps to Efficiency Leadership*, assuming total rental housing stock of 600,000 and estimated investment summarised in Table 1 occurring over 5 years. Gross jobs include those which may move from other parts of the economy.

<sup>29</sup> Analysis undertaken by Energy Efficiency Certificate Creators Association, 2014

## ENVIROFLEX, KNOXFIELD

Enviroflex has been in the business of improving the efficiency of Victorian homes and businesses for over 50 years, and currently employs 20 people in the manufacture and installation of insulation and other efficiency products. Enviroflex's general manager, Kayne Bourillon, sees huge potential for improving the efficiency of rental properties.

"We've been seeing an increasing number of tenants coming to us for quotes because they know insulation can help lower bills and make their homes more comfortable. But only a relatively small proportion of those jobs end up going ahead, as most tenants struggle to get the landlord's consent to pay for it," says Mr Bourillon.

"That's potentially a large business opportunity going begging. Setting basic insulation standards would create a predictable pipeline of work that would encourage us to employ more staff and invest in their training."

Assuming conservatively that 75 percent of Victoria's 600,000 rental properties – or 450,000 homes – are uninsulated or under-insulated, implementing standards over five years would see an additional 75,000 homes insulated each year. Mr Bourillon considers increased demand of this magnitude could be easily met by the industry and would create additional jobs for local businesses such as Enviroflex.

However, setting standards would need to go hand in hand with a requirement for workers in the insulation industry to undergo accredited training. This would not only protect consumers, but also ensure reputable companies were not undercut by competitors employing untrained workers at lower pay rates.



will also boost innovation and drive down the costs of key efficiency measures. Much of the challenge of responding to the clean energy revolution lies in capturing the opportunities created by new technologies. Creating a welcoming investment climate could help Victoria capture a share of those new markets, opening up further opportunities for long-term job creation.

The policy certainty created by standards will also support long-term investment in training so that the necessary workforce is in place to meet demand, and provide high-quality, secure jobs in an industry with a long-term future.

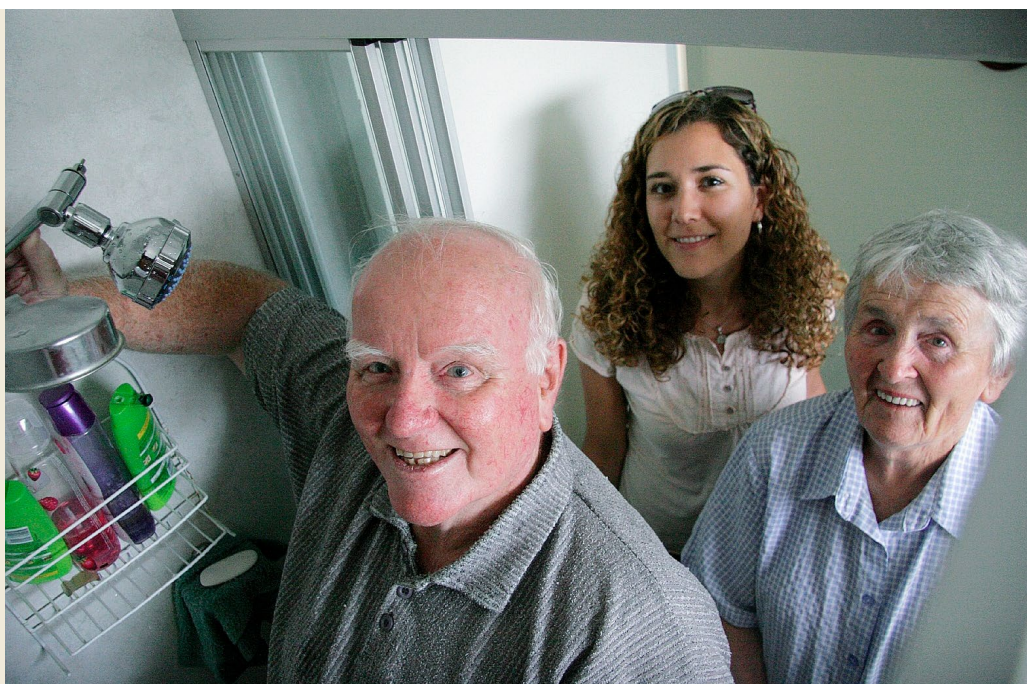
## CUTTING COSTS FOR HOUSEHOLDS AND GOVERNMENT

While tenancy agreements may be a private contract, they have very public consequences for community wellbeing. The costs of energy inefficiency are currently borne by tenants (via high bills and adverse health effects), community organisations and energy retailers (who fund household energy audits and basic energy efficiency improvements for hardship customers), and government (via concession payments and higher health expenditure).

Sustainability Victoria research suggests that that the package of measures outlined in Table 1 on page 13 could save a household around \$850 a year on their energy and water bills. Recent electricity and gas price increases mean that savings for some households may now be even higher. On the other hand, households that are rationing their energy use or cutting expenditure in other areas to cover high energy bills may see lower bill savings but are likely to receive health benefits from improving the efficiency of their homes.

For example, a recent CSIRO study demonstrated that retrofitting a home with basic efficiency measures such as draught-sealing and insulation could nearly halve the time residents were exposed to severe

Elderly people are particularly vulnerable to the health risks of living in inefficient homes.





Efficiency reduces our reliance on dirty coal-fired electricity and helps maintain reliable supply when power stations like Hazelwood close. Image credit: Doug Gimsey

health risks during a heatwave.<sup>30</sup> Furthermore, a cost-benefit analysis of New Zealand's home insulation program found that it delivered net benefits of \$1.2 billion, largely through savings in hospitalisation costs and reduced mortality rates for vulnerable groups.<sup>31</sup>

Assisting Victoria's one million low-income households to reduce their energy bills would also save the government \$2.5 billion from its energy concessions budget over 20 years. More than half of these households are renters.

## A CHEAPER, FASTER TRANSITION TO 100% CLEAN ENERGY

Like everywhere else in the world, Victoria faces the challenge of providing affordable, secure and reliable energy services while transitioning to 100 percent renewable energy as rapidly as possible to avoid catastrophic climate change.

Cutting waste by improving efficiency is one of the quickest and most cost-effective ways to reduce emissions. Efficiency improvements represent about half of all cost-effective emissions reduction opportunities in the Australian economy.<sup>32</sup> Given the huge potential for efficiency improvements across the residential rental sector, which comprises more than 600,000 homes, efficiency standards could make a

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**A BASIC SUITE OF  
EFFICIENCY MEASURES  
COULD SAVE RENTAL  
HOUSEHOLDS AROUND  
\$850 A YEAR ON THEIR  
ENERGY AND WATER  
BILLS.**

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<sup>30</sup> G. Barnett et al., 2013, *Pathways to Climate Adapted and Healthy Low Income Housing*, CSIRO and National Climate Change and Adaptation Research Facility

<sup>31</sup> A. Grimes et al., 2011, *Cost Benefit Analysis of the Warm Up New Zealand: Heat Smart Programme*, prepared for the New Zealand Ministry of Economic Development

<sup>32</sup> ClimateWorks, 2014, *Pathways to Deep Decarbonisation in 2050*

# CHAPTER 05

## BENEFITS FOR VICTORIA'S RENTERS, ECONOMY AND ENVIRONMENT

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**CUTTING WASTE BY  
IMPROVING EFFICIENCY  
IS ONE OF THE QUICKEST  
AND MOST COST-  
EFFECTIVE WAYS TO  
REDUCE EMISSIONS.**

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significant contribution to achieving the Victorian government's emission reduction objectives.

Improving efficiency in the residential sector can also reduce peak demand at times of high energy use such as heatwaves. Cutting peak demand helps delay or avoid costly investment in 'poles and wires' infrastructure, which has been a key driver of rising prices over the last decade. Lowering peak demand also reduces our reliance on additional electricity supply from gas-fired power stations – an increasingly expensive option given recent gas price increases.

## SAVING WATER FOR OUR RIVERS

While Victorians significantly changed their water use habits during the severe 1997-2009 drought, water use is again on the rise. Melbourne's residential sector used 272 gigalitres in 2016 or 166 litres per person per day, up from a low of 147 litres/person/day in 2010-11.<sup>33</sup>

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<sup>33</sup> <https://www.melbournewater.com.au/waterdata/wateruse/Pages/default.aspx>



On average, half the Yarra River's flows are extracted for Melbourne, leaving the river in poor health.



The vast majority of Melbourne's water comes from our rivers. This extraction is leaving many of our river ecosystems trying to get by on half the water which would naturally be there. At the same time, climate change is rapidly eroding our water supplies, with some of our rivers losing 70 percent of their flows over the last 20 years. These pressures will only worsen conditions in our rivers and wetlands unless we maintain a strong focus on reducing consumption through efficiency.

We therefore should not miss this opportunity to also ensure sensible water-saving measures such as dual-flush toilets and low-flow shower heads are installed in all rental homes.



# 06

## MYTHS AND FACTS ABOUT EFFICIENCY STANDARDS FOR RENTAL HOMES

### AREN'T MOST RENTAL PROPERTIES ALREADY IN GOOD CONDITION?

**Rental properties are falling behind other building standards.** Current laws governing repair and maintenance only require landlords to return a property to the condition in which it was leased. If a property did not have insulation or a fixed heater, there is no obligation under current legislation to provide it.

Furthermore, the generally poor efficiency performance of Victoria's housing stock means that many homes that are in generally good condition are nevertheless likely to be inefficient. Rental properties are worse than average in terms of efficiency, with much lower rates of basic measures such as insulation in rented versus owner-occupied homes.

### AREN'T RENTAL PROPERTIES ALREADY REQUIRED TO MEET BUILDING STANDARDS?

**Buildings in Victoria are subject only to the standards that applied at time of construction.** A rental home which met building standards in place when it was constructed is not required to meet any upgraded standards which have been introduced since then.<sup>34</sup> As standards for new buildings, particularly for efficiency performance, have been progressively raised since 1990, the lack of matching standards for rental properties is creating a two-tier housing sector.

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<sup>34</sup> Buildings are subject to retrospective requirements for smoke alarms and pool fencing, but nothing that prescribes an objective standard of quality or liveability.

## DO VOLUNTARY INCENTIVES WORK?

Unfortunately, voluntary market incentives often don't encourage landlords to invest in efficiency upgrades because the benefits of lower bills and better living conditions mainly accrue to tenants. This is known as the 'split incentive' problem.

We know from experience that most landlords don't take advantage of voluntary efficiency programs, even when they are subsidised. On the other hand, tenants are often reluctant to request efficiency upgrades for fear of eviction or rent increases, especially if they are disadvantaged.

## ISN'T RENTING NORMALLY TEMPORARY?

**Not any more. The latest Census data shows 1 in 3 households are now renters, up from around 1 in 4 in 1991.** As house prices have risen, putting home ownership out of reach for an increasing number of Victorians, renting is becoming a long-term situation for many households. The proportion of households renting for longer than 10 years has doubled since the 1990s.

The face of rental households is also changing. Whereas once singles and young people dominated the private rental market, since 2011 families with young children have represented the largest group of renters in Victoria.<sup>35</sup>

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<sup>35</sup> Australian Bureau of Statistics 2017, 2016 Census: Victoria, [http://www.censusdata.abs.gov.au/census\\_services/getproduct/census/2016/quickstat/2?opendocument](http://www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/2?opendocument); W. Stone et al., 2013, Long-term Private Rental in a Changing Australian Private Rental Sector, AHURI Final Report No. 209

## CAN'T TENANTS JUST AVOID POOR QUALITY HOUSES?

**Tenants don't always have this choice. In a highly competitive rental market such as Melbourne, many tenants have little market power to choose between properties in their price range.**

This long-standing situation affecting vulnerable tenants is getting worse as an increasing number of middle-income tenants, who a generation ago would have moved into home ownership, are now staying in the private rental market, pushing lower-income households into more and more marginal properties.

Because these marginal properties are not required to meet any basic standards, already vulnerable people are being exposed to additional health and cost of living pressures.

## WHAT ABOUT RENTS AND EVICTIONS?

**A staged, well-managed implementation will give landlords time to adjust, and the legislation can include protections against rent increases.**

Introducing standards at a low and achievable level and flagging compliance dates well in advance would allow landlords to spread investment over several years. This should minimise pressure on rent increases, while requiring compliance at the start of a new lease should protect against evictions. However, additional protections will also be needed to guard against any unjustifiable increases that do occur.

There is little evidence from other jurisdictions such as the UK, Canada and New Zealand that the introduction of standards has had any significant impact on housing supply or rents.



## WHAT COULD THE COST BE FOR LANDLORDS?

Sustainability Victoria research indicates that a package of basic efficiency measures could cost around \$5500. This is not an onerous obligation for property investors earning upwards of \$20,000 every year in rental income or \$100,000 over the 5-year implementation period. Compliance costs are likely to be lower for landlords who already keep their properties in good repair. Furthermore, most property investors are in the top two income quintiles, while more than half are in the top wealth quintile.<sup>36</sup>

It is not unreasonable to ask property owners to run their business in a manner that avoids endangering other people's safety and well-being, in the same way that restaurant operators, transport providers and a wealth of other businesses face obligations relating to public safety.

## WHAT COULD TENANTS SAVE ON THEIR BILLS?

A basic suite of energy and water efficiency could save a household nearly \$850 a year on their energy and water bills. Recent electricity and gas price increases mean that savings for some households may now be even higher. On the other hand, households that are rationing their energy use or cutting expenditure in other areas to cover high energy bills may see lower bill savings but are likely to receive health benefits from improving the efficiency of their homes.

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<sup>36</sup> R. Wilkins, 2016, The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 14 – The 11th Annual Statistical Report of the HILDA Survey, Melbourne Institute of Applied Economic and Social Research

