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**RE: Submission to Residential Tenancies Act Review – Issues Paper
“Regulation of property conditions in the rental market”**

Thank you for the opportunity to make a submission to the Issues Paper “Regulation of property conditions in the rental market”, as part of the review of the *Residential Tenancies Act*.

About Environment Victoria

Environment Victoria is one of Australia’s leading independent environment groups. With more than 40 member groups and tens of thousands of individual supporters, we’ve been representing Victorian communities on environmental matters for over 40 years. Through advocacy, education and empowerment, Environment Victoria seeks significant and enduring solutions that will safeguard the environment and future wellbeing of all Victorians.

About this submission

Environment Victoria has been working with the *One Million Homes Alliance* since 2009 to advocate for a comprehensive upgrade of the energy and water efficiency of Victoria’s building stock, with a particular focus on the homes of low-income Victorians, many of whom are renters. Central to the OMH policy agenda is the need for minimum efficiency standards at the point of lease, to address the significant and growing gap between the energy efficiency performance of owner-occupied and rental homes.

We therefore welcome this opportunity to contribute to a process which will have such a fundamental bearing on the efficiency, affordability and safety of Victoria’s rental properties into the future.

This submission should be read in conjunction with the submission from the *One Million Homes Alliance*, to which Environment Victoria is a signatory. In addition, Environment Victoria would emphasise several key points, as outlined below.

1. Minimum standards for rental properties must allow for ambition

As has been emphasised in the OMH Alliance submission, the only viable policy solution for addressing the split incentive facing landlords and tenants which is hindering investment in rental properties,¹ is to regulate for minimum standards for rental properties.

The specific detail of the standards should be developed once the regulatory power is enabled in the Act and the scope of the regulations agreed.

Environment Victoria supports the concept of staged implementation of minimum standards – introducing standards at a relatively low and achievable level, so as to initially capture only the worst-

¹ The split incentive arises because landlords have responsibility for the maintenance and upgrade of the premises (which influences efficiency), while the benefits of efficiency improvements in terms of lower bills and improved comfort and health outcomes accrue to tenants.



performing properties. This should address the majority of the severe health and safety implications of poor quality rental housing. This minimum standard should be implemented in this term of government.

However, beyond the immediate task of ensuring the worst performing properties meet a basic minimum standard for safe habitation, Victoria faces a broader task of improving the low efficiency of our housing stock as a whole. Homes built prior to 2005 average less than 2 stars in terms of their efficiency performance,² and the Victorian government has committed to improving residential energy efficiency in its 2014 *Energy Efficiency and Productivity Statement*.³

The view of Environment Victoria and our *One Million Homes Alliance* partners, is that Victoria's housing stock should meet an average 5-star equivalent performance standard⁴ by 2025.⁵

Achieving this goal would see the average Victorian household saving around \$1000 annually on their energy bill, reduce health risks (and health system costs) particularly for vulnerable groups such as the chronically ill, elderly and very young, and reduce Victoria's greenhouse emissions by up to 6.5 million tonnes per year (5 percent of Victoria's emissions).⁶ It would also stimulate investment of up to \$10 billion and create up to 13,000 jobs many of them in small to medium sized trades and services businesses.⁷

Hence, the regulatory framework governing the rental sector should be designed so as to contribute to the achievement of this over-arching goal for all Victorian homes within ten years.

The forthcoming *Victorian Residential Efficiency Scorecard* could provide an effective framework for progressive improvement over time, through the staged elimination of the lowest rating categories.

Such a scheme has recently been implemented in the United Kingdom. In February 2015, the UK Government announced that from April 2018, landlords in England and Wales will be banned from renting out the worst performing homes which fall into the lowest Energy Performance Certificate (EPC) bands of F and G. The new regulations are expected to help around a million tenants who are paying as much as £1000 more than the average bill because of poorly insulated homes.⁸

2. Inefficient rental homes are the norm, not a minority

While it is true that only a small minority of rental homes in Victoria could be considered to be in poor to derelict condition overall,⁹ a significant gap does exist between owner-occupied and rental homes in terms of their energy efficiency performance.

2 SV 2014, *Victorian Household Energy Survey*, Sustainability Victoria

3 Government of Victoria 2015, *Energy Efficiency and Productivity Statement: Saving energy, growing jobs*.

4 Or equivalent rating on the forthcoming Victorian Residential Efficiency Scorecard

5 <http://environmentvictoria.org.au/onemillionhomes>

6 Estimate based on extrapolation of analysis published in OMH 2012, *2.5 Billion Reasons for Efficiency*

7 OMH 2015, *Roadmap to 2025: Overcoming the barriers to energy and water efficient housing*

8 www.ukgbc.org/resources/key-topics/new-build-and-retrofit/retrofit-domestic-buildings

9 Approximately 10 percent of Australian rental homes were classified as in 'poor to derelict' condition between 2001 and 2011. Baker, E. at. al., 2013, "Acknowledging the health effects of poor quality housing: Australia's hidden fraction", State of Australian Cities conference, 29 November 2013



For example, rental households have significantly lower rates of insulation, window treatments and solar electricity or hot water systems than owner-occupied households (see Figure 1), while a greater proportion of rental homes use electric heating systems which are more greenhouse-gas intensive than those found in owner-occupied homes.¹⁰ Furthermore, recent studies have shown almost half of rental occupants do not know if their home is insulated (47 percent), suggesting that insulation rates may be even lower than reported, and that there may be significant levels of under-insulation.¹¹

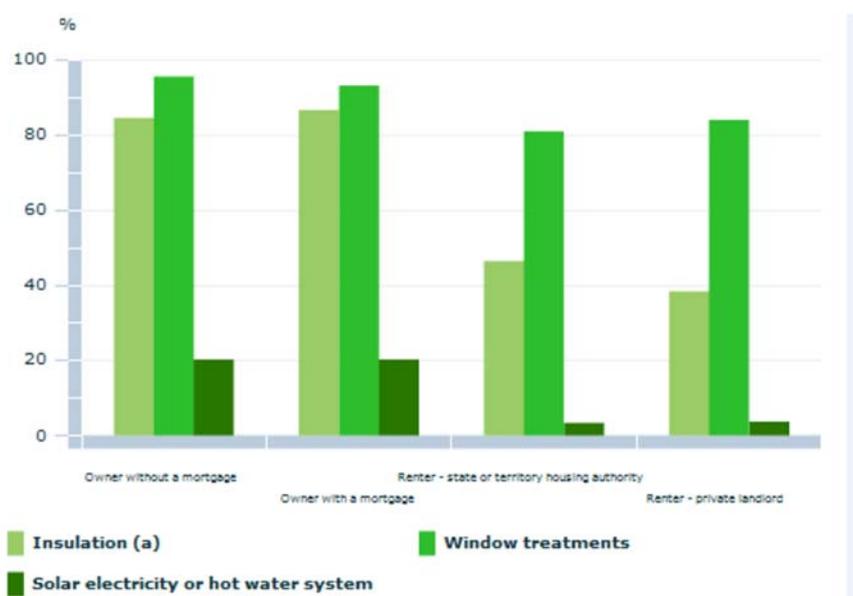


Figure 1. Household dwelling characteristics by tenure and landlord type¹²

While data on the characteristics of private rental housing and investor expenditure in Victoria is incomplete, research undertaken in the 1990s indicates that 65 percent of Victorian landlords spend less than \$1,000 per annum on maintenance.¹³ Low expenditure on maintenance can be expected to correlate with poor energy efficiency performance of rental housing in the longer term.

2. All renters, not only the disadvantaged, are bearing the costs of inefficient housing

As has been emphasised in the *OMH Alliance* submission, rising energy prices are contributing to financial hardship and affordability problems for many Victorians. While many homeowners are responding to rising prices by investing in energy efficiency measures and renewable energy (with more than a million homes across Australia now owning rooftop solar), a growing disparity is occurring between those who have the capacity to improve the efficiency of their homes, and those who do not.¹⁴ Adaptive capacity is

¹⁰ DSE 2009, *Housing condition/energy performance of rental properties in Victoria*

¹¹ DSE 2009, *Housing condition/energy performance of rental properties in Victoria*

¹² ABS 2013, *Household Energy Consumption Survey, Australia: Summary of results, cat. 4670.0*, Australian Bureau of Statistics

¹³ ABS 1998, *Rental Investors Survey*; DSE 2009, *Housing condition/energy performance of rental properties in Victoria*,

¹⁴ Wrigley, K and R. Crawford 2015, "Bridging the Gap: energy efficiency improvements for rental properties" in *Living and Learning: Research for a Better Built Environment: 49th International Conference of the Architectural Science Association 2015*, pp. 322-331



a function of both affordability and agency (or the power to influence the underlying causes of high usage and hence high bills).

While the financial impacts of rising prices and inefficient homes are particularly severe for low-income and vulnerable households, all tenants regardless of income, face the problem of a lack of agency or power to respond to rising prices by improving efficiency. Similarly, while certain groups such as the elderly or very young are most vulnerable to the health impacts of extreme weather events, all inhabitants of poor quality housing are bearing health costs stemming from exposure to chronic cold and heatwaves.

The individual and societal costs of the poor efficiency of our rental stock will only increase as extreme weather events such as heatwaves become more frequent and more severe under climate change. Furthermore, demographic changes within the private rental sector are meaning that a wider cross-section of the community is bearing these costs and for longer. Once dominated by singles and young people, the private rental sector increasingly houses older people and families with children – key groups vulnerable to the health impacts of extreme weather exacerbated by poor quality housing. In addition, the proportion of long-term renters within the private rental market is increasing – from around a quarter of all renters in 1994 to around a third in 2008.¹⁵ It is not reasonable that a significant proportion of the population be effectively consigned to living in sub-standard accommodation and bearing the subsequent health and financial costs for a significant proportion of their lifetimes.

Consequently, while it is reasonable to initially focus policy interventions on the most vulnerable such as low-income and disadvantaged tenants, an effective response to the impacts and costs of inefficient housing must eventually address the entire housing stock.

3. We cannot meet greenhouse emission targets without improving rental housing stock

As has been emphasised in the *OMH Alliance* submission, improving energy efficiency is one of the quickest and most cost-effective ways to reduce greenhouse gas emissions, with efficiency improvements representing approximately half of all cost-effective emission reduction opportunities in the Australian economy.¹⁶

As rental dwellings represent a significant proportion of Victoria's residential building stock (around a quarter), the full emission reduction benefits from improving building efficiency will not be realised without comprehensive improvement in the efficiency performance of the entire sector.

4. Ambitious standards can be implemented on a low-cost high-impact basis

It is acknowledged that further technical work is required to determine which specific requirements to include in the minimum set of baseline standards to initially capture just the worst-performing properties.

¹⁵ Stone, W. 2015, "How has the private rental sector changed in recent decades, particularly for long-term private renters?", AHURI Research & Policy Bulletin, Issue 185, February 2015

¹⁶ ClimateWorks 2014, *Pathways to Deep Carbonisation in 2050: How Australia can prosper in a low carbon world*



This technical work should be done to develop the specific detail of the standards once the regulatory power is enabled in the *Residential Tenancies Act* and the scope of the regulations agreed.

Until this technical work is completed, it is not possible to accurately determine likely upgrade costs for most rental properties, particularly as requirements may vary from home to home. However, as an indication, recent analysis by the *One Million Homes Alliance* drawing on research by Sustainability Victoria concluded that efficiency improvements for most Victorian homes could be implemented at a cost of approximately \$2,000 per star increase.¹⁷

The majority of landlords have the financial capacity to meet minimum property standards, with around 70 percent of owners in 2014 being in the top two income quintiles.¹⁸ Most efficiency measures would be tax-deductible or can be offset against future capital gains to offset tax. Financial assistance is also available in the form of schemes such as the Victorian Energy Efficiency Target Scheme, to enable compliance.

Furthermore, recent research into policy options for improving rental stock found a high level of support by landlords for a mandatory energy efficiency standard – over 70 percent. The number of landlords opposed to standards decreased if regulation was combined with other measures such as tax offsetting energy efficiency improvements.¹⁹

The views of renters and landlords

Finally, let's hear what some Victorian renters and landlords have to say about the need for minimum rental standards. We asked renters to describe their experience of the comfort and affordability of their homes, and landlords to tell us how minimum standards would benefit them. This is a snapshot of the hundreds of comments we received.

Renters:

"One 40-year-old heater in one room means freezing house. Drafts through floor and windows. Unbearably warm on hot days (if over 40C we stay in a hotel)."

"Freezing in winter and boiling in summer, no insulation or external blinds. In winter we huddle in the lounge room (heater) as the rest of the house is 9 degrees. Landlord won't install a split system as he'd have to upgrade the main powerboard. Old hot water system produces unsafe 70 degree water."

"The poor insulation means that although we can keep the house warm in winter it is extremely expensive to run."

"When we rented our home we didn't notice there was a crack in one of the bedroom windows, so it's always cold."

"My house is horribly freezing in winter, and unbearable in summer (no air conditioning). It only has electrical panel heating, which means big power bills in summer. It has big thin windows which makes for nice views, but increases the inefficiency."

¹⁷ OMH 2015, *Roadmap to 2025: Overcoming the barriers to energy and water efficient housing*

¹⁸ Wilkins, R. 2016, *The Household, Income and Labour Dynamics in Australia Survey: Selected findings from Waves 1 to 14*, Melbourne Institute of Applied Economic and Social Research

¹⁹ Wrigley, K and R. Crawford 2015, "Bridging the Gap: energy efficiency improvements for rental properties" in *Living and Learning: Research for a Better Built Environment*: 49th International Conference of the Architectural Science Association 2015, pp. 322-331



"Freezing in the winter. Stinking hot in the summer. Half the windows are painted shut."

"If you are rich feel free to stay warm in winter by firing up the whole house ducted gas heating whilst cold wind comes blasting through all the cracks and there is no insulation."

"My newly-built apartment is nothing more than a fancy cardboard box, and my existence relies on the expensive air conditioning system."

Landlords:

"House is kept in a better condition when appropriate heating/cooling, ventilation, hot water, security is in place. Helps to attract a tenant who is interested in maintaining the property, and thus retain property value."

"There is more likelihood that the tenant will respect your property if you maintain it to the standard you would wish to live in."

"Maintenance and repair issues are dealt with at an earlier stage. Property will not deteriorate and therefore holds its value over time."

"If you maintain your property, rental or otherwise, then the resale value is improved. Also, if you respect your tenant by providing decent housing then it stands to reason that your tenant will reciprocate and respect your property."

Conclusion

Thank you once again for the opportunity to contribute to the *Residential Tenancies Act* review. We urge the review to make recommendations to introduce minimum standards for rental properties, in line with the suggestions in this submission.

We would welcome the opportunity to further discuss the contents of our submission.

Yours sincerely,



Mark Wakeham
CEO