

10 February 2017

Re. Residential Tenancies Act Review
Energy Efficiency Council Submission on the Options Discussion Paper

Dear Sir / Madam

The Energy Efficiency Council welcomes the opportunity to comment on the Residential Tenancies Act Review Options Discussion Paper (referred to as the 'Discussion Paper').

The Energy Efficiency Council is the peak body for energy efficiency, demand management and cogeneration. Our members include service providers, independent experts and multiple tiers of government.

The Council strongly recommends the introduction of minimum energy efficiency standards for rental properties. The 1st Edition of the *Australian Energy Efficiency Policy Handbook*, which is an evidence-based guide for policy makers, states:

In most jurisdictions tenants can already demand certain repairs to homes, such as fixing leaking ceilings. However, tenants need to drive these changes and in practice it can be challenging for them to demand their rights without facing the risk of eviction. The Energy Efficiency Council recommends a more proactive approach where dwellings need to meet a set of health, safety and energy efficiency criteria to be legally rented out. Minimum standards should initially focus on basic protections and be tightened over time to bring all rental properties up to acceptable standards.

1. The Importance of Energy Efficiency

The energy efficiency of Victoria's rental properties has a strong impact on the health and wellbeing of Victorians. The energy efficiency of a property can strongly impact:

- **Thermal comfort and indoor air quality**, which affect residents' health and social and economic participation; and
- **Running costs**, which affect residents' disposable incomes.

Thermal comfort has a strong impact on health. Around 3,000 Australian deaths each year are associated with periods of hot and cold weather¹. While the media often focus on the health effects of heat-waves, the vast majority of temperature-related deaths (around 2,600 per annum) are associated with periods of moderately cold weather. It is notable that Australia has a significantly higher rate of cold-associated deaths than Sweden.

¹ Gasparri A. et al 2015 'Mortality risk attributable to high and low ambient temperature: a multicountry observational study', *The Lancet*, Vol 386, No. 1991, p367-375.

Inefficient homes are a particular threat to the health of vulnerable Victorians, who are more likely to:

- Occupy lower-quality buildings that are more expensive to heat or cool; and
- Forego the use of heating or cooling in order to reduce their energy expenditure.

Measures such as insulation, draught-proofing and heating systems have a significant impact on both the cost and even ability to maintain a healthy indoor temperature. In addition, reverse cycle air conditioners (heat pumps) allow tenants to ameliorate the impact of both hot and cold weather on health.

The type of heating system can also have other impacts on health. For example, older unflued gas heaters can produce carbon monoxide and nitrogen dioxide, as well as elevating moisture levels, which can lead to the growth of moulds and dust mites.

The size of tenants' energy bills can also affect their health and wellbeing. Vulnerable households in inefficient buildings either have a choice of paying high bills and foregoing expenditure on key areas (e.g. food and travel) or under-consuming energy at home, which can impact on their desire to socialise and their health.

2. Actions that deliver multiple benefits

The energy efficiency of a house is impacted by a number of factors, including the building fabric (e.g. walls, roof etc), fixed appliances (e.g. heaters), other appliances (e.g. fridges) and tenant behaviour. The largest influence on energy bills will vary from dwelling to dwelling, although figures for an average Australian house are:

Type of energy use	Percentage of energy use	Key influences
Space heating and cooling	40 per cent	Insulation, draught-proofing, heating and cooling systems etc.
Appliances	33 per cent	Fridges, stoves, TVs, computers etc.
Water heating	21 per cent	Water heater, pipes, shower rose etc.
Lighting	6 per cent	Luminaires, transformers etc.

Source of figures: Commonwealth Department of Energy and Environment²

This highlights that some of the most important actions for improving energy affordability will also have significant health benefits. For example, improving insulation, draught-proofing and heating systems will deliver multiple benefits.

3. Current rental stock

The EY Sweeney report commissioned by Consumer Affairs Victoria³ indicates that many rental properties have poor health and energy efficiency features:

² <http://www.yourhome.gov.au/energy/heating-and-cooling>

³ EY Sweeney 2016 *Consumer Affairs Victoria: Rental Experiences of tenants, landlords, property managers and parks residents in Victoria, Final Report.*

- 36 per cent of landlords indicated that none of their properties had draught-proofing on windows and external doors. The actual figure may be significantly higher due to reporting bias.
- 20 per cent of landlords indicated that none of their properties had water-efficient shower-heads, and the actual figure may be significantly higher.
- 8 per cent of landlords indicated that none of their properties had insulation. The actual figure is almost certainly significantly higher (see below).

In addition, 35 per cent of tenants reported that they don't have access to air conditioning in good working condition, and 18 per cent of tenants reported that they don't have access to heating systems in good working condition.

The quality of dwellings is strongly correlated to the type of occupancy, with tenanted homes typically significantly less efficient than owner-occupied dwellings. Australian Bureau of Statistics (ABS) research from 2012 found that renters were significantly less likely to have draught-proofing windows and doors or low-flow shower-heads⁴.

Tenants have even less control and incentive to invest in major upgrades to the house, such as insulation. As noted in the Discussion Paper, the 2015 Victorian Utilities Consumption Household Survey found that 95 per cent of home owners/buyers had some level of ceiling insulation, in contrast to 55 per cent public renters and 58 per cent of private renters. While this figure needs to be treated with some caution, as tenants are often unsure about the presence of insulation, this is a stark level of difference.

4. Policy options to raise the health, safety and efficiency of dwellings

Rental homes are likely to have poorer energy efficiency and thermal comfort for a number of reasons. First, there is a split in both incentive and control. Tenants pay energy bills but short and uncertain tenure arrangements mean that they have limited incentive to make investments with long payback periods. Moreover, tenants have limited ability to make direct improvements to their dwelling without permission and this acts as a significant barrier. While landlords have the ability to upgrade buildings and fixed appliances, they have very little incentive to improve efficiency unless tenants demand it.

Second, thermal comfort and energy efficiency and 'hidden' attributes, which means that it is hard for tenants to identify and compare the energy efficiency of properties, which limits their ability to demand higher efficiency and leads to adverse selection⁵⁶. Third, there are specific issues facing low-income and other vulnerable tenants.

While the Energy Efficiency Council strongly supports the development of a mandatory disclosure scheme about building quality at the point of lease and sale of properties, this will not address the full range of barriers, particularly for vulnerable tenants. Experience has shown that incentives on their own are relatively ineffective at encouraging landlords to upgrade their properties, and again this is particularly the case for properties that are likely to be occupied by vulnerable tenants.

Therefore, the Energy Efficiency Council believes that there is a strong case for the

⁴ ABS 2012 *Report 4670.0 - Household Energy Consumption Survey, Australia: Summary of Results*

⁵ Akerlov, George. 1970 "The Market For Lemons: Quality Uncertainty and the Market Mechanism", *Quarterly Journal of Economics*. The MIT Press. **84** (3): 488-500

⁶ Garnaut, Ross 2008 *The Garnaut Climate Change Review*

introduction of minimum standards for health, safety and energy efficiency that properties need to meet in order to be legally rented out. The Council recommends that minimum standards should initially focus on basic protections and be tightened over time to bring all rental properties up to acceptable standards.

This position aligns with the statement on page 99 of the Discussion Paper *“While not all landlords can offer properties to modern levels of quality and amenity, rental properties should not be rented out in an unacceptable state, regardless of how low the market rent for those properties might be set.”*

The Council notes that there are number of features (e.g. insulation) that would deliver multiple benefits (e.g. health and energy efficiency). It is critical that all the benefits of features are considered when assessing whether to include them in minimum standards. Therefore, its important to use caution in splitting features into the categories of ‘health’, ‘security/safety’, ‘amenities’ and ‘energy and water efficiency’, as proposed in Table 8.1.

Finally, there is a strong case for considering energy efficiency in maintenance duties. Section 8.5 of the Discussion Paper examines the case for clarifying the duties of landlords and tenants for maintaining a property. It is notable that tenants often do not have access or permission to undertake maintenance that would maintain the energy efficiency of a dwelling, such as periodic inspection of fixed appliances and cleaning of air conditioning filters. The Council recommends that this be considered as part of the Review.

5. Responses to specific consultation questions

Question 92. Should a landlord be able to lease out a property that is fit for habitation, clean and has working features, regardless of whether it meets any other standards?

A number of features of a property will have a significant impact on the health and wellbeing of tenants. While an appropriate definition of ‘fit for habitation’ would take account of these considerations, the Council believes it is essential to be explicit about what features are required for a rental property.

Therefore, the Energy Efficiency Council’s recommends that landlords should not be able to lease out a property unless it meets minimum standards for health, safety and energy efficiency.

Summary

I strongly urge the Victorian Government to introduce a requirement that dwellings need to meet a set of health, safety and energy efficiency criteria to be legally rented out. If you have any questions please contact me on 0414 065 556, or rob.murray-leach@eec.org.au.

Yours sincerely



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