July 2019

Successfully Implementing Efficiency Standards for Rental Properties

New powers under the *Residential Tenancies Amendment Act 2018* enabling the establishment of mandatory minimum standards for rental homes including efficiency performance, offers an important and long overdue opportunity. Raising energy efficiency performance in rental homes will substantially reduce the cost of living and health risks faced by Victoria's 1.2 million tenants and offer significant low-cost emission reduction opportunities.

Unlike home-owners, tenants have little control over the major factors driving high energy usage and costs, particularly fixed appliances such as heating and hot water and insulation. However, property owners typically have little incentive to invest in efficiency measures while the cost-saving and health benefits are accrued by tenants. The only way to address this split incentive is to require all rental homes to comply with minimum efficiency standards before they can be legally leased.

Successful implementation has the potential to unlock at least 2 billion dollars of investment and support an estimated 3,000 to 5,400 jobs (gross) over a five-year implementation period.[1]

Reducing energy waste through efficiency also eases pressure on the energy system particularly during times of peak demand such as heatwaves, helping to delay or avoid costly infrastructure investment – a key driver of rising electricity prices over the last decade.

Efficiency standards are affordable

Key to a successful rollout of rental standards is a staged approach that allows property owners to spread investment over several years, thus minimising upwards pressure on rents while ensuring adequate industry capacity to meet demand for goods and services.

Table 1. outlines estimates of key cost-effective measures with a payback period of less than 10 years, that will make a significant difference in most homes.[2] Compliance costs are likely to be lower for property owners who already recognise the benefits of keeping their properties in good condition and have already installed several of these basic features.

Prioritising measures eligible for subsidies under *Victorian Energy Upgrades* (VEUP) will reduce compliance costs further, while integrating complementary initiatives such as the *Victorian Residential Efficiency Scorecard* will ensure investment is targeted towards measures that maximise benefits to both tenants and the wider economy.

Table 1: Cost-effective Efficiency Measures and Household Savings[3]

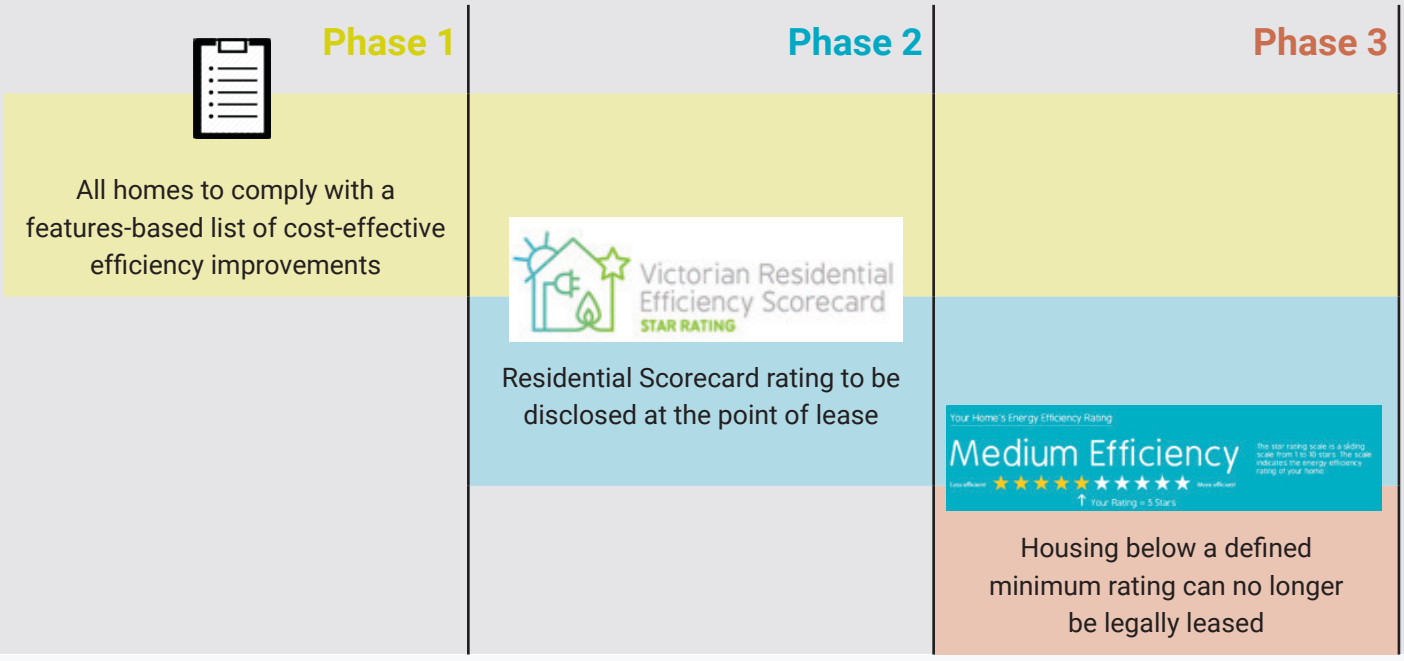
Measure	Average cost ($)	Average saving ($/yr)	Payback (Yrs)
Low-flow shower-rose	86[a]	102	0.8
Heating	0[b] – 2,500[c]	250	<10.0
Hot water	2,000[d],[a]	400	5.0
Ceiling insulation	1,125[e]	133.5	8.4
Efficient lighting	574[a]	100	5.7
Draught-sealing	1,037[a]	157	6.6
Total	**4,822 - 7,236**	**1,142.5**	

a. Eligible for discount/rebate under Victorian Energy Upgrades
b. Difference between (end-of-life) like-for-like replacement of gas wall furnace with high efficiency RCAC
c. Installation of high efficiency RCAC where no heating at all exists
d. Difference between (end-of-life) like-for-like replacement of inefficient electric or gas system with high efficiency heat pump
e. Average of 'easy' and 'difficult' insulation from Table 3, SV 2014

Principles of successful implementation

1. Introduce standards in a staged manner to allow investment to be spread over several years, minimising costs to property owners and the risk of rent increases.
2. Design initial standards as a features-based list that enables easy and cost-effective self-assessment by property owners, managers and tenants.
3. Progressively tighten standards over time by linking subsequent requirements to the *Victorian Residential Efficiency Scorecard*. This will ensure any further investment beyond the initial minimum requirements – to bring the efficiency performance of rental homes in line with owner-occupied stock – is targeted to the most cost-effective measures for each home.
4. Take advantage of complementarity between measures (ie. heating upgrade complemented by insulation) to avoid adverse consequences and ensure investment most effectively benefits tenants.
5. Consider adoption of best practice examples such as New Zealand's *Healthy Homes Standards* which define performance outcomes across a range of areas including heating, insulation, ventilation, moisture ingress and drainage, and draught-stopping.[4]
6. Develop clear, accessible communication materials giving landlords notice of 5-year implementation period and information about how to access advice and financial assistance.
7. Make it clear to tenants at the start of the lease the property is compliant and meets the standards. Ensure information on the energy efficiency of the property is readily available to tenants and simple for property owners to understand their obligation.
8. Work with industry to undertake and invest in workforce planning to ensure adequate capacity to deliver high quality efficiency services across the rental sector, and create jobs.

Timeline for implementation



1. Environment Victoria 2017, *Bringing Rental Homes Up To Scratch*
2. Estimate of costs based on available information. It is acknowledged that decision-making regarding the final content of standards will need to rely on more recent and detailed analysis being undertaken by the Department of Environment, Land, Water and Planning
3. Estimated costs and savings are from Sustainability Victoria 2014 *Victorian Households Energy Report*, Tables 3 and 4, except for heating and hot water which are sourced from Renew 2018, *Household Fuel Choice in the National Energy Market*
4. https://www.hud.govt.nz/assets/Healthy-Homes/5077cf1552/Healthy-Homes-Standards-Factsheet-20190514.pdf

energy efficiency COUNCIL · Australian Energy Foundation · renew. · environment victoria · YARRA ENERGY FOUNDATION · VCOSS Victorian Council of Social Service · NAGA Northern Alliance for Greenhouse Action · TENANTS VICTORIA · Uniting