

The energy efficiency of rental properties in the ACT

Better Renting

Landlords have little incentive to improve the energy efficiency of their rental properties. While various sources indicate that renting is a form of tenure associated with less energy-efficient houses, we sought to test this hypothesis in the ACT by examining the advertised EERs of properties for sale or rent. Our analysis indicated that over two in five rental properties - 43% - have the lowest possible energy rating of 0. In contrast, only 4% of properties for sale had this rating, and over half of properties for sale had an EER of 5 or greater. Consistent with the 'split-incentive problem', this suggests that landlords are not improving the energy-efficiency of their investment properties. Legislation, such as minimum energy efficiency standards for rental properties, may be warranted to address this.

Introduction

Rental properties are typically less energy efficient than owner-occupied properties. This is because of the 'split incentive problem'. As COAG puts it, "there is little incentive for owners of rental properties to invest when tenants reap the benefits from improved energy performance."¹

ABS data and other research gives evidence of this. Renters are four times more likely than home-owners to live in a home without insulation², and rental properties are 3-6 times more likely than owner-occupied properties to be in "poor-derelict" condition.³

However, there is little research examining the effect of tenure type (ie, renting vs. home-ownership) on energy efficiency ratings (EERs) in the ACT. The ACT is the only Australian jurisdiction that requires energy efficiency to be disclosed at the point of sale or lease. This is a unique opportunity to test the hypothesis that rental properties are less energy efficient than owner-occupied properties.

Method

Data was obtained from AllHomes through the months of January and February. For every property advertised, either for sale or for rent, we noted an EER if it existed, or the fact that the EER didn't exist. We recorded 3549 rental advertisements and 2575 sale advertisements. All properties advertised without an EER were omitted from an analysis. This left a total of 931 rental property EERs, and 2195 EERs from properties for sale.

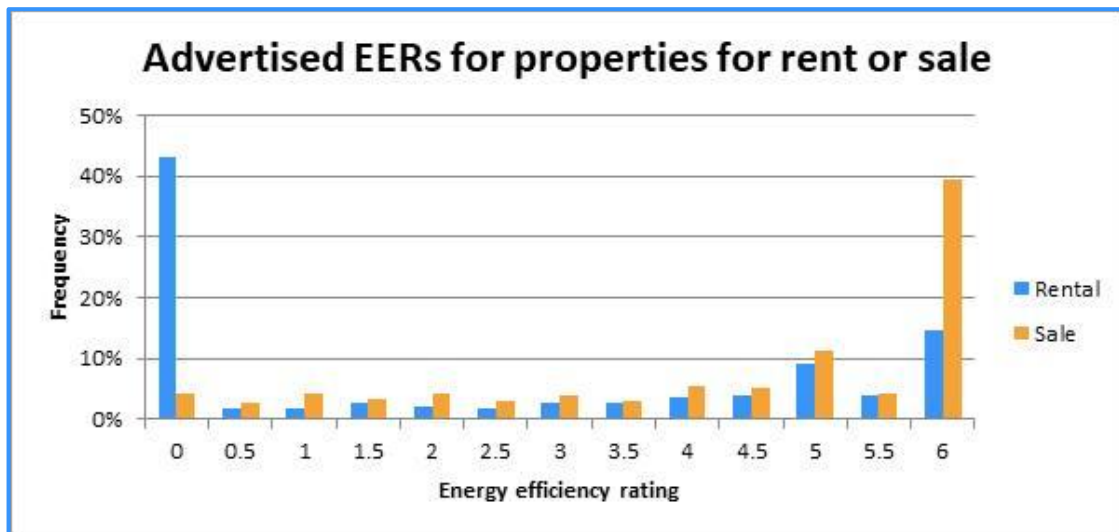
Results and discussion

We found that rental properties are less energy efficient than properties offered for sale. Over two in five rental property EERs - 43% - were 0. In contrast, only 4% of sale EERs were 0. In fact, more than one in two advertised EERs for sale properties was 5 or greater. The distribution of EERs can be seen in Figure 1 on the next page.

1. COAG, *National Collaborative Approach To Residential Building Ratings and Disclosure - Principles*. 2016.

2. Australian Bureau of Statistics, 'Household energy consumption survey, 2012'. Canberra, ABS 4670.0, 2013.

3. Baker, E, LH Lester, R Bentley, & A Beer, 'Poor housing quality: Prevalence and health effects'.in *Journal of Prevention & Intervention in the Community*, 44, 2016, 219-232.



Although not all properties advertised for sale will be inhabited by owner-occupiers (as some may be bought by investors who then lease the property), all properties advertised for rent will be inhabited by renters. Overall, this is a picture of renters living in properties that are markedly less energy efficient than properties inhabited by owner-occupiers.

Renters in these inefficient properties will face increased power bills and worse health outcomes because of energy inefficiency. In a property with an EER of 0, it would cost roughly \$1800 a year to achieve the same thermal comfort as an equivalent property with an EER of 2.⁴ Building retrofits that improve warmth and energy-efficiency have a clear positive effect on health, both mental and physical.⁵ For example, a NZ study found that insulation retrofits resulted in reduced hospitalisation and fewer GP visits.⁶ In a Scotland study, reducing cold, damp, and mould in flats resulted in reduced blood pressure and medication use.⁷

Given that people in positions of disadvantage are already more likely to be renting,⁸ it is particularly concerning that renters are so much more likely to inhabit inefficient properties that increase energy costs and exert a toll on human health.

Conclusion

Due to the 'split-incentives problem' and based upon ABS and other data, we would expect rental properties in the ACT to be less energy efficient than owner-occupied properties. To examine this, we compared the advertised EERs of properties for rent with the advertised EERs of properties for sale. We found that over two in five rental properties with EERs had an EER of 0, compared with only 4% of properties for sale.

The existence of split-incentives and its effect on renters is not new. However, this analysis reveals the extent of the problem and is evidence that voluntary incentives or measures such as disclosure at the point of sale are not currently addressing the problem. It may be the case that stronger regulatory interventions, such as minimum energy efficiency standards for rental properties, are warranted.

4. pitt&sherry, *Reporting the energy efficiency of residential tenancies in the ACT Options analysis*. Canberra, 2014.

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6. Chapman, R, P Howden-Chapman, H Viggers, D O'Dea, & M Kennedy, 'Retrofitting houses with insulation: a cost-benefit analysis of a randomised community trial'.in *Journal of Epidemiology and Community Health*, 63, 2009, 271 LP-277.

7. Lloyd, EL, C McCormack, M McKeever, & M Syme, 'The effect of improving the thermal quality of cold housing on blood pressure and general health: a research note'.in *Journal of Epidemiology and Community Health*, 62, 2008, 793 LP-797.

8. Australian Council of Social Service, *Energy Efficiency and People on Low Incomes*, Strawberry Hills, 2013.