Investigating Rates Mechanisms (IRM):
Project Findings and Action Plan

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Overview

"The split incentive between landlords and renters is a problem that currently has no solution. This project explored the best communication channels to use to contact landlords and what incentives were most attractive."

Elderly, low income and rental households are particularly vulnerable to the impacts of climate change, such as heatwaves. Climate impacts are compounded by often poor quality housing and for renters a split between landlords and tenants incentives where both parties have different goals, e.g. the landlord controls the efficiency of the property's systems (e.g. insulation, windows, lighting/water fixtures, etc.), but the tenant pays the electricity and gas bills. In this situation, there is often little financial incentive for the landlord to choose the most efficient fixtures or to upgrade the performance of the property.

This project sought to explore sustainable ways to improve the climate resilience of low income and rental households. The project focussed on applying the rates mechanisms in innovative ways (via councils' rates systems and communication channels) to assist vulnerable households, both rentals and owner-occupiers, to adapt to climate change risks (particularly heatwaves) and rising energy costs.

The project had two streams:

1. **Solar Saver** was a project initiated and managed by Darebin Council. Darebin Council committed through its Community Climate Action Plan not only to reduce greenhouse emissions, but to support those most vulnerable to climate change impacts and increasing energy costs. In 2014 the Council established that a Special Rates Charge Scheme could be used to install solar photovoltaic (PV) systems on ratepayer's homes. Council offered the service to pensioners who repay the cost of the solar photovoltaic system over 10 years - interest free via their rates. The outcome was that 292 pensioners who received a rate rebate installed 545 kilowatts of PV. The average solar system size was 1.87 kW with an average additional rates repayment of $290 per year, whilst it is estimated that the average household will save on electricity costs another $90 - $120 per year above the rates charge. The Solar $aver program is equivalent to reducing greenhouse gas emissions by 3.2 tonnes per year per household. The entire Solar Saver Project was much larger than the IRM project. The IRM project supported elements which have focussed on the monitoring and evaluation of the outcomes for the target group and the replicability of the model for use by other councils
2. **Rental Property Upgrades** trialled offering a modest property upgrade or investor advice on upgrades to a sample of landlords. Property owners (landlords) have proved a difficult to reach group. Northern Alliance for Greenhouse Action (NAGA) aimed to better understand the challenges and barriers to reach property owners and for them to take action. A number of small scale pilots reached out to landlords through the rates database, as well as real estate property managers, to provide information and incentives to upgrade. A follow up survey of landlords contacted through the mail-out was conducted.

This report focusses more on the results of the second stream of the project, the *Rental Property Upgrades*. More information on the Solar Savers project can be found in the separate "Solar Saver- Special Rates Charge Scheme: a how to guide for local government" and the project final report.

Approach

Improving the climate resilience of residential rental properties is a complex and multi-faceted process. Often low income housing and rental properties are sub-standard including issues of lack of insulation, damp, mould, excessive indoor temperature extremes and an overall inability to afford heating and cooling[1].

The crux of the problem is the 'split incentive' or 'principal-agent' issue. This refers to the potential difficulties when two parties engaged in a contract have different goals and different levels of information, e.g. the landlord controls the efficiency of the property's systems (e.g. insulation, windows, lighting, water fixtures, etc.), but the tenant pays the gas and electricity bills. In this situation, there is often little financial incentive for the landlord to choose the most efficient fixtures or to upgrade the performance of the property. Compounding this issue is the general lack of knowledge among landlords, tenants and real estate agents about the sustainability profile of properties.

Key stakeholders in the rental housing sector are the landlords, real estate and property managers, and tenants. Studies have shown that rental property owners in Australia's private residential rental market are a diverse group, primarily made up of couples or individuals owning one or two properties. The sector has been described as a 'cottage industry', driven by negative gearing and capital gains tax incentives. Studies have found that low-rent dwellings tend to be owned by older investors with lower incomes, and low income households tend to occupy older dwellings of a poorer standard or quality.

Investigation of low capital investment options forms a part of this project. The real estate industry represents two percent of national GDP and has significant influence in the property market; the industry manages over 500,000 residential rental properties in Victoria alone (approximately 20 per cent of all housing stock).

This project also sought to address information gaps and to test the effectiveness of direct and mediated approaches, through councils (via the rates database) and real estate agents, to owners (both owner-occupier and landlords) to improve their properties.

The *Residential Property Upgrades* component of the IRM project involved two aspects; i) incentives and information to landlords and ii) a survey.

Two channels were tested using a mail out (See Appendix 1). 100 landlords were contacted in Yarra, Moreland and Melbourne City Councils via the council rates database. Darebin and Whittlesea City Councils also tried to contact 100 landlords via their property managers. Landlords were sent information offering them the chance to improve the quality of their rental properties.

[1] UTAS 2009: Energy Efficiency Measures in Low Income Housing, A Report for the Tasmanian Government, Catherine Elliott and Elaine Stratford, March 2009

Findings from the Residential Property Upgrades

As once off trials, the response rate from landlords was predictably low. This reflected other projects such as the NSW Home that showed only 10.2% of private landlords gave permission for the installation of free efficient showerheads and draught strips for low income renters [2](HPSP 2013).

A telephone survey was conducted of landlords who chose not to take up the offer/incentives provided through the project. The survey sought to understand the key drivers and barriers to communicating to landlords. 13% of landlords that received the information packs through the IRM project were contacted to undertake a survey, to understand why they didn't take up the offer.

The survey found that 69% of landlords considered their property to already be energy efficient, which contradicts existing literature (See Table 1). The remaining 31% considered it too much effort to take up the offer, even though this offer was no cost improvement or potential financial gain. When asked how the incentives could be made more attractive, 89% of survey respondents said there was nothing that could make it more attractive.

However, the project did find that the rates database proved a reasonably effective way to reach landlords though the ease of accessing the list and direct communications. Conformity to privacy requirements varied from council to council. In the best case it was very straightforward and in the worst case it delayed the communications by some months, in order to get approvals.

In addition, discussions with landlords and real estate agents suggest that accountants may be a potential avenue for engaging landlords and this warrants further exploration. Another avenue to explore is depreciation assessors, though these are often more likely to be engaged for new properties rather than older houses that are more likely to have poor energy efficiency standards. Also, end of lease is the best time to target landlords to undertake retrofits, which requires working closely with real estate property managers.

Table 1: Summary of results from survey of landlords contacted through the IRM project

Question	Results
Did you receive the information pack?	Yes = 85% No = 15%
Why didn't you respond?	69% thought house was already energy efficient 31% considered it to be too much hassle
Have you ever considered a retrofit?	67% = No 33% = Yes
How could we have made the	85% said nothing would have made the offer more

[2] HPSP 2013: Aggregate, de-identified household data provided to ACOSS by NSW Home Power Savings Program, data supplied March 2013.

offer more attractive?	attractive 15% thought if there was greater value in the incentive
Who would be best to contact you in future?	Property manager = 34% Accountant = 13% Council = 40% Body Corporate = 0% No one = 13%
Best communication method	Mail = 46% Email = 46% Phone = 8%

Workshop

A roundtable workshop was held with key stakeholders to discuss the results of the IRM project and identify key next steps. This invitation-only workshop, organised by NAGA with assistance from MEFL, brought together key players from NAGA's members, real estate agents, state government and non-government organisations.

Its aim was to disseminate the findings from the IRM project and explore measures to achieve progress on: an increased proliferation of solar based on the Solar $aver model and utilise the findings from the *Rental Property Upgrades* component to further the uptake of energy efficiency actions by landlords. The workshop was also aimed at building support, renewing a broad-based commitment for further efforts and proposing innovative methods to improve the issue.

Multiple local and state government agencies and NGOs and social service organisations have worked on the issue of split incentives for energy efficiency in rental properties for over the past twenty years; and some progress has been achieved, such as the One Million Homes Project[3]. However, many of these programs are targeted at behaviour change and minor retrofits such as energy efficient light globes. There are still significant opportunities for greater advances in engaging landlords to enable building and fixture upgrades in low income housing[4]. Further work is still required as the Rental Property Upgrades component of the project has demonstrated.

Outcomes

The workshop came to the following conclusions regarding Rental Property Upgrades:

- A general agreement that end of lease is a good time to target landlords for undertaking energy efficiency retrofits. This was the recommendation from Love

[3] http://environmentvictoria.org.au/sites/default/files/OneMillionHomesReport.pdf
[4] Pape, A. (2013) Energy efficiency and people on low incomes, Australian Council of Social Service, http://acoss.org.au/images/uploads/ACOSS_ENERGY_EFFICIENCY_PAPER_FINAL.pdf

Real Estate, that property owners are more likely to engage on the issue when the property is empty and they are already being engaged by the agent on releasing.

- People acting as their own property manager are more likely to take notice of any communications as they see it as part of their business. This also points to the fact that landlords with multiple properties would see greater financial benefit from tax depreciation incentives if they undertook retrofits.
- Trust was seen to be a key issue, and local government, property managers and accountants/tax agents are all likely to have that level of trust. Attempting to engage people through third unknown parties can be a barrier to success.
- The role of a broker is critical to addressing split incentives and bringing together different stakeholders with different motivations.
- Social housing could be a good place to start for future focus, and also usually have access to different sources of money. The second round of the Solar Savers project for 2015/2016 will include a social housing component.
- Accountants/Tax agents may be a key stakeholder that could influence landlords. A future step could be to engage accountancy firms around energy efficiency retrofits and tax incentives. This could also look at working with depreciation assessors.
- There is a potential advocacy issue around seeking an ATO ruling on what is considered maintenance and what is considered improvements. If maintenance included energy efficiency retrofits like draught sealing, insulation, LEDs, then this would open up new financial incentives and opportunities. Some work on this issue is explored in the ACOSS report on energy efficiency and low income households (Pape 2013). Further discussions with ACOSS suggest a more equitable outcome would be a flat allowance for energy efficiency, as tax incentives provide a higher return for higher income landowners.
- Was considered that continuing to advocate for mandatory energy ratings and disclosure report for point of sale, and potentially point of re-lease (or at least every 5 years) is still important. However it was noted that disclosure alone is not enough to incentivise landlords to act, and that further incentives or regulations would be needed.

IRM Project Next Steps

The workshop discussed both the findings from the Darebin Solar $aver scheme and the IRM Landlords project to identify the following as key next steps:

- Examine funding and methodology options for rolling out the Solar $aver project on a regional scale, possibly including a social housing context. NAGA will work closely with the Eastern Alliance for Greenhouse Action to explore the business case for scaling up the success of the Darebin model. The alliances may have a role here as a “broker” of the project.

- Examine possibility of getting a consortium together (Kildonnan, Red Cross, Brotherhood of St. Lawrence etc.) to develop a Solar $aver style project for social housing.
- Explore the options of seeking a ruling from the ATO on the idea of top up insulation for the property to be considered as 'maintenance' rather than 'capital improvement'. Continue discussions with key stakeholders such as ACOSS to determine best outcome here.
- Develop a common unified position for messaging to state government and/or ATO on energy efficiency solutions for rental properties.
- NAGA will liaise with forum attendees to disseminate outcomes and will follow up with meetings with key players to refine and advance the actions outlined above.

In conclusion, the IRM project has identified important issues for engaging landlords on the split incentive issue on energy efficiency for low income households. These findings will be integrated into and shape future program design by NAGA and hopefully contribute to other projects across Australia that attempt to find solutions to this problem.

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