



Minimum energy efficiency and safety standards for rental homes

Submission to regulatory impact statement

Brotherhood of St. Laurence

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The Brotherhood of St. Laurence (BSL) welcomes this opportunity to comment on the Regulatory Impact Statement (RIS) concerning minimum energy efficiency and safety standards for rental homes issued by the Victorian Department of Government Services and Department of Energy, Environment and Climate Action (DEECA).

BSL strongly supports energy efficiency standards for rented homes in general and many of the specific measures proposed in the RIS, while suggesting some improvements below.

In Victoria, there are around 310,025 households renting on low incomes (ABS 2022). Many of these low-income households are forced to rent dwellings at the lower end of the market. Unfortunately, these dwellings often have inefficient and increasingly costly-to-run heating, gaps and cracks that make them cold and draughty, and are likely to remain stuck on an increasingly expensive gas network as others electrify their homes. Many low-income renters consequently face high energy bills and homes that are too cold in winter or too hot in summer – to the detriment of their health and wellbeing. These challenges exist alongside a pre-existing rental affordability crisis.

The proposed minimum energy efficiency standards will help address these issues. They will lower renters' bills during a cost-of-living crisis, improve tenants' health and comfort, improve climate resilience and lower greenhouse gas emissions. The objectives set out in the RIS capture these benefits well. Moving away from gas appliances, as the RIS proposes, is necessary if we are to meet net zero and will help avert a future where renters are stuck on an increasingly expensive gas network, as well as bringing other benefits such as greater efficiency and lower air pollution.

For people experiencing disadvantage, standards will mean more money that can be saved or spent on essentials rather than going to pay energy bills, homes that keep them safe and warm during cold

weather, mandated access to cooling for the first time, and the ability to do their part for the climate.

Mandatory standards, rather than voluntary measures, are justified because most rented homes will never be improved sufficiently without them, due to split incentives.

This submission answers questions posed on Engage Victoria (in boxes) and comments on other issues.

Vignette: participant in a BSL energy affordability program

Hannah* and her baby were renting a house that was persistently cold because of gaps creating draughts. She couldn't afford to keep the home warm for her baby and was in debt to her gas company. Hannah contacted BSL for help with the Victorian Government Power Saving Bonus, and we organised an energy assessment as well as cheaper rates and a Utility Relief Grant.

The assessment revealed unusually high gas use owing to the inefficiency of the home, but Hannah was reluctant to ask her landlord to repair it. Eventually, Hannah decided her best option was to move houses.

If the proposed standards were in place, it is likely that Hannah would have had a healthier and more comfortable home for herself and her baby, lower bills, would not have needed to move and potentially no energy debt.

*pseudonym

Recommendations

- 1) BSL strongly supports the standards as recommended in the RIS, although we recommend stronger options for the draught sealing, insulation and heating/cooling standards.

Standard	Does BSL support the introduction of this standard?	BSL's preferred option
Hot water	Yes	Option 4: efficient electric systems only.
Heating and cooling	Yes	Option 3: 3-star electric-only heating and cooling if supply is viable.
Draught sealing	Yes	Option 3: more stringent.
Insulation	Yes	Reconsideration of option 3B: more stringent insulation, including for homes with limited existing insulation.

- 2) BSL recommends that the Victorian Government sets a long-term date after which all hot water and heating systems in rentals must comply with efficiency requirements.

- 3) BSL recommends reforms to ensure:

- proper compliance with the standards without the onus being on tenants to enforce it
- tenants are protected from unreasonable rent increases and eviction.

1 Answers to consultation questions

Do you support the introduction of the proposed minimum standards to improve energy efficiency and safety of rental properties and rooming houses in Victoria? Why or why not?

BSL strongly supports the introduction of the proposed minimum standards. We suggest some improvements to the government's recommended standards below. The standards will be highly beneficial for many of the 310,025 low-income renter households in Victoria, many of whom live in inefficient homes.

The introduction of standards will address persistent failures in the market. As it currently stands, renters – particularly those on low incomes – face a greater burden than homeowners, as outlined below.

Why we support standards

Rental properties cost too much to run. Best and Burke (2022) identified a premium of about \$150 per year for renters' energy bills. Combined with lower average incomes, this results in a higher energy burden for renters. Renters on low incomes face a double burden, with a very high percentage of their income spent on both rent and energy. Housing and energy costs together are much higher for renters than outright owners or mortgagees as a percentage of income, and have worsened over time, as shown in **Figure 1** below (ACOSS and BSL 2018).

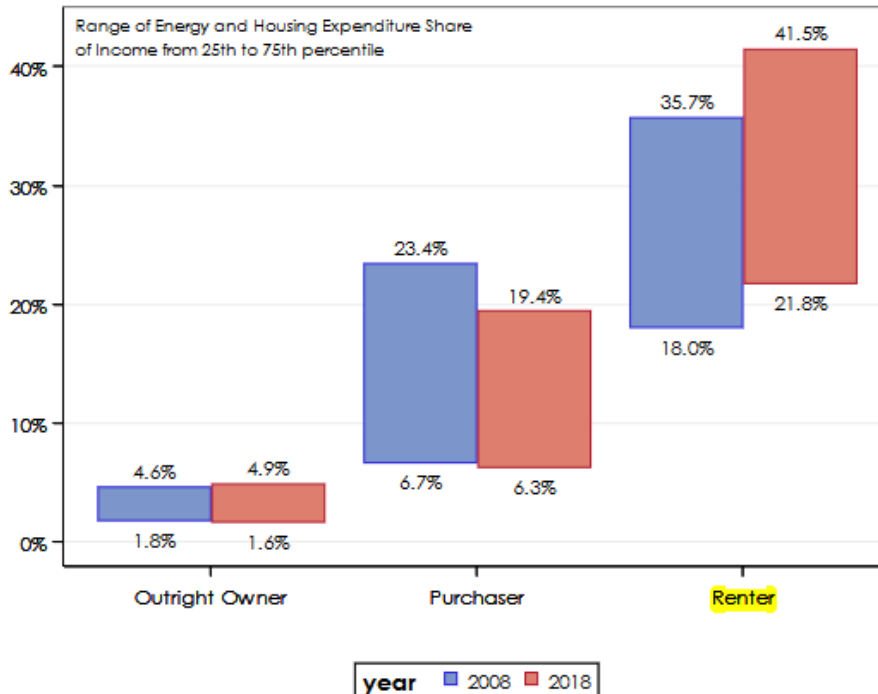


Figure 1: percentile distribution, electricity, gas and housing expenditure share of disposable income, tenure type (Household Expenditure Survey, from ACOSS and BSL 2018).

Much of this burden is likely to result from worse efficiency in rentals. Renters are less likely than homeowners to live in homes with insulation and other energy efficiency features such as solar hot water (ABS 2009, 2012). Rooftop solar is more than five times more prevalent among homeowners than renters, and renters are far more likely to report being unable to pay bills on time or keep their home cool or warm (Daniel et al. 2020; Bryant et al. 2022; Browne and Schultz-Byard 2021).

A reduction in energy bills of up to \$782 per year as noted on the Victorian Government (DEECA 2024) website will assist to ease the burden on renters.

Rental properties are too difficult to keep at a healthy temperature (i.e. too hot in summer and too cold in winter). There is substantial evidence that excessively hot/cold homes worsen health outcomes, particularly for people with pre-existing health conditions (Maidment et al. 2014; IEA 2014). The standards for efficient heating, insulation and draught sealing will all contribute to making rental properties healthier and more affordable to heat and cool.

Without the proposed standards, tenants also face being left on gas (without a choice) as other households exit the network. As a result, tenants would end up paying much higher bills than other household types as gas network costs increase. By supporting electrification, the standards will reduce the likelihood of this occurring.

The proposed standards will assist with all these problems as they will ensure all people living in rental properties have a home which is healthier to live in, because it can be more affordably heated in winter and cooled in summer. The standards promoting electrification will also improve affordability by reducing the risk that renters are stuck in homes with rising gas bills as other households move off gas.

Why government intervention is needed

Government intervention is needed because of the barriers tenants face to action, and the presence of market failures. These barriers include:

- a split incentive between tenant and property owner. This occurs when the property owner would bear the cost of upgrades, but would not receive the benefit, and tenants receive the benefit but have limited incentive to pay for the upgrades because they have limited security of tenure. Renters also generally do not have permission to undertake such upgrades.
- landlords having poor information and potentially overly optimistic views about the efficiency of their properties. For example, surveyed ACT landlords had far more positive views of their properties' efficiency than tenants despite potentially having never lived in them (ACIL Allen 2021).

Why minimum standards are the best method

Minimum standards are the best method to improve energy efficiency in rentals because:

- **they will provide certainty to tenants that all homes meet a basic standard.** This is particularly important for renters on low incomes in a tight rental market, where they have little, if any, power to choose preferred properties.
- **voluntary programs have been shown to lead to low uptake.** For example, for 2024 to date, 17,721 owner-occupiers have taken up Victoria's solar rebate, while only 306 landlords have,

despite widespread availability and the ability to seek co-contributions from tenants (Solar Victoria 2024).

- **they are likely to have relatively little impact on rental prices if changes are foreshadowed in advance** and many of the changes occur at time of replacement as proposed. Rent increases following standards have been estimated at 1–1.5% in the UK (Clara et al. 2022). A 1% increase to Victoria’s median rent (Department of Families, Fairness and Housing 2024) would equal \$286 per year, which would be more than offset by energy cost savings.
- **standards are unlikely to lead to property investors exiting the private rental market**, as decisions to withdraw properties from the rental market are more commonly motivated by factors like realising capital gains or wanting money for another investment (Martin et al. 2022). Tenancy laws were only cited as an important factor by 14% of landlords surveyed, while 47% said they were ‘not important at all’ (Martin et al. 2022:47)

Rating-based standards could be a future direction

The current feature-based approach provides a solid basis for the introduction of standards. However, while we strongly support the current proposal, standards based on home efficiency star ratings should be considered in future.

Ratings-based standards would involve an accredited professional assessing a home through a standardised system (e.g. the Victorian Government’s Residential Efficiency Scorecard) and producing a star rating, as well as suggested upgrades to improve the rating. This would enable government to set a minimum rating as the standard, and thus for standards to be based on the home’s efficiency as a whole rather than on individual features.

Ratings-based standards are in place in the UK, where rented homes must now score above an E (on a scale from A to G).

Recommendations

BSL strongly supports the standards, although we recommend stronger options for the draught sealing, insulation, and heating/cooling standards.

Do you have any feedback on when the obligation for each proposed minimum standard will be triggered, as outlined in the proposed Regulations?

BSL supports the proposed approach of requiring upgrades to cooling, insulation and draught sealing at the start of new tenancies (after a certain date) while requiring hot water and heating upgrades when the current systems need replacement (end of life).

This approach has a number of benefits, including:

- upgrades are installed over time, which should avoid overwhelming installers with unnecessarily high demand and may reduce associated cost spikes
- the cost to install the new item/s, relative to a like-for-like replacement, will be relatively low
- relatively new systems will not be replaced, avoiding waste and the potential for higher embodied emissions.

However, we suggest the regulations also set a long-term date after which all hot water and heating systems must comply. This is for two reasons:

- The removal of gas appliances should be consistent with the Victorian Government's Gas Substitution Roadmap. A gas hot water system installed in 2025 could last until 2045, by which date Victoria has committed to reach net zero. Gas systems should be removed before this.
- Renters in long tenancies may not otherwise benefit.

Recommendation

BSL recommend that the Victorian Government sets a long-term date after which all hot water and heating systems in rentals must comply with efficiency requirements.

What practical implementation issues / challenges might be associated with the proposed minimum standards? What steps should be taken to manage risks and challenges identified?

Compliance and enforcement should be strengthened

We suggest that the proposed provisions for compliance and enforcement should be strengthened so the full benefits of the standards can be achieved. The current regulations largely place the onus on tenants to identify non-compliance and report it to their real estate agent or landlord. This is a poor system because there is a power imbalance: renters depend on their landlord for their housing and many are afraid to raise issues for fear of reprisal.

In addition to this power imbalance, several of the new standards will be difficult for tenants to assess. For example, identifying insulation would generally require the tenant to climb a ladder, open a manhole, and look into a dark ceiling cavity. This would be difficult for most renters and impossible for people with certain disabilities or limited mobility.

BSL suggests reforms to ensure the onus to enforce compliance is not on tenants. We do not have a definitive answer on the best way to do this, but some possible options include:

- legally requiring real estate agents to assess compliance and detail it on the condition report, with penalties for false information. This could be accompanied by requiring landlords to attest or certify that the home meets applicable rental standards.
- requiring periodic inspections by a trained third party, as commonly occurs with smoke detectors. Smoke detector inspection businesses could potentially expand, or be augmented, to also inspect efficiency features during the same visit, which would make the cost modest
- a mechanism to ensure appliances are replaced with compliant alternatives at end of life.

Renters should be protected from unreasonable rent increases

Tenants should not be penalised for the cost of meeting standards. The Victorian Government should ensure tenants are protected from unreasonable rent increases (especially since there are exemptions available for landlords facing unreasonable costs) and evictions. Once the standards are in place, renters should be reasonably compensated for any period in which their home does not meet the standard.

Recommendation

BSL recommend reforms to ensure:

- proper compliance with the standards without the onus being on tenants to enforce it
- tenants are protected from unreasonable rent increases and eviction.

Do you have any feedback on the proposed exemptions for the minimum standards, noting there are a range of exemptions for rental providers and rooming house operators, as outlined in the proposed Regulations and Regulatory Impact Statement?

It will be important to the implementation of the standards that exemptions are policed properly. As with compliance more broadly, the onus should not be on tenants to enforce compliance because they face a power imbalance. Landlords should be obliged to prove their need for an exemption rather than being entitled to one by default. In the ACT, landlord compliance with mandatory disclosure of energy efficiency ratings is extremely limited at 32% and even lower in poorer areas (Fuerst and Warren-Myers 2018) – it would significantly undermine the policy intent of Victoria’s standards if we saw similar levels of noncompliance.

The exemption for installations that ‘would be significantly higher than the average cost of installation in the same building class’ in particular is vague and may be open to exploitation. The nature of averages means many installations will be above average, and who will define and enforce ‘significantly’? The Victorian Government should consider establishing a rule of thumb (e.g. a certain percentage above average) or benchmarks to limit exploitation of this exemption.

Do you have any feedback or any additional evidence on the potential outcomes or benefits that could be expected from the introduction of the proposed standards on renters, rental providers, rooming house residents, rooming house operators or the broader rental market?

The RIS does not seem to account for the lowering of wholesale energy costs that may result from large-scale energy efficiency retrofits, as the cost-benefit analysis for the Victorian Energy Upgrades program (DELWP 2020) does. This may provide a benefit even to non-tenants that should be accounted for.

2 Comments on specific measures

Hot water

BSL strongly supports the introduction of a standard for hot water, and supports the Victorian Government's proposed option 4, which will phase out gas and inefficient electric hot water systems at the end of the previous system's life.

We support this option because:

- It will lower energy costs greatly. Hot water systems are generally the second-largest users of energy in a home and have a major impact on bills (DCCEEW 2024). For people facing disadvantage, this will make a large difference to cost of living pressures.
- Phasing out gas systems is crucial for climate change. Gas is a fossil fuel and replacing gas systems with electric ones is the best way to reduce their emissions.
- Phasing out gas systems will avert a possible future situation where rented homes are some of the last remaining households on a gas network that has become increasingly unaffordable as households have left it.
- The marginal cost of installing an efficient electric system at time of replacement is reasonable relative to its benefits.

Draught sealing

We strongly support the introduction of a standard for draught sealing. Draughts make homes cold or hot by letting in outside air and make heating and cooling systems work harder, wasting money for tenants and creating needless emissions. Australian homes, including in Victoria, are notoriously poorly sealed and draught sealing alone can save residents over \$145 per year (Sustainability Victoria 2019). Draught sealing will also help build climate resilience by keeping extreme heat out, as well as making homes more comfortable and healthier even for low-income tenants who ration their heating/cooling due to its cost.

BSL support option 3 presented in the RIS, which would require a higher level of sealing than the Victorian Government's preferred option (2) and result in an additional \$47 million of benefits.

The additional cost of the measures in option 3 seems likely to be low in practice. A tradesperson will already need to attend most homes (the RIS assumes at least 87%) to do draught sealing; the marginal cost of requiring them to stay slightly longer and seal a few additional areas will be small in comparison to the call-out fee.

Insulation

BSL strongly supports an insulation standard for rented homes. Home insulation is a basic necessity and tenants should be entitled to it. The absence of insulation (or poor insulation) is a risk factor for death in cold and hot weather (Bright et al. 2013; Vandentorren et al. 2006), while installing insulation lowers mortality (Preval et al. 2017). Victoria's proposed insulation standard will save lives, especially for vulnerable people.

Like draught sealing, insulation also makes homes cheaper to heat/cool, more comfortable to live in and more climate-resilient even when heating/cooling is not running.

Ideally, homes should be brought up to R5 (a level of insulation similar to that installed in modern homes). **We support standards requiring homes with no insulation to be upgraded to R5.**

We are surprised by the RIS's conclusion that upgrades to R5 are not cost-effective where a home has existing insulation below R1.5. The ACT Government's RIS concluded that upgrading homes below R2 was cost-effective even when cost savings to tenants were mostly excluded (ACIL Allen 2021). An input to New Zealand's cost-benefit analysis concluded that 'it was just as beneficial to insulate properties with some existing insulation as it was to insulate properties with no existing insulation' (Barnard and Preval 2018) regarding health benefits and costs.

Heating and cooling

BSL strongly supports the strengthening of the heating standard, particularly to exclude gas at time of replacement, and **we support the introduction of a cooling standard**.

Heating and cooling are the largest energy uses in a typical home (Energy Rating 2024) and ensuring their efficiency will save households significant amounts of money every year. Having an air conditioner also reduces the risk of hospitalisation in heatwaves (Zhang et al. 2016), as well as increasing climate resilience.

Removing gas heating is an important objective. In order to reach net zero and avoid the worst impacts of climate change, it will be essential to move off residential gas. Without these standards, renters risk being some of the last people stuck on the gas network, as the financial benefits of electrification over gas become increasingly known, and many households with the capacity to do so exit the gas network. In addition, electric heating is more efficient than gas. The Victorian Government should also consider banning open-flue gas heaters from all rental properties (BSL 2020).

The RIS's option 3, which requires 3-star efficiency for both heating and cooling, would be preferable to the Department's selected option (which only requires 2-star heating), although we do not have sufficient information about the supply chain to assess whether it is viable.

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