

Dear Chief Minister,

Re: 2019 – 20 ACT Budget Consultation Process

Thank you for the opportunity to provide input for the development of the 2019/20 ACT Budget.

Better Renting is a community of renters working together for stable, affordable, liveable homes. Decisions made in the 2019/20 budget will have implications for people who rent in Canberra, regarding the supply of rental properties, the quality of these properties, and the support available to people renting in Canberra.

Please find input below regarding some of these issues.

Minimum energy efficiency standards for rental properties

We continue to urge action to improve the energy efficiency of rental properties through minimum standards. This potential policy has relevance to the budget when we consider the possibility of offering subsidies to landlords to assist with meeting the cost of complying with a minimum standard.

Broadly, we are open to an approach in which the introduction of minimum energy efficiency standards is combined with 'carrots' such as rebates or low-cost finance. The 'carrot and stick' approach wins support from Bradbrook¹ and is also encouraged by the Rocky Mountain Institute². We support such 'carrots' in that they could minimise non-compliance and opposition. To some extent, they also reflect the positive externalities of energy efficiency: people who rent and the broader ACT community would all benefit from minimum energy efficiency standards³ and it is thus sensible for the government to play a role in maximising these benefits.

However, while energy efficiency has positive externalities, it also has positive internalities for the investor, in the form of an increased sale price. Although it may cost a property investor to bring a rental property up to a minimum standard, this cost may be more than recouped at the point of sale.

As an illustrative example, Sustainability Victoria estimates that in some cases ceiling insulation can improve a property's energy efficiency rating by 1 at a cost of \$850 per property.⁴ If such improvements were also achieved in the ACT, a property that increased to EER:1 from EER:0 would also experience a 0.38% sale premium.⁵ For the median sale price of around \$750,000, this would represent a net profit of around \$2,000.

¹ Bradbrook, AJ, 'The Development of Energy Conservation Legislation for Private Rental Housing'.in Environmental and Planning Law Journal, 8, 1991, 91–107.

² Peterson, A, & R Lalit, *Better Rentals, Better City: Policies to Improve Your City's Rental Housing Energy Performance*. 2018.

³ For discussion of the benefits, see ACIL Allen Consulting, *Multiple Impacts of Household Energy Efficiency*. 2017.

⁴ Sustainability Victoria, *Energy Efficiency Upgrade Potential of Existing Victorian Houses*. 2014.

⁵ Fuerst, F, & G Warren-Myers, 'Does voluntary disclosure create a green lemon problem? Energy-efficiency ratings and house prices'.in Energy Economics, 74, 2018, 1–12.

As such, while we support government 'carrots', we believe that the role of 'carrots' isn't to allay landlord costs *per se*. Rather, the role of 'carrots' should be to encourage timely and widespread compliance. We believe that the ACT Government should budget for providing low-cost finance to property investors to enable them to amortize their own compliance costs. This may be possible at no net cost to the budget.

Increased funding for tenancy services

We also urge increased funding for the Tenants' Union ACT. Although renting has grown in the ACT - in both percentage and absolute terms - funding to the TUACTION has not kept pace.

Increased funding could be achieved by providing the TUACTION with a greater proportion of the interest accruing on rental bonds. This may require reducing the funding to ACAT from the same source. We believe that any shortfall should be filled by property investors. Options for this include:

- Charging landlords for ACAT services regarding endorsed clauses;
- Increasing cost recovery from property investors for cases they bring to ACAT, by either eliminating or reducing the implicit subsidy; and/or
- Annual registration/certification fees for landlords, which could go towards ACAT funding.

Currently, the interest of rental bonds is revenue derived from the money of tenants. As such, it should be used in the interests of tenants. However, while renters do benefit from the existence of ACAT, it is landlords who bring most cases and, in effect, experience the greatest benefit of the subsidy. The ACT Government could increase funding for the TUACTION at no net cost to the budget by requiring property investors to contribute towards ACAT's costs. This would recognise that landlords benefit disproportionately from ACAT's subsidies, and that a contribution is currently being made by tenants.

Kind regards,

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Better Renting