



Submission on the Report for Achieving Low Energy Existing Homes

16 October 2019

Summary of recommendations

Recommendation 1: Allocate \$500 million of the \$2 billion currently assigned to the Climate Solutions Fund for targeted programs that drive low cost abatement in commercial and residential buildings.

Recommendation 2: Working with state and territory governments, the Federal Government should develop a single, coherent national rating scheme to facilitate disclosure of performance in residential buildings, that includes:

- Providing benchmarks for market comparison of best practice sustainability performance;
- A best practice governance model based on NABERS that brings the Commonwealth, State and Territory governments together to collectively manage benchmarks for new homes.

Recommendation 3: Working with state and territory governments, the Federal Government should implement mandatory disclosure of energy performance in residential buildings.

Recommendation 4: Supported by the Federal government, State governments should introduce minimum energy efficiency standards for rental accommodation. Alongside these standards, governments should review mechanisms for tenants to initiate upgrades to rental properties and implement incentives that encourage landlords to upgrade rental properties, as well as safeguards to avoid any unintended consequences around housing affordability, such as significant rent increases.

Recommendation 5: The Federal Government should resource the Australian Building Codes Board to work with State Governments to develop appropriately strengthened energy efficiency requirements in the NCC for major renovations, as well as harmonised state planning requirements for thresholds of application with a focus on identifying the most cost effective measures to apply at critical stages of major renovations and smaller alterations.

Recommendation 6: To complement strengthened minimum energy efficiency requirements for retrofits through the NCC, State governments should implement programs to complement energy efficiency obligation schemes, that would incentivise and drive deep retrofits to existing homes at scale. Priority should initially be given to low-performing assets in the social and community housing sector, which could act as the launching market for these solutions with a view to later scale to the private homeowner market.

Recommendation 7: The Federal Government should deliver tax incentives that encourage residential buildings towards better energy performance and reduced emissions by:

- Modernising the 10 per cent green building withholding tax regime by:
 - Expanding the regime to all buildings held for rental purposes (regime is currently limited to offices, hotels and shopping centres)
 - Applying the rate to buildings that have been refurbished to achieve the necessary NABERS and Green Star ratings regime currently is currently limited to newly constructed buildings)
 - Applying the test on an asset by asset basis (regime currently requires all the MIT's assets to satisfy the same performance requirements)
- Extending the instant asset write-off scheme to include energy efficiency upgrades of buildings, including apartments and homes, up to \$100k.
- Green depreciation, which would see the deferral of taxable income in early years in exchange for bringing forward investment in large upgrades that exceed the instant asset write-off threshold.

- Tax concessions for high performing buildings, which could have a similar impact to green depreciation by targeting the point at which owners are considering making investments in their home prior to sales.

Recommendation 8: State governments should provide rates and charges relief for buildings that satisfy a performance standard, for instance stamp duty and land tax concessions for high performing residential buildings, which could have a similar impact to green depreciation by targeting the point at which owners are considering making investments in their home prior to sales.

Recommendation 9: State governments should work with the Federal Government and local governments to deliver planning incentives that encourage the built environment towards better sustainability practice and reduced emissions. Priority should be placed on Green Door policies, which would provide expedited or prioritised review and approval of sustainable upgrades or renovations.

Recommendation 10: The Federal Government should work with state and territory governments, as well as the property and finance sectors, to accelerate the expansion of financing mechanisms that incentivises sustainable buildings and upgrades. Measures could involve funding the development of green home finance products, like green mortgages, equity loans and home improvement loans, or awarding funding to industry for developing innovative ways of reducing the cost of retrofitting housing stock.

Recommendation 11: State governments should support the objective of a single national energy efficiency obligation scheme, whilst taking action to introduce schemes in states where they do not currently exist and ensuring that existing schemes are aligned as much as possible with other jurisdictions. Best practice elements of harmonised EEOs will include consistent application and rules as well as wide coverage of sectors.

Recommendation 12: The CBD program should be expanded to incorporate new sectors such as apartment buildings in order to address gaps in existing programs and reduce the energy use of common areas. The Federal Government should also implement complementary programs to the CBD expansion that would incentivise stratas to perform upgrades.

Recommendation 13: The Federal Government should provide user-friendly information and tools to educate consumers of the long-term benefits of energy efficiency and to encourage improved energy choices.

Recommendation 14: Working with state governments, the Federal Government should co-fund performance upgrades to the worst performing public and community housing stock around Australia.

Recommendation 15: The Federal Government should co-fund ongoing assistance programs to inform and enable disadvantaged households to engage with the energy market. Where possible, these programs should strengthen relationships between disadvantaged households, support services, advocates and energy retailers.

Recommendation 16: The Federal Government should progressively enhance the Greenhouse and Energy Minimum Standards (GEMS) Act. This should include strengthening existing MEPS as well as expanding to new equipment and appliances.

Recommendation 17: Establish a national dataset collection on existing homes, building on current frameworks such as the CSIRO Australian housing data portal. This data repository should be complemented by further input on new and existing homes captured through the proposed mandatory energy disclosure for homes.

Recommendation 18: The Federal Government should build data-capture into its programs in the residential sector as part of a national built environment energy efficiency and emissions research and innovation agenda.

Attachments

Attachment A: Further targeted recommendations for commercial buildings are included in *Attachment A*.

Attachment B (CONFIDENTIAL NOT FOR FURTHER DISTRIBUTION): For the full suite of recommendations to the Federal Government, please refer to *Attachment B Every Building Counts Practical Plan*. Please note this document is provided in confidence and is not to be published with the rest of the submission.

Introduction

ASBEC and the Property Council are grateful for the opportunity to provide input to the *Report for Achieving Low Energy Existing Homes*.

The Property Council and ASBEC urge the Commonwealth to prioritise the built environment in its plans for emissions reduction. The challenge for policy makers is to extend the substantial progress made by market leaders across the entire sector. Although the built environment represents some of the lowest cost emissions abatement opportunities, there are persistent barriers to the uptake of energy efficiency that require strong and targeted policy support to address.

The potential of Australia's built environment to reduce emissions is significant: existing residential buildings are responsible for approximately 12% of Australia's emissions which could be reduced with the right policies and incentives in place.

We welcome the Department's consultative approach in the draft report to examine the challenges and the opportunities for emissions reduction for existing residential buildings.

About us

Property Council of Australia

The Property Council is the leading advocate for Australia's biggest industry and biggest employer; our industry represents 13% of Australia's GDP and employs 1.4 million Australians. Our members invest in, design, build and manage homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism and hospitality venues and more.

The Property Council is a leader in making the case for sustainable development and the **potential of Australia's built environment to reduce emissions should not be underestimated. Australia's buildings could meet over half the National Energy Productivity Target (NEPP) and a quarter of the national emissions target with the right policies and incentives in place¹.**

As a champion for sustainability, the Property Council has built strong partnerships with organisations including the Green Building Council of Australia (GBCA), the Australian Sustainable Built Environment Council (ASBEC) and Global Real Estate Sustainability Benchmark (GRESB). On behalf of our members and in partnership with aligned organisations, we provide the research and thought leadership to help decision-makers create vibrant and sustainable communities.

We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin the contribution our members make to the economic prosperity and social well-being of Australians.

Australian Sustainable Built Environment Council

The Australian Sustainable Built Environment Council (ASBEC) is a body of peak organisations committed to a sustainable built environment in Australia. ASBEC's membership consists of industry and professional associations, non-government organisations and government observers who are involved in the planning, design, delivery and operation of our built environment.

¹ ClimateWorks for Australian Sustainable Built Environment Council (ASBEC), *Low Carbon, High Performance*, 2016, p. 60.

ASBEC has twenty-seven industry members, including the Property Council of Australia, Green Building Council of Australia, Energy Efficiency Council, Australian Institute of Refrigeration, Air Conditioning and Heating and Facilities Management Association of Australia. Our observer members include the Department of the Environment and Energy and CSIRO.

Several key reports released by ASBEC over the last three years have illustrated how the building sector presents a significant and cost-effective opportunity for energy productivity and emissions reduction, including [Low Carbon, High Performance](#), [Built to Perform: An Industry Led Pathway to a Zero Carbon Ready Building Code](#) and [Growing the market for sustainable homes: Industry Roadmap](#)

Key recommendations

Funding emissions reductions in the built environment

Residential buildings are currently responsible for around 12% of Australia's emissions. The majority of these emissions are associated with building shell design, HVAC, lighting and hot water systems². The sector has great potential to deliver profound and cost-effective emissions reductions within the right policy context.

ASBEC and the Property Council are broadly supportive of the suite of policies proposed in the draft report. However, these will require long term policy commitment and proper funding support to have any impact. The government has allocated budget to purchase low cost abatements from a wide range of sources through its principal policy for reducing emissions, the Emissions Reduction Fund (ERF). The current design of the ERF is ill-suited to the property industry which could deliver some of the lowest cost emissions abatement within a supportive policy context.

For this reason, we urge the government to allocate a specific budget outside of the ERF's reverse auction mechanism targeted at the implementation of energy efficiency measures in the built environment.

At the start of 2019 the Federal Government announced the Climate Solutions Fund, which included an allocation of an additional \$2 billion for purchasing low-cost abatement. Given that buildings account for 23% of Australia's emissions, the Federal Government should use \$500 million of the allocated \$2 billion to fund targeted programs that drive low cost abatement in commercial and residential buildings

Recommendation 1: Allocate \$500 million of the \$2 billion currently assigned to the Climate Solutions Fund for targeted programs that drive low cost abatement in commercial and residential buildings.

The importance of a single, national rating scheme

The residential property sector accounts for approximately 57% of Australia's property emissions³. With the right policies in place, the emissions of residential buildings can be substantially reduced.

Australian homeowners and renters value sustainability and frequently invest in energy efficiency features or renewable energy. As of December last year, there were 2 million Australian households with rooftop solar panels⁴. Consumers are also well aware of the benefits that can be delivered through energy efficiency. A survey conducted in 2018 shows that 90 per cent of respondents thought that it is important that governments help reduce households' energy bills with energy efficiency rated as the preferred option to achieve it⁵.

Despite the clear public interest, buyers and renters in Australia still lack a credible and widely accepted benchmark to easily assess the sustainability of homes. A single rating scheme consistently applied across the country would not only make it easier to compare the efficiency of homes, but would also

² *Individuals and households*, Department of Environment and Energy (2019)

³ <https://new.gbca.org.au/news/gbca-news/delivering-healthy-homes-future/>

⁴ *Clean Energy Council report*, December 2018 <https://www.cleanenergycouncil.org.au/news/number-of-australian-homes-with-rooftop-solar-tops-2-million-and-counting>

⁵ *Energy Bills and Energy Efficiency Survey*, Australian Council of Social Services, the Property Council of Australia and the Energy Efficiency Council (2018)

create an incentive for building upgrades, whilst providing added consumer protection for buyers and tenants.

Disclosure is already required for homes at the point of sale or lease in the ACT, with good results. There is a strong case to extend residential disclosure to other jurisdictions, beginning with a pilot in one or more states over the next two years, while developing the framework for implementation of a nationally consistent scheme in 2018. This will also allow time to investigate potential improvements in and harmonisation of residential rating schemes.

NABERS is widely recognised as one of the most effective emissions reduction programs ever implemented in the built environment. Part of its success is derived from its governance model which is both trustworthy and collaborative. This governance model has a proven track record and should be implemented for the universal rating scheme for residential buildings.

Recommendation 2: Working with state and territory governments, the Federal Government should develop a single, coherent national rating scheme to facilitate disclosure of performance in residential buildings, that includes:

- Providing benchmarks for market comparison of best practice sustainability performance;
- A best practice governance model based on NABERS that brings the Commonwealth, State and Territory governments together to collectively manage benchmarks for new homes.

Recommendation 3: Working with state and territory governments, the Federal Government should implement mandatory disclosure of energy performance in residential buildings.

Rental Standards for Energy Efficiency

Renters make up approximately 32 percent of occupied private dwellings⁶. For many occupants, renting is no longer a steppingstone to purchasing and can be a long-term situation.

Increasing the energy efficiency of rental homes delivers substantial financial and health benefits to occupants but presents little advantage to the property owners. This leads to split incentives whereby landlords are less inclined to invest in insulation, efficient HVAC or rooftop solar and the rental housing stock is falling behind on efficiency matters as a consequence.

Inefficient rental housing also perpetuates social disadvantage. According to the *Australian Bureau of Statistics*, while the lowest socio-economic quintile spends less on their energy bills in absolute terms, it represents 10 percent of their income compared to just 6.5 for households in the middle quintile⁷.

⁶ *Trends in home ownership in Australia: a quick guide*. ABS 2017

⁷ 4670.0 - *Household Energy Consumption Survey, Australia: Summary of Results*, ABS 2012

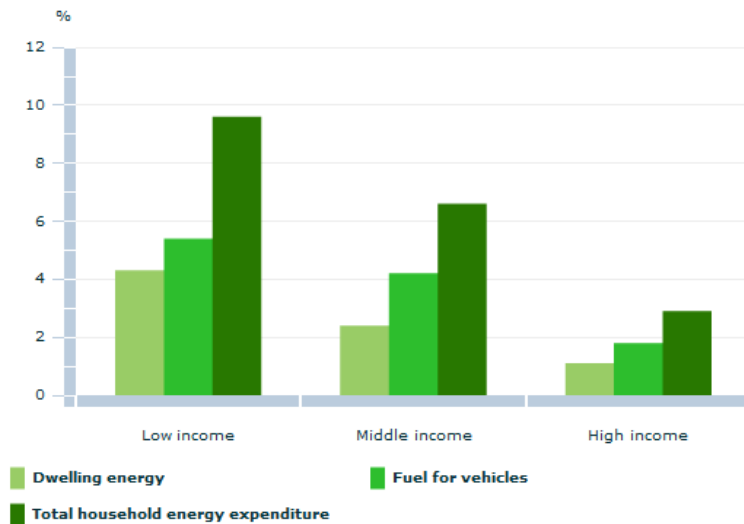


Figure 1- Energy expenditure as a property of gross household weekly income (source: ABS)

There is broad support for the introduction of minimum standards for rental properties. A study conducted in 2018⁸ shows that 80% of Australians were supportive of minimum standards for rental homes to ensure that they are safe, comfortable and have low energy bills.

Introducing minimum energy performance standards for rental properties would help to overcome the landlord-tenant split incentive, and ensure that all households have an acceptable level of energy efficiency. This would also benefit low income and disadvantaged households, who are more likely to live in inefficient homes and have less efficient appliances. Victoria’s early leadership on the review of their *Residential Tenancies Act 1997* should inform a coordinated approach by State governments to implement similar standards.

Recommendation 4: Supported by the Federal government, State governments should introduce minimum energy efficiency standards for rental accommodation. Alongside these standards, governments should review mechanisms for tenants to initiate upgrades to rental properties and implement incentives that encourage landlords to upgrade rental properties, as well as safeguards to avoid any unintended consequences around housing affordability, such as significant rent increases.

Energy efficiency requirements for renovations

While standards are in place to govern the efficiency of new buildings, stronger initiatives are needed to increase the efficiency of existing dwelling. Existing buildings currently represent the largest opportunity for energy and greenhouse gas savings to 2030⁹.

Currently the provisions of the National Construction Code (NCC) for the energy efficiency improvement of existing buildings only capture “major renovations”. This includes existing buildings which are undergoing large-scale renovations but excludes alterations and additions that are exempt from seeking formal building approval. The line that distinguishes between refurbishments and minor

⁸ *Energy Bills and Energy Efficiency Survey*, Australian Council of Social Services, the Property Council of Australia and the Energy Efficiency Council (2018)

⁹ *Australian Energy Efficiency Policy Handbook*, Energy Efficiency Council, 2016

additions and alterations is determined by the provision of each state and territory's individual building regulations, and the applicability of the NCC to renovations differs significantly between jurisdictions.

An opportunity exists to harmonise and strengthen the requirements for energy efficiency upgrades in major renovations and identify cost effective energy efficiency measures at critical stages of smaller alterations/additions.

Recommendation 5: The Federal Government should resource the Australian Building Codes Board to work with State Governments to develop appropriately strengthened energy efficiency requirements in the NCC for major renovations, as well as harmonised state planning requirements for thresholds of application with a focus on identifying the most cost effective measures to apply at critical stages of major renovations and smaller alterations.

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Targeted financial incentives

Cost is often the greatest barrier to building sustainably or investing in energy efficiency upgrades. Homeowners often do not have a good understanding of the financial benefits that can be gained through investment in sustainable measures and could be better incentivised with a modernised tax regime.

Tax incentives for landlords are an important aspect of addressing the split incentive for energy efficiency upgrades.

Green finance mechanisms, such as green mortgages offer a way to overcome these cost barriers by providing incentives in the form of a lower interest rate or increased loan amount, whilst elevating the consideration of sustainability in consumer decision making. There is a growing market for green finance mechanisms in Australia, but government support can drive broader engagement.

Measures could include funding the development of green home finance products, such as green mortgages, equity loans and home improvement loans, or awarding funding to industry for developing innovative ways of reducing the cost of retrofitting housing stock.

There are currently four different variations of Energy Efficiency Obligation (EEO) schemes implemented in NSW, VIC, SA and ACT. To deliver the most effective emissions reductions, these should be critically reviewed for their effectiveness and harmonised into a single, national scheme.

Recommendation 7: The Federal Government should deliver tax incentives that encourage residential buildings towards better energy performance and reduced emissions by:

- Modernising the 10 per cent green building withholding tax regime by:
 - Expanding the regime to all buildings held for rental purposes (regime is currently limited to offices, hotels and shopping centres)
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Investigating opportunities for apartments

The uptake of sustainable measures in apartment buildings can present several challenges unique to the sector. There is often a poor understanding of how a building will perform at the design phase which leads apartment purchasers who are buying off the plan to make uninformed decisions on energy efficiency matters. Further, once the apartment is built there is often little that can be done to increase its energy performance due to technical barriers and shared decision-making models.

Common areas in apartments including pools, gyms and car parks are often energy intensive, accounting for up to 60 percent of the energy use of an apartment building. There is an opportunity to address this issue and increase the efficiency of shared areas.

Australia's Commercial Building Disclosure (CBD) Program is widely regarded as a successful national policy for driving improvements in improvements in the office building sector, having delivered over

\$72 million in savings and over \$168 million in improved occupant productivity. Noting this success to date, there is a strong case to expand the program to new sectors such as apartment buildings.

Recommendation 12: The CBD program should be expanded to incorporate new sectors such as apartment buildings in order to address gaps in existing programs and reduce the energy use of common areas. The Federal Government should also implement complementary programs to the CBD expansion that would incentivise stratas to perform upgrades.

Vulnerable households

Poor energy performing homes affect not only Australians' health and comfort, but they also have an impact on the economy overall through increases in public health spending. As noted in *Figure 1* there is a large disparity in the percentage of household income used to pay energy bills in different socio-economic groups. Although the less advantaged quintile spends less on their energy bills in absolute terms, it represents 10 percent of their income compared to just 6.5 for households in the middle quintile and 2.9 percent for the high-income quintile¹⁰.

In order to reduce this disparity, consumers need to engage with the energy retail market if they want to reduce their energy bills. While many benefits can flow to informed consumers, those who are more at risk of energy stress, such as low-income or vulnerable consumers need tailored, ongoing support to engage with their energy use. This is due to barriers that may be related to a lack of capital, language and literacy challenges, split incentives or geography. Better informing and educating consumers about their bills, energy usage and the energy market can help to overcome these barriers.

Recommendation 13: The Federal Government should provide user-friendly information and tools to educate consumers of the long-term benefits of energy efficiency and to encourage improved energy choices.

Recommendation 14: Working with state governments, the Federal Government should co-fund performance upgrades to the worst performing public and community housing stock around Australia.

Recommendation 15: The Federal Government should co-fund ongoing assistance programs to inform and enable disadvantaged households to engage with the energy market. Where possible, these programs should strengthen relationships between disadvantaged households, support services, advocates and energy retailers.

Greenhouse Energy Minimum Standards (GEMS)

Equipment and appliances are important components of the overall energy use for buildings. Strong minimum standards can drive improvements in a building's energy performance by ensuring that equipment and appliances on the market are consistent with Australia's emissions reduction targets. Australia's standards are lagging behind other countries and the pace of development of new technologies.

The Property Council and ASBEC acknowledge the effectiveness of the *Greenhouse and Energy Minimum Standards* (GEMS) program in reducing the energy use of appliances in Australia. We

¹⁰ 4670.0 - Household Energy Consumption Survey, Australia: Summary of Results, ABS 2012

support the objective of ensuring our MEPS are aligned with global best practise and that labels are used to inform purchasers on the efficiency of building equipment.

Recommendation 16: The Federal Government should progressively enhance the Greenhouse and Energy Minimum Standards (GEMS) Act. This should include strengthening existing MEPS as well as expanding to news equipment and appliances.

Data collection and analysis

Data-capture oriented towards policy outcomes is a major prerequisite to the continual improvement of energy measures in residential buildings. Traditionally, energy use data has been captured through analysis on the billing data of individual households or through macro analysis at a utility level. While this data is useful, it often precludes the analysis of daily energy use cycles and appliance specific data.

The proposal in the Draft Report for the establishment of a national dataset collection on homes is an important step towards informing our understanding of home performance, market trends, industry capacity and evidence-based policy. It is important that established frameworks are utilised and improved, to provide consistent, transparent input and access to data on homes. NatHERS has contributed to the collection of nationwide data on new homes; presented through CSIRO Australian housing data portal. Ideally such a portal might be expanded to include data on existing homes.

Victoria has installed 2.8 million smart meters to date which have been successfully employed to capture granular data at a household level and transmit it wirelessly to authorities for analysis. In doing so they are establishing a vast dataset which will be invaluable in informing future policies.

Smart meters often collect thousands of readings every month, showing the amount and timing of electricity being used inside a home. This data reveals information about the activities taking place inside a home because appliances have distinct energy-usage patterns; researchers can predict the appliances that are present in a home and when they are used. Due to the level of detail of energy consumption captured by smart meters, provisions must be put in place to protect the privacy of homeowners.

The proposed national rating scheme is a good opportunity for data capture that will ensure a greater degree of sophistication and effectiveness into future policies

Recommendation 17: Establish a national dataset collection on existing homes, building on current frameworks such as the CSIRO Australian housing data portal. This data repository should be complemented by further input on new and existing homes captured through the proposed mandatory energy disclosure for homes.

Recommendation 18: The Federal Government should build data-capture into its programs in the residential sector as part of a national built environment energy efficiency and emissions research and innovation agenda.

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