



12 September 2011

Residential Energy Efficiency Team
Buildings Government Energy Efficiency Branch
Department of Climate Change and Energy Efficiency
GPO Box 854
Canberra ACT 2601

By email: residentialdisclosure@climatechange.gov.au

Dear Residential Energy Efficiency Team

Please find attached the REIV response to the *Mandatory disclosure of residential building energy, greenhouse and water performance consultation RIS*.

If there are any inquiries about the submission, please contact the REIV Communications Manager Robert Larocca on 03 9205 6622 or rlarocca@reiv.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JG', written over a horizontal line.

John Grabyn
PRESIDENT

INTRODUCTION

The Real Estate Institute of Victoria (REIV) is the peak body for the Victorian real estate profession.

Our mission is to lead the industry and promote the delivery of professional services by our Members to the public and to ensure the integrity, credibility and ethical standards of the real estate industry.

The REIV is supportive of community and government efforts to improve the sustainability of the nation's housing stock.

SUMMARY

In responding to the *Mandatory disclosure of residential building energy, greenhouse and water performance Consultation RIS* the REIV has identified these key issues:

1. The policy on which the RIS is based is flawed.
2. There is no substantive research or proof that information about energy, greenhouse and water will change buyers' decisions or result in investments to reduce a dwelling's negative impact on the environment.
3. The claim that mandatory disclosure improves housing affordability is misleading.
4. The costs to an agent under any of the regulatory options have been underestimated.
5. Limiting the scope of the information asymmetry problem to energy, greenhouse and water is flawed.
6. Purchasers of homes built to five- or six-star standard face unnecessary duplicate costs.
7. The RIS fails to deal with a range of key issues: how the policy will overcome the acknowledged problem of split incentives in the rental market; the impact of HIS; impact of carbon pricing; and social housing.
8. The REIV supports Option 5 – a non-regulatory approach.

RESPONSE

In providing a response to the *Consultation RIS*, the REIV will respond to the key questions outlined on page xvii as this provides a useful methodology for responding.

Question 1

The extent of the 'problem' in residential building energy, greenhouse and water performance.

The REIV believes that the problem the RIS seeks to address – a market failure due to a lack of information – is, unfortunately, too narrow in scope.

The RIS is correct that there is a lot of information of which buyers are unaware when purchasing or renting a home. Under current Victorian laws, purchasers are provided with some information by way of a Section 32. Sellers are not required to disclose matters that are not included in the Section 32.

This leads to buyers making their own judgements and forming their own view about what a property may be worth to them. Some buyers will purchase a building inspection report to fully understand a range of physical matters but some will not, as the state of the property is not important to them due to plans to renovate or similar.

The RIS is correct to highlight that information about a property's energy, greenhouse and water performance is not included in Section 32; however, the actual list of issues that are not disclosed is more extensive. For instance, the following physical matters, which may be more important to buyers, are not covered in the Section 32:

- Condition of stumps or foundations;
- Water drainage;
- Condition of the roof.

It is interesting to highlight that the cost of rectifying a problem with any of those items would be far higher than the cost of improving a home's energy, greenhouse and water performance. To follow the RIS's logic would be to suggest the cost to the community of uninformed decisions by buyers should necessitate the assessment of a scheme to fully inform buyers of all of these issues.

The RIS fails to do this and this presents a serious flaw.

It is also arguable the extent to which improved information would influence buyers' decisions and hence the investment choices of sellers.

The REIV commissioned the Australian Research Group Pty Ltd to conduct a poll of 1,000 people to determine their preferences when buying a home.

They were asked two questions: firstly, *'are water- and energy-saving features important factors when buying a home?'*; and, secondly, they were asked to rank a range of factors.

In response to the first question, a significant majority (93 per cent) said that water- and energy-saving features were important factors but the response to the second question highlights that this response is not represented by their actual decisions.

The responses to the second question are:(Q: IF YOU WERE LOOKING FOR A PROPERTY TO PURCHASE – WHICH OF THE FOLLOWING WOULD BE THE MOST IMPORTANT THING YOU WOULD LOOK FOR? WHICH IS SECOND?)

	1 st Priority
Total*	
Price	26
Location	21
Proximity of facilities (e.g. shops, transport, schools)	18
Condition of property	12
Value of property as an investment	12
Size of land	5
Number of bedrooms	5
Room to entertain	1
Garage access	1
Swimming pool	0

This highlights that while buyers like the idea of greener properties, the majority will make the decision to buy based on other factors.

These decisions should be understood before a policy as proposed by the RIS is contemplated.

The notion that water and energy use are not important factors for buyers is also reinforced by research by The Australian Housing and Urban Research Institute (AHURI). In their paper *Sustainability decisions in Australian households*, they found that households were more supportive of strategies that supported voluntary change than pricing mechanisms or regulation. It also showed that none of the main barriers to households improving their sustainability included a lack of information about properties at the time of sale or lease, rather the barriers were:

- Difficulty of breaking old habits;
- The behaviour of others;
- A household situation not conducive to fitting energy- and water-efficient appliances;
- Rental properties;
- Lack of access to government rebates.

Question 2

The adequacy of the options assessed in the Consultation RIS in addressing the problem.

The RIS asks if there are other feasible policy options that should also be considered; in the view of the REIV, there are.

The RIS sets out that the '*objective of the intervention is to improve community wellbeing and environmental sustainability, including reducing greenhouse gas emissions, by countering information shortfalls and the uneven distribution of in the residential housing market*'.

- Positive impact of Building Code

Given that the aim is improved environmental sustainability, it is a concern that the options were not measured against the outcome that will be achieved through the requirements of the Building Code of Australia for a minimum level of six-star energy efficiency rating.

Such an assessment would be a modification of Option 5. This is an important part of such an assessment because satisfying the requirements of the Building Code are making a substantial contribution to the sustainability of the community and its buildings. The RIS proposes the scheme will be in place for a decade. In the past decade around 415,000 homes have been built in Victoria; if a similar number is built in the next decade, they will all be built to a very high level of sustainability. Conversely, if around 1,000,000 homes are sold in the next decade there is no certainty that just because they have a sustainability rating attached they will be more sustainable.

- Householder contribution

There is no discussion or assessment of the impact of the use of the dwelling. Is there any research that measures the impact of occupiers of sustainable dwellings as opposed to those whose homes are not sustainable?

- Impact of Carbon Pricing

Given the certainty of the outcome achieved through the requirements of the Building Code, it seems a glaring omission from the assessment because it may be that a combination of current policies and the introduction of Carbon Pricing will achieve the outcome that the RIS seeks to achieve – without charging home sellers.

Indeed, the non-inclusion of Carbon Pricing in the assessment of the option, not unlike the installation of insulation, combines to skew the net benefit towards the more costly options for sellers.

One only needs to look at recent reports by Ausgrid and the Australian Electricity Market Operator to gauge the impact that Carbon Pricing will have on household consumption of power. Against a trend of long-term increases in consumption, the past four years have seen reductions of two per cent per annum, with further cuts forecast as a result of increases in the costs of power. Carbon Pricing will exacerbate the reductions.

The impact of this policy and HIS, without any further action by government on energy efficiency measures, will lead to reduced consumption of power by households and lower greenhouse gas emissions. The consequence is that the benefits under all the RIS options have been underestimated. While the quantum of the underestimation will be the same for all options, proportionally they will be greatest for Option 5 – the non-regulatory option – meaning that the benefit–cost ratio for this option will have the greatest improvement.

The REIV is of the view that the inclusion of Carbon Pricing and the Home Insulation Program in the analysis would improve the benefit–cost ratio of Option 5 the most.

- **No proof that information will lead to required changes**

A significant gap in the RIS is the lack of quantification of the underlying idea that improving information at the point of sale or lease will result in more sustainable homes.

It is disturbing that the only study that seeks to explore this is a focus group in the ACT in which 15 per cent of the 35 participants (five people) said that ratings were important or fairly important. The same study into the ACT system suggested only for a small proportion of people would the rating marginally impact on the price they would pay. A cursory glance at asking prices in the ACT shows little link between the EER rating and the sale price.

It would be prudent for further analysis of the ACT market to be undertaken before governments implement a policy. The analysis would ideally deal with the following issues:

- Analysis of buyers' and sellers' attitudes over time;
- Analysis of buyers' and sellers' (owner–occupier and investor) investments in response to the EER over time;
- A review of the sustainability of ACT homes, before and after EER.

The response to this would allow a much more conclusive response to the policy.

- **Need for duplicate certificates**

It is not clear why the owner of a home built to five or six stars under the Building Code would face the additional cost of a certificate under this scheme, given the home was constructed to six stars in the first place. If the aim is to improve sustainability, why does the owner of a sustainable home need to prove that it was built to code?

Question 3

The assessment of costs and benefits of options:

Does the assessment fully reflect all potential costs and benefits of the options assessed?

The REIV has no basis to assess or make a judgement on the costs of assessment; however, the Institute would like to know if there are sufficient assessors to undertake the tasks as required by some of the options? If there are skills shortages, they will increase the costs but not the benefits of the policy.

Are there costs to industry that have not been accounted for?

It does not appear that any costs have been missed; however, costs to real estate agents will likely depend on factors not assessed, including the actual scheme chosen by the state and how the process is legally linked to the sale or lease.

The REIV is of the view that any requirement for the rating of a home's energy, greenhouse or water use should be the responsibility of the vendor.

It is likely that the costs are understated, as the real estate agent and property manager will be required not only to undertake minor paperwork but respond to a range of inquiries from potential buyers and lessors. This will require education, at a minimum.

Property portals will also need to modify their code to include the ratings in advertisements.

Are the take-up rates for the proportion of sellers and lessors that invest in upgrades to their properties in each scenario reasonable?

No.

Feedback from REIV Members and the polling of buyers' preferences expressed earlier do not suggest there is any link between improved information and modifications to the buildings to improve their sustainability.

In essence, it is not clear that forcing a vendor to procure a certificate of sustainability will result in either the vendor or purchaser doing anything to improve the property's sustainability.

It is not clear how the uptake rates were arrived at.

The RIS states that 'there is uncertainty about the voluntary investment response to the proposed measures'. In other words, there is no underpinning research that establishes a causal link between the assessments and improved sustainability.

The RIS fails to take into account the well understood problem of spilt incentives. A number of agencies have undertaken, or are undertaking, research aimed at understanding how to compel a landlord to improve the sustainability of their property when they personally have nothing to gain. None of these projects has found an effective way to convince a landlord to invest to improve the sustainability of a property.

The notion that choice alone will result in change, especially in Victoria where the demand for rental homes has outstripped supply over the past six years, is not proven.

REIV submission on Mandatory disclosure of residential building energy, greenhouse and water performance Consultation RIS

Such a scheme should not be implemented until research has been undertaken that clearly shows that home buyers and owners will take action as a result of the scheme. Until that time, all of the findings of the RIS must be questioned.

Are the costs of the energy and water efficiency measures included in the RIS reasonable?

The REIV has no basis to assess or make a judgement on the costs as outlined.

Are the assumptions underlying the analysis valid/reasonable?

No, but that probably is more a commentary on the underlying policy than the RIS. In setting out to improve the sustainability of Australian homes, the Council of Australian Government should have proposed a wider range of options to improve household sustainability than they have. In particular, the failure to:

- include the benefits from Building Code changes for six star; and
- assess the impact of a dwelling's sustainability

results in a set of policy options that are unlikely to achieve the desired aim of improved community wellbeing and environmental sustainability.

The problem is less with the RIS but rather the decision by COAG to advance a singular option.

Identified risks and uncertainties with each option

The RIS itself highlights the following key risks and uncertainties:

- Impact of Carbon Pricing is not assessed;
- Impact of HIS is not fully quantified;
- That consumers will not match the take-up rates as suggested;
- Reduced housing affordability; and
- Uneven social outcomes as social housing is not included.

CONCLUSION

Until such time as the policy basis of the RIS can be shown to be effective, the REIV is of the view that it would be both ineffective and unfair to implement a scheme that increases costs to vendors. The REIV therefore supports Option 5 – a non regulatory approach.