Inquiry into first home ownership
Productivity Commission
LB2 Collins Street East
Melbourne Vic 8003
3 November 2003

Dear Sir / Madam,

The Moreland Energy Foundation Limited ('MEFL') welcomes the opportunity to provide input into the Productivity Commission enquiry into housing affordability. MEFL was established by the Moreland City Council to reduce community greenhouse gas emissions. To meet this goal, we work extensively with householders, both home owners / purchasers and renters, to help them reduce their energy usage. While MEFL's charter is driven by important environmental goals, we are also concerned to meet social objectives through our project work. This is easy to achieve with energy as it is neither environmentally beneficial to use excessive energy (due to the burning of fossil fuels for electricity generation), nor is it financially beneficial at the household level when high bills need to be paid.

It is our experience that the biggest factor contributing to high levels of energy usage is the poor standard of existing housing. We therefore agree with the position taken by the Commission that housing affordability needs to be looked at broadly, taking into account both the purchase price of housing and the running costs, and looking at the rental sector as well as the owner / purchaser sector.

The problem with existing homes

Up to date climatic conditions have hardly been taken into account when designing and building homes. In Moreland, a typical home built in the 1920s would be weatherboard, on stumps with single glazed windows. Only the ceiling might by insulated. Window placement would not consider the benefits of having large windows facing the north (providing natural heat in winter) and limited windows facing the west (to prevent excessive heat from the afternoon sun in summer).

Essentially most homes provide very little protection from the harsher elements and take little advantage of the components of the weather which we can benefit from. Without artificial heating and cooling most homes are cold in winter and hot in summer. Over recent years the market has not responded to this issue at all; in fact many of the design elements of new homes are worse as they typically have no eaves and over glaze in areas where it is not advantageous (ie, walls of single glass facing south). In order to compensate for this poor design, the energy consumption of homes increases as air conditioners become commonplace and heating becomes centralized. As energy costs increase, the people who live in homes which are dependant upon artificial heating and cooling are left to the peril of increasing energy bills.

New Homes

The First Home Ownership Issues Paper refers to building controls such as energy and water use efficiency and asks whether there is evidence that the costs of such measures exceed the benefits. MEFL can confirm that energy standards benefit the individual homeowner through higher comfort and lower energy bills, as well as contributing to the response to combatting climate change.

The Victorian State Government has announced enhanced energy efficiency and water standards which will be introduced in a staged fashion from July 2004. There was significant work done to anticipate the financial implications of this policy change for the purchasers of new homes from this date. A conservative estimate concluded that a five star energy rated home could cost $1,100 more to build, but would save an average $210 a year on energy bills. Over an average home loan, the householder would be $120 per year better off.

MEFL believes that the benefits could be greater than this as the costs associated with building an energy efficient home reduce as more homes are built this way. Further, given that the average floor size of new homes has increased by 29%, and the average household size has decreased by nearly half since 1911, it would be easy for any price increase to be absorbed by a very small decrease in the size of the home itself, with no loss of amenity to the home buyer.

While there may be a temptation to implement policies which enable new houses to be built as cheaply as possible in order to make home ownership more accessible, MEFL would like to point out that the long term costs of such policies need to be considered. MEFL believes that appropriate housing policy has the potential to simultaneously promote the goals of social equity, economic efficiency and environmental sustainability, and would encourage such goals to remain at the forefront of policy makers' minds.

Purchasing existing homes

New homes only make up a small proportion of the market, with most homes being bought and sold having been built in past decades. As noted above, existing homes have comfort problems which are frequently resolved by appliance installation, leading to ongoing energy usage. However, there is much scope to retrofit existing homes to make them more comfortable and energy efficient. Housing affordability could be significantly improved by providing incentives for retrofitting.

There has been significant publicity around the issue of the rising cost of stamp duty and the windfall this has returned to State Governments at the cost to home buyers. Rather than decreasing stamp duty, MEFL believes that the funds generated could provide a significant opportunity to improve the quality and energy consumption of existing homes. People who have purchased a home and hence paid stamp duty could be offered a grant or subsidy towards the implementation of energy efficient retrofits. This would enable householders to implement measures such as the following:

- Upgrading to insulation – ceiling, wall, floor and hot water pipes
- Double glazing for windows
- Draught proofing
- External blinds and awnings for windows

MEFL also believes that there should be energy rating disclosure and advertising requirements in the sale of real estate. Energy efficiency ratings for all domestic buildings for sale and the likely energy consumption implications would help to make buyers more aware of the ongoing costs associated with different properties.

Rental properties

It is also critical that the energy efficiency of rental properties is improved, to both reduce energy costs for renters and to enable greater saving by renters who are working towards becoming first home buyers. Rental properties are often the most inefficient properties which MEFL visits. Not only do they often have poor design and no insulation, the inbuilt appliances can lock in high levels of energy consumption. For instance, dayrate electric water heaters are prevalent in rented flats. Gas heating is often not provided, (despite the availability of reticulated gas), leaving the tenant to use costly and polluting portable electric heaters. The social implications of energy inefficient rental properties is particularly acute when one considers that more unemployed people live in rental accommodation, and therefore the amount of time spent in the home and the energy used for heating and cooling is greater.

As far as rental properties are concerned, current taxation regimes do not encourage landlords to invest in energy efficient technologies for their investment properties. It is our understanding that under the Australian Taxation Assessment Act 1999, landlords are confronted with a specific exclusion for environmental works of a capital nature which relate to a business or investment dwelling. However almost all other costs associated with reducing or minimizing pollution from an investment or business site (eg greenhouse gases due to energy consumption) are tax deductible. To make such renovations tax deductible would improve the energy efficiency of Australian homes, thereby reducing the cost of living and improving the affordability of housing.

To be eligible for tax deductibility when replacing worn out or damaged appliances such as water and space heaters within a rental property should require that the replacement appliance comply with minimum energy efficiency standards. This would ensure that Commonwealth tax benefits are directed towards ensuring a broader social and environmental benefit.

MEFL would like to propose that if negative gearing arrangements are to be reviewed, then any tax advantages for property investors should be contingent on energy efficiency modifications to the property. Currently, such modifications are considered to be capital expenditure, and are therefore only tax deductible as a depreciating asset over a long period of time. If energy efficiency modifications (including renovations or installation of energy efficient appliances) were tax deductible within the tax year that the cost is incurred, or over a period of 5 years of so, then such investments would be more attractive for landlords. This would improve the energy efficiency of Australian homes, and once again improve housing affordability.

Another approach would be to subsidise the investment by tenants in measures which increase the energy efficiency of their rented property. Even low cost measures such as draft blocking can make a significant difference to comfort and reduce the need for running costly portable heaters.

Thank you again for the opportunity for making a submission to the inquiry and we look forward to participating in the next stage of the process.

Yours sincerely,

Esther Abram
Chief Executive Officer