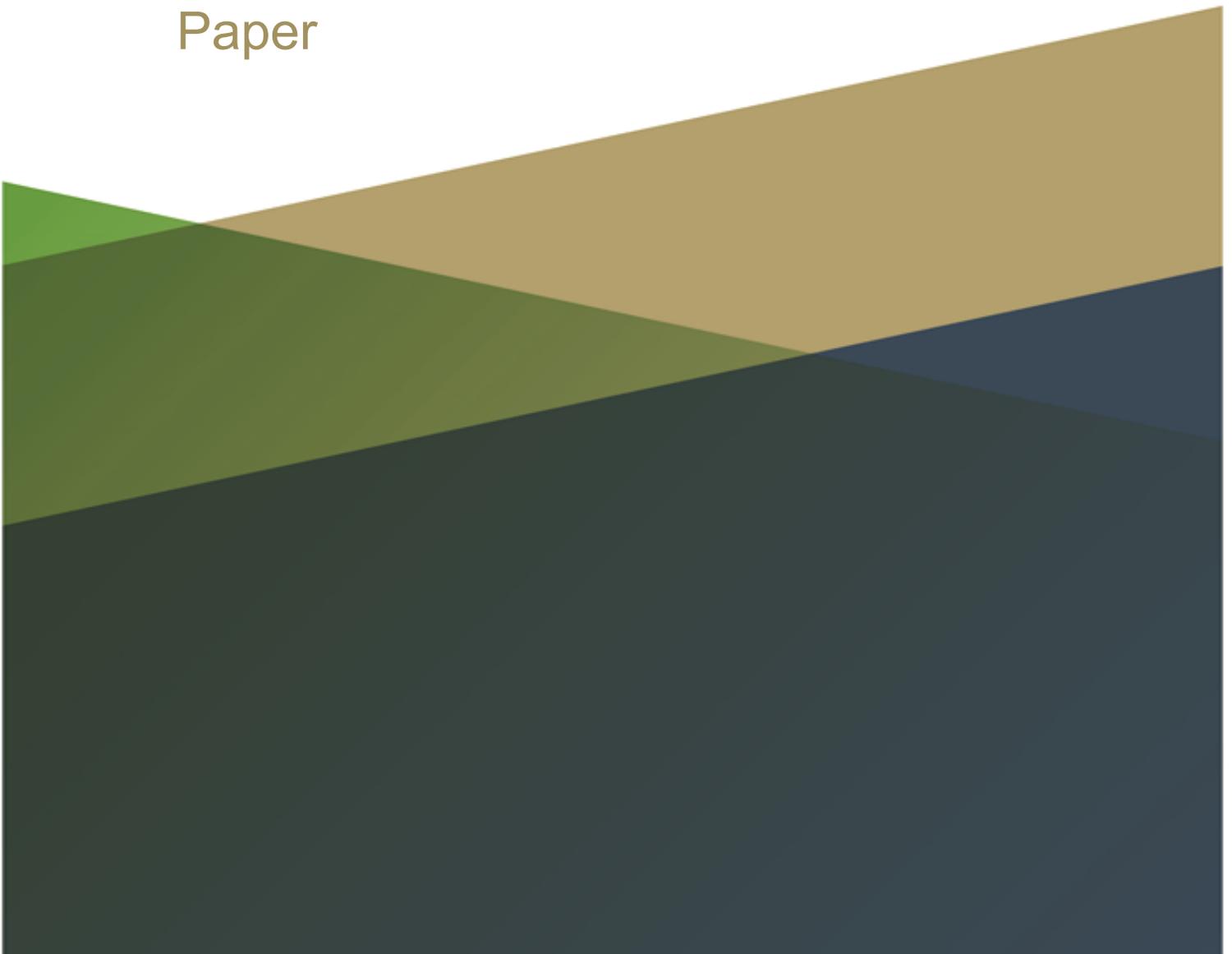




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Removing barriers to energy efficiency in the rental sector by addressing the 'Split- Incentive Problem'

Public Consultation –
Context and Guidance
Paper



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What is the Split Incentive Problem?

This paper provides an overview of the Split Incentive Problem in the rented sector. A split incentive occurs where the benefits do not primarily accrue to the person who pays for the transaction. In the case of rented properties where landlords meet the cost of improvements, the tenants would reap most of the benefits. Tenants do not control the property and have little incentive to invest - so neither party is motivated to upgrade the building. This problem results in poorer energy efficiency outcomes in both the rented residential and commercial sectors.

Improving the Energy Efficiency of our Buildings

Reducing carbon emissions is crucial to national and international efforts to tackle climate change and safeguard our future. A large proportion of emissions come from the energy we use in our buildings. New and recently built homes and offices are highly energy efficient.

Older buildings, built before 2006, are less energy efficient and waste energy giving rise to harmful emissions that could be significantly reduced if the energy efficiency of these buildings was improved. It is estimated that over 1.5 million homes and non-residential commercial buildings would need to be upgraded by 2050.

Ireland, in common with other EU member states, is also required by the EU to facilitate the cost-effective transformation of existing buildings by 2050 into nearly zero-energy buildings (where technically and economically feasible) and to produce a Long Term Renovation strategy (LTRS). The LTRS is required to set out targets for the upgrade of the building stock by 2030 and to set out measures to address the split incentive problem. The last LTRS was published in 2017. A new LTRS now in development – and which will be informed by this consultation - will be submitted to Government and published in early 2020. An outline of the envisaged content of the new LTRS is available [here](#) and there is also an opportunity to provide observations on it in the response form or separately. A separate consultation on the LTRS is expected to be held in early 2020.

The target for the LTRS has been set in the context of the Climate Action Plan – and is to upgrade 500,000 buildings by 2030. Energy upgrades in rental properties will deliver multiple benefits for owners as well as tenants including improved living and working conditions and health outcomes, enhanced asset value, reduced energy bills, reduced emissions and will provide jobs in renovation.

Overview of the Rental Sector

The rental sector has continued to grow in importance with an increasing demand for rental accommodation in a market with restricted supply. At the end of quarter 2 2019, there were 341,908 tenancies registered with the Residential Tenancies Board, of which 310,788 were private rented tenancies and 31,120 Approved Housing Body tenancies. The majority of landlords (86%) have 1-2 tenancies, with 3,440 new tenancies created since the end of 2018. The level of regulatory change has been significant with the introduction of the Residential Tenancies (Amendment) Act in 2015, another in 2016 and the most recent Residential Tenancies (Amendment) Act 2019. Any new regulatory change will be considered against the need to minimise any potential damage to the housing market.

Significant affordability and supply issues remain with continued rent inflation. The latest RTB Rent Index showed an increase of 7.0% annually in the standardised average rent. There are also now 65% of tenancies in Rent Pressure Zone areas where rent increases are restricted to up to 4% per annum for new tenancies and re-lets.

The objective of this consultation is to identify the most appropriate policy intervention(s) having regard to stakeholder inputs aiming to ensure that the approach taken would minimise adverse impacts on the accommodation situation and on energy poverty.

The Goal of Improved Energy Efficiency in Rented Buildings

We all have a responsibility to reduce harmful emissions and one of the most effective ways to achieve this is to reduce energy waste. Improving the energy efficiency of our homes and workplaces – through improved insulation or otherwise is an effective way to do this and deliver multiple benefits.

To date over 400,000 householders have invested to improve the energy efficiency of their homes with grant assistance towards the cost from Government (DCCAE) through the SEAI and/or from their energy supplier under the Energy Efficiency Obligation Scheme. However, very few rental properties have been upgraded. This is a similar situation internationally due to what is known as the Split Incentive Problem¹.

¹ 'Split or misaligned incentive' refers to transactions where the benefits do not accrue to the person who pays for the transaction. In the context of building-related energy, it usually refers to the situation where the building owner pays for energy retrofits efficiency upgrades but would not recover savings from reduced energy use that accrue to the tenant.

Research comparing rental to non-rental properties in Ireland indicates that rental properties are less energy efficient compared to non-rental properties.

There is now an imperative to address this problem and to find ways to encourage and facilitate the energy efficiency improvement of rental properties in both the residential and non-residential sectors and to do so, to the greatest extent possible, in a way that protects existing supply and encourages further investment.

Exploring Solutions

An Expert Advisory Group (EAG) (comprising representatives from the Energy Efficiency & Affordability Division of DCCAE, the Building Standards and Rental Properties divisions of DHPLG, the SEAI, and the Residential Tenancies Board) has been established.

The EAG has been charged by Government with exploring appropriate options, facilitating stakeholder input through a public consultation and making recommendations to Government. The EAG believe that a fair balance of costs and benefits between landlord and tenant would improve the effectiveness of approaches. The ideal outcome would be to identify approaches to manage this issue in a way that works for landlords as well as tenants.

The Group is looking to elicit views on possible approaches to help address this problem as well as wider feedback based on the principles of an approach that seeks to be fair to all stakeholders.

This paper and the associated response form sets out some of the approaches that could be adopted. It has been prepared in consultation with the EAG drawing on research on approaches that have been applied or explored elsewhere, input from a stakeholder workshop organised by the Irish Green Building Council, as well as deliberations by members of the Group. It presents a “menu” of possible measures that might help to address, or be modified into approaches that would help address the problem.

Public Consultation Process

This public consultation is open to all - whether organisations or individuals. Any individual ²or organisation may respond using the response form available at <https://secure.dccae.gov.ie/forms/Split-Incentive-Consultation.aspx>. Responses can be submitted at any point up until the closing deadline of **18:00 on 17 January 2020**.

The response form also provides opportunities to make further suggestions on how to address the split incentive problem, to raise or comment on other relevant elements or issues. Respondents are asked where possible to please provide supporting evidence for points made, including citing case studies, published statistics or research papers if/where relevant.

The Department of Communications, Climate Action and Environment is committed to engaging with stakeholders in a clear, open and transparent manner.

DCCAE will consider all responses received by the closing date. These inputs will be taken account of by the EAG in making recommendations to Government on what, if any, new policy measures, including regulations might be warranted. In the event that regulatory changes are proposed, it is envisaged that a Regulatory Impact Analysis (RIA) would need to be conducted in advance of any new regulations being introduced.

Freedom of Information

Responses to this consultation are subject to the provisions of the Freedom of Information Act 2014 and Access to Information on the Environment Regulations 2007-2014.

Confidential or commercially sensitive information should be clearly identified (differentiated) in your submission, however parties should also note that any or all responses to the consultation are subject in their entirety to the provisions of the FOI Acts and are likely to be published on the website of the Department of Communications, Climate Action and Environment.

² The Rental Sector Energy Efficiency Advisory Group is comprised of representatives from Department of Communications, Climate Action and Environment Energy Efficiency Division (Chair), the Department of Housing Planning & Local Government (Building standards and Rental Sector divisions), the Sustainable Energy Authority of Ireland and the Residential Tenancies Board.

By responding to the consultation, respondents consent to their name being published online with the submission. The Department will redact personal addresses and personal email addresses prior to publication. We would draw your attention to the Department's privacy statement:

The Department of Communications, Climate Action and the Environment requires responders to provide certain personal data in order to provide services and carry out the functions of the Department. Your personal data may be exchanged with other Government Departments and Agencies in certain circumstances, where lawful. Full details can be found in our Data Privacy Notice which is available [here](#) or in hard copy on request.

Next Steps

Following consideration of the submissions made the Rental Sector Energy Efficiency Expert Advisory Group will make recommendations to Government on new policy options.

Glossary of Acronyms	
Acronym	Description
ACA	Accelerated Capital Allowances
AIE	Access to Information on the Environment
AoG	All of Government
AoG CAP	All of Government Climate Action Plan
BER	Building Energy Rating
BER Cert	Building Energy Rating Certificate
CAP	Climate Action Plan
DCCAE	Department of Communications, Climate Action and Environment
DHPLG	Department of Housing, Planning and Local Government
EAG	Expert Advisory Group
EE	Energy Efficiency
EEAD	Energy Efficiency and Affordability Division
EED	Energy Efficiency Directive
EPBD	Energy Performance of Buildings Directive
EU	European Union
FoI	Freedom of Information
GDPR	General Data Protection Regulation
HAP	Housing Assistance Payment
LTRS	Long Term Renovation Strategy
NZEB	Nearly Zero Energy Building
RIA	Regulatory Impact Analysis
RPZ	Rent Pressure Zones
RTB	Residential Tenancies Board