RentalCal: Legal and other framework conditions of energy efficiency in European rental housing

13th ERES Education Seminar in Alicante
01th – 02nd Dec.2017

Iris Behr
The five main issues of RentalCal

1. **Rental housing** perspective: landlords look at their investments
2. Profitability of energy efficiency investments from landlord’s point of view
3. Increase **transparency** of national investment conditions: technical, **legal**, and financial conditions and barriers
4. Governance: impact of stakeholders involved into EE efficiency
5. Making the housing sector aware of the impact of green/ sustainable investment
Size, age and energy performance of rental housing stocks vary widely across the RentalCal countries

Analysis based on national census data, other statistical data and IEE project TABULA

TABULA typology of the rental housing stock per country (according to building type and building age)

TABULA is used to estimate energy saving potentials and investment costs
Rental stock: potential for energy efficiency investments

Share of rental dwelling units (of total housing stock)

- Czech Rep.
- Denmark
- France
- Germany
- Netherlands
- Poland
- Spain
- UK

0% - 60%
Legal barriers: rent setting

- Rent setting and increase reflects **market situation** (contractual freedom) with certain ceilings in some countries (France and Germany)
- Rent control happens via court supervision initiated by the tenants
- Rent mechanisms are mainly regarded as barriers to investments (F, G, NL, UK), rarely seen as “neutral” (by CZ, G, P), sometimes as “facilitator” (E, GB) of energy efficiency investments
Legal barriers: rent increase

- **Fixed period contracts** allow rent increase with each new contract - **unlimited period**: rent increase based on index or negotiation during the lifetime of the contract
- Rent increase linked to increase in energy efficiency: France and Germany => Rental table
- Green premium mechanism “Rental table” allows rental surcharge for measurable energy efficiency
- EE investment refinanced via **rent increases** in all countries
Legal barriers: maintence & modernisation costs

- Tenants pay maintenance costs, heat & hot water
- Obligation of metering and billing heat and hot water differs (prerequisite for consumer awareness and energy saving)
- EE modernisation investment refinanced via rent increases in all countries
- This cause significant split incentive barriers, i.e. the cost transfer is lowering green value margins and prolongs the pay back periods for deep retrofits
Hidden barriers

- No metering - this barrier is most prominent in DK (legislation change by the end of 2016) and Spain
- Lack of trust - UK, France and PL, less so in Spain
- Communication issues - significant institutional barrier in NL, PL, Spain and the UK
- Cost sharing of energy efficiency retrofits - a significant barrier in DK, France and the NL
Legal barriers: taxation

- Income taxation basis: personal rental income (with other earned income sources, incl. capital gains)
- General personal income tax scale (PIT) progressive with 2-5 levels, with exceptions: NL, France, UK
- Flat corporate income tax on companies profits in all countries
- Property and transaction taxation in all countries with variation of taxation basis (property value, municipal add ons), exceptions: Denmark no PTT, Spain: local charging of urban land value increases on the sale’s occasion
Legal barriers: depreciation

- Relatively unified depreciation rules and their relation to balance-sheet value of real estate, but poor harmonisation of tax related rules

- Similar general practices
  - Maintenance expenses are considered as tax-deductible costs
  - Investments leading to improvements are recognised as increasing balance-sheet value of the property
  - Lack of precise definitions concerning distinction between those expenditures

- **Individual depreciation** rules for building **components** are uncommon in the national taxation schemes in practice
Very heterogeneous institutional framework conditions among partner countries e.g. regarding

- Investor types and legal forms
- Parameters of decision taking e.g. preferred profitability calculation method
- Motivation of investors
- Constellations for decision making
### Investor typology (market based rental housing stock)

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<th>Investor types:</th>
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<td>partner-ship</td>
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<td>cooperative housing corporation</td>
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<td>non-profit firm (legal form)</td>
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Constellations for decision making - corporate decision maker
Money related barriers for investors

Perceived Intensity

Low Green Value
High Initial Cost
Poor Financial Accessibility
Incentive Barriers
Investors’ personal barriers for investment

Perceived Intensity

- Informational deficits
- High Landlord Age

CZ  DK  FR  DE  NL  PL  ES  UK
Tenant ‘related barriers

Perceived Intensity

CZ  DK  FR  DE  NL  PL  ES  UK

- High Age
- Low Income
- Low Energy Price
Cross country analysis

- Inability of green value to be fully capitalised into property value - least noticeable in NL, followed by CZ and France
- Informational barriers are consistently cited across all of the countries, with the exception of the CZ
- With the exception of France, high initial capital outlay is cited as significant barrier across the majority of countries.
- Similarly, access to financial support further reduces the likelihood of energy efficiency take-up.
- High average population age, likelihood of landlords being older and thereby less motivated to adapt to technological change
Cross country analysis

- Demographic barriers and limited spending ability of tenants: most prominent in Spain, the UK and DK
- Low income, as a barrier to invest in green initiatives, seems to be consistent across all of the countries
- Tenants substitute away from EE
- Energy efficiency retrofits are perceived as a secondary priority by tenants in the majority of the countries, with the exception of Denmark
- Low stable energy prices – with the exception of DE and CZ
Policy recommendations

- Sound financial incentives likely to spark action, evident from national findings in France (the availability of the zero percent eco loans) and Germany (very low interest rates for green investment initiatives)
- The structuring of green financial products and the demand of energy efficiency retrofits likely to gain traction if green value is capitalised into property value and improve the negative perception of green investments by reducing uncertainty
- Policies should be directed towards mandatory whole house retrofits, affordable to all national income groups
Policy recommendations

- Effective policy initiatives likely to favourably affect demand, but take-up bound to be ineffective if national affordability issues are not considered.
- Continuous evaluation of existing programmes is essential to establish a framework for future policy considerations.
- Increased stringency of the existing EU legislation, continuously evaluating achievements of national objectives and the establishment of a national roadmap which is tailored towards demographic specific capabilities.