

## Actions to mitigate energy poverty in the private rented sector

# Tackling Split Incentives: A European Outlook

### Post-event brief

#### [Split incentives](#)

Split incentives occur when the benefits of a transaction such as an energy renovation does not reach the actor who pays for the transaction. In the context of energy efficiency in buildings, if the actor who invests in energy efficiency measures, which is typically a landlord or building owner, is not the same as the actor who reaps the subsequent financial benefits, such as a tenant, split incentives arise because landlords tend not invest in energy efficiency since they don't reap fiscal benefits, leaving their tenants, especially those experiencing energy poverty who do not have the financial or administrative means to begin renovations themselves, to suffer.

Despite long lasting barriers, there has been little attention paid to split incentives and almost no progress has been made within public policy to alleviate the problem. As such, there is an overwhelming lack of motivation to engage in renovations from a landlord's perspective, resulting in inaction amongst most of the privately rented sector (PRS).

#### [Split incentive determinants by Stefan Bouzarovski, University of Manchester](#)

Overlapping market failures such as taxation, a lack of access to capital due to high upfront costs, fear of eviction, as well as distortionary fiscal and regulatory policies are often-encountered barriers to improving energy efficiency measures.

Mitigation measures exist for the landlord which could include:

- On-bill financing where an additional premium is added on top of the rent to cover the cost of the energy efficiency investment, but is offset by the lower energy bills resulting from the retrofits
- Labelling and standards (benchmarking)
- Green loans/green rent premiums
- Rebates and incentives for property owners through the state or via private capital

#### [Perspective from ENPOR's Greek REACT Group with Dimitris Papantonis, CRES](#)

In order to understand the split incentives issue in Greece, an analysis of the evolution of renovation costs in the PRS was conducted using the Household Budget Survey, followed by the conduction of field surveys to understand the perspectives of both tenants and landlords, after which structured



interviews took place with key stakeholders. The main conclusions from this targeted study are as follows:

- There is a lack of an officially established framework to tackle split incentives
- There is a lack of awareness and knowledge about the issue
- There is a continuous reduction of renovation expenses
- Only a small percentage of landlords want tenants to contribute to the total costs of energy renovation, but the vast majority of tenants want to contribute to these costs
- Landlords want to increase building values and reduce maintenance costs
- Tenants intend to reduce energy costs and improve thermal comfort
- MEPS are the most effective measure to increase renovation rates, but both landlords and tenants agree that a balanced mix of policies should be put forth which present benefits to both parties during the entire rental duration
- General assemblies should be used to address the split incentives obstacle
- It's crucial to involve tenants and landlords in the design of required policies and measures

Within the ENPOR project, the following actions were identified in order to advance the alleviation split incentives within Greece:

- Initiate financing schemes with landlords and tenants
- Integrate tenants as a distinct category into the evaluation procedures of relevant energy efficiency policies
- Dedicate a portion of the public budget to energy poor households
- Organise public consultation procedures to create trust and foster co-creation

### [German Perspective with Florin Vondung, Wuppertal Institute](#)

Key characteristics of the German housing sector are as follows:

- 50% of households are tenants
- 9% of households are energy poor
- 68% of energy poor households are tenants

Regulatory measures for landlords which can reduce split incentives include mandatory insulation as well as CO<sub>2</sub> pricing divided between landlords and tenants, where the less environmentally friendly a building, the higher the cost for the landlord. Measures directed to protecting tenants revolve around caps on rent in the case of refurbishments, or *renovictions*.

Financial incentives for landlords include subsidies or soft loans for energy refurbishment and a tax on deductibility. Tenants, especially low-income ones, are offered housing support and coverage of heating costs.

Recommendations to address the split incentives issue in Germany include:

- Mandatory energy certificates based on building energy requirements
- Tightening MEPs for existing buildings
- Increased capacity of competent authorities for compliance monitoring
- One-stop-shops for home renovation
- Switching from the prevailing cold-rent model to a partial warm rent one, providing incentives for landlords to invest in energy efficiency refurbishment



### Discussion moderated by Ivana Rogulj, IEECP

**Question:** What is the role of the state in addressing split incentives within the PRS?

**Answer by Stefan Bouzarovski:** There are a number of things the state can do to ensure that tenants live in warm, comfortable, and affordable dwellings. MEPS can generate favourable effects as can be seen in the UK, although performance standards are still too low as many properties fall just above the minimum standard and are therefore spared from mandatory renovation despite their need for it. It's important to reevaluate what the standard addresses, as performance shouldn't just address energy efficiency issue, but should also ensure that homes are fit for comfortable living. As such, energy poverty and energy efficiency must go hand in hand in MEPS and not be separated. More broadly, regulation for on-bill financing could encourage renovations which involves landlords and tenants meeting halfway.

**Question:** Which measures should be given priority to eliminate split incentives in Germany?

**Answer by Florin Vondung:** I believe that a push for MEPS and energy regulation would be most useful, while at the same time addressing the high shortage of building materials and staff in the renovation sector from a practical perspective.

