

Practices to overcome split incentives in the EU building stock



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Split incentives

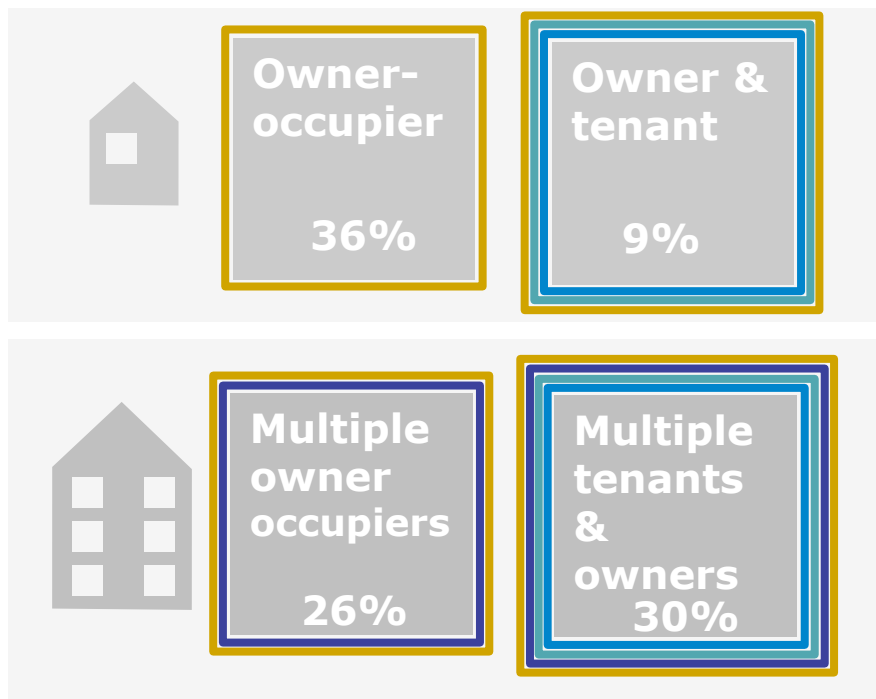
"Transactions whose benefits do not accrue to the person who pays for the transaction"

Efficiency-related

Usage-related

Multi-actor

Temporal



* Based on 70% of EU dwellings

Solutions?

Energy Efficiency Directive (Article 19)

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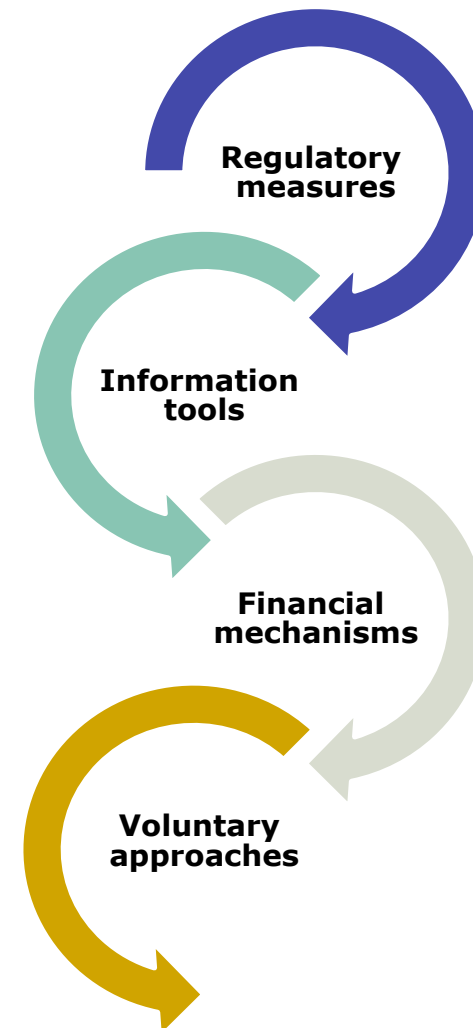
the split of incentives between the owner and the tenant of a building or among owners, » with a view to ensuring that these parties are not deterred from making efficiency- improving investments that they would otherwise have made by the fact that they will not individually obtain the full benefits » or by the absence of rules for dividing the costs and benefits between them, including national rules and measures regulating decision- making processes in multi- owner pro

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Regulatory solutions

Measure	Minimum energy performance standards for rented units
Eligible sectors	Rental sector
Relevance	Efficiency related split incentives. It supports tenants who would otherwise have no power to negotiate an energy efficiency upgrade in their rented properties – burden for landlords?
Experience	LOW. Examples: No landlord can let out a property with an energy performance label F or below by 2018 (UK); Obligation for roof insulation in rental dwellings from 2015 onwards (Flanders, Belgium)

Regulatory solutions

Measure	“EE-friendly” rental acts & condominium laws
Eligible sectors	Rental sector; Condominiums; Multi-family units;
Relevance	Multi-actor; Efficiency-related split incentives
Experience	LOW. Examples: Adaptation of French tenant's law in 2009 (France), A law to permit the use of cost savings for repayment (Emilia Romania, Italy), Adjusted rental price evaluation system in social housing (Netherlands)

Regulatory solutions

Considerations for “EE-friendly” rent acts & condominium laws

- Legal framework for redistribution of investment costs and energy cost between the landlord and tenant or between multiple owners
- Guidelines on cost- and benefit-sharing practices
- More democratic rules with respect to changes and maintenance work undertaken in the building and roles of all actors involved
- Rules for the extent to which the rent can be increased and conditions under which the tenants can reject rent rise

Information tools

Measure	Energy labels
Eligible sectors	All
Relevance	Efficiency & Usage related split incentives
Experience	HIGH. Energy Performance Certificates (EPBD)

Information tools

Do EPCs solve the problem?

- Standard occupancy usage
- Energy costs are not evident

Distinction between building- and user- related energy consumption

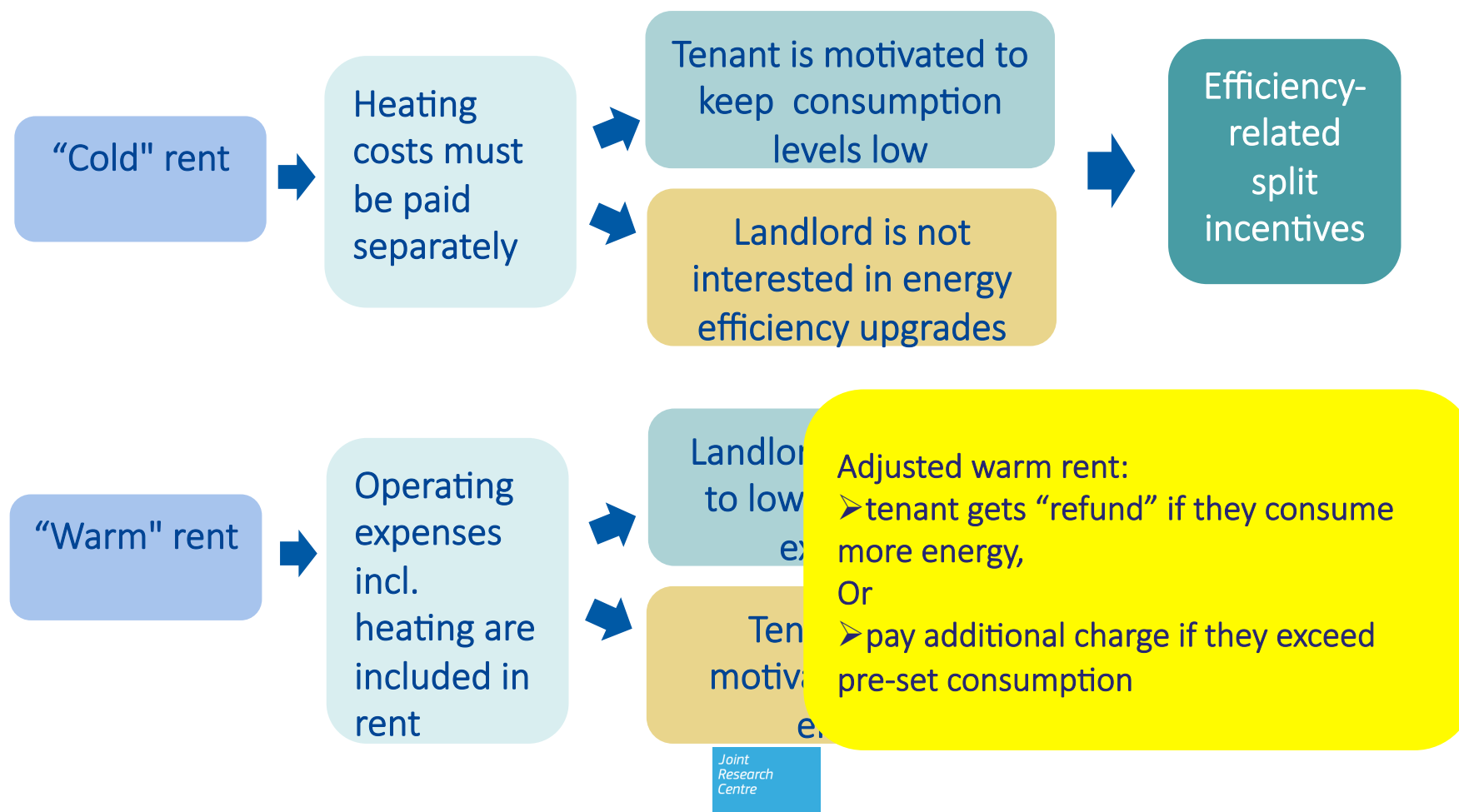
Some interesting examples:

- National Australian Built Environment Rating System (tenancy, base building, whole building)
- Tenant Star Program, US (certification of tenants operating commercial office spaces)

Information tools

Measure	“Adjusted warm rent” (Total costs with direct feedback)
Eligible sectors	Rental (residential, commercial)
Relevance	Usage related split incentives. Tenants are encouraged to adopt a more energy efficiency behaviour and landlords are incentivised to improve EE
Experience	None.

Imperfect lease structures



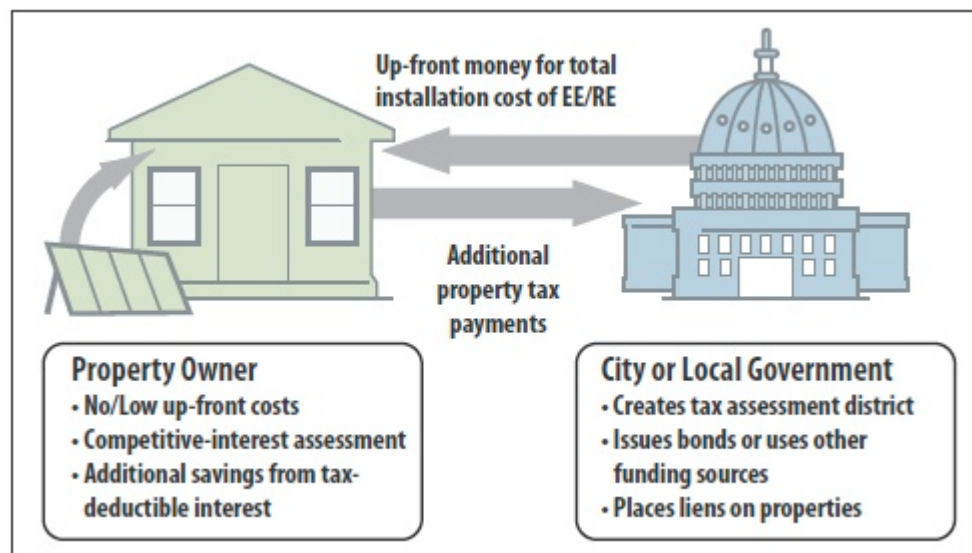
Financial mechanisms

Measure	On-bill finance
Eligible sectors	Temporal, Efficiency-related split incentives
Relevance	Efficiency-related and temporal split incentives: loan is attached to the property & debt transfers across owners/tenants, repayments are made through energy
Experience	LOW. Green Deal, UK & some examples in the US

Financial mechanisms

Measure	Property Assessment Clean Energy
Eligible sectors	All, esp. commercial & multi-tenant buildings
Relevance	Temporal, Efficiency-, Multi-actor split incentives
Experience	Mainly practiced in the US

Financial mechanisms



- Bonds issued by municipalities are used to fund EE projects
- Funds are used to loan money towards EE upgrades in residential and commercial buildings
- No upfront cost, repayment through property tax – not the property owner
- Transferability

Voluntary agreements

Measure	Green Leases
Eligible sectors	Leased commercial & public spaces
Relevance	Efficiency-, Usage-related
Experience	LOW. Experience mainly outside EU

Voluntary agreements

- Traditional forms of leases create asymmetries in the relationships between landlords and tenants
- Under a green lease, investment costs can be compensated by a small amount of energy cost savings.
- Different versions of green lease language, e.g. 20% buffer zone practiced in NYC
- In Europe, passing costs of energy savings to tenants can still be an obstacle.

Conclusions and next steps

Experience with policy and financial responses specifically targeting split incentives is limited

On-going work - open questions:

- Do we need minimum energy performance standards in the rental sector?
- Redistribution of costs and savings to align incentives?
- Performance correction factor based on empirical evidence?
- How do we make energy use and costs more transparent?
- Do we need an energy tenancy rating system to ensure active engagement of occupants?
- Can innovative financing mechanisms apply in Europe?
- Can we rely on voluntary green leases for commercial buildings?



Thank you for your attention!

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