

RentalCal Project :

The French private rented housing stock, black hole of the energy efficiency renovation *by Sarah Stocco and Julie Monot, association DELPHIS.*

A present unsatisfying situation.

For many years through different legal regulations¹, the French government has tried to support with tax credits, grants and subsidized loans the energy efficiency renovation of the national housing stock. The last framework law voted in 2015 defines the following ambitious objectives; 500.000 dwellings to renovate annually, to reduce the fuel poverty by 15%² and in 2025 all the residential buildings with an energy consumption > 330 kwh/m²/year (Classes F and G) should be renovated.

The figures available for 2016 show the actual yearly rhythm of energy efficiency renovation in housing and the ground that remains to be covered.

2016	Owner occupiers		Private Rented housing stock		Social Housing Stock	Other (s)	Total
Total housing stock	19 908 000		6 796 000		5 386 000	2 474 000	34 564 000
%	57,60%		19,66%		15,58%	7,16%	
Subsidized loans / Grants	0% Loan	A.N.A.H.	0% Loan	A.N.A.H.	Ecopret PLS		
EE renovated dwellings	20 891	34 210	1 533	4 480	54 000		115 114
% of the stock E.E. renovated annually	0,10%	0,17%	0,02%	0,07%	1,00%	Not Available	0,33%

When the private rented sector renovates annually 1 dwelling, the owner-occupiers renovates 3 dwellings and the social housing landlords 10 dwellings. According to ADEME³, the National French Agency in charge of the Energy efficiency, 46% of the national housing stock is classified in classes E,F,G but only 24% of the social housing stock is classified in E,F,G.⁴ (RPLS survey, 2016). The assumption that more than 50% of the private rented stock is classified in E, F and G is highly reliable.

The governmental objectives defined in the law for 2025 will not be reached neither in 2025 nor in 2050. The private rented housing stock remains an unresolved issue which does not appear as a governmental priority.

Structural reasons and political reasons investigated in the frame of the RentalCal project explain this present and future failure.

¹ <https://www.ecologique-solidaire.gouv.fr/loi-transition-energetique-croissance-verte>. The law voted in 2015 defines the following ambitious objectives; 500.000 renovated dwellings annually, to reduce the fuel poverty by 15%, in 2025 all the residential buildings with an energy consumption > 330 kwh/m²/year have to be renovated.

² According to <http://www.centres-bourgs.logement.gouv.fr/reduire-la-fracture-energetique-dans-le-bati-r302.html>, in 2013, 5,8 millions of households were in fuel poverty, spending more than 10% of their incomes to pay their energy bills.

³ multimedia.ademe.fr/catalogues/chiffres-cles-climat-air-energie-2014/data/catalogue.pdf p.45eco

⁴ R.P.L.S. survey, 2016.

Structural risks related to the ownership of French private rented housing stock.

From surveys led in the frame of the *RentalCal project*, we have extracted the following figures related to the French situation:

	Total rental housing stock subject to market rents	Private natural landlords		Housing cooperatives		Social housing organizations		Municipal housing companies		Institutional investors	
		total	%	total	%	total	%	total	%	total	%
France	6 796 000	6 456 200	95			67 960	1	130 326	1,9	135 925	2

What are the French specificities, specificities which are very similar to the situation met in U.K. and an intermediary situation between the Northern countries (NL, Germany, Denmark) and the Southern and Eastern Countries (Spain, Czech Republic and Poland)?

- **The private rented housing sector is owned at 95% by natural persons.**

As an heritage of past public tax policies which favour the investment of households in new private rented dwellings and according to the 2010 housing stock survey, the average natural landlord is 55 years old and owns 2.1 rented housing units. If private natural landlords are hardly older than owner-occupiers (52 years on average), they are distinguished by a significantly higher income. Their average income (€ 72,000) is almost double and their standard of living is higher.

The first main barrier to energy efficiency is the **fragmented structure of the ownership** of the stock owned by private landlords. Most of the private landlords are non-professional and own between one and two dwellings. These dwellings are usually spread into multi-family buildings, thus mixed with owner-occupiers in co-ownership lots in condominiums. Then, it is much more difficult to get the consent of a majority of owners having different levels of incomes, ages and motivations about sets of energy efficiency measures, their financing and the distribution of costs. This fragmented structure creates a general lack of competences. The natural private landlords have no preliminary idea about the technical solutions and their costs when it comes to energy renovation.

- **The withdrawal of the institutional investors.**

Looking for higher rental yields (8-9%), banks and insurances companies sold their housing assets during the 90's of XX century preferring more liquid (financial) assets. All over Europe, Real Estates Investment Trusts concentrate their investment on offices and commercial premises shortening their horizon of management (< 10 years).

This second barrier, this withdrawal, has accelerated the fragmentation of the ownership of housing stock, this stock being sold to natural persons.

- **The average stay in the private rented housing stock is about seven years.**

More than 60% of tenants living in the private rented housing sector occupy their homes for less than four years, and more than a quarter have moved for less than a year (e.g. students). The horizon of a technical and economic amortization of an energy efficiency renovation, the tenant's horizon and the natural landlord's horizon rarely coincide⁵.

⁵ On contrary, the average stay in the social housing stock lasts 11 years.

These high mobility rates make the private rented stock' tenants absolutely not interested by an improvement of the energy efficiency if it's conditioned by a rent increase. So, the sharing of the energy savings⁶, even legally possible, remains ineffective as it should presuppose professional social and technical competences to negotiate a formal agreement with the tenants and the ability to control and justify the energy performance after the renovation.

- **The social role of the private rented stock is often neglected.**

According to a recent estimation, 26% of the households living in the private rented housing stock are under the poverty line⁷. This actual social role is partly taken into account by public policies. On one side, the French governmental policies protect the tenants making their eviction long and difficult in case of unpaid rent. On the other side the private landlord is deemed to be self-independent in its financial and technical needs. As a consequence important tax incentives like the C.I.T.E.⁸ are reserved either for owner-occupiers or for tenants but are not available for private landlords.

Taking into account this difficulties to finance the renovation of large housing estates, starting on the 1st January 2017, the provision for major repairs will be legally mandatory in condominiums but the legal percentage of the provision is so low (1% of the estimated operating budget , an estimated lump sum of 100 € /year/dwelling), it makes this provision inefficient.

Best practices /solutions

The above mentioned barriers and restrictions that discourage private investors (and more specifically natural private landlords) from energy efficiency renovation could be overcome by ambitious public policies mixing simultaneously the social, technical, economic and financial dimensions.

1. To compensate the lack of capacities and competences of the natural private landlords.

Private natural landlords need an additional external support from the other stakeholders to have a global understanding of an energy efficiency renovation. Even if a condominium association exists to manage the co-ownerships lots there is still a lack of knowledge and know-how. The multiplicity of contact points (banks, building companies, energy engineers ...) discourages the natural landlord in its effort to gain relevant information. It increases the transaction costs.

In 2014, the French Government has voted a new law which creates the "Plateforme territoriale de Rénovation Energétique de l'Habitat Privé" (The territorial platform for the energy renovation of the private housing stock) at the administrative level of the metropolises or of cooperation between municipalities. These platform aims specifically at supporting private owners (owner-occupiers and/or private landlords) in their project of energy renovation. It works as unique contact point at the local level. Stakeholders involved in the energy retrofitting are networking and provide not only the information but an actual support to initiate and lead the refurbishment to its term. The platform has the following objectives:

- To mobilize all the public and private stakeholders (designers and building companies, banks distributing the eco-loan and the other sources of financing, local public authorities informing about the fiscal aspects and subsidies, property agents and managing firms...) in a unique point of contact and information,

⁶ <https://www.anil.org/votre-projet/vous-etes-propretaire/amelioration/contribution-du-locataire-au-partage-des-economies-de-charges/>

⁷ Memento A.N.A.H., 2014, p.9.

⁸ <https://www.impots.gouv.fr/portail/particulier/le-credit-dimpot-transition-energetique>, 2017.

- To stimulate the private owners' demand and facilitate their acting out,
- To involve the bank sector and mobilise the public and private financing to propose a relevant financing to the private owners and develop a financial engineering.
- To contribute to an improvement of the technical offer proposed by the professionals of the building sector and to their agreement by the Label "RGE" ("Reconnu Garant de l'Environnement") in order to increase the quality of the technical offer and ensure a realisation which actually meets the required and targeted energy performance.

2. An equal right to subsidized loans and tax incentives.

In France, few financing incentives aims at improving the affordability of renovation works to support not only individual but also collective investment in large housing estates massively built in the 60's and 70's of the XX century:

- The **Zero interest rate eco loan** ("éco-prêt à taux zéro"⁹) covering the average amount of energy efficiency work (up to 30 000€ per dwelling and for a maximum period of 15 years). It's possible for a condominium to subscribe an Eco Loan collectively¹⁰ to facilitate the renovation of co-ownerships lots. The eco-loan is supported by a state guarantee which may be given to the natural private landlord in order to compensate a weak financial position or the age of a landlord too old to guarantee the loan in its local bank.

To improve the system, the **Tax credit** for energy transition work (CITE) should be available for private natural landlords. Tax credit is more advantageous than the possibility to deduce investments costs from the property incomes. An option could be to allow private landlords managing their assets to accelerate the depreciation of the investment in energy efficiency e.g. by dividing by 2 the period of depreciation generating fiscal deficit and to report this deficit in its income tax return. This system, costly for the State, was successfully used during the 60's to renovate the historical centres.

3. A performing economic framework for condominiums; the provision for major repairs.

As above mentioned, since the 1st January 2017, the provision for major repairs is legally mandatory in France for condominiums having more than 10 dwellings. The rate and the base of the provision being inadequate, the provision is not sufficient and efficient.

Some positive inspiration can be withdrawn for the practices of the Danish rental cooperatives. In Denmark, renovations and developments in the existing stock are supported by the National Building Fund¹¹ which – in spite of its name – is a private fund that is financed by the co-operators/tenants through the rent when the mortgage loan subscribed for the purchasing has been paid off. A provision with an equal amount replaces the annuity of the loan. It means a provision for major repairs with a base not related to operating costs but to the acquisition value of the asset and with a rate corresponding to 4-5% of this value. The provision is not attached with the landlord but with the dwelling.

⁹ <https://www.ecologique-solidaire.gouv.fr/eco-pret-taux-zero-eco-ptz>

¹⁰ <http://www.ademe.fr/eco-pret-a-taux-zero-copropriete-!>

For many years, the collective dimension of the energy efficiency have been underestimated. Created in the frame of the Finance Act in 2009 (n° 2008-1425 on the 27th of December 2008), the « éco-prêt à taux zero » (éco-PTZ) may be subscribed collectively by condominiums only since 2015.

¹¹ For more information <https://bl.dk/in-english/the-financing/>

In Denmark, the Fund is revolving and solidary meaning that it generates savings for the entire sector. It ensures the credit worthiness and the financial feasibility for major future renovations, refurbishments and social development plans.

Conclusion:

The history of Energy efficiency in the existing housing stock in France but also in the E.U. countries participating to the RentalCal project shows that only a holistic approach combining simultaneously the technical, economic, financial and social dimensions can be efficient to overcome the difficulties met in the E.E. renovation of the existing private rented housing stock. It's not only a question about how an individual private landlord could implement sets of technical measures capable to reach a certain level of energy performance. The issue is more complex. Since 2014, in France, the main adjustments that have been decided are related to the collective social dimension of the energy efficiency renovation. The private natural landlord is now considered in "real life", with its strengths and weaknesses. In fact, it is the most social sensitive part of the private (rented) housing stock which has been targeted; large prefabricated multi-family buildings, mixing owner-occupiers and tenants in co-ownership lots in condominiums.

This present article speaks mainly about incentives, about carrots. But in a carrot-and-stick policy there must be also stick. In his last declarations, the French minister of the Environment propose to encourage the rehabilitation of the building stock through a **modulation (bonus-malus) of property taxes**¹² depending on the energy performance of buildings. A new turn?

¹² http://www.liberation.fr/france/2017/11/24/logement-le-gouvernement-determine-a-taxer-les-passoires-thermiques_1612406