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Financing the transition

Understanding how Australians respond to Property Linked Finance

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Industry Reference Group
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Research participants
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Acknowledgement of Country
We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connections to land, waters and communities. We pay our respects to Elders past and present.

Industry Reference Group organisations

Australian Sustainable Built Environment Council (ASBEC)

Climate Bonds Initiative

ClimateWorks Centre

Commonwealth Bank

Energy Consumers Australia

Energy Efficiency Council

Green Building Council Australia

Green Finance Institute

Henley Homes

Housing Industry Association

Master Builders Australia

Mornington Peninsula Shire

State Electricity Commission (Vic)

Wyndham City Council



Foreword

Australians should be able to live in homes that are comfortable through summer and winter and affordable to run. Improving the energy performance of our homes can reduce household energy bills, improve comfort and cut emissions. But making these improvements affordable and accessible remains a challenge.

Upfront costs are one of the biggest barriers. Many households do not have the savings or borrowing capacity to invest in home energy upgrades. Others may be reluctant to make improvements if they expect to move before receiving the full benefit. In rental properties, the challenge is even greater, as landlords generally pay for upgrades while tenants receive much of the benefit.

Government grants and rebates have an important role to play, but they cannot meet the scale of investment needed on their own. We also need ways to attract private capital and make it easier for households to invest in better homes.

Property Linked Finance offers one possible solution. It allows households to spread the cost of home energy improvements over time, with repayment periods aligned with the expected lifespan of those improvements.



John Thwaites
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This means households can pay for upgrades while they are living in the property and benefiting from them, rather than paying the full cost upfront. If the property is sold, the remaining charge can stay with the property, along with the improvements it funded.

This approach has potential across different types of housing. It could help new home buyers access homes with better energy performance and give existing homeowners another way to finance upgrades without large upfront costs. In rental properties, it could also help address some of the barriers to investment by creating arrangements that benefit both landlords and tenants.

For Property Linked Finance to succeed, we need to understand how households make decisions about home energy improvements and the role financing plays in those decisions. Understanding what people value, what influences their choices and when they would consider using PLF is essential to developing financing products that meet their needs.

This report examines how Australians across different housing situations respond to Property Linked Finance and the factors that shape their decisions. The findings are relevant to governments considering the policy and legislative settings needed to support PLF, and to industry developing financing products that meet household needs. They also remind us that good intentions are not enough. The details of how these products are designed and delivered matter.

There is still work to be done to turn this evidence into financing products and policies that work in practice. I hope this research helps guide that work and contributes to a future where more Australians can live in homes that are comfortable, affordable to run and better for the environment.

Financing the transition:

Understanding how Australians respond to Property Linked Finance

Improving the performance of Australian homes can help lower energy bills, improve comfort and reduce emissions. This requires both upgrades to existing homes and higher-performance features in new homes.

Upfront cost remains a major barrier. Grants and rebates can help, but public funding alone is unlikely to support improvements at the scale required. Many households also have limited savings or may be unable or reluctant to take on additional debt. With conventional finance, the debt remains with the borrower even though the improvement stays with the property.

Property Linked Finance (PLF) offers a different financing approach. It can be used to fund improvements to existing homes and higher-performance features in new homes. Its key feature is that repayments are linked to the property, rather than the individual.

Similar financing models, known as Property Assessed Clean Energy (PACE), have been operating in parts of the United States and Canada, while Scotland is exploring the introduction of PLF. In Australia, Environmental Upgrade Agreements (EUAs) have been used to finance improvements to commercial properties.

How does Property Linked Finance work?

No upfront payment

A finance provider covers the upfront cost of eligible improvements to existing homes and/or higher performance features in new homes.

Linked to the property

The repayments are attached to the property, rather than the individual.

Repayments spread over time

Repayments can be spread over a period aligned with the expected lifespan of the improvements.

Transferable when sold

The remaining charge can transfer to the new owner or be paid off by the seller.



This study was designed to examine:

- **How Australian owner-occupiers, new-home buyers, landlords and renters respond to PLF, including its appeal and key concerns; and**
- **How PLF compares with other ways of paying for home energy improvements, and which features make people more or less likely to choose it.**

The study used a two-stage methodology, combining six focus groups with a national survey that included a choice experiment.

A total of 42 people took part in the focus groups: two groups with owner-occupiers, two with prospective new-home buyers, one with landlords/property investors and one with renters.

The focus groups were used to explore how people understood and responded to PLF, identify key concerns and benefits, and help inform the design of the survey.

A national survey included 2,239 Australians across four groups: 840 new-home buyers, 558 owner occupiers, 233 landlords and 608 renters.

The choice experiment examined how participants chose between PLF and other financing options, and how different features of these options influenced their choices.

The results were then used to estimate how people might choose between financing options if PLF were available in the market.



Key findings and implications

1. PLF could increase investment in better-performing homes

The choice experiment results were used to estimate how people might respond if PLF were available alongside existing financing options.

In these simulations, **PLF was the most commonly chosen financing option among new-home buyers, owner-occupiers and landlords.**

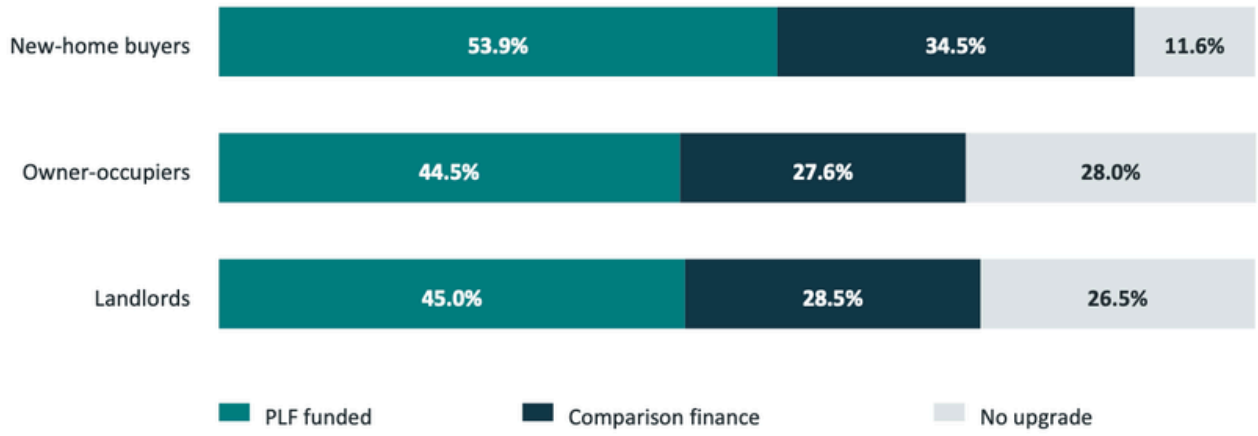


Figure 1. Predicted financing choices when PLF is available

Note: "Comparison finance option" refers to a mortgage add-on for new-home buyers, a mortgage top-up for owner-occupiers, and a bank loan for landlords. Savings were not included in the market simulations.



Key findings and implications

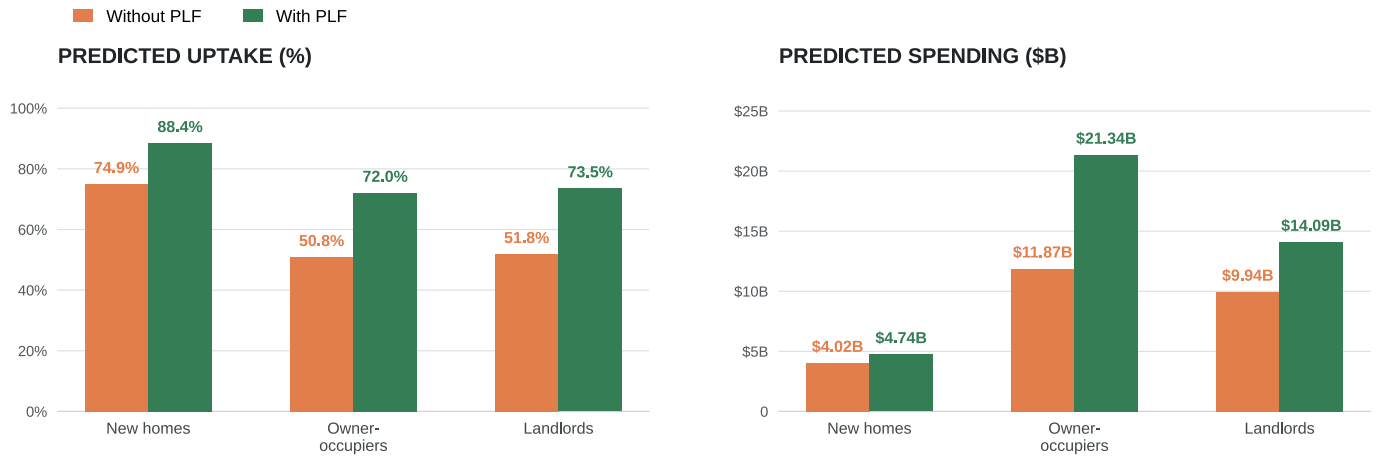


Figure 2. Predicted uptake and spending over three years, with and without PLF

Note: For owner-occupiers and landlords, the three-year estimates were based on those who said they were considering energy upgrades over the next three years. New homes were treated as active purchase opportunities. The three-year period was used to capture uptake across both new and existing homes.

The higher predicted uptake was also reflected in spending. **Across the three groups, simulated spending over three years increased from $25.83 billion under existing financing options to $40.17 billion when PLF was available. This represents an additional $14.34 billion in simulated spending.**

It is also important to note that many households are not currently considering energy upgrades. In the survey, 44% of owner-occupiers, 41% of landlords and 64% of renters said they were not considering upgrades and had no plans to do so in the foreseeable future.

The market simulations suggest that making PLF available could increase uptake of higher-performance features in new homes and energy upgrades in existing homes, rather than simply shifting households between financing options. **When PLF was available, simulated uptake increased from 74.9% to 88.4% among new-home buyers, from 50.8% to 72.0% among owner-occupiers, and from 51.8% to 73.5% among landlords.**

This suggests that PLF could do more than simply provide another way to finance improvements that would have happened anyway. Implementation will therefore need to consider both how to encourage households to invest in more energy-efficient homes and how to make the process easy for those who are already interested.

Key findings and implications

2. Interest in PLF was strongest among new-home buyers

New-home buyers showed the strongest interest in PLF. Almost six in ten (59.5%) found PLF appealing, a higher proportion than among owner-occupiers and landlords.

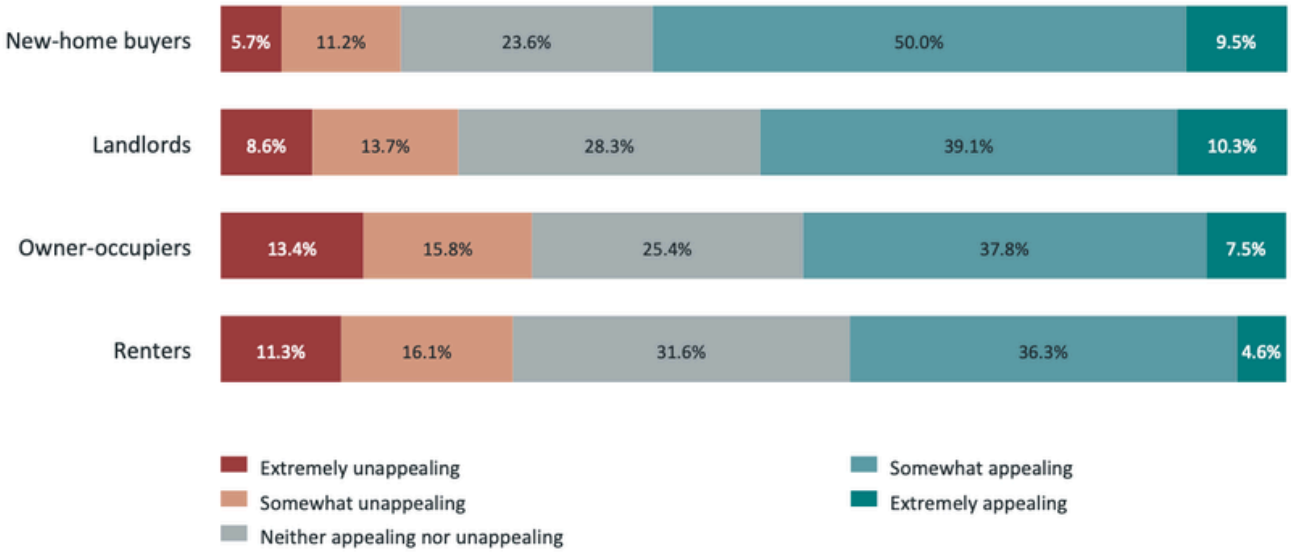


Figure 3. Overall appeal of PLF across participant groups

The choice experiment showed that PLF was preferred over some existing financing options. New-home buyers preferred PLF to adding the cost of higher-performance features to their mortgage.

Owner-occupiers preferred both PLF and savings to a mortgage top-up, while landlords preferred both PLF and savings to a bank loan. These preferences are shown in Table 1.



Key findings and implications

Table 1. Preferences for PLF compared with other financing options

Group	Preference relative to comparison finance
New-home buyers	PLF +$10,500 relative to a mortgage add-on
Owner-occupiers	PLF +$6,200 and savings +$7,500 relative to a mortgage top-up
Landlords	PLF +$8,500 and savings +$8,000 relative to a bank loan

Note: These values represent willingness to pay and indicate the strength of preference for each financing option relative to the comparison option within each group.

New-home buyers showed a strong response to PLF, and the new-home market is less fragmented than the retrofit market. New-home construction is concentrated among fewer builders and follows more established purchasing and building processes.

Together, these factors suggest that new homes could provide a pathway for establishing PLF at scale.

A more predictable pipeline of projects could help attract private capital to support both new homes and the larger retrofit market.

This pathway was not directly tested in the research and would need further investigation.

The choice experiment also showed that it was not only the type of finance that mattered, but also how PLF was designed.

New-home buyers and owner-occupiers strongly preferred a fast and simple approval process. Compared with an approval taking less than five minutes, **a process taking two weeks or more reduced willingness to pay by $7,900 for new-home buyers and $6,500 for owner-occupiers.** This highlights the importance of keeping PLF approvals simple and fast to maintain its appeal to consumers.

Shorter repayment terms were also generally preferred by new-home buyers, owner-occupiers and landlords.



Key findings and implications

3. The property-linked feature was valued, but raised resale concerns

The fact that the PLF charge stays with the property was the most commonly identified benefit among new-home buyers, owner-occupiers and landlords. Among renters, greater home comfort was selected slightly more often.

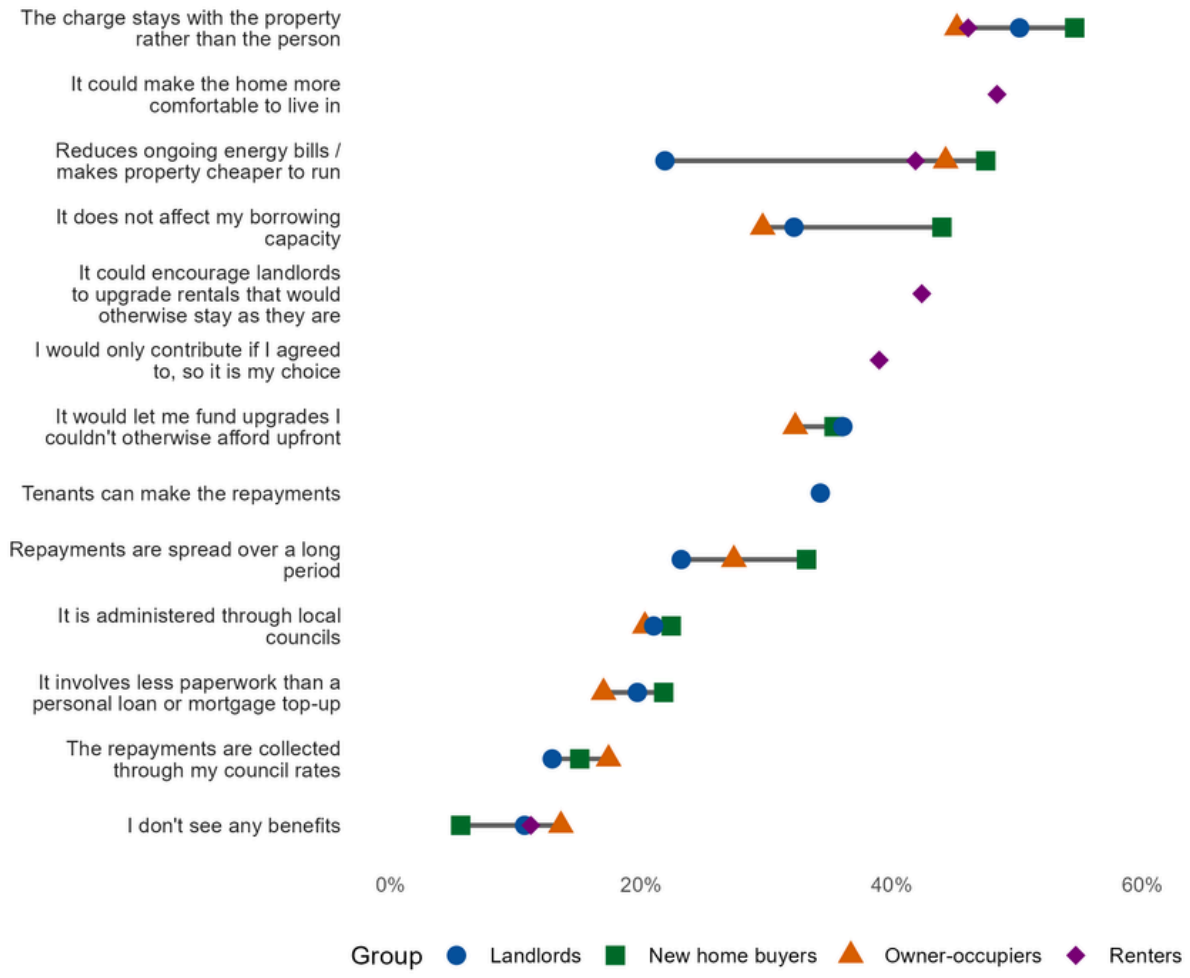


Figure 4. Benefits of PLF across segments



Key findings and implications

Concerns about resale were also common.

Almost half of new-home buyers (49.6%), owner-occupiers (44.8%) and landlords (46.4%) were concerned that having a PLF charge attached to a property could make it harder to sell.

However, this concern was not associated with lower overall appeal of PLF.

These findings suggest that people value the flexibility of PLF but still have concerns about how it might affect the sale of their property.

Clear information will be important about how any remaining charge is handled at the point of sale.



Key findings and implications

4. Landlord and renter interests may align under some conditions

Almost two-thirds of landlords (65.7%) said that tenant contributions would make it easier to meet energy-efficiency standards. The choice experiment also showed that landlords preferred arrangements where tenants contributed towards the PLF charge, with higher contributions making the option more attractive. **Compared with landlords paying the full charge, a 50% tenant contribution was valued at $7,600, while a 100% contribution was valued at $9,400, based on willingness-to-pay estimates.**

Renters were also open to contributing, with 37.3% saying they would agree to pay a PLF charge for specific upgrades they wanted. However, they preferred lower contributions, making a 50% contribution more attractive than paying the full charge. In the choice experiment, renters preferred homes with energy upgrades when the expected savings on their energy bills were greater than the amount they had to contribute. This was true even at the highest monthly contribution tested ($100), although higher contributions made the option less attractive.

These findings suggest that a 50% tenant contribution may offer a good balance between landlord and renter preferences, provided the expected energy savings justify the contribution. While landlords preferred higher tenant contributions, much of the estimated value to landlords was already achieved at 50%, and renters preferred paying less than the full charge.





Key findings and implications

5. Different groups assess PLF in different ways

The research showed that different groups responded to different aspects of the PLF offer. New-home buyers considered PLF as part of the broader home purchase, including how it affected their borrowing capacity and the overall purchase process. Owner-occupiers focused more on whether an upgrade was worth the cost and how it would be paid for.

Landlords were more focused on the financial case for the property, including costs, cash flow and whether tenants contributed. For renters, a key consideration was whether what they were asked to contribute was justified by the benefits they received, including lower energy costs and improved comfort.

These differences suggest that a one-size-fits-all approach is unlikely to work well. The way PLF is presented, the information provided and the support offered should reflect what matters most to each group.

For example, new-home buyers need clear information about how PLF fits into the broader home purchase, while renters need to understand what they would pay and what they would receive in return.

Costs, benefits and practical information should be presented in the context of the decision people are making: buying a new home, upgrading an existing home, investing in a rental or choosing where to rent.





What will be important for PLF to work in practice?

The findings point to several areas that will need attention as PLF is developed:

Encourage consideration and make the process simple

Many households are not currently considering energy upgrades. However, our modelling suggests that making PLF available could increase uptake among those already considering energy upgrades.

Implementation should therefore address both what might encourage people to consider an upgrade and how easy PLF is to use once they do.

Be clear about where PLF adds value

Savings remained an attractive way to pay for upgrades.

PLF may be particularly useful for households that want to proceed with an upgrade but cannot, or would rather not, use their savings or more of their personal borrowing capacity.

Explain PLF clearly

Consumers need to understand how PLF works and how it differs from conventional finance.

This includes what it means for the charge to be linked to the property rather than the individual.



What will be important for PLF to work in practice?

Make costs and benefits easy to compare

Consumers need clear information about repayments, total costs and expected financial benefits. Online tools or calculators could help them compare PLF with other ways of financing the same upgrade.

Any estimated energy savings should be clearly presented as estimates rather than guaranteed outcomes.

Provide clarity about resale

Consumers need to understand what happens to the remaining charge if the property is sold. The charge can transfer with the property or be paid off at the point of sale.

Buyers also need to know how much of the charge remains and what benefits the upgrade is expected to provide.

Adapt PLF for different segments

New-home buyers, owner-occupiers, landlords and renters make decisions in different contexts. For example, new-home buyers consider PLF as part of a broader home purchase. Owner-occupiers weigh the value of the upgrade against its cost.

Landlords focus on the financial case for the property, including cash flow and tenant contributions. Renters weigh what they contribute against what they receive in return.

Set clear arrangements and safeguards for rental properties

Renters need to know what they would contribute, which upgrades their contribution would help fund and what benefits they could expect. Contributions should be clearly distinguished from rent, with clear rules about what happens if a tenancy ends.

Safeguards should also be considered to address concerns about rent increases following upgrades.

