

Big banks take on greening Australia's \$10tn housing stock

[Nishtha Aggarwal](#), Financed Emissions Analyst – 30 October 2023

Modernising the nation's \$10tn housing stock promises to ease cost of living pressures, improve the health and comfort of homes, whilst helping to solve climate change. Australian banks are the main entry point to financing home energy performance upgrades. With a combined 46% mortgage market share, CBA and Westpac have powerful levers to help transform and decarbonise the sector.

CBA currently leads with a new 2030 emissions intensity reduction target of 60% by 2030 on its mortgage book, against a 2021 baseline. It complements smaller banking leaders such as Bank Australia, who is also highly exposed to the mortgage market – i.e. 90% of the banks' financed emissions – and aims to [decarbonise its home loan book by 64% by 2030](#) and achieve net zero across all financed emission by 2035. We await Westpac's FY2023 results and updated climate commitments next week to see how ambitious Australia's second largest mortgage provider will be in addressing some of society's most pressing challenges.

Banks are incentivised to disclose and reduce their financed emissions under voluntary alliances such as the Net Zero Banking Alliance. But increasingly, the systemic risk of climate change is being recognised within formal institutions. For example, in a recent court case, the Australian Treasury Department [recognised the systemic risk that climate change poses](#) to the economy and the fiscal system. As the understanding of climate-related physical and transition risks develops, financial institutions are being forced to account for climate change at every level of their financing activities.

Additionally, [as insurance premiums in the highest-risk areas](#), such as those in fire and flood prone areas, become unaffordable and home owners opt out of home insurance policies, property risk is transferred to the bank. Financing green improvements in Australian homes, therefore, helps drive transformation and mitigate physical risk on the mortgage books, especially when efforts are aligned to a 1.5 degree science-based goal of reducing greenhouse gas emissions and improving asset resiliency.

Homes account for more than [10% of national emissions](#). By electrifying gas appliances, improving thermal comfort, installing behind-the-meter solar and battery capacity, and EV charging infrastructure, we can reduce national emissions by that much. Further innovations, such as [grid-interactive buildings that are designed to use electricity in a smart and efficient way](#), can mitigate demand on the grid, where households currently account for 24% of the nation's electricity consumption, and eventually take housing from net zero to zero emissions.

We know that a 60% residential emissions reduction target will primarily be met by leveraging government and industry efforts to decarbonise the electricity grid. For example, in its step change scenario (considered to be the most likely scenario), [AEMO forecasts a 50% emissions reduction in the grid by 2030](#) against a 2021 baseline. Grid emissions reduction is further accelerated by recent policy measures that [ban gas connections in new builds](#), and recent reforms to the National Construction Code that will increase [minimum energy efficiency standards for new homes and apartments from 6 to 7-star](#) ratings under the Nationwide House Energy Rating Scheme (NatHERS). ACT leads the nation having enacted legislation that is already in effect. Victoria has followed the ACT's lead by banning gas in new builds from 2024. Other states, such as NSW, are yet to commit,

with the [NSW premier ruling out a ban](#). We urge NSW and other states to emulate the leadership of ACT and Victoria.

To incentivise households to finance energy performance upgrades, the [CEFC under its \\$1bn Household Energy Upgrades Fund](#) has been partnering with Australian banks in a co-financing arrangement that offers lower-interest loans through products like [Bank Australia's Clean Energy Home Loans](#) and CBA's [Green Loan](#) and [Green Home Loan](#). However, after reporting almost \$20bn in new lending to green homes in FY21 and FY22 combined, CBA's FY23 new lending declined to just \$7.6bn, significantly down by 22% on the average of the last two years' financing. Although one year does not make a trend, it could point to limitations in the uptake of these green home loan products, particularly absent sufficient national policy focus.

Given this insight and that current household emissions reduction targets will largely be met by existing grid decarbonisation and electrification trajectories, the strategic importance for Australia's big banks to introduce and advocate for innovative measures that unlock household financing of affordable and clean homes systemically cannot be overstated. For example, Bank Australia has introduced an inventive EcoPause green finance arrangement, which [allows customers to pause their home loans](#) for a maximum period of three months to afford eligible energy efficiency upgrades. Retail banking divisions can also nudge green consumer preferences by integrating sustainability messaging into advertising campaigns. Where existing policy or regulation is inadequate, banks must advocate in these spaces and disclose alignment with their overarching decarbonisation goals, and facilitate technology tools to inform their customers and overcome the information gap.

[New analysis by the Institute of Sustainable Futures](#) proposes regulatory nudges by the prudential regulator, APRA, that can mobilise household capital for energy performance upgrades by reducing the perceived barriers to accessing finance. The proposal outlines a pathway for APRA to issue Green Retrofit Housing Loan Prudential Guidance that would enable banks to increase existing housing loans under agreed conditions to finance energy efficiency retrofits and upgrades. Behaviourally, adjusting an existing loan is seen as much easier to access by mortgage holders, and drives consumer choices especially when integrated with smart meters and energy and climate-tech platforms, like [BOOMPowr](#), that provide data-driven insights into how electrification and energy efficiency investments can deliver substantial cost benefits, guiding capital allocations for mortgage customers.

Systems changes such as these are great news for banks, because greening homes ultimately improves the loan serviceability of their customers and mitigates the bank's credit risk. [Households that install rooftop solar and batteries are already saving](#) up to \$2,252 a year, which reduces mortgage stress –critical in context of almost [\\$270bn worth of home loans at risk](#) of defaulting or being classified as severely stressed in the next year. Australian companies like [RedEarth](#), Australia's largest battery assembler, and [Allume Energy](#), an innovative solar company for apartment blocks, are driving household modernisation and delivering cost, comfort and climate benefits to communities. A study by Domain also found that [energy efficient buildings fetch a higher price](#), with a premium of up to \$72,750 for units and \$125,000 for houses. Transparent energy efficiency ratings on homes, such as [Green Star Ratings](#), should fast become the new standard and norm as housing market and consumer preferences continue to evolve. As [CSIRO's RapidRate](#) AI-driven tool becomes mainstream, it will accelerate cultural change by democratising the ability for buyers and sellers to rate the energy efficiency of dwellings.

Motivated by the anti-inflationary effect of household electrification as cost of living rises, the increasingly visible effects of climate change and the understanding of the health impacts of gas appliances, there is a significant opportunity at this juncture in the energy transition to further incentivise homeowners to invest in energy performance upgrades.

Critical to this process is that the benefits of innovation are distributed equitably. A just transition to net zero would ensure low income households are not exposed to a “net zero poverty premium”, i.e. the cost of being poor, where financial barriers deny these households access to electrification and energy efficiency upgrades.

There is a need to design solutions for low income households, especially renters who face the split incentive dilemma whereby only the renter realises the energy bill reduction benefits of the landlord’s investment in energy efficient upgrades, disincentivising landlords from committing capital to upgrades and locking tenants into high and increasing bills and unhealthy, thermally inefficient housing stock.

[Electrifying strata properties presents its own challenges](#) where strata plans are classified as unlimited liability companies and as a result can only access unsecured lending which comes at a higher rate of interest compared to conventional home loan lending. With an estimated 6 million residents in strata titled property across Australia, and strata dwellings in NSW projected to more than double by 2046, systemic revisions that incentivise high energy performance in these properties is essential to the banks achieving their medium and long term decarbonisation targets.

It is equally critical that the social housing sector is transitioned, a key responsibility of government, which has been kicked off with the [\\$300m Federal Government commitment in the 2023-34 budget](#) (another part of the Household Energy Upgrades Fund) and will begin the process of energy performance upgrades to social housing.

Complementing action by banks, government energy transition policy should be directed at broadscale electrification of building stock including at the residential level. The US Inflation Reduction Act is a case in point of a nation-building scheme that has electrification of households through financial incentivisation at its core. [CEF and its partners have advocated for an Australian response to the IRA](#) that includes direct incentives for consumers to electrify their homes and vehicles, disincentives for fossil fuels, support for accessible and affordable finance, greater certainty through building codes and regulations, and building the skilled workforce for electrification and renewable energy installations.

Equally important is that the banking sector mobilise to this end. Australian banks are in the box seat to develop and advocate for new, inventive measures that modernise the nation’s single largest asset class, the \$10tn housing market. Driving decarbonisation and electrification of housing will deliver financial, climate and societal benefits that contribute to socioeconomic stability and equity over the long term.

Contributing editors: [Tim Buckley and Annemarie Jonson](#), CEF