

## Energy Efficient Scotland

### A consultation response from Propertymark

June 2019

#### Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents; representing over 9,000 members. ARLA Propertymark agents are professionals working at all levels of letting agency, from business owners to office employees.
2. NAEA Propertymark is the UK's leading professional body for estate agency personnel; representing more than 11,000 offices from across the UK property sector. These include residential and commercial sales and lettings, property management, business transfer, auctioneering and land.

#### Executive Summary

- Action to improve energy efficiency within the owner-occupied sector must be introduced on a discretionary basis only.
- To encourage compliance with energy efficiency standards in the owner-occupied sector, financial support must continue, and exemptions must be clarified in statute.
- Energy efficiency improvements could be undertaken as a condition of renovating a property where technically feasible.
- The proposed minimum energy efficiency standards for the private rented sector are unrealistic and will not be met.
- The £5,000 contribution cap for landlords making energy efficiency improvements is unaffordable and it must be revised.
- Propertymark seeks further clarification on proposed exemptions for the minimum energy efficiency requirements in both the owner-occupied and private rented sectors.

#### Pace of Delivery

Q1. With regards to achieving an accelerated delivery of the standards proposed, do you think mandatory action for owner occupiers would be required? Please provide a rationale for your answer

3. Propertymark believes that action from owner occupiers should only be introduced where it is technically feasible and cost effective on a discretionary basis. For this reason, only under certain

conditions must any action be introduced. Firstly, owner occupiers must be provided with financial assistance in order to make these improvements. Secondly, the timelines must be staggered in a way that makes the targets feasible. Finally, exemptions must be made where properties are unable to meet the requirements either due to financial reasons or the property itself. It must be noted that if this becomes a mandatory obligation many properties may not have the ability to improve energy efficiency. For this reason, we seek clarification on proposed exemptions to the requirements, ahead of any target date being set in legislation.

#### ***Financial assistance***

4. To ensure ease of compliance and encourage owner occupiers to make energy efficiency improvement the Scottish Government must continue financial support through the Home Energy Efficiency Programmes for Scotland (HEEPS).<sup>1</sup> Should action be introduced on a mandatory basis, interest-free loans and grants must be offered to owner-occupiers and advertised widely to make energy efficiency improvements. By providing owner-occupiers with a financial incentive, as well as supporting them to make improvements, more people will be encouraged to raise the energy performance of their homes.

#### ***Timeline***

5. If minimum standards are introduced for the owner-occupied sector, the Scottish Government must allow adequate time between the successive EPC requirements. We are concerned that if targets are too soon from the next, these will not be met, and it could result in owner occupiers being penalised unnecessarily where they have made all efforts to comply. Additionally, to allow for preparation, the sector must be informed ahead of time should minimum requirements be introduced. To further understand our position on this, please refer to our response to Q3.

#### ***Exemptions***

6. The Scottish Government must not introduce minimum energy efficiency requirements where exemptions are not in place. Before any energy efficiency targets are introduced for owner occupiers, the Scottish Government must legislate on any proposed exemptions from the minimum EPC grades. Further, we would argue that there will be many properties, largely due to the age of the stock, that will never reach the proposed EPC targets. Propertymark particularly seeks clarification on listed buildings, properties where it is not technically feasible to make improvements, and where funding cannot be obtained.

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<sup>1</sup> <https://www.energysavingtrust.org.uk/scotland/grants-loans/heels>

Q2. What trigger points, e.g. sale, renovation, etc. could be used to require owner occupiers to undertake energy efficiency improvements?

7. Propertymark does not support property sale being a trigger point to require owner occupiers to undertake energy efficiency improvements. This would stall the market and have a profoundly negative impact on people buying and selling property.
8. We believe the Scottish Government should instead focus on four things to encourage owner occupiers to undertake energy efficiency improvements. Firstly, when property is purchased for renovation. Secondly, improving and bringing empty property back into use. Thirdly, help fuel poor households. Fourthly, embark on a communications campaign to highlight the environmental impact and financial incentive schemes that are in existence to support owner occupiers make energy efficiency improvements.

**Sale**

9. Sale of property as a trigger point for energy efficiency improvements would stall the market and result in less people selling their homes. Selling a home can already be a costly process, and we do not think it is beneficial to add additional costs for the vendor. It is required by law the vendor to commission a home report, in addition to the cost to market the property. A home report consists of three components: a single survey, an energy report and a property questionnaire.<sup>2</sup> The Royal Institute of Chartered Surveyors estimate that a home report costs between £585 and £820.<sup>3</sup> In the UK, the average commission charged by an estate agent is 1.42%.<sup>4</sup>
10. Furthermore, on average people in the UK move home once every 23 years.<sup>5</sup> Thus, requiring minimum energy efficiency standards at a point of sale would have little impact on improving energy efficiency in Scotland. If less properties are put on the market for sale this will negatively impact the property sales industry with less stock available. A consequence to consider is that when demand outstrips supply, house prices rise.<sup>6</sup> This must be taken into consideration as house prices in Scotland are already on a steady increase year-on-year.<sup>7</sup> As house prices rise, more

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<sup>2</sup>[https://scotland.shelter.org.uk/get\\_advice/advice\\_topics/finding\\_a\\_place\\_to\\_live/buying\\_a\\_home/home\\_reports\\_if\\_youre\\_buying\\_a\\_home](https://scotland.shelter.org.uk/get_advice/advice_topics/finding_a_place_to_live/buying_a_home/home_reports_if_youre_buying_a_home)

<sup>3</sup> <https://www.s1homes.com/property-selling-guide/faqs/>

<sup>4</sup> <https://www.which.co.uk/money/mortgages-and-property/home-movers/selling-a-house/estate-agent-fees-and-contracts-an2n90t09n2g>

<sup>5</sup> <https://www.idealhome.co.uk/news/zoopla-average-brit-moves-home-181281>

<sup>6</sup> <https://www.theguardian.com/society/2015/dec/04/uk-house-prices-set-to-rise-further-as-demand-outstrips-supply>

<sup>7</sup> <https://www.bbc.co.uk/news/uk-scotland-scotland-business-48594589>

people are alienated from achieving homeownership. Thus, requiring those selling their properties to make energy efficiency improvements will negatively impact the housing market overall and it must not be introduced as a trigger point for minimum energy efficiency standards.

### **Renovation**

11. Should action for owner occupiers to meet energy efficiency standards be introduced, we believe that when a property is purchased for renovation this is a circumstance in which it makes sense to adhere to minimum standards. However, this must still take into consideration the technical feasibility to do this. For example, a listed building or a building in a conservation zone may not be able to obtain permission to undertake some energy efficiency requirements and should be exempted. As new builds must meet minimum standards, it is reasonable for renovations where it is technically feasible to also meet minimum standards. We believe that this could be linked to the EPC Recommendations Report contained within the Home Report if the property has been purchased for renovation. However, we are unsure how this would be policed where properties with existing owners are being renovated. This is because, EPCs are currently only required when a property is being sold or rented to a new tenant.<sup>8</sup> Consequently, owner occupiers may have lived in the property for a period longer than it has been required to obtain an EPC, the EPC may be out of date, or commissioned prior to 1 October 2012 when the Recommendations Report was introduced and in these instances it would be difficult to enforce. Therefore, it would be sensible to require minimum standards where a property has been bought with the intention to renovate.

### **Empty Properties**

12. Propertymark thinks that where a long-term empty property has been purchased to renovate, buyers should be recognised for improving the energy efficiency of the property to the best standard. Scottish Government data shows that 37,135 properties were classed as long-term empty in 2018.<sup>9</sup> This should be in addition to the financial assistance we refer to in our response to Q1, where a long-term empty home is bought, and energy efficiency improvements are made. We would suggest that in these instances, buyers should be eligible for Council Tax exemptions. This exemption could apply during the time the improvements are being made and/or a period after work has been completed. Propertymark supports incentives for owners of long-term empty properties to bring these homes back in to use.<sup>10</sup> We think that it is reasonable for energy

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<sup>8</sup> <https://www.gov.scot/publications/energy-performance-certificates-introduction/>

<sup>9</sup> <https://www2.gov.scot/Topics/Statistics/Browse/Housing-Regeneration/HSfS/L/Emptysecondhomes/EmptySecondhometables>

<sup>10</sup> <https://www.arla.co.uk/media/1047976/scotland-empty-homes.pdf>

efficiency to be addressed when long-term empty properties are brought back into use, therefore addressing the problem of vacant homes and the energy efficiency of existing stock.

### **Existing stock & fuel poverty**

13. To ensure that the Scottish Government achieves its aims to tackle fuel poverty, focus must be on improving the energy efficiency of these owner-occupied properties. The Scottish Fuel poverty Statement defined fuel poverty as a household “if, in order to maintain a satisfactory heating regime, it would be required to spend more than 10 per cent of its income on all household fuel use,” extreme fuel poverty equates to 20 per cent of income.<sup>11</sup> The Scottish Parliament has recently passed the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Bill,<sup>12</sup> which sets a target for only five per cent of Scottish households to be in fuel poverty by 2040, and only one per cent in extreme poverty. We do not think this will be achieved if the Scottish Government focusses on setting trigger points rather than addressing fuel poverty in owner occupied Scottish households. In 2017, approximately 57 per cent of fuel poor households were owner occupied (46 per cent owned outright and 10 per cent mortgaged).<sup>13</sup> Furthermore, over half of fuel poor households are older in age.<sup>14</sup> We believe that the Scottish Government must focus on providing financial aid to these households to make energy efficiency improvements before it introduces trigger points affecting all owner occupied stock. This will help in achieving the minimum energy efficiency targets and improving the levels of fuel poverty in Scotland.

### **Communications campaign**

14. If targets are to be introduced for mandatory energy efficiency standards in the owner-occupied sector the Scottish Government must engage in a full communications campaign to promote the benefits of making improvements. We believe that an effective communications campaign has the potential to make an impact on improving energy efficiency in the owner-occupied sector if it is well-informed and provides consumers with helpful material to encourage and aid them in making improvements. This could include information on the minimising the environmental impact of energy inefficient Scottish homes, work on combatting fuel poverty, and details on resources and funding available for homeowners. The Scottish Government must ensure it works with consumer

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<sup>11</sup> [https://www.eas.org.uk/en/fuel-poverty-overview\\_50439/](https://www.eas.org.uk/en/fuel-poverty-overview_50439/)

<sup>12</sup> [https://www.parliament.scot/S5\\_Bills/Fuel%20Poverty%20\(Target%20Definition%20and%20Strategy\)%20\(Scotland\)%20Bill/SPBill37BS052019.pdf](https://www.parliament.scot/S5_Bills/Fuel%20Poverty%20(Target%20Definition%20and%20Strategy)%20(Scotland)%20Bill/SPBill37BS052019.pdf)

<sup>13</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2018/12/scottish-house-condition-survey-2017-key-findings/documents/scottish-house-condition-survey-2017-key-findings/scottish-house-condition-survey-2017-key-findings/govscot%3Adocument/00543632.pdf>

<sup>14</sup> [Ibid](#)

groups, industry bodies and other non-governmental organisations to disseminate the information.

Q3. When should mandatory energy efficiency targets be introduced for the owner-occupied sector? Should they be introduced before 2030?

15. On the whole Propertymark does not agree that mandatory energy efficiency targets should be introduced to the owner-occupied sector, instead this should be discretionary with measures in place to financially support homeowners and clarified exemptions. Furthermore, our members have highlighted that placing mandatory requirements on the owner occupied sector may result in an epidemic of false EPCs, considering that mandatory action will be resource intensive to police.<sup>15</sup> On the basis of this, if mandatory targets are eventually introduced this should be in at least 2030 or later to allow owner occupiers time to prepare for the requirements. This should follow a similar path to the requirements placed on the private rented sector, beginning with a minimum EPC of an E with certain exemptions for this requirement. The time period between each minimum EPC requirement must be considered once the first energy efficiency requirements have been in place for enough time in which its effectiveness can be monitored. The Scottish Government must be mindful that whilst they may intend to introduce successive targets at an earlier date, this does not necessitate that they will be met. Targets should be achievable and realistic, particularly when considering the age and type of existing housing stock.

**Private Rented Sector**

Q7. What are your views on using change of tenancy as a trigger to require the increased standard?

16. Whilst Propertymark thinks that a change in tenancy is a suitable trigger for the increased standard, we do not believe that the standard itself is realistic in terms of landlord incentive and proposed timescales. Our April 2019 Private Rented Sector Report found that tenancies are lasting 19 months on average.<sup>16</sup> We believe that if an increased standard was required at this timescale it could be disruptive for both tenant and landlord to make energy efficiency improvements. Propertymark members report that whilst they support the Scottish Government's endeavours to improve energy efficiency of existing stock, it must be noted that continual targets set for landlords to meet will cause some to exit the sector. Should landlords leave the sector; this will

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<sup>15</sup> Propertymark survey of Scottish members on energy efficiency, June 2019

<sup>16</sup> <https://www.arla.co.uk/media/1048010/prs-report-april-2019.pdf>

take away much needed housing from 15 per cent<sup>17</sup> of the population living in privately rented property. Therefore, we believe that the focus should be achieving a minimum of Band E in April 2020 and assessing this stage of the Energy Efficient Route Map,<sup>18</sup> before consideration is made for the successive EPC targets.

Q8. What are your views on using 1 April 2025 as the date to start applying the minimum standard of C when there is a change in tenancy?

17. Propertymark believes that 1 April 2025 is too soon of a start date to apply the minimum standard of a C when there is a change of tenancy. This will not succeed in its aims for three reasons. Firstly, the excessive cost implications for landlords to reach the targets. Secondly, the limited timescales set for improvements are not workable. Finally, this target ignores that there are properties that will likely never meet a minimum EPC of a C. Conclusively, we believe that the Scottish Government must reconsider the accelerated energy efficiency targets for the private rented sector to allow for adequate timescales in which improvements can be made.

**Cost**

18. Under the proposals, landlords will be required to fund up to £5,000 of their own money in order to reach each target of minimum energy efficiency. Even after improvements have been conducted it must be noted that whilst EPCs remain valid for 10 years, this does not mean that a property that is rated an EPC C in 2019 will still be rated as this in 2029. The outcome of this, is that even homes that are classed as efficient now, may not be in ten years' time as new efficiency measures are introduced and the technologies by which efficiency is measured advances. This places an onus on all landlords in the private rented sector to make consistent energy efficiency improvements at a cost that may not be achievable. To further understand our reasoning, please refer to our response to Q9.

**Limited time**

19. When taking into consideration that 2025 is less than six years from now, and all private rented properties are expected to be EPC E by 2022 and EPC D in 2025, landlords are not being given sufficient time to improve the energy efficiency of their properties. When we surveyed Propertymark members in June 2019, 100 per cent of respondents stated that this target was

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<sup>17</sup> <https://www2.gov.scot/Resource/0054/00540622.xls>

<sup>18</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2018/05/energy-efficient-scotland-route-map/documents/00534980-pdf/00534980-pdf/govscot%3Adocument/00534980.pdf>

either unrealistic or unlikely to be met practically.<sup>19</sup> Whilst we understand the importance of improving energy efficiency, it is impractical to expect great advancements in the limited period of time as set out by the Scottish Government. Furthermore, it is worth noting that whilst Scotland is endeavouring to get ahead of the rest of the UK in meeting minimum energy efficiency targets, these have been proposed at a later date than in England and Wales and have much stricter time limits. Ultimately, this does not give landlords sufficient time to make the energy efficiency improvements from EPC E, to EPC D, up to EPC C.

### ***Demographic of tenure***

20. Propertymark believes that due to more than a third of Scottish properties being built before 1945, it is likely that some of this stock will never reach an EPC of E. According to the Scottish House Condition Survey 2017, 19 per cent of Scottish housing stock was built before 1919, and a further 12 per cent built in the inter-war years.<sup>20</sup> Furthermore, this reflects that 14 per cent of pre-1919 stock overall is an EPC band of F or G.<sup>21</sup> We also believe that consideration must be made for demographic of tenure that is specific to Scotland, such as tenements as well as properties in the Highlands and Islands. In our June 2019 Scottish members survey,<sup>22</sup> it was highlighted that out of all area's landlords will most likely be deterred from letting property in rural areas due to the financial implications to bring these properties into standard. This will directly disadvantage private tenants that live in rural areas without access to the social rented sector or home ownership and must be considered moving forward.

Q9. With regards to providing a useful tool to landlords planning and executing improvement works, what are your views on basing any cap of required works on a definition of cost-effectiveness and technical feasibility?

21. Propertymark does not agree that landlords should be required to contribute up to £5,000 of their own money in order to make energy efficiency improvements to their rented properties. This cap is far too high and is not a workable limit for many landlords. Instead, we believe that Energy Efficient Scotland must introduce a "no third-party funding" exemption, whereby if a landlord cannot get external funding, they should be exempt from the minimum energy efficiency

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<sup>19</sup> Propertymark survey of Scottish members on energy efficiency, June 2019

<sup>20</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2018/12/scottish-house-condition-survey-2017-key-findings/documents/scottish-house-condition-survey-2017-key-findings/scottish-house-condition-survey-2017-key-findings/govscot%3Adocument/00543632.pdf>

<sup>21</sup> [ibid](#)

<sup>22</sup> Propertymark survey of Scottish members on energy efficiency, June 2019

requirements. To provide better aid to landlords, Energy Company Obligation (ECO) funding must now prioritise the private rented sector and the Home Energy Loan Scheme must continue. To allow better preparation, we also seek further clarification on what exemptions will look like for landlords under the energy efficiency regulations.

### **Cost**

22. Requiring landlords to fund up to £5,000 in order to reach each EPC band within six years, meaning some could spend £15,000 to reach EPC E by 2025, is not cost effective. Furthermore, this is a significantly higher amount than is required of landlords for similar measures elsewhere in the UK. This can be deemed as anti-competitive as landlords may cross the border to purchase rental properties instead, taking investment out of Scotland as well as decreasing the number of privately rented homes.
  
23. The Scottish Government must also take into consideration that in recent years, tax changes have significantly impacted landlords. Landlords in Scotland are required to pay 4 per cent of additional Land and Buildings Transaction Tax (LBTT) on the purchase of additional properties. Further, the Finance (No. 2) Act 2015<sup>23</sup> will be fully rolled out from April 2020, meaning that landlords tax relief on residential property finance costs will be restricted to the basic rate of Income Tax (currently at 20 per cent). The proposed cap makes the presumption that landlords have significant cashflow in order to fund these works, however only a third of landlords in the UK do it as their full-time occupation.<sup>24</sup>
  
24. The average two-bed monthly rent in Scotland in 2018 was £652,<sup>25</sup> this equates to a yearly rent of approximately £7,824. This figure is only £2,824 above the proposed cap, meaning that making improvements up to this value will likely eliminate any profit for the landlord who will not benefit themselves from making energy efficiency improvements. With the introduction of the Private Housing (Tenancies) (Scotland) Act 2016,<sup>26</sup> rent can only be increased once every 12 months and if the tenant thinks the rise is unreasonable, they can refer it to a Rent Officer. The result of this is that landlords cannot increase rents to accommodate for additional costs, such as energy efficiency improvements, if it can be deemed as unreasonable by the Rent Officer where it does

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<sup>23</sup> <http://www.legislation.gov.uk/ukpga/2015/33/contents/enacted>

<sup>24</sup> <https://www.propertywire.com/news/uk/survey-reveals-landlords-britain-full-time-jobs/>

<sup>25</sup> <https://www.gov.scot/publications/private-sector-rent-statistics-2010-2018/>

<sup>26</sup> <http://www.legislation.gov.uk/asp/2016/19/part/4/chapter/2/enacted>

not reflect market rents. The result of this, is that landlords will not be able to recoup the cost of making improvements through rent, thus making it even less cost effective.

### **Funding**

25. To aid landlords in making energy efficiency improvements, the Energy Company Obligation (ECO) funding must now be directed towards the private rented sector. Billions of pounds have been given in grant aid to social landlords whereas private landlords have barely benefitted from any funding. Only one per cent of properties in the social rented sector are rated EPC F or G,<sup>27</sup> yet these properties are still being prioritised over the private rented sector. This is despite the increasing number of low-income households living in privately rented property due to the lack of available social housing. ECO funding is more difficult and costlier to implement when applied to the private rented sector, meaning that landlords can find it difficult to access. For example, one social housing provider with 1,000 units, compared to 1,000 private rented sector landlords with one unit, is a more cost-effective way for ECO companies to deliver their obligation. We would argue that in order for the Scottish Government to achieve its objectives, ECO funding to social housing should now be stopped, and all future funding from energy suppliers should be dedicated to supporting the private sector.

26. The Home Energy Scotland Loan Scheme<sup>28</sup> is a valuable source of finance for registered private landlords to increase the energy efficiency of their tenanted properties and it must continue if targets are to be achievable. Launched in May 2017, the Scheme provides both registered private sector landlords and owner occupiers with interest-free, unsecured loans of up to £38,500 per property.<sup>29</sup> This money can be spent towards measures such as wall insulation, double glazing and boilers. However, the loans are restricted to three occupied properties and cannot be used where the properties are owned by a business or property developer. The amount available to borrow depends on the improvements or installations. The most that can be borrowed for energy efficiency improvements is £15,000 (including a maximum cashback amount of £3,750). For renewable systems, such as wind turbines and solar heating systems, the maximum that can be borrowed is £17,500. Up to two renewable systems can be applied for per home and an additional

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<sup>27</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2018/12/scottish-house-condition-survey-2017-key-findings/documents/scottish-house-condition-survey-2017-key-findings/scottish-house-condition-survey-2017-key-findings/govscot%3Adocument/00543632.pdf>

<sup>28</sup> [https://www.eas.org.uk/en/home-energy-efficiency-programmes-for-scotland-heeps\\_50558/](https://www.eas.org.uk/en/home-energy-efficiency-programmes-for-scotland-heeps_50558/)

<sup>29</sup> <http://www.energysavingtrust.org.uk/scotland/grants-loans/home-energy-scotland-loan>

maximum of £6,000 can be borrowed for the provision of an energy storage system. A further £500 can be claimed for secondary improvements.<sup>30</sup> Through the provision of this Scheme, private landlords are able to obtain funding for making energy efficiency improvements.

### **Exemptions**

27. We believe that instead of capping landlord's contribution at £5,000, the Scottish Government must include a "no third party funding" exemption, whereby a property is exempt from the minimum energy efficiency requirements where they cannot obtain third-party funding for the works required to meet the standards (such as ECO or the Home Energy Scotland Loan Scheme). As iterated throughout this response, in order for the private rented sector to prepare, we seek further clarification on exemptions for properties where it is not cost-effective or technically feasible to make energy efficiency improvements. The consultation document states that draft regulations would be published in May 2019, but we are not yet aware of this coming to fruition.<sup>31</sup>

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<sup>30</sup> <http://www.energysavingtrust.org.uk/scotland/grants-loans/home-energy-scotland-loan-overview>

<sup>31</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/consultation-paper/2019/03/energy-efficient-scotland-consultation/documents/energy-efficient-scotland-consultation/energy-efficient-scotland-consultation/govscot%3Adocument/energy-efficient-scotland-consultation.pdf>