

Improving home energy performance through lenders - consultation on setting requirements for lenders to help householders improve the energy performance of their homes

Response from Propertymark

February 2021

Background

1. ARLA Propertymark is the UK's foremost professional and regulatory body for letting agents, representing over 9,500 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.

Questions

Chapter 1: Disclosure of portfolio energy performance data

Question 1. Do you agree with the principle of all lenders publicly disclosing information on the energy performance of their portfolios?

3. Yes, we agree with the principle of all lenders publicly disclosing information on the energy performance of their portfolios.

Question 2. Do you agree with the proposed EPC information lenders will be required to collect? If you disagree, please explain why.

4. Yes, we agree that lenders should be required to collect the EPC data on their existing mortgage stock including the Energy Performance of Buildings Data: England and Wales (Open Data) or the EPC Register, from which individual EPCs can be retrieved.

Question 3. Do you agree with the proposed disclosure information? If you think there is other information that would be useful to disclose that is not included in this proposal, or you do not agree with the proposal, please explain why.

5. Yes, we agree with the proposed disclosure information for lenders and this should include the current percentage of properties in each EPC Band A to G, the current average EER and EIR (CO₂) score of the portfolio, the percentage of the portfolio with an existing EPC, the gross value of mortgage lending by EPC band over the reporting period, and the gross value of 'green' mortgage lending for energy performance improvement works by EPC band over the reporting period.

Question 4. Do you agree that the option to provide additional commentary alongside disclosures would be useful? If not, please explain why, including any alternative proposals.

6. Yes, we agree that the option for lenders to provide additional commentary such as property age, type or fabric construction, alongside disclosures would be useful.

Question 5. Do you agree with the proposal that all lenders, irrespective of market share, be required to publish energy performance data on their websites as well as on GOV.UK aligned to annual reporting deadlines? If not, please explain why.

7. Yes, we agree that all lenders, irrespective of market share, should be required to publish energy performance data on their websites as well as on GOV.UK, so it is aligned with existing financial reporting obligations.

Question 6. Do you agree with the proposal that government use the disclosure information to publish 'league tables' of lenders? If not, please explain why.

8. Yes, we agree that there should be public comparisons between lenders and that this can be done by publishing a 'league table' ranking the average EPC Band, average EER score, average EIR score, the percentage of the portfolio covered by an EPC, and the value of lending for energy performance improvements.

Buy-to-Let mortgages

Question 7. Do you agree that properties financed by a Buy-to-Let mortgage should be included in the scope of the policies proposed in this consultation? If not, please explain why, including any alternative suggestions.

9. Yes, we agree that properties financed by a Buy-to-Let mortgage should be included in the scope of the policies proposed in this consultation. This is important because in 2017/18, there were 4.5 million private rented households in England and the English National Landlord Survey indicates that 61% of these properties are owned with a mortgage.¹ However, we would make two observations. Firstly, if the UK Government want to improve energy efficiency and reduce carbon emissions then they must introduce policies that are consistent across housing tenures because over the lifetime of a property it could be lived in by renters, owner occupiers or have no mortgage at all. Secondly, if the UK Government want to drive additional action in the private rented sector, as set out in the consultation document, including in properties not captured by the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015, then it must set a long-term goal with incremental targets for a property rather than seeking to meet one-off targets and set spending limits through separate pieces of legislation. To this end, for the private rented sector in England and Wales, it is only a year since rules came into force to ensure all private rented tenancies meet EPC Band E, but the UK Government has now proposed going to Band C within five

1

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/775002/EPLS_main_report.pdf

years.² However, the criteria for energy efficiency of private rented accommodation are linked to occupation, such as when let on a qualifying tenancy type rather than property ownership. Therefore, the UK Government must be careful not to stifle future investment in the buy-to-let market and ensure there is a joined-up approach to both lending affordability and energy performance through use and consumption.

Trajectory to mandatory disclosure

Question 8. Do you agree with the proposed trajectory to mandatory disclosure? If not, please outline the reasons why.

10. If the UK Government are to implement this policy, then yes, we agree that a phased approach is the best way to support lenders and encourage them to disclose energy performance information on a voluntary basis prior to the introduction of mandatory disclosure rules.

Monitoring compliance

Question 9. Do you agree with the proposal that disclosure information be subject to spot check audits proportional to the size of the lending portfolio? If not, please explain why, including any alternative proposals.

11. Yes, we agree that disclosure information should be subject to spot check audits proportional to the size of the lending portfolio.

Chapter 2: Improving the energy performance of lenders' portfolios: target-based approach

Question 10. If applicable, is your organisation likely to sign up to a system of voluntary targets? If not, please outline the reasons why.

12. It is not applicable for us to answer this question.

Question 11. Do you agree with our estimate that up to 80% of mortgaged stock would fall within scope during the target period? Please provide evidence where available.

13. Yes, we agree that data is available to ensure that lenders can audit mortgaged stock to determine that 80% would fall within scope during the target period.

Question 12. Do you agree the voluntary target should be set at a portfolio average of EPC band C by 2030? If not, please outline the reasons why.

14. Propertymark supports moves to improve the energy efficiency of all property but does not agree the UK Government's target of setting a portfolio average of EPC band C by 2030. Whilst we recognise that by achieving more energy efficient properties, homeowners and tenants will benefit from reduced energy bills and warmer homes as well as the environment, our members have two main concerns. Firstly, the target is unrealistic and could deter people

² <https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes>

from moving home. Secondly, the target is too simplistic, and the UK Government should be working to the principle that every home should become as energy efficient as practically possible within the limits of cost, consent and technology.

15. The UK Government's target is unrealistic and could deter people from moving home for two reasons. Firstly, potential sellers are more likely to remain in their homes to avoid the costs involved in bringing property up to standard. To this end, whilst energy efficiency is growing in popularity and importance, the main determinants for moving home are, size, location and type of dwelling. Secondly, the proposals could make older property harder to sell. For instance, Wales has the oldest private rented dwelling stock in the UK with 43% built before 1919³ and according to the 2018 English Housing Survey, only 29% of dwellings in the owner-occupied sector in England are rated A to C.⁴
16. The UK Government's target is too simplistic, and the UK Government should be working to the principle that every home should become as energy efficient as practically possible within the limits of cost, consent and technology. To this end, we know that purpose-built flats are the most energy efficient of all dwelling types and converted flats the least. In 2018, 65% of purpose-built flats were in the highest EER bands of A to C and excluding flats, mid-terraced dwellings tend to be the most energy efficient, with 34% rated A to C. Consequently, we are concerned that a one size fits all approach that does not account for the diversity in housing stock across England and Wales could disadvantage some lenders with portfolios of older property. In turn, this could reduce the desirability, value and saleability of a large portion of the property market.

Question 13. Do you think a revised EPC should be required to demonstrate improvements in energy performance? If not, what alternatives should be explored?

17. Yes, we do think a revised EPC should be required to demonstrate improvements in energy performance. EPCs are widely recognised and this will help improve and maintain the accuracy of existing data as well as identify future improvements.

Improving Home Energy Performance through Lenders

Question 14. Do you agree that an assumed maximum spend for improvement works should be set at £10,000? If you do not agree, please specify what you believe would be the most appropriate level to set the threshold, providing evidence to support your views where possible.

18. We do not agree that an assumed maximum spend for improvement works should be set at £10,000. The maximum spend must be much lower to provide a greater incentive to consumers to make improvements, otherwise they may be deterred from moving home. We have four concerns. Firstly, the assumed maximum spend for improvements is too high. Secondly, the proposals are not aligned with the cost cap for the private rented sector. Thirdly, current UK Government funding schemes to support homeowners and landlords to make energy efficiency improvements are time-limited and only apply to England. Fourthly, the cost of moving home is already expensive, and we are concerned that many would-be home buyers

³ <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukprivaterentedsector/2018>

⁴ <https://www.gov.uk/government/statistics/english-housing-survey-2018-energy-report>

will not be able to afford the improvement works on top of the existing costs associated with home moving and could be deterred from moving altogether.

19. The assumed maximum spend for improvements is too high based on recent consumer spending trends. For instance, according to the English Housing Survey, the most common type of energy improvements work undertaken by households in the last five years was maintenance or replacement of parts of the central heating system. The three most common improvements were servicing the central heating boiler (46%), replacing the central heating boiler (34%) and replacing the central heating thermostat (18%).⁵ Therefore with a £10,000 cost cap, the UK Government are asking many consumers to spend over and above what they are currently spending on energy efficiency improvements.
20. We are concerned that the UK Government's proposals for improving home energy performance through lenders are not aligned with the UK Government's proposals for improving the energy performance of privately rented homes. Under the proposals for the private rented sector the maximum investment amount is set to increase for landlords, resulting in an average per-property spend of £4,700 under a £10,000 cap.⁶ Consequently, without aligning these proposals for lending criteria with the rules for minimum energy efficiency standards in the private rented sector, some landlords could be spending up to £20,000 to improve their property.
21. Under the Green Homes Grant scheme, the UK Government fund up to two-thirds of the cost of home improvements up to £5,000.⁷ However, homeowners and landlords must redeem the voucher and ensure improvements are completed by 31 March 2022. Furthermore, the scheme is only applicable in England and there is no equivalent scheme in Wales. It is good news that the scheme has been extended 12 months.⁸ However, despite the extension, we are aware of delays in vouchers for the scheme being issued which has meant homeowners and landlords putting their installations on hold, and reducing the time left to complete the work. The UK Government must continue to invest in the Green Homes Grant scheme, and/or introduce additional schemes, over the next few years to increase awareness, meet demand and ensure installers can carry out improvement work.
22. The estimated average cost of moving in the UK is around £8,885, which includes costs of valuing and surveys, legal fees, building insurance, estate agent fees, mortgage costs and broker fees. Other costs can include removal company or temporary storage.⁹ Therefore on top of property taxes, many home buyers require a mix of grants, low-cost loans, and savings to help make energy efficiency improvements. As a result, any additional costs through lending are likely to have a negative impact on consumers. To this end, without a lower maximum spend limit and additional funding support we are concerned that many would-be

5

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898344/Energy_Report.pdf

⁶ <https://www.gov.uk/government/consultations/improving-the-energy-performance-of-privately-rented-homes>

⁷ <https://www.gov.uk/guidance/apply-for-the-green-homes-grant-scheme>

⁸ <https://www.gov.uk/government/news/green-homes-grant-extended-for-extra-year>

⁹ <https://www.barclays.co.uk/mortgages/guides/real-cost-of-moving/>

home buyers will not be able to afford the improvement works on top of the existing costs associated with home moving and could be deterred from moving altogether.

Question 15. Should spend from April 2021 onwards count towards the £10,000 assumed maximum spend on improvements? If you believe an alternative date would be more effective, please set out the reasons why.

23. If the £10,000 assumed maximum spend on improvements is implemented, then we do think that spend from April 2021 should count. It is important that the UK Government do not penalise people who have recently made proactive improvements to their property.

Question 16. What actions could the government take to incentivise the lenders to sign up to a voluntary target? Please provide evidence to support your answer where possible.

24. We think there are two actions the UK Government could take to incentivise lenders to sign up to a voluntary target. Firstly, transparency. Such as publishing information on those lenders who have signed up and promote the league tables. Secondly, communication. For instance, because buying property can be a key trigger point for making major home improvements, lenders can play an important role in influencing consumer choices and should be set targets for communicating with home buyers.

Question 17. Do you agree government should consider the option of setting a mandatory improvement target, should insufficient progress be made under a voluntary scheme?

25. If the UK Government implement these proposals then we agree that setting a mandatory improvement target should insufficient progress be made under a voluntary scheme, will improve the desired policy outcome, and maintain a level playing field across lenders. However, the UK Government should consider three factors. Firstly, the review of the voluntary target should be carried out longer than only after one year. Once mortgage products have been agreed, it will take time for the supply chain to carry out any energy efficiency improvements. Furthermore, due to the Coronavirus pandemic, we believe it could take at least 12 months for the market as a whole to adjust once COVID restrictions are lifted. Secondly, we are concerned that without a lower cost cap and additional funding support the targets will not be met regardless of whether it is voluntary or mandatory. Thirdly, homeowners would require sufficient lead-in time to prepare for the regulations, prioritise investments and home improvements, save money to fund the required energy efficiency improvements, and consider if, and how, the standards would impact on their decision to buy or sell a property.

Question 18. Do you agree with our proposed approach to the penalty regime? If not, please explain why, including any alternative proposals.

26. PropertyMark, agrees that having a penalty regime can reinforce incentives for lenders to adhere to the rules. However, we would make three observations. Firstly, it is unclear from the Impact Assessment whether the penalty regime is linked to carbon saving or cost saving. Secondly, the penalty regime assumes detailed knowledge on behalf of lenders in relation to

carbon emissions. Thirdly, the proposed approach for the penalty regime seems overly complex.¹⁰

Question 19. What public tools could be used to calculate foregone emissions savings so that lenders can assess their own liabilities?

27. It is not applicable for us to answer this question.

Question 20. Do you agree that the money collected from penalties be used to fund energy performance improvements? Please provide evidence to support your answer.

28. Yes, we agree that the money collected from penalties should be used to fund energy performance improvements, with a focus on the poorest performing properties and fuel poor households first, or to fund the innovation and implementation of green finance products.

Question 21. Do you think that only those lenders that are on trajectory to meet their target should benefit from these funds?

29. No, we do not think that only those lenders that are on trajectory to meet their target should benefit from penalties. If the UK Government is going to improve the energy efficiency of housing stock across England and Wales, then the funds need to be accessible to any property owner who cannot afford to make improvements.

Small lenders

Question 22. Do you agree that lenders below a certain value or size threshold should benefit from certain derogations from a mandatory target? If so, what form should these take and how can we avoid creating any policy loopholes?

30. It is not applicable for us to answer this question.

Alternative option: a mandatory target from the start of the policy

Question 23: Do you agree with the proposed alternative option of a mandatory target of a portfolio average EPC Band C by 2030 from the start of the policy? If you disagree, please explain why, highlighting any alternative target you think would be appropriate.

31. No, we do not agree with the proposed alternative option of a mandatory target of a portfolio average EPC Band C by 2030 from the start of the policy. As outlined previously in our response we are concerned that forcing mandatory targets on lenders without sustained financial support for homebuyers and sellers is too ambitious, will not be achieved and could deter people from moving home.

¹⁰ <https://www.gov.uk/government/consultations/improving-home-energy-performance-through-lenders>

Question 24. These policy proposals rely on the information provided by the EPC. Are there any impacts of data collection using EPCs that we have not considered? If so, how could these be managed effectively by lenders?

32. Propertymark has long called for further digitisation of the property sector to improve the home moving process. To this end, we believe that the UK Government should be making greater use of technology to share and reference information about properties, including energy performance and EPCs. There are three things that the UK Government should consider. Firstly, we believe that wide market adoption of Unique Property and Street Reference Numbers would be a significant step forward with numerous benefits to the property market, society and the economy. Secondly, there should be a digital log-book for every property that is brought and sold. Thirdly, the UK Government should link Unique Property and Street Reference Numbers and the digital log-book with the introduction of Green Building Passports to enhance data sharing and help build a road-map for improving the energy performance of buildings across the country.
33. Better access to information can help improve standards and processes when buying and selling property. The Unique Property and Street Reference Number is a unique identifier for every addressable location in the UK. They act like a National Insurance Number, or licence plate, for properties, and are allocated by local authorities and by Ordnance Survey from a range provided by GeoPlace. Using the Unique Property and Street Reference Number to understand land and property, existing housing, and potential housing supply allows partners and agencies to make more sense of assets. To this end, incorporating all companies involved in property using the same reference number, including EPC providers, Unique Property and Street Reference Numbers can become the standard way of referencing and sharing information about properties. To achieve this, data from organisations involved in the property market needs to be properly recorded and attached to the relevant Unique Property and Street Reference Numbers. The EPC register has recently moved to GOV.UK website which provides an opportunity to build up information around the Unique Property and Street Reference Numbers and include all parties involved in the home buying and selling process.
34. There should be a digital log-book for every property that is bought and sold. The log-book should have sections for the different stages of the transaction, allowing for documentation to be uploaded from the various parties with dates for deadlines and timescales. The log-book would also hold information on the property. This would allow for all parties involved to log-in and find out information and ensure that they are more engaged and better informed. Property chains can become long and complicated, and a problem at any point, such as simple as missing piece of paperwork can cause delays for all involved. An online filing system would speed up the process and allow for documents to be loaded onto a central point and importantly be downloaded quickly and easily to produce documents on request. Furthermore, the conveyancing process requires information from various third parties before contracts can be exchanged. The log-book would help to avoid delays and allow regular contact with the agent and buyer to help deal with any issues that arise.
35. By linking the Unique Property and Street Reference Numbers and the digital log-book with the introduction of Green Building Passports, this could help to transfer and enhance EPC data. The Passport and information would be transferable across building owners and help maintain sight of a long-term decarbonisation goal for the building. The process would not replace EPCs

but enhance them, creating an opportunity to capture EPC data digitally and add to it with other data over time. A digital passport would also provide detailed guidance on the actions required, and already undertaken, to improve the property, based on building fabric and operational data helping building owners and occupiers make decisions to improve the buildings.

Question 25. What are your views on the likely impacts of requiring an increase in the EPC coverage of portfolios on: a) lenders; b) consumers; and c) EPC assessors?

Lenders

36. We think there will be three impacts on lenders. Firstly, the requirements on targets and reporting will add additional administration and costs. Secondly, lenders will need increased knowledge and understanding of EPC ratings and recommendations. Furthermore, lenders may also wish to carry out their own independent assessment of a property. Thirdly, lenders will need to change their processes to ensure that they discuss with consumers and borrowers the impacts of an EPC rating and the financial implications.

Consumers

37. The main impact for consumer is the need for greater awareness. Consumers will need more specialist support in obtaining and understanding any new requirements and documents as well as how this will impact them personally. To this end, in December 2018, from a snap survey of 125 estate agents they said that only 3% of potential buyers 'always' show an interest in the EPC rating of a property, with 62% 'sometimes' showing an interest and 35% 'never' showing an interest. Furthermore, when asked how often the EPC influences the offer buyers make on a property only 1% of estate agents said 'always', 26% said 'sometimes' and 71% said 'never'. Additionally, from a survey of over 300 PropertyMark members in December 2020, 86.4% of agents said that properties that are more energy efficient are not sold for higher value. Consequently, there is a need for a shift in consumer behaviour that coincides with the property value, mortgage affordability and the potential for default rather than looking at energy efficiency in isolation as a factor of material influence.

EPC assessors

38. The impact on EPC assessors is likely to be an increase in demand for skilled installers and assessors. To this end, the UK Government should ensure that this forms part of their wider skills, training and apprenticeship agenda moving forward.

Question 26. How can we ensure the effective transition of data between lenders when consumers change mortgage providers?

39. In the short term, we believe that the UK Government can ensure the effective transition of data between lenders when consumers change mortgage providers by ensuring a valid EPC is in place as part of the mortgage valuation process. In the long term, as outlined in our response to Question 24, the UK Government should make greater use of technology to share and reference information about properties, including energy performance and EPCs.

Question 27. Are there any additional ways in which government or lenders could raise consumer awareness of their EPC data and how to improve the energy performance of their homes?

40. In order to encourage greater awareness and understanding of EPC data and how to improve the energy performance of homes, the UK Government should regulate property agents and take forward the recommendations of the Regulation of Property Agents (RoPA) Working Group.¹¹ This in turn would ensure landlords in England other than those self-managing as well as homeowners and prospective buyers in England and Wales, use a regulated estate agent who holds a qualification and adheres to a Code of Practice. Full mandatory government regulation of sales and letting agents is the quickest and most effective method to eliminate unprofessional, unqualified, and unethical agents from the property sector. Piecemeal legislation is unmanageable and unenforceable and there is currently no statutory regulation to ensure letting agents in England and sales agents working across the UK are suitably qualified. Additionally, agents who are not members of a professional body do not have to meet minimum competency standards and are less likely to be aware of changing legislative and compliance requirements such as those linked to energy performance and efficiency.

Question 28. Are there any ways in which lenders could help to encourage the installation of smart meters in the homes of those to whom they lend?

41. Propertymark and our members recognise that smart meters can send up-to-date information in order to provide more accurate data on usage with the aim of reducing spending. However, we believe that lenders and property agents can only play a limited role in supporting the installation of smart meters. We would make three observations. Firstly, homeowners are responsible for arranging their energy provider and paying energy bills. Energy providers liaise directly with the end user and thus are best placed to influence people to install smart meters. Secondly, Propertymark members have made us aware of issues with smart-meter installation and functionality. For instance, the networks go down regularly and with a change to energy provider the functionality disappears. To this end, for people to have more confidence and improve take up the technology needs to improve and be consistent across all providers. Thirdly, the UK Government must focus on ensuring that energy providers contact homeowners, directly and encourage them to install a smart meter rather than placing an onus on lenders and property agents who, in the vast majority of cases, are not directly involved in arranging utilities at the property.

Improving Home Energy Performance through Lenders

Question 29. Should works carried out to comply with these policies require that mortgagors choose a TrustMark approved provider or installer?

42. Propertymark recognises the merits of incorporating Trustmark into energy performance improvement works. For instance, there is a vetting process and businesses must meet certain standards. However, we have two concerns about the UK Government providing exclusivity to Trustmark. Firstly, the scope and reach of registered businesses because our members report that there are not enough Trustmark suppliers and choice. For instance, as of 26 October 2020, Trustmark had only registered 1,108 businesses able to install the primary

¹¹ <https://www.gov.uk/government/publications/regulation-of-property-agents-working-group-report>

and/or secondary measures supported by the Green Homes Grant scheme. Secondly, it is important that homeowners can continue to use good quality local suppliers and they are not overlooked as a means to deliver energy efficiency improvements. Under the Green Homes Grant scheme, we know that many of our members who are letting, and estate agents want to use local installers and have encouraged their suppliers to become Trustmark approved so they can do the work. However, we are told that the compliance steps for Trustmark approval are costly and burdensome for many small businesses, which is discouraging them from applying.

Question 30. We understand that there are mortgagors who will not be able to self-fund or borrow. Do you have any evidence that indicates what proportion of the mortgage market these mortgagors represent? Please provide as much detail as you can.

43. We do not have any data to answer this question.

Question 31. Do you agree that those mortgagors unable to self-fund or borrow to make energy performance improvements should be exempt from inclusion in a lender's improvement target?

44. Yes, we agree that those mortgagors unable to self-fund or borrow to make energy performance improvements should be exempt from inclusion in a lender's improvement target.

Question 32. How do you think exemptions on the basis of affordability should be assessed?

45. There are two factors that we think the UK Government must consider when assessing exemptions on the basis of affordability. Firstly, the cost of making improvements to a home is likely to be the main prohibiting factor in increasing energy efficiency for low-income households. Secondly, instability in income among low-income homeowners also makes investment decisions difficult.

Question 33. What other methods of protecting fuel poor mortgagors should the government consider in designing its proposals? Please provide evidence to support your answer where possible.

46. In order to protect fuel poor mortgagors, the UK Government should consider grant aid and link this to the potential cost-effectiveness of the proposed work to ensure any improvements, do not increase energy bills for consumers. For instance, whilst electric boilers cost less to install and maintain than gas boilers the unit cost of electricity is much higher than gas.

Question 34. Do you support the idea of lenders recommending referrals to energy suppliers under a future ECO scheme?

47. Yes, we support the idea of lenders recommending referrals to energy suppliers under a future ECO scheme.

Question 35. Are there any impacts on the protected groups that we have not considered?

48. Whilst not directly linked to the impact on equality we believe that the UK Government must consider the effect of these proposals on homeowners in rural areas, such as off-grid gas

access and the cost of transporting materials. The UK Government must also consider the impact on older people, homeowners who live in older properties and residents of listed buildings or in conservation areas.

Question 36. We wish to include leasehold properties in the scope of these proposals in order that their owners or tenants may benefit from energy improvement works. How do you think the government should act to ensure that leasehold properties with a mortgage are captured by these policies, while acknowledging the challenges that need to be overcome?

49. In order for leaseholders to benefit from energy improvements works then the UK Government must include freeholders within their wider proposals for improving energy performance. We would make three observations. Firstly, as the ultimate owners of leasehold buildings, freeholders should contribute to all energy efficiency improvements associated with the property. This would help to retain the building's value, reduce costs for leaseholders and ensure that standards at the property are maintained. For instance, the UK Government's Impact Assessment says that, "Owner-occupied and privately rented homes are generally less energy efficient than social housing, and the majority needs to be improved to help deliver the UK's emission reduction targets."¹² However, social housing has received vastly more funding from the UK Government than other housing tenures and unlike social housing, which is designed to a specific specification, the residential sector compromises a range of property without that particular specification. Furthermore, many local authorities regularly replace appliances such as boilers in their properties every few years. This helps to maintain the upkeep of their housing stock and retain a higher standard of energy performance for residents. The same principle should apply to freeholders. Secondly, both leasehold flats and houses can be a highly successful cash cow for developers. They allow them to sell properties at attractive prices but continue to generate revenue through ongoing ground rents and charge residents for changes to properties and ongoing service charges. However, for example, in flats, freeholders take no responsibility for the upkeep and improvement of individual units that when successfully maintained ultimately help to retain the value of the building as a whole. In addition, many leaseholders will take an advance on an existing mortgage to pay for lease extensions, which means additional costs. Thirdly, to coincide with the introduction of an exemptions framework, which defers responsibility to the freeholder where it cannot be done by the leaseholder, the UK Government should introduce standardised lease contracts to further protect consumers. Standardised leases with set terms that balance the interests of leaseholders and freeholders would ensure that leaseholders can afford additional costs for energy performance improvements and freeholders also contribute to the work.

Question 37. How can we ensure that we protect groups such as first-time buyers from being disproportionately penalised?

50. In order to protect first-time buyers from being disproportionately penalised by these proposals the UK Government should do two things. Firstly, exempt first-time buyers. Secondly, incentivise first-time buyers to make appropriate energy performance improvements at certain trigger points such as when appliances break down, they carry out renovation work or when they come to sell the property. Furthermore, the UK Government

¹² <https://www.gov.uk/government/consultations/improving-home-energy-performance-through-lenders>

must recognise that property taxes are a barrier to people buying and selling. Those able to purchase housing still require large sums of money to pay for deposits and solicitors' fees. However, buyers cannot borrow to cover any costs of moving to a new house so the money must come out of people's equity. Consequently, additional borrowing costs are unlikely to support more first-time buyers to step onto the housing ladder and as a result they should be exempt from these proposals and incentivised to make improvements once they have purchased a property.

Question 38. Are there other impacts these policies could have on mortgage processes that we have not considered?

51. The UK Government should recognise that energy efficient is not a standardised term and lenders are likely to have specific requirements which a property needs to qualify.

How do we ensure that intermediaries, such as brokers, have access to the information necessary to advise consumers?

52. Please refer to our response to Question 24.

Question 39. How can we ensure that our policies do not disincentivise lending to poor performing properties?

53. In order to ensure that these policies do not disincentivise lending to poor performing properties, the UK Government need to work with lenders to establish a standardised framework, so lenders do not use rates to manage their average EPC ratings.

Question 40. How might these policies impact on house prices and households' ability to borrow in the market?

House prices

54. We believe there that the main impact on house prices is that they could increase if less property comes on to the market and costs for energy performance improvements need to be recovered.

Households' ability to borrow in the market

55. We believe that the main impact on household's ability to borrow in the market could be the unintended consequence of negativity equity if house prices drop significantly as a result of energy inefficient properties becoming cheaper.

What could the government do to mitigate any unintended impacts on households?

56. To improve the energy efficiency of housing stock in England and Wales, the UK Government must look at three alternatives. Firstly, the UK Government should set out a plan for energy efficiency improvements that are linked to the recommendations on an EPC. Secondly, use tax breaks to incentivise homeowners to finance energy efficiency improvements. Thirdly, introduce an adjustable Stamp Duty Land Tax in England and Land Transaction Tax in Wales

tied to energy performance. To improve the energy efficiency of housing stock in England and Wales without impacting the property market, the UK Government must do three things. Firstly, set out a plan for energy efficiency improvements that are linked to the recommendations on an EPC. This would provide a clear plan of action for homeowners, which demonstrate the most suitable route to a warmer home, regulatory compliance and zero carbon, in an appropriately staged way. Secondly, use tax breaks to incentivise homeowners to finance energy efficiency improvements. This could include, making energy improvements exempt from VAT, and/or offering lower rates of Council Tax for properties that have been made more energy efficient. Thirdly, introduce an adjustable Stamp Duty Land Tax in England and Land Transaction Tax in Wales tied to energy performance. This would incentivise home buyers and sellers to act and begin to shift preference towards buying more energy efficient homes. This could be done in two ways. Firstly, apply the adjustments as a reduction on more energy efficient properties and those properties that have been made as energy efficient as practically possible. Secondly, offer rebates to home buyers if energy efficiency improvements are made to less efficient properties within a certain time period from the point of purchase. We know from the recent decision taken by the UK Government¹³ and the Welsh Government¹⁴ to temporarily reduce the rates of property taxes that this can provide a real boost to the housing market. For instance, in December 2020, the average number of sales agreed per estate agent branch increased to the highest amount for the month of December since 2006.¹⁵ To this end, by linking energy performance with property taxes this could help introduce increased 'saleability' for more energy efficient properties, so improvements become standard for homeowners seeking to reduce costs and improve the desirability of their homes.

Question 41. How might these policies negatively or positively impact on competition and lenders' ability to operate in the housing and wider market? What could the government do to mitigate any negative impacts?

Negative impact

57. We believe there will be two negative impacts as a result of these policies on competition and lenders ability to operate in the housing and wider market. Firstly, improving the energy performance of a property is reliant on consumer choice and it is not the core business of mortgage lenders. Therefore, we would be concerned if lenders raise rates and limit products. Secondly, the use of targets could distort the market and compel lenders to introduce lending on newly built properties that are likely to be more energy efficient in order to improve the rating of their portfolio. To this end, it is important that the UK Government introduce policies and financial initiatives that will support improving energy efficiency based on the archetype of a property rather than tenure.

Positive impact

58. We believe there are two two positive impacts on competition and lenders ability to operate in the housing and wider market. Firstly, greater transparency of data could generate more

¹³ <https://www.gov.uk/guidance/stamp-duty-land-tax-temporary-reduced-rates>

¹⁴ <https://gov.wales/written-statement-temporary-changes-land-transaction-tax-rates-and-thresholds>

¹⁵ <https://www.naea.co.uk/media/1049098/housing-report-december-2020.pdf>

competition between lenders. It could also allow lenders to better understand the properties within their portfolio so they can assess if they are suitable for energy efficiency improvements. Secondly, the proposal that all lenders, irrespective of market share, be required to publish energy performance data on their websites as well as on GOV.UK aligned to annual reporting deadlines, will likely provide greater consistency across the market.

Question 42. What costs would compliance with these policies likely generate for lenders? Please provide an estimate of these costs where possible, including evidence to support your answer.

59. It is not applicable for us to answer this question.

Question 43. Do you think a regulatory body should be responsible for the mandatory policies in this consultation? If so, what form do you think this body should take?

60. Yes, if the UK Government are going to set mandatory targets they must fall under the responsibility of a regulator with appropriate safeguards and procedures for complaints and mediation. At this stage we are unclear as to which regulatory body could take on this responsibility and who will pay for regulation. To this end, the UK Government should engage with representatives from the finance and property sectors to determine who should have responsibility.

Improving Home Energy Performance through Lenders

Question 44. Do you think that the government should introduce a requirement on lenders to check that privately rented properties comply with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015?

61. Yes, we do think that the UK Government should introduce a requirement on lenders to check that privately rented properties comply with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015.

Question 45. Do you think it would be sensible for these proposals, for example annual disclosure of portfolio-wide EPC information, to be applied to smaller non-domestic buildings that require similar energy performance upgrades to homes?

62. Yes, we do think it would be sensible for these proposals if implemented to be applied to smaller non-domestic buildings that require similar energy performance upgrades to homes. This is particularly relevant for buildings that include mixed residential and commercial use, such as flats above shops.

Question 46. Should a fabric first approach be built into the preferred, voluntary, target option? If yes, how should such an approach best be implemented?

63. We are concerned that the requirement for homeowners to install fabric insulation measures first is a one size fits all approach that does not account for the diversity in housing stock across England and Wales. Whilst we accept that well-insulated property is very energy efficient and will need very little additional heating and cooling, housing stock differs from region to region with some property suitable for fabric first, others will not. Furthermore, the

Climate Assembly UK report notes that, “different properties may need different solutions – e.g. old versus new houses’ and that energy efficiency ‘needs to be individualised – solutions need to suit different households”.¹⁶ To this end, the UK Government must do two things. Firstly, for properties where a fabric first approach would be appropriate, the UK Government should embark on a national infrastructure project to install insulation at no cost to the consumer. Secondly, the UK Government need to approach requirements for improving energy efficiency based on the properties’ age, location and construction. This way the UK Government can target grants and funding support based on the archetype of a property rather than its tenure.

Question 47. What are your views on how we could tighten standards to drive greater carbon savings? Do you have views on introducing a dual metric, an alternative carbon target, or any other suggestions?

64. Propertymark believes that forcing tighter restrictions on property owners, without sustained financial support, is too ambitious and will not be achieved. Looking ahead, the UK Government must be consistent on what the policy intent is and whether the focus is on carbon or cost savings.

¹⁶ <https://www.climateassembly.uk/report/read/final-report.pdf>