

Energy efficiency in UK property: Where to go from here?

AUGUST 2023

KEY FINDINGS:

12%

of potential commercial property buyers always show an interest in the EPC or the EPC rating of a property.

73%

of sales agents say that homebuyers sometimes show an interest in the EPC or the EPC rating of a property.

66%

of sales agents reported that energy efficiency improvements do not add more value to a property than they cost to install.

80%

of sales and letting agents agree the best way to encourage energy efficiency improvements is to introduce government grants that cover a broader range of home improvements.

EXECUTIVE SUMMARY

Comparing current sentiment to previous evidence (2018), property agents explored attitudes toward energy efficiency and retrofit in property across the UK looking at strategies to encourage investment.

According to the UK Government's Heat in Buildings Strategy, 30% of UK emissions in 2019 came from buildings, with 17% coming from homes, indicating that buildings play a huge role in decarbonisation.

Starting with a review of the influence of Energy Performance Certificates (EPCs) on the decisions of homebuyers, property investors, and tenants, this

report reveals that while there is some consumer interest in EPCs, the level of importance varies across different sectors. In the residential market, the majority of homebuyers show at least some interest in EPCs, but their influence on purchase decisions is limited. Similarly, tenants in the rental market show some interest but not to a significant extent.

However, in the commercial market, the interest and influence of EPCs are much lower. Investors and tenants in the commercial sector are potentially less concerned about energy efficiency due to factors like limited supply and other priorities such as location and logistics. Nonetheless, as pressure grows for businesses to demonstrate their green credentials, the importance of energy efficiency in the commercial sector may increase.

The impact of EPCs on consumer decisions is questioned, with the majority of property agents, both residential and commercial, believing that EPCs have little to no influence on the offers made by homebuyers and investors. This challenges previous research that suggested a positive relationship between EPC ratings and property prices.

The report highlights the need to reconsider the current EPC system and potentially replace it with a Property Passport or Net Zero Performance Certificates (NZPCs) as proposed in the Independent Review of Net Zero.¹ EPCs are criticised for the manner in which they account for the cost of energy when determining property performance, which can result in misleading scores when transitioning to more expensive but greener energy sources like heat pumps. NZPCs, which provide detailed information about heating technology and its financial and social effects, would be a better alternative.

Minimum Energy Efficiency Standards (MEES) are reviewed in the report, particularly their impact on the rental market. Our evidence gathering has

revealed that uncertainty regarding the introduction of tighter regulations has negatively affected residential letting agents' businesses. There are concerns that achieving higher EPC ratings, such as a C-rating, is challenging for many properties, including Victorian terrace houses, grade II listed buildings and properties with low sales values.

It is widely known that the cost of energy efficiency improvements is a significant barrier to retrofitting in the UK property market and this report reinforces that sentiment. Property agents suggest that government grants or interest free loans covering a broader range of home improvements, increased grant sizes, and tax incentives would be the most effective ways to incentivize retrofitting. Minimum EPC standards are considered a poor method for achieving energy efficiency improvements.

Overall, the report highlights the complexities and limitations of the current EPC system, the varying levels of consumer interest and influence, and the need for comprehensive financial incentives and clear guidelines to promote energy efficiency improvements in UK property.

Energy Performance Certificates (EPCs)

In England and Wales, EPCs were introduced in 2007 through The Energy Performance of Buildings (Certificates and Inspections) (England and Wales) Regulations. In Scotland, EPCs were first introduced in The Energy Performance of Buildings (Scotland) Regulations 2008 and since 30 December 2008 all properties in Northern Ireland (homes and commercial) when constructed or being marketed for sale or rent require an EPC.

The regulations were a response to an EU directive which aimed to reduce the amount of energy used by buildings in EU states. Since then, over 24 million EPCs have been lodged in England and Wales alone. But to what extent do these documents influence the decisions of homebuyers, property investors, and tenants?

CONSUMER INTEREST

To begin, we asked our residential sales agents how often their homebuyers show an interest in the EPC or EPC rating of a property. The vast majority (73 per cent) reported buyers sometimes show an interest, but 15 per cent reported that homebuyers never show an interest in their experience.

This is an improvement on our 2018 survey, in which 35 per cent of sales agents reported that homebuyers never show an interest in the EPC.

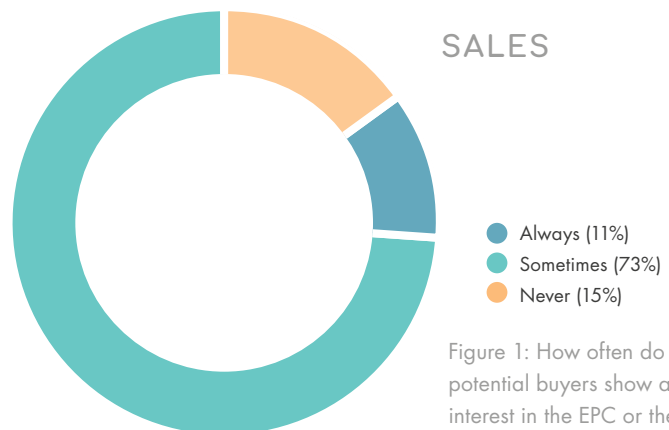


Figure 1: How often do potential buyers show an interest in the EPC or the EPC rating of a property?

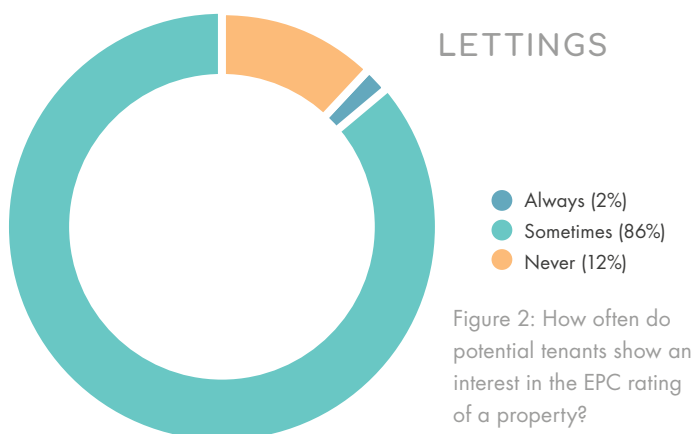


Figure 2: How often do potential tenants show an interest in the EPC rating of a property?

We asked letting agents the same question of their prospective tenants and, while only 12 per cent reported that tenants never show an interest in the EPC rating of a rental property, only two per cent reported that they always show an interest.

Turning to the commercial market, we see a rather different picture. In this sector, 41 per cent of our commercial agent members reported investors never show an interest in the EPC and 59 per cent reported that tenants never show an interest.

There are two standout reasons for this. The first is that due to a general lack of supply in the commercial sector, investors and tenants can be less picky when it comes to energy efficiency.

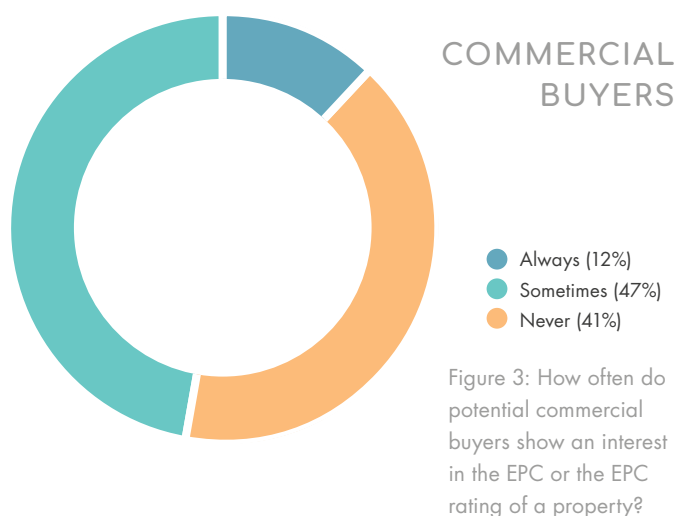
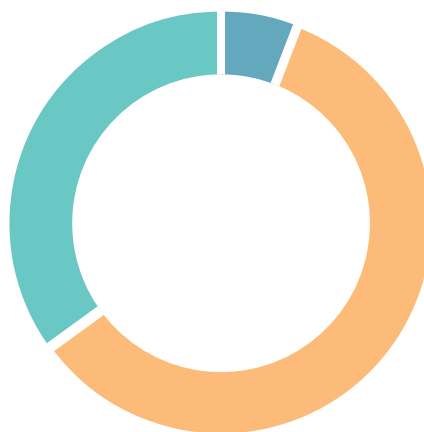


Figure 3: How often do potential commercial buyers show an interest in the EPC or the EPC rating of a property?

Secondly, as business owners look to grow their businesses, other factors such as logistical access, proximity to customers or a pool of trained staff is likely to trump the EPC rating of a property. As pressure increases on businesses to prove their green credentials, this may be likely to change.

Certainly, customers will need to refocus their concern from the transport and packaging of goods to where and how they are produced or sold. Open fridges and freezers in supermarkets are an obvious example of items in regular use that are clearly energy inefficient, but about which people rarely think or complain.



COMMERCIAL TENTANTS

- Always (6%)
- Sometimes (35%)
- Never (59%)

Figure 4: How often do potential commercial tenants show an interest in the EPC or the EPC rating of a property?

EPC INFLUENCE ON CONSUMERS

When it comes to influencing the decisions of consumers, our agents were even less convinced of the impact of EPCs. 47 per cent of our residential sales agent members reported that EPCs never influence the offer homebuyers make on a property, while only one per cent reported that it always has an impact. Nevertheless, this picture has improved since 2018 when 71 per cent of respondents reported that EPCs never influence the offer homebuyers make.

Figure 5: How often does the EPC influence the offer buyers make on a property?

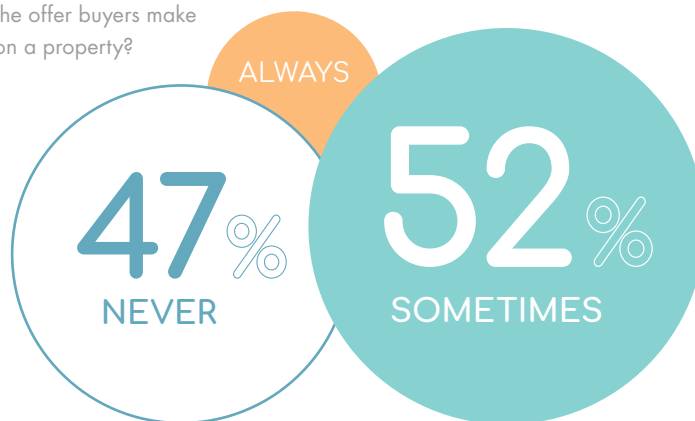
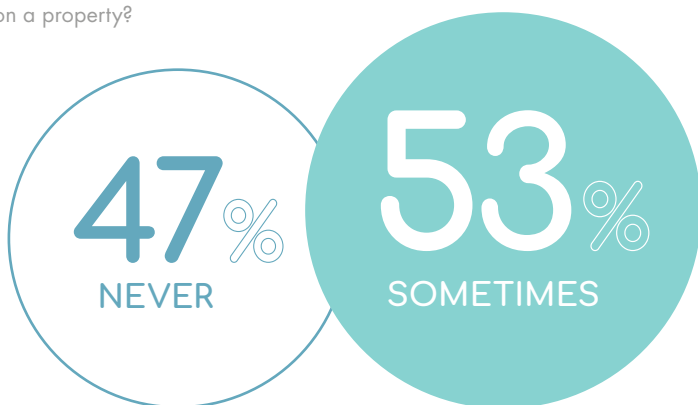


Figure 6: How often does the EPC influence the offer commercial buyers make on a property?



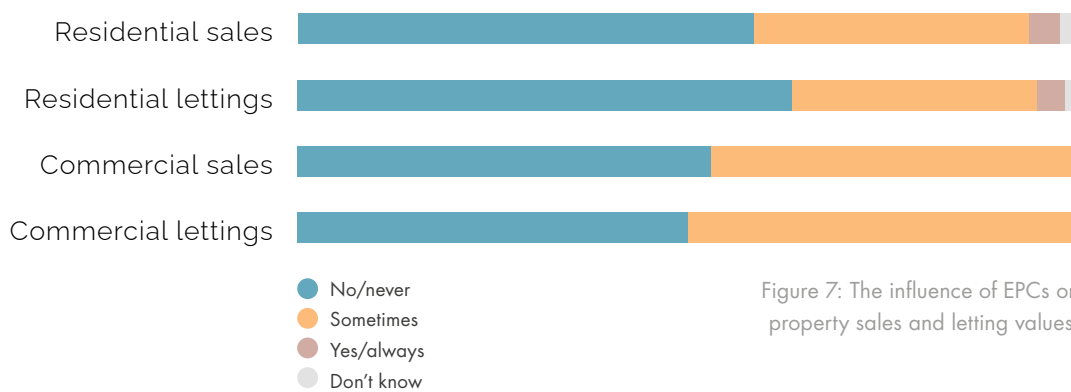
Our commercial agents were similarly unconvinced that EPCs influence the decisions of investors with 47 per cent reporting that EPCs never influence the offer buyers make on a property.

EPC INFLUENCE ON PRICE

Finally in our questions on the impact of EPCs, we asked about the influence of the certificates on sales and letting prices of UK property. The positive relationships between EPC ratings and both property price and rents are well documented in previous research; however, the vast majority of these studies use market data to analyse the impact of EPCs on price and have not asked the agents who set or negotiate the price directly.

In our survey, property agents were most likely to report that a higher EPC never results in a greater sale or letting value of a property, casting doubt on the findings of previous research. It is quite possible that the impact of EPCs on sales and rental prices found in previous works is related to factors that researchers have been unable to measure or taken for granted, such as the overall condition or presentability of a property.

DO EPCS INFLUENCE PROPERTY SALES AND LETTING VALUES?



EPCS: FIT FOR PURPOSE?

No discussion of EPCs would be complete without a consideration of their fitness for purpose. It is further pertinent to consider here given the findings above which suggest EPCs have little influence on consumer behaviour and thus are failing to achieve their initial purpose – to encourage energy efficiency improvements and reduce the amount of energy used by buildings.

Since the UK Government's Mission Zero report presented by the Right Honourable Chris Skidmore OBE in 2022, attention has increasingly turned to reviewing the system or replacing EPCs entirely with alternatives, such as Net Zero Performance Certificates (NZPCs). This is because EPCs take the cost of energy into account when determining the energy performance of a property. As electricity is

more expensive than gas, the transition from gas boiler to a heat pump can actually result in a worsening of the EPC score. NZPCs would give "consumers more detailed information about the heating technology used in the property and its associated financial and social effects".² Several of our agents noted the need to update the energy rating system for property in the UK, and especially before any new MEES were brought in.

One member stated: "The EPC reports are not fit for purpose. So, you are spending money on measures that are not perhaps best for the property or that will have little to no positive effect on the energy efficiency. Seems like it's just a money-spending activity, rather than actually doing what will have a positive impact on the property."

Minimum Energy Efficiency Standards

RESIDENTIAL LETTINGS

Since 1 April 2020, residential landlords in England and Wales can no longer let or continue to let properties if they have an EPC rating below E, unless they held a valid exemption. Deliberations are continuing, but the broad expectation is that the UK Government will announce a tightening of these regulations, raising the minimum standard to an EPC C.

In Scotland, discussions are also ongoing. Here, there is no such regulation on the minimum standard, but the Scottish Government has said that they are committed to introducing regulations in 2025 to ensure that all homes meet at least a standard of an EPC C or equivalent by 2033 and to require that all homes use zero emissions heating (and cooling) systems by 2045.

In England and Wales, several dates have been suggested for the tightening of current regulations. Initially, the UK Government was considering 2025 as the date by which all new tenancies let privately would need to reach an EPC C with existing tenancies meeting EPC C by April 2028. At the present time, 2030 is also being considered.

While the UK Government delays its decision, our members reported that the uncertainty is damaging the sector and the rental market. 56 per cent of letting agents who responded to our survey said that confusion around the potential date of introduction has had a negative impact.

LEVELLING UP ISN'T ALWAYS FEASIBLE

As is regularly mentioned when MEES are discussed, there are many properties in the UK for which attaining an EPC C is not achievable given current technology – Grade II listed buildings or homes with solid walls are a common example. Furthermore, the cost of improving homes as a proportion of the property value can sometimes be staggering, as discussed in our recent Lagging Behind report.

Data from the Buildings Research Establishment (BRE) showed that, in 2020, 21% of housing stock in the UK was built pre-1919, with the highest proportion of housing over 100 years old in Wales (at 26%).³ In our latest survey, we asked letting agents whether they had any landlords who would struggle to improve their properties to meet the EPC C target. 93 per cent reported that they did.

COMMERCIAL LETTINGS

In England and Wales, MEES in the commercial sector have been enforced since 1 April 2023 where all let commercial property are required to meet the minimum of an EPC E or hold a valid exemption. The UK Government also plans to raise MEES to a band C by 2027 and band B by 2030 subject to several exemptions including cost effectiveness.

[Continued...](#)

In light of this, commercial members were asked about their clients' experiences in meeting the recent deadline. We discovered that eight out of 15 commercial agents were aware of a landlord who had failed to meet the deadline.

There was an equal split between a 'lack of awareness' and an 'inability to have the works completed in time' stated as the cause of these failures. Such a finding is incredibly important as the government considers its next steps in MEES for both the residential and commercial sectors.

HOMEOWNERS

There are currently no MEES in the owner-occupied sector; however, the UK Government is considering introducing MEES for this tenure, in-line with its tightening of regulations for let property. The Scottish Government have previously consulted on improving energy efficiency in owner occupied homes.

The UK Government are also considering consulting on introducing energy efficiency standards as part of their Powering Up Britain Plan by the end of 2023.

Encouraging Retrofit

UK governments have used both incentives and regulation to encourage retrofit in UK property. MEES have been used as the primary backstop to ensure that UK property meets at least a minimum standard.

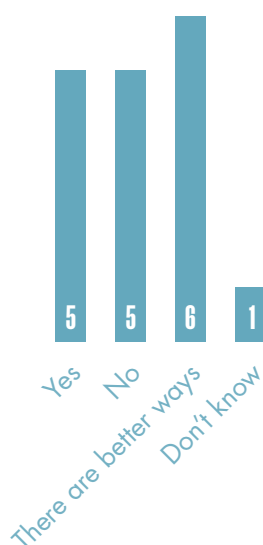
Yet, only 5 out of 17 commercial agents thought that this was the best way to encourage energy efficiency improvements in their sector. The Department for Energy Security and Net Zero

(DESNZ) have indicated that they are considering both an energy advice service and grant funding, yet details at present remain limited.

One member stated: "bludgeoning landlords to reach EPC E without compensation or grants to carry out work is not fair and will not encourage landlords to make their properties more energy efficient." Another commented that regulation "has held back some stock or delayed availability through landlords navigating their way through MEES".

Figure 8

In your opinion, are minimum energy efficiency standards a good way to improve the energy efficiency of the nation's non-domestic buildings?



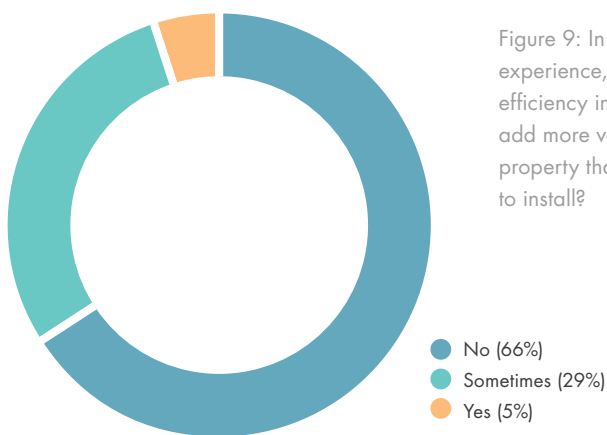
UK governments have made several attempts to incentivise energy efficiency improvements in the residential sector, such as the Green Homes Grant and Energy Company Obligation schemes.

As efforts to date have been widely criticised, we asked our members about current impediments and the best ways in which to encourage retrofit.

BARRIERS

The cost of energy efficiency improvements is perhaps the largest obstacle in the way to energy efficiency retrofitting in UK property. Natural counterweights to the cost are future energy savings and increases in the value of property.

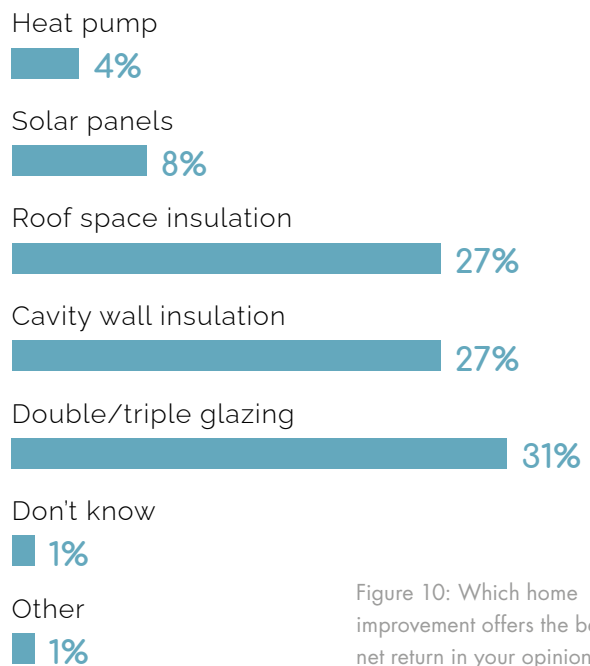
In our 2023 survey, residential sales agents were asked whether energy efficiency improvements add more value to a property than they cost to install. Only five per cent said 'yes', with a massive 66 per cent saying 'no'.



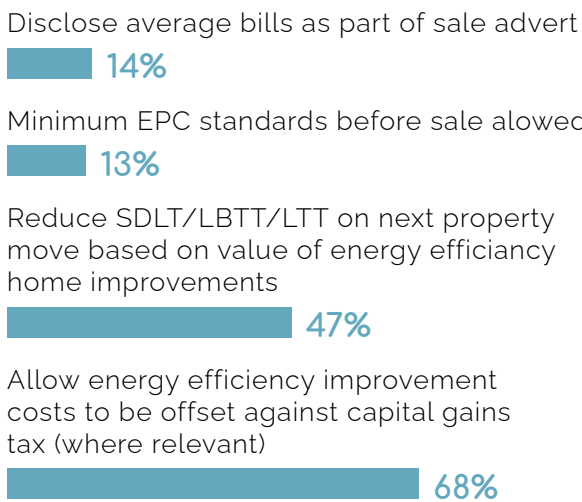
We asked our sales agents which energy efficiency improvements could offer the best net return. Insulating improvements were the most highly recommended, probably due to the relative ease and lower cost of installing measures such as cavity wall or loft insulation. Furthermore, insulation is an improvement which can be added to most properties, either internally or externally, and is minimally invasive.

Double glazing has been a feature of homes in the UK for decades and is considered the norm, with triple glazing quickly becoming more common in homes. The benefits of double and triple glazing are more than just for energy efficiency purposes, as they protect against condensation and outside noise when used correctly. Perhaps this is why glazing is a common feature which buyers look for in properties. It may become more common for future buyers to look at solar panels or heat pumps in the same way.

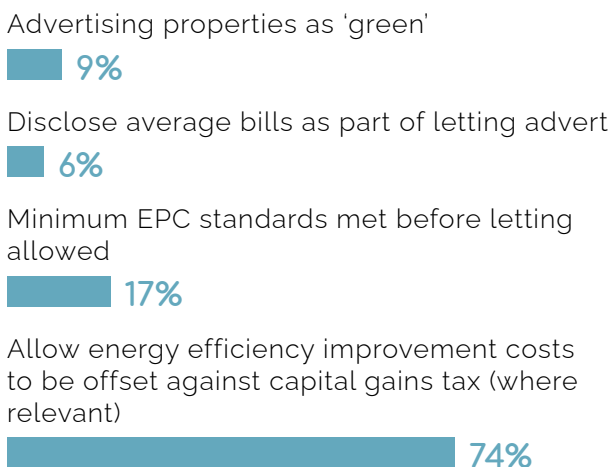
Combined with previously discussed results which revealed higher EPC levels do not improve property prices in the view of many sales agents, it seems highly unlikely that property owners will be encouraged to retrofit based on a capital return on their investment. Given that some improvements such as replacing a modern gas boiler with an air source heat pump could actually increase energy costs, it seems owners are unlikely to be persuaded by the future savings argument either.⁴



In light of the colossal task before the nation, we asked property agents about the best ways to incentivise retrofitting.



Minimum EPC standards were seen as a very poor method through which to achieve energy efficiency improvements in UK property by all divisions.



The most popular response among residential and commercial property agents was government grants that cover a broader range of home improvements. This was closely followed by increasing the size of grants available, allowing energy efficiency improvement costs to be offset against capital gains tax, and reduced tax on the purchase of home movers next property.

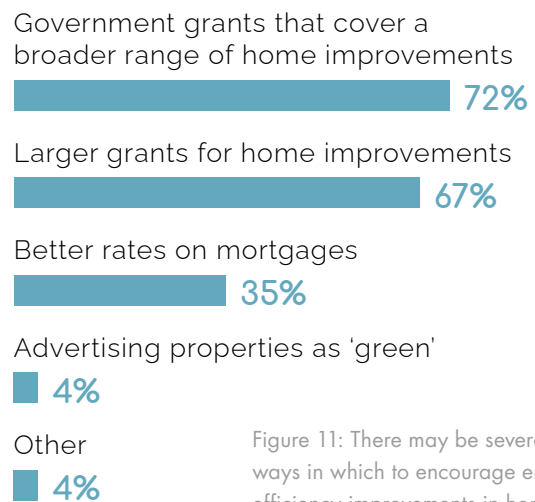


Figure 11: There may be several ways in which to encourage energy efficiency improvements in homes across the UK. Which of the following options would be best in your opinion?

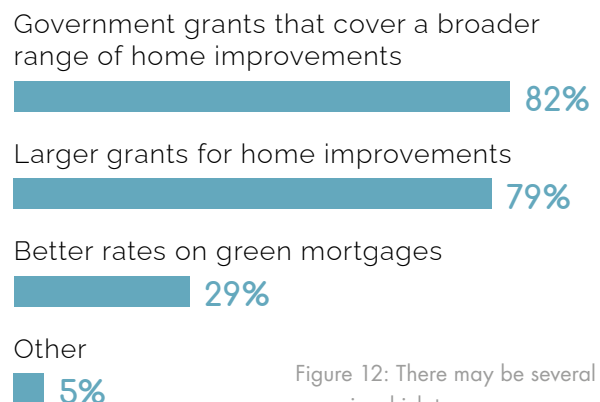


Figure 12: There may be several ways in which to encourage energy efficiency improvements in rental homes across the UK. Which of the following options would be best in your opinion?

Further comments from **property agents**

Finally, we gave our respondents to the opportunity to discuss any further topics related to energy efficiency in UK property. The comments we received revolved around four broad themes.

1

Financial reforms and incentives

Several statements emphasised the need for financial reforms and incentives as the primary drivers for meaningful change

in buying behaviour and improvement of energy efficiency. Agents expressed concerns about the lack of financial support, withdrawal of previous successful schemes, and the potential adverse effects on investments.

2

Challenges and limitations of implementation

Many statements highlight the challenges, limitations, and flaws associated with implementing energy efficiency measures.

Concerns were raised about the practicality of achieving certain EPC ratings within specific timeframes, the impact on different types of properties (e.g., older buildings, listed properties), and the effectiveness of the EPC assessment grading system.

3

Negative consequences and unintended effects

Letting agents expressed concerns about the negative consequences and unintended effects of energy efficiency

regulations. These include potential increases in rents, a rental shortage, landlords exiting the market, a decrease in the supply of properties, and a reduction in property standards due to increased overall costs. The perceived negative impact on landlords and the rental market is a common thread throughout agents' statements.

4

Lack of clarity and communication

Many comments highlighted the need for clarity, communication, and guidance from governments regarding energy efficiency

regulations. Landlords and letting agents express confusion, stress, hesitance due to the lack of clear information, uncertain dates, and ambiguity surrounding exemptions and requirements. There was a clear call for all UK governments to provide clear guidelines and communicate decisions in a timely manner.

Overall, these themes reflected concerns about the financial implications, practicality, consequences, and communication surrounding energy efficiency measures in the context of the rental property market.

Recommendations from **Propertymark**

Upon review of the survey, Propertymark has produced the following recommendations to help homeowners, landlords and tenants save money, create new jobs and fight climate change.

Avoid a 'one-size-fits-all' approach to energy efficiency standards for property: policy makers must move away from a one-size fits all policy and develop energy efficiency proposals that work with the different age, condition, and size of properties. This way grants and funding support can be targeted based on the archetype of a property rather than its tenure and making each property as energy efficient as possible. As a result, property is not lost from the private rented sector and buildings do not become too expensive to improve.

Ensure timely implementation and provide clarity on energy efficiency targets: in order to effectively plan to retrofit homes, homeowners and landlords require clarity on how energy efficient property need to be, how it will cost and by when. Currently, there is no definitive target that has been legislated for, only recommendations from multiple reports. The UK and Devolved Governments need to develop a long term policy framework and legislate on clear targets for EPC ratings for people to implement energy efficiency measures.

Provide financial incentives to improve the energy efficiency of property and help reduce energy bills: the vast majority of Propertymark sales agent members have made it clear that investing in energy efficiency does not lead to higher house prices which would under different circumstances provide a sufficient incentive. Until this is the case, alternative incentives such as vouchers to cover the costs of retrofit evaluations, loans and grants to pay for energy efficiency improvements, allow energy performance improvements to be offset against rental income or the ability to offset improvement costs against capital gains tax must be provided to support homeowners and landlords to take action.

Embark on a national communications campaign for tenants, landlords and home-owners: vital to meeting decarbonisation targets will be solving the challenge of convincing landlords and homeowners of the benefits of retrofit and making energy efficiency improvements to property. The views of landlords and owner occupiers will play a significant role in the success of retrofitting, which will substantially impact the uptake of energy efficiency improvements and retrofit programmes, even if government funding exists to cover the cost of retrofitting.

Explore the introduction of a Property Passport to increase the take up of energy efficiency improvements: 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 Property 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 energy efficiency of buildings.

ABOUT THIS REPORT

This report is based on responses to a survey of Propertymark member agents conducted between 6–19 April 2023. Analysis is based on responses provided by 271 responding agents.

ABOUT PROPERTYMARK



Propertymark is the leading professional body for estate and letting agents, commercial agents, auctioneers, valuers, and inventory providers comprising nearly 18,000 members. We are member-led with a

Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry leading training programme and mandatory Continuing Professional Development.

EDITOR NOTES

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¹ Net Zero Review (2022) Mission Zero

² Net Zero Review (2022) Mission Zero pg.251

³ Justine Piddington, Simon Nicol, Helen Garrett, Matthew Custard (2020). The Housing Stock of The United Kingdom, p.17

⁴ Which? Report: "Air source heat pump costs and savings". Updated 29 December 2022