

Communicating new EPC rules to landlords and tenants



Image: © creativecommonsstockphotos/Dreamstime.com

About this report

This report has been created thanks to the support of the TDS Charitable Foundation. The Foundation “*works to advance education about housing rights and obligations in general*”.

In particular, the charity focuses on:

- Best practice in the management of private rented housing;
- Legal rights and obligations of those involved in the provision or management of private rented housing;
- Using alternative dispute resolution for more efficient and effective resolution of disputes between landlords and tenants.

The charity has provided a grant to Kate Faulkner who runs Designs on Property Ltd (designsonproperty.co.uk), to produce a series of reports and surveys on the private rented sector which are designed to increase knowledge on the private rented sector in England and to promote best practice.

Opinions expressed in this report are those of Kate Faulkner and do not necessarily reflect the views of Tenancy Deposit Scheme (TDS) or The TDS Foundation.



TDS Charitable Foundation Registration number: 1154321

About the author

Kate Faulkner Bsc (Econ) MBA CIM DipM was originally a consumer in the residential property market, buying, selling, renovating and renting property for many years. At that time she was a sales and marketing professional working with major brands such as PG Tips.



Having enjoyed working in her spare time in residential property, she went on to set up one of the UK's first property portals prior to the advent of Rightmove, then used her experience to help create on- and off-line tools designed to take the stress out of corporate relocations for employees.

From here she moved to set up the Self-Build and Renovation Centre in Swindon, and subsequently helped build and professionalise a part exchange business. Kate was also a Future Homes Commissioner for RIBA.

After gaining so much experience across the property market, Kate embarked on a mission to improve the way people carry out property projects, especially within the private rented sector. So whether it is banishing cowboy builders and rogue landlords, or helping the public approach a property project as simple as hanging a door or as complex as letting or building their own home, Kate is always on hand, either via her consumer website at Propertychecklists.co.uk or at the property clinics she runs around the UK, to help landlords, tenants, first-time buyers, self-builders, renovators and investors carry out their property projects in the right way, using qualified people and industry experts.

Kate's consultancy, Designs on Property Ltd, provides help and support to companies and organisations that want to communicate better to the public, or to introduce new products and services which help people carry out their property projects successfully, first time around.

She is fanatical that property facts and figures such as prices and rents should be reported correctly in the media, by the industry, and by organisations and policy-makers involved in the property market.

Kate regularly appears in the national and local media, and comments on TV, radio and in regional and national newspapers on property news items of the day. In this way she continues to pursue her chief objective, which is to help ensure the public get an independent, honest view of what's happening in the residential property market.

This report is part of a series of reports and surveys that Kate will be producing thanks to the support of the TDS Charitable Foundation.

The aim of the research provided is to improve the understanding of the private rented sector and to make recommendations on changes which will impact positively on the experience of landlords and tenants.

Contents

Executive summary	5
PART ONE	6
What are the new rules and why have they been introduced?	6
Which types of tenancy are affected by the new rules?	6
Which properties are exempt?	6
Reasons for introduction	7
Where do the new rules apply?	10
What happens if landlords fail to comply?	10
PART TWO	13
Bringing properties up to the required standard	13
How can landlords easily improve properties	14
Home improvements to improve energy efficiency	14
Case study – HMO landlord in Nottingham	19
What funding is available for improvements?	20
Potential sources of funding	21
Problems improving the property or securing funding	25
What funding will be available in the future?	26
PART THREE	27
Communication	27
Are landlords aware of their responsibilities?	27
How can communication be improved?	29
Communicating the benefits of higher EPC ratings to tenants	32
Recommendations	33
Further reading and resources	33



Images: © Propertychecklists.co.uk

Communicating new EPC rules to landlords and tenants

Executive summary

There was much publicity surrounding the introduction of regulations requiring properties in the private rented sector to meet stricter energy requirements, but are awareness levels sufficiently high for the new rules to be effective?

The new rules place restrictions on letting properties with low energy efficiency, with the aim of raising standards within the private rented sector, reducing a property's carbon footprint and keeping energy bills down for tenants.

But with so many rules and regulations already in existence for landlords, is there a risk of the new EPC regulations becoming lost, and of landlords becoming resistant to yet more change?

This report will examine:

1. Details of and reasons for introducing the new legislation
2. Ways properties can be improved
3. Funding available to help landlords improve their properties, now and in the future
4. Landlord awareness
5. How the regulations could be communicated more effectively.

PART ONE

What are the new rules and why have they been introduced?

New regulations were introduced in England and Wales in April 2018 which, in most cases, restrict the letting of properties which fail to meet certain energy requirements. Other legislation is due to be introduced in Scotland in future, although there are currently no plans to introduce the rules in Northern Ireland.^{1 2}

Any property which is let is required to have a valid current Energy Performance Certificate (EPC) and, under the new rules, a tenancy can only be commenced or renewed if the property has an EPC rating of E or higher. According to government guidance, properties with the two lowest ratings – F and G – must be brought up to standard “where funding is available to cover the cost” or taken off the rental market.³

By 2020 the rules will be extended to continuing tenancies and stricter rules are being proposed by the government for the future, for rental properties to have a rating of C or higher by 2030.

Which types of tenancy are affected by the new rules?

- Assured tenancies
- Assured shorthold tenancies
- Agricultural occupancy or similar tenancies
- Statutory or periodic tenancies
- Regulated tenancies

Which properties are exempt?*

Properties which are not required to have an EPC when they are marketed for let (or sale) are not covered by the minimum standard requirements.

*Landlords are advised to check with a professional if exemptions apply. For other circumstances which may lead to a temporary exemption, see Part 2: *What happens if there are problems improving the property or the landlord cannot secure funding?*

¹ <https://www.tughans.com/news-insights/changes-epc-regulations-2018-will-affect-properties/>

² <http://www.360-energy.co.uk/services/meps-minimum-energy-performance-standards/>

³ <https://www.gov.uk/government/publications/the-private-rented-property-minimum-standard-landlord-guidance-documents>

Reasons for introduction

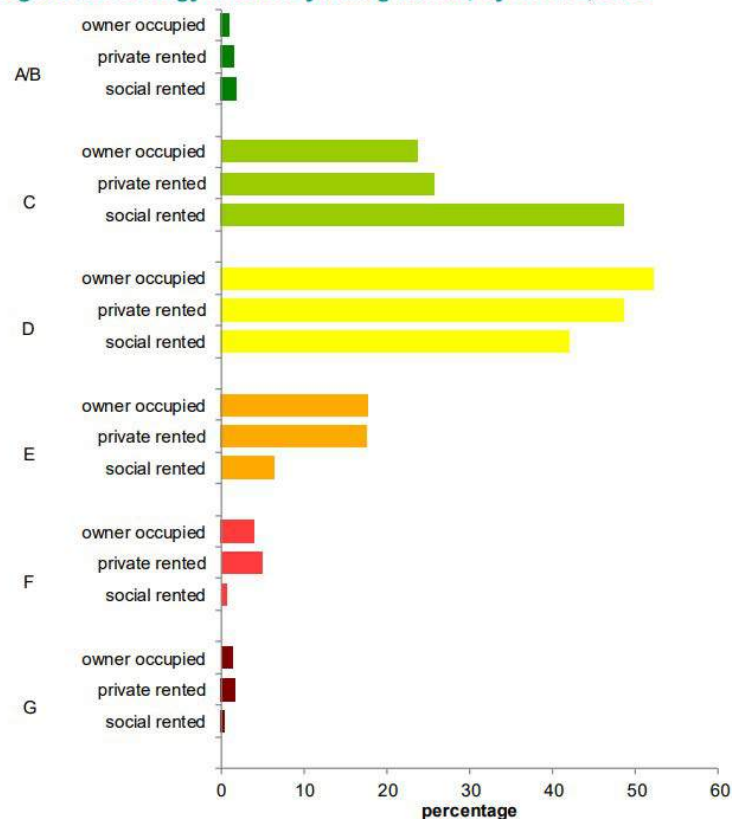
The government has introduced the new rules both to help tenants and the environment, as properties with an EPC rating of F or G waste energy, contribute to greenhouse gas emissions and cost more for the householder to run.

Energy efficient properties are cheaper to run, as they require less heating, and are also more comfortable to live in, being warmer and with fewer draughts.

According to the English Housing Survey, the vast majority of homes, across all sectors, are rated D. However, 35% of homes in the private rented sector were built before 1919, which means they are more likely to receive lower EPC ratings.

Only 6.6% of private rented homes had F or G ratings in 2016 but this represents 320,000 dwellings, making the PRS the biggest representative of the two lowest bands. Social housing and housing association properties are generally purpose-built and newer, so tend to receive higher ratings of A-C and are, in any case, exempt from MEES regulations.

Figure 2.9: Energy efficiency rating bands, by tenure, 2016



Source: [English Housing Survey Headline Report 2016-17](#)

With private rented properties tending to be the worst offenders, this is the area of the government's focus.

The reasons stated for the introduction of the new legislation are:

- Managing the energy costs of tenants, including some of the most vulnerable;
- Improving the condition of properties and help reducing maintenance costs;
- Smoothing seasonal peaks in energy demand, increasing the country's energy security;
- Reducing greenhouse gas emissions at relatively low cost.

In addition, the government has predicted a beneficial side-effect of the new legislation: *“Increased demand for energy efficiency measures is also likely to support growth and jobs within the green construction industry and the wider supply chain for energy efficiency. Greater competition within these markets may also spur innovation, lowering the end costs of installing measures to business and households, and help sustain jobs.”*¹

Tenants should welcome the new rules as research shows they are increasingly looking for homes which are more environmentally friendly and/or economical to run. In the LSL Tenant Survey 2017², 42% of tenants said greener living initiatives were important to them, with this figure being higher for those over the age of 25 (who have experience of paying bills) and those in London.

There are benefits for landlords, too:

Make a play of your energy savings standards – don't just think of improving energy efficiency as something for meeting regulations, it's a commercial decision too. Given most tenants are responsible for paying energy bills, some may be willing to pay more for properties that are energy efficient, so make sure you're making the most of this as a selling point.

Mike Feely, energy efficiency expert at E.On³

With utility inflation being far higher than rental rises, it is in landlords' interest to keep tenants' energy bills down, where they can.

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/698541/Domestic_Private_Rented_Landlord_Guidance_-_March_18.pdf

² <http://www.prsim.co.uk/wp-content/uploads/2017/07/LSL-Tenant-Survey-2017.pdf>

³ <https://www.eonenergy.com/about-eon/media-centre/with-less-than-six-months-to-go-until-new-legislation-eon-offers-simple-ways-landlords-can-upgrade-their-properties/>

In the last 10 years, according to Belvoir's Decade of Data:¹

- rents rose by 12% between 2008 and 2017
- inflation rose by 32%
- gas prices increased by 71% between 2006 and 2016
- electricity prices increased by 62.6% in the same period

Protecting tenants from costly utility bills for relatively little outlay can make sure they can afford their rent, despite rapidly rising utility bills.

I know all governments want people to be motivated by an EPC but they are not! Landlords will comply with the law because they have to but for most of the population what really matters is how much will my electricity/gas bill be – that is what really matters to them.

Glynis Frew, Hunters



Images: © Maxexphoto/Dreamstime.com

¹ <https://www.belvoir.co.uk/pages/rental-index>

Where do the new rules apply?

The new rules apply to England and Wales only, under the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015.

Scotland will phase in their own legislation for private rented properties over time:¹

- From 1st April 2020, new tenancies will require the property to have an EPC of E or higher
- By 31st March 2022, all private rented properties will need an EPC of at least E
- From 1st April 2022, any new tenancies will require the property to have an EPC of at least D
- By 31st March 2025, all rental properties will need an EPC of at least D.

The Scottish government is currently in consultation on making a C rating the minimum standard for private rented properties by 2030 and for all homes by 2040.

Northern Ireland currently has no plans to introduce the regulations, although it does have a draft Climate Change Bill so the situation could change in the future.^{2 3}

What happens if landlords fail to comply?

Notices and civil penalties of up to £5,000 can be issued by the local authority for non-compliance, dependent on the length of infringement and whether the original compliance notice was ignored.

The penalty regime for non-compliance with the regulations will be as follows:

Infringement	Penalty
Providing false or misleading information to the PRS Exemptions Register	£1,000 Publication of non-compliance
Failure to comply with a compliance notice from a local authority	£2,000 Publication of non-compliance
Renting out a non-compliant property (Less than 3 months non-compliance)	£2,000 fixed penalty Publication of non-compliance
Renting out a non-compliant property (3 months or more of non-compliance)	£4,000 fixed penalty Publication of non-compliance

Source: [Residential Landlords Association](#)

¹ <https://beta.gov.scot/publications/energy-efficient-scotland-route-map/pages/4/>

² <https://www.tughans.com/news-insights/changes-epc-regulations-2018-will-affect-properties/>

³ <http://www.360-energy.co.uk/services/meps-minimum-energy-performance-standards/>

Whether landlords will actually be penalised for non-compliance remains to be seen; our third report, [What impact is enforcement of rules and regulations having on the private rented sector?](#), highlighted a “postcode lottery” for prosecutions, as revealed by Environmental Health News Magazine.¹

The data reveals that England and Wales are far more active than Scotland and Northern Ireland when it comes to landlord prosecutions, but enforcement varies dramatically from one local authority to another, depending on the emphasis the local authority places on private rented sector enforcement.

Report 3: What impact is enforcement of rules and regulations having on the private rented sector?

In theory, enforcement of EPC standards should be straightforward – there is, after all, a national register of EPCs, and also the exemptions register, where properties rated F and G can be identified. However, like so many other pieces of legislation, it will come down to the will of local authorities to enforce, and available resources. Greater pressure may well come from lenders, who are unlikely to grant a buy to let mortgage on a property that cannot be legally let.

John Stewart, policy manager, Residential Landlords Association

In October 2017, The Guardian reported local authorities blaming budget pressures for their low level of prosecutions of rogue landlords, with almost six in 10 councils failing to prosecute any landlords in the previous 12 months and more than 80% prosecuting fewer than five.²

“We know, too, that only a fraction of the complaints made about rented properties to local authorities are being investigated and that more councils need to take the same lead on enforcement that the likes of Newham and Oxford have done to ensure that letting laws actually protect tenants, rather than just add costs for landlords and letting agents who choose to deliver legally let properties.”

Report 3: What impact is enforcement of rules and regulations having on the private rented sector?

¹ <http://www.ehn-online.com/news/article.aspx?id=14486>

² Courtesy of Guardian News & Media Ltd: <https://www.theguardian.com/society/2017/oct/28/rogue-landlords-enjoy-an-easy-ride-as-councils-fail-to-prosecute>

Since these findings were published, local authorities have been given stronger powers to deal with rogue landlords but the Housing, Communities and Local Government Committee has called for these to be strengthened further, with the power to confiscate properties from the worst offenders.¹

The concern is that good landlords and agents will comply but the poor ones will continue to offend and get away with it.

Landlords who have bought a cheap house and are only just making a profit are either not going to make the necessary changes or they're going to increase their rents, which is not good for tenants. Meanwhile, the rogue landlords will do nothing and probably get away with it. The crucial factor is enforcement.

“The policy certainly favours the professional landlord. Long-term, it could be good for tenants but there will be pain and suffering for small and medium landlords along the way, forcing many of them to exit the market.”

Andrew Paris, Livingstone Homes



Images: © Joern Schulz/Dreamstime.com; Aleksandr Kurganov/Dreamstime.com; Mikko Pitkänen/Dreamstime.com

¹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/housing-communities-and-local-government-committee/news/private-rented-sector-report-17-19/>

PART TWO

Bringing properties up to the required standard

In order to renew a tenancy or begin a new tenancy on a property rated F or G, it must in most cases be brought up to at least an E rating.

The property's current EPC will recommend a series of energy-saving measures, along with estimated costs and predicted savings. These should be prioritised by any property owner wishing to increase the EPC rating, as they have been highlighted by the assessor as areas for improvement.

EPCs only consider permanent improvements, such as double glazing and insulation, rather than temporary measures such as draught excluders and heavy curtains.

When carrying out renovations, upgrading to an EPC rating of C is often achievable and will 'future-proof' the property against the introduction of stricter EPC requirements. If specific upgrades are required, it is worth knowing that simple insulation measures such as loft insulation and draught exclusion, which could cost around £400, could save a tenant £160 a year, all helping to support their financial position.

Such upgrades should be seen by landlords as an investment in their property rather than a cost. For example, the installation of double-glazing can usually help to add to the property's value – although not in every case:

“Obviously a valuer will be mindful of the type and condition of the windows as with any building element, but sometimes double glazing may not be appropriate, for example on a listed building.”

Graham Ellis, associate director, RICS

However, in many cases, property upgrades can potentially help landlords secure better mortgage rates if lower loan-to-values can be generated. In this way, the improvements could eventually pay for themselves.

How can landlords easily improve properties and what funding is available?

Home improvements to improve energy efficiency

There are several simple measures which can improve a property's EPC rating and more detail of these is given below.

Briefly, they include:

- draught exclusion
- loft insulation
- cavity wall insulation
- double glazing
- new boiler
- low energy lighting
- reducing draughts

More energy-saving improvement suggestions are provided by the [Residential Landlords Association](#).

DRAUGHTS

Doors, windows, letterboxes, fireplaces and keyholes are all sources of draught. Simple measures can be taken to reduce draughts, such as brush strips under doors, discs over keyholes and plates over letterbox openings. It is important, however, not to seal the house completely as air does need to be able to circulate, especially in kitchens and bathrooms.

COST

Which? says professional installation of draught-proofing could cost between £85 and £275¹, but DIY measures can be taken to keep costs down.

POTENTIAL SAVINGS

Up to £25 a year.

LOFT INSULATION

Loft insulation should be at least 270mm thick and can be a DIY job if required. If the loft space has been converted to living space, the pitched roof will need insulating; for this a professional fitter is recommended.

¹ <https://www.which.co.uk/reviews/insulation/article/draught-proofing>

The loft hatch itself can also be a source of draught, so foam strips can be fitted around this at very little cost.

COST

Which? says the cost of insulating a three-bedroomed house is around £300.

POTENTIAL SAVINGS

For a semi-detached house, the householder could save up to £135 a year if there was no loft insulation previously.¹ If insulation was already there and is topped up, savings are around £10 a year for a top-up.

WALL INSULATION

In an uninsulated home, about a third of the heat is lost through the walls. Properties built from the 1990s onwards are likely to have insulated walls but those built before then will not, unless insulation has been installed retrospectively.²

Properties built after 1920 generally have cavity walls which can be filled with insulation by injecting it from the outside.

The vast majority of older properties have solid walls but these can still be insulated; either from the outside or the inside, should this be deemed necessary.

Solid walls are widely considered to be less effective at retaining heat in the property, and therefore negatively affect the EPC rating. However, research in the past few years suggests the thermal efficiency of solid walls has been underestimated,³ which means some properties may have been unfairly rated F or G in the past. The EPC ratings criteria were changed ahead of the new legislation coming into force,⁴ which means an older EPC rating may not be truly representative of a solid-walled property's energy efficiency. In addition, the government is currently running a study into the value of solid wall insulation,⁵ so landlords would be wise to have any solid walls assessed by a professional before making expensive changes.

For flats, cavity wall insulation generally must apply to the whole building, as it is not usually possible to isolate one section of the wall, although this does depend on the building structure.

Whichever type of insulation is required, it should be carried out by a professional to avoid problems arising in the future, particularly with damp and mould spots.

¹ <https://www.which.co.uk/reviews/insulation/article/how-to-buy-loft-insulation/loft-insulation-costs-and-savings>

² <http://www.energysavingtrust.org.uk/home-insulation/cavity-wall>

³ <https://www.rla.org.uk/landlord/guides/minimum-energy-efficiency-standards.shtml>

⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/660478/Government_Response_-_Changes_to_SAP_FINAL-v2.pdf

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/729853/epcs-call-for-evidence.pdf

COST

Which? and other sources say the cost of cavity wall insulation in a three-bedroomed semi-detached property is from around £475, although this depends on the size of the property. Solid wall insulation is considerably more expensive, and could run to several thousand pounds.¹

POTENTIAL SAVINGS

Cavity wall insulation could save the occupiers of a three-bedroomed semi-detached property up to £150 a year. Solid wall insulation on a property of the same size could save £255 per year.²

WINDOWS

Double glazing retains the household heat better than single glazing, as well as reducing condensation and, in busy areas, noise. Secondary double glazing – which is fitted on top of existing windows – is not as effective as double glazing but will still have a positive effect on energy usage. This is often an option for properties where there is a need or desire to retain period features.

COST

The cost of double glazing a three-bedroomed property is around £5,250-£7,500. Secondary glazing is cheaper, but still costs around £2,000-£5,5000, depending on style of glazing and size of property.^{3 4}

POTENTIAL SAVINGS

£75-£100 per year, based on B-rated windows being fitted to a semi-detached house, as a replacement for single-glazed windows.⁵

¹ <https://www.which.co.uk/reviews/insulation/article/cavity-wall-insulation/cavity-wall-insulation-costs-and-savings>

² <https://www.which.co.uk/reviews/insulation/article/solid-wall-insulation/solid-wall-insulation-costs-and-savings>

³ <https://householdquotes.co.uk/how-much-does-upvc-double-glazing-cost/>

⁴ <https://www.greenmatch.co.uk/double-glazing/secondary-glazing/secondary-glazing-cost>

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/587337/DECC_factsheet_11.11.16_GLAZING_LOCKED.pdf

BOILER

Older boilers are less efficient than newer models, so use more energy and cost more to heat the property. It may be possible to determine the age of a boiler from its serial number here

<https://www.glowgreenltd.com/blog/how-old-is-my-boiler/>

A guide to the efficiency of most boilers can be determined with this calculator: <http://www.ncm-pcdb.org.uk/sap/pcdbsearch.jsp>

A modern condensing boiler is the most efficient boiler on the market and, according to Which?, the biggest savings will be gained by switching from an old, inefficient model to a new one.¹

It is vital to use a qualified and registered installer, for safety reasons. They will also be able to advise on the most appropriate boiler for the property and number of tenants.

COST

The Energy Saving Trust says a straightforward boiler replacement could cost around £2,300.²

POTENTIAL SAVINGS

£120-£200 per year, based on replacing a boiler rated D-G with an A-rated condensing boiler with programmer, room thermostat and thermostatic radiator controls.²

LIGHTING

According to the Energy Saving Trust, lighting accounts for around 15% of a typical household's electricity usage; therefore low-energy bulbs can be a quick and cheap way to reduce this usage.

COST

The cost of replacing 15 bulbs with LEDs could be less than £50 and they are expected to last three or more years.³

POTENTIAL SAVINGS

Replacing all light bulbs in a property with LED bulbs could save tenants up to £35 a year.⁴

¹ <https://www.which.co.uk/reviews/boilers/article/boiler-energy-efficiency>

² <http://www.energysavingtrust.org.uk/home-energy-efficiency/boiler-replacement>

³ <https://www.ledhut.co.uk/led-bulbs/shop-by-shape-bulbs/standard-shape-bulbs.html>

⁴ <http://www.energysavingtrust.org.uk/home-energy-efficiency/lighting>

RENEWABLE HEAT SOURCES

Renewable energy such as the sun, wind and water can cut household bills. However, when it comes to the EPC, it is important to note that only measures which help to heat the property are relevant. If, for example, solar panels are installed to provide electricity for other purposes, this will not affect the EPC rating.¹

Forms of renewable heat include:

- **Solar panels** fitted to the roof collect the heat from the sun to heat hot water, stored in a cylinder. A boiler or immersion heater is usually required as back-up, although they are not always compatible with combi boilers. They can be used to heat the home, too, but are less effective at this so are generally preferred for heating water only.
- **Ground source heat pumps** extract heat from the ground via a loop of pipe buried under the garden to power heating systems and water in the home.
- **Air source heat pumps** extract heat from the outside, even when temperatures are well below freezing. They do require electricity to power the pump but carbon emissions are low. They are simpler to install than ground source heat pumps but may be less efficient.

Planning permission is not usually required in England as these installations fall under permitted development rights, unless the property is a listed building or in a conservation area. Rules do vary so it is important to check with the local authority.²

Heat pumps are not suitable for every property. They work better with underfloor heating than with radiators and the greatest savings can be made when replacing electricity or coal rather than gas.³

COST

Renewable energy is a major undertaking, with solar panels costing from £1,500-£8,000 depending on the size and type.⁴ The cost of installing air source heating is around £8,000 and ground source heating around £13,000.⁵

POTENTIAL SAVINGS

Renewable energy can not only save money but potentially make money for the property owner through the Feed-In Tariff Scheme,⁶ although the government is consulting on closing this scheme to new applicants from March 2019.⁷

¹ <https://www.landlordtoday.co.uk/breaking-news/2017/4/top-tips-to-improve-your-property-s-epc-rating>

² <https://www.thegreenage.co.uk/tech/heat-pumps-and-planning-permission/>

³ <http://www.energysavingtrust.org.uk/renewable-energy>

⁴ <https://www.theecoexperts.co.uk/solar-panels/cost>

⁵ <https://www.greenmatch.co.uk/blog/2014/08/the-running-costs-of-heat-pumps>

⁶ <http://www.energysavingtrust.org.uk/scotland/grants-loans/renewables/feed-tariffs>

⁷ <https://www.gov.uk/government/consultations/feed-in-tariffs-scheme>

For solar heating, the Energy Saving Trust calculates it could save £50-£95 a year, depending on the type of heating it is replacing. On top of this, a four-person household could receive £345 a year through the Renewable Heat Incentive (RHI), although rates do change.¹

The Energy Saving Trust has a calculator here

Savings made by installing a ground source heat pump depend on the system it is replacing but, as an example, replacing an old G-rated gas boiler could save £505-£580 a year. Regardless of the system it replaces, the Energy Saving Trust says a ground source heat pump could generate an RHI payment of £2,335-£2,750 per year.²

Case study – HMO landlord in Nottingham

We definitely took into account thermal efficiency on our last refurbishment, although not necessarily for EPC regulations but because we pay the bills.

We purchased a Victorian property in Nottingham which was probably an E rating; it had solid walls, no loft insulation, single glazing, sash windows and an old wooden front door which leaked heat like a sieve.

Over the course of a couple of months – with the backing of a very good team – we lined the inside of all the external walls with 60mm insulated plasterboard, insulated the loft to 300mm, installed new double-glazed windows and replaced the front door with a composite plastic door, eliminating all the draughts.

Now the property has an EPC rating of a very high C, on the edge of a B – which shows it can be done, even to old properties, with a lot of work. However, it's really only practical to carry out some of the work when the property is empty – you could change the windows and insulate the loft but would struggle to insulate the walls while people are living there.

Approximate costs

- windows and doors – £4,500
- loft insulation – £1,000
- wall cladding – £11,000-£12,000

We were looking at an overall cost of around £17,500 but we always factor these costs into our business plan when purchasing a new property. And now we have walls which look brand new, and a much warmer and quieter house which will cost less to run.

Andrew Paris, Livingstone Homes

¹ <http://www.energysavingtrust.org.uk/renewable-energy/heat/solar-water-heating>

² <http://www.energysavingtrust.org.uk/renewable-energy/heat/ground-source-heat-pumps>

What funding is available for improvements?

Research by the Residential Landlords Association (RLA), published in April 2017, showed that one in four landlords had already been investing heavily in their properties to bring them up to the required standard, with an average spend of £6,780.80.¹ A further report by the RLA², published in August 2018, found that, of those landlords who needed to upgrade their properties to an E rating:

- 37% said they could not afford to do so
- more than half (51%) said they would have to increase rents to fund the work.

Landlord Andrew Paris, of Livingstone Homes Ltd, invests heavily in energy-saving measures at his properties, although as they are all HMOs rented out with bills included, he admits he is motivated less by the regulations and more by the cost savings to the company.

When we buy a property, the first thing we do is refurbish it to a very high standard. We factor the costs of the refurbishment and insulation into our business model because we know it will give us a better property, with more value and happier tenants. Consequently, when the EPC regulations were announced, we looked at all of our properties and realised that we had already improved them.

Andrew Paris, Livingstone Homes

Rachel Hudson, who has properties in Derbyshire and Nottinghamshire, is another landlord who funds her own home improvements instead of seeking help through grants or Green Deal finance.

I recently bought a flat in Nottingham which had single-skin walls, so I had to remove the plaster and put in 65mm thermal plasterboard inside all the external walls. It's expensive stuff – the cost was £3,500 and it's only a small flat. I paid for it myself. When considering the costs of refurbishment, I tend to put the rent up by 5-8% and have no trouble letting the properties straight away as they're done up to a very high standard.

Rachel Hudson, landlord

¹ <https://research.rla.org.uk/wp-content/uploads/Safety-and-Energy-Efficiency-Conditions-on-Private-Rented-Sector-2017.pdf>

² <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>

A bone of contention among landlords is that the costs of changes made to their properties to comply with MEES regulations are not currently tax deductible. This is because they are classed as improvements rather than general maintenance or repairs¹ so would come under capital gains tax relief, which cannot be claimed until the property is sold.

The RLA is urging the government to change this, so energy improvements could be considered a tax-deductible repair:

“...the current tax system does not incentivise a culture of continuous improvement in the private rented sector; instead, landlords have to wait until they sell the property (if they remember to save all the receipts – sometimes for over 10-15 years) before they can claim any tax relief. There is a simple policy change that the Treasury could introduce in the next budget that would change all of this.”

Simcock, T.J., (2018). Examining Energy Efficiency & Electrical Safety in the Private Rented Sector. Manchester: UK. Residential Landlords Association²

Potential sources of funding

Despite the fact that legislation was initially introduced on a 'no cost to landlord' principle, landlords are largely funding changes themselves, but the 'no cost' doesn't now exist and landlords are expected to spend up to £3,500 to bring a property up to the required EPC rating. The RLA's August 2018 report, Examining Energy Efficiency & Electrical Safety in the Private Rented Sector, revealed that only 4% of landlords who carried out work to improve their property's EPC had funded it via an energy grant. The vast majority financed improvements through their own rental profits (55%), savings (37%) or borrowing (23%).³

However, it is worth landlords investigating what help is available with costs, such as the schemes mentioned below.

Green Deal finance

This is currently available through private providers on a “Pay As You Save” (PAYS) basis.

The theory is that home improvements will reduce energy consumption and these savings are used to pay back the loan, via the householder's bills. Therefore, the home improvements will have been carried out at no cost to the landlord, as the tenant will be paying for them through bills which are the same as before the work, or cheaper.

¹ www.gov.uk/guidance/income-tax-when-you-rent-out-a-property-working-out-your-rental-income#allowable-expenses

² Retrieved from: <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiencyelectrical-safety-private-rented-sector.pdf>

³ <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>

Green Deal finance is complex and work must abide by the “Golden Rule”¹ which states: “*the first year’s repayments must not exceed the estimated first year saving, and the overall repayment period must not exceed the lifetime of the measures installed*”.

Several companies offer Green Deal finance and can be found here:

<http://gdorb.decc.gov.uk/consumersearch>

Tenants can also apply for Green Deal finance, but work can only be carried out with the property owner’s written permission. They can find out if they qualify by using the government’s calculator here: <https://www.gov.uk/energy-grants-calculator>

Not everybody considers Green Deal finance to be worthwhile, however:

We fund all energy-saving improvements to our properties ourselves. We have sourced grants in the past but these seem to have dried up. Green Deal finance is not attractive because you’re effectively loading the property with extra bills for all eternity – and if you sell the property it is encumbered with additional cost for the future owner or tenants.

Andrew Paris, Livingstone Homes

“I didn’t really look into the Green Deal when refurbishing the Nottingham flat and probably should have done. But applying for finance and grants all takes time and when I buy a property I want to turn it round as quickly as I can. Every month it stands empty it’s losing me £500 in rent. In any case, tenants don’t want to have to pay for the improvements themselves, even if it is through their energy bills.”

Rachel Hudson, landlord



Images: © David Watts Jr/Dreamstime.com; © Julija Sapic/Dreamstime.com; © Patrick Doering/Dreamstime.com

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669198/PRS_Minimum_Standards_Consultation_2017.pdf

The RLA highlighted some of the disadvantages of the scheme.

“Green Deal funding either in its old or new form, has generally been difficult to access for landlords. The payback method, through bills, means it can be difficult to let a property with a premium being paid on energy bills. Getting tenant permission can also be difficult for the same reason.

“Where measures were fully funded, take-up rates were much higher. Generally these were for higher cost measures and offered on a first come, first served basis and were oversubscribed. Now almost the only funding available is through affordable warmth, with landlords needing their tenants to qualify and competing with owner occupiers and social housing, or through the new private equity-driven Green Deal.”

John Stewart, RLA policy manager

The Energy Company Obligation (ECO) scheme

Since September 2018, the Energy Company Obligation (ECO) Scheme for private rented properties has become restricted¹. It is now only available to private rented properties:

- with an EPC rating of F or G
- with eligible tenants
- for high value measures such as solid wall insulation and renewable heating technologies.

[There is more information about the ECO scheme here.](#)

City Energy grants

City Energy is a Green Deal provider but also provides funding for landlords for energy efficiency improvements,² largely to those who are renting to tenants on benefits. Landlords can get funding or part-funding for improvements such as electric storage heaters, loft and wall insulation, and boiler upgrades.

Residential Landlords Association

¹ <https://www.which.co.uk/reviews/home-grants/article/home-grants/energy-company-obligation-eco#ECO>

² <https://www.cityenergy.org.uk/landlords-private-and-social/>

The Residential Landlords Association secured £1.5m of funding from E.On to help its members who are letting F and G-rated properties to tenants on certain benefits.¹ The funding is subject to a property survey and benefit assessment and potential help includes:

- free cavity wall and loft insulation
- funding towards external wall insulation for solid wall properties
- funding towards a boiler upgrade or replacement, plus finance options to spread the remaining cost
- free EPC and gas safety certificate following improvements.

Local authority grants

Landlords can contact their local authority to find out if any funding is available to help them improve their properties.

Landlords and tenants can also check if there is additional funding available in the area, and if they are eligible, by calling the Energy Saving Advice Service on 0300 123 1234.

Other funding

If the landlord is renting to tenants aged over 70, or who rely on the state pension, insulation grants may be available. These must be applied for by the tenant, but work can only be carried out with the property owner's written permission.²

¹ <https://news.rla.org.uk/rla-secures-1-5million-energy-funding-pot-for-members/>

² <http://www.government-grants.co.uk/insulation-grants-for-landlords-with-tenants>

Scotland

Help and advice for landlords and tenants in Scotland:

[Citizens Advice Scotland](#)

[Home Energy Scotland](#)

[Existing Homes Alliance](#)

Wales

Tenants on means-tested benefits can apply for free home energy efficiency improvements via [Nest](#).

Problems improving the property or securing funding

In certain circumstances, improving the property may not be possible, in which case the landlord may apply for an exemption. **All exemptions can be requested via the [PRS Exemptions Register](#).**

Exemptions are non-transferable and expire if the property changes ownership. Registration is free and there is no obligation to apply until it becomes necessary, ie when a tenancy requires renewing.¹

These are some of the exemptions which may be applied for via the register:

1. Funding issues

The current principle of MEES is that landlords should not have to spend more than £3,500 including VAT to bring properties up to standard.

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/713159/Domestic_Private_Rented_Landlord_Guidance_-_June_18.pdf

² <https://www.rla.org.uk/landlord/guides/minimum-energy-efficiency-standards.shtml>

When applying for an exemption on funding grounds, the landlord can do so based on a report from an independent surveyor. If they feel it would help, they may also provide supporting evidence, such as written advice from a Green Deal provider, an energy supplier or local authority explaining that funding would not cover the costs.

2. Problems improving the property

An exemption can also be applied for if a property cannot be improved, or a landlord has carried out all improvements that can be made and the property still does not meet the required EPC E rating.

When the five-year exemption has expired, the landlord must try again to improve the property, as advances in technology may have made it possible by that time. If the property still cannot be improved, a further exemption must be requested.

When applying for an exemption on these grounds, the landlord must provide written proof from a relevant independent expert, such as a chartered building surveyor, as detailed in the government's guidance.¹

3. Lack of consent

The landlord may need consent from a third party, such as the local authority, mortgage lender, or indeed from the tenant occupier, to carry out any work on the property. If this cannot be obtained, when applying for an exemption, the landlord must be able to provide evidence that 'reasonable effort' was made to seek consent.

Initially, a landlord could claim lack of consent from a tenant, but this no longer applies.¹

What funding will be available in the future?

The government has consulted on removing the 'no cost' principle and replacing it with a 'landlord funding contribution'.² Following the consultation, it was announced in November 2018 that any self-funding by landlords should be capped at £3,500.³ For the detailed changes to the new EPC laws, read ARLA's Minimum Energy Efficiency Standards factsheet or the more detailed Government guidance for landlords: The Domestic Private Rented Property Minimum Standard.

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/713159/Domestic_Private_Rented_Landlord_Guidance_-_June_18.pdf

² <https://www.gov.uk/government/consultations/domestic-private-rented-sector-minimum-level-of-energy-efficiency>

³ <https://residentiallandlord.com/mees-rules-change-raises-cost-cap-3500/>

PART THREE

Communication

Are landlords aware of their responsibilities?

Ahead of the introduction of the new EPC legislation, there was much publicity for the new rules and, for some landlords at least, this seems to have paid off.

According to Paragon's latest PRS Trends research¹, in the run-up to the implementation of the new standards:

- 39% of landlords said they had replaced the boiler in one or more of their rental properties
- 33% said they had invested in new windows

And research by the RLA, published in August 2018, four months after the new rules came in, showed that 89% of landlords were aware of the new MEES regulations and 90% of those with an F or G rated property were aware they could not renew the tenancy until it was upgraded.² It is worth pointing out, however, that the landlords who completed the RLA survey were either members of the organisation, users of the RLA's services or were alerted to the survey via one of the RLA's partner organisations. Therefore it is safe to assume they are naturally disposed to have an interest in meeting their landlord obligations.

There is very good awareness of the regulations amongst RLA members according to our latest research – one of the many benefits of joining a landlord association! However, other surveys show a lower level of awareness amongst landlords.

John Stewart, RLA policy manager

Indeed, just before the new rules came into force, landlord insurer Just Landlords revealed that almost half (48%) of landlords and tenants surveyed did not know that insulating a property could have a big impact on its energy efficiency, and 78% did not actually want their property to have its EPC rating improved.³

¹ <https://www.paragonbankinggroup.co.uk/resources/paragongroup/documents/publications/2018/prstrends-q2-2018>

² <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>

³ <https://www.justlandlords.co.uk/news/new-energy-efficiency-laws-shock-landlords/>

And energy provider E.On¹ surveyed landlords six months before the rules were introduced and found:

- 25% of landlords did not know about the requirements of the new (MEES) regulations
- 27% of landlords did not know the EPC rating of their property.

From landlords I've spoken to, it seems EPC regulations aren't on everybody's radar and some landlords are quite blasé about it, saying they will deal with it when their tenants move out. Although, to be honest, that is the best time to carry out any work, between tenancies when the property is empty.

Rachel Hudson, landlord

Our own research, for Report 10: Motivating landlords and tenants on their rights and responsibilities², found that 67% of landlords who responded to our survey knew that the EPC rating of a rental property was important, although not all could state exactly why:

When asked to specify, most were correct in stating that a property must have a rating of E or higher before it can be re-let, but some thought it was D or higher, some thought it was properties with a G-rating or lower and others provided vague answers such as "below a certain level".

TDS report 10: Motivating landlords and tenants on their rights and responsibilities

There has been less research into tenant awareness of the new regulations although, according to the RLA, 94% of landlords say their tenants have not requested any energy efficiency improvements in the past 12 months, suggesting either that the property did not need improving, or they were not aware they are allowed to do so.³

¹ <https://www.eonenergy.com/about-eon/media-centre/with-less-than-six-months-to-go-until-new-legislation-eon-offers-simple-ways-landlords-can-upgrade-their-properties/>

² <http://www.propertychecklists.co.uk/categories/tenancy-deposit-scheme-reports>

³ <https://research.rla.org.uk/wp-content/uploads/examining-energy-efficiency-electrical-safety-private-rented-sector.pdf>

How can communication be improved?

As mentioned in previous reports – specifically Report 11: Motivating landlords and tenants on their rights and responsibilities¹ – landlords are seeking clarity. Few will have the time and inclination to read the whole of the government guidance on the legislation² and, while the new ‘How to’ housing guides³ are useful, and all make mention of the new EPC rules, these guides are more likely to be read and followed by new landlords than those who have been letting for some time.

Sheila Cronin, of Kinleigh, Folkard & Hayward, is experiencing the challenges of communicating to landlords and feels more could be done by the government to get the message across.

“We wrote to all existing landlords about the minimum energy efficiency rating for EPCs when this was first announced; we speak about this to landlords at market appraisals, have added this to our terms and conditions, safety booklet and standard letters at the start of tenancies and at renewal enquiry stage. So basically we have done all we can.

However, we still have landlords wanting to come to market, or remarket their property with ratings of F and G.

“We also offer a desktop assessment for landlords by one of two independent companies so that landlords can find out what works, if any, will be required to improve the rating, or if they are exempt.

“The problem is that you can still advertise the property for letting with an F or G rating while the landlord carries out the works prior to the start of the tenancy, or finds out if the property is exempt. However, landlords are not always speedy in doing this and we can be left with a situation that the tenancy start date has to be delayed until the new EPC is in place.

“I don’t think the government has done nearly enough to advise landlords in general and needs to have a national campaign, as the consequences of not being able to serve a Section 21 Notice are severe.”

Sheila Cronin, Kinleigh, Folkard & Hayward

Theresa Wallace, of Savills, agrees that landlords in general do not understand the new EPC regulations, due to unclear rules and conflicting information being provided by different sources. Despite having sent out newsletters and written to each landlord individually, she feels this is not common practice, industry-wide.

¹ <http://www.propertychecklists.co.uk/categories/tenancy-deposit-scheme-reports>

² <http://www.landlordsguild.com/landlords-to-plough-through-96-pages-for-energy-efficiency-guidance/>

³ <https://www.gov.uk/government/collections/housing-how-to-guides>

We feel we are one of the few agents who are telling it like it is. When we are giving our best advice to landlords, they are saying ‘the agents down the road are not telling me that’.

Meanwhile, EPC providers are telling landlords that listed buildings don’t need an EPC; the Ministry of Housing, Communities & Local Government originally used to refer you to Historic England and their website said listed buildings don’t need an EPC but we now know that is not correct and MHCLG’s website info has changed accordingly. Listed buildings info on EPCs needs to be much clearer. The legislation as a whole has not been communicated well and many local authorities are not offering advice on it as they don’t seem to know either.

Theresa Wallace, Savills

Rural property consultancy and agency BCM has also called for clarity over listed building exemptions, criticising the fact that exemptions only last for five years so applying to the register is an ongoing cost for the property owner.¹

The company suggested one of two options should be adopted:

- Making the exemption permanent; or
- Relaxing the rules for amending listed buildings.

¹ <http://www.propertyindustryeye.com/rural-agency-calls-for-clarity-over-status-of-epc-exemptions-for-listed-buildings/>



Image: © creativecommonsstockphotos/ Dreamstime.com

Buildings have always evolved to keep pace with contemporary demands and many listed buildings have done so with owners making considerable changes in times gone by purely to keep pace with the fashion of their day.

“Surely it is not impossible that modern rules could be adapted to allow for sympathetic improvements bringing listed buildings into line with modern energy efficiency demands.

Andrew Bays, BCM

Glynis Frew, of Hunters, appreciates the difficulty of conveying yet more information to landlords and believes campaigning via tenants would be more effective in encouraging compliance.

Our landlords understand the new EPC rules and have made and continue to make changes. Some landlords can be harder to persuade than others that it's the way to go.

I would say generally the new rules have only been communicated to landlords by agents. I don't seem to have seen much else. It's difficult to get the information out there when there are already far too many rules, all coming out one after the other!

Consumers are mostly interested in what their bills will be, so maybe it would be better to target any campaigns at tenants, by making them aware of the difference a good EPC rating can make to their property costs. That way consumer pressure could motivate landlords to make improvements which would ensure they keep the bills down.

Glynis Frew, Hunters

As so often seems to be the case, it appears landlords who use a letting agent, or who are members of a landlord organisation, are more likely to have been kept informed about the EPC regulations, and therefore are more likely to comply.

This is no different to any other landlord legislation, with an element of “preaching to the converted”. Landlords who want to let legally and safely will do everything in their ability to do so, while those who are not interested will continue to fly under the radar.

Excessive regulation only serves to increase good landlords' costs while doing nothing to those of the bad landlords who – while in the minority – are out there.

Residential Landlords Association¹

¹ <https://news.rla.org.uk/campaigns/regulation-and-enforcement/>

Communicating the benefits of higher EPC ratings to tenants

While it is important for landlords to understand and meet their obligations regarding MEES – and the property industry in particular has been thorough in its attempts to get the message across – it is as essential to inform tenants, who stand to benefit most from warmer homes and lower energy bills. Tenants need to be aware of the importance of a good EPC rating and its effect on their household costs, as well as understand it is illegal in most cases for a landlord to let a property with an F or G rating.

The government's updated How To Rent guide¹ does cover the EPC regulations but giving this to tenants on check-in, as part of the prescribed information, is too late to be meaningful, as tenancy agreements have already been signed by then.

There needs to be a more focused campaign to alert tenants to the importance of the EPC when renting a property or renewing their tenancy which should, in turn, galvanize landlords into taking action. However, as long as there remains a shortage of properties to rent, consumer power is likely to have very little influence as ultimately, people need somewhere to live and, if the choice is limited, they will always be prepared – or forced – to compromise.

¹ <https://www.gov.uk/government/publications/how-to-rent>



Recommendations

- A nationwide campaign, with the government, industry and media working together, is needed urgently to educate tenants on the importance of checking the EPC, with a view to saving money on their energy bills.
- A wide-ranging joint government, industry and media-backed campaign to raise awareness of EPC rules among landlords is needed to target those who self-manage and/or are not members of a landlord association.
- Clarity and simplicity has been requested by agents and landlords, particularly surrounding exemptions for listed buildings.
- Clearer explanations are required of what energy changes will work and best impact on EPC ratings, including how this can result in savings for tenants. It needs to be emphasised to landlords that lower energy bills can be used as a marketing too when letting a property, and can also mean tenants have more money to afford their rent now and in the future.
- Tax relief on energy efficiency improvements could encourage more landlords to bring their properties up to standard; waiting to claim relief when they sell the property is no incentive as this could be decades into the future.

Further reading and resources

- [Capturing the Multiple Benefits of Energy Efficiency](#), The International Energy Agency:
- [The Green Age](#), energy saving advice portal
- [The Private Rented Property minimum standard](#) – landlord guidance documents
- [Residential Landlords Association Minimum Energy Efficiency Standards](#)
- [The Energy Company Obligation \(ECO\) scheme](#)
- [Each Home Counts energy saving advice](#)
- [Government 'How to' housing guides](#)