Landmark Information Group

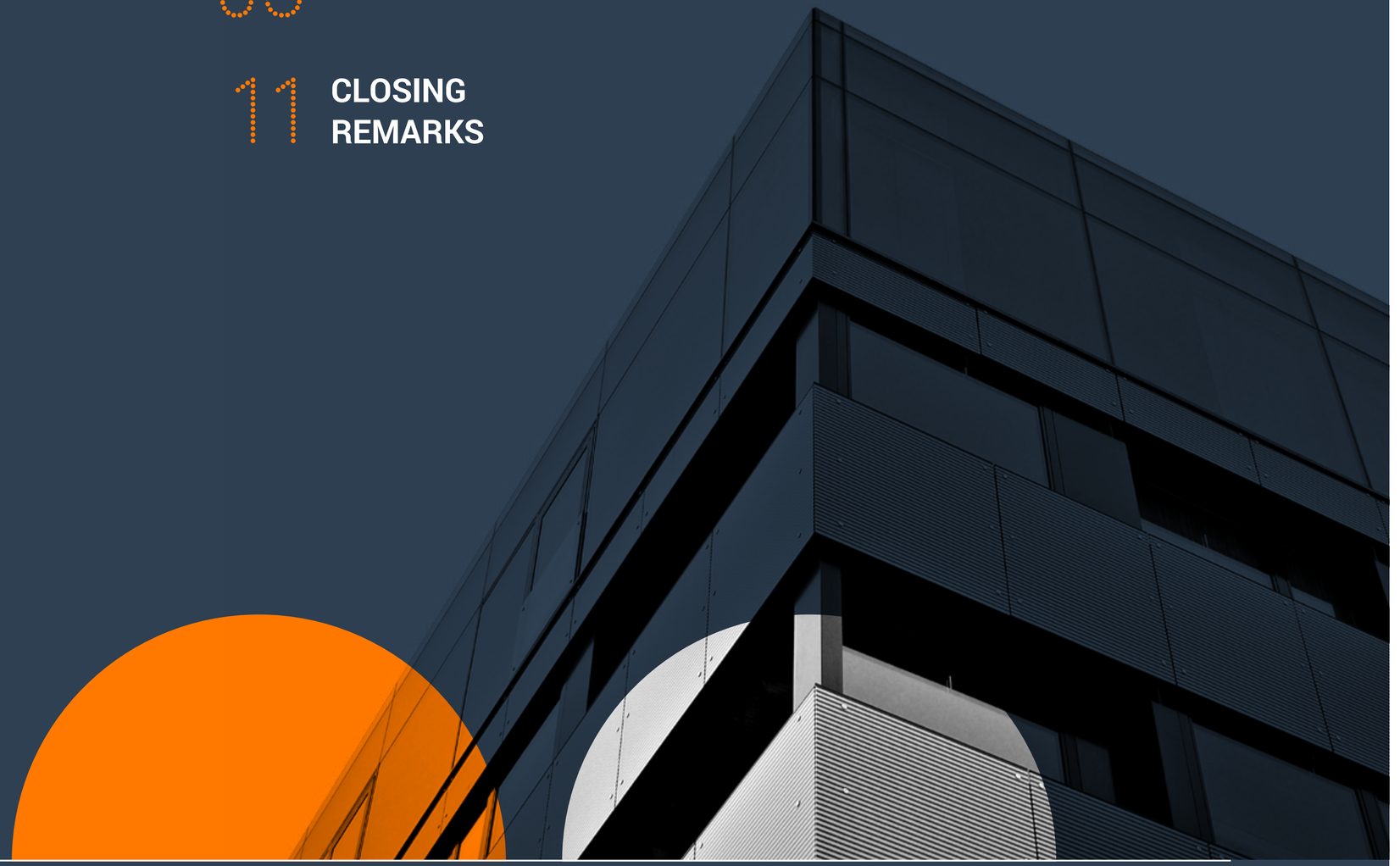
Data insights report:

# Transitional risk.

*Moving to a more energy-efficient future: the scale of the challenge*

# contents





# Introduction

## EPC, easy as 1-2-3?

*Flood damage. Coastal erosion. Overheating due to heatwaves…*

If you were to conduct a poll of UK homeowners on the most significant threats posed to their properties by climate change, the chances are the top responses would all be physical risks. After all, according to the Environment Agency[1], around 5.2 million homes – or one in six properties – are at risk of flooding in England alone. And recent extreme weather events, such as Storms Ciara, Dennis and George in February 2020, last year's Storms Dudley, Eunice and Franklin, and the recent Storm Babet have shown the scale and cost of the devastation that can be caused.

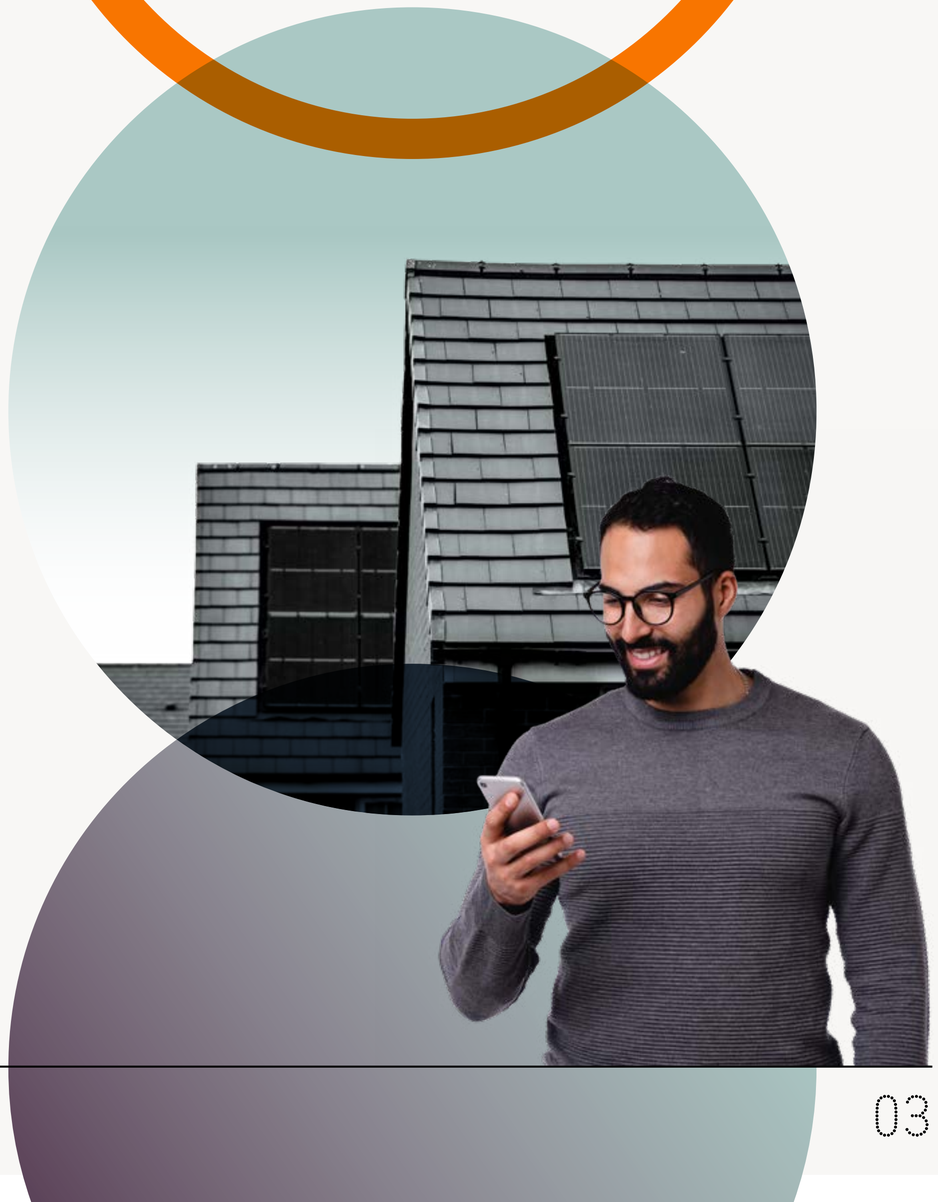
What perhaps does not spring to mind so readily for residents and property investors is the challenge posed by the low-carbon transition. Yet, the real estate and built environment sector — responsible for approximately 40% of annual global $CO_2$ emissions[2] — has a significant role to play in the journey to Net Zero. In the UK, we have the least energy-efficient buildings in Western Europe, with much of our housing stock pre-dating 1919[3], and around 15% of our greenhouse gas emissions come from our homes.

## Making homes more energy efficient

The Government originally set out its objectives for reducing carbon emissions from residential properties in its Clean Growth Strategy. Central to its objectives are Energy Performance Certificates (EPCs), which give properties an energy-efficiency rating from A (most efficient) to G (least efficient). The Government wants to see as many homes as possible upgraded to EPC band C by 2035, “where practical, cost-effective and affordable”. Another of its aims is for as many privately rented homes to be upgraded to band C by 2030 – again, where practical, cost-effective and affordable.

**The question is: how achievable are those aims?**

In this data report, we seek to shine a light on the scale of the challenge of upgrading the nation’s EPCs and explore whether the sector is able to meet the Government’s targets. ***But first, where are we with legislative change?***



1 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/292928/geho0609bqds-e-e.pdf
2 www.architecture2030.org/why-the-building-sector
3 www.statista.com/statistics/292252/age-of-housing-dwellings-in-england-uk-by-tenuree

# Legislative change

## Let’s talk about MEES

MEES stands for minimum energy efficiency standards. Landlords of privately rented properties in England and Wales have to comply with the minimum level of energy efficiency. This is set by regulation 22 (b) of what are colloquially known as the MEES Regulations[4].

### Current minimum EPC rating

The MEES Regulations apply to all domestic private rental properties that are let on specific types of tenancy agreements and are legally required to have an EPC. Different rules and guidance apply depending on whether the property is domestic or non-domestic, but in both instances the current minimum level is EPC band E.

As things stand, landlords of residential properties in England and Wales with an EPC rating of F or G are required to take action to upgrade this to an E or better, or to register a valid exemption if available. It is an offence to continue to let a property in breach of the MEES Regulations and this can result in a fine.

### Plans to raise the minimum level of energy efficiency

In 2021, following a consultation, the Government announced plans to increase the minimum EPC rating for rental properties to band C. The new minimum energy efficiency level would apply to new tenancies from 2025 and existing tenancies from 2028. In addition, the penalty for landlords who fail to comply would be raised, by 2025, from £5,000 to £30,000.

But at the end of March 2023, the Government announced it would be delaying the introduction of the new standards by three years. Cue accusations of feet dragging. Not for the first time when it comes to MEES amendments.

4 Energy Efficiency (Private Rented Property) (England and Wales) Regulations

## Parliamentary proposals

The Government, however, is not alone in proposing changes to MEES. A private members' bill is making its way through Parliament.

Under the current parliamentary proposals:

- From 31 December 2028, the minimum EPC rating for all tenancies of privately rented properties will be raised to band C or higher (replacing the plan for a staged approach)
- Mortgage lenders must make sure that the average energy performance of their property portfolios is at least EPC band C by 31 December 2030
- Non-mortgaged owner-occupied homes will have to be EPC band C by 2033 (bringing forward the Government's target by two years)
- Social landlords must ensure that a significant amount of their residential properties are at least EPC band C by 2030
- And all rented non-domestic buildings must be EPC band B by 2030

These proposals are set out in the Minimum Energy Performance of Buildings Bill[5]. This Bill would also take the Government's target of upgrading all fuel-poor households to EPC band C by 2030 and turn it into a legal obligation.

However, the Bill's progress through Parliament has been slow. The second reading in the House of Commons (albeit of a previous version of the Bill) was originally due in May 2022. This is now set to take place on 24 November 2023.

For landlords, tenants and homeowners, the state of limbo and confusion continues.

5 bills.parliament.uk/bills/3231

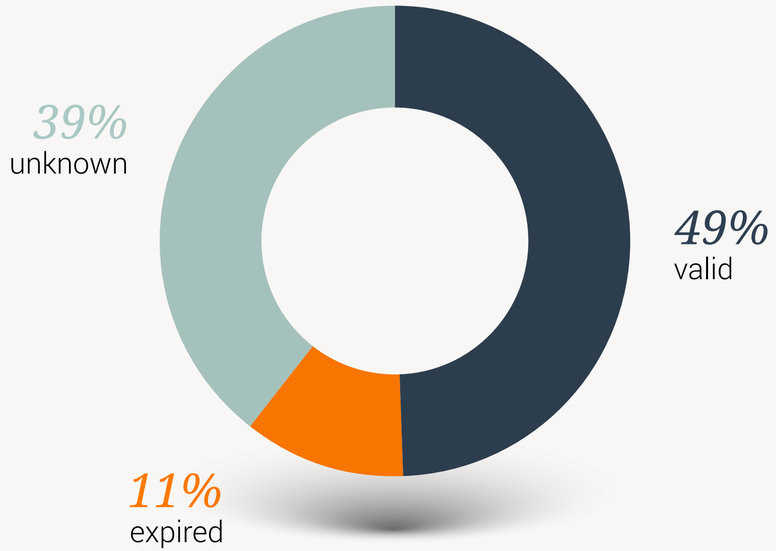
# Data analysis: The current state of play

Assuming the plan to raise the minimum level of efficiency will eventually become enshrined in law, what will it take for the Government's targets to be met? To understand the scale of the challenge, we need to know how many residential properties fall below the target of EPC band C or higher. But there's a more fundamental question to answer first: ***how many homes have a valid EPC?***

## The number of valid EPCs

The UK has roughly 30.4 million residential properties. Our data shows that 61% of those (18.5 million) have had an EPC assessment. But an EPC is only valid for ten years from its date of issue and the EPC assessments for 3.4 million properties have already expired.

**Residential properties with Energy Performance Certificates**




That means, at present, only 49% of residential properties in the UK have a valid EPC and the energy-efficiency status of over half of the homes in the country is unknown.

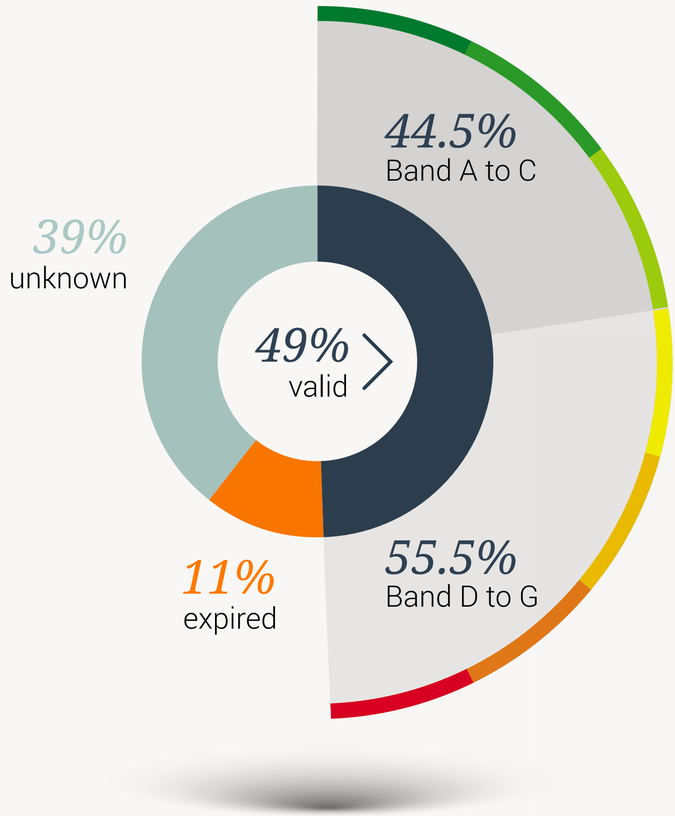
## Residences in need of remediation

How many residential properties would need to be retrofitted?
Out of all the properties with known EPCs, our data shows:

- 55.5% are rated between band D and G –
  of those, 3.4% are rated either F or G
- Only 44.5% have a rating of A to C

Based on those figures, we can see that over 55% of properties fall below the target of EPC band C or better. However, this percentage is potentially conservative – particularly when you consider that properties without valid EPCs will not have formed part of a transaction in the last ten years. Properties without EPCs also tend to be older buildings whose energy-efficiency performance levels come in lower down the scale.

**Rating of residential properties with known EPC**



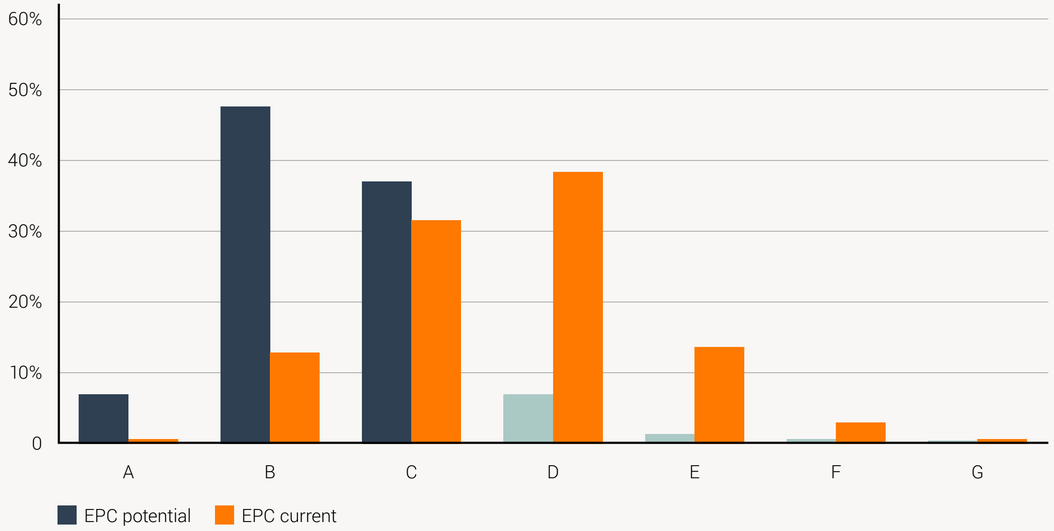

# Data analysis: Room for optimism?

When carrying out an EPC assessment, as well as giving a property its current EPC rating, an assessor will record the property's potential rating. This indicates what the energy efficiency of the property would be if all the suggested changes recorded in the EPC were made.

For instance, an EPC might include recommendations to switch to low-energy light bulbs, add wall insulation, install double-glazed windows or replace a boiler with a new condensing boiler.

*So what do current EPC assessments tell us about the potential for remediation?*

**Actual EPC ratings vs potential EPC ratings**




Landmark's data shows:

- 8.5% of known EPCs have a potential rating between bands D and G
- 0.4% of known EPCs have a potential rating of F or G
- But 91.5% of properties could meet the future target of band C or better

So, it appears there is considerable scope for properties with low-efficiency ratings to transition up to the higher-efficiency bands of A to C.

# Data analysis: The cost of transition

But how easy would it be for owners to retrofit their properties?

The costs of transitioning to EPC band C are far from insignificant. It is anticipated that as many as 20 million properties (66% of the residential housing stock) could be impacted, at an estimated total cost of over £314 billion (£314,474,028,611 to be exact). To put that into context, that equates to an average cost per property of about £15,656.

However, the true cost varies quite a lot when comparing the average cost of uplifting from various lower-efficiency bands to target band C.

**Average remediation cost**

Take a property in band G. The average cost of £39,381 to uplift an extremely inefficient property from band G to band C equates to nearly 11% of the average current value of a property. By contrast, uplifting a property from band D equates to only 3.7% of the average current value.

Even at around £15,500, the average cost is far in excess of the current energy investment cap under the MEES Regulations. Today, that stands at £3,500 (including VAT), although the Bill going through Parliament proposes increasing the spending cap to £20,000.

No wonder, then, that the Bill says further regulations may be required to define what is meant by the phrase “where practical, cost-effective and affordable”. But for now, it remains to be seen how many homes will be exempt from making changes.

# Closing remarks

## Raising EPC ratings requires more than a change in regulations

**Chris Loaring, Managing Director (Legal), Landmark Information**

“If the Government’s energy-efficiency targets are to be realised, there is a lot of work to be done to our housing stock. When you look at the data of potential EPC ratings, it appears that reaching the Government’s targets will be possible, as 91.5% of properties with a known EPC have the potential to upgrade to band C or higher. But the question that jumps out at me is: how? And that’s a massive question.

## The implementation challenge

Roughly 40% of residential properties in the UK do not have an EPC; their energy performance is unknown. Whether or not you add to that the properties whose EPCs have expired, the number of homes that will need to be improved from band E, F or G to C is going to be in the millions. Can the current infrastructure in the industry achieve that?

I'm not convinced there's the capacity in the system to deliver to the Government's timeline — even with the recently announced three-year delay. Is the hope that there will be a massive scale-up in the number of retrofit businesses? Is it anticipated there will be lots of new market-entrant businesses to carry out remediation for a short period before then fading away? Or is the plan for people in adjacent professions to pivot?

That's not to say that opportunities do not exist. Ultimately, there's a massive market there, but I see a couple of challenges.

**1. Confidence**

Whether you're a market entrant or an existing business taking a leap by scaling up, your commercial move is predicated on the Government's proposals becoming legislation. What happens if that legislation is pushed back by ten years? Suddenly, your business model collapses because of a lack of urgency in the market.

**2. A finite commercial opportunity**

Secondly, where is the recurrent business model? Once all the properties in the UK have been retrofitted, that market will disappear. It's a fairly one-off market, which makes bridging the gap even harder to implement. If there was a longer-term opportunity, you might expect there to be more businesses deciding to scale up or step into the market.

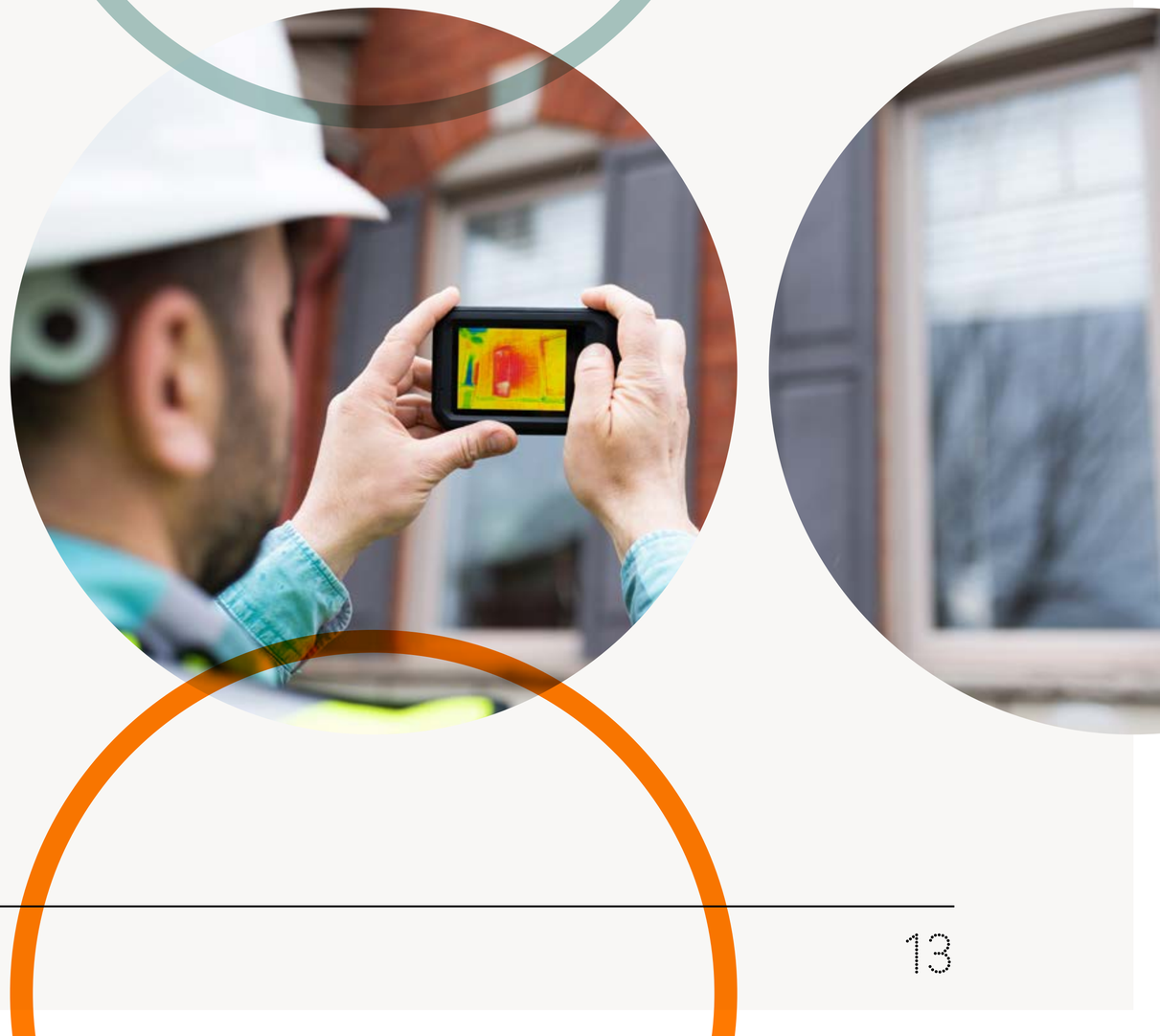
## Drivers for change

And there's another potential issue: drivers for change exist (or will exist) for landlords and sellers, but what about those properties that don't change hands? What is the mechanism for change going to be?

If we are relying solely on property sales to drive change, that's going to take many years to filter through the residential market. Approximately 1.1 million transactions took place in 2022. Assuming sales continue at the same annual rate — assuming also that they concern different properties year on year — it would take over 18 years to retrofit the estimated 20 million properties with an EPC rating below band C.

Our data shows that there's huge potential to make housing stock more energy efficient. But is there enough capacity in the sector to record an accurate baseline for the 51% of homes with an unclear EPC status?

As ever, with any large-scale legislative change, the practicalities hold the key to success. We can reach a more energy-efficient future in the residential property sector. But whether that's by 2035 remains to be seen."



# Keep track of the latest trends...

**Landmark's Residential Property Trends Reports provide key insights every quarter.** They give a concise, data-led overview of the entire residential transaction pipeline in England, Scotland and Wales, tracking all the important milestones from listings to SSTC/SSTM, and searches to completions.

**Read our latest report here**

To find out more about the breadth of data-led services from Landmark Information Group, contact our team for more information.

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