THE ADDED INCENTIVE FOR ENERGY EFFICIENCY

By **Graham Kinnear**

Many landlords were relieved that Michael Gove recently suggested that the requirement to get rented property to an EPC band C for new tenancies by 2025, and existing ones by 2028, should be relaxed – on the basis that it is asking too much of landlords in too short a period of time.

Whilst some have said this is a softening in the approach being taken to the private rented sector, I believe it is a response to the rather alarming numbers of landlords who have recently decided to sell their properties and the consequent shortage of accommodation in many areas throughout the UK.

But does that mean that you should change your approach to energy efficiency? I do not think so.

The desire for energy efficiency has reached such significant momentum that it is almost certain that these enhanced energy rating requirements will be implemented. It is just that the implementation date will likely be pushed back. By continuing with your plans to improve your property you are more likely to find an available contractor at an acceptable price than would perhaps have been the case if you were trying to get the works undertaken just ahead of the government-imposed deadline.

I recently undertook an EPC for a customer where I had previously undertaken an EPC back in 2019. Since that time the tenant had vacated, and the landlord decided to do a general refurbishment of the house. We provided advice as to cost-effective energy improvements and the decision was taken to insulate the external walls (they needed to be plastered anyway), upgrade the loft insulation and to add thermostatic valves and a room thermostat to the heating system. The result was an increase from a band D to a Band C on the EPC and the costs, beyond what was spent on the refurbishment, were £1,200. Given the logistics of insulating the walls of an occupied property, it seems incredibly sensible that such works should form part of your standard refurbishment regime. Not only is the property more energy efficient but the rent has now increased from £750 to £950.

The increased rent could on its own justify the improvements made, but in addition it may be possible to further benefit by way of a mortgage discount.

Recently there was quite a move towards so called Green Mortgages, and I believe in some format this will continue and develop further. This is something which has not featured in the media during all the discussions of increasing mortgage rates, and I believe landlords should be able to take advantage of it.

The green mortgage offers a cheaper mortgage to borrowers whose property has a certain energy efficiency rating. Up until the mortgage rates started to increase, these were becoming more popular as banks undertook a drive to make their loan books more sustainable. Indeed, research by Defaqto found that the number of green mortgages on the market increased by a fifth between October 2021 and April 2022.

Whilst originally a niche proposition, the idea was adopted by the large lenders including Halifax, Barclays and NatWest.

Whilst they currently only offer a small saving on standard rates, at a time where finances are getting stretched this could still be worthwhile. In addition, there have been cashback mortgages such as those with the Halifax and Leeds Building Society, where a £500 cashback was offered for borrowers who made improvements to insulation or £1,000 if a ground or air source heat pump was installed. The Nationwide had a scheme where customers were allowed to borrow up to £25,000 at a reduced rate where at least 50% was to be spent on energy efficient improvements. A further scheme was operated by Kensington Mortgages where a £1,000 cashback was available to borrowers if they improve their EPC rating by one band within 12 months of taking out their mortgage. Such a sum would have paid for almost all the improvements that my recent customer undertook!

Given you will doubtless be required to improve the efficiency of your portfolio in time, surely it makes sense to investigate what mortgage products could be available to you in the event that you undertake some of this work ahead of being forced to by legislation?

After all, anecdotal evidence suggests that energy efficiency measures seem to encourage tenants to stay longer and could also increase the capital value of your portfolio.

Despite the government's recent comments, I'm still pressing ahead with energy improvements as I cannot think of a reason not to. So this month, have a chat with your mortgage broker and see if you can get some long awaited good news from them!

As always, I am happy to assist YPN readers and can be contacted on 01843 583000 or graham@grahamkinnear.com