

## Decarbonisation of housing: decarbonising the private housing sector

*19<sup>th</sup> August 2022*

### **About the NRLA**

1. The National Residential Landlord Association (NRLA) thanks the committee for the opportunity to comment on the delivery of decarbonisation of housing in Wales.
2. The National Residential Landlords Association is the UK's largest membership organisation for private residential landlords, supporting and representing over 95,000 members. The association was created from the merger of the RLA and NLA in April 2020. NRLA members range from full-time landlords running property portfolios to those letting single bedroom flats.
3. We help our members navigate these challenges and proudly offer some of the most comprehensive learning resources and market-leading intelligence available in the sector. We seek a fair legal and regulatory environment for both landlord and tenant and actively lobby the Government on behalf of our members.
4. We thank the committee for the opportunity to answer the following questions.

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1. the current approach to decarbonising housing in the private rented and owner-occupied sectors in Wales, including the effectiveness of existing programmes and support for retrofit;
- The private rented sector is governed by Minimum Energy Efficiency Standards which are legislated for from Westminster. There was a consultation which closed in

January 2021 which looked at increasing the Minimum Energy Efficiency Standards alongside the introduction of a carbon metric.

- There currently is no minimum standard for decarbonisation for the private rented sector, the sector is regulated by Energy Efficiency, via the Energy Performance Certificate (EPC). The current target is an E for energy efficiency within the EPC. The consultation which closed last year has proposed either an Environmental Impact Rating of a C or an Energy Efficiency rating of a C for new tenancies from April 2025 and all tenancies from April 2028
- There is no programme for the private rented sector in relation to decarbonisation.
- There is limited support for those around energy efficiency, but this is based on low-income households. These support programmes are based on the tenant and not the building or landlord. In many situations a landlord will not know the finances of individual tenants, therefore will not apply.

2. the role of sector specific retrofit targets to help drive change;

- Properties change sector regularly; a private landlord may rent a property to a local authority, who use it for social housing. An RSL may use a property as a private rent then for social rent, equally a property may be rented out for a year because a person has a job overseas for a defined period such as a year, and then it will revert back to owner occupier. To have different targets for each sector could cause confusion and problems, especially when targets will be set outside of Welsh government competency.
- Clarity on targets short term and long term will be required to avoid inappropriate measure being installed and then needing replaced. This is not only expensive but losses support for decarbonisation.
- To set targets which will be dependent on other areas not covered by Welsh Government also poses a problem. The private rented sector is governed by the Minimum Energy Efficiency Standards, which are set in . This will look at the environmental (carbon) impact of properties, in the future. But to use a different target for different sectors will create confusion.
- This is still subject to the future energy grids strategy along with the future energy mix. With an unknown energy mix moving forward, it is a challenge to predict what specific targets will be required. We do support the improving of the fabric of building first before moving to heating systems. Thus, the retrofit target should be first looking at people moving the properties to the best fabric position they can be before looking at heating.

3. actions the Welsh Government should take to progress a programme of retrofit for these sectors in the short, medium and long term;

- There is a lack of knowledge of where every house is on the journey to zero carbon in Wales, or even energy efficient.
  - A survey of all housing in Wales should be undertaken. This would give a base line from which decisions can be made, which would be based on evidence from the survey. This would give an understanding of the scale of the retrofit challenge and allow for the development of the skills and resources that are required as well as an indication of scale of retrofit required.
  - It is only from doing this that a meaningful plan short, medium and long term can be made.
4. the key challenges of delivering a programme of retrofit within these sectors, including financial, practical and behavioural, and action required from the Welsh Government (and its partners) to overcome them;
- There is a lack of understanding of what the challenges are and what the move to decarbonisation will look like. That is why a property passport giving a road map for each property will allow people to understand what they need to do, and they can plan for this.
  - The issues such as finance, practicalities and behaviour change would flow from renovation passports as they will give an indication of what needs to happen. From this it will allow people to budget and plan for what the changes will be.
5. how the right balance can be struck between influencing/incentivising home owners and private sector landlords to retrofit their properties and regulating to increase standards to drive progress;
- Regulations for the private rented sector sit within MEES and we await the outcome of the consultation.
  - Any policy has to be balanced in the private rented sector between costs and affordability of the tenants. An increase in rents during a period of fiscal tightening would not be to the advantage of households in Wales.
  - A pathway to net zero needs to be made and how it will be funded and incentivised.
  - Tax breaks such as the landlord energy saving allowance needs to be re-introduced along with support around planning, building regulations and access.
  - Reform of the planning system to support change in building, to achieve the targets especially around windows and external wall insulation.

## **A Submission by the National Residential Landlords Association**

### **1.0 About Us**

- 1.1 The National Residential Landlords Association (NRLA) is the leading voice in England and Wales for private sector residential landlords. It has almost 100,000 members making it by far the largest organisation in the sector. The membership owns and manages around 10% of private rented housing in England and Wales equating to half a million properties.
- 1.2 It provides training and support for landlords to ensure they fully understand their responsibilities and are equipped to provide good quality housing for their tenants. It also campaigns for policies that seek to improve the private rented sector for the benefit of tenants and good landlords alike.

### **2.0 Executive Summary**

- 2.1 The push for net zero and decarbonisation presents a significant challenge to the private rented sector. The NRLA understands the need to reduce our carbon emissions in order to reach net zero carbon emissions by 2050 and acknowledges that there will be costs associated with that. However, it must be done in a way that is fair and reflects the ability of particular groups to contribute to that transition.
- 2.2 If approached incorrectly, policies that aim to help progress the transition to net zero may end up harming the sector, reducing supply and increasing costs to government overall.
- 2.3 There is an erroneous assumption that all landlords can shoulder the burden of decarbonisation in the private rented sector. In fact, most landlords do not have large property portfolios. The large majority are middle-income individuals who own just one or two properties for rent. Our research shows that across the UK private landlords make an average, net annual income from property of less than £4,500 a year. Due to lower rents, the Wales-only figure is likely to be lower.<sup>1</sup>
- 2.4 The cost to upgrade many homes in Wales is likely to be prohibitively expensive for most landlords. It would cost them up to the proposed national cost cap of £10,000 and they may not be successful, even with this investment, in ensuring that their properties have at least an EPC rating of C or better. This is because the Welsh housing stock tends to be older and built with solid walls, making insulation measures difficult and expensive.
- 2.5 The NRLA is calling for several key changes to be made at a UK level and a Wales level. For the latter, the NRLA is calling for:
  - The Development Bank of Wales to provide additional funding where landlords are likely to face prohibitive costs when making energy efficiency improvements to their homes. This should be introduced in the form of zero, interest loans.

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<sup>1</sup> NRLA, *Energy efficiency support failing to help most in need*, July 2021, available at: <https://www.nrla.org.uk/news/energy-efficiency-support-failing-to-help-most-in-need>.

- Such a financing scheme should be administered by Rent Smart Wales who can use the data it holds and the EPC register to determine which landlords to contact about their responsibilities on energy efficiency and the availability of support and additional funding.
- We are calling for greater access to the PRS for grant funding opportunities from the Welsh Government's Warm Homes Programme. Current grant funding opportunities from Arbed and Nest have barriers for the PRS and a designated fund for the PRS tackling the most energy inefficient buildings would be desirable.
- The ECO flex scheme must be fully utilised by Welsh local authorities to ensure that more homes in the private rented sector benefit from the scheme. The Welsh Government should introduce measures to support local authorities in doing this. They are currently prevented from making the most of the scheme due to insufficient resources and personnel.
- A specific training budget should be established by the Welsh Government to help small businesses upskill their workforce and ensure that Wales has the skills base necessary to conduct a mass retrofit of its housing stock.

### **3.0 Effectiveness of Current Policy**

3.1 Decarbonisation of the private rented sector is one of the more challenging aspects of the UK and Welsh Governments' target to reach net zero carbon emissions by 2050. Despite the clear will to improve the energy efficiency of private rented housing and therefore reduce their carbon footprint, the current policy offering is inadequate and unless this is rectified it will not succeed.

3.2 At present, there are not enough incentives for landlords to upgrade the energy efficiency of their properties. There is currently a requirement that a landlord upgrades their properties to a minimum standard of EPC rating E or higher and a landlord is required to invest up to £3,000 to achieve this.<sup>2</sup> This policy is ineffective, especially in Wales, as:

- Properties in Wales tend to be older and therefore more expensive to upgrade, meaning that £3,000 will not be enough to bring them up to the required standard.
- Even if this does bring the property up to an EPC rating of E, this may not be enough to make the required cuts in carbon emissions to help achieve the target of net zero carbon emissions by 2050. Government figures estimate that it would cost an average of over £7,500 to bring rental properties up to the required EPC rating of C in England and the figure is likely to be the same, or more, in Wales.<sup>3</sup>

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<sup>2</sup> UK Government, *Domestic private rented property: minimum energy efficiency standard - landlord guidance*, October 2017, available at: <https://www.gov.uk/guidance/domestic-private-rented-property-minimum-energy-efficiency-standard-landlord-guidance>.

<sup>3</sup> English Housing Survey Private Rented Sector report for 2019/20, July 2021, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1000052/EHS\\_19-20\\_PRS\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1000052/EHS_19-20_PRS_report.pdf).

- 3.3 There are currently proposals being considered at a UK-wide level to require landlords to invest up to £10,000 to bring their properties up to an EPC rating of C.<sup>4</sup> The above issue around the age of properties in Wales still applies. This means that even with this investment, a landlord may not be able to bring a property up to the required standard, particularly as some properties only have a potential for an EPC rating of D or lower. Many typical landlord businesses have neither the liquid capital nor the equity to finance expensive retrofit like external wall insulation or the installation of heat pumps without help. As such, setting the cost cap too high will dissuade investment and drive landlords out of the market where property values cannot support them.
- 3.4 In many areas in Wales, this proposed new national cost cap could represent a significant proportion of the value of the average property. For example, in Blaenau Gwent, which in the year to March 2021 saw the average (median) price paid for a property being £96,500, a cost cap of £10,000 would amount to just over 10% of the value of the average property, compared to nearby Monmouthshire (average price paid being £279,450) where it would come to just over 3.5%.<sup>5</sup> For many landlords in Wales, the new cost cap would be uneconomical and it is possible that, even with substantial investment, the property may not be upgraded to EPC band C or better before the cost cap is hit.
- 3.5 There is also not enough support or investment from government going into the decarbonisation of the private rented sector at present. Social rented properties in Wales can benefit from the Optimised Retrofit Programme, whilst at a UK-level social rented properties can also benefit from the Social Housing Decarbonisation Fund.<sup>6</sup> Furthermore, just 14% of all measures undertaken under the Energy Company Obligation (ECO) scheme have been in the private rented sector, despite the unique challenges the private rented sector faces in upgrading its housing stock and the fact that the PRS makes up 19% of the UK housing sector.<sup>7</sup> Landlords are generally expected to upgrade their properties out of their own pocket, which is not realistic when most landlords make an average net annual income from property of less than £4,500 a year.

#### **4.0 What the Welsh Government Should Do**

- 4.1 Properties in Wales will need significant amounts spent on them to bring them up to minimum energy efficiency standards. One of the biggest challenges facing the private rented sector is the age of the housing stock in it. The most recent Welsh Housing Conditions Survey noted that the private rented sector has the oldest stock with 43% of dwellings in it built prior to 1919.<sup>8</sup> These are properties which typically have solid walls making insulation measures extremely difficult and expensive.

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<sup>4</sup> UK Government, *Improving the energy performance of privately rented homes*, September 2020, available at:

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

<sup>5</sup> Office for National Statistics, *Median house prices for administrative geographies: HPSSA dataset 9*, November 2021, available at:

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/medianhousepriceforationalandsubnationalgeographicquarterlyrollingyearhpssadatase09>.

<sup>6</sup> UK Government, *Social Housing Decarbonisation Fund: Wave 2.1*, June 2022, available at:

<https://www.gov.uk/government/publications/social-housing-decarbonisation-fund-wave-2#:~:text=The%20Social%20Housing%20Decarbonisation%20Fund,C%20up%20to%20that%20standard.>

<sup>7</sup> Footnote needed

<sup>8</sup> Welsh Government, *Welsh Housing Conditions Survey 2017-18: headline report (updated)*, February 2020, available at:

<https://gov.wales/sites/default/files/statistics-and-research/2020-02/welsh-housing-conditions-survey-headline-results-april-2017-march-2018-update-570.pdf>.

- 4.2 Welsh landlords are also likely to find it more challenging to meet the costs of bringing these properties up to the required standard given the relatively low property and rental values. According to Zoopla's latest analysis of UK rents, the average rent in Wales is £705 per calendar month, compared to an average of £995pcm across the UK.<sup>9</sup>
- 4.3 The NRLA is therefore calling for a number of measures to be introduced by the Welsh Government in order to ensure a retrofit of private rented housing in Wales is successful.
- We are calling for the Development Bank of Wales to provide additional funding up to the cost cap of £3,000, or £10,000 if it is increased by the UK Government, where landlords are likely to face prohibitive costs when making energy efficiency improvements. Landlords should also be eligible for this support if they live in a low rental market area. This support should be offered in the form of a low or zero interest loan to encourage uptake whilst ensuring it does not cost the Welsh taxpayer in the long run.
  - This energy efficiency loan scheme should be administered by Rent Smart Wales. The NRLA believes that Rent Smart Wales' knowledge of existing private rented sector properties means it would be ideally placed to manage this. It should use the data it currently holds, as well as the Energy Performance Certificate register which is publicly accessible, to help determine which properties in the PRS are without an EPC rating of C or better. Rent Smart Wales should then use this to inform landlords of their responsibilities in terms of improving the energy efficiency as well as the availability of what funding they can access in order to help them meet these responsibilities.
  - Changes should be made to the ECO Flex scheme to ensure that more properties in the private rented sector can benefit from it. Whilst the new scheme gives local authorities more discretion about what properties can access funding, local authorities in Wales are not currently able to use this new flexibility due to insufficient resourcing and personnel who would be able to monitor and evaluate funding. The Welsh Government should help local authorities to build up this resourcing and personnel to ensure this issue is rectified.
  - A January 2022 report from the Gatsby Foundation and Energy Systems Catapult found that the current education system and wider sector is underprepared for a mass retrofit of the UK's housing stock.<sup>10</sup> A substantial growth and change in the supply chain is also needed, alongside the closure of skills gaps in property assessment, low carbon heating installation and technology integration. A specific training budget should be established by the Welsh Government to rectify this issue in Wales which could then ensure that there is the skills base necessary to conduct a mass retrofit of its housing stock.
  - While decarbonisation and tackling fuel poverty are different phenomena, there are synergies in their aims. The PRS has the highest levels of fuel poverty out of all Welsh tenures. This is due to the age of stock and a growing proportion of vulnerable tenants

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<sup>9</sup> Zoopla, *Rents on new lets are rising across the UK but it's a highly localised picture*, May 2022, available at:

<https://www.zoopla.co.uk/discover/property-news/rents-on-new-lets-are-rising-across-the-uk-but-its-a-highly-localised/>.

<sup>10</sup> Energy Systems Catapult. *Skills for Net Zero Homes*, January 2022, available at: <https://es.catapult.org.uk/policy-brief/skills-for-net-zero-homes/>.

accessing the sector. However, the Welsh PRS has made the most strident improvements in its energy efficiency compared to other tenures.

- There remain barriers to accessing the Welsh Government’s Warm Homes Programme grants for the PRS. Arbed is focused on the most deprived lower super output areas (LSOAs) in Wales. Given the sporadic nature of the PRS, concentrating on such small geographies makes accessing the grant problematic compared to the social sector that can be delivered at a larger scale. Turning to Nest, the grant is open to tenants with specific circumstances. For example, tenants in receipt of a means tested benefit or fit the National Institute for Health and Care Excellence (NICE) definition of vulnerability to the cold. Given the transient nature of the PRS, this grant has little impact on tackling the least fuel-efficient homes in the sector. A targeted fund tackling the least efficient PRS properties could remedy this problem.

## 5.0 What the UK Government Should Do

- 5.1 At the UK level, the NRLA believes several changes are needed to make the retrofit of the housing stock across the country a success, including in Wales.
- 5.2 The amount that landlords should be expected to contribute to the upgrading of the energy efficiency of their properties should be linked to the average market rents in any given area, known as broad rental market areas (BRMAs). This is calculated by the Valuation Office Agency. Under our proposals, landlords would need to contribute a minimum of £5,000, whilst landlords renting properties in rental market areas with higher average rents would need to contribute more, gradually tapering to £10,000. This would mean that landlords that are less able to contribute to the improvement of the energy efficiency of their property are not disadvantaged, whilst those that are more able would contribute more.
- 5.3 The NRLA believes that the following system should be used, rather than requiring all landlords to meet the £10,000 cost cap. BRMA quintiles should be used to divide areas up into bands based on average rent levels, with those in the highest quintiles held to the full cap, whilst those in the lower groups would be subject to a decreasing cap based on rent data in their local BRMA:

BRMA quintile	Proposed cost cap
Lowest 20%	£5,000
20-40%	£6,250
40-60%	£7,500
60-80%	£8,750
Highest 20%	£10,000

- 5.4 The NRLA is also calling for a package of fiscal measures to support investment in energy efficiency upgrades.<sup>11</sup> This should include:
- The development of a new decarbonisation tax allowance for landlords who are undertaking work towards reaching net zero.

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<sup>11</sup> NRLA, *Energy efficiency – financing and funding for the road to Net Zero*, December 2021, available at: <https://www.nrla.org.uk/download?document=1372>.



- VAT relief on work that is completed on a property. This should be in place for ten years to provide landlords with incentives to take action to meet the Government's targets.
- Council tax relief on properties where energy efficiency improvements are being made to rental properties when they are empty.

## **6.0 Striking A Balance Between Incentives and Targets**

- 6.1 It is the NRLA's view that targets are meaningless if they are unable to be met. Whilst important to try and drive forward the retrofit programme and push to net zero carbon emissions, ultimately for landlords, who rely on rental properties for income, financial incentives are the best way of driving change and action.
- 6.2 Our ultimate concern is that requirements to upgrade properties without additional support make remaining a landlord unsustainable as a business model, especially for most landlords who only receive a small amount of income in rent each year and only own one or two properties. This could lead to landlords leaving the market, reducing supply whilst demand is high and leading to fewer properties being upgraded.
- 6.3 The NRLA appreciates there needs to be a balance struck between providing incentives for landlords and ensuring value for the Welsh taxpayer. That is why we are calling for any financial support to be paid in the form of low or zero interest loans, rather than grants.
- 6.4 The key in our view is to ensure that landlords see the upgrade of their properties as a net positive for them. Rent Smart Wales should outline the potential benefits to landlords when it contacts them advising them of what support is available to upgrade their properties, including an increase in the value of their property and lower running costs of the property, especially where the cost of bills is included as part of the rent.