Consultation Response

Improving home energy performance through lenders

Response by the Royal Institution of Chartered Surveyors (RICS).

Introduction

The Royal Institution of Chartered Surveyors (RICS) is pleased to respond to this Call for Evidence by the Department for Business, Energy and Industrial Strategy (BEIS).

Established in 1868, RICS is the largest organisation of its kind for professionals in property, construction, land, and related environmental issues, setting and upholding professional standards for 125,000 qualified professionals and over 10,000 firms. RICS regulates both its individual qualified professionals and those firms that have registered for regulation by RICS.

Over 80,000 of our qualified professionals work in the UK, where our goal is to deliver a healthy and vibrant property and land sector as a key pillar of a thriving economy while addressing the need for the creation of green, safe communities.

We are not a trade body; we do not represent any sectional interest, and under the terms of our Royal Charter the advice and leadership we offer is always in the public interest.

RICS role in sustainability

RICS welcomes the opportunity to respond to the consultation on improving home energy performance through lenders. RICS recognises the importance the built environment has on our carbon footprint, with heating homes representing 15% of emissions alone.

As a professional body for those working in the built environment, RICS has taken an active role in addressing the environmental challenges that we face. RICS is a participant of the UN Global Compact, the world's largest corporate sustainability initiative and we are committed to supporting delivery of the Sustainable Development Goals (SDGs) within our sector.

Domestically, we are a partner in the BEIS-sponsored VALUER Project which examines green-mortgage incentives between lenders and homeowners to improve the energy efficiency of domestic properties and will shortly launch our RICS Low Carbon Homes Consumer Guide.

Executive summary

- RICS agrees that lenders are uniquely positioned to play an influential role in driving forward energy performance improvements in the UK property market.
- A target-driven approach to improvement will act as a catalyst for change. RICS recommends a voluntary approach in the first instance, allowing for time to review market reaction before exploring greater regulatory and mandatory targets if the desired improvement is not being met.
- We welcome the exemption of certain consumer groups from the target to protect them from being disadvantaged in securing a mortgage while recognising further work is required to ensure the wider property market is made as energy efficient as possible while avoiding the creation of stranded assets.
- Fundamental to ensuring the proposed policies are a success is the need to have a competent and sufficient workforce capable of evaluating and installing suitable energy performance measures.
- Consumers must be aware of the advantages in undertaking energy improvement work on their home and the long-term benefits, while also being informed of the associated risks of purchasing a poor energy performing property.
- RICS professionals are well-positioned to support lenders and consumers in making the right choices through our soon to launch Home Survey Standard and the **RICS Low Carbon Homes Consumer Guide**, due for release mid-2021.

Consultation response

1) Do you agree with the principle of all lenders publicly disclosing information on the energy performance of their portfolios?

Yes, we agree with the principle that lenders should publicly disclose the energy performance of their portfolio as one mechanism for encouraging home improvements. Lenders can drive forward behavioural change in consumers and stimulate a green revolution in the housing market.

Consideration needs to be applied that requiring all lenders to participate may disenfranchise smaller, more niche lenders who specialise in specific property type lending which naturally may have a poorer EPC rating such as rural homes or listed buildings.

2) Do you agree with the proposed EPC information lenders will be required to collect? If you disagree, please explain why.

We agree with the proposed EPC information lenders will be required to collect. EPC data is regularly available to collect, process and compare, although it is likely lenders will have to review and collate this information before disclosing.

It is important to recognise that EPC is not an accurate tool for measuring true energy usage in a home. RICS has previously called for the UK to adopt a model like NABERS in Australia, which incorporates building usage behaviour into the rating system to get a true indication of the energy output.

3) Do you agree with the proposed disclosure information? If you think there is other information that would be useful to disclose that is not included in this proposal, or you do not agree with the proposal, please explain why.

Yes, the proposed information for disclosure represents data which has largely been collected already and can be processed relatively quickly – although its likely most lenders will need to review individual property data first.

4) Do you agree that the option to provide additional commentary alongside disclosures would be useful? If not, please explain why, including any alternative proposals.

This feature would benefit smaller lenders who may wish to address why their portfolio may have a poorer average rating, which might reflect their consumer base and types of properties they lend to. Clarification is required though as to how this will factor into comparison against other lenders, targets, and the proposed league table.

5) **Do you agree with the proposal that all lenders, irrespective of market share, be required to publish energy performance data on their websites as well as on GOV.UK aligned to annual reporting deadlines? If not, please explain why.**

With the principle objective to achieve net-zero by 2050, this requires a joined-up approach from the housing market. RICS agrees that longer-term, all lenders, irrespective of market share should be required to publish energy performance data.

We recommend that the government introduce these proposals in a measured approach, reviewing how the market reacts and the impact this will have on lenders and their behaviour, particularly smaller businesses.

6) **Do you agree with the proposal that government use the disclosure information to publish 'league tables' of lenders? If not, please explain why.**

RICS believes that in such league tables, the negatives outweigh the positives.

Positively, league tables may act as a catalyst for lenders to improve the energy performance of their portfolio, particularly if they are keen to position themselves as green-leaders.

There are several negatives which are a big concern in our opinion:

- Lenders with an underperforming portfolio may wish to release assets from their books to boost their league table positioning (particularly if there were to be any financial penalties) – with the easiest option being to refuse small-profit, (re)mortgage applications.
- Lenders may become much more selective in their application process. This would affect homes requiring extensive energy improvement work which are often at a lower market price and will disproportionally impact low-income households looking to secure a mortgage.
- A league table of lenders would disproportionally affect smaller, niche lenders whose target customer base means their portfolio would naturally have a lower EPC rating.

7) **Do you agree that properties financed by a Buy-to-Let mortgage should be included in the scope of the policies proposed in this consultation? If not, please explain why, including any alternative suggestions.**

RICS agrees that Buy-to-Let mortgages should be included in the scope of the proposals. This relates to the ultimate objective of achieving net-zero, which will require cooperation from the entire property market. An important lever in this market will be the MEES regulations which will have a strong influence on energy improvement.

8) **Do you agree with the proposed trajectory to mandatory disclosure? If not, please outline the reasons why.**

RICS supports the proposed trajectory to mandatory disclosure but calls for a flexible approach first. It is our recommendation to set an initial threshold for mandatory reporting, requiring all lenders over a certain turnover or portfolio size to disclose first, which would encourage smaller lenders to start preparing for the disclosure and also study the consequences of the proposals.

9) **Do you agree with the proposal that disclosure information be subject to spot check audits proportional to the size of the lending portfolio? If not, please explain why, including any alternative proposals.**

Spot check audits would impose a greater regulatory burden on an already heavily regulated market. That said, it is important to ensure the quality of data is correct and if spot checks were undertaken, it is done so with correct justification.

Lenders should be given a reasonable timeframe to assess their portfolio and clear guidance on what and how to report. From our discussions with several lenders, it is not usually normal practice for lenders to centrally collect EPC information on each property, so this will likely require a big initial administrative exercise which should be factored into any spot check.

We welcome the inclusion that auditors should only check what is include in the scope of the lender's internal control – so the EPC survey itself is not the liability of the lender. Clarification is required to confirm who would be the ultimate authority in any audit request, such as government itself or an independent regulator as suggested later in the consultation.

10) **If applicable, is your organisation likely to sign up to a system of voluntary targets? If not, please outline the reasons why.**

Targets would not apply to the RICS.

That said, RICS is in regular dialogue with lenders to evaluate the market and react to challenges and it is widely accepted that financial institutions have a greater role to play in addressing climate change. With lenders already heavily regulated, an initial voluntary approach towards targets would provide flexibility and opportunities for lenders to evaluate the best approach to improving their portfolio performance.

11) **Do you agree with our estimate that up to 80% of mortgaged stock would fall within scope during the target period? Please provide evidence where available.**

Yes – although further discussions will need to be undertaken to understand how best to improve the performance of the housing stock which falls out of the initial scope.

12) **Do you agree that the voluntary target should be set at a portfolio average of EPC Band C by 2030? If not, please outline the reasons why.**

RICS agrees that a voluntary target of EPC Band C would represent a realistic target for lenders to initially test the market reaction. Work required to achieve EPC C is often less technical, time-consuming, and costly than work to achieve EPC B or A. With the full financial fallout from the Covid-19 pandemic yet to be understood, it is realistic to assume consumers will approach significant financial commitments with caution, so work required to achieve EPC C is a sensible compromise.

It is important to also acknowledge the lack of market competency and capacity at present to achieve EPC A and B, and to a lesser extent, C. Any sudden surge in demand for extensive retrofitting and energy improvement work would create significant market pressure – resulting in increased costs or work carried out by unqualified professionals. RICS supports the government in its commitment to upskill and develop professionals to meet this future demand.

13) **Do you think a revised EPC should be required to demonstrate improvements in energy performance? If not, what alternatives should be explored?**

Revised EPC surveys should be required after significant energy performance work. This would benefit both the consumer and lender, as well as confirming the purpose of the improvement work has been achieved. This would strengthen the lender's confidence that any financial lending given to consumers would have been utilised correctly.

14) **Do you agree that an assumed maximum spend for improvement works should be set at £10,000? If you do not agree, please specify what you believe would be the most appropriate level to set the threshold, providing evidence to support your views where possible.**

It is reasonable to assume £10,000 would be a suitable level of funding for energy improvement work to achieve EPC C. For context, the average cost of transitioning a home from EPC D to EPC C is £4,000.

If the EPC threshold were to shift to a target of Band A or B, then the assumed maximum spend should reflect such a change an increase to match the need for additional work – for example, the average Solar PV installation cost alone varies between £5000-15,000.

15) Should spend from April 2021 onwards count towards the £10,000 assumed maximum spend on improvements? If you believe an alternative date would be more effective, please set out the reasons why.

We believe April 2021 might be too short notice for many lenders to introduce mechanisms to monitor spending. It is also reasonable to assume that given there are little requirements to focus spending on specific work at present, any proposed improvement by consumers may include cosmetic work which would not influence energy improvement, but could accidentally be incorporated into the maximum spending cap.

16) What actions could the government take to incentivise the lenders to sign up to a voluntary target? Please provide evidence to support your answer where possible.

Through RICS engagement with lenders, we know there is an appetite to shift towards green products and improving the overall energy performance of their portfolio – driven in part by worries about what will happen to assets on their books in 2050 which fail to become energy efficient.

RICS recently published its paper 'Retrofitting to decarbonise UK existing housing stock' in which we make several recommendations for Government to motivate the green finance market including greater regulatory frameworks and adopting the recommendations of the Coalition for the Energy Efficiency of Buildings.

Focusing specifically on signing up to a voluntary target, the proposed credit scheme would, to an extent, provide the motivation many lenders would be looking for. Other incentives which could be proposed include a reduction in the bank levy adjusted to reflect the size and green aspirations of the lender. In both instances, however, this could favour the larger lenders who could find it easier to adapt and commit to the targets, to the detriment of the smaller end of the market.

17) Do you agree government should consider the option of setting a mandatory improvement target, should insufficient progress be made under a voluntary scheme?

The option of setting a mandatory improvement target should be given consideration but not be the preferred approach for the initial period. RICS has concerns about the proposal to review the voluntary target scheme after just one year and use this as a benchmark to whether to legislate the target to become mandatory.

Simply reviewing a voluntary scheme after one year would not present sufficient evidence as to how the target is working and the ultimate impact it is having on improving home energy performance. A sudden shift to a mandatory target would present significant challenges to the market including:

- Insufficient time for lenders to review and prepare their internal controls.
- Insufficient time to evaluate how green product offerings have been received by consumers.
- A sudden surge in energy improvement work requests on an already under-resourced and under-skilled sector.

18) Do you agree with our proposed approach to the penalty regime? If not, please explain why, including any alternative proposals.

Traditionally, greater regulatory oversight and penalties have been a strong lever for achieving a significant policy shift or behavioural change. Incentives in the form of penalties for failing to meet or demonstrate work towards targets is one tool RICS would typically support, however in this instance we have several concerns with the proposed approach.

Firstly, lenders may provide suitable products to support energy improvement works, but the responsibility would rest on the consumer themselves to agree and undertake such work on their homes.

Over the last 12 months, the economy has been shaken by the Coronavirus pandemic and various economic reports are already showing how consumers are approaching major expenditure choices with greater caution – this would impact immediate consumer interest in large home improvement schemes.

Secondly, before any penalty is considered, lenders should be able to demonstrate they have undertaken the minimum standard expected from them to achieve their target. External factors may prevent their portfolio increase in performance, such as the lack of market capacity to undertake improvement work.

At the time of writing this response, the Green Homes Grant is already proving that there is a significant shortage of skilled workers capable of delivering energy improvement work in homes, with many potential projects facing significant delays or cancellations.

19) What public tools could be used to calculate foregone emissions savings so that lenders can assess their own liabilities?

We would argue that if new tools are proposed then there needs to be one coherent approach to calculations across the market, to ensure an equal comparison between lenders and streamline any regulatory audit mechanism.

20) **Do you agree that the money collected from penalties be used to fund energy performance improvements? Please provide evidence to support your answer.**

While in principle the plan to use monies collected through a penalty to fund energy performance improvements is reasonable, a priority should be given to funding the cause of the penalty in the first place (if applicable). For example, if a lender is penalised yet it can evidence the reason for its failure to achieve the target is hampered by external factors such as a lack of consumer take-up or market capacity to deliver the work, then funding should be directed to addressing those challenges to create a long-term solution.

21) **Do you think that only those lenders that are on trajectory to meet their target should benefit from these funds?**

See response to Question 20.

22) **Do you agree that lenders below a certain value or size threshold should benefit from certain derogations from a mandatory target? If so, what form should these take and how can we avoid creating any policy loopholes?**

RICS welcomes the recognition that not all lenders operate under one umbrella strategy and that small-scale lenders often focus on specialist portfolios. This is especially true for properties which may have more difficulties improving their energy performance such as listed buildings, rural houses and older properties - for example, it is estimated that there are 8 million existing homes in the UK built pre-1930 (a time when cavity wall insulation became the norm in construction).

RICS recommends that if a lender is at risk of penalisation, especially if a small business, then they should have the appropriate mechanism to appeal and present their case – including evidence that they have done the minimum expectations from themselves as lenders to improve their portfolio and to take into account that some properties can only achieve 'as close as possible' to EPC C due to structural limitations.

Lowering targets for small or specialist lenders is one approach which can be instigated, with any penalty also link in proportion to the businesses size, rather than a standard 'one size fits all' approach.

23) **Do you agree with the proposed alternative option of a mandatory target of a portfolio average EPC Band C by 2030 from the start of the policy? If you disagree, please explain why, highlighting any alternative target you think would be appropriate.**

RICS has serious concerns about the introduction of a mandatory target from the start of the policy:

- Firstly, this would impose a significant regulatory burden on an already heavily regulated industry which will need time to address these proposals.
- Secondly, it could create a 'race to the finish' by lenders of all size as they rush to improve their portfolio average to meet the mandatory target – creating significant pressure on consumers and skilled professionals to deliver on these energy performance improvements.
- Thirdly, this might create a system where an underperforming lender simply refuses mortgage applications from homes which fail to currently meet EPC C or will be too expensive or time-consuming to undertake improvement work. While homes of all values face energy performance challenges, this would particularly impact houses at the lower end of the market and low-income buyers.

We appreciate the challenge for achieving an average EPC C rating by 2030 and recommend that the Government regularly review how portfolios are changing through the voluntary scheme first, while concurrently working with lenders not yet signed up to promote and educate them on the importance and ramifications of the policy.

24) **These policy proposals rely on the information provided by the EPC. Are there any impacts of data collection using EPCs that we have not considered? If so, how could these be managed effectively by lenders?**

RICS questions whether the EPC and SAP rating system remains fit for purpose going forward now that new data and tools is available for assessing the energy performance of homes. As highlighted in our response to the "Improving the Energy Performance of Privately Rented Homes in England and Wales" consultation:

RICS has been working with a number of organisations to speed up the use of Unique Property Reference Numbers (UPRNs).

The UPRN is the Unique Property Reference Number and was created by the Ordnance Survey (OS). It consists of numbers of up to 12 digits in length. A UPRN also makes it possible to identify a property without needing to use personal data. The use of a UPRN could:

Improve building, consumer, and market safety

Lead to more targeted and cost-effective enforcement of legislation

Increase protection for tenants and a reduction of rogue landlords

Reduce waste, save time, and empower the consumer

Through the UPRN, consumers and lenders could have better information on a home such as energy usage, works done, gas safety certificate, electricity certificate etc. This would represent a broader energy performance evaluation that is currently offered by the standard EPC.

25) What are your views on the likely impacts of requiring an increase in the EPC coverage of portfolios on: a) lenders; b) consumers; and c) EPC assessors?

Lenders – Putting aside the challenge of improving the EPC performance of the portfolio itself, there remains significant administrative and logistical challenges for lenders relating to EPC data. To ensure fairness, all lenders need to process and analyse the EPC ratings in the same manner. This would also require a significant data collection and analysis exercise for lenders. While EPC rating information is easily available, many lenders vary to the degree in which they collect this information, if at all.

Consumers – Ultimately consumers would benefit from living in homes with an improved energy performance – which in turn brings economic and environmental benefits. RICS is concerned about the pressure this will place on consumers concerning a potential narrowing of the mortgage market, pressure from lenders to invest in improvement work and having to make significant financial commitments at a time when many people across the country are suffering due to the Covid-19 pandemic.

There is also the challenge that for those who cannot afford to undertake energy improvement work, this could devalue their home further.

Further consideration should be given to the inclusion of properties in multiple-dwelling environments such as high-rise flats or buildings with communal areas – for some of the improvement work this might rely on an agreement between multiple consumers. Similarly, this challenge would also exist in a mixed-use property, where a home might sit atop a commercial premise. In this scenario, energy improvement work might need to involved multiple lenders, tenants, and residents.

EPC Assessors – There will likely be a sudden increase in pressure for the work of EPC Assessors. With an EPC rating valid for 10 years, lenders may initially want to undertake a large-scale refresh of EPC ratings to reflect any work undertaken during recent years. Furthermore, there will be additional pressure from consumers and lenders to have a new survey undertaken after energy improvement work to reflect the new performance rating. As such, it is expected that there will be an increased demand for EPC Assessor services.

26) How can we ensure the effective transition of data between lenders when consumers change mortgage providers?

RICS does not anticipate any significant challenges in the transition of data, so long as there is a consistent reporting mechanism by each mortgage provider. It would be in the interest of the new lender to confirm the EPC data is accurate and up to date. Going forward, there is potential that EPC data can be embedded and identified via UPRNs which would create a seamless transition between providers.

27) Are there any additional ways in which government or lenders could raise consumer awareness of their EPC data and how to improve the energy performance of their homes?

It is a fair assessment to assume that most consumers will not have a significant awareness of the energy performance of their homes and the benefits of undertaking improvement work. While it is beneficial that EPC data is disclosed during the sale/letting process, its what consumers do with that information that makes a difference. Government should work with industry leaders, including RICS, to increase the messaging around the short-term and long-term implications for improving home energy performance across all tenures.

RICS will imminently release our **RICS Low Carbon Homes Consumer Guide,** with simple, cost-effective measures to improve the energy performance of households – designed to capture a wide audience including owner-occupiers, landlords and tenants. Having been developed in partnership with MHCLG, we encourage BEIS to utilise this guidance when looking to raise consumer awareness due to its simplistic messaging around the benefits and cost of energy improvement work.

28) Are there any ways in which lenders could help to encourage the installation of smart meters in the homes of those to whom they lend?

The most feasible option for lenders would be to incorporate the installation of Smart Meters into the wider energy improvement works recommendation. Due to the lack of an existing centrally held database of Smart Meter-installed homes, it would be difficult to assess this information ahead of any mortgage approval. Further work could be undertaken to create better communication between the lender and Estate Agent and those undertaking the valuation to assess whether a Smart Meter is currently present in the property.

29) Should works carried out to comply with these policies require that mortgagors choose a TrustMark approved provider or installer?

RICS previously shared our thoughts on the TrustMark scheme in the '*Improving the Energy Performance of Privately Rented Homes in England and Wales'* consultation:

> *The TrustMark scheme has been operational for two years and although Government endorsed, it does compete with other schemes such as CheckaTrade, FindaTrade and MyBuilder. On a Google search TrustMark was at the bottom of the page.*
>
> *If TrustMark is to be incorporated into energy performance works then more will need to be done to raise awareness amongst tenants, landlords and businesses of the scheme. This may require additional expense from government.*
>
> *It may be that flexibility will be required in incorporating TrustMark in order to ensure take up of the scheme.*

Mortgage lenders should be encouraged to refer to the new RICS Home Survey Standard which launches mid-2021 and will now include a greater evaluation of energy performance matters and retrofitting measures. This survey will provide an expert opinion for lenders and consumers about areas of concern in the property and where improvements should be targeted.

30) We understand that there are mortgagors who will not be able to self-fund or borrow. Do you have any evidence that indicates what proportion of the mortgage market these mortgagors represent? Please provide as much detail as you can.

N/A

31) Do you agree that those mortgagors unable to self-fund or borrow to make energy performance improvements should be exempt from inclusion in a lender's improvement target?

RICS supports such a decision to make those unable to self-fund or borrow exempt from the target. This would, to an extent, alleviate some of the concerns we raised above about the impact on low-income households and the ability to secure a mortgage.

32) How do you think exemptions on the basis of affordability should be assessed?

While RICS does not hold a specific position on how to undertake the assessment, we would support any scheme which seeks to allow mortgagors a fair and reasonable opportunity to undertake improvement work, such as the introduction of the sliding scale as discussed. Lenders are expertly positioned to assess and advise on a consumer's financial position and should also be able to provide clear and impartial guidance as to the benefits of any green product if they are deemed, suitable applicants.

Additional consideration must be given to existing mortgage customers though, who may have purchased their home based on what their income was at the time, with little room for a significant increase in mortgage cost.

33) What other methods of protecting fuel poor mortgagors should the government consider in designing its proposals? Please provide evidence to support your answer where possible.

Both the Energy Company Obligation (ECO) and Warm Home Discount offer one solution to support protecting fuel poor mortgagors. While financial payment schemes offer short term solutions, RICS welcomes the ECO for its focus on long-term benefits to consumers and the environment.

We welcome the exemption of fuel poor mortgagors from the improvement target, which will lessen the pressure on lenders and allow them to focus resources on those properties in a position to undertake improvement work.

RICS is calling for the introduction of more targeted schemes to support those in fuel poverty to deliver long-term improvement work. With the £5,000 Green Homes Grant still requiring significant consumer investment, we welcome the increase to £10,000 and 100% cover for the cost of improvement work to those deemed eligible. Schemes which target those in fuel poverty and lower-income households have provided popular in the past, with recent statistics for the ECO showing 2.7 million measures being installed in over 2 million properties.

34) Do you support the idea of lenders recommending referrals to energy suppliers under a future ECO scheme?

RICS would support such a recommendation and lenders are the best-positioned party in the home buying process to make such a referral. It will be important to understand how lenders assess suitability and what they deem as a minimum level of expendable income to qualify.

35) Are there any impacts on the protected groups that we have not considered?

None that we are aware of.

36) We wish to include leasehold properties in the scope of these proposals in order that their owners or tenants may benefit from energy improvement works. How do you think the government should act to ensure that leasehold properties with a mortgage are captured by these policies, while acknowledging the challenges that need to be overcome?

While exemption frameworks and target omissions are right for certain households (such as those in fuel poverty), to properly meet our climate change goals, leasehold properties should not be exempt purely due to challenges around legal ownership and responsibility.

RICS calls on the government to work with representatives from leaseholders, freeholders, and lenders to develop a clear roadmap of where the duty and responsibilities sit within a property. Identifying the most common energy performance improvement measures and assigning default ownership to either the freeholder or leaseholder would address some of the challenges presented. However, it is also important to recognise that not all leases are the same, with varying degrees of accountability for certain improvement work.

37) How can we ensure that we protect groups such as first-time buyers from being disproportionately penalised?

It is correct to assume that first-time buyers will be disproportionality penalised by these proposals. The impact of Covid-19 has already created a housing market where the standard deposit has increased to 15-20%. With lower-value homes also likely being those requiring the most energy improvement work, this creates a difficult environment for first-time buyers.

RICS recommends a collaborative process between all parties involved in the house-buying process to address the challenges. Firstly, estate agents and mortgage advisors should set out clear guidance as to the proposals and the impact this will have for first time buyers, with the potential to encourage them to seek newer build properties or identify properties with the least amount of improvement work required.

Lenders should show greater flexibility for first-time buyers, such as offering lower-interest green products or extended mortgage periods.

The government should investigate whether to give greater flexibility to the improvement targets for first-time buyers, potentially expanding the target by three to five years, reliving immediate financial pressure on the buyers. The government should also review any future first-time buyer financial support schemes (including the current Lifetime ISA programme) to require homes to be of certain energy performance or setting an average threshold cost for improvement work which will benefit first-time buyers.

38) Are there other impacts these policies could have on mortgage processes that we have not considered? How do we ensure that intermediaries, such as brokers, have access to the information necessary to advise consumers?

One of the reasons RICS joined the BEIS-sponsored VALUER Project is to examine just this question. In our expert opinion, the domestic energy improvement process needs to start at the very beginning of the home buying journey. Almost all parties will a role to play in the process and we would like to highlight three important intermediaries:

Estate Agents will of course need to ensure there is a valid EPC rating before listing the property.

It is in the interest of all parties that the buyer knows what is expected from them when buying the property, with the potential that a lender might reject a mortgage application if the buyer is not in a financial position to undertake the improvement work. One challenge which RICS has uncovered during the VALUER Project is a significant skill and knowledge gap in the Estate Agent market when it comes to energy performance work. There is the challenge that it is in the Estate Agents own interest to sell the property at the highest possible value.

Valuers and surveyors will need to possess an adequate understanding of how to assess existing and potential energy improvement measures. It is likely that energy performance will play a greater influence on the property value than previously and will help shape and form the market process. The new RICS Homes Survey Standard takes a greater look into future requirements.

RICS is further reviewing its 'Red Book' for valuations, to strengthen the due diligence around sustainability in homes and the impact this will have on value.

Brokers play a pivotal role in educating and advising potential buyers about the challenges (and opportunities) presented by these proposals. They should help a buyer understand the importance in achieving EPC C in their property, and for new buyers, how this could impact the mortgage size available to them. Brokers should also inform potential buyers about the danger of finding a suitable home at market-price, yet are unaware of the additional financing they will have to borrow to undertake energy performance work – thus potentially making them financially unsuitable for the property.

39) How can we ensure that our policies do not disincentivise lending to poor performing properties?

The major challenge in addressing underperforming properties is that we want to create a marketplace where people are encouraged to purchase and improve them. The proposals could, at worse, create a market of stranded assets, unable to secure a mortgage and the necessary work require to improve its energy performance.

By allowing lenders to have an average EPC C portfolio, this creates some scope for lenders to demonstrate greater flexibility when reviewing mortgage applications. However, not all lenders will be able to take on such a risk, particularly those with an existing poor portfolio, so this would create a significant narrowing of lending options for consumers.

The UK housing market is underperforming, with the 2018-19 English Housing Survey reporting EER Ratings of A-C in the following markets:

- Social housing – 56%
- Private rental housing – 33%
- Owner-occupied – 29 %

The figures above show the scale of the problem with existing housing, with over two-thirds of the owner-occupied sector already underperforming – resulting in significant pressure for lenders to improve.

Embedding greater flexibility for lenders when it comes to properties with EPC F & G ratings is one option. For example, properties in that banding will require the greatest amount of work, financing, and time.

The government should explore the options around a reduced or total exemption for a property from the target if improvement work has commenced and it has already moved to EPC D or E. This would provide lenders with the assurance that they can lend to a poor performing property without risk of significant penalisation.

Furthermore, it is important to acknowledge that not all properties will be capable of achieving EPC C. The proposals should reflect this, and any penalty or target should consider that the lender and consumer have done all they can in their control to undertake energy performance improvement. This would again give the lender confidence that they can approve a mortgage for an underperforming home and not discriminate against the consumer.

40) How might these policies impact on house prices and households' ability to borrow in the market? What could the government do to mitigate any unintended impacts on households?

Houses already achieving a minimum EPC rating of C or higher would naturally present a more appealing case for lenders. Potential homeowners, particularly first-time buyers, should be made aware of the proposals and the increasing challenges in securing a mortgage for an underperforming home and the financial cost associated with this.

It is difficult to assess what impact these proposals would have on house prices for underperforming homes. Naturally though, homes which require more immediate work would have a lower than average market value, but it is difficult to estimate the impact these proposals could have on the wider market price given there remains a number of variables.

In 2019 RICS published the insight paper '[Energy efficiency and residential values: a changing European landscape](#)' which explores the connection between energy efficiency and property values.

RICS, as part of the VALUER Project, is continuing to assess the impact green finance products can have on house prices and importantly, the valuation skills of those pricing the property to correctly factor in the need for improvement work.

41) **How might these policies negatively or positively impact on competition and lenders' ability to operate in the housing and wider market? What could the government do to mitigate any negative impacts?**

One of the biggest concerns we had with regards to the proposals is the impact this will have on consumers and their choice of properties and access to lenders.

With almost two-thirds of owner-occupied homes currently falling below EPC C, lenders will possibly demonstrate caution when considering a new mortgage application. This would likely be prominent in larger lenders where the housing stock in their portfolio falls into the target criteria so there will be an emphasis not to exacerbate the current lender's holdings. As a result, lenders may automatically install greater restrictions and eligibility criteria on new mortgage requests.

This would also have a significant impact on competition for those small and specialist lenders, whose portfolio will likely fall below the target due to the nature of their property portfolio. Some lenders, fearing penalties, might impose strict controls over new applications, potentially leading to stranded assets in some cases.

On a positive note, the proposals will act as a catalyst for lenders to start investing in green lending schemes. To date, only a small number of lenders have specific schemes aimed at energy improvements, so an increase in product availability across markets will lead to innovative product offerings.

42) **What costs would compliance with these policies likely generate for lenders? Please provide an estimate of these costs where possible, including evidence to support your answer.**

We anticipate there will need to be a significant administrative exercise and cost during the initial launch of the proposals to ensure a lenders portfolio reflects the current data. Going forward, it is likely this will become a more streamlined process so the costs will reduce.

As demonstrated in the VALUER Project, the green financial product market is still relatively small, so many lenders may likely wish to invest in R&D to determine the best course of action for them moving forward.

43) Do you think a regulatory body should be responsible for the mandatory policies in this consultation? If so, what form do you think this body should take?

The financial market is already one of the most regulated industries in the United Kingdom. Given the initial proposals is to look at a voluntary system, the role of the regulator would be largely redundant at this point.

If, however, the proposals were to transition to mandatory, then there would be a legal argument for the role of a regulator to oversee disclosure, target monitoring and audit checking. There is also the challenge about who, and when approves the use of a penalty. Would this be the responsibility of the regulator?

When markets fail to shift or react in time, policy levers such as the introduction of the regulator is often one of the most effective measures which can be utilised. Our recommendation is to give the market an opportunity to react to the proposals first, and through regular monitoring, determine if lenders are doing all that is in their control to do so before introducing a regulator to push for further change.

44) Do you think that the government should introduce a requirement on lenders to check that privately rented properties comply with the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015?

No, such a requirement to regulated compliance would fall under the remit of local authorities. Councils have voiced concerns in the past about the lack of resources within building inspection and compliance, so the government should ensure local authorities are adequately resourced to understand such regulatory monitoring.

45) Do you think it would be sensible for these proposals, for example annual disclosure of portfolio-wide EPC information, to be applied to smaller non-domestic buildings that require similar energy performance upgrades to homes?

RICS would oppose these proposals being extended to smaller non-domestic buildings during the initial launch of this policy. Lenders will face a significant burden and challenges associated with the residential property element of the policy, so we believe that the immediate success of the proposals will be achieved if a lender can commit 100% to just one sector of the market at present.

That said, further research is required to assess the impact the policy will have for those in mixed-use accommodation. In mixed-use properties, there will be multiple lenders, tenants and parties involved which will create additional challenges when it comes to approving and funding energy performance improvement work. We recommend that the government should investigate the specific challenges arising for consumers and lenders involved in mixed-use properties before including them within the proposed targets.

Looking long-term, research indicates that after the residential sector, non-domestic properties are one of the biggest UK contributors to energy waste and carbon emissions, so a similar proposal may need to be considered to drive through improvements.

46) Should a fabric first approach be built into the preferred, voluntary, target option? If yes, how should such an approach best be implemented?

A fabric first approach is a proven methodology for improving energy performance. That said, RICS recommends that fabric first be included as a recommended (or preferred) measure by lenders for improvement work, but not a requirement. By not making fabric first a requirement, this will give both the consumer and lender freedom to review a range of potential improvement measures which might be more suitable for the property – as well as giving greater flexibility over for installers.

This question does, however, highlight the importance of having qualified professionals give their expert opinion on the best and most cost-effective improvement measures for a property, rather than relying solely on the lender and consumer to make that decision.

47) What are your views on how we could tighten standards to drive greater carbon savings? Do you have views on introducing a dual metric, an alternative carbon target, or any other suggestions?

RICS recently published it's 'Retrofitting to decarbonise UK existing housing stock' paper which sets out several policy levers which the government should review to make significant improvements in carbon reduction. The paper looks at a range of financial incentives, increased regulation, and green financing options.

RICS would urge caution on bringing forward the 2030 target due to the significant market impact which would occur. At present, there is an energy performance skills gap between those involved in the house buying and selling process, as well as those expected to undertake the improvement work. RICS professionals are well trained and continue to be directed by best practice and modern technologies in assessing and advising on building conditions, valuations, and suitability for the future.

As highlighted early on in our response, RICS feels the EPC rating system is an outdated tool for measuring energy efficiency as it does not accurately reflect the true energy usage of the property once you factor in variables such as consumer behaviour. That said, while we welcome initiatives to make use of more representative data, any introduction of a dual metric system needs to be done in a consumer-friendly way. One of the benefits of the EPC rating system is its simplicity to understand as a consumer. Any new methodology for calculating energy and carbon usage should be done in a method which helps focus the consumer's mind and allow them to make insightful choices based on expert opinion.