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Datgarboneiddio'r sector tai preifat / Decarbonising the private housing sector
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Summary

Generation Rent welcomes the opportunity to contribute to this inquiry. We represent the 13 million people in the United Kingdom who live in the private rented sector (PRS), and campaign for affordable, safe and secure homes.

Private rented homes in Wales are less likely to have adequate energy performance than other tenures, though the evidence on this is patchier than in England, and it is difficult to see what effect Minimum Energy Efficiency Standards (MEES) have had (even though they are, in principle, an essential part of the policy solution).

Private renters are therefore more likely to live in poorly insulated homes and are more vulnerable to rising energy prices. A home with energy performance certificate (EPC) at Band E could cost a tenant £1309 more than a home with EPC Band C. There is little action the tenant can take to improve the quality of their home and reduce their energy use and bills.

There is little incentive for private tenants to ask for improvements to their property. Even if the landlord were to carry them out, or the tenant were eligible for a grant, there is little stopping the landlord from subsequently raising the rent or evicting the tenant to realise the improved value of the property.

While the Nest grant scheme appears to be relatively well-targeted at the PRS, with PRS homes overrepresented in its beneficiaries, it could be made more appealing for tenants to apply for. Grants are likely to be one of the only ways that it will be economical for many PRS homes to be retrofitted when minimum standards are increased. For this reason, tenants need assurance that applying for one is worthwhile, so need protection from no-fault eviction and unaffordable rent increases that could see the landlord capturing the benefits instead.

A more user-friendly grants system would act as something of a carrot for landlords, but the proposed stick of higher MEES must be made effective by making tenants eligible for compensation if they find themselves living in a home that fails the standards resulting in higher bills. The government should also consider making funding available to purchase homes with poor energy performance being sold by landlords, and to carry out targeted insulation projects on streets where economies of scale are possible.

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The scale of the challenge

Public data tell us relatively little about the energy performance of buildings in Wales. According to StatsWales, just 42% of PRS homes had adequate energy performance – the same proportion of

owner-occupied homes and far fewer than the social sector where 69% were adequate according to the Welsh Housing Conditions Survey 2017/18.¹

StatsWales also provides a tenure breakdown of energy savings measures as at 2014-15. Private rented homes were less likely to have insulation compared with other tenures. Just 28% of PRS homes had insulated solid walls compared with 31% of owner-occupied homes, 62% had insulated cavity walls compared with 75% of owner occupied homes and 88% had loft or roof insulation compared with 95% in the owner occupied sector.²

The UK Department for Levelling Up, Housing and Communities produces live tables on energy performance of homes.

Of the 1,194,430 energy performance certificates (EPC) lodged for homes in Wales in 2009-21, 422,958 were rated A-C – or 35%. This figure increased from 35% of EPCs lodged in 2009 to 45% in 2021. However, there is no breakdown by tenure, so we cannot see what improvement has been made in the PRS in that time. (It is also not clear what relationship “adequate energy performance” from the Welsh Housing Conditions Survey has with EPC bands.)

We do know that there were 200,289 EPCs lodged for rental properties in Wales between 2013 and 2021.³

In comparison, the English Housing Survey tells us how many PRS homes have each EPC band, and we can see how this has changed over the years. We also have more up to date figures about how many PRS homes have characteristics such as central heating, solid walls, etc.

Requirement to provide an EPC

Landlords must provide an EPC to prospective tenants with a minimum of Band E in order to let the property. There is little evidence to date that indicates whether tenants are using EPC ratings to decide whether to apply for a tenancy, which might put landlords under pressure to make improvements. Prior to this year, energy costs, and the differences in energy costs between EPC bands, have been relatively small compared with the rent on a given property – typical costs being £100 per month on energy compared with £600 on rent (roughly the mean rent on a 3-bed home, according to StatsWales⁴).

This year and in the future, we may see more interest in EPC bands from prospective tenants now that average energy bills are heading towards £350 per month, and the Energy and Climate Intelligence Unit (ECIU) suggests that the difference in gas costs between an F and a C could reach £986 (£82 per month) based on current projections⁵.

One difficulty facing tenants who wish to make an informed decision is that it is not clear whether information on the EPC relating to estimated energy costs is reflective of the latest price cap, making it difficult to make a comparison.

¹ <https://statswales.gov.wales/Catalogue/Housing/Housing-Conditions/percentageofdwellingwithadequateenergyperformance>

² Tables available at <https://statswales.gov.wales/Catalogue/Housing/Housing-Conditions>

³ Tables D1 and D4b available here <https://www.gov.uk/government/collections/energy-performance-of-buildings-certificates>

⁴ <https://statswales.gov.wales/Catalogue/Housing/Private-Sector-Rents>

⁵ <https://eciu.net/media/press-releases/2022/poorly-insulated-homes-to-pay-1-000-more-on-gas-bills-this-winter>

Minimum Energy Efficiency Standards

It is difficult to know what impact the minimum energy efficiency standard (MEES) of E for private rented homes has had in Wales. We do know that in England, few councils have used their powers extensively to target landlords with F- and G-rated properties.⁶

Beyond their energy bills, there is little incentive for tenants to take an interest in whether their landlord is compliant with MEES. They are not protected from a no-fault eviction if they complain and there is no clear mechanism to seek compensation for paying excessive energy bills. Given how easy it is to find one's EPC online, this could be a powerful source of information if the right incentives are there.

Raising the MEES to Band C is essential and we are disappointed that the UK government has not confirmed the details of this, more than 18 months after its consultation on the proposal ended. According to the ECIU, the average energy bill savings available for bringing Band E properties up to C are £1,309 per year and £598 year for Band D properties.

We are concerned that exemptions based on landlords having to spend more than a certain cap in order to meet the MEES will leave tenants paying higher bills with no extra support. Although grants may be available for lower income households, this may not be clear to the tenants in question.

Grants

There are sources of funding for improving private rented homes. The ECO scheme was launched in 2013 and renewed in July 2022. Private renters in receipt of means-tested benefits (or vulnerable in some other way) and living in poorly insulated homes are eligible as well as home owners. There are no obligations on the landlord in terms of providing the tenant with extra security of tenure and keeping rent at the original level.

According to an answer to a parliamentary question in 2022, a total of 321,000 private rented homes had been improved under the ECO scheme since its launch. This amounted to 14% of the total number of homes improved under the scheme in Great Britain as a whole.⁷ As a proportion of the private sector housing stock PRS homes represent about 23%, indicating that the PRS is underserved by the ECO scheme. We do not have a breakdown for Wales.

The Welsh Government Nest scheme has been in place since 2011. It has similar eligibility criteria for private renters, but also requires that the tenant has been in the property for at least six months and will remain there for at least six months, and that the landlord does not raise the rent before 12 months is up. Landlords are also limited in terms of how many properties can be upgraded using the scheme.

According to Nest's latest annual report, 21% of households receiving a home energy efficiency improvement package were private renters. This is a higher proportion of the private sector housing stock than the proportion that the PRS comprises (17% according to StatsWales⁸).

It is therefore apparent that the Welsh government Nest scheme has been more effective than the industry-led ECO scheme at targeting the PRS.

⁶ https://www.generationrent.org/illegal_rentals_costing_tenants_321m_extra_in_energy_bills

⁷ <https://questions-statements.parliament.uk/written-questions/detail/2022-01-27/113044>

⁸ <https://statswales.gov.wales/Catalogue/Housing/Dwelling-Stock-Estimates/dwellingstockestimates-by-year-tenure>

However, we believe that the eligibility requirements of the Nest scheme do not have the tenants' best interests at heart. We have heard anecdotally that some landlords upgrade their properties using a Nest grant only to then evict the tenant after the fixed term of the tenancy ends (which can be as soon as six months). Under the Renting Homes (Wales) Act, a landlord could serve six months' notice to quit as soon as the tenant applies for the grant. This allows the landlord to then re-let the property at a higher rent or sell the property, pocketing the extra value that the grant has brought. We note that it is also possible to do this under the ECO scheme. In allowing this to happen, the schemes are funnelling money to unscrupulous landlords and the tenants lose out, particularly as they are then unable to access grants in a future property.

The possibility of being asked to leave so soon after getting your home retrofitted is likely to deter many tenants from applying for a grant in the first place. Many landlords would sooner sell the home than pay for the upgrades themselves, so giving tenants more reason to apply for grants is one of the most important things the government can do to retrofit the PRS. To give tenants certainty, they should enjoy a long period where their landlord cannot evict them on no-fault grounds. A five-year protected period, for example, would leave the tenant to enjoy reduced energy bills; most landlords would accept this if they were not planning to exit the market and would otherwise face a fine for failing MEES.

Another risk is that the landlord could seek the benefit of the grant by raising the rent to take advantage of the tenants' new found savings on utility bills. It may be possible to challenge this at Tribunal, which may take the grant into account when determining the rent, so that the landlord does not capture the benefit the grant provides. For example, the market value of a Band C property might be £700 per month, but the Tribunal could rule that because £100 of that value arose due to public money rather than the landlord's own investment, the rent for the tenant should be £600 per month. But it is not clear whether the Tribunal is indeed in a position to rule in this way. Guidance states that "The [Rent Assessment] Committee must ignore any effect that certain qualifying tenant's improvements would otherwise have on the rental value of the property. This is to prevent the landlord from benefiting from the improvements by way of a higher rent."⁹ But it is not clear whether grant-funded improvements would qualify.

Moreover, very few private tenants use the Tribunal, particularly as it is easy for landlords to use the threat of a no-fault eviction to raise the rent. The fear of the rent being increased is one of the most common concerns tenants have about energy efficiency improvements.¹⁰

Challenges and striking the right balance

There are several challenges facing a retrofit programme: compelling the landlord to act, understanding the scale of the problem, and making sure that public money is used to improve the quality of life of tenants rather than commercial landlords. These have been set out above but we will comment a bit further.

The main reason for the landlord to improve their property would be to avoid penalty as a result of enforcement. There are more positive reasons to act: providing better quality homes compared with their competitors will allow them to charge a higher rent, and if they decide to sell or remortgage,

⁹ See page 6 <https://residentialpropertytribunal.gov.wales/sites/residentialproperty/files/2021-05/RAC-G2.pdf>

¹⁰ Nearly half of private renters (48%) who took part in a Generation Rent research project said the threat of a rent increase would deter them from asking for energy efficiency improvements https://www.generationrent.org/heat_our_homes_not_the_planet

the value would be higher than if the property was still poorly insulated. But the benefits of this are not immediate and may not be obvious given the costs involved.

Although retrofitting PRS homes reduces energy use and carbon emissions, and although the Nest scheme in particular seems to be effective at targeting this at the PRS, the grant schemes are not targeted well enough at private renters in fuel poverty, given how easy it is for landlords to capture the benefits.

If there were clearer benefits for private renters, then more of them would seek out and claim the grants they are eligible for and both they and the planet would benefit. This would help more landlords comply with the new MEES requirements and so assuage fears that many have.

Even with a well-designed grant programme, once the new MEES is introduced many landlords may still decide to exit the market and sell up. This might include landlords whose tenants earn too much to qualify for grants. The first effect of this would be for the price of EPC Bands D-E (and F-G) properties to fall in relation to A-C properties. This would then make those lower-band properties more appealing to landlords with the capital to make their own investment in the property, or owner occupiers either with the savings to invest or the low income that made them eligible for the grant schemes. Given the inaccessibility of home ownership to huge sections of the population, we are sceptical that many potential buyers would qualify for grants, which would depress house prices further (though we believe Wales contains more areas with low incomes and affordable house prices than many English regions). However, there could be a role for public or philanthropic landlords to purchase the homes instead, particularly where there is a local need for more social housing.

Some landlords might switch to holiday lets, though we note recent Welsh government policies aimed at discouraging this. It is too early to tell whether they are sufficient to mitigate this risk.

Practically, we know that solid wall insulation is one of the most expensive measures to pursue as part of a retrofit, but that economies of scale mean that it is cheaper if more homes are treated at the same time, such as on terraced streets.

Recommendations

To address these challenges, the Welsh government should:

- Amend the Renting Homes (Wales) Act to prevent landlords whose property is upgraded with an ECO or Nest grant from evicting the tenant on no-fault grounds for an extended period (e.g. five years) to give the tenant assurance that getting the grant is worthwhile.
- Clarify whether, in the context of a market rent assessment at Tribunal, a retrofit grant protects the tenant from paying the full market rent on the property – and legislate to provide this protection if necessary.
- Introduce compensation to the tenant for living in a property that fails MEES. This could be based on the Rent Repayment Order that exists in England for licensing offences.
- Set aside public funds to purchase private rented homes at EPC Band D or below that are listed for sale, invest in retrofitting them and make them available as social housing.
- Develop a programme that upgrades solid wall properties street by street, providing grants or other incentives for property owners who take part, depending on tenure and their ability to pay.