

Engaging Private Landlords in Energy Efficiency

Approaches for London boroughs to work with landlords and raise the standards in their private rented sectors



A research project from
Future of London

In partnership with
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We are a borough-led membership organisation with a number of external partners, which provides top career development, expert-led policy research, and topical networking and speaker-led events.

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Abbreviations

ARLA	Association of Residential Letting Agents	ONS	Office for National Statistics
BPF	British Property Federation	PRS	Private rented sector
CERO	Carbon Emissions Reduction Obligation	RICS	Royal Institution of Chartered Surveyors
CERT	Carbon Emissions Reduction Target	RLA	Residential Landlords Association
CIH	Chartered Institute of Housing	SAP	Standard Assessment Procedure
CLG	Department for Communities and Local Government	SWI	Solid wall insulation
CSCO	Carbon Saving Community Obligation	VOA	Valuation Office Agency
DECC	Department of Energy and Climate Change		
DWP	Department for Work and Pensions		
ECO	Energy Companies Obligation		
EHCS	English Housing Condition Survey		
EPC	Energy Performance Certificate		
FoL	Future of London		
FiT	Feed-in Tariff		
GLA	Greater London Authority		
HHCRO	Home Heating Cost Reduction Obligation		
HHSRS	Housing Health and Safety Rating System		
HMO	House in Multiple Occupation		
LB	London Borough		
LESA	Landlord's Energy Saving Allowance		
LLAS	London Landlords Accreditation Scheme		
LRS	London Rental Standard		
NLA	National Landlords Association		
Ofgem	Office of Gas and Electricity Markets		

Engaging Private Landlords in Energy Efficiency

Executive Summary

The private rented sector is the Capital's only growing housing tenure, now accounting for more than 25% of London's households. Yet this booming sector is failing many of its tenants – particularly the most vulnerable – with 10% more properties below Decent Homes standards in the PRS than in both owner-occupied and social-rented tenures, and private renters disproportionately affected by excess cold and fuel poverty.

Landlords are critical to this agenda, and central government's policy framework is pushing them to raise standards with a mandatory minimum energy efficiency standard that will come into force in 2018. With London boroughs relying on the PRS to house many of their vulnerable tenants, it is in their interest to support landlords to improve the energy efficiency of their properties.

Engaging Private Landlords in Energy Efficiency helps to address this issue, by:

- analysing London's PRS landscape, focusing on spatial patterns, tenant and landlord typologies and the relevant policy framework
- outlining the most significant challenges for London boroughs advancing this agenda
- suggesting a number of ways forward in response to these challenges
- providing policy recommendations for improving the sector's energy performance in the long term

London's PRS landscape

The PRS has doubled over the past 10 years in a number of boroughs, putting strain on housing officers to ensure appropriate standards.

Social housing is in short supply and London boroughs rely heavily on the private rented sector to house vulnerable tenants.

The dominant physical characteristics of London's PRS – the prevalence of older, less energy-efficient stock, high numbers of hard-to-treat flats and often carrying the additional regulatory burden of being in conservation areas – make PRS retrofit particularly challenging.

Landlords are critical to energy retrofit works: in most cases they need to provide consent for works, as well as at least a proportion of the cost, with unclear incentives.

There is uncertainty amongst the public sector as to how to better engage landlords in this agenda.

Challenges

Within this context, four main challenges hamper boroughs' efforts to engage with their private landlords:

- An unfavourable funding landscape
- Physical barriers to retrofit
- Lack of communication channels with individual landlords
- Weak incentives for landlords or tenants to act

Approaches

The second part of this report advances a number of practical ways for boroughs to work with landlords and improve standards, in response to the challenges above.

An unfavourable funding landscape:

- Present funding opportunities to landlords clearly – keep abreast of national and pan-London grants, particularly the ones that are offered directly to landlords
- Promote smaller-scale works – concentrate on works that are most cost-effective and least disruptive to landlord and tenant

Physical barriers to retrofit:

- Provide technical support and advice at all stages – as a trusted source, provide information on funding, installers, planning etc.
- Focus on poor standards – develop a balanced enforcement strategy, and consider licensing options

Lack of communication channels with individual landlords:

- Target retrofit programmes at larger landlords with whom the borough already has a cooperative relationship – larger landlords could gain economies of scale and not be deterred by upfront costs
- Use leverage to engage temporary housing providers – influence landlords who are reliant on boroughs for a portion of their business, while improving standards for vulnerable tenants
- Improve data on all landlords – gain a better understanding of the sector and landlords' motivations

Weak incentives for landlords or tenants to act:

- Take the long view – make landlords aware that new supply will make the market more competitive
- Build the evidence base for value added – increase solid evidence of sales/rental value uplift of improved properties from the UK and further afield
- Empower tenants – make tenants aware of the 2016 tenant’s improvements regulations
- Campaign for longer tenancies – promote better security of tenure to empower tenants and influence them to take an interest in their rental property

Conclusion and recommendations

Employing some of these efforts will doubtless deliver valuable results. However, the report concludes that current programmes, regulations and incentives are not enough to enable the ‘deep’ retrofit required for London’s aging rental properties at the scale needed to meet the capital’s carbon and energy targets, and to ensure that improvements reach its most vulnerable tenants. As the private sector continues on its path to becoming London’s dominant tenure, measures to foster cooperation between boroughs and their private landlord sectors will be key to improving standards sector-wide and for the long term. Looking ahead to the next general election, the following recommendations could facilitate this:

1. Improve standards for most vulnerable tenants, particularly homeless households discharged into the PRS. FoL supports the following Royal Institute of Chartered Surveyors (RICS) report recommendation, although it is dependent on a good level of EPC compliance. *“We recommend that local authorities discharging their homeless duties, by placing families in the rental sector, should only be permitted to undertake such a placement if the property meets an EPC level of E or above.”ⁱ*
2. Provide more financial incentives to private landlords to carry out improvements to properties. Popular opportunities such as the Green Deal Home Improvement Fund won’t get all properties to an EPC band E rating, but there will be some quick wins in terms of improving thermal comfort and reducing excess cold hazards.

3. Channel more ECO funding into the PRS, and particularly solid wall insulation (SWI). Large sums will be required to even part-fund these schemes, but they are vital to advancing SWI installation in London.
4. Explore and evaluate a range of methods for gathering comprehensive data on landlords, and implement the most appropriate strategy. This could be led nationally, pan-London or locally, and engage academic and other data experts.
5. Promote British Property Federation’s guidance on the cost-benefit of various energy efficiency measures, and on improvements that can be gained from installing groups of measures in particular property types. Further guidance could be produced with a focus on London’s prevalent property types and hard-to-treat properties. This intelligence could be shared through conventional landlord communication channels, the London Landlords Accreditation Scheme and more widely through public campaigns to reach individual landlords.
6. Ensure maximum EPC compliance in the PRS, in order to achieve maximum benefit from the proposed minimum standards regulations in 2018. This could continue to be executed by Trading Standards, though there should be the option for this enforcement to move to another department, such as Private Sector Housing, which is closer to the issue. London Borough of Newham has transferred this responsibility by including it in its borough-wide licensing scheme.
7. Improve – and provide more – evidence of any value added to be gained through retrofit to landlords, especially ones who may be considering energy efficiency measures. Landlords are more likely to engage if they can see concrete benefits from doing so.
8. Strengthen tenants’ position, particularly around security of tenure and removing the threat of retaliatory evictions, so that they are able to exercise their rights around requesting energy efficiency improvements in 2016.

ⁱ RICS, 2013. *More Good Homes and a Better United Kingdom: RICS Housing Commission Recommendations*, p.12.

Introduction

The private rented sector is the Capital's only growing housing tenure, now accounting for more than 25% of London's households. Yet this booming sector is failing many of its tenants – particularly the most vulnerable – with 10% more properties below Decent Homes standards than those in the owner occupation and social rented tenures, and private renters disproportionately affected by excess cold and fuel poverty.

Landlords are critical to this agenda, and Government's policy framework is pushing them to raise standards with a mandatory minimum energy efficiency standard that will come into force in 2018. With London boroughs relying on the PRS to house many of their vulnerable tenants, it is in their interest to support landlords to improve the energy efficiency of their properties. But there are four main challenges – a difficult funding landscape, physical barriers to retrofit, lack of communication channels with individual landlords and weak market forces – that are hampering boroughs' efforts to engage their landlords.

This report advances a number of practical ways for boroughs to work with landlords and improve standards. Although these could have valuable results, the report concludes that what is possible in the current landscape will fall short of what is needed to implement much of the 'deep' retrofit required of London's aging rental properties. This will significantly reduce the effect of central government initiatives to improve standards, reduce fuel poverty and lower carbon emissions.

- This report is principally aimed at London borough private sector housing, enforcement and energy efficiency officers, in the hope that the ways forward in Part Two will benefit them in their work with private sector landlords
- Government departments such as DECC and CLG should find the city-scale perspective useful, and are encouraged to consider the national policy recommendations.
- The report should also be of interest to landlord associations, local authority housing teams focused on other tenures and housing and energy efficiency industry specialists

Methodology

The research was carried out by Future of London through a number of methods between August and November 2014. These were:

- desk-based research
- two research seminars, each with 20 to 25 attendees from London boroughs, the Residential Landlords' Association, energy organisations and other experts
- interviews with housing officers, enforcement officers, landlord associations and other sector professionals

Part One

1 PRS Landscape

1.1 Tenure growth

The private rented sector in London has increased significantly since its low point in the early 1980s, and rapidly during the last 10 to 15 years. Between 2001 and 2011, the London-wide proportion of private renting grew from 17.3% to 25.1%, while levels of both social renting and owner occupation decreased.¹

Private renting began a gradual rise in the 1980s, the same time at which social renting declined. The market would not have stepped in to fill the gap left by this decline without state intervention. This included:

- 1980 Housing Act – allowed Right to Buy to encourage social renters into ownership
- 1988 Housing Act – made private rental more attractive by reducing the minimum length of a shorthold tenancy to six months and reducing rent controls to allow them to rise to market levels
- 1996 – inception of buy-to-let mortgages, offering financial deals for the purchase of property to let

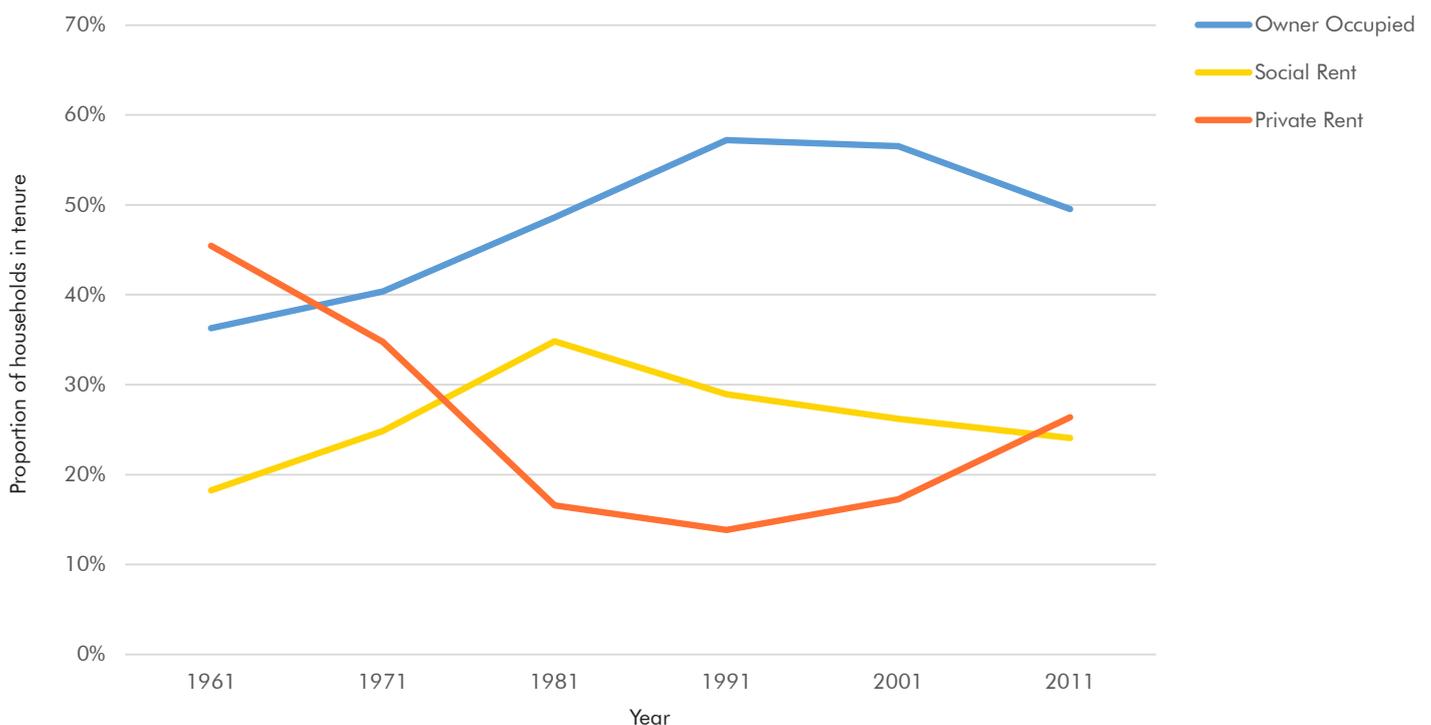
Following the PRS line on the below chart, the level of private renting remained low until the mid-1990s, at which point it began a steady rise.

Since 2000, the proportion of people privately renting has ramped up even faster, and it could be argued that tenure provision has played a more significant role than legislative tools; as social housing has failed to keep up with housing need, more and more people have looked to the private rented sector.

Despite being a nation of homeowners in comparison to many of our north European counterparts, owner occupation is also declining – nationwide, but particularly in London, where skyrocketing prices (an average of 12% from April 2012 to April 2013²) have reduced the pool of those able to afford to buy.

Private renting is the dominant tenure in other countries, and while a like-for-like comparison is impossible given social, cultural and political differences, there are lessons to be learned from countries where this has been the case for longer, such as Germany and Switzerland.³

Figure One: Trend in household tenure in London, 1961-2011



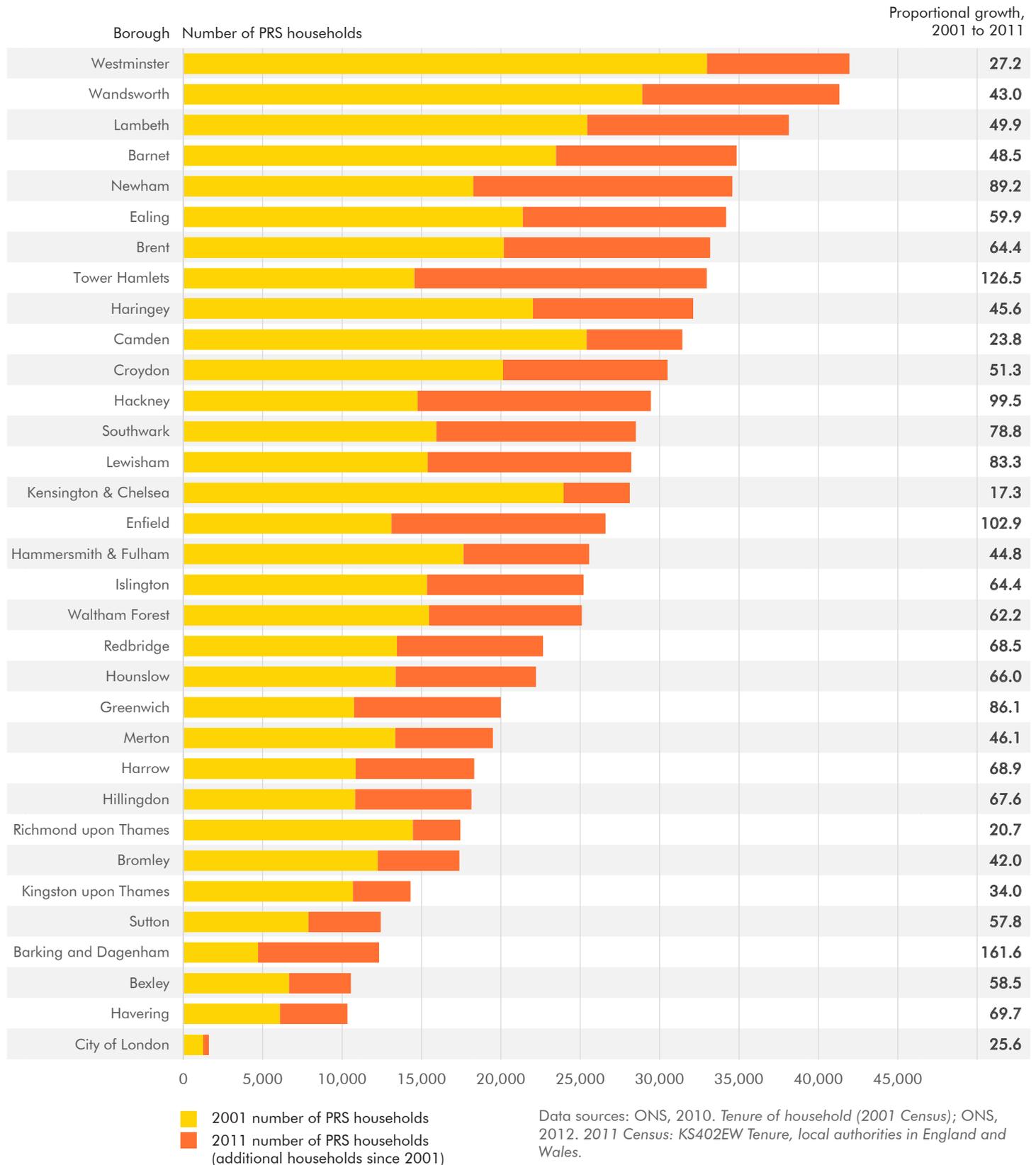
Data source: Census 1961-2011, in GLA, 2014. *Housing in London 2014*.

1.2 Spatial distribution

The spatial distribution of London's PRS is not even. Inner London generally continues to have a much greater proportion of private renters than outer, although some outer boroughs, such as Enfield and Redbridge, have

seen particularly rapid rises in private renting over the last decade. In 2011, 20 out of 33 boroughs had seen their PRS grow by more than 50% of its 2001 size. London Borough of Barking and Dagenham's has grown by more than one and a half times.⁴

Figure Two: Absolute and proportional growth of the number of PRS households, 2001 to 2011



1 ONS, 2010. *Tenure of household (2001 Census)*; ONS, 2012. *2011 Census: KS402EW Tenure, local authorities in England and Wales*.

2 GLA, 2013. *Draft Housing Strategy*, p.9.

3 See Scanlon, K. & Kochan, B., 2011. *Towards a Sustainable Private Rented Sector*, LSE.

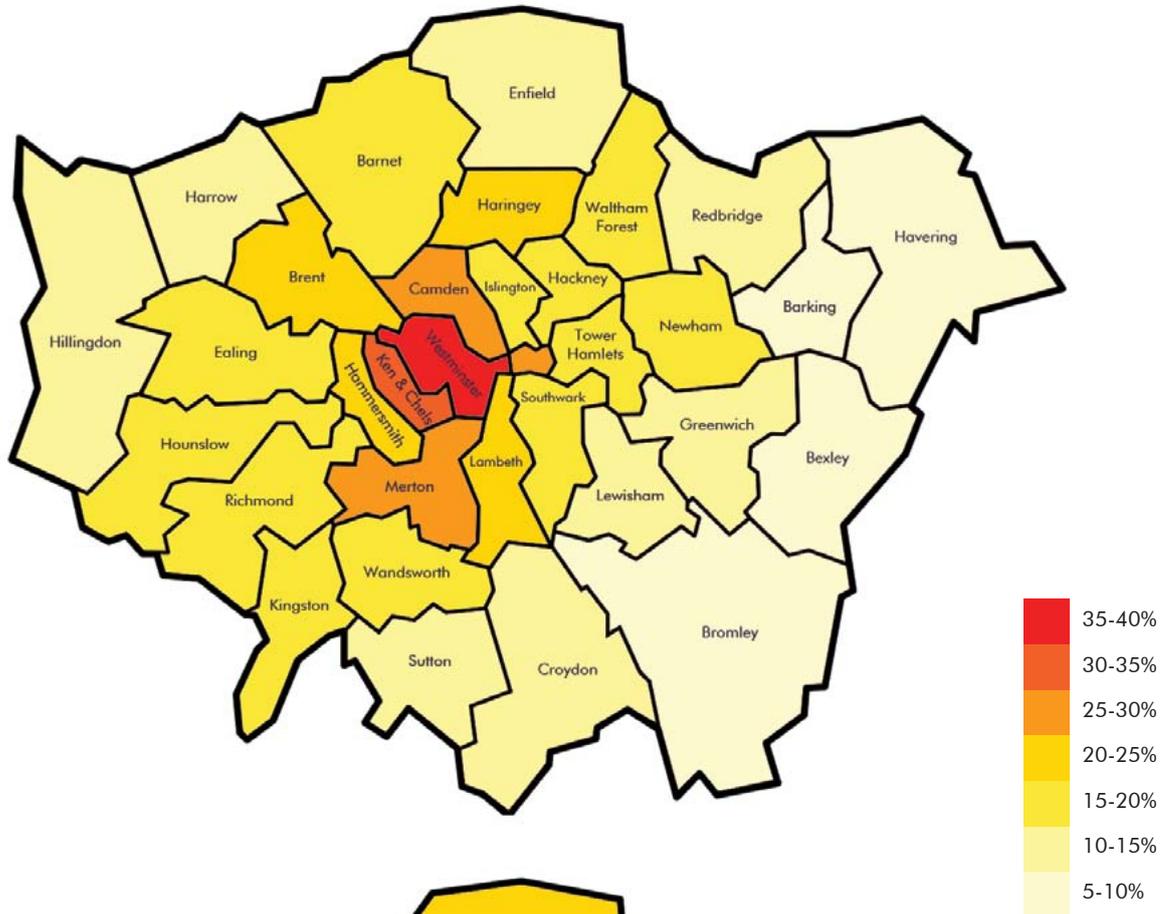
4 ONS, 2010. *Tenure of household (2001 Census)*; ONS, 2012. *2011 Census: KS402EW Tenure, local authorities in England and Wales*.

The following maps show the relative proportions of PRS according to census data from 2001 (top) and 2011 (bottom).

Where the PRS was originally an inner-London tenure, it is spreading rapidly outwards, with significant growth in east London. The London boroughs of Newham and Tower Hamlets now have two of the highest proportions of private renters in the city.

Figure Three: Spatial distribution of PRS households, by proportion of total households

2001



2011



Data sources: ONS, 2010. *Tenure of household (2001 Census)*; ONS, 2012. *2011 Census: KS402EW Tenure, local authorities in England and Wales*. Maps adapted from Mapsof, n.d. *Boroughs Blank Map of London*.

1.3 Standards

This increase puts huge pressure on the public sector to improve private rental standards, which are considered to be lower on average than for other tenures. The GLA reported in 2014 that 30% of PRS homes are below the Decent Homes standard, in comparison with 20% of owner occupied and 20% of social rented homes.⁵

Nationally, the PRS has the highest rate of properties with Category 1 hazards⁶, defined as those which present a severe threat to the health or safety of a resident. In 2011, there were over 332,000 market homes in London with Category 1 hazards, the majority of these being in the PRS.⁷

Many London boroughs' private stock condition surveys report 'excess cold' as one of the most frequent Category 1 hazards. Southwark's 2008 report stated that "practically all" of its 28,700 dwellings with a Category 1 hazard were "affected by the threat of excess cold".⁸

Private rented tenants are also affected by fuel poverty. Of the 2.5m fuel-poor households in England, some 700,000 are in the private rented sector.⁹ DECC has noted that low-income households in substandard homes will experience not only higher than typical energy bills, but may also attempt to use less fuel, meaning that their homes are not heated to an adequate level.¹⁰

This equates to the 'low income, high costs', official definition of fuel poverty, adopted by Government following the 2012 Hills Review, which suggests that a household is fuel poor if:

- its income is below the poverty line (taking into account energy costs)
- its energy costs are higher than is typical for the household type¹¹

In 2012, the average fuel poverty gap was found to be much higher for private renters (£398) than those in Local Authority (£217) or Registered Social Landlord (£243) accommodation.¹² The fuel poverty gap measures the difference between a household's modelled bill and what their bill would need to be for them to no longer be considered fuel poor.

1.4 Affordability

While standards were often found to be low, rental values in the capital are high. The chart on the next page (Figure Four) shows that London rents are significantly higher than the rest of the country. Three and four bed properties are particularly high, which puts additional pressure on families with children, a vulnerable part of London's PRS.

This is only part of the affordability story, as it does not take into account the benefit cap. Of the 45,800 total UK households affected by the benefit cap between its inception in April 2013 and May 2014, 43% were in London. In addition, 19 of the 20 authorities with the highest number of households affected were in London.¹³ Housing benefit claimants in the PRS are being (a) moved into the cheapest private dwellings and (b) 'priced out' of the boroughs with highest rents, escalating problems for boroughs with lower-cost housing.

5 GLA, 2014. *Housing in London 2014*, p.115.

6 CLG, 2014. *English Housing Survey: Headline report 2012-13*, p.43.

7 GLA, 2012. *The Mayor's Housing Covenant*, p.30.

8 LB Southwark, 2008. *Private Sector Stock Condition Survey 2008: Executive summary*, p.5.

9 DECC, 2013. *Fuel Poverty: A Framework for Future Action*, p.12.

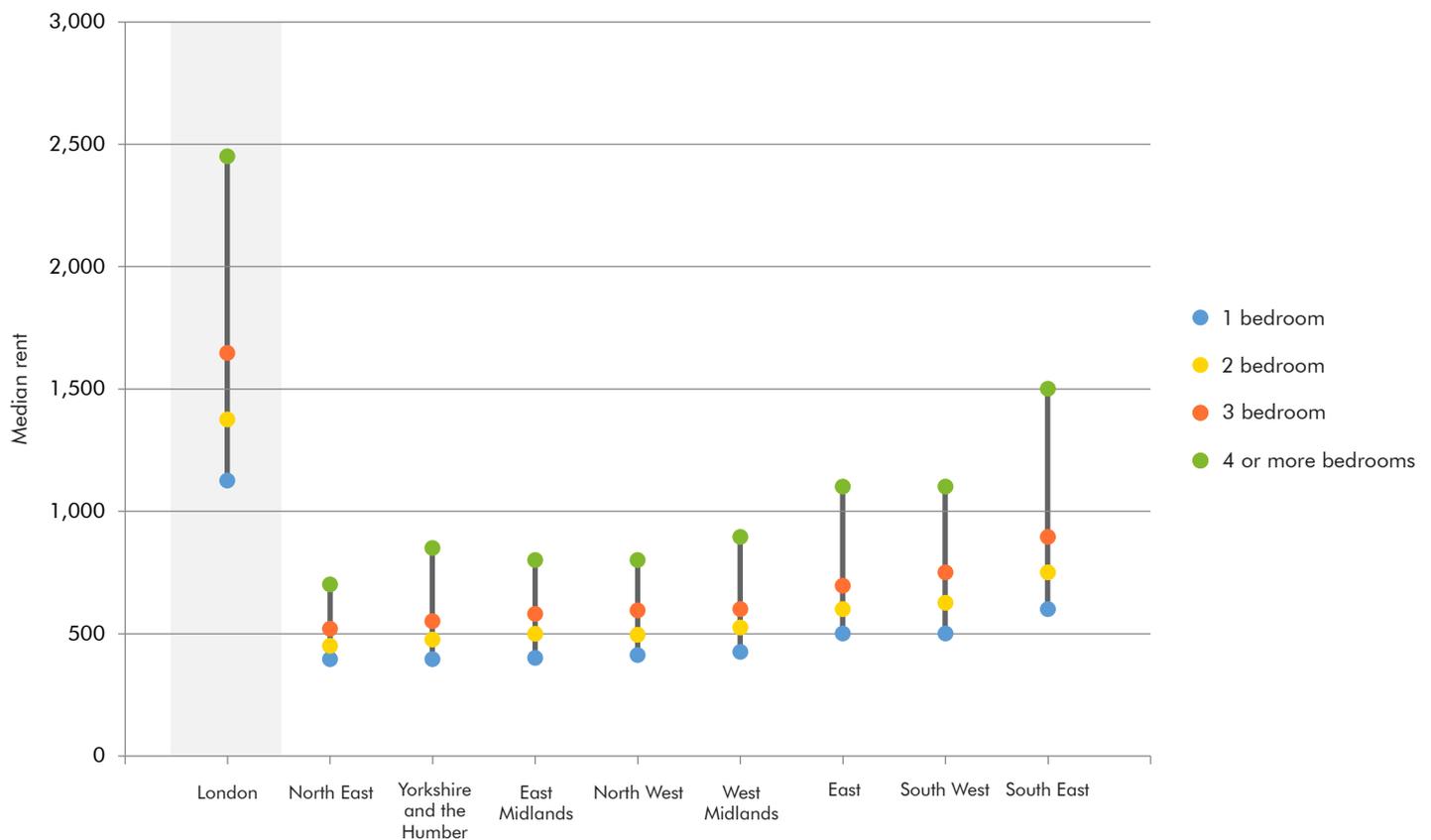
10 *ibid*, p.8.

11 DECC, 2014. *Cutting the Cost of Keeping Warm: A new fuel poverty strategy for England*, p.13.

12 DECC, 2013. *Fuel Poverty: A Framework for Future Action - Analytical annex*.

13 DWP, 2014. *Benefit Cap: GB households capped to May 2014*.

Figure Four: Median monthly market rent by region and number of bedrooms, April 2013-March 2014



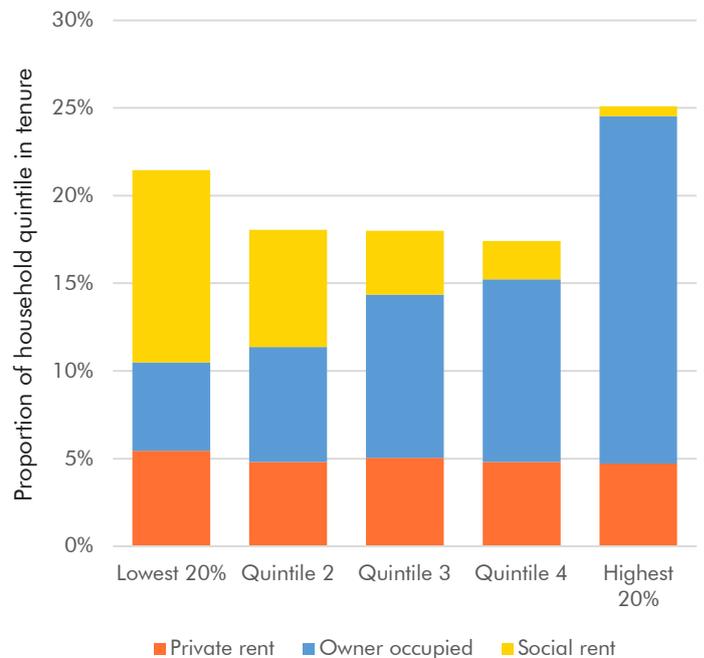
Data source: VOA, 2014. *Private Rental Market Statistics*.

1.5 Tenants

The GLA found that between 2009 and 2012, private renting in London was evenly distributed across income bands (see Figure Five). However, the 2012-13 English Housing Survey showed a growing number of under-35s ‘trapped’ in private renting, paying such high amounts of their income on rent that they stand no chance of saving for a deposit for a privately rented home.¹⁴

It is fair to say that affluent renters may still be looking to the PRS due to such high property values in the Capital. People may be relatively affluent, but perhaps not sufficiently so as to afford to own a property in the area. These people can also be considered part of ‘Generation Rent’, even though they could be considered to have more choices over the type of property they rent.

Figure Five: National household income quintile by tenure, London, 2009/10-11/12



Data source: English Housing Survey data, 2009/10 to 2011/12, in GLA, 2014. *Housing in London 2014*.

Vulnerable communities

The number of London's private renters living in poverty in the private rented sector has increased by over 460,000 in the last 10 years – 43% of private renters are in poverty.¹⁵ Those on the lowest incomes are not only the most likely to live in substandard PRS housing, but also the least likely group to have their housing problems addressed, as they are often hard for local authorities to reach.¹⁶ Vulnerable communities of particular concern include new migrants, housing benefit recipients, families with children and, as the next section details, registered homeless households.

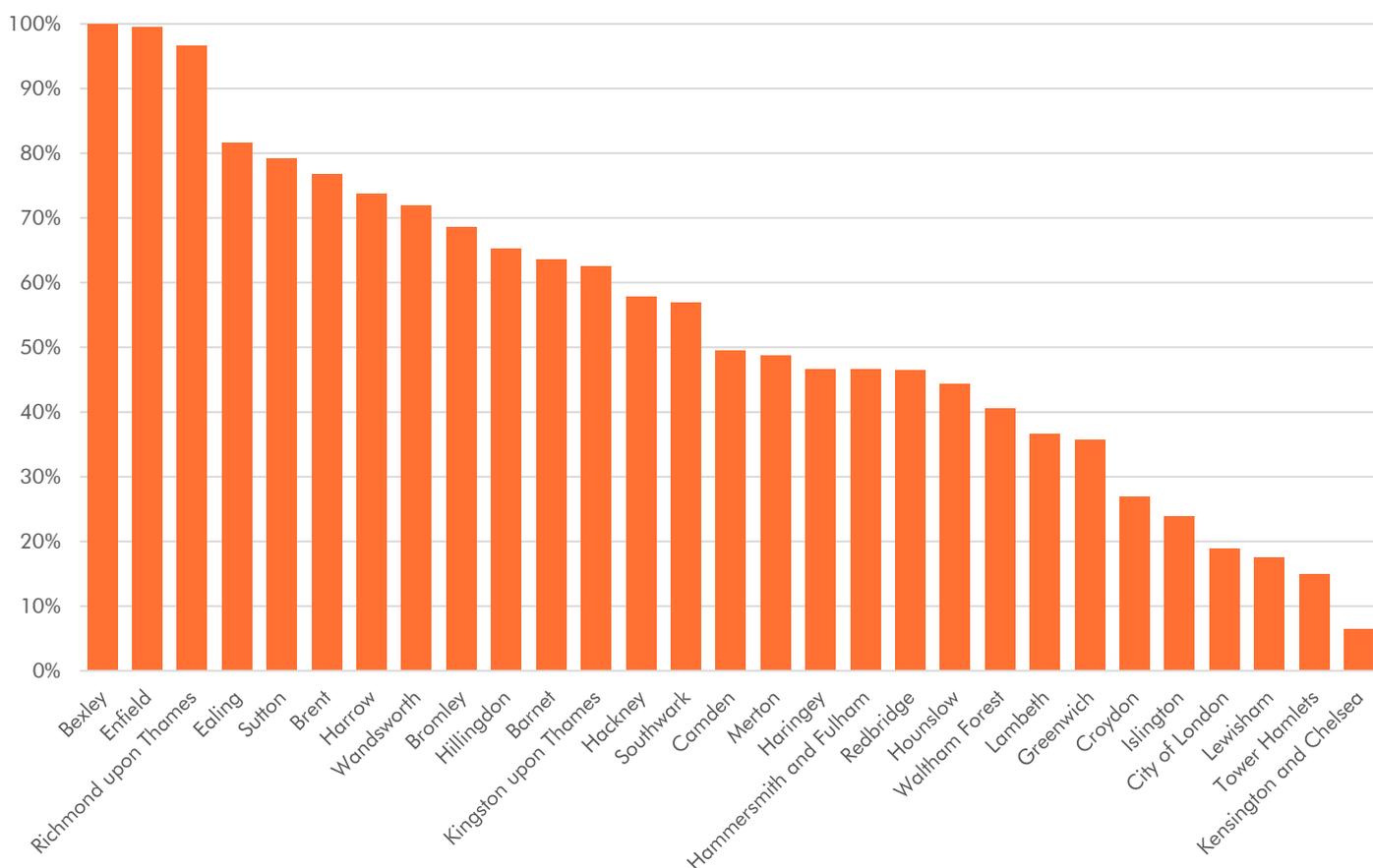
Registered homeless

The PRS is increasingly being used as temporary accommodation, housing people registered as homeless. Since the 2011 Localism Act, local authorities have been able to fully discharge their homelessness duty into the private rented sector.¹⁷ This removes the element of choice that homeless households previously had as to whether

they were willing to be housed privately. As the chart below shows, most London boroughs, many of whose social sectors are inadequate to meet demand, are using this power, with two thirds of temporary accommodation in the PRS. Shelter recently reported that 37% of homeless households in London are placed in temporary accommodation outside of their home authority. Boroughs with a greater supply of housing, particularly with lower-cost property, are thereby placed under pressure by absorbing households from more expensive areas.¹⁸

Authorities have a duty to ensure that temporary accommodation is of a sufficient standard before it can be used.¹⁹ Some London boroughs manage their private sector leasing in-house; others have chosen to outsource, using framework providers. One housing officer reported that housing demand is currently so high in some boroughs that private housing teams are increasingly forced to use property that is off their frameworks, jeopardising the level of standards that have been secured through the framework.

Figure Six: Homeless households assisted in the PRS as a proportion of homeless households assisted, 2013/14



NB: Barking & Dagenham, Havering, Newham and Westminster are excluded from figure due to unavailable or unreported data.
Data source: CLG, 2014. *Detailed local authority level homelessness prevention and relief figures: 2013 to 2014*.

14 CLG, 2014. *English Housing Survey 2012-13*, p.13.

15 npi & Trust for London, 2013. *London's Poverty Profile 2013*, p.41.

16 Davies, B. & Turley, A., 2014. *Back to Rising Damp*, Institute for Public Policy Research, p.13.

17 CLG, 2012. *Supplementary Guidance on the Homelessness Changes in the Localism Act 2011 and on the Homelessness (Suitability of Accommodation) (England) Order 2012*.

18 Shelter, 2014. *Temporary Accommodation in London: research findings and policy recommendations*.

19 CLG, 2012. *Homelessness (Suitability of Accommodation) (England) Order*, p.2.

1.6 Landlords

While we know a lot about tenants, the same cannot be said of landlords. At last count (the 2011 census), there were 830,000 households privately renting in London. Unable to find an up-to-date estimate of number of landlords for the purpose of this research, Future of London reached a modelled estimate of 360,000 landlords with an average portfolio size of 2.3.²⁰

It is true to say that landlords can differ significantly in professionalism, portfolio size and motivation. While a number of organisations collect regular survey data on landlords, this evidence is limited by:

- sample size – typical sample sizes are usually around 1,000 landlords of the estimated 1.4m nationwide, which could not be classified as statistically significant

- sample bias – many samples are comprised of association members. It could be argued that these landlords will be at the more professional end of the spectrum and may not be reflective of landlords as a whole

It was beyond the scope of this report to attempt to collect empirical data on landlords, but the lack of more comprehensive data is a significant challenge – and concern – for local authorities and researchers. That being said, the samples in Table One do offer some useful information.

Table One: Review of public data sources on landlords

Public data sources	Detail on available data, sampling and representativeness
Rugg Review	Commissioned by Government to review the sector, this was published in 2008. This contains data on the percentage of landlords according to type and portfolio size across England, between 1993 and 2006. Each year of data is drawn from a different source, primarily the Private Landlords Survey conducted as part of the English House Condition Survey (EHCS). This Survey samples approximately 1,000 landlords and agents (although 2001 only included 590), sourced via EHCS respondents. This data is then weighted and used to estimate trends across England. ²¹
2010 Private Landlords Survey	The 2010 Private Landlords Survey had a sample of 1,051 landlords and agents (43% of the sample) across England, who own/manage 1,109 dwellings. ²²
National Landlords Association (NLA) survey	The NLA conducts a quarterly online survey of its members. The latest survey included 927 respondents, and includes data on length of time operating, and portfolio size. ²³
Residential Landlords Association (RLA) survey	In 2014, the RLA published results of an independent survey which sampled 2,948 landlords. This contains data on size of portfolio, and area of the UK that the landlord is operating in (15% of the sample are in London), but doesn't compare the two variables. ²⁴
Association of Registered Lettings Agents (ARLA) landlord survey	ARLA conducts a quarterly survey of residential investment landlords. The June 2014 survey included responses from 1,027 landlords, who were all visitors to the ARLA website, and members of the RLA. 15.9% of the sample was based in Greater London. While the sample contains data on size of portfolio and length of time operating, this isn't broken down according to region. ²⁵
London Landlords Accreditation Scheme (LLAS)	FoL obtained August 2014 data on the number of landlords accredited per borough directly from the LLAS. ²⁶

Continuing upward trend of individual landlords

The Rugg Review showed that individual landlord proportions increased from 61% in 1993/4 to 73% in 2006, with the biggest jump between 2003 and 2006. Company and organisation landlord numbers both fell.²⁷ According to the 2010 Private Landlords Survey, individual landlords made up 89% of the total.²⁸

High proportion of one-property owners

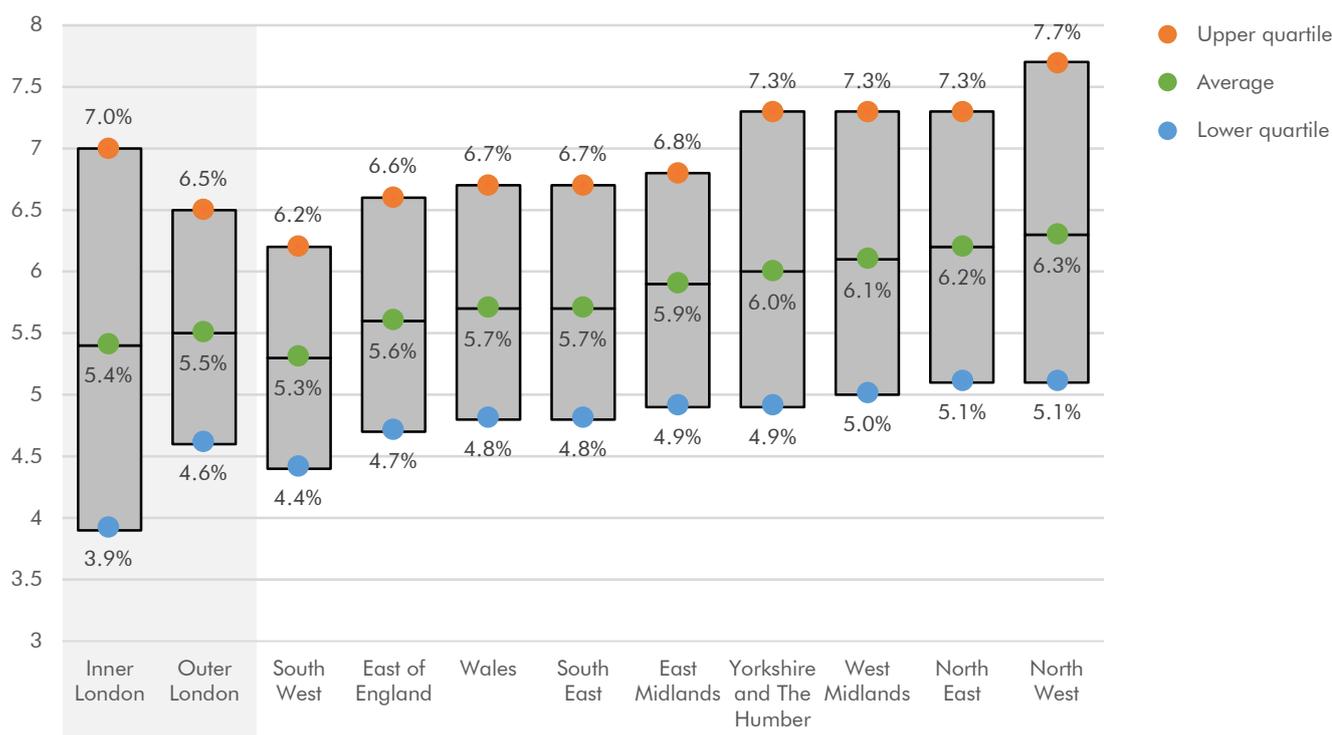
In terms of numbers of properties let, the 2010 Private Landlords Survey found that 81% of individual landlords nationwide only had one property, and 97% owned one to four.²⁹

It could be assumed that this demonstrates the growing number of landlords for whom letting property is not their sole occupation. In terms of improving energy efficiency in the sector, there would be huge value in reaching out to these 'non-professional' landlords who own a growing proportion of London's housing stock.

Lack of liquidity

Rental yields in London are some of the lowest in the country (see Figure Seven). This can affect landlords' ability to make repairs on their properties, forcing them to rely on their own labour for upkeep and repairs.³⁰ They are highly unlikely to have access to larger sums for more substantial improvements.³¹

Figure Seven: Gross income yield for 2 bedroom properties by region, 2011



Data source: Savills and Rightmove, 2012. *Special Report: Rental Britain*.

20 To reach this figure, FoL took ONS data for number of households rented from private landlord in each borough (2012), and divided by the weighted average portfolio sizes from the 2010 Private Landlords Survey that equalled 2.3.

Data sources: GLA, 2014. *Housing Tenure of Households, Borough*; CLG, 2010. *Private Landlords Survey*.

21 Rugg, J. & Rhodes, D., 2008. *The Private Rented Sector: Its contribution and potential*, Centre for Housing Policy, University of York.

22 CLG, 2011. *Private Landlords Survey 2010*.

23 About the organisation: NLA, n.d. Available at: <http://bit.ly/1zqhtS4>.

24 RLA, 2014. *Property Academy: Landlord & tenants survey results 2014*. Residential Landlords Association. Available at: <http://bit.ly/1EZPpbK>.

25 ARLA, 2014. *ARLA Survey of Residential Investment Landlords*. The Association of Residential Letting Agents.

26 About the organisation: LLAS, n.d. *What is LLAS?* Available at: <http://bit.ly/1uU8bi9>.

27 CLG, 2011. *Private Landlords Survey 2010*.

28 *ibid.*

29 *ibid.*

30 GLA, 2010. *The Mayor's Housing Covenant*, p.15.

31 GLA, 2013. *Rent Reform: Making London's private rented sector fit for purpose*.

'Rogue' v amateur

A 2012 CLG report found there to be “a small minority of landlords [who] fail to meet their basic responsibilities”.³² This element of the sector is often referred to as ‘rogue landlords’. At a research seminar Future of London held for the purposes of this report, a participant representing the landlord community said that these landlords are “not even worthy of the name ‘landlord’ – they are criminal operators”.

Although this report is not concerned with dealing with ‘rogue landlords’ as such, there is a likely spectrum of quality of landlord, from some who fail to meet their basic responsibilities, to those who are “outright criminal [and] often target vulnerable people, placing them in overcrowded or poor quality accommodation.”³³ Enforcement teams need to take a measured approach, working to remove the worst landlords from the sector whilst supporting and educating others in order that they remain in the sector as responsible landlords. This is considered in Part Two.

A question could be raised as to whether all landlords are aware of their legal obligations. For example, available data suggests that landlords may not all be fully compliant in terms of Energy Performance Certificates (EPCs). According to CLG, an EPC is needed whenever a property is rented³⁴, although if a property was occupied before 1 October 2008 and that occupier remains, an EPC is not required.³⁵ Looking at a sample of seven boroughs’ EPC data provided by the GLA, an average of 49% of households in the PRS had an EPC certificate attached to them. While there are caveats to this data – a portion of the PRS will be new build, which is not included in this figure, and it is possible that some households will have been in their properties since before 1 October 2008 – it raises the question of whether landlords are fully compliant with this regulation. This uncertainty is reinforced by the 2010 Private Landlords Survey, which found that an EPC had been obtained for 42% of dwellings in the PRS nationally.³⁶

More landlords would toe the line if the certification was effectively enforced, but Trading Standards officers often have competing priorities. The question of whether it’s more prudent to reach these landlords through ‘carrots’ or ‘sticks’ is considered in more detail in Part Two.

Larger landlords

Data is poor on this group, but it can be broadly separated into three subsets in London:

- Developers of institutionally invested purpose-built PRS schemes (not relevant to this report)
- Professional portfolio landlords – of which portfolio size and geographical make-up varies
- ‘Family’ landlords who have built up a portfolio of properties to let/manage over time

In terms of the energy efficiency agenda, there are opportunities for larger landlords and London boroughs to engage with one another, which this report will consider in Part Two.

2 Challenges

This report is focused on how the public sector can better engage private landlords in energy efficiency, particularly given the increasing number of vulnerable tenants being housed in the PRS. Retrofit is a difficult agenda under any circumstances, but even more so in the private sector, which is to a large extent beyond the control of local authorities. This report focuses on four main challenges:

2.1 Unfavourable funding landscape

The growth in the PRS since the 1990s can be ascribed to the dove-tailing of regulatory incentive for entering the market and appropriate funding. This encouragement of making a profit through asset ownership coupled with an aging housing stock also led to the proliferation of poor standards in the sector. As a consequence, Government has sought to create another surge of investment in private housing, but one that focuses on improving the built fabric to boost standards.

Green Deal

The Green Deal was created to offer an attractive mechanism in which the landlord could invest in the fabric of their properties, save on energy bills and raise energy efficiency standards.

Box One: Green Deal review

In September 2014, the House of Commons published their latest Green Deal watching brief, which identified the financial, communication and trust and behavioural barriers that have caused this “deeply disappointing” uptake. Examples:

- The cost of initial assessments, and high interest rates on loans
- The assessment process leading to conservative savings estimates, which limits the amount available for loan
- A lack of trust caused by instances of mis-selling
- Conflation of the Green Deal and ECO, and confusion over what each is for
- Financial and policy uncertainties, including concerns about the detrimental impact of the attachment of a Green Deal loan to a property
- Hassle factor for consumers³⁷

The Green Deal was always likely to be more challenging in the private rented sector given the existence of the ‘split incentive’ – the person investing in the building not reaping the bill-saving reward. This was recognised by DECC in their Green Deal impact assessment.³⁸ More evidence of direct benefits to the landlord could help overcome this (see Section 4.4).

Green Deal, the ‘pay-as-you-save’ funding mechanism, whereby the cost of improvements are paid for over time through the savings generated on energy bills, is DECC’s main focus for retrofit funding. In September 2014, whilst there had been 300,500 assessments, only 4,000 Green Deal plans had been initiated.³⁹ This falls far short of DECC’s target for 1 million installations by March 2015, demonstrating obstacles between initial interest and installation.

ECO

The Energy Companies Obligation (ECO) is funded by energy suppliers, at around £1.3 billion each year. The scheme can work alongside the Green Deal, particularly for low-income tenants and hard-to-treat properties. ECO encompasses three obligations:

1. Carbon Saving Community Obligation (CSCO) (around £190 million per year) – provides insulation measures to households in specified areas of low income. Within CSCO is a sub-option aimed at rural areas, defined as settlements under 10,000 homes and in receipt of the same qualifying benefits as for the home.
2. Home Heating Cost Reduction Obligation (HHCRO) (around £350 million per year) – provides heating and insulation measures to consumers living in private tenure properties that receive particular means-tested benefits. This is particularly to pay for measures that reduce the cost of heating for low income, vulnerable households at risk of fuel poverty (e.g. heating systems and basic insulation).
3. Carbon Saving Obligation, also known as the Carbon Emissions Reduction Obligation (CERO) (around £760 million per year) – brought in to cover the installation of measures like solid wall and hard-to-treat cavity wall insulation, which would be challenging to finance solely through the Green Deal.

32 CLG, 2012. *Dealing with Rogue Landlords*, p.4.

33 *ibid.*

34 CLG, 2014. *Buying or Selling Your Home – Energy Performance Certificates*. Available at: <http://bit.ly/1uNHba8>.

35 CLG, 2008. *Energy Performance Certificates (EPCs) and Renting Homes: a landlord's guide*. Available at: <http://bit.ly/1t9Pjqz>.

36 CLG, 2010. *Private Landlords Survey*, p.23.

37 House of Commons Energy and Climate Change Committee, 2014. *The Green Deal watching brief (Part 2)*.

38 DECC, 2014. *Consultation Stage Impact Assessment for the Private Rented Sector Regulations*. Available at: <http://bit.ly/1yxTslE>.

39 House of Commons Energy and Climate Change Committee, *op. cit.*

The ECO has been extended to March 2017, with revised targets and eligibility. This includes a 33% reduction in the CERO obligation and the allowance under CERO of loft insulation, cavity-wall insulation and district heating.

From an obligated party point of view, progress against HHCRO is on track to reach its March 2015 target, having focused heavily on boiler installations.⁴⁰ For the high number of solid wall properties in the PRS, particularly in London (see Section 2.2), CERO has the potential to fill the large funding gap between the Green Deal ‘golden rule’ – that installation payments should not exceed the projected energy bill savings – and the high cost of solid wall insulation (see Section 4.1). While the allowance of cheaper measures into CERO funding makes the programme cheaper for some households, it is likely to impact on the rolling out of solid wall insulation (SWI), as it will encourage ECO funding to be used for simpler retrofits.

Latest Ofgem data reports that 65,948 solid wall insulation schemes have been installed, the vast majority of which have been through CERO. Though progress is being made in challenging circumstances, this is fewer than half of the 146,600 installations that Government estimated would be made by March 2015.⁴¹

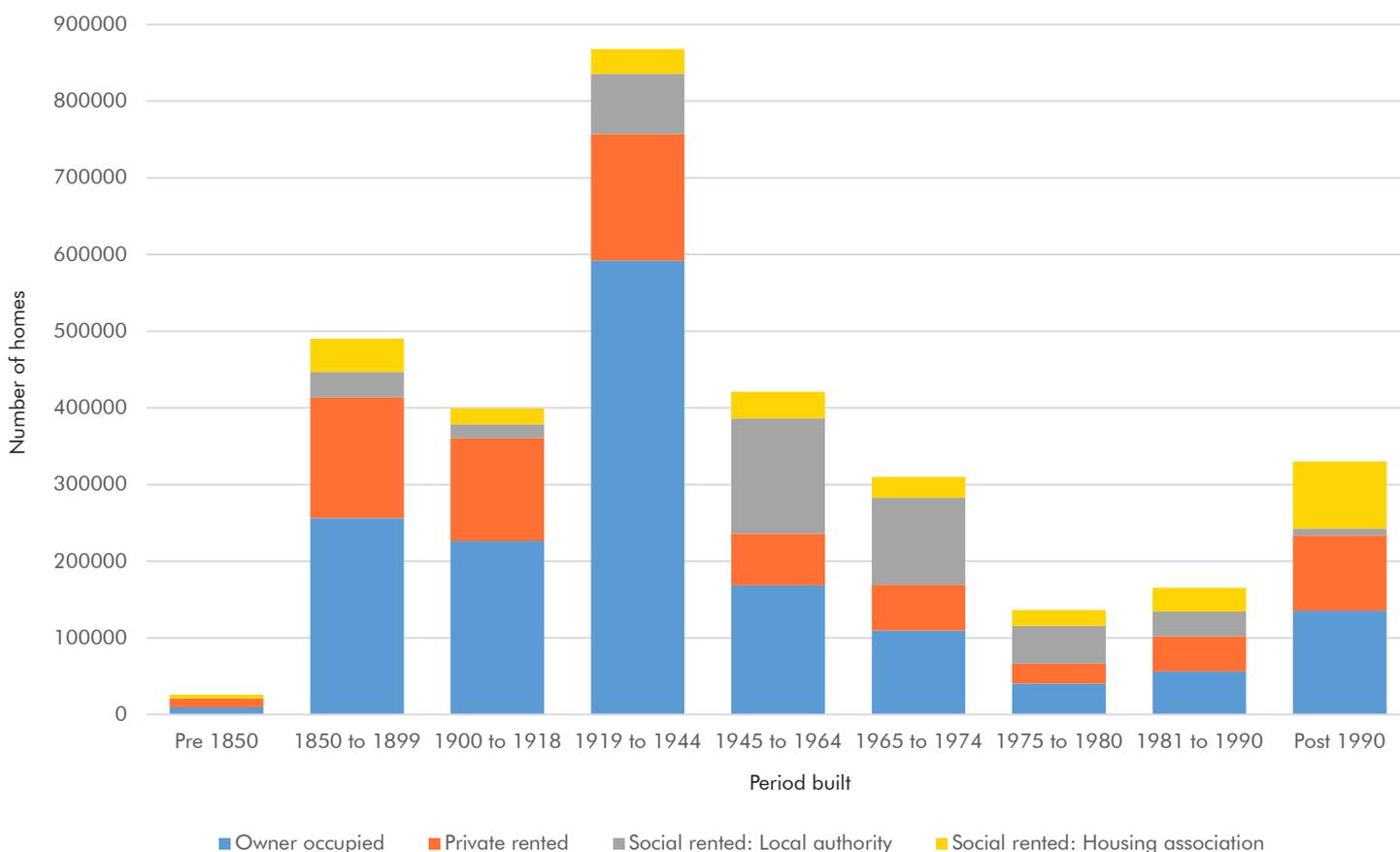
2.2 Physical barriers to retrofit

The majority of private rented homes – over 80% in the last decade – are in London’s existing stock, rather than from new build, the latter of which are subject to stringent Buildings Regulations standards. Therefore, improving PRS standards in London is essentially a retrofit agenda. There are a number of barriers to retrofitting private properties in London:

Property age

The thermal performance of older homes is much lower than new builds, particularly those constructed since the introduction of Building Regulations in 1984. A significant proportion of London’s private rented sector is in properties built between 1850 and 1944. Homes from this era tend to be solid wall and therefore harder to retrofit with insulation, and the archaic heating systems in many of these buildings can be extremely inefficient.

Figure Eight: Dwelling age by tenure, London, 2011



Data source: English Housing Survey stock data, 2011, in GLA, 2014. *Housing in London 2014*.

Property type

Hard to treat properties are those that cannot accommodate 'stable' or cost-effective fabric energy efficiency measures.⁴² London has the highest proportion in the country of hard-to-treat properties, including solid-walled terraced houses and high-rise flats. Both of these are more likely to require specialist, expensive treatment. Almost 50% of London households in general, and 72% of those in the PRS, live in flats.⁴³

Conservation areas

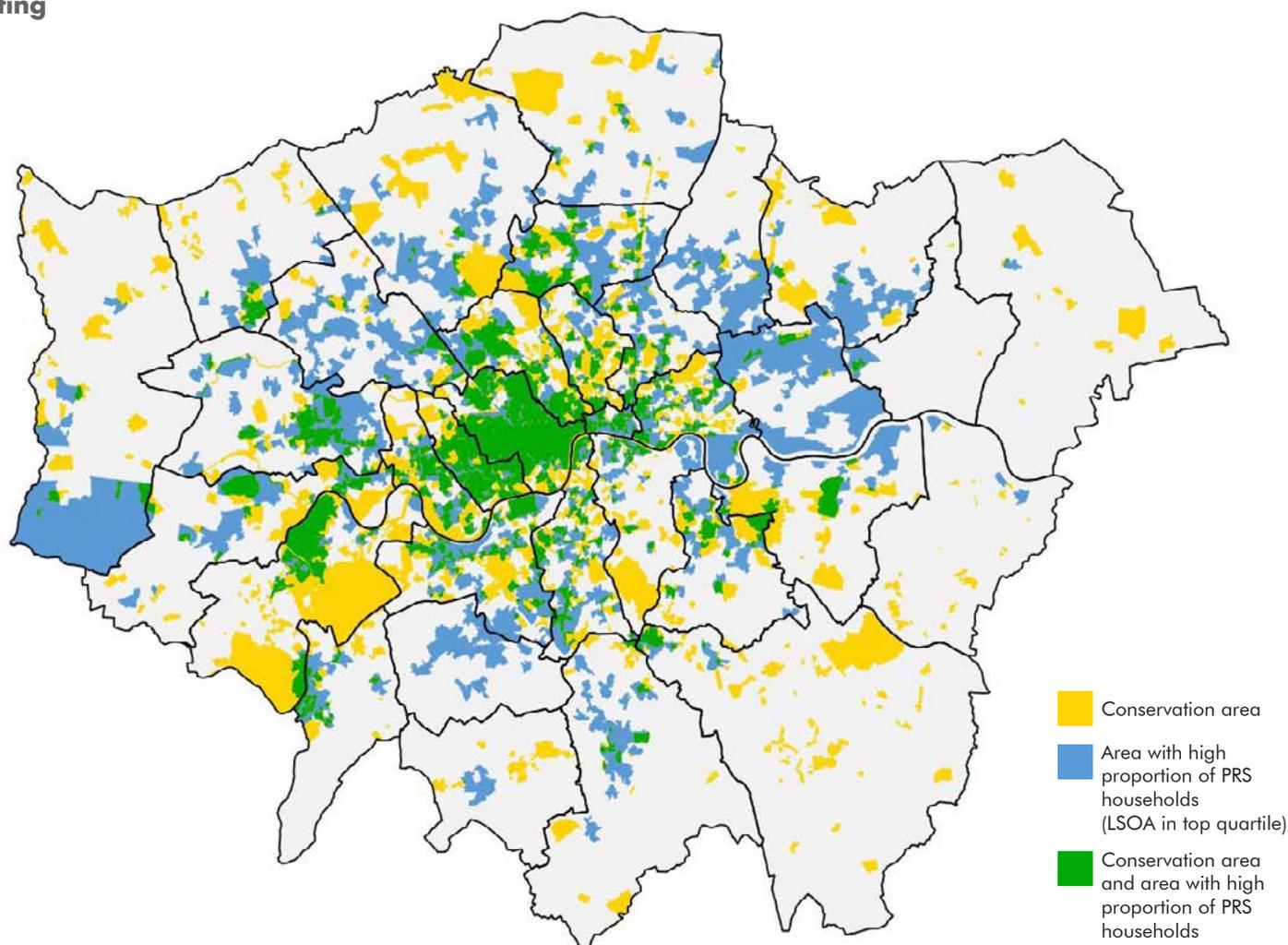
Not only are PRS properties often hard to treat, they often have the additional legislative aspect of being in conservation areas. The distribution of these is focused in inner London boroughs where the majority of London's PRS is situated. An estimated 15% of the land in London

is within a designated conservation area.⁴⁴ Within these areas certain aspects of retrofit, such as wall insulation and double glazing, can require the additional requirement of obtaining planning permission. Particular attention has to be paid to minimising any alteration to the building's external appearance.⁴⁵

Compound effect

All three of the above challenges tend to overlap geographically, creating a compound effect: London's private renters are often in older, hard-to-treat homes, in conservation areas. For example, in Kensington and Chelsea, 72% of the land is a designated conservation area. The borough also has one of the greatest concentrations of households privately renting, with more than half of all households privately renting in a number of wards.⁴⁶

Figure Nine: Compound effect of conservation areas and neighbourhoods with high levels of private renting



Data sources: GLA, n.d. *Conservation areas shapefile*; ONS, 2014. *2011 Census, Local Characteristics on Housing for Output Areas in England and Wales*; Ordnance Survey

40 Centre for Sustainable Energy, 2014. *ECO Evaluation*, p.56.

41 DECC, n.d. *Calculation of the ECO targets in the Final Impact Assessment*. Available at: <http://bit.ly/1xxvFKs>.

42 BRE, 2008. *A Study of Hard to Treat Homes Using the English House Condition Survey*.

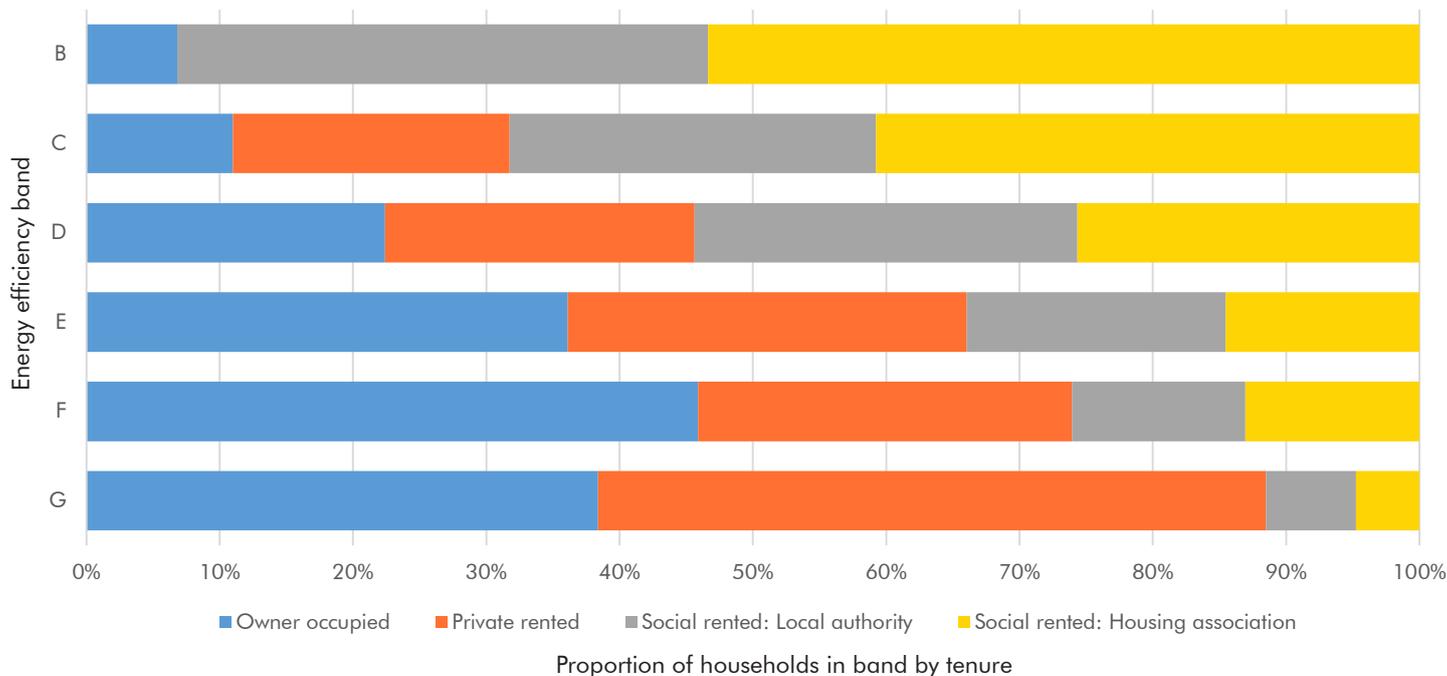
43 ONS, 2014. *Census 2011: Tenure by number of persons per room in household by accommodation type*.

44 GLA, 2014. *Housing in London 2014*, p.54.

45 Westminster City Council, 2011. *Retrofitting Historic Buildings*.

46 GLA, 2014. *The 2013 London Strategic Housing Market Assessment*, p.12 and 55.

Figure Ten: Energy efficiency band by tenure, London, 2010



Data source: English Housing Survey, 2010 housing stock data, in GLA, 2014. *Housing in London 2014*.

Energy performance

From the EPC data that is available, 40% of London’s private rental properties fall into an energy efficiency band of E or below, with A the best and G the worst.⁴⁷ Whilst this is better than London’s owner occupied properties, it’s considerably lower than social and housing association stock, which dominates the higher ratings in the chart above. The PRS has no B-rated properties, and the most G-rated (see Figure Ten).

PRS stock also fares badly when measured by the Standard Assessment Procedure (SAP), Government’s recommended energy performance tool for the residential sector. The higher the SAP rating, the better a dwelling is performing. The average SAP rating for private properties in London is 54.4, compared to 64.6 for the social rent sector.⁴⁸ This difference may be attributed to increased regulation and previous high levels of grant funding for the social rented sector.

2.3 Lack of communication channels with individual landlords

The previous section identified that there is a very high proportion of individual landlords in London that own one property. Few are accredited. There are a number of physical factors that lead to the PRS suffering with low energy efficiency standards. Borough private housing teams mainly inspect properties for hazards in response to complaints, using the Housing Health and Safety Ratings System (HHSRS), but lack of capacity can challenge implementing more proactive strategies. Chartered Institute of Housing members expressed concern that capacity in PRS teams had reduced at the same time as rapid growth of the sector.⁴⁹

London boroughs’ traditional approaches to communicating with landlords include forums and focus groups. However, these tend to attract landlords that already have, or would like to have, a more direct relationship with the borough, for example by being on their temporary housing framework. In the research seminars held all participants seemed unsure how to effectively reach out to individual landlords.

2.4 Weak incentives for landlords and tenants to act

It is indisputable that housing supply is nowhere close to keeping up with demand. This disincentivises landlords from improving their properties, while at the same time disempowering tenants from demanding improvements.

Supply side

Although there are potential benefits for both landlords (reduced rent arrears, fewer voids and lower maintenance costs) and tenants (increased comfort, reduced energy bills), the split incentive problem is recognised as a key barrier to landlord investment in the energy performance of PRS dwellings. There is an obvious mismatch where the landlord funds or part-funds the costs of installing energy efficiency measures, while the benefits are accrued by the tenant.⁵⁰ The unattractive funding landscape and complexity of retrofit means that even the most enthusiastic landlords would struggle to see a major project through.

This situation is exacerbated in London where demand is so high and where landlords do not understand or perceive there to be benefits to their business.

Demand side

Although the tenant generally stands to gain from energy efficient retrofit in terms of lower energy bills and increased comfort, they too face challenges. A tenant may not be willing to experience the potential disruption of weeks of building work when it isn't their property.

Furthermore, short tenancies are a real disincentive. Tenants may choose to ignore low standards and look to improve the environment in their next rental property. London's housing market could mean that tenants are not 'choosing' at all; they may be willing to live with problems to ensure they have a home, however temporary. It may also be the case that they are less likely to complain about poor conditions for fear of eviction. Citizens Advice Bureaus have reported that the problem of retaliatory eviction is often associated with properties in a poor state of repair and a danger to health and safety.⁵¹

Tenant-landlord relationships

The asset owner (landlord) has more control of improvements to the property in this situation than the tenant. The success of the Green Deal relies on a good degree of communication between landlord and tenant. In particular the tenant must consent, in writing, to the Green Deal plan being initiated, and that the landlord must disclose details of an existing Green Deal to new and prospective tenants. New and prospective tenants must acknowledge responsibility for the repayments in writing. For the most vulnerable, low income and new migrant groups identified at the beginning of this report, this is a level of communication and cooperation which may pose concerns and difficulties.

47 English Housing Survey, 2010 housing stock data, in GLA, 2014. *Housing in London 2014*.

48 Data sourced via Wilcox, S. & Perry, J., 2014. *UK Housing Review 2014*. Social Research Policy Unit, University of York. Available at: <http://bit.ly/1yjek6m>.

49 CIH, 2014. *Review of Property Condition in the Private Rented Sector (A Discussion Document)*, p.8.

50 DECC, 2014. *Consultation Stage Impact Assessment for the Private Rented Sector Regulations*. Available at: <http://bit.ly/1yxTslE>.

51 Crew, D., 2007. *The Tenant's Dilemma*. Citizens Advice Bureau, p.13.

3 Policy and Regulation Review

The domestic sector represents 25% of UK's carbon emissions overall.⁵² With the combined issues of poor standards and rapid growth of private renting, regulations for improving the sector's efficiency are being developed.

This section focuses on carbon reduction policy drivers, how they relate to domestic energy efficiency and the legislation currently being developed to push this forward.

The **Climate Change Act 2008** committed the UK to cutting emissions by at least 34% by 2020 and 80% by 2050 of the 1990 baseline. Pan-London, The Mayor has set a 60% CO2 reduction target for London by 2025. In 2010, the Mayor reported that 36% of London's CO2 emissions were from housing, of which 80% was from space and water heating.⁵³

DECC reported in 2014 that 33% of households in fuel poverty in England live in the PRS. The recent **fuel poverty consultation** proposed getting as many fuel poor households as practicable to an EPC band E rating by 2020, band D by 2025 and band C by 2030.⁵⁴ Given the number of private rented households in fuel poverty, many properties would be eligible for both the energy efficiency and fuel poverty regulations. This would mean they would not only have to be a minimum EPC band E by 2018, but meet the proposed minimum standards for 2025 and 2030 as well. This highlights that it may be prudent to try to obtain maximum energy efficiency with a retrofit project, as properties are likely to be eligible for additional regulation later down the line.

The **Energy Act 2011** introduced the Green Deal financing mechanism, as well as the primary legislation for regulating improvements to the energy efficiency of the private rented sector. This includes powers to develop a series of landlords' and tenants' energy efficiency regulations,⁵⁵ including:

- ensuring that landlords cannot unreasonably refuse energy efficiency improvements requested by the tenant. These regulations must come into force no later than 1 April 2016
- ensuring that the landlord of a domestic property may not let the property until it meets set energy efficiency standards. These regulations must come into force no later than 1 April 2018
- the provision "for a local authority to enforce any requirement imposed by or under the regulations"⁵⁶

The **PRS consultation** from July to September 2014 outlined the two proposed sets of secondary legislation to carry forward the Energy Act powers – the Minimum Energy Efficiency Standard Regulations ("minimum standard regulations") and the Tenant's Energy Efficiency Improvement Regulations ("tenant's improvements regulations").

The minimum standard regulations would require landlords to bring properties with an F or G EPC rating (approximately 10% of London's PRS) up to an E rating. The tenant's improvement regulations would give tenants powers to request energy efficiency improvements which the landlord cannot reasonably refuse. The consultation states that for both sets of regulations there must be no net or upfront costs to the tenant.

Part One Summary

London's PRS landscape

The PRS has doubled over the past 10 years in a number of boroughs, putting strain on housing officers to ensure appropriate standards.

Social housing is in short supply and London boroughs rely heavily on the private rented sector to house vulnerable tenants.

The dominant physical characteristics of London's PRS – the prevalence of older, less energy efficient stock, high numbers of hard-to-treat flats and often carrying the additional regulatory burden of being in conservation areas – make PRS retrofit particularly challenging.

Landlords are critical to energy retrofit works: in most cases they need to provide consent for works, as well as a proportion of the cost at least. The incentive for doing this is unclear. There is uncertainty amongst the public sector as to how to better engage landlords in this agenda.

Challenges

The biggest obstacles to private sector domestic retrofit are:

- an unfavourable funding landscape
- physical barriers to retrofit
- lack of communication channels with individual landlords
- weak incentives for landlords and tenants to act

Part Two will address these obstacles in turn, and suggest some ways forward.

Box Two: Secondary legislation consultation

At the point of publishing this report, DECC were still compiling the responses that may affect the content of the final secondary legislation. In considering what was proposed, there are a number of caveats that could affect the efficacy of the regulations and are thus relevant to this report:

Cost – If in 2018 landlords have taken out all 'cost effective' measures and still not reached the minimum standard, they will have a five-year extension on making the necessary improvements.

Energy Performance Certificate (EPC) – The minimum standard regulations will only apply to properties where there is an existing EPC.⁵⁷ Since October 2008 an EPC has been required whenever a building in the social or private rented sectors is let to a new tenant. Available data suggests that EPC compliance in the private rented sector is fairly low (see Section 1.6).

Conservation Areas – The regulations are not able to supersede planning restrictions in conservation areas. Therefore they may not be able to address the specific challenge of retrofitting these homes (see Section 2.2). This is a particular consideration in significantly improving the energy efficiency of much of inner-London's housing stock.

Houses of Multiple Occupation (HMOs) – Although covered by the minimum standards regulations it is difficult to action improvements in HMOs because EPCs are only required if a property is let as a single dwelling. Furthermore, written consent would be required from all parties in an HMO to proceed with a tenant's request for improvements, adding to the effort required and leading to potential communication issues such as language barriers.

Local Authority Capacity – Local authorities have been identified in The Energy Act 2011 as the enforcement body for the domestic minimum standard regulations. It is suggested that Trading Standards officers will continue to enforce these regulations, potentially in conjunction with Environmental Health officers and Private Sector Housing teams. The regulations also see the local authority role as being an intermediary between landlord and tenant, for example during a tenant's request for improvements. These roles will have a big impact on the capacity of authorities.

52 DECC, 2011. *Great Britain's housing energy fact file 2011*, p.6.

53 GLA, 2010. *Mayor's Climate Change Mitigation & Energy Strategy*.

54 DECC, 2014. *Cutting the Cost of Keeping Warm: A new fuel poverty strategy for England consultation document*, p.16.

55 HM Government, 2011. *Energy Act 2011*.

56 *ibid*, p.30.

57 DECC, 2014. *Private Rented Sector Energy Efficiency Regulations (Domestic) (England and Wales)*, p.13.

Part Two

Part One of the report identified four challenges to engaging private sector landlords in energy efficiency. This part takes each one in turn and provides a number of potential responses or approaches to tackling them.

4 Ways forward

4.1 Unfavourable funding landscape

Part One showed that the number of measures installed under the Green Deal to date is low – and that installation is particularly problematic in the private rented sector. A workable funding mechanism is vital to private-sector retrofit, particularly for solid wall insulation (SWI) for London’s extensive solid wall properties.

Strategies for channelling more future ECO funding into (a) the private sector and (b) SWI would be valuable, and justifiable considering the growing number of vulnerable tenants housed in the PRS.

In the absence of an alternative ‘pay-as-you-save’ model, tax incentives could be a useful way forward, though there are strict EU taxation rules to be adhered to. Currently, there is a reduced rate of VAT (5%) when installing certain energy-saving products, but there are criteria for eligibility.⁵⁸ Some organisations (see Box Three) have called for more generous tax allowances linked to standards:

Box Three: Tax incentives for energy efficiency

“The UK is unique in taxing its private rented sector so highly. The burden of tax is especially unfair given the low tax treatment of other housing tenures and the social characteristics of tenants.”⁵⁹

The Royal Institute of Chartered Surveyors (RICS) has called for a reduction in VAT to 5% on building works that improve the energy efficiency of a property and where such works are undertaken by an accredited installer or contractor.⁶⁰

The Chartered Institute of Housing and The Resolution Foundation have suggested linking improved tax allowances to standards, by giving accredited landlords a more generous tax reduction on allowable expenses, potentially to include works completed in relation to achieving an accredited standard, so landlords get a more immediate reward for their investment.⁶¹

Within the current funding landscape, there are some practical measures which could be employed:

Clearly present funding opportunities to landlords

There would be benefit in dedicating resource to keeping abreast of national and pan-London grants, particularly the ones that are offered directly to landlords as these will be most popular. These should be promoted as widely as possible, beyond conventional channels that only attract certain types of landlord.

Sample funding mechanisms:

- Cash incentives – money paid directly to the landlord to fund or part-fund improvements. Many of the current schemes are coming to an end, but extra money has been released into the Green Deal Home Improvement Fund (see Box Four)
- Tax incentives – the ability to reduce a landlord’s tax bill by claiming against energy efficiency measures, although these are unlikely to fund significant improvements
- Payback schemes – payment for microgeneration of energy. These can be considered to have benefits to both landlord and tenant – the landlord’s income stream increases at the same time as the tenant’s energy bill decreases. However, the installation of many such measures can be disruptive and have limited applicability (building orientation, conservation area restrictions, etc.)

Box Four: Accessible funding for landlords – past, present (and future?)

Green Deal Home Improvement Fund – This fund offered 75% of costs of installing solid wall (internal or external) insulation up to £6,000; or all of cost of installing two simpler energy efficiency measures up to £1,000. This Fund had a budget of £120m for 2014/2015. All monies were committed by July 2014, and although no new applications are currently being sought, a new phase with £100m was announced in October 2014.

Green Deal Cashback Scheme – To incentivise people to take up the Green Deal, this offered up to two-thirds cash back on the cost of installation of measures through the Green Deal. The scheme came to an end on 30th September 2014.⁶²

Domestic Renewable Heat Incentive – Launched in April 2014, this pays back costs for renewable heating over seven years. 10,000 installations were accredited as part of the scheme in its first six months.⁶³

Feed in Tariff (FiT) – This is a payback scheme for generating power through renewables, including photovoltaics, wind turbines, hydroelectricity, anaerobic digesters and micro combines heat and power.

The Landlord's Energy Savings Allowance (LESA) – LESA is a scheme whereby landlords can reduce their tax bill by up to £1,500 by claiming against the costs of buying and installing energy-saving products. The included products are limited to cavity wall and loft insulation, solid wall insulation, draught-proofing, hot water system insulation, and floor insulation.⁶⁴ This expires in April 2015.

Promote smaller-scale works

In the current funding landscape, it is unlikely that solid wall insulation (SWI) projects will be carried out across the vast majority of the PRS. According to the Energy Saving Trust, external SWI costs £9,000 to £26,000, and internal costs £4,000 to £16,000. Estimated annual savings for external SWI in a flat are £150.⁶⁵ Taking the lowest cost of £9,000, this means a 60-year payback period. While the introduction of loft and cavity wall insulation under the CERO has made the scheme more cost effective to deliver, reduced funds for SWI mean the requirement of a higher contribution from the landlord. This contribution could present a barrier for landlords investing in SWI.

Lower-cost solutions such as loft and heating system insulation, draught-proofing, cavity wall insulation and double glazing, will generally be much more affordable to an individual landlord as well as causing minimal disruption to the tenant. New energy efficient boilers are also expensive, but effective improvements can be made to electrical systems that significantly improve energy performance. The British Property Federation (BPF) showed how a flat could move from an F to a D rating through modern storage heaters and a few other low-cost measures.⁶⁶

Thinking strategically, if that flat later became eligible for the proposed Fuel Poverty regulations, it would need further measures installed to meet the 2030 target of a C rating. If central government is to meet its Climate Change Act obligations, landlords should be encouraged to maximise retrofit opportunities, rather than paying for a new energy system that has to be replaced in 10 years. With the lack of investment incentives for the private sector, it is likely that the long-term solution will have to include a major increase in grant funding.

58 HM Government, n.d. VAT for consumers. Available at: <http://bit.ly/1t7zQHz>.

59 Ball, M., 2011. *Investing in Private Renting – Landlord returns, taxation and the future of the private rented sector*, Residential Landlords Association, p.62.

60 RICS, 2013. *More Good Homes and a Better United Kingdom: RICS Housing Commission Recommendations*, p.13.

61 CIH and The Resolution Foundation, 2014. *More than a Roof: How incentives can improve standards in the private rented sector*, p.14.

62 DECC, 2014. *An additional £100 million for household energy efficiency*. Available at: <http://bit.ly/1vKfDuL>.

63 Ofgem, 2014. *The first 10,000 Domestic Renewable Heat Incentive accreditations*. Available at: <http://bit.ly/1r2iV8I>.

64 HM Government, 2014. *Landlord's Energy Savings Allowance*. Available at: <http://bit.ly/1xMeF1V>.

65 Energy Saving Trust, n.d. *Solid wall*. Available at: <http://bit.ly/1z3yMYM>.

66 BPF, 2013. *A British Property Federation Guide to Energy Efficiency and the Private Rented Sector*, p.16.

4.2 Physical barriers

Part One of this report demonstrated that there are a number of physical characteristics of London's housing stock that are a hindrance to retrofit and that PRS stock will often have a number of compounding barriers that make a building seemingly impossible to treat. In some situations, landlords may believe that there are no affordable or allowable solutions to get their property to an appropriate standard. This in turn could mean avoidance of the 2018 minimum standards regulations.

There are mechanisms through which London boroughs can improve this situation, particularly if they have extensive conservation areas. In 2011, London Borough of Camden produced energy efficiency planning guidance for conservation areas, with the express purpose of helping to get challenging retrofit schemes through planning.⁶⁷ The City of Westminster, 75% of whose land is in conservation areas, also wrote a thorough guide to the most cost-effective and least risky retrofit measures in these areas and for listed buildings.⁶⁸ Though helpful, guidance alone is unlikely to persuade a landlord to begin a retrofit project, or to continue it when physical obstacles present themselves. However, there are additional actions that local authorities can undertake to facilitate the process:

Provide technical support and advice at all stages

While boroughs are restricted by planning and other regulations, they can be a trusted source of information for landlords and tenants. To get projects off the ground, explanations of particular funding mechanisms or help with sourcing a trusted installer could be beneficial. The current lack of communication channels with individual landlords (see Section 4.3) means this is dependent on the landlord taking action. However, if an offer is marketed effectively, it is more likely to generate interest.

For example, the Smart Homes coalition of six north London boroughs – Camden, Enfield, Hackney, Islington, Waltham Forest and programme manager Haringey – is providing grants of up to £6,000 through the Green Deal Communities scheme. It is thought that 90% of the funding will be channelled into the owner occupied and private rented sectors.

To enable this, there is a dedicated advice line to offer initial support to prospective clients, as well as an advisor to support them through the process, from the initial Green Deal Assessment to getting quotes and any planning permissions required to complete works. Due to the current focus on solid wall insulation, the emphasis is on the provision of technical support, to help these larger retrofit schemes come into fruition.

Target poor property standards

The poor property standards found in the PRS are a major concern for boroughs, particularly given the increasing volume of vulnerable tenants residing there. If boroughs do not feel that they have a marketable offer for landlords regarding retrofit, they may choose to focus their efforts on targeting poor property standards through well-managed enforcement.

Considering the lack of housing supply in the Capital, it is necessary to remove hazards from borough housing stock without depleting stock levels. Boroughs are reliant on private landlords to house many of their citizens. Therefore if a property can be made more energy efficient through cooperative measures with the landlord, this presents a far better option than the property being removed from the local authority's portfolio. How this is managed will be dependent on borough priorities as well as individual circumstances, such as condition of the property and attitude of the landlord.

In tackling the retrofit agenda, it would be valuable if Housing Health and Safety Ratings System (HHSRS) inspections could involve not only the removal of a hazard, but the most energy-efficient way of doing so. This would balance cost, scale of work and resultant energy efficiency. For example, to remove an excess cold hazard, properly insulating a dwelling could avoid the need for overhauling a central heating system. However, these kinds of assessments need to be done by professionals with specific knowledge. There would be benefit to HHSRS inspections including these detailed assessments, although considerable additional resource from DECC would be required.

Box Five: Enforcement in Redbridge

London Borough of Redbridge has had considerable success with housing prosecutions. An emphasis on promoting them through local media acts as a strong deterrent for landlords letting, or considering letting, sub-standard or poorly managed properties. In 2014, the borough completed seven successful housing prosecutions with fines and penalties totalling over £140,000. The borough recently delivered a workshop for other councils on how to tackle rogue landlords at a conference held by the housing charity Shelter.

However, the borough has also had cases where a more measured approach has led to landlords agreeing to bring their properties up to the necessary standard for letting. If a landlord cooperates at the start of an enforcement procedure, and shows willingness to invest in the built fabric of his or her property, it could be prudent to drive a landlord's funds into the retrofit of the property in question, rather into payment of fines. Each case needs careful consideration, and the borough needs to balance the improvement of housing standards for its vulnerable tenants with maintaining the supply of housing in the borough, which is under tremendous pressure.

Box Six: Selective licensing in Newham

London Borough of Newham has taken a different approach to raising standards through its borough-wide licensing scheme. By making possession of a licence mandatory for all landlords (with some exemptions), landlords are identified and required to adhere to a set of management and property standards. The scheme began in June 2012, and landlords who signed up voluntarily before 31 January 2013 paid £150 for a licence. The fee then stepped up gradually to the current £500. 77% of landlords signed up at the initial rate. In November 2014, 96% of the estimated 21,500 landlords held 34,500 licences.

The required standards include possession of an EPC, and the environmental health team now supports EPC enforcement, resourced through the licensing scheme. By 2018, all of Newham's landlords will be in compliance with the regulations as far as EPC possession is concerned.

Newham is the first council in England to impose borough-wide licensing, but other London boroughs are following suit: Barking and Dagenham became a licensing zone in September 2014, Waltham Forest will do the same in April 2015, and a number of other boroughs across London are consulting on similar schemes.

67 LB Camden, 2013. *Retrofitting Planning Guidance*.

68 Westminster City Council, *op. cit.*

4.3 Lack of communication channels with individual landlords

The majority of landlords are individuals, and data is scant and not representative of the entire landlord community. While some useful assumptions can be made, more detailed understanding of their motivations is lacking. This also means that there are no avenues to spot trends or locate exceptions – such as landlords who may be in a stronger position to do retrofit.

Target retrofit programmes at larger landlords with whom the borough already has cooperative relationship

If a borough has a marketable retrofit offer, it makes sense to aim it at the landlords most likely to take the offer up and with whom there is already a working relationship. Both of these conditions point to larger landlords who may be less deterred by upfront costs. They may also be able to achieve economies of scale, particularly if they own an entire building or block.

Use leverage to engage temporary housing providers

As Figure Six (p. 13) demonstrated, many London boroughs rely heavily on the private rental sector to provide housing for homeless households. Local authorities have a statutory duty to provide suitable temporary accommodation to homeless persons who are eligible and have a priority need for accommodation under part VII of the Housing Act 1996. The Localism Act gave local authorities the powers to fully discharge this duty to the private sector.⁶⁹ As the population increases and council and traditional social housing supply fails to meet need, the relationships boroughs have with their private providers are crucial.

Private Sector Leasing companies tend to be estate or managing agents with large portfolios, often working across borough boundaries. Local authorities require landlords and agents with large portfolios that can be made available for assisting homeless households, thus excluding smaller players.

Although boroughs need these providers to fulfil their duties, these larger agents/landlords also rely on the public sector for a sizeable chunk of their business. Boroughs could leverage this in different ways.

One initiative could be insisting on a certain energy efficiency standard as part of the procurement process. This could be supported by the Energy Efficiency regulatory deadlines when the secondary legislation is announced. Boroughs could think about writing this into future tenders. The Royal Institute of Chartered Surveyors (RICS) suggested minimum EPC standards for temporary housing in 2013:

“We recommend that local authorities discharging their homeless duties, by placing families in the rental sector, should only be permitted to undertake such a placement if the property meets an EPC level of E or above.”⁷⁰

A more proactive opportunity would be for boroughs to leverage their powers to target these larger providers with retrofit opportunities. These bigger organisations stand to make savings that could reduce upfront costs, and are likely to be more concerned about their reputation with their client boroughs, so it would be in their interest to participate.

Improve data on all landlords

Boroughs have access to hundreds of datasets on properties which are extremely useful for building energy-efficiency stock databases. Defined at-risk areas of fuel poverty can be crossed with housing benefit data to locate the most vulnerable residents who will be eligible for funding opportunities. Although much can be done with property and tenant data, lack of landlord data can be the obstacle to getting retrofits installed.

Improving data on landlords could:

- give a less opaque view of London's landlord landscape, which would help to better understand motivations
- lead to a better understanding of landlord typologies, particularly within the individual landlords sub-sector
- find the landlords who may be interested in working with local authorities to apply for larger funding opportunities
- open lines of communication with more landlords
- enable boroughs to mediate between tenants and landlords negotiating retrofit projects
- if data was gathered through regulation, it could also improve standards

Options for doing this range in government hierarchy and scale:

National data-gathering

- Land Registry – registers the ownership of land and property in England and Wales, but there is a cost to access the information. Individual deeds can be accessed for £3 but they do not specify property tenure
- National landlord register – the 2008 Rugg Review called for a nationally administered licensing scheme whereby the licence would be revoked if the landlord did not meet statutory requirements on housing management and quality⁷¹

Pan-London schemes

The London Landlords Accreditation Scheme (LLAS) has the benefit of improving knowledge about landlords at the same time as improving standards. Given their voluntary nature, accreditation schemes have been questioned for their ability to target less conscientious landlords.⁷²

By promoting the London Rental Standard, the GLA is pushing to significantly increase the number of accredited landlords. In August 2014, 13,343 landlords had been accredited. The voluntary nature of the scheme may limit the volume of landlords who will be accredited. However, it encourages landlords to take responsibility for their portfolios and fosters sustainable communication between the public and private sectors.

In terms of energy efficiency, the GLA is investigating projects to save energy and carbon in properties in the PRS through RE:NEW, the domestic retrofit programme launched in April 2009. This chimes with the aims of the Mayor's London Rental Standard (LRS), and work in both programmes is being aligned to enhance their potential.

Local schemes

As explained in Section 4.2, there has been an increase in discretionary licensing schemes, due in part to the perceived success of Newham's scheme, which has located over 96% of its 21,500 landlords. It has clearly been a very effective way of identifying the majority of landlords in the borough, and they expect 100% compliance by April 2015. One argument against borough licensing is that it can close the lines of communication with landlords as they may feel they are being penalised. Newham does not feel that this has happened, having consulted with the landlord community prior to starting the scheme and offering a low licence fee to those who voluntarily applied.

Boroughs with smaller rental sectors may not have any need for licensing, feeling that they can manage the sector through regulation and enforcement. But as more and more boroughs consult on these schemes, it would be prudent to consider the best way to foster a sustainable and cooperative relationship with their landlords.

69 CLG, 2012. *Supplementary Guidance on the homelessness changes in the Localism Act 2011 and on the Homelessness (Suitability of Accommodation) (England) Order 2012.*

70 RICS, op. cit., p.12.

71 Rugg, J. & Rhodes, D., op. cit.

72 House of Commons, 2013. *The Private Rented Sector.* House of Commons Communities and Local Government Committee.

4.4 Weak incentives for landlords and tenants to act

Demand is so high for housing in London that landlords do not need competitive standards to keep their properties occupied, and a number of obstacles could deter tenants from asking for improvements.

Beyond further regulation, the most significant influence on the market is its customers. However, they may be reluctant to request energy efficiency measures due to fear of eviction and/or the potential disruption caused. A survey of 4,500 private renters by Yougov for Shelter and British Gas found that one in eight had not asked for repairs to be carried out or challenged a rent increase due to the fear of eviction.⁷³ Private tenants who would rather be social tenants or owner occupiers might feel sufficiently dissatisfied that they won't go out of their way to request retrofit measures.

Take the long view

Demand for property is currently so high that landlords are little affected by competition. However the development of purpose-built private rented stock funded through institutional investment could go some way to rebalancing the supply-demand aspect of the market. An abundance of new, well-managed, energy efficient properties for rent in London would give some much needed competition to the older stock. However it must be remembered that projections for population growth make the housing market extremely difficult to rebalance. Demand will most likely continue to surpass supply, though perhaps not to the current degree.

Build the evidence base for value added

There is as yet little evidence that better energy performance leads to a higher sales value and no evidence about rental value uplift. DECC published a study in 2013 that found some evidence of increased sales value linked to higher EPC ratings, though the uplift in London was fractional.⁷⁴

While there have been a few studies in Europe on the impact of energy ratings, the number is low in contrast to studies of the effects of other factors. This is likely to be due to the difficulty of disaggregating the energy rating from other causes.

DECC also reported a likely heterogeneity of responses, meaning that some people would be more likely to take note of the decreased energy bills of a lower energy property. As energy-efficient building stock becomes increasingly the norm, the importance of a better EPC rating to a prospective buyer should grow. In the preface to British Property Federation's guide for private landlords, then Chief Executive Officer Liz Peace wrote:

*"Whilst currently there may be little evidence of a link between energy efficiency and property rental or capital values, it is possible that this may change in the coming years as energy bills rise, information on property energy efficiency is made more prominent, local authorities take action and the government introduces further regulation."*⁷⁵

Empower tenants

When engaging with tenants, London boroughs could advise them to request their EPC and see how much they could save if energy efficiency measures were installed. If a tenant demands an EPC, the landlord must provide one. Boroughs could also raise awareness of the 2016 tenant's improvements regulations when they are released by DECC. Tenants should not feel at risk of losing their home in using the regulation through retaliatory evictions. Central government has been backing a private members' bill to prevent this from happening through amendments to legislation. The bill got a second reading at the end of November 2014.⁷⁶

Campaign for longer tenancies

Security of tenure would help tenants take more of an interest in their homes. The normal length of assured shorthold tenancy in England is a fixed period of six or 12 months, followed by a periodic tenancy where a tenant can be evicted with two months' notice. Many countries offer unlimited tenancies or much longer fixed terms of three years with longer notice periods.⁷⁷ Organisations such as Generation Rent are already campaigning for improved security of tenure.⁷⁸

Conclusion

In 2012, Future of London, supported by EDF Energy, published *'Delivering Energy Efficiency in London'*. That report highlighted the likely obstacles facing delivery of the Green Deal in London and the importance of attracting ECO funding into the capital. This was in the context of only 5% of funding from Carbon Emissions Reduction Target (CERT), the previous supplier obligation, reaching London.⁷⁹

These obstacles, including the expense and planning burden of treating London's high proportion of solid wall properties, particularly in conservation areas, and the additional costs and complexities of treating flats, have all become reality. This new report has demonstrated that there are also obstacles beyond the physical and financial, namely the lack of communication channels with individual landlords and weak incentives for landlords or tenants or to act.

This report has suggested a number of practical ways for boroughs to engage with their landlords. Some of these involve making the best of the current situation: for example, targeting known landlords for major retrofit opportunities, and focusing on the most cost effective and least disruptive measures. However, these initiatives on their own are not going to reach a good standard of energy efficient housing across London's only growing tenure, or to significantly reduce the high carbon emissions from the Capital's housing stock.

In the current housing market, London boroughs face a further challenge: balancing (a) their duty to protect the increasing number of vulnerable households in the PRS by improving standards against (b) retaining a reasonable quantum of private housing stock in which to house these people and the growing 'Generation Rent' cohort that cannot afford to buy. This requires a good level of cooperation between boroughs and their landlord sectors, and anything that can help to foster these relationships, such as the London Rental Standard, is a useful tool.

Locally, boroughs such as Redbridge are already showing that a nuanced approach to enforcement can result in improvements to housing stock, while Newham's borough licensing scheme is supported by many landlords in the borough, as well as providing some much needed data on the sector.

Recommendations

London faces an enormous retrofit challenge if it is to fulfil its carbon targets and, more immediately, reduce fuel poverty and hazardous conditions in its private rented housing. Looking ahead to the 2015 general election, the following policy recommendations should be considered:

1. Improve standards for the most vulnerable tenants, particularly homeless households discharged into the PRS. FoL supports the following Royal Institute of Chartered Surveyors (RICS) report recommendation, although it is dependent on a good level of EPC compliance. *"We recommend that local authorities discharging their homeless duties, by placing families in the rental sector, should only be permitted to undertake such a placement if the property meets an EPC level of E or above."*⁸⁰
2. Provide more financial incentives to private landlords to carry out improvements to properties. Popular opportunities such as the Green Deal Home Improvement Fund won't get all properties to an EPC band E rating, but there will be some quick wins in terms of improving thermal comfort and reducing excess cold hazards.
3. Channel more ECO funding into the PRS, and particularly solid wall insulation (SWI). Large sums will be required to even part-fund these schemes, but they are vital to advancing SWI installation in London.

73 Shelter, 2014. *Can't Complain: why poor conditions prevail in private rented homes*, p.14.

74 DECC, 2013. *An Investigation of the Effect of EPC Ratings on House Prices*, p.29.

75 BPF, op. cit., p.5.

76 CLG, 2014. *Stephen Williams vows to outlaw revenge evictions*. Available at: <http://bit.ly/1qJaqeq>.

77 Scanlon and Kochan, op. cit.

78 Generation Rent, 2014. *The Renters' Manifesto: a blueprint for building a new sector in 2015*.

79 DECC, 2011. *Evaluation of the Delivery and Uptake of the Carbon Emissions Reduction Target*, p.95.

80 RICS, op. cit., p.12.

4. Explore and evaluate a range of methods for gathering comprehensive data on landlords, and implement the most appropriate strategy. This could be led nationally, pan-London or locally, and engage academic and other data experts.
5. Promote British Property Federation's guidance on the cost-benefit of various energy efficiency measures, and on improvements that can be gained from installing groups of measures in particular property types. Further guidance could be produced with a focus on London's prevalent property types and hard-to-treat properties. This intelligence could be shared through conventional landlord communication channels, the London Landlords Accreditation Scheme and more widely through public campaigns to reach individual landlords.
6. Ensure maximum EPC compliance in the PRS, in order to achieve maximum benefit from the proposed minimum standards regulations in 2018. This could continue to be executed by Trading Standards, though there should be the option for this enforcement to move to another department, such as Private Sector Housing, which is closer to the issue. London Borough of Newham has transferred this responsibility by including it in its borough-wide licensing scheme.
7. Improve – and provide more – evidence of any added value to be gained through retrofit to landlords, especially ones who may be considering energy efficiency measures. Landlords are more likely to engage if they can see concrete benefits from doing so.
8. Strengthen tenant rights, particularly around security of tenure and removing the threat of retaliatory evictions, so tenants are able to exercise their rights around requesting energy efficiency improvements in 2016.

Among other things, this project has confirmed that there is a lack of consistent data on landlords, particularly in terms of ownership and tenure patterns at the London level. With support from Trust for London, Future of London will conduct further research on landlords, tenants, interactions and standards over the next 36 months, again with a view to how the public sector can engage more effectively with this growing segment of London's housing market. We invite you to take part.



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