

Aldermore insight

How proposals on tighter energy standards could affect landlords

Start the conversation now about minimum EPC C-ratings to give your clients chance to prepare their portfolio

Your landlord clients are experts in dealing with change. They've mastered it over the last decade, coping with a raft of new rules, tax regimes and challenges. In 2018 minimum EPC Band E standards were introduced to privately rented properties on new tenancies and then rolled out to all tenancies last year.

Now the government wants to go further with **plans to raise energy performance standards** to EPC Band C by 2025 on new tenancies and by 2028 on all tenancies.

Why the change?

The proposals will improve the energy performance of private rented sector homes and support the Net Zero 2050 target.

As well as being the right thing to do for the planet, the government says better energy efficiency in privately rented homes will decrease bills for tenants and reduce fuel poverty.

For landlords it will increase the quality, value and desirability of their properties, as well as boosting rental income and reducing void periods. But the burden of improving rental properties to meet the required standards will fall on them. In other words, landlords need to pay for this, and it could be expensive.

Plans to raise energy performance standards to
EPC B & C

What should brokers do?

Draw your client's attention to these potential changes. As a broker it's beyond your scope to advise your clients on their wider investment strategy, but it makes sense to remind them you're looking after their needs.

Discussing borrowing solutions to help fund work now arms them with the knowledge to review their portfolio and make informed decisions.

- Contact your client and introduce them to the proposals in case they aren't aware of them. The consultation period has finished, and we are awaiting the Government's outcome to the feedback, so remind them these changes are not set in stone, although they are likely to happen.
- Make sure they are aware of the EPC rating of each of the properties in their portfolio so they can understand what these changes mean for their whole investment strategy.
- If they need to make improvements to the energy efficiency of their properties, talk to them about their funding options, which could include capital raising. This is important because landlords looking to remortgage onto a five-year deal in the next year or two will be locked into that product beyond the introduction of the new rules in 2025. Capital raising when their current deal comes up for renewal could be a smart move.
- If they're still trying to catch up with last year's minimum E-rated EPC standards talk to them about going further now. It could be cheaper overall to improve their properties right up to a C-rating, rather than going through the process again down the line.

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James Young
National Key Account Manager
Residential Mortgages



The impact on landlords

If the proposals go through, minimum EPC ratings of Band C by 2025 will mark a big change for landlords and affect a large number of rented properties.

There are 4.8 million households in the Private Rented Sector (20% of all households) in England and Wales and the **Government said around 3.2 million rental properties have an EPC rating of D or below.**

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There will be some exemptions, of course, and potentially third-party funding to help, but ultimately landlords will need to pay to improve the energy efficiency of their rental properties.

That could mean better insulation, new windows, a new boiler or whatever is required to bring them up to an EPC C rating.

Importantly, under the current rules landlords are required to fund improvements up to a cost cap of £3,500 but the proposals are looking to potentially increase this, with a **preferred cap of £10,000 per property.**

The costs of improvements will be individual to each property, but the government's **impact assessment of these proposals** puts the average at £4,700 per property.

However, the cost of doing nothing is substantial too, because the proposals include an option to raise the fine level to £30,000 from £5,000.

How can Aldermore help?

We offer a range of buy-to-let mortgage options up to a maximum LTV of 75% for landlords who want to raise capital. We lend to individuals, including portfolio landlords as well as limited companies and partnerships.

Get in touch with us to discuss your client's options if they are considering raising capital to improve the energy efficiency of their properties and we'll be happy to talk through their options.

Contact us on 0333 321 1000 or get in touch with your BDM.


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