

## OPPORTUNITIES EXIST IN GOING GREEN

*Jane Simpson, Managing Director, TBMC*

Tackling climate change has been an issue of increasing importance for some time and has been placed at the centre of the political agenda recently by the COP26 UN Climate Conference.

Referred to as the Glasgow Climate Pact, world leaders attending the 26th 'Conference of the Parties' agreed on a number of different measures deemed necessary to stop the earth's temperature rising above catastrophic levels.

This isn't the first time the UK has pledged to address our impact on the environment. Back in 2008, the Climate Change Act was passed, making law the UK's commitment to reducing all greenhouse gas emissions to net zero by 2050.

As part of their Clean Growth Strategy, a framework for achieving net zero, the Government has proposed that by 2025 all properties let under new tenancy agreements will require an Energy Performance Certificate (EPC) rating of at least 'C'. This rule will apply to existing tenancies by 2028.

While media coverage of COP26 has undoubtedly helped to further raise the profile of environmental issues amongst the general public recently, awareness of these proposed EPC changes seems relatively low.

A Paragon survey carried out earlier in the year found that 42% of landlords had no awareness of the changes, with a further 28% indicating that they are aware but don't understand the details. The lack of awareness increased to 56% amongst non-portfolio landlords and with respondents of this survey made up of Paragon's largely professional landlord customer base, it is likely that awareness is on the higher side amongst landlords operating across the entire market.

Despite the English Housing Survey highlighting how significant improvements have been made to the overall energy efficiency of PRS stock - primarily through newer, more energy efficient homes being brought into the sector and diluting the number of those that achieve lower EPCs – just under half of PRS property was built in the pre-war era before many of today's sustainability measures were utilised.

This gives an indication of the scale of the issue and with so many properties requiring significant retrofitting of updated heating and insulation, potentially exacerbated by the current shortage of materials and availability of skilled labour, the 2025 deadline looks alarmingly close.

Currently unaware of the changes, if landlords don't commence the necessary works in time, the sector may be left with properties that don't meet the standards required for them to be let. We also know that a substantial number of 5-year fixed rate mortgages were taken out in 2016 and 2017 as a result of tax and regulatory changes. As these mature and landlords look to fix again, likely over a longer term due to the current low but rising interest rates, there is a danger that when they next come to borrow on their properties, they will find it difficult if assessed below EPC rating C.

While still only proposals, this shows the potential impact on the sector if the Government's changes to EPC requirements are brought into effect. And, while the challenge is clearly sizable, responding to it presents opportunities for the sector.

With 94% of brokers yet to sell a green mortgage product, according to a poll by Countrywide Surveying Services, there is clearly scope for lots of this type of business to be placed, and as well as helping to educate landlords on the proposals, asking customers how they would raise the necessary funds could be an effective sales tool.

And it isn't just brokers, lenders can help here too.

The number of green mortgages on offer has definitely increased over the past year but refurbishment products, historically quite common, are now relatively scarce. It would be great to see the launch of more innovative products, such as those that allow for refurbishment with a switch to a financially incentivised green mortgage product once the works have been carried out.

TBMC have access to a number of green mortgages for those landlords with properties already assessed at EPC rating C or above. We can also help you to find bridging lenders for those landlords looking to fund any required sustainability modifications, with the ability to switch onto a buy-to-let mortgage, potentially an incentivised green product, once the work is carried out.