



ENERGY EFFICIENT SCOTLAND CONSULTATION: Making our homes and buildings warmer, greener and more efficient

Scottish Property Federation Response

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About the Scottish Property Federation

The Scottish Property Federation (SPF) is a voice for the property industry in Scotland. We include among our members: property investors, including major pension and life funds; developers; landlords of commercial and residential property; and professional property consultants and advisers. We are happy for our comments to be published and shared within the public sector

Introduction

The SPF welcomes the Scottish Government's commitment to make homes and businesses in Scotland more energy efficient. This is a commitment shared by our organisation and our members and we are keen to work with the government to ensure that effective policies are created, which also take into account wider economic considerations.

Response to Consultation Questions

Improving our Homes

1 – What are your views on our proposal for owner occupied and private rented properties to achieve the Long-Term Domestic Standard EPC Energy Efficient Rating Band C by 2040 at the latest?

For the most part, the SPF welcomes the Scottish Government's proposals to boost energy efficiency in occupied and rented accommodation in Scotland. A target of EPC C by 2040 is ambitious, but achievable providing the Scottish Government makes the necessary concession for buildings where such a rating is unlikely to be feasible (see questions 2 and 3 for more details).

It is important to consider potential effects on the market. One such consideration is any disruption in the ability to sell domestic properties could create a negative impact on Scottish Government revenues from the devolved Land and Buildings Transactions Tax (LBTT). In 2017/18 tax received from sales of domestic properties totalled £360m (including the Additional Dwellings Supplement) and by 2021/22 that figure is forecasted to increase to over £0.5bn. If the Long-Term Domestic Standard subdues the sales of properties in anyway, the Scottish Government should prepare for lower revenues than is forecasted in the 2018/19 Scottish Government Draft Budget.

The availability of rental accommodation within Scotland could also be impacted. For example, the Scottish Government should consider the effect that such a widespread policy could have on the Private Rented Sector market. At the moment, many private landlords have small portfolio and may not have the resources to implement the modifications required. If even just a small percentage of these landlords decide to leave the market because of the regulations, there could be a significant impact on a tenure that is playing an increasingly important part in housing Scotland's people. It is, therefore, vital that the Scottish Government works with landlords to ensure a smooth transition and that regulations to not force the disposal of much needed rental accommodation.

It is important that the Scottish Government inform and educate all property owners of any new regulatory requirements at an early stage.

2 – Do you think we should allow for situations where a lower standard is acceptable?

Yes. It is very important that the Scottish Government allows for there to be situations where a lower standard is acceptable. This is particularly important for buildings where such a rating is unlikely to be feasible.

The new proposals will mostly affect older homes as most new-build properties achieve high energy efficiency ratings. The Home Builders Federation (HBF) conducted research in October 2017, which found that in England and Wales 96% of new build homes had an EPC rating of A-C, with the lion's share of these properties obtaining EPC B. It would not be unreasonable to assume that new builds in Scotland are built to similar energy efficiency standards.

Older housing stock, however, particularly in city centres and rural locations, is much more likely to have a poorer energy efficiency rating and it is these properties that are likely to require significant investment to bring them up to the proposed Long-Term Domestic Standard. We are of the opinion that in some situations, the cost for some buildings could make it unfeasible to modify beyond any reasonable steps. It is also likely that any savings from increased energy efficiency will not cover the costs.

Beyond any prohibitive cost, owners of buildings may also face other hurdles that prevent them reaching the Long-Term Domestic Standard that lie out with their control. Local planning restrictions and whether a building is listed will restrict, sometimes severely, steps that can be taken by property owners to meet the proposed regulations. For example, the City Centre Ward in Edinburgh alone has over 3,000 properties that are either listed A or B and the area is designated a UNESCO World Heritage Site. These properties could have poor efficiency because of their age and could require significant modification (both externally and internally) to be brought up to an EPC rating of C. Therefore, there will almost certainly be a contention between preserving the city's heritage, the character of old buildings and being able to bring the properties up to desired standards.

A further example is traditional listed tenements, which create additional complexities. The scope for improvement works is limited particularly if the windows are listed and can't be changed. The roof space is common, and all parties can decide how to insulate it. Our members have asked whether a pragmatic approach could be taken and whether listed buildings could be exempt or receive a grace period.

3 – Do you think we should allow for situations where a longer period for improvement is allowed? Please explain your answer, give examples.

The SPF fully supports increasing standards. However, the landlord-tenant relationship is complex, and the landlord may have little control over the actual energy consumer, the tenant. The ultimate responsibility for improving the energy performance of the building sits with the property owner. However, landlords and tenants need to agree to implement it for their property / building unit and this may not be straightforward.

Landlords and tenants may need to agree to implement the required modifications to the let property and this may not be straightforward if some tenants are reluctant to engage or

refuse access. Therefore, it is important that landlords should not be penalized for being unable to carry out the work required if a tenant refuses permission. Further, it is important that the government ensures that any new regulations imposed on PRS are compatible with the new Private Housing (Tenancies) (Scotland) Act 2016.

Old flatted accommodation, and as stated above traditional listed tenements, create additional complexities and may struggle to get up to standard without shared agreement and significant costs amongst the other owners. Our members have suggested that a pragmatic approach should be taken and a longer period for improvement should be allowed.

4 – We are proposing that the definition of a cost-effective measure is that it should pay back over its lifetime. What are your views on this definition?

For the Private Rented Sector, it is more difficult to make any energy efficiency 'pay back' over its lifetime. Any benefit gained from the provision of new efficiency infrastructure will solely benefit the tenant, who will save on their energy bill. In order for the landlord to make it 'cost effective' prices may have to rise, and this could nullify any potential savings by tenants.

6 – The EPC Rating of a property can be affected by changes to the underlying methodology and to fuel price data. How do you suggest that the Programme takes account of this in setting the Long-Term Domestic Standard?

It is vital that the Scottish Government is consistent in its approach to measuring energy efficiency in the longer-term, so that property owners can be clear about what is required to meet the Standard. It would be unfair if the methodology changed while a property owner was working towards meeting the EPC requirements.

7 – What are your views on the proposal that all PRS properties meet EPC Energy Efficiency Rating Band C by 2030?

The Scottish Government will need to consider the effect that such a widespread policy could have on the PRS market. At the moment, many private landlords have small portfolios and may not have the resources to implement the modifications required. As already states, even if just a small percentage of these landlords decide to leave the market because of the regulations, there could be a significant impact on a tenure that is playing an increasingly important part in housing Scotland's people. It is vital that the Scottish Government works with landlords to ensure a smooth transition and that regulations do not force or encourage people into disposing of much needed rental accommodation.

Similarly, the Scottish Government must prepare for the possibility of some PRS properties not being brought up to the correct standard before the back-stop date. This scenario is more likely to arise in mid-2020s when the backstop date for EPC D is proposed to come into effect, as the step that might need to be taken will be more expensive. There could be a range of reasons why this happens, but it could mean that almost overnight there could be a number of properties that can not be let out to tenants. It is important that there is as much as possible done to avoid such a situation taking place after the backstop date and that planning for such a scenario will be necessary.

The landlord/tenant relationship is a complex one. As stated in our response to question 3,

there may be instances in the PRS where tenants specifically state they do not want the energy efficiency upgrade done at any time during their occupancy. It is, therefore, important that landlords should not be penalized for being unable to carry out the work required if a tenant refuses permission. Further, it is important that the government ensures that any new regulations imposed on PRS are compatible with the new Private Housing (Tenancies) (Scotland) Act 2016.

It should also be recognised at the outset that while property condition can influence and benefit energy efficiency that it is not the property itself which consumes energy, it is the occupant. Even brand new modern homes, now designed to very standards of potential energy efficiency, may not actually perform efficiently because of the way they are used and the demands placed on them by their occupants. Therefore, policy-makers need to be aware that even if a major programme of retrofit is embarked upon in the private rented sector, then Ministers and officials may not necessarily achieve the outcome in terms of reduced energy consumption that they desire.

As also stated in our response to question 4, it should be remembered that for PRS, it is more difficult to make any energy efficiency 'pay back' over its lifetime. Any benefit gained from the provision of new efficiency infrastructure will solely benefit the tenant, who will save on their energy bill. For the landlord to recover costs, prices may have to rise.

The Scottish Government will also need to fund and co-ordinate the education of landlords and tenants about any new obligations that they face and clearly set out any funding sources or advice service that they have access to.

The consultation document notes that PRS has some of the worst efficiency ratings for any tenure. While this may be true, it is important to note that PRS often occupies older city/town centre locations. This potentially skews any comparison with other sectors, such as owner occupier, which tends to occupy more modern suburban locations. New purpose build to rent properties will have modern style energy efficiency and will meet the Standard.

Role of Assessment to Support the Domestic Energy Efficiency Standards

16 – In addition to what we have set out in paras 46-50, what should the Energy Efficient Scotland Assessment Short Life Working Group (SLWG) also consider? Please explain your answer.

The SPF looks forward to the findings of the SLWG on ways to improve the EPC ratings process and provide a better system of giving advice to the domestic sector.

Our members feel that it would also be beneficial for the SLWG to look at the skills required of EPC assessors and help to develop a strategy to ensure that there are enough assessors to meet the increased demand that the proposed regulations will create. On this issue, it is likely that demand for assessments will increase significantly in the short period before any backstop date. It is important that there is enough trained people to meet this demand and contingencies for the eventuality that assessments can't be carried out in time because of a national backlog.

Compliance and Enforcement of the Long-Term Domestic Standard

17 – What are your views on whether the Long-Term Domestic Standard should be enforced at a local or national level? Please explain your answer.

The SPF believes that the Long-Term Domestic Standard should be enforced nationally to ensure consistency and that the programme is properly resourced. The SPF has concerns that local authorities will be overwhelmed by the large amount of work that will be required to support and enforce the Long-Term Domestic Standard, given their budgets are already under strain. We understand that there is currently a lack of expertise and resources to manage the Long-Term Domestic Standard. SEEP pilots and the initial LHEES have been supported by the Scottish Government through funding and pooled expertise, but this support will be required to be increased greatly if the new regulations go forward, as they could potentially cover almost every building in the country.

Non-Domestic Sector

18 – Are there specific building characteristics you consider should be included in research to ensure that future improvement targets reflect the diverse nature of our non-domestic building stock? If so, please set out what these are and why they should be considered.

Some research on Listed Buildings to establish realistic targets for energy efficiency standards would be helpful. This would allow building owners to focus on those measures that will be efficient both materially and economically.

19 – What are your views on the way calculated energy use from building assessments are presented and/or benchmarked? We are particularly interested in what arrangements you favour and how you think they would be useful.

While for the domestic sector energy efficiency can have a tangible effect household budgets and on comfort, the non-domestic sector often has different priorities. For example, Investment in energy efficiency particularly in the commercial sector does not tend to add value or assist in the letting process - the chief concern of tenant is location, fit-out and footfall. However, it remains our view that if the assessment of efficiency is more onerous in Scotland than the rest of the UK this could potentially make Scottish commercial property investments less attractive to investors.

Once more detailed proposals are put forward we will be able to comment further. Initially, however, our members have raised it as a concern that trying to pigeon hole non-domestic buildings into categories so that they can be assessed against a 'notional building' could be problematic.

20 – What are your views on the proposed planned work to review improvement targets?

Establishing a 'notional building' for each building type will be very difficult for the non-domestic sector as building use and occupation hours can vary wildly even in simple office buildings. The only targets that will bring both energy efficiency and financial value are operational targets; this will also allow Government to see how the non-domestic stock is actually performing.

21 – What are your views on our proposals for phasing the regulations from 2020?

As stated earlier, investment in energy efficiency particularly in the non-domestic sector does not tend to add value or assist in the letting process - the chief concern of tenant is location, fit-out and footfall. In general, our members have strong concerns that there is little evidence, thus far, of energy efficiency improvements achieving improvements in value, but with the introduction of further regulation there is real concerns that values might be reduced as purchasers (and potential tenants) will be required to make significant improvements or price adjustments to be made to meet legal and commercial obligations. Our members also find that potential tenants are unwilling to pay a premium from modified buildings. Similarly, there are real questions remaining over the savings to be made in energy consumption and carbon emissions as result of improvements. Given the current economic climate, our members have noted that investment payback that is 5 years or more is difficult to justify.

22 – Should advice and support to invest in the energy efficiency of industrial or manufacturing buildings align with wider advice and support on how to reduce energy consumed for productive processes? If so, please suggest how improving efficiency in building and ‘process’ energy could work together, and what opportunities and challenges this might present?

No comment

The Programme and Use of EPC Data

27 – We will investigate the benefit in providing new online resources or tools to support building owners to access and use data to help them improve their properties. What particular types of resources or tools would you find useful and why?

Some of our members have suggested that a database that allowed owners to make a desk top assessment of their properties grading depending on what has, and has not, been implemented previously within the property could be helpful. This may assist while formal assessments are requested, and an App could make it user friendly.

28 – In addition to the above, we welcome any specific comments or observations you may have on the future use of the data that is gathered from energy assessments.

Please see our response to question 27.