

RESIDENTIAL LANDLORDS ASSOCIATION
RESPONSE TO THE GREEN PAPER – A 2030 FRAMEWORK FOR
CLIMATE AND ENERGY POLICIES

About the Residential Landlords Association

1. The Residential Landlords Association (RLA) is a national landlords association operating in England and Wales. We have over 16,000 members. Our members own or control over 150000 units of accommodation. Primarily our members are landlords in their own right but a number are managing and letting agents, some of whom are also landlords. Our members operate in all sub-sectors of the Private Rented Sector (PRS). Properties are rented out to families, working people, young professionals, the elderly, students and benefit customers.

Introduction

2. This response is limited to issues which affect private sector landlords in England and Wales whom we represent. The private rented sector now comprises some 3.8 million dwellings. Private rented sector stock poses particular challenges because around 40% of the stock was built before 1919. Generally speaking private rented sector landlords do not purchase new properties but play an important part in the house purchase chain because landlords often buy older properties to rent out. They may well be converted or refurbished by landlords.
3. Increasingly, in the United Kingdom the private rented sector is housing the less well off because the social sector is static and less and less public money is available for new build social housing. All of this is also happening at a time when, due to the current financial crisis, it is more difficult for owner/occupiers to obtain the necessary mortgage funding to buy properties to live in; let alone to be able to afford to buy them.

4. The United Kingdom has a serious housing crisis because of lack of supply. This has led to accelerating house prices particularly in London. Indeed, we take the view that London is a structurally different housing market to much of the remainder of the United Kingdom.
5. Living standards are falling. Household income is decreasing in real terms. This is not just true in the United Kingdom but throughout Europe. Europe faces a grave economic threat. Frankly, we do not accept the assurances of European politicians and officials that the Euro Zone is improving. Indeed, there is a real risk of a serious threat to political stability and civil order in parts of Europe. All of this gives rise to concerns about the cost of proposed energy efficiency improvements and whether or not they are realistically achievable against this background. At the same time we have serious concerns about the adverse impact on housing supply, especially in the United Kingdom because of the current housing crisis and whether the kind of energy efficiency improvements that are suggested can be realised.

The impact of existing targeting on the private rented sector in the United Kingdom

6. In the United Kingdom the private rented sector alone is being targeted for compulsory energy efficiency improvements by 2018. We can therefore speak with some experience of what happens when you have sectoral targeting. Although this has yet to come into force we are already seriously concerned about how this could adversely impact on housing supply in the private rented sector relative to other sectors of UK housing provision.
7. Often private landlords specialise in converting and refurbishing properties to rent. We are the main suppliers of cheaper shared accommodation such as that needed by young single people. There is limited social housing provision for them. Current

demands imposed in relation to energy efficiency are now simply making the carrying out of conversions uneconomic.

Is there a case for energy efficiency improvements?

8. The case for energy efficiency improvements is largely predicated on supposed global warming due to increased carbon emissions. Also there are supposedly diminishing fossil fuels threatening the security of supplies. We have to say that there is a degree of scepticism which is growing, as to whether global warming may in fact be the result of natural changes; not man made carbon emissions. We are not competent to comment on this; merely raising the question because this leads to wider concerns about the direction of travel for energy efficiency improvements throughout Europe. Shale gas will overcome the threat to security.
9. Another key question is whether Europe, especially the United Kingdom, is going much further as regards energy policies than other countries, especially China, and emerging economies such as Brazil, Indonesia etc. In times of economic crisis as Europe making itself less competitive and constraining growth because of the imposition of energy efficiency measures and other changes, such as the energy supply. The UK private rented sector is adversely affected as it is not viable due to these policies to refurbish or convert properties to rent out.
10. This leads on to one of our major concerns that energy efficiency improvement issues are being looked at in isolation without proper regard to other policy issues, especially the ability to fund these measures without beggaring ourselves in the process. Another major concern, already referred to, is the adverse consequences as a result on housing supply which will be exacerbated. This is because as a result of these kind of measures it is not viable not just not convert properties or to carry out major refurbishment works but also to build new properties in many parts of the United Kingdom. There is no point in building an energy efficiency building

if no one can afford to buy it or rent it. This is the current direction of travel in Europe generally and, in particular, the United Kingdom which gravely worries us and our members.

The impact on the private rented sector

11. Under the Energy Act 2011 as from 2018 at the latest any property to be rented out in the private rented sector must be brought up to at least an E rating under an Energy Performance Certificate. This is subject to funding being available through the Green Deal or the UK Government's Energy Company Obligation (ECO) which provides a subsidy for certain works such as solid wall insulation and for certain less well off groups (the so called Affordable Warmth Group) or in areas of multiple deprivation. Green Deal Finance has to be repaid as it is a form of loan and it is expected that tenants will repay the loan charges via their electricity bills. The current ECO arrangements run out in March 2015 and as yet we have no idea how or if they will be replaced. In any case, the cost of the ECO subsidy falls on the general bill payer, including the less well off themselves who are meant to benefit. ECO in some cases may not cover the whole cost of the works anyway.
12. The Green Deal is experiencing an extremely slow uptake. Green Deal providers are not interested in the private rented sector nor are the six major energy companies who provide the ECO subsidy. Experience from the previous energy company obligation, which has now been wound up, showed that providers regarded the private rented sector as a hard to deal with sector. This is because of the involvement of the three way relationship, landlord, tenant and provider, as well as the dispersed nature of private renting in the UK. Only 10% of private landlords have more than 10 properties. Many have only one or two properties and they are therefore difficult and time consuming to deal with in practice. Despite all of these difficulties we are the one sector where compulsion is being implemented. Compared in size to the

owner/occupied sector which has some 14.4 million dwellings, as indicated above, private landlords only control around 3.8 million. Some 11% of these are reckoned to require compulsory upgrading but these are the very properties that provide cheaper affordable homes to those who cannot access social housing.

13. The reality may well be that as and when compulsion is introduced many landlords have to fund the cost of the works. In turn this will be reflected in higher rental costs. This will impact on the already hard pressed UK housing benefit budget and stretch household incomes even more, often for the less well off. This is what happens when you focus on a particular sector in this way. It is grossly unfair because it is not across the board. A lot of work has been done to improve the social sector but some work still remains to be done. The major omission from being the subject of improvements in this way is the owner/occupied sector where much greater gains could potentially be achieved, especially compulsion for improvements at the point of sale were introduced by the UK Government. They have shied away from this; no doubt for fear of losing votes.

The Housing Supply Crisis

14. Unlike many other countries in Europe where the supply and demand for housing is much more in balance we have a supply crisis in the United Kingdom. This faces all housing sectors and this has knock on consequences for the private rented sector as the availability of houses for rent is constrained. It is estimated that around 230,000 new households are formed every year but new build housing is running at about 110,000 per year since the start of the financial crisis in 2008. Even before then numbers were not sufficient and therefore a back log has grown. Despite this crisis what we find is regulators impose ever increasing and more expensive demands. Better insulation is required and likewise sound insulation. New housing is meant to subsidise social housing

because house builders have to set aside part of their developments, which can be 30% or more, as social housing. This is either funded by land owners being paid less for building land or an increase in the cost of house prices with home buyers having to subsidise social housing (or a mixture of both). Lower land prices mean that owners are less likely to bring suitable land forward for development. The UK planning system is a huge drag on development with many people using the system to oppose new developments.

15. For a typical three bed semi detached house (without a garage) (using a sales price of £150,000 to calculate percentages where needed) our estimate of the cost is :

Base cost of construction £945 per square meter x 90 square meters	80,500.00
Add Highways at 2.5% of costs	1,125.00
Contingencies at 5% of construction costs (one would normally expect 10%)	4,250.00
Professional fees at 10% of construction costs	8,505.00
Disposal costs at 1.75% of sale price	2,450.00
Sales and marketing at 3% of sales price	4,200.00
Interest at 6.5% (based on construction costs and assuming 1 year) say	5,500.00
Developer's profit at 18% (not the traditional 20%)	25,200.00
Section 106 Costs (notional) (e.g. for play areas)	<u>1000.00</u>
	133,000.00

Importantly nothing has been included above for land value because we have to take the “residual valuation” approach. Also significantly nothing is included as a contribution towards affordable housing or community infrastructure levy. There is nothing included

for the ever increasing cost of additional energy efficiency measures which are already in the pipeline.

16. At the moment, in particular, due to excessive costs particularly regulatory costs, it is simply not viable in many parts of the United Kingdom, outside London to build new housing. There is a noticeable trend when one views the annual reports and accounts of house builders that they are moving upmarket and selling higher priced properties where the cost of these additional measures can more readily be recovered as part of the cost.
17. When it comes to providing new homes by conversions the problem is compounded because essentially you are involved with retro fitting, trying to bring older housing stock up to new build standards. Although many parts of the United Kingdom were severely hit by enemy action during the Second World War we still have a much higher level of older housing stock in the United Kingdom than in many parts of Europe where war damage was even more extensive. More extensive war damage has led to a lower average age of the domestic building stock than in the United Kingdom. We also have harsher climatic conditions to face than in many other parts of Europe. Due to higher standards now demanded particularly since 1990 it is simply not cost effective to carry out conversions.

The impact for EU policymakers

18. EU policymakers have to recognise that they cannot look at the issue of improving energy efficiency and other carbon emission saving measures in isolation. Europe is simply taking on too many commitments which it can no longer afford

Adverse changes to welfare provisions

19. As part of its plan to cut public expenditure the UK Government has embarked on plans which over time will significantly reduce the

availability of welfare benefits to assist the less well off (whether in work or out of work) to pay their rent. Again, this will adversely affect those who are often in most need of help especially to effect energy efficiency improvements. As already indicated, household budgets are being stretched and these measures will create greater hardship. Therefore, ironically those who are most in need of energy efficient homes, especially as this live in older properties, will least be able to afford to pay. This is another key reason why energy efficiency policy must not be looked at in isolation. Picking on the private rented sector as a sector for specific attention is not therefore the way forward, in our view.

QUESTIONS

General

What lessons from the 2002 Framework and the present state of the EU energy system are most important when deciding policies for 2030?

We have answered this question in general terms in our initial outline. In particular, we are concerned that these lessons demonstrate that picking on a sector such as the private rented sector in the United Kingdom in isolation is not the way forward and that wider issues beyond the present state of the EU energy system must be addressed when designing new policies.

Targets

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, member states, or sectoral) and to what extent should they be legally binding?

We believe that the policies adopted to date by the UK Government illustrate the dangers which are faced when sectoral targets are set in the way in which they are applied in the private rented sector, without addressing issues

affecting the general stock of domestic properties in the United Kingdom. As to the level at which such targets should be set we consider that members at member state level is preferential under the principle of subsidiarity, as well a greater local knowledge of national circumstances and resources. We do not consider that such targets should be legally binding because that fails to take account of other circumstances, especially economic conditions.

Have there been inconsistencies in the current 2002 targets and if so how can the coherent potential for 2003 targets be better ensured?

We believe that the way in which specific targeting has been addressed by the United Kingdom in relation to the private rented sector is illustrative of inconsistencies which are occurring.

Are our targets for sub-sectors inappropriate and if so, which ones?

We are particularly concerned at the prospect of sector based targets, especially if a small sector such as the private rented sector is the subject of such targets, ignoring the wider issues affecting domestic dwellings generally. The problem faced is the actual definition of “sectors” and “sub-sectors” for these purposes.

The remainder of the questions

We have not answered the remainder of the questions because the preceding questions are the ones that are particularly relevant to ourselves as representatives of private rented sector landlords in the United Kingdom.

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