

## Attitudes and Perceptions of the Green Deal amongst private sector landlords in Rotherham

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*The findings presented in the report are however entirely the responsibility of the research authors.*

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# Executive Summary

## Background

Responsibility for improving energy efficiency levels in the private rented sector lies largely with private landlords. Regulatory changes under the Energy Act 2011 mean that from April 2016 landlords will not be able to refuse requests from their tenants for 'reasonable' energy efficiency improvements, and from April 2018 all privately rented domestic properties should be brought up to a minimum energy performance rating of band E. The recent introduction of the Green Deal and the Energy Company Obligation (ECO), which runs alongside the Green Deal, are designed to support the take-up of energy efficient home improvements and are now the main vehicles, other than self-finance, by which private landlords can improve the thermal efficiency of their properties.

Commissioned by Rotherham Metropolitan Borough Council (MBC) and NHS Rotherham (Public Health), this report explores the attitudes and perceptions of the Green Deal amongst private landlords. In commissioning this research Rotherham MBC and NHS Rotherham aim to better understand the potential of the Green Deal and ECO to improve energy efficiency levels within the private rented stock in Rotherham, and to identify any ways in which they might support and encourage take up amongst private landlords locally. It is hoped that by working in partnership with private landlords the benefits of Green Deal can be maximised and affordable energy and warmer, more comfortable homes can be achieved for private tenants.

## Research overview

Interviews were conducted during summer 2012 with ten stakeholders including representatives from Rotherham MBC, NHS Rotherham, Barnsley MBC, local letting agents, a Yorkshire housing provider, voluntary and community sector organisations and elected members from Rotherham. Two groups of private landlords were interviewed. Interviews with ten 'general' landlords were conducted between July and December 2012. Later, in January 2013, a further ten Interviews were conducted with landlords whose properties had been improved under the Carbon Emissions Savings Programme (CESP) in the Ferham area of Rotherham.

## Focus of the report

This report presents landlords' views on property improvement and energy efficiency more generally, and assesses the likelihood of take up of the Green Deal amongst this group. It provides valuable insight into the following issues:

- Landlords' awareness of the energy performance of their properties
- Responsibility for energy costs and heating the home
- Landlords' attitudes towards property improvement
- Landlords' experiences of the CESP in Ferham
- Landlords' attitudes towards further energy efficiency improvements
- Landlords' perceptions of the Green Deal and ECO and their views on how Rotherham MBC can support take up of the Green Deal.

## Key findings

### Landlords' awareness of the Landlords' awareness of the energy performance of their properties

- most landlords (seven out of ten) operating outside of the CESP area knew and understood the Energy Performance (EP) ratings for their properties
- the opposite was true of landlords operating in the CESP area where six out of ten were completely unaware of the EP ratings of their properties
- the majority of landlords interviewed understood the EP ratings provided by Energy Performance Certificates (EPCs) but struggled to understand the other information provided, such as the Energy Impact Rating
- most landlords had commissioned an EPC in recent times in order to comply with legislation, yet a sizeable proportion remained unaware of the results
- the majority of landlords, even those who were aware of how their properties performed, regarded EPCs simply as bureaucracy
- landlords felt strongly that EPCs were not important to tenants who they felt were more concerned about the location, the rent charged and the reputation of the landlord
- some landlords felt that EPCs could be misleading due to the belief that some properties (particularly period properties), due to their age and nature, cannot exceed certain ratings.

### Energy costs and heating the home: who is responsible?

- energy costs and the cost of heating the home were viewed by almost all landlords as the sole concern and responsibility of the tenant
- none of the landlords interviewed see it as their place to issue energy efficiency advice to their tenants but will make suggestions if tenants complain about high heating costs or being cold
- some landlords attribute high heating costs and cold homes to the behaviour of tenants, who, in their opinions often overheat their homes and wear insufficient clothes.

### Landlords' attitudes towards property improvement

- over half of the landlords we spoke to make fairly regular improvements to their properties but tend to conflate general improvements and energy efficiency improvements and confuse general maintenance tasks with property improvements
- many landlords have little understanding of specifically how to improve the energy performance of their properties which can result in them feeling that they have done all they can
- there is little interest amongst landlords in improving the energy performance of their properties for that reason alone
- the main drivers of property improvement are the need for maintenance or a general upgrade and the main aim of such improvements, aside from essential repairs, is to ensure that properties remain liveable, lettable and that good tenants remain happy
- landlords are most likely to fund improvements with multiple benefits such as replacement windows, which have both cosmetic and energy efficiency benefits
- the relative weakness of the local property and rental markets is a significant barrier to property improvement as landlords are concerned that their investment will not be reflected in property values or the rents they can command

- landlords are very receptive to the use of grant funding to make improvements to their properties
- tenants rarely give feedback to landlords on the condition of their properties and are unlikely to lobby them for improvements
- landlords who own 'hard to treat' properties tend to feel that there is little they can do to improve energy performance and some fear that insulation and replacement windows will exacerbate damp and condensation.

### **Landlords' experiences of the CESP in Ferham**

- the main motivation for signing up to the scheme was the availability of free measures. However, there were often a number of factors influencing this decision and many hoped it would improve the condition of their properties and yield financial benefits for tenants
- the most common package of works received was a combination of solid wall insulation (SWI) and new boilers/central heating systems
- many respondents stated that cost had prevented them from making such improvements earlier and reiterated the point that investment in properties in Ferham would not be reflected in the value of the property or rent levels
- others felt that they had done everything they could to improve the EP of their properties but acknowledged that they had previously been unaware of some of the measures available, such as SWI
- all respondents felt that the scheme had either met or exceeded their expectations
- respondents identified the main benefits of the programme as being better conditions for tenants and lower running costs. Lower maintenance costs and greater demand for properties were also cited in a couple of cases
- although some had commissioned one, no respondents had actually received a revised EPC for properties improved under the CESP at the time of interview but most anticipated some moderate uplift to around a D rating.

### **Landlords' attitudes towards further energy efficiency improvements**

- there was a lack of appetite amongst respondents to make any further energy efficiency improvements to their properties unless there was a significant incentive or legislative requirement to do so.
- there appeared to be two key reasons for this. First, the relative weakness of the local rental market, and second, a number of landlords struggled to see what further improvements could be made following the completion of the CESP works.

### **Landlords' perceptions of the Green Deal and ECO**

- the majority of respondents expressed reservations about taking out loan finance to fund any property improvements including those relating to energy efficiency
- this attitude extended to the Green Deal and landlords' reluctance to engage with the initiative remained unchanged when they were made aware that tenants would be responsible for repayments
- the majority of respondents felt concerned that they would be responsible for making repayments on the loan during void periods or if tenants defaulted
- respondents expressed many reservations about the Green Deal and could identify few benefits or 'selling points' for themselves and their tenants
- the key reservations raised by respondents included:



- concerns that having a Green Deal loan attached to the property would deter prospective tenants or buyers if the property was to be sold on
- concern that the benefits for tenants would be confined to warmer homes and that most would not witness energy bill savings during their tenancies
- any savings would be negated by continued energy price rises
- respondents believe there to be a 'ceiling' on the rents that can be achieved in the borough that property improvements have little impact upon. Landlords would therefore prioritise cosmetic improvements over and above energy efficiency improvements to give their properties 'the edge'
- landlords that had participated in the CESP tended to feel that there would be few measures available under the Green Deal that they hadn't be offered under the CESP and therefore felt it was irrelevant to them
- the vast majority of respondents were positively disposed to participating in ECO or other grant funded property improvement schemes.

## Stakeholder Views

- half of the stakeholders interviewed highlighted the problem of a lack of awareness about energy efficiency amongst the population generally. Problems of poor thermal inefficiency were most acute at the bottom end of the private rented market and affected vulnerable groups of private rented tenants most
- the landscape of energy efficiency support and advice is confusing and messages relating to keeping warm and energy efficiency are often conflicting and leaves people, particularly the old and vulnerable, unsure as to what they are supposed to do for the best to improve their home
- all stakeholders felt that private tenants are extremely unlikely to request energy efficiency improvements from their landlords
- the main concern expressed by stakeholders was that private tenants particularly are unlikely to see any financial benefits from the scheme because of the typical short length of their tenancies, although it was acknowledged that they would benefit from warmer homes
- having a loan attached to a privately rented property was viewed as a disincentive likely to make a property less attractive to prospective tenants who will be liable for future loan repayments. The loan basis of the Green Deal was also regarded as a big disincentive for older groups
- a number of stakeholders could see a role for the Green Deal for certain groups of owner occupiers rather than private tenants and acknowledged that if properties did not qualify for ECO, then the Green Deal is now the only option for addressing the efficiency of properties that are expensive to heat
- stakeholders felt that the promotion and delivery of the Green Deal needed to be undertaken by trusted organisations. Many felt that the council and its partners were best placed to undertake this role.

## What can Rotherham MBC do to support take up of the Green Deal amongst landlords?

Respondents made a number of constructive suggestions regarding how the local authority might encourage take up amongst landlords, including:

- **providing more detailed information:** those respondents who had not already dismissed the Green Deal would be keen to access more detailed information about the scheme, particularly

the financial and regulatory aspects of it. Landlords would welcome more engagement with Rotherham MBC in relation to the issue of energy efficiency

- **Green Deal assessments:** the majority of respondents would consider having a Green Deal assessment of their properties carried out. Those respondents who commented on this issue were unanimous in the opinion that Rotherham MBC would be the most appropriate (and trusted) agency to undertake these assessments
- **Mediating the commercial nature of the Green Deal:** a number of respondents lamented the commercial nature of the Green Deal and this emerged as a significant barrier deterring landlords from engaging with it. There may therefore be a role for Rotherham MBC and local authorities in general in mediating this commercial image
- **Rotherham MBC as Green Deal provider:** several landlords suggested that they may feel more reassured regarding the Green Deal if Rotherham MBC were to establish themselves as either a provider or delivery partner. Others felt this may undermine competition, choice and value for money for those taking out the Green Deal and as such would prefer to select a contractor from an approved list
- **Incentives:** the research evidence suggests that it may be possible to incentivise landlords to undertake energy efficiency improvements by brokering further grant funding which may be used to complement the Green Deal.

## Conclusions and issues for implementation

The report concludes with consideration of issues likely to affect the implementation of Green Deal. To help landlords overcome the barriers identified in the report, Rotherham MBC will need to:

- create incentives for landlords to undertake energy efficiency improvements
- promote and target relevant information to inform landlords to help them take action on energy efficiency
- raise awareness of the benefits of improved energy efficiency amongst both landlords and tenants.

# Introduction and Background to the Study

## 1.1. Introduction

This report examines the attitudes and perceptions of the Green Deal amongst private landlords in Rotherham. It was commissioned in April 2012 by Rotherham Metropolitan Borough Council (MBC) and NHS Rotherham (Public Health). In anticipation of the introduction of the Green Deal, both organisations wanted to understand private landlords' views of the Green Deal in order to assess the likelihood of uptake of the initiative in Rotherham's private rented sector, and to identify any support requirements to encourage take up amongst private landlords. By encouraging the uptake of the Green Deal it is hoped that the benefits of improved energy efficiency such as warmer and more comfortable living conditions can be secured for private tenants, many of whom live in poor quality thermally inefficient properties.

Research for this small study was undertaken by researchers at CRESR in two phases. In the first phase a review of literature and practice relating to the Green Deal, the private rented sector and local authorities was undertaken and a short report documenting the main findings from the review was produced for Rotherham MBC in May 2012. The second phase of the study included interviews with ten stakeholders and 20 private landlords of various sizes. Ten were general landlords active in the area and ten had properties which had been improved under the Carbon Emission Savings Programme (CESP) in Ferham. Most interviews were conducted between July and December 2012. Interviews with landlords who had properties in the CESP area of Ferham were undertaken in January 2013.

This report presents the main results from the second part of the study and refers to findings from the earlier review where appropriate.

## 1.2. The Green Deal

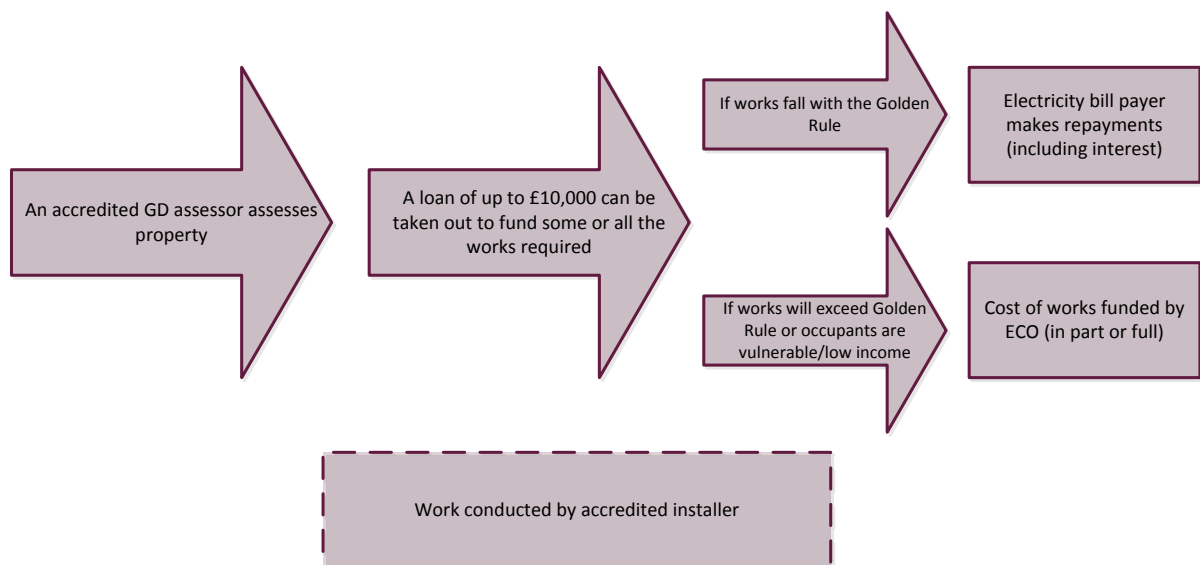
The Green Deal was officially launched on 28 January 2013. The initiative is designed to support the take up of energy saving home improvements in order to help meet the UK's carbon reduction targets (Climate Change Act, 2008), to help keep people warmer and to make energy more affordable. The scheme is based on a **'pay as you save'** model whereby households pay for improvements such as insulation and new boilers at no upfront cost but over time through their electricity bills. Repayments made through bills will be required to meet the **'Golden Rule'** and will be no more than what a 'typical household' should save in energy costs. However, there is no guarantee that the eventual savings made by households will match the lifetime costs of the loan taken out and the actual level of savings will depend on how much energy is used and future energy cost.

## The Green Deal Process

Under the Green Deal householders will be visited by an accredited assessor who will assess their property and inquire about their energy use. Approved installers will then advise on potential improvements and consumers will then pay for improvements by taking out a loan with the Green Deal Finance Company. Loans can be taken out for up to 25 years. Should the cost of the work result in loan repayments being greater than the savings then householders may qualify for further subsidy through the Energy Company Obligation (ECO). The ECO is a subsidy from energy suppliers and will provide extra help for low income and vulnerable consumers or for properties that are hard to treat (where the Golden Rule would not work).

The overall process is summarised in Diagram 1.1.

**Diagram 1.1: Principles of Green Deal and ECO**



## Private landlords and the Green Deal

With regard to the private rented sector, payments for improvements are also made through the electricity bill so the person responsible for paying this bill, usually the tenant, will be responsible for making the repayments. If a tenant wants to take out a Green Deal loan then they must obtain the landlord's permission and agreement to both the improvements and the financial aspects of the plan, such as the amount of the repayments and the payback period. If a tenant is responsible for the electricity bill then a landlord wishing to improve a property through the Green Deal must get their tenant's permission before taking out the Green Deal at the property. There are a couple of additional aspects of the Green Deal in the private rented sector which it is important to bear in mind when reading this report. When a rented property is vacant the landlord must make the repayments until a new tenant moves in. Also, new tenants must be made aware of the Green Deal and acknowledge the repayments they will have to make under the arrangement.

As well as setting out the Green Deal, allied legislation under the Energy Act 2011 enables Government to regulate for energy efficiency improvements in the private sector. From April 2016 domestic landlords should not be able to refuse requests from their tenants for 'reasonable' energy efficiency improvements. From April 2018 all private rented properties should be brought up to a minimum EPC rating of band

E. Landlords would have fulfilled this requirement if they either reach E or have carried out the maximum package of measures funded under the Green Deal or ECO.

### ***Local Authorities and the Green Deal***

Local authorities will be important actors in delivering the Green Deal. A report by DECC (2011) suggests that potential roles for local authorities include:

- **provider:** taking on a provider role, delivering Green Deal directly to local residents and businesses, and co-ordinating finance and delivery
- **partner:** working in partnership with Green Deal providers and community partners to deliver and facilitate delivery
- **promoter:** acting as advocates for the Green Deal locally.

Whilst findings from our earlier review add a fourth possible option:

- **protector:** local authorities as formal (through existing and new housing regulation) and informal regulator of Green Deal (for instance through housing and consumer advice).

Roles taken by local authorities depend on a range of factors, of which capacity to act comes top. As such, councils are looking to work in partnership with others at a city-regional or regional level to provide the Green Deal or partner Green Deal providers. Financing is another crucial issue. Finding financial provision at lower than standard commercial rates may be crucial in ensuring better uptake of Green Deal in the medium-term.

Many local authorities already have experience of working with previous carbon saving schemes like the Carbon Emissions Reduction Target (CERT) and CESP, which may mean they feel more confident in working with ECO. Our earlier review suggests that, while Green Deal provision may be carried out through supra-local partnerships, ECO is more likely to be led by individual local authorities.

Local authorities are already working with private landlords to improve the energy efficiency standards of private rented properties and more information is needed to inform this work to help both private landlords, local authorities and other agencies to maximise the opportunities and benefits under the Green Deal and ECO.

## **1.3. Report**

The remainder of the report is structured as follows:

**Section 2** provides an overview of the research undertaken for this study.

**Section 3** details the study's main findings and covers the following issues:

- Landlords' awareness of the energy performance of their properties
- Responsibility for energy costs and heating the home
- Landlords' attitudes towards property improvement
- Landlords' experiences of the CESP in Ferham
- Landlords' attitudes towards further energy efficiency improvements
- Landlords' perceptions of the Green Deal and ECO.

**Section 4** details how Rotherham MBC and partners can support take up of the Green Deal.

**Section 5** concludes the report by considering issues for implementation and recommendations for engaging the private rented sector in Green Deal and ECO.

# Research Overview

## 2.1. Methods

The primary purpose of the study was to help Rotherham MBC and NHS Rotherham understand the potential of the Green Deal and ECO to improve energy efficiency levels in the private rented sector and to inform how they can support and encourage the take up of these initiatives.

The research for the study was carried out in two phases. The initial stage undertaken in April and May 2012 involved a review of literature and practice relating to the Green Deal, the private rented sector and the role of local authorities. The review was supplemented with telephone interviews with local authority housing and sustainability officers and representatives from energy advice schemes. A short report documenting the findings from the review was produced for Rotherham MBC in May 2012.

For the second and central part of the study, qualitative interviews were employed to explore attitudes and perceptions of the Green Deal amongst private landlords and key stakeholders in Rotherham. The majority of these interviews were conducted over the phone but a small number of face to face interviews were also undertaken. Interviews were conducted during summer 2012 with ten stakeholders including representatives from Rotherham MBC, Rotherham NHS, Barnsley MBC, local letting agents, a Yorkshire housing provider, voluntary and community sector organisations and elected members from Rotherham.

Two groups of private landlords were interviewed. Interviews with ten general landlords were conducted between July and December 2012 and a further ten interviews were undertaken in January 2013 with landlords whose properties had been improved under the CESP in Ferham.

Landlords with properties in the Ferham CESP area tended to own a small number of properties with most (eight out of 10 landlords) owning between one and four properties. Typically all or most of their properties were located in Ferham. The other two landlords with properties in the CESP area were larger, one considerably so, and owned more properties outside Ferham. General landlords were usually larger landlords with half of those interviewed owning between 20 and 200 properties across and outside of the Rotherham area.

The project explored a number of key research questions with landlords including:

- their understanding of the energy efficiency of their properties
- their attitudes towards the Green Deal and ECO and the improvement of their stock more generally
- the pros and cons of the Green Deal and ECO and how they compare to previous initiatives
- how likely they are to take up or support their tenants in taking up the Green Deal
- and where improvements have already been carried out, what benefits this has yielded
- what role Rotherham MBC could play and how they might support landlords to take up the Green Deal.

The next section of the report details the main findings in response to these questions.



# Findings

# 3

## 3.1. Landlords' awareness of the energy performance of their properties

Landlords' awareness of the energy performance (EP) of their portfolios and their understanding of Energy Performance Certificates (EPCs) was explored as part of each interview. Perhaps surprisingly, landlords outside of the CESP area had a better idea of the energy performance of their properties than those who had participated in the scheme. The majority (around seven out of ten) of respondents operating outside of the CESP area were aware of the EP ratings of their properties. The same number also felt that they understood (albeit roughly) the information provided by EPCs, although in most cases this understanding was limited to the Energy Efficiency rating and did not extend to the Energy Impact (Co2) rating and other supplementary information. All of those landlords who were aware of the EP of their properties owned poorly performing properties (of D or below), but this was felt to have more to do with the general age and type of the stock in the area rather than anything else and it was widely felt that there would be very few properties in the Borough that achieved anything above a D rating.

In contrast, landlords operating within the CESP area had a much more limited awareness of the EP of their properties and six out of ten were completely unaware of how their properties performed. However, eight respondents, including all of those who were unaware, said they understood and knew how to interpret EPCs. This lack of awareness is surprising given that many landlords reported commissioning EPCs (either directly or through letting agents) for their properties relatively recently in response to the requirement that all private rental properties advertised must be accompanied by an EPC. There were also several examples of landlords who had never commissioned an EPC on the basis that they have long standing tenants and will only need to do so if there is a change in tenant.

The majority of respondents, whether they were aware of the performance of their properties or not, viewed EPCs as a bureaucratic hoop that they had to jump through and conceded that they paid little attention to them. Landlords' views of EPCs were reinforced by the perception that tenants and prospective tenants were neither aware of EPCs nor bothered about how the properties perform. Landlords held this view on the basis that tenants seldom asked to see EPCs or asked questions pertaining to them or the energy costs associated with the property.

*"Never ever has anyone asked to see the EPCs. I pay no attention to them."*

*"Nobody is interested in EPC ratings and tenants don't complain either way about energy costs or temperatures. They haven't really taken off like they were supposed to."*

There was a fairly widely held view that EPCs are largely meaningless and that the location of the property, a fair rent and the reputation of the landlord remained tenants' primary considerations. Overall the findings indicate that EPCs are often of little importance to landlords and are unlikely to impact on the way they think about their properties, particularly as energy ratings are not believed to have any impact on tenants' decisions about which properties to rent.

It was also commented on by several respondents that EPC's could be misleading due to the belief that some properties (particularly period properties), due to their age and nature, cannot exceed certain ratings:

*"We renovated the property when we bought it. Extended it, re-roofed it, put in gas central heating, insulated the loft and it's still only an E rating. It's misleading because with a period property like this that's about the best you'll ever achieve"*  
(Small landlord)

Implicit in such statements is a sense of impotence amongst landlords, particularly those who have invested in older properties, that there is very little they can do to improve the energy performance of their stock. Although it has been established through the 'Super Homes' project ([www.superhomes.org.uk](http://www.superhomes.org.uk)) that traditional terraced housing can achieve EP ratings as high as A, this requires significant investment and landlords are understandably wary of investing more money in their properties than their values can support. This point is explored in more detail later in the report.

#### **Key points:**

- most landlords (seven out of ten) operating outside of the CESP area knew and understood the EP ratings for their properties
- the opposite was true of landlords operating in the CESP area where six out of ten were completely unaware of the EP of their properties
- the majority of landlords interviewed understood the EP ratings provided by EPCs but struggled to understand the other information provided, such as the Energy Impact Rating
- most landlords had commissioned an EPC in recent times in order to comply with legislation, yet a sizeable proportion remained unaware of the results
- the majority of landlords, even those who were aware of how their properties performed, regarded EPCs simply as bureaucracy
- landlords felt strongly that EPCs were not important to tenants who they felt were more concerned about the location, the rent charged and the reputation of the landlord
- some landlords felt that EPCs could be misleading due to the belief that some properties (particularly period properties), due to their age and nature, cannot exceed certain ratings.

### **3.2. Energy costs and heating the home: who is responsible?**

None of the landlords we spoke to included energy costs in the rent they charged. Moreover, the vast majority viewed such costs as the sole responsibility of the tenant and only a few would be receptive to discussing this issue with tenants in any detail if they raised it. The same sentiments extended to the heating of the home more broadly, with landlords generally feeling that it is up to tenants to decide on the temperature they heat their home to and the proportion of their income they decide to spend on heating.

*'The temperature of the home is a very personal thing. Personally I wouldn't have my heating on above 20 degrees, ever. Now, if my tenants want to have it on at 25 degrees all the time because they like it warm then that's up to them....as long it doesn't get in the way of them paying the rent.'*

Although it was felt by most landlords that tenants shared this understanding and would be unlikely to raise issues relating to energy bills and heating the home with their landlord, two specific examples of tenants raising the issue of energy costs were cited by landlords. Exploring these examples offers some insights into both the issues experienced by tenants in poorly performing properties and landlords' responses to them.

The first example concerns a tenant of a terraced house with an EP rating of E who complained to her landlord that she had received a bill for £180 for one quarter which was in excess of what she was anticipating. After visiting the property, the landlord put the high bill down to a 'user error' on the basis that the tenant left the thermostat set at 24 degrees continually, walked around in summer clothing and heated the entire house at all times rather than using the thermostatic valves to reduce the temperature in certain rooms when not in use. The landlord advised the tenant to turn down the thermostat, only heat the rooms she was using and to wear more clothes when at home. Generally the landlord felt that it was not her place or responsibility to advise her tenants on energy efficiency and pass judgements on their behaviour.

The second example concerns several tenants occupying the same block of flats which by the landlord's own admission perform poorly as a result of a lack of central heating and the presence of single glazed windows. The properties have an EP rating of F and tenants have complained that the properties are difficult and expensive to heat. Unfortunately the landlord does not currently feel able to invest in these properties due to the weakness of the rental market where the flats are located and the tenants' inability to afford increased rents. His only advice to tenants has been to wear more clothes when at home.

The views of these two landlords illustrate the point that most landlords view energy costs and the heating of the home as the tenants' responsibility, a view supported, in these cases at least, by the perception that tenants overheat homes and do not wear enough clothes.

#### **Key points:**

- energy costs and the cost of heating the home were viewed by almost all landlords as the sole concern and responsibility of the tenant
- none of the landlords interviewed see it as their place to issue energy efficiency advice to their tenants but will make suggestions if tenants complain about high heating costs or being cold
- some landlords attribute high heating costs and cold homes to the behaviour of tenants, who, in their opinions often overheat their homes and wear insufficient clothes.

### **3.3. Landlords' attitudes towards property improvement**

Attitudes towards property improvement and recent activities undertaken by landlords to upgrade properties were also explored during interviews. Discussion of this topic was used as a pre-cursor to more specific discussions about the Green Deal as it offered insights into the factors underpinning landlords' decisions to improve their properties (or otherwise).

Around half of respondents reported that they had made improvements to their properties within the last five years. Of the respondents that had made improvements during this period, just under half had made what they deemed to be 'extensive' improvements to their properties with the rest making limited or partial improvements. In just under half of cases these improvements were motivated by the need for a general upgrade or maintenance work and generally coincided with a change in tenant. However, equally, around four out of ten of these cases were reportedly motivated either solely or in part by grant schemes such as Warm Front or free insulation schemes. Other motivations cited included requests from tenants; difficult to let properties and to comply with improvement orders, but these tended to be isolated cases. In most instances, landlords had either partially or fully funded these improvements using their own money but several reported receiving a contribution from a grant scheme.

These findings suggest that the two primary motivations for landlords to improve their properties are the need for a general periodical upgrade and the availability of grant funding programmes.

One third of the landlords that had carried out improvements to their properties stated that the works had been either fully or partially related to energy efficiency improvements. However, this finding should be treated with caution on the basis that there was considerable evidence that landlords' tend to conflate general improvements and energy efficiency improvements, expecting cosmetic improvements and general maintenance to lead to improved energy performance ratings. Whilst in some cases, it may be legitimate to expect this, for example, the installation of double glazing will yield both cosmetic and energy efficiency benefits, in other cases there is no relationship between the improvement and energy efficiency, for example, the installation of a new kitchen.

*"We renovated the property when we bought it. Extended it, re-roofed it, put in gas central heating, insulated the loft and it's still only an E rating."*

*"We re-wired, put in new kitchens, decorated and put in double glazing, what more can we do?"*

Such misconceptions were common and suggest that a sizeable proportion of landlords have a limited understanding of specifically which measures are required to improve the energy performance of their properties. For most landlords, improvements which yielded only energy efficiency benefits (such as insulation) were seen as a lesser priority than those that enhance appearance and amenity such as new bathrooms, kitchens or carpets, for example. This strategy was pursued on the basis that whilst tenants attach very little importance to the energy performance of properties, they are very concerned with its appearance and functionality.

*"I've never known anyone to ask whether the loft is insulated but people do notice how old the kitchen is or if the carpets are stained...those things are the deal breakers."*

However, as previously outlined, there can be some overlap between cosmetic and energy efficiency improvements, replacement windows are one such example. The replacement of inefficient boilers and heating systems were also viewed as a priority by some landlords on the basis that tenants expect a functioning heating system and unreliable ones are a maintenance burden and lead to a greater number of callouts. It therefore seems reasonable to suggest that the replacement of central heating systems and/or boilers and the installation of double glazed windows are the energy efficiency improvements landlords are most likely to fund.

*"I'm currently in the process of putting in new fuse boxes across all properties but I also have a double glazing fund which I top up each month and then work down my list of properties as and when the money's there."*

*"I can't really see the benefits of any further work. The only thing I will do is replace old boilers with combi-boilers in the two properties without them when the current ones go. It all looks in pretty good shape, so I'm not going to do any more unless there's legislation to make me."*

As the quote above alludes to, the majority of landlords we spoke to simply aspire to keep their properties maintained to a reasonable standard which ensures they continue to be 'liveable' and 'lettable'. As the following quotes illustrate, for some landlords, providing a well-insulated property was part of this but most were more concerned with the general functionality and decorative order of the property.

*"It's about keeping the property at a decent standard that I would expect myself. It is partly to do with keeping the tenant happy and ensuring I have a quiet life but the main thing is about providing a reasonable living standard."*

*"The properties are in a reasonable condition and have cavity and loft insulation to standard so I'm at a level where I'm not sure what the further benefits would be."*

In one instance, the desire of the landlord to keep his properties in good order has led him to carry out a fairly comprehensive range of energy efficiency improvements including the installation of condensing combi-boilers, double glazing, insulation and thermostatic radiator valves. He took the decision to install these measures as he felt they were now fairly standard features that most tenants would expect adding that, in his view, the provision of warm, comfortable homes that are cost effective to heat boosts tenant satisfaction and reduces turnover.

*'I'm currently in the middle of a rolling programme to upgrade all of my properties, by the time this is complete, they'll all have: thermostatic valves on radiators, condensing combi-boilers, double glazing, insulation. It's what most decent tenants expect these days and it keeps tenants happy which reduces the hassle for me.'*

The importance that many of the landlords we spoke to attach to keeping their properties in a good state of repair in order to protect their asset and attract and hold on to good tenants, may be significant in terms of the promotion of the Green Deal. Clearly, for a variety of reasons, there is limited interest amongst landlords in making improvements to their properties simply in order to improve their energy performance and some landlords may also have a limited understanding of what this would entail. However, it makes good business sense for landlords to keep their properties liveable and lettable and it is possible to see how the availability of finance which has no impact on the landlords' equity or outgoings but that enabled these improvements, might be attractive if promoted in the right way.

Several landlords cited the relative weakness of the local property and rental markets (and associated low rental yields and low levels of equity) as significant barriers to improving their properties. It was also widely felt that due to the limitations of the market, any money invested in non-essential improvements would not be reflected in rent levels or the value of the property. It was noted by a local letting agent that improvements are very dependent on the location and quality of the property i.e. there is more capital growth in the better areas with the higher quality stock which both enables and encourages landlords to maintain their asset.

*"There is a cut off point for rent in the area and if you create this little palace in the middle of Ferham, no one will thank you for it. If you spent loads of money on it then you have to get that back through the rent and no one is going to pay more for your slightly better terrace than they will for the one next door. The area serves a certain market- people on low incomes and benefits; they will be scared off by one that's too smart."*

Given their concerns about the local property market, and in any case, landlords were understandably very receptive to grant schemes. The majority of landlords we spoke to had benefitted from free loft insulation schemes at some point and a number mentioned that they had encouraged tenants to sign up for the Warm Front scheme. Although experiences of Warm Front had not been entirely positive for all, most landlords were explicit in stating that they would be receptive to further grant funded improvement schemes if this were possible. This point was further illustrated by the fact that over half of landlords in the Ferham area signed up to CESP.

Despite being very receptive to the idea of further grant funded property improvements, many landlords were, at the same time, sceptical about the extent to which the energy performance of their properties could be improved. Landlords who owned 'hard to treat' properties such as flats or traditional terraced housing with single skin brick walls, tended to feel that there was very little that could be done to improve their properties beyond loft insulation and the replacement of windows.

*"We re-wired, put in new kitchens, decorated and put in double glazing, what more can we do?"*

However, several landlords who were members of the local landlords' association talked positively about the possibility of solid wall insulation (SWI) after a presentation from a local insulation specialist at their last meeting. Despite their initial enthusiasm, many identified a number of potential problems with SWI when they reflected on it in more detail including concerns about the upheaval for tenants, reduction in room size and the risk of exacerbating damp and condensation. A number also raised concerns about damp and condensation in relation to UPVC double glazed windows.

*"It sounds like a great idea and a real solution to the problems of these older houses without the cavities but when you think about it, it'll cause a lot of upheaval moving door frames and skirting boards and you can't help but feel it'll make the place sweaty."*

*"I wouldn't want to make further improvements because the properties are not as well ventilated now they are double glazed and insulated. Hermetically sealed houses don't work and cause problems with damp and condensation."*

### Key points:

- over half of the landlords we spoke to make fairly regular improvements to their properties but tend to conflate general improvements and energy efficiency improvements and confuse general maintenance tasks with property improvements
- many landlords have little understanding of specifically how to improve the energy performance of their properties which can result in them feeling that they have done all they can
- there is little interest amongst landlords in improving the energy performance of their properties for that reason alone
- the main drivers of property improvement are the need for maintenance or a general upgrade and the main aim of such improvements, aside from essential repairs, is to ensure that properties remain liveable, lettable and that good tenants remain happy
- landlords are most likely to fund improvements with multiple benefits such as replacement windows, which have both cosmetic and energy efficiency benefits
- the relative weakness of the local property and rental markets is a significant barrier to property improvement as landlords are concerned that their investment will not be reflected in property values or the rents they can command
- landlords are very receptive to the use of grant funding to make improvements to their properties
- tenants rarely give feedback to landlords on the condition of their properties and are unlikely to lobby them for improvements
- landlords who own 'hard to treat' properties tend to feel that there is little they can do to improve energy performance and some fear that insulation and replacement windows will exacerbate damp and condensation.

### 3.4. Landlords' experiences of the CESP in Ferham

Respondents who had participated in the CESP had found out about the scheme in a variety of different ways. Several of the landlords interviewed were either resident in the Ferham area or had connections to the neighbourhood. Accordingly, four of the 10 interviewed had heard about the scheme by word of mouth, mainly through neighbours and family members living locally. A further three had heard about it through direct contact from Rotherham MBC, two through an advertisement in a local school and one through their letting agent.

Nine of the 10 respondents stated the availability of free measures as their primary motivation for taking up the scheme and the common refrain was that it was a 'no-brainer' or that they had 'nothing to lose'. Only one landlord stated that they were participating on the basis that tenants had complained about the property being cold and difficult to heat. However, as the following quote illustrates, there were often a number of factors influencing landlords' decisions to sign up to the scheme and many hoped that it would both improve the condition of their properties and yield financial benefits for tenants.

*"There was nothing to lose really. Boilers needed replacing - one had a back boiler and although in the other property the boiler was a bit more modern, it was not as energy efficient as boilers are now. Some of my tenants have problems paying their rent so I felt that if I improved the energy efficiency this*

*would reduce bills and free up money to pay their rent more easily 'cos they tend to pay their bills before their rent you see."*

In terms of the works carried out under the scheme, nine of the 10 landlords had received SWI, eight had received new boilers and/or central heating systems and four out of 10 had also received loft insulation. The most common package of works received was a combination of SWI and new boilers/central heating systems.

Where appropriate, landlords were asked what had prevented them from making energy efficiency improvements to their properties prior to the CESP. The most common response from landlords was that the cost of making such improvements had deterred them and many re-emphasised the point that investment in properties in Ferham would not be reflected in the value of the property or rent levels. Others stated that they felt that they had done everything they could to improve the EP of their properties and as the following quote illustrates, several were unaware of some of the measures available for hard to treat properties, such as SWI:

*"The tenants seemed happy enough and we didn't think there was anything we could really do to the property, we hadn't heard of SWI before."*

*"We were already refurbishing the property including replacing the boiler but we felt that was more or less all that could be done in terms of improving its energy efficiency."*

Respondents were also asked what they had expected from the CESP prior to its commencement and it was clear that expectations were generally quite low with most landlords expecting it to bring about fairly marginal improvements in their properties:

*"I didn't really have any (expectations). It's a free scheme so you can't set your expectations too high- I just hoped it would improve the property a bit, future proof it a bit."*

*"I just hoped it would improve the property a bit- give it a general uplift you know?"*

*"I felt I'd done about as much as I could to improve the places anyway but it was something for nothing so I had nothing to lose."*

The landlords interviewed seemed satisfied with the scheme and were equally split between those who felt that the works had met their expectations and those that felt it had exceeded them. Two landlords in particular were pleasantly surprised by the scheme and felt it was far more generous than anticipated:

*"I just expected insulation. I never imagined they would replace the boiler particularly as it was relatively new. The whole thing seemed too good to be true."*

Landlords were also asked how they felt the process of making the improvements had gone. Most felt that it had gone smoothly from their point of view and were also pleased with the quality of the workmanship:

*"It was fantastic from start to finish; British Gas couldn't have been more helpful."*

However, for some this overall satisfaction was tainted by frustration at the lack of communication between British Gas, the contractors and themselves. Several commented that there had been a considerable hiatus between signing up to the



scheme and the works beginning, feeling that British Gas should have kept them informed of their schedule. Several commented that they thought the scheme had been cancelled while others were frustrated that the contractors only liaised with tenants and excluded landlords.

*"There was a gap of about one year between signing up to the scheme and the work being carried out and no communication during this period- I thought that the scheme had been cancelled."*

*"It all went fine. It took a long time to play out and there were times when I thought it wasn't going to happen because I hadn't heard anything but overall I can't fault it."*

*"On the whole it's been quite good, I was happy with the quality of the boiler and insulation but I could have been kept more informed about the work schedule. I thought the contractors would come and talk to me about what they were going to do but they didn't, they just spoke to the tenants. It was quite hard to get information."*

Of the ten landlords we spoke to, only one was aware of any disruption to tenants whilst the work was being carried out. In this instance, the disruption was quite serious and resulted in tenants being without heating and hot water for two weeks:

*"Generally it was good but there were some issues around installing the new boilers and some disruption to tenants. The boilers were installed first and then during the insulation process dust and debris got into the flue so they had to replace the new boilers. It was disruptive for tenants who were left without heating for a couple of weeks."*

However, it should be borne in mind that landlords are not necessarily well placed to comment on disruption to tenants given the often detached relationship between the two, it is therefore possible that disruption for tenants may have been more widespread than our findings suggest.

For one landlord, who had been struggling to let his property, the benefits of participating in the scheme had been considerable in so far as the improvements done to his property had brought it up to a standard acceptable to a housing association that were, as a consequence, prepared to offer him a five year contract to let out the property.

*"Overall things went reasonably well and the quality of the work looked okay when I visited. There was one problem with one property to do with piping on a fixed roof which would have meant that the property could not be rented out and work to correct this is being done now. My agent and a plumber went round to check work and the level of work was of a standard that the properties can be taken on for 5 year fixed term contracts now."*

The impacts associated with these improvements were quite difficult to identify given that, in some cases, the work had only recently been completed and also because the majority of landlords tended to take an 'arm's length' approach to the management of their properties. Conversations between landlords and tenants appeared to be few and far between so it was particularly difficult to discern the impact of the programme on tenants. However, all landlords were asked to identify the main benefits of the programme from their perspective and responses to this question were quite varied. Better conditions for tenants and lower running costs were most frequently cited as the main benefits of the scheme. Lower, maintenance costs and greater demand for properties were also cited in a couple of cases. It is

important to note that the benefits identified by landlords were very much perceived and not, in the majority of cases, based on particular evidence. Given the recent completion of works, very few respondents had yet tried to re-let their property; had it valued or spoken to their tenants about the impact of the programme. However, anecdotes did emerge from a couple of landlords who have more regular contact with their tenants which suggested that the improvements were already yielding benefits in terms of the warmth of the home and energy costs, although concern about damp and mould was a recurrent theme:

*"Tenants are saying they're warmer but the damp and mould is definitely worse because there's no ventilation in the house now so we've had to install vents in the roof."*

*"The tenants say the properties look better and are much warmer since the work was done, one tenant said the amount of money they are putting in their gas meter has reduced by around £5 a week (from £20 to £15). I live in one of the properties myself and I can notice the difference, especially in the kitchen which used to be the coldest part of the house and sometimes had ice on the floors. Now it's reached 20 degrees for the first time - before the boiler would labour to try and get there but never made it. The damp is still there though."*

Landlords were also asked whether they have commissioned an updated EPC since the CESP works were completed. Although many intended to, none had actually done so at the time of the interview. When asked whether they anticipated a change in the property's rating as a result of the CESP works, most expected an uplift but felt that this would not exceed a D rating. One local letting agent was more optimistic and felt that a C rating might be achieved in some cases. These views were consistent with the notion subscribed to by most respondents that traditional terraced properties cannot achieve the higher echelons of the EP ratings.

*"I reckon it'll be a D now because the original EPC stated that this was the best it could potentially achieve. I hope that the insulation and the new boiler would be enough to lift it out of E."*

*"Most EPCs in Ferham were probably an E or a D before the CESP work but that might bring some of them up to a C rating. But the important thing is that tenants are going to save money, although that's not something that landlords are very bothered about."*

Several respondents also commented that they felt the CESP had 'smartened up' the overall appearance of properties in the area

*"The properties look much more modern and the external insulation makes a big difference to their appearance."*

One such respondent expanded on this point suggesting that the improved appearance of properties had, in turn, inspired tenants to take better care of their properties, both inside and out:

*"The improvements, particularly the external cladding have smartened up the whole area and had knock-on effects in terms of tenants taking a greater interest in the properties, people have cleaned up their gardens or decorated their properties - my Mum decorated after the internal insulation was done - some people have also taken advantage of scaffolding being put up to do other work and repairs."*

This finding is in line with those of previous studies of the impact of housing modernisation which have found that improvements to properties often engender a sense of greater pride in the home and catalyse a wave of DIY and home improvements (see: Hickman *et al.*, 2011)<sup>1</sup>

In terms of the overall impact of the scheme on tenant satisfaction, one third of landlords interviewed felt that their tenants were more satisfied, chiefly as a result of having warmer homes. Another third were unsure or felt there had been no impact on tenant satisfaction and two landlords mentioned that they had experienced fewer complaints about the properties since they were improved.

**Key points:**

- the main motivation for signing up to the CESP was the availability of free measures. However, there were often a number of factors influencing this decision and many hoped it would improve the condition of their properties and yield financial benefits for tenants
- the most common package of works received was a combination of SWI and new boilers/central heating systems
- many respondents stated that cost had prevented them from making such improvements earlier and reiterated the point that investment in properties in Ferham would not be reflected in the value of the property or rent levels
- others felt that they had done everything they could to improve the EP of their properties but acknowledged that they had previously been unaware of some of the measures available, such as SWI
- all respondents felt that the scheme had either met or exceeded their expectations
- respondents identified the main benefits of the programme as being better conditions for tenants and lower running costs. Lower maintenance costs and greater demand for properties were also cited in a couple of cases
- although some had commissioned one, no respondents had actually received a revised EPC for properties improved under the CESP at the time of interview but most anticipated some moderate uplift to around a D rating.

### **3.5. Landlords' attitudes towards further energy efficiency improvements**

Respondents who participated in the CESP were also asked how they felt about the possibility of making further energy efficiency improvements to their properties now they have observed the impact of the improvements delivered under CESP. The vast majority (seven out of 10) perceived no benefits to making any further energy efficiency improvements. Drawbacks identified included concerns about further disruption to tenants, the cost of further work and likely payback period (particularly in light of the weak rental market in Ferham) as well as concerns that further work may exacerbate problems of condensation and damp. One respondent also talked at length about their concerns regarding the longer term future of the properties in Ferham which, in her opinion, were nearing the end of their useful life and displayed too many defects to be worthy of further investment. On the other hand, three of the 10 landlords were more positively disposed to making further improvements but would only be able to do so with the help of grant funding or subsidy. When asked

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<sup>1</sup> Hickman, P., Walshaw, A., Ferrari, E., Gore, T. and Wilson, I. (2011) "The Houses all Look Posh Now" - Evaluating the Impact of a Housing Improvement Programme: The Case of Portobello and Belle Vue. Sheffield: CRESR, Sheffield Hallam University.

what would prompt them to make further energy efficiency improvements to their properties, the availability of grant funding or subsidy was cited by several landlords. An equal number stated that they would only make further improvements if required to by legislation. Two landlords said they would consider making further improvements if and when a more general refurbishment was required.

Overall, there was a general lack of appetite amongst respondents to make any further energy efficiency improvements to their properties unless there was a significant incentive or legislative requirement to do so. There appeared to be two key reasons for this. First, the relative weakness of the local rental market deters and limits the ability of landlords to invest in their properties and second, a number of landlords struggled to see what further improvements could be made following the completion of the CESP works.

### **3.6. Landlords' perceptions of the Green Deal and ECO**

Having established landlords' attitudes towards the improvement and energy performance of their properties, attention turned to exploring their perceptions of the Green Deal and ECO. It is important to bear in mind when reading this section that at the time the interviews were conducted, neither initiative had been launched and the specific terms on which they would operate had not been confirmed. Levels of awareness of the initiatives were very variable amongst respondents and although many were familiar with the schemes (particularly the Green Deal), this was generally in name only and it was necessary to offer a brief explanation in the majority of cases. Almost half of respondents stated that although they had heard of the Green Deal, they knew little about it and just three felt they knew enough about the initiative to comment without prior explanation. Two respondents had not heard of Green Deal at all prior to the interview. Overall it was therefore clear that awareness of the initiative at the time the interviews were conducted was low.

Due to this lack of awareness, initial questions designed to elicit landlords' views of Green Deal were couched in more general terms. Firstly, respondents were asked whether they would consider taking out a loan for property improvements. This enabled us to understand landlords' attitudes towards the use of loan finance for this purpose. In response to this question, eight of the 20 respondents stated that they would not consider this with just three stating that they would. The remainder felt unsure and that this decision would depend on many factors and the specifics of their situation at the time.

Landlords were subsequently asked whether, more specifically, they would consider taking out a loan to make energy efficiency improvements to their properties if tenants were responsible for repayments. The response closely reflected their attitudes towards borrowing money for more general improvements and with the exception of four respondents, all stated that they would not consider this. Of the four remaining respondents, two felt that they would consider this while the rest felt that this should be the tenant's decision given that they would be responsible for making the repayments.

After a brief explanation of the principles of the scheme as they stood at that time, landlords were then asked whether they would consider encouraging or supporting their tenants to take out a loan under the Green Deal. Perhaps unsurprisingly, given pervasive attitudes towards taking out loan finance to fund property improvements, half of all respondents stated that they would not consider this even if their tenant proposed it (most felt it unlikely that their tenants would suggest this, however). A further nine were undecided and felt they would need more detailed information before they could come to a decision. Just one respondent said that they would consider supporting their tenants to take out a Green Deal loan. Overall, it was clear

that the majority of participants were either resolved not to support their tenants to take out a Green Deal loan or, in a smaller number of cases, were undecided.

It is important then to understand the reasons why landlords felt so reluctant to engage with the Green Deal. During these discussions landlords tended to focus heavily on their reservations about the initiatives and identified few potential benefits associated with the scheme for themselves or their tenants.

Many of the concerns cited related to the roles and responsibilities placed on the landlord under the Green Deal. The majority of respondents expressed concern that they would be responsible for making repayments on the Green Deal loan during void periods or if tenants defaulted. This issue was of great concern to landlords due to the need to keep costs to a minimum during void periods. (DECC have since clarified that landlords would be responsible for repayments during void periods). Concerns were also raised about the potential additional bureaucracy that might be created around a change of tenant or the sale of a property as a result of having a Green Deal loan attached to it.

Given the relative weakness of the rental market in Rotherham, as reported by landlords, many were concerned that their properties might become more difficult to let with a Green Deal loan attached to them. This was particularly felt to be the case as the majority of the landlords' interviewed tended to let some or all their properties to low income groups who they felt would be averse to taking on a property perceived to have debt attached to it. It was also felt that this position would be reinforced by the fact that tenants may have to wait years to witness any savings on their energy bills as a result of the works.

*"The savings are likely to be minimal and I know my tenants won't want to take on the debt. The majority of them are on low incomes and are opposed to debt. I think unless they were seeing the savings instantly then they will never go for it. Quite a few of them are elderly and they'll see it as they probably won't be here to see the savings and from my perspective, I might have trouble renting the place if it comes with a levy on the gas bill."*

In this scenario, it was not felt that the Golden Rule would be of much reassurance to tenants or prospective tenants who many landlords felt would not trust that their bills would not increase as a result of the loan. This reflected broader concerns amongst landlords that the Golden Rule will not protect tenants from further energy price increases and that eventually any potential savings will be negated by further rises in fuel costs. More generally respondents struggled to see what the benefits or 'selling points' of the Green Deal might be for both them and their tenants. Given the relatively short term nature of private rental contracts there was consensus that the majority of tenants would not remain in the property long enough to witness any savings, although it was generally accepted that they may benefit from warmer homes during their tenancy as a result of the improvements.

*"I accept that tenants would be getting a warmer property and that in reality may not actually be paying anymore in terms of repayments and bills compared to other properties that had not had these improvements but it's easy to say these things in principle but in reality, who knows and actually, tenants would be sceptical and don't want to pay extra for these things. It would be up to landlords' to sell it to tenants and that's not our job to do that."*

Landlords also struggled to identify any benefits of the Green Deal from their own point of view and there was consensus that making improvements to their properties under the Green Deal would not increase the rents they could command. Two main reasons were cited for this. First, as previously discussed, tenants are not believed to

be particularly concerned about energy performance when searching for properties, with price, location and the presentation of the property taking precedence. Second, as previously outlined, there is believed to be a ceiling on the rents that can be achieved for properties in the borough and in most cases, no amount of improvements will result in significant increases in rental yields. This view was supported by a large local letting agent when commenting on the impact of the CESP in Ferham:

*"I wouldn't say that the improvements [delivered under CESP] increase tenants' interest in the property. The type of tenants you get in the CESP area are on a very low income, often transitional, move on quickly, so are unlikely to take much interest in energy efficiency. Improvements are unlikely to attract a different sort of tenant or increase the rental value that landlords can charge."*

Indeed, respondents agreed that the only improvements that might increase their rental yields or give their properties 'the edge' in a largely homogenous rental market were cosmetic improvements such as redecoration or new kitchens and bathrooms. As such, they would, in the majority of cases, prioritise cosmetic improvements over and above energy efficiency improvements.

Concerns were also expressed by several landlords regarding the extent to which their properties (particularly C19th housing) were worthy of investment as they potentially approach the end of their useful life. The planned introduction of minimum energy performance ratings for properties from 2018 has brought this issue into sharp focus for a number of landlords, calling into question the long term future of some of their older stock:

*"I'm wary of trying to make a silk purse from a sow's ear. We've previously been quoted £68,000 to bring a £35,000 flat up to standard. It might get to the point where you think it would be more cost effective to pull some of them down and start again."*

The landlords' interviewed appeared as averse to taking out loan finance as they felt their tenants would be. For many respondents, the idea of using loan finance of any description for making improvements to their properties was something they would only consider if they could find no other means of raising the finance for essential repairs. The majority of landlords interviewed operated a business model whereby, with the exception of essential repairs, they would only make improvements to their property if they had sufficient cash or equity within the property.

*"I would only consider it if there was an essential repair that I couldn't fund any other way. Even then I'd rather sell the property on than resort to borrowing. Borrowing's not in my business plan. I only buy properties and invest in them when I have the cash to do so."*

A much smaller number of landlords perceived the Green Deal to be a potential opportunity to raise the finance to make basic improvements to their properties, such as the replacement of boilers or windows, without having to cover repayments. For some, this scenario was viewed as 'win-win' situation whereby the tenant benefitted from a better quality property without the landlord having to compromise their business model by borrowing or eating into equity or reserves.

*"I have some properties that don't have central heating and that would be a big job for me so this might be a way to get those done because I just don't have the twenty odd grand to do that."*

For others, Green Deal was viewed as an opportunity to make tenants aware of the costs facing landlords.

*"What this might do is to help tenants understand that landlords are not a bottomless pit and open their eyes to the true costs involved in keeping these properties up to spec."*

Several landlords who had participated in the CESP also felt that there would be few measures available under the Green Deal that they hadn't been offered under CESP. It was therefore clear that for many such respondents, participation in CESP precluded the need to engage with the Green Deal. Moreover, as one local letting agent remarked, those landlords operating in areas neighbouring CESP neighbourhoods or who think they might qualify for ECO or similar, are holding back from making improvements in the hope that more grant funding will be forthcoming in future.

*"You are also getting landlords who have properties on the edge of CESP schemes deliberately not doing work or spending money on properties, for example just patching up boilers rather than putting in new ones as they're hedging their bets that similar schemes will come to these areas next."*

Indeed, the vast majority of respondents would be eager to benefit from ECO and the few that weren't were largely those with elderly tenants who they felt would not welcome the disruption.

#### **Key Points:**

- the majority of respondents expressed reservations about taking out loan finance to fund any property improvements including those relating to energy efficiency
- this attitude extended to the Green Deal and landlords' reluctance to engage with the initiative remained unchanged when they were made aware that tenants would be responsible for repayments
- the majority of respondents felt concerned that they would be responsible for making repayments on the loan during void periods or if tenants defaulted
- respondents expressed many reservations about the Green Deal and could identify few benefits or 'selling points' for themselves and their tenants
- the key reservations raised by respondents included:
  - concerns that having a Green Deal loan attached to the property would deter prospective tenants or buyers if the property was to be sold on
  - concern that the benefits for tenants would be confined to warmer homes and that most would not witness energy bill savings during their tenancies
  - any savings would be negated by continued energy price rises
- respondents believe there to be a 'ceiling' on the rents that can be achieved in the borough that property improvements have little impact upon. Landlords would therefore prioritise cosmetic improvements over and above energy efficiency improvements to give their properties 'the edge'

- landlords that had participated in the CESP tended to feel that there would be few measures available under the Green Deal that they hadn't be offered under the CESP and therefore felt it was irrelevant to them
- the vast majority of respondents were positively disposed to participating in ECO or other grant funded property improvement schemes.

### 3.7. Stakeholder Views

As part of the study ten stakeholders were interviewed including representatives from Rotherham MBC, NHS Rotherham, Barnsley MBC, local letting agents, a Yorkshire housing provider, voluntary and community sector organisations and elected members from Rotherham. Whilst the report concentrates on landlords' perspectives of the Green Deal it is worth highlighting the main issues raised by stakeholders in relation to the private rented sector and the Green Deal.

At least half of the stakeholders interviewed highlighted the problem of a lack of awareness about energy efficiency amongst the population generally. Problems of poor thermal inefficiency were most acute at the bottom end of the private rented market and affected vulnerable groups of private rented tenants most. One stakeholder commented:

*“People may understand that their homes are cold but they don't necessarily equate that with the performance of the home in energy efficiency terms”.*

Stakeholders explained that the landscape of energy efficiency support and advice is confusing and messages relating to keeping warm and energy efficiency are often conflicting. On the one hand, people are being advised to keep their home at a constant temperature, and on the other they are being encouraged to save energy. The connections between a more efficient home and a warmer home that's easier to heat are often not well understood. Such conflicting advice leaves people, particularly the old and vulnerable, unsure as to what they are supposed to do for the best to improve their home.

All the stakeholders interviewed felt that private tenants are extremely unlikely to request energy efficiency improvements from their landlords partly as a result of such conflicting advice and because of their general lack of awareness about energy efficiency, but also for fear that their tenancy will be terminated or not renewed or their rent will be increased if they requested improvements to their property.

*“They say to me 'it might be cold and dilapidated but it's better than having nowhere to live at all and that's what would happen if I kept on at him, he'd just find another tenant' ”.*

While stakeholders acknowledged there are good and bad landlords, fear of becoming homeless (and a lack of alternative social housing) was seen as an issue for vulnerable private tenants living in the worst properties and as likely to prevent private tenants requesting energy efficiency improvements.

Turning to the Green Deal, the main concern expressed by stakeholders was that private tenants particularly are unlikely to see any financial benefits from the scheme because of the typical short length of their tenancies, although it was acknowledged that they would benefit from warmer homes.

*“The home might be warmer but you won't see your bills going down. As far as I can see there is no financial benefit to it particularly for private renters who are unlikely to stay long enough to see any actual cash savings”.*



Rather than tenants seeing financial benefits some stakeholders feared that landlords will benefit most by using the Green Deal as an opportunity to get their properties 'done up' at a tenant's expense.

More generally having a loan attached to a privately rented property was viewed as a disincentive likely to make a property less attractive to prospective tenants who will be liable for future loan repayments. The loan basis of the Green Deal was also regarded as a big disincentive for older groups whose attitudes and values mean they tend to be very proud and thrifty and as such, are often reluctant to accept help making it difficult to engage them in any scheme to improve energy efficiency.

A number of stakeholders could see a role for the Green Deal for certain groups of owner occupiers rather than private tenants and acknowledged that if properties did not qualify for ECO, then the Green Deal is now the only option for addressing the efficiency of properties that are expensive to heat. For some owner occupiers (who are likely to stay in their properties) the Green Deal may offer a solution to people living with defunct or outdated heating systems that they would otherwise be unable to raise the finance to replace.

Finally almost all of the stakeholders interviewed in the study felt strongly that the promotion and delivery of the Green Deal needed to be undertaken by trusted organisations. Many felt that the council and its partners were best placed to undertake this role.

*'If private companies are cold calling or knocking on doors saying do you want a loan to improve your property, they are going to think 'no way' and they'll get nowhere but I think there is more trust in the council. If they could lead it and be the point of contact for the residents then it will stand a much better chance. It gives people comfort that they are not being conned and that they have come back.'*

In particular stakeholders felt that it was appropriate for Green Deal assessments to be undertaken by an independent and trusted body such as the council.

This point will be returned to in the next section of the report which looks at what can Rotherham MBC do to support take up of the Green Deal amongst landlords.

### **Key points:**

- half of the stakeholders interviewed highlighted the problem of a lack of awareness about energy efficiency amongst the population generally. Problems of poor thermal inefficiency were most acute at the bottom end of the private rented market and affected vulnerable groups of private rented tenants most
- the landscape of energy efficiency support and advice is confusing and messages relating to keeping warm and energy efficiency are often conflicting and leaves people, particularly the old and vulnerable, unsure as to what they are supposed to do for the best to improve their home
- all stakeholders felt that private tenants are extremely unlikely to request energy efficiency improvements from their landlords
- private tenants particularly are unlikely to see any financial benefits from the scheme because of the typical length of their tenancies, although it was acknowledged that they would benefit from warmer homes
- having a loan attached to a privately rented property was viewed as a disincentive likely to make a property less attractive to prospective tenants who

are liable for future loan repayments. The loan basis of the Green Deal was also regarded as a big disincentive for older groups

- a number of stakeholders could see a role for the Green Deal for certain groups of owner occupiers rather than private tenants and acknowledged that if properties did not qualify for ECO, then the Green Deal is now the only option for addressing the efficiency of properties that are expensive to heat
- stakeholders felt that the promotion and delivery of the Green Deal needed to be undertaken by trusted organisations. Many felt that the council and its partners were best placed to undertake this role.

# 4

## What can Rotherham MBC do to support take up of the Green Deal?

### 4.1. What can Rotherham MBC do to support take up of the Green Deal amongst landlords?

Despite extensive evidence of respondents' ambivalence to the Green Deal, they were asked, in conclusion, whether there was anything they felt Rotherham MBC could do to challenge their position and encourage take up amongst private sector landlords. Although several respondents felt that there was nothing that any agency could do to persuade them to consider the Green Deal, a number of constructive suggestions were made which are now discussed in turn.

**More detailed information:** those respondents who had not already dismissed the Green Deal would be keen to access more detailed information about the scheme, particularly the financial and regulatory aspects of it and permitted measures. Even landlords who had resolved not to engage with the initiative need to maintain an awareness of the principles of the scheme in case it is raised or proposed by any of their tenants. Since the official launch of the Green Deal in January 2013 more detailed information has been available via the DECC website and from various other sources including the Energy Saving Trust and energy providers. The initiative has also received more extensive media publicity over the last few months. It is therefore reasonable to assume that respondents who wish to be will now be better informed than they were at the time of interview. However, a number of landlords were keen to have the opportunity to ask questions about the Green Deal and allied legislation (perhaps with the latter being of greater concern) and two or three felt that a landlords' forum meeting should be held on this topic. It is clear from speaking to landlords that Rotherham MBC are a trusted source of information and clarification on regulatory and legislative issues affecting landlords would be welcome. Landlords would also welcome more engagement with Rotherham MBC in relation to the issue of energy efficiency.

**Green Deal assessments:** the majority of respondents, seemingly regardless of their positions on Green Deal, would consider having a Green Deal assessment of their properties carried out. In many cases this appeared to be driven by a combination of curiosity and concerns about the impact of the legislative changes scheduled for introduction from 2016. The fact that landlords are willing to consider an assessment represents a significant opportunity for Rotherham MBC and local Green Deal providers, providing scope for detailed discussion and engagement with landlords which could potentially lead to a shift in attitudes towards energy performance generally and in relation to the Green Deal specifically. Those respondents who commented on this issue were unanimous in the opinion that

Rotherham MBC would be the most appropriate (and trusted) agency to undertake these assessments, even if they were not the Green Deal provider.

**Mediating the commercial nature of the Green Deal:** a number of respondents commented on and lamented what they perceived to be the very commercial nature of the Green Deal. One respondent commented that entering into an essentially commercial agreement with the Government felt alien and they did not feel it was appropriate for a Government department to broker loans with what they felt were commercial interest rates attached. Several landlords had heard rumours that the interest rate for Green Deal loans would sit at around seven per cent, which they perceived to be uncompetitive, with a number commenting that they could raise finance more cheaply by re-mortgaging properties. This perception that the Green Deal is a commercial initiative emerged as a significant barrier deterring landlords from engaging with it. There may therefore be a role for Rotherham MBC and local authorities in general in mediating this commercial image. Fulfilling the role of objective information provider, assessor or even becoming a Green Deal provider or partner of a provider may go some way towards achieving this.

**Rotherham MBC as Green Deal provider:** several landlords suggested that they may feel more reassured regarding the Green Deal if Rotherham MBC were to establish themselves as either a provider or delivery partner. This point further underlines landlords' concerns about the perceived commercial nature of the Green Deal and the need for a trusted public sector arbiter. It was also felt by several landlords that commented on this issue that such an arrangement would also offer them assurance regarding the quality of work undertaken. On the other hand, one or two landlords felt that having the local authority as provider would undermine competition, choice and value for money for those taking out the Green Deal and as such would prefer to select a contractor from an approved list.

**Incentives:** it is clear that the Green Deal is unlikely to act as a compelling incentive for landlords to improve the energy performance of their properties and moreover, would not be their preferred mechanism for financing improvements if they needed to be made. However, there is evidence of equal weight to suggest that landlords are becoming increasingly alert to the EP ratings of their properties in the lead up to the introduction of legislative changes from 2016. Opportunities therefore exist to exploit the potential of this increased awareness to bring forward further improvements in the thermal efficiency of private rented properties. Overall there is some suggestion within the research evidence that it may be possible to incentivise landlords to act. It has been established that grant funding is the most compelling incentive for landlords to consent to energy efficiency improvements. An important role therefore emerges for Rotherham MBC as a broker of grant funding which might be used as a complement to Green Deal (i.e. covering the costs of some measures and thus reducing the size of the loan required under Green Deal and therefore the size of the landlord's / tenant's 'liability'). Landlords were particularly concerned that they would be required to make repayments on the loan during void periods and two landlords suggested that one of the most attractive incentives they could be offered would be a pledge from Rotherham MBC that they would cover repayments during extended void periods. It was also suggested that local authorities might consider reimbursing or subsidising the interest payments on the loan. In the current economic climate these are potentially unrealistic aspirations but there are perhaps other safeguards or reassurances that Rotherham MBC might be able to consider, such as support in finding tenants and minimising void periods, for example.

# Conclusions and issues for implementation

## 5.1. Introduction

Private landlords' face challenges in relation to the thermal efficiency of their properties. The private rented sector constitutes 17 per cent of all households in England (DCLG, 2012)<sup>2</sup> and has some of the most energy inefficient homes in the country, with over a quarter of privately rented properties falling into the two lowest EPC bands F and G. The sector also has the highest incidence of 'excess cold' of all tenures and 15 per cent of properties have a Category 1 hazard which indicates a property poses a severe risk to the health of its inhabitants. Tenants in the private rented sector are at a greater risk of fuel poverty when compared to those living in other tenures. Research published by Consumer Focus (Preston *et al.*, 2010)<sup>3</sup> suggests that around a quarter of private rented sector tenants in England live in fuel poverty compared to around a fifth of all households.

Coupled with these challenges private landlords will soon face sanctions under Government legislation introduced in the Energy Act 2011. From April 2016 domestic landlords will not be able to refuse requests from their tenants for 'reasonable' energy efficiency improvements and from April 2018 all private rented properties should be brought up to a minimum EPC rating of E. Landlords will be deemed to have fulfilled requirements under the legislation if either improvements result in properties reaching an EPC rating of E or if the maximum package of measures funded under the Green Deal or ECO has been carried out.

In order to meet changing legislation requirements, private landlords will require assistance in assessing which of their properties are in need of energy efficiency improvements and whether these properties qualify for a Green Deal loan. The findings from this report throw light on the sorts of support that private landlords in Rotherham may require from the local authority, other agencies and organisations and provides an invaluable insight into landlords' attitudes and perceptions of energy efficiency improvements generally and the Green Deal in particular. The report raises a number of issues for the implementation of the Green Deal and ECO in Rotherham so as to encourage uptake of the initiative amongst private landlords and for the potential benefits of the scheme to be maximised.

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<sup>2</sup> English Housing Survey: Households 2010-2011, DCLG, 2012.

<sup>3</sup> Preston, I and Brigeman, T & Moore, R. (2010) A 'now cast' of fuel poverty in 2010. Consumer Focus.

## 5.2. Limited interest in energy efficiency

Whilst landlords generally place a high priority on maintaining investments and keeping properties in a reasonable state of repair in order to rent them out more easily and hold on to good tenants, they are less interested in improving the energy efficiency standards of properties. The main reasons identified as contributing to this lack of interest include:

- a tendency amongst landlords to conflate general improvements and energy efficiency improvements with the latter falling further down the pecking order than former
- a perception amongst some landlords that they have undertaken all the improvements they can and there is a limit to the extent to which the energy performance of properties can be improved. Landlords commented that they were constrained due to the nature and age of their properties and so could not exceed certain EPC ratings
- a limited understanding amongst some landlords of specifically which measures are required to improve the energy performance of their properties
- a general concern about investing more in a property than the value or rental yield can support
- a general agreement amongst the landlords consulted in the study that tenants are not interested in energy efficiency when renting properties, backed up by no landlord in the study ever receiving a request from a tenant to see an EPC.

The relative weakness of local property and rental markets in terms of the rent levels that properties are able to achieve in some areas of Rotherham is a significant barrier to property improvement above and beyond basic or essential refurbishment and maintenance.

## 5.3. The likelihood of take-up of the Green Deal

Given the perceived barriers to, and low priority attached to energy efficiency improvements, it is not surprising that the vast majority of landlords in the study said they were unlikely to take-up the Green Deal. However, whilst many expressed serious reservations about the scheme and perceived many more drawbacks than benefits, some landlords could see certain potential benefits and scenarios where Green Deal might be a useful finance mechanism for improving their properties. The ceiling price of properties and the fact that some landlords had invested at the height of the property market meant that smaller landlords in particular had no or negative equity and little scope to fund improvements. For a few landlords Green Deal offered the potential to pass on costs to tenants and to fund improvements they could not otherwise afford. The main drawback of the Green Deal identified by landlords in the study is the obligation (for landlords) to take on re-payments when rental properties are empty. Coupled with the commercial (and what was regarded as the uncompetitive) nature of the Green Deal loan these factors acted as major disincentives. A sizeable proportion of landlords also felt that the 'debt' attached to the property will deter tenants and buyers.

In comparison to other previous energy efficiency schemes landlords had benefited from, Green Deal has limited appeal. Many landlords in the study had benefited from Warm Front and other insulation schemes and were very receptive to the use of grant funding to make improvements to their properties. For landlords in Ferham the availability of free measures under the CESP was the main motivation for taking up the scheme. Experiences of past improvement schemes were generally positive and

most landlords in this study expressed satisfaction with the Ferham CESP. Overall Green Deal offered little incentive for landlords in the study to improve their properties, and landlords of thermally inefficient and/or 'hard to treat' properties tended to hope that they would qualify for future grant programmes or Green Deal subsidy through ECO. Although there was some limited evidence that regulatory changes might influence decisions to improve properties and take-up of the Green Deal, many landlords felt that the improvements they had already undertaken had brought their properties up to an E rating and so they would not be affected by forthcoming legislation. Others expressed the attitude that they would wait and see what happened with the Green Deal and would cross the bridge of regulatory changes when they came to it.

#### **5.4. The wider benefits of energy efficiency improvements**

Landlords in the study rarely recognised the wider benefits of energy efficiency improvements in terms of their tenants' warmth, comfort and health. A small number of landlords commented that the provision of central heating and energy efficient boilers were now standard features that most tenants would expect and were essential to providing an amenable environment for tenants. The benefits of providing homes that were comfortable and more cost effective to heat were seen by a few landlords as a way of boosting tenant satisfaction, possibly reducing turnover and improving the ability of some tenants to pay their rent. However improving the energy efficiency of properties for environmental or comfort reasons was largely seen as a luxury that most landlords could not accommodate. Energy costs and the heating of the home were regarded as the responsibility of tenants and generally landlords in the study did not see it as their place to provide energy efficiency advice to their tenants

It is uncertain whether energy efficiency improvements under the Green Deal will result in tangible financial savings for tenants and the benefits for tenants are much more likely to be increased warmth and comfort. Evidence from elsewhere suggests that benefits of energy efficiency particularly for fuel poor and low income households are usually taken as improved thermal comfort and not reduced fuel consumption (Milne and Boardman, 2000)<sup>4</sup>. However, compelling evidence exists that improvements in warmth, in particular, can lead to tangible improvements in health (Thomson et al, 2009)<sup>5</sup> and that home energy efficiency improvements are often accompanied by appreciable benefits in terms of use of living space, comfort, quality of life, and physical and mental well-being (Gilbertson et al, 2006)<sup>6</sup>. In this study there is limited anecdotal evidence from landlords whose properties were improved under the CESP in Ferham that these properties are warmer after improvements. More evidence is needed on the benefits to householders of CESP and similar schemes and action is required to raise awareness of the wider benefits to tenants of energy efficiency improvements amongst both landlords and tenants.

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<sup>4</sup> G. Milne, B. Boardman, Making cold homes warmer: the effect of energy efficiency improvements in low-income homes, *Energy Policy* 28 (2000) 411–424.

<sup>5</sup> Thomson H, Thomas S, Sellstrom E, and Petticrew M. The Health Impacts of Housing Improvement: A Systematic Review of Intervention Studies from 1887 to 2007

<sup>6</sup> Gilbertson J; Stevens M; Stiell B; Thorogood N; Home is where the hearth is: grant recipients' views of England's home energy efficiency scheme (Warm Front). *Social Science & Medicine*, August 2006, vol.15. 63/4(946-56)

## 5.5. The role of Rotherham MBC and how to encourage take up of measures

For a variety of reasons there is a lack of incentive for landlords to act to improve the energy efficiency of their properties. Landlords operate to make a profit and the improvements they are willing to undertake must carry evident financial benefits. Our findings demonstrate how important it is for landlords to keep their properties in a good state of repair in order to protect their asset and attract and hold on to good tenants. It makes good business sense for landlords to keep their properties 'liveable' and 'lettable'. As such it seems reasonable to suggest that if promoted in the right way it is possible to see how the availability of finance through the Green Deal which has no impact on the landlords' equity or outgoings but enables improvements might be attractive to some landlords.

Our findings also suggest that there is a general lack of awareness about Green Deal amongst landlords in the study and they would therefore benefit from further information from Rotherham MBC on the detailed implementation of Green Deal, in particular the financial aspects, permitted measures and allied legislation. **Rotherham MBC needs to target and promote information which will help landlords to act to improve the energy efficiency of their properties. Working with letting agents to do this is probably the most expedient means of targeting a large number of landlords in one go.** As well as promoting Green Deal information should also be provided about schemes such as Landlords Energy Saving Allowance (LESA), a little know scheme which encourages landlords to improve the energy efficiency of let residential properties through a tax. LESA enables landlords to claim on their income or corporation tax return against the cost of buying and installing certain energy saving items.

**In order to support landlords, Rotherham MBC needs to create incentives for them to act to improve the thermal efficiency of properties, for example by brokering grant funding schemes and through maximising the use of ECO.** Some landlords in the study suggested that a financial subsidy to cover Green Deal repayments if rented properties were empty for extended periods would be beneficial. This would be particularly valuable given that, as of April 2013, landlords will also be expected to cover Council Tax payments for empty properties. In the current economic climate this is a potentially unrealistic aspiration but there are perhaps other safeguards or reassurances that Rotherham MBC might be able to consider, such as support in finding tenants and minimising void periods, for example.

A lack of tenant demand and interest in energy efficiency results in landlords thinking it is not worth investing in - **Rotherham MBC needs to raise awareness amongst both tenants and landlords of forthcoming changes in legislation under the Energy Act 2011 in conjunction with highlighting the wider advantages of taking action on energy efficiency.** One approach could involve demonstrating the benefits of previous schemes such as the CESP to tenants and drawing on existing evidence demonstrating how improvements in warmth can lead to tangible health and quality of life benefits.

Landlords in the study felt that there is also a role for Rotherham MBC as a trusted and objective Green Deal assessor. As a Green Deal provider or delivery partner the council offers assurance regarding the quality of work undertaken, although for some landlords a selected list of contractors would offer greater choice, competitiveness and value for money.