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How are UK landlords preparing for new EPC rules?



As the climate crisis worsens, each and every industry must respond. This includes the property market. Households and the energy, manufacturing, and transport sectors are the biggest users of energy from fossil fuels. In 2020, these sectors accounted for **82%** of all fossil fuel energy use in the UK.

In fact, it's estimated that households account for **26%** of total emissions in the UK, on a residency basis.

The government has marked the property market as a key area for reform. Further, as energy bills skyrocket, and weather conditions become increasingly unpredictable, the energy efficiency of UK homes has become the subject of much media debate and political discussion.

New homes, for example, have been targeted by the government for higher green standards, as it attempts to cut carbon emissions from new-builds by **75%** over the next three years. According to RICS, **60%** of existing owner-occupier homes struggle to meet an EPC rating of C. Whereas of new-build homes, 90% achieve an EPC rating of A or B. Meanwhile, in the private rental sector, new regulations surrounding energy performance certificate (EPC) ratings will come into effect from April 2025.

Touted as a way of making the rental sector 'greener', the new legislation could require many buy-to-let (BTL) landlords and investors to renovate their properties to hit new EPC minimums. More energy efficient homes with a minimum EPC rating of C could save UK households around **£570** a year on energy bills, research has found. This would amount to annual savings of £1.75bn across the UK.

To explore how well prepared the private rental sector is for the upcoming changes, Market Financial Solutions (MFS) has commissioned an independent survey of 459 UK landlords, all of whom own one or more rental properties.

Delving into the results of this survey, this report will explore how aware landlords are about the EPC changes, their sentiments towards the reforms, what property renovations they have made or plan to make, and how they plan to finance any further adaptations their properties may need.



Outlining the new regulations

Firstly, it is important to establish how the rules are changing. For landlords, it's possible to not only comply with them, but also capitalise on rising demand for sustainable housing.

EPC ratings determine how efficient a property is, based on an A to G scale, with A being the most efficient. From **April 2025**, new regulations will require any property being let to new tenants to have an EPC rating of C or higher and it must have a valid certificate when the property is actually let.

For existing tenancies, the new minimum rating will not come into effect until **April 2028**. But the new regulations mark a significant jump from the current minimum rating of E, and there are fines of up to £30,000 if a property does not comply.

At the moment, research shows nearly **four in five landlords (79%)** with an active mortgage have at least one property that has an EPC rating of D or below. It's clear a lot of work needs to be done to get these properties up to scratch.

Thus, property refurbishments are likely to become more commonplace among landlords in the months and years to come.



79% of landlords with an active mortgage have at least one property that has an EPC rating of D or below



Increasing demand for sustainable homes

There is little time to waste. While there are reasons why landlords might not want to start renovation projects in the current climate, with inflation in double digits and rising interest rates, there is only a little over two years for them to make the necessary changes. Moreover, by acting quickly, BTL landlords could capitalise on the growing demand for energy efficient properties.

Indeed, environmental concerns are becoming increasingly important for the population. Particularly when it comes to choosing their homes. According to one study, 56% of people would specifically seek out eco-friendly properties when looking for a place to live; a larger proportion (66%) would choose a property with energy efficient features over those without.

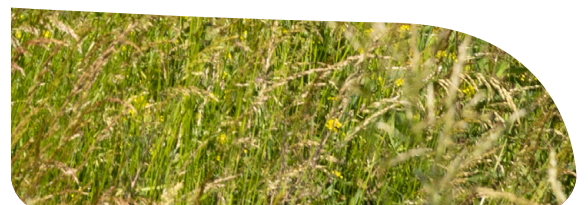
Meanwhile, there are also financial reasons behind the growing demand for sustainable housing. A property's energy efficiency will have a direct link to how much money will be needed to heat and power it. And, as the cost of natural gas and electricity rose by 128.9% and 65.4% respectively in 2022, this will be at the forefront of people's minds in the coming months.

With this demand for energy efficient housing in mind, landlords may be able to boost their rental yields, and future sale values of their homes by making sustainable renovations, and complying with the new EPC rules.

But how aware are they of the new EPC rules, and what are they doing to respond to them?



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Majority of landlords are still in the dark

Market Financial Solutions' research shows there remains a worrying lack of awareness about the new EPC regulations. As few as 58% of landlords said they are aware of the upcoming changes to the rules, leaving 42% in the dark. Meanwhile, just 38% of landlords feel as though they fully understand what the new regulations will entail.

Clearly, many landlords could be blindsided when the new rules become law in 2025 and risk incurring a fine for non-compliance.

Delving deeper into the data, it becomes clear that those landlords with just one or two BTL properties are the least aware of the new rules. Smaller investors, who may be more susceptible to rising costs, could be at risk.

Indeed, just 57% of landlords with a single BTL property – who represent **a third (33%) of all BTL landlords** – are aware of the new rules. This figure rises to 77% for those with four or more properties in their portfolio.

Nevertheless, there is evidently a lack of awareness among landlords that changes are coming. Let alone about how the new minimum EPC rating might affect them.

So, how do landlords feel about the new rules?



33% of all BTL landlords are aware of the new rules



Landlord sentiment towards the new EPC regulations

Having been asked about their awareness of the new rules, the landlords surveyed were then given a detailed explanation of the changes coming into effect in 2025.

Despite a lack of awareness, Market Financial Solutions' research showed that there is support for the changes. For instance, the majority (56%) of landlords said that the sustainability of their properties is important to them, irrespective of changing EPC regulations. While 48% said the government is right to take action to improve the energy efficiency of rental properties.

That said, perhaps this support is more for the notion of improving energy efficiency in the sector, rather than EPC ratings themselves. Indeed, a government consultation from 2020 revealed that less than **3%** of landlords believed the EPC rating system was fit for purpose.

Mainly, it is because EPC ratings are determined by the cost of energy that a property uses. Rather than the amount of carbon it actually emits into the environment.

As such, the ratings can penalise landlords who have installed more energy efficient features that reduce a property's carbon footprint – such as heat pumps – simply because it costs more to power those features.

This brings to light another challenge of responding to the EPC rules – which changes can landlords make that will actually boost their EPC rating?



On this, Market Financial Solutions' research shows that a significant majority (64%) of landlords are unsure of how they would make their properties more efficient to comply with the new regulations. Also, 65% want more support to help them adapt their homes.

With this in mind, we focused on what changes, if any, landlords have already made. What's worked, and what renovations do they plan to make in the coming years?



What changes have landlords already made and have they worked?

When it comes to improving your property's energy efficiency, knowing what changes are most effective is key!

That's why we asked the landlords in our survey not only what improvements they had made, but also whether they witnessed a change in their property's performance.

Furthermore, for those who hadn't yet made changes, we asked what improvements they were planning to implement in the future, to see what improvements are looking to be the most popular in the coming years.

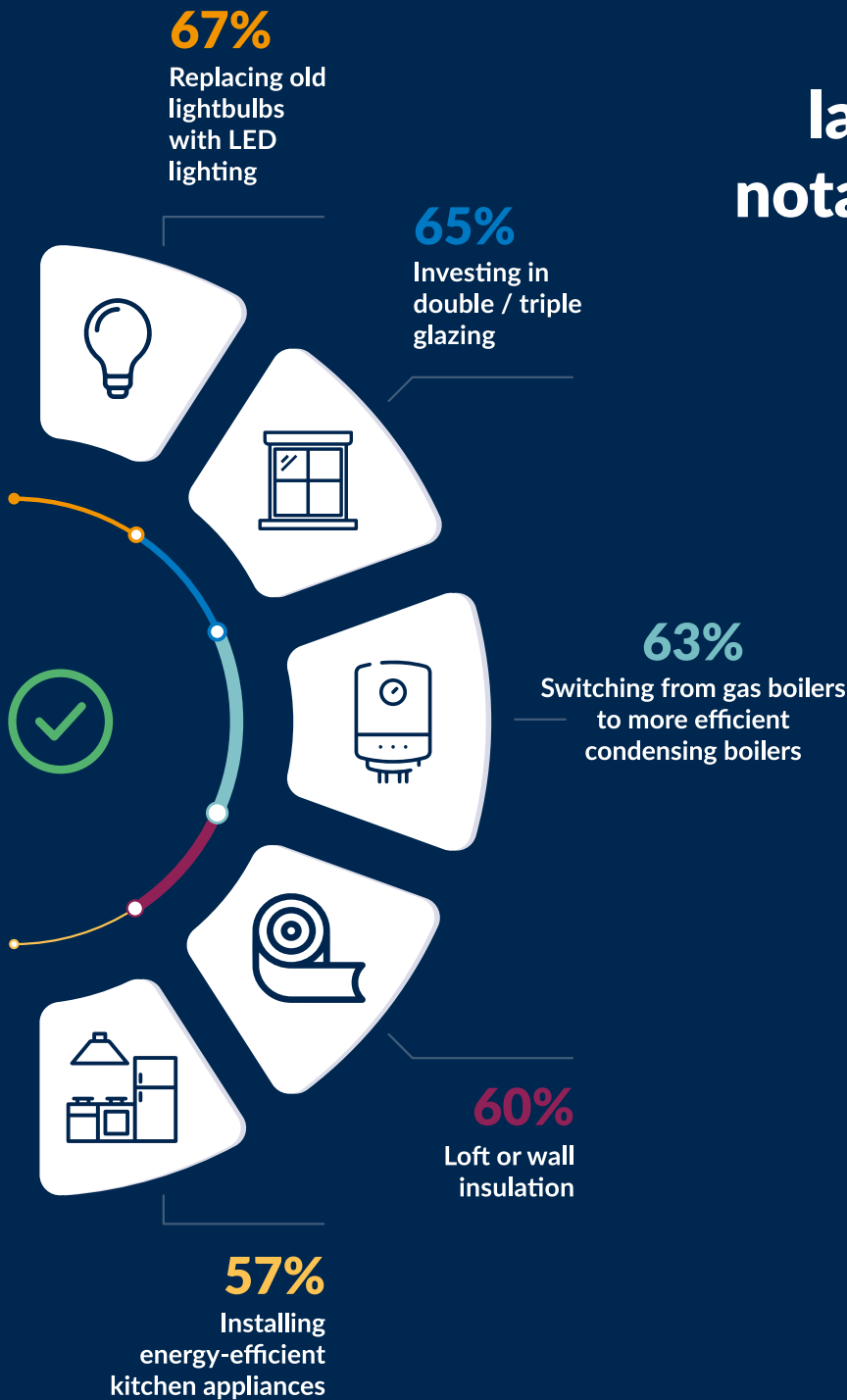
The table below ranks some energy efficient adaptations that landlords have made from most to least common:

Which energy efficiency improvements have proven most popular with landlords?



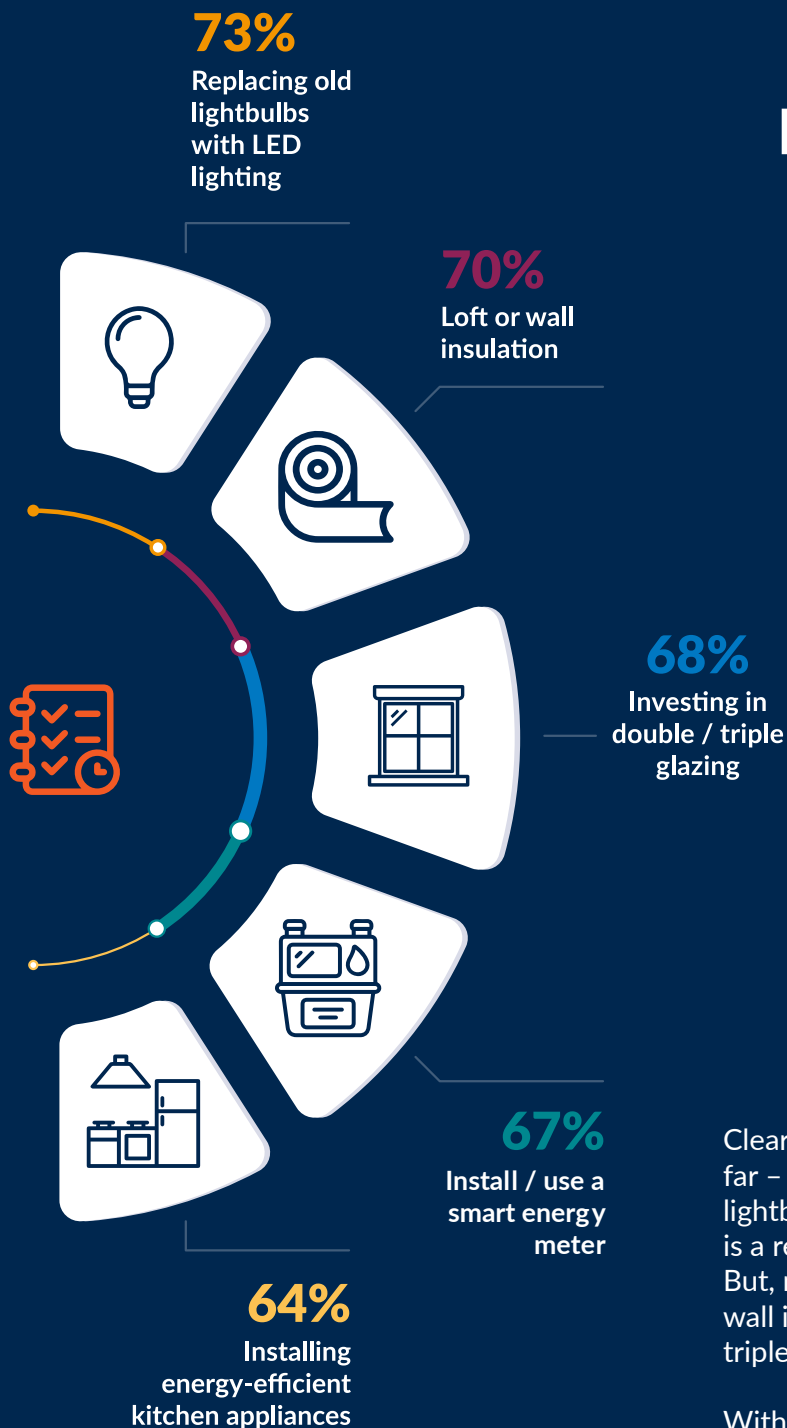
*% of landlords that have implemented the change

Which changes, according to landlords, have notably improved efficiency?



*% of landlords who said the change had notably improved efficiency

What changes will landlords be prioritising in the future?



Clearly, the most popular renovation so far – and for the future – is to replace old lightbulbs with LED lights. Fortunately, this is a relatively cheap adaptation to make. But, more significant changes such as loft or wall insulation, and investing in double or triple glazing, are also in the top four.

With the potential price of energy efficiency improvements coming to tens, if not hundreds of thousands of pounds – when factoring in large BTL portfolios – this begs the question of how landlords are planning to finance EPC renovations.

How can landlords finance any renovations?

As noted, a majority (65%) of landlords told Market Financial Solutions they need more support to help them get their properties up to scratch for the new EPC rules. While some will need support in understanding the changes they could, or should, make to their properties. For many, the support will be in financing said changes.

According to our research, to date just 15% of landlords have spoken to a broker or lender about securing finance to improve their property's energy efficiency. This rises to 25% among those with four or more BTL properties. It is a small minority, but the figures are likely to rise notably as the EPC regulations draw near.

Elsewhere, the survey revealed over half (52%) of all landlords are considering increasing rents to pay for any renovations needed to comply with the new regulations. This number falls to 42% among landlords aged 55 or over.

Therefore, perhaps one could infer that older landlords have more capital with which they can adapt their properties and may be less reliant on additional finance.

For those landlords requiring capital to help them adapt their properties, the specialist finance sector could help.



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How the specialist finance sector can support landlords

There are many ways in which lenders in the specialist finance sector can support landlords as they prepare for the new EPC rules.

As always, flexibility is key. At Market Financial Solutions, we can make a complete assessment of an individual's financial situation, including their assets, to make case-by-case decisions on what loans can be offered to them, and at what terms.

For example, Market Financial Solutions can supply second charge loans for landlords who can afford to borrow more on top of an existing charge. Allowing them to quickly access finance and begin renovations in a timely manner.

Conversely, for those who cannot afford to renovate on top of their mortgage, a bridging loan could be used to free up capital to make any necessary changes. By using an Market Financial Solutions loan to refinance their mortgage, for example, landlords can bridge the gap between the start of a renovation project and the sourcing of a longer-term financial solution.

Ultimately, we understand that increasing the sustainability of a property often reduces the risk on the loan. As we have outlined above, a property typically rises in value when renovated to meet EPC targets. As environmental issues grow in importance, it is likely that the demand for environmentally friendly properties will rise even higher.



Market Financial Solutions can *supply second charge loans for landlords who can afford to borrow more on top of an existing charge*



The view of our CEO

"There are several important, timely insights to come out of this research. For one, landlords are keen on improving the energy efficiency and sustainability of the UK's rental market, regardless of any EPC regulations.

However, there also remains a worrying lack of awareness amongst landlords – particularly those with smaller portfolios – about the incoming changes to EPC rules that must be addressed, and fast.

The new laws come into effect in just 27 months, so more support is clearly needed. This is where lenders like Market Financial Solutions can help. By working with brokers and investors, Market Financial Solutions can provide educational support in the first instance, followed by the necessary capital. We can facilitate greater investment in energy efficient features in the rental market by helping landlords be more aware of all the financing options available to them.

Indeed, in the current climate, many landlords will not have the liquid capital needed to make energy efficiency changes to their properties. So flexible financial options – like bridging loans or BTL mortgages – could prove vital for landlords who are looking to

keep up with a rapidly changing regulatory landscape.

With over 15 years' experience in the specialist finance market, Market Financial Solutions is highly experienced in financing refurbishments. Working closely with landlords, our bespoke bridging loans ensure that deadlines are met, and that any projects can be completed in time for the implementation of the new EPC regulations.

We're already experiencing high demand from portfolio landlords looking for creative financial solutions that will enable them to bring their properties up to scratch. This trend will only accelerate throughout 2023 and 2024.

Despite the challenges at hand, it is positive to note that we are collectively working towards a greener, more sustainable private rental sector. At Market Financial Solutions, we're keen and ready to support landlords on this journey."

- **Paresh Raja, CEO, Market Financial Solutions**

Market Financial Solutions are a bridging loan and buy-to-let mortgage provider, not financial advisors. Therefore, Investors are encouraged to always seek professional investment advice.











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