

REPORT

APRIL 2022

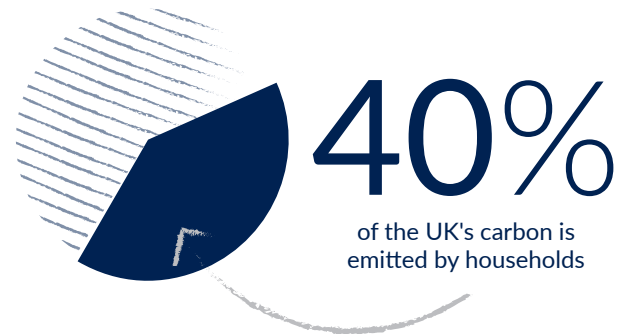
How can the UK Bridging Industry help the property market go green?



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Climate change is a pertinent issue that every industry must respond to. The property sector is no exception – nor, by extension, is the bridging market.

It is estimated **that 40% of the UK's carbon** is emitted by households, reflecting the need for the residential properties to 'go greener'. The question, of course, is how to achieve this.



The construction of new homes is one of the more obvious starting points.

For instance, government directives will force new-builds to generate **80% less carbon by 2025** than current levels, with new building materials, construction methods and architectural designs all enabling the creation of greener homes.



However, addressing the environmental impact of the UK's existing stock equally requires significant attention.

Due to government initiatives, by 2025 new-builds will generate

80% ↓
less carbon

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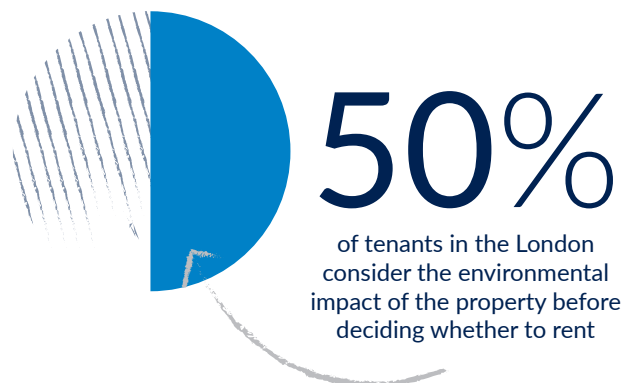
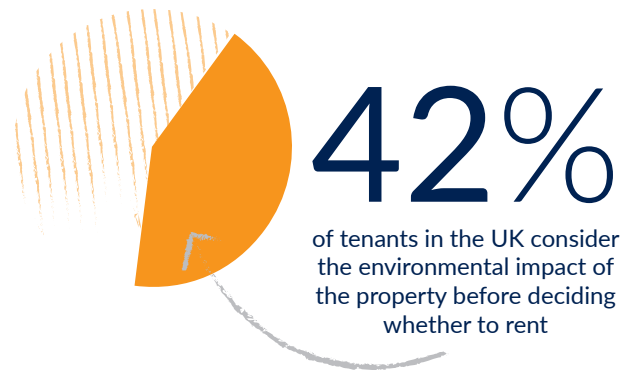
Landlords must take note

Environmental concerns are not limited to the Government or housebuilders. In fact, **42% of tenants** in the UK consider the environmental impact of the property before deciding whether to rent. As this number rises to **50% in London**, due to higher pollution levels and cost of living in the capital, it is fair to suggest that this number will grow in other areas of the country as the UK grapples with surging energy bills and extreme weather conditions.

Landlords and property investors must also take note, and not just for the purpose of attracting prospective tenants. By 2025, rental properties will have to abide by a new minimum Energy Performance Certificate (EPC) rating, which determines **energy efficiency of buildings**.

Indeed, to make the necessary changes, many landlords will have to carry out significant renovation on their properties to meet the new standards. For some, this will be a simple task; for others, there will likely be serious questions about what improvements to make and, importantly, how to finance them.

This report will outline the upcoming regulatory changes, what landlords can do to prepare, and how the bridging loans industry can help landlords navigate the necessary changes to their properties.

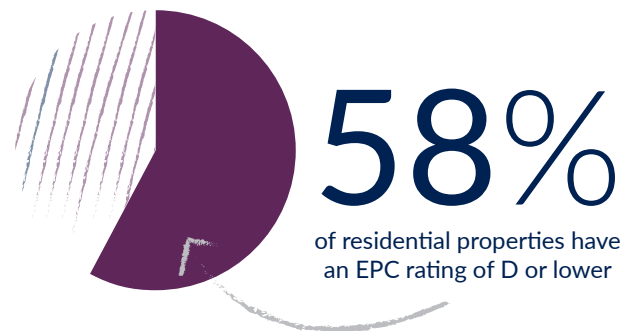


The new regulations

EPC ratings determine how efficient a property is based on an A to G scale, with A being the most efficient. From **April 2025**, the regulations will require new tenancies to have an EPC rating of C or higher when the property is advertised, 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 G, and there are fines of up to £30,000 if a property does not comply.

As around **58% of properties** currently have an EPC rating of D or lower, it is clear that a lot of work needs to be done by landlords to get their properties up to scratch. And despite the increased cost cap of £10,000, landlords could expect to pay thousands of pounds on renovations and refurbishments to reduce the carbon footprint of their properties.



Increasing efficiency

There are two key areas in which landlords can improve the energy efficiency of a property and, at the same time, boost its potential profitability.

1



Electricity Usage

The first is electricity usage, especially when it comes to lighting and boilers. A simple switch from old, inefficient lightbulbs to Energy Star rated LED bulbs can **reduce energy consumption by 75%**, and they last up to 25 times longer. As such, energy bills will likely fall for tenants, while the landlord will have to worry less about the maintenance of light fittings.

The same is true of boilers. New condensing boilers can be as much as 34% more efficient than old boilers and **can reduce fuel bills by 30%**. As well as just generally needing less maintenance, as old boilers are phased out, spare parts and repairs are likely to rocket, making an old boiler a potentially costly asset. Encouragingly, **15% of renters say** they would pay more rent for a new boiler and heating system, reflecting both the demand and profitability of sustainable homes.

2



Insulation

The second area is insulation. Better insulating a property will limit heating needs, which account for up to **40% of a renter's yearly budget**. By simply insulating the walls, landlords can expect to reduce the amount of energy to cool or heat their properties by around 25%. Better insulation of a property's window also allows landlords to charge a higher rent and increases the value of the property. This is reflected by the fact that **18% of renters say** that they would pay more if their windows were more efficient.

The secondary effects of better efficiency and insulation can decrease the maintenance needed on a property. For example, a better insulated home is far less vulnerable to mould. As such, landlords could consider renovating in these areas prior to the regulatory changes, as it can generally improve the profitability of the property.

Five changes to consider:

1. Install energy efficient lighting throughout the property
2. Replace an old boiler
3. Add cavity wall insulation
4. Add loft insulation
5. Install double or triple glazing

Adapting quickly

There is little time to waste; 2025 might appear to be in the distant future, and there are many reasons why landlords might not want to start renovation projects in the current climate, but making the necessary adaptations can be a costly and disruptive task.

There are also some significant incentives for adapting property early. Like previous sustainability initiatives, such as solar panel installation, early adopters of greener practices are more likely to get government assistance with their renovations.

Indeed, the government will make grants of up to **£5,000 available to landlords** who are willing to embrace lower-carbon boilers and heating systems from April 2022.



For landlords looking to sell in the next three years, properties with C ratings or higher are selling for **2.7% more** than less sustainable properties. As such, property investors can achieve a positive return on investment from energy efficiency improvements.

Eco-privilege

However, the **Association of Residential Letting Agents** believe that the new regulations may not be realistic and could price many landlords out of the market. Those who cannot afford to carry out the required changes to their property may choose to sell before the new rules come into effect. As such, a chasm could open between those who can and cannot afford to 'go green', which has been called 'eco-privilege'.

Increased government pressure on lenders to offer favourable mortgage and lending rates for landlords looking to improve the sustainability of their properties is a key driver in this. For example, **Nationwide** only need a 10% deposit on loans of up to £25,000 for a 'green advance', while **Coventry Building Society** are offering a green cashback scheme worth £500 for eco-upgrades until March 2022.

Green Advance Initiative



for
loans up to £25,000



At face value, these could be a great incentive for landlords to make changes to their properties. However, as **The Telegraph** noted in December 2021, “this approach could mean homeowners who cannot afford costly changes instead pay higher mortgage costs. Not all borrowers will be able to take on more debt to increase their home’s energy efficiency.”

Indeed, the situation could be detrimental for new landlords, as those looking to buy less efficient properties will be faced with more stringent mortgage rates that they might not be able to afford. As such, an already difficult affordability crisis could start to get a lot worse.

The bridging sector can respond

There are an array of ways in which the bridging loan industry can limit the extent of ‘eco-privilege’. As always, flexibility is key. At MFS, 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, a landlord who buys an EPC rated property of D or lower, at auction perhaps, could use a bridging loan to pay for sustainability renovations on the property before applying for a mortgage. As a result, they will be able to access the favourable rates of ‘green’ mortgages.

Furthermore, MFS can supply second charge loans for landlords who can afford to borrow more on top of an existing loan, 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 necessary home improvements. By using an MFS loan to refinance their mortgage, 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 increases in value and profitability when renovated to meet sustainability targets, and as environmental issues grow in importance, it is likely that the demand for environmentally friendly rental properties will rise.

On top of this, bridging lenders can take an active role in facilitating greater investment in sustainability by offering advice and ensuring landlords are aware of all the financing options that are available to them. As with most new and emerging trends in the property sector, education is key – providing clear information about what landlords need to do, and how to do it, will be important over the coming years.

With over 15 years of experience in the bridging loan markets, MFS is highly experienced in financing refurbishments. Working closely with landlords, our bespoke bridging loans ensure that deadlines are met, and that projects are completed quickly.



The view of our CEO

Tackling climate change and creating a greener, more sustainable property sector is absolutely imperative, whichever way you approach it. From an ethical and moral standpoint, few would dismiss environmental issues as insignificant; then come the new regulatory changes being introduced and, as highlighted in this report, the prospect for landlords to make their properties more desirable and profitable.

“Whatever a landlord’s motivation, it is crucial that they are supported in their efforts to make houses and flats greener. Access to finance is a key part of that – and here the bridging sector must respond.

“Providing fast, flexible products is going to be very important if landlords from across the market are able to find the best possible means of financing a renovation or refurbishment project. We are alert to this, and ready to assist landlords, regardless how complex their circumstances might be.



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