



United Kingdom - Institutional Framework

When considering an energy efficiency retrofit within your national housing market, a wide plethora of consideration needs to be made. Below, we list key findings to facilitate your analysis of the retrofit investment. More details and backgrounds can be found on the website www.rentalcal.eu.

Parameters for decision taking in the UK:

- Investors are separated according to different types, and accordingly, their motivations differ.
- There exist a number of parameters that influence the decision making process of different actor types regarding investments into the energy performance of existing rental dwellings. These are to be identified in this report. Then, ranges of values are assigned to the parameters to quantify or describe the current situation under which UK landlords operate.
- This will not only contribute to a better understanding of different investor types' approach to making investment decisions in energy efficiency refurbishments, but will also allow for comparative analyses of actor groups' characteristics in different European countries. Eventually, barriers and disincentives which impede investments in rental buildings' energy performance are analysed and promising approaches to mitigate them are juxtaposed.

Types of investors and stakeholders in the UK:

- In the UK, the total number of dwelling units is 27,914,000. The total number of rental dwelling units is 9,686,158.
- Most of the rental dwellings are owned by non-professional private landlords. Of the total number of rental dwelling units, private landlords own 71 per cent, housing companies own 15 per cent, and other investor types own 14 per cent.
- Most of these landlords possess only one or few dwellings each and derive the main share of their income from other sources than rental income, thus they are categorised as non-professional private landlords. On the other hand, there are also private landlords who own much more dwelling units and derive large fractions of their income from rents. Usually, those landlords spend much time on managing their dwelling stock and have huge competences in doing so, thus they can be by no means considered as non-professionals.
- Besides private landlords, the largest shares of the residual UK rental dwelling stock are owned by private or municipal housing companies.

Constellations for decision making in the UK:

- Different investor types have different capacities related to the energy, tax, legal, and accounting framework in which decisions are made. This includes
- A large share of the rental dwellings in the UK are held in small-spatial ownership structures by landlords who don't have professional expertise in most of the aspects of an energy retrofit, the subsequent procedures and the calculation of the overall profitability.
- When it comes to constellations of decision taking, the main investment barrier or disincentive, which keeps owners of rental residential properties in the UK from investments in the energy efficiency of their properties is the split incentive problem. Lease structures are crucial for alignment or misalignment of incentives.
- Turning to other investment barriers, the average homeownership duration in the UK is 10 years, from which the payback periods for retrofit investments are likely to exceed the time of actually owning the property.
- UK energy bills are also not perceived as a significant monthly expense and are relatively affordable compared to other financial obligations, therefore not creating enough of an incentive towards energy saving.
- There is also a lack of good funding in the UK, including loans with high interest rates, the collapse of Green Deal initiative and the inefficiency of the Energy Company Obligation (ECO) funding available to home owners.
- In terms of policy options, the EPC regulation which hinges on the assumption that the real estate market efficiently capitalises home energy performance into the rental and sale prices of properties is the main policy tool used to reduce the split incentive problem issue and to encourage uptake of energy efficiency in the private rental market.