



Department for  
Business, Energy  
& Industrial Strategy

# Evaluation of the Domestic Private Rented Sector Minimum Energy Efficiency Standard Regulations

2019 Interim Report  
BEIS Research Paper Number 2020/045



**OGL**

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# Executive summary

## Introduction

- This is a report of the interim findings from the evaluation of the domestic private sector minimum energy efficiency standard regulations. The evaluation is being conducted for the Department for Business, Energy and Industrial Strategy (BEIS) by ICF, Kantar Public, Ereda Consultants and Professor Peter Kemp.
- The regulations establish a minimum level of energy efficiency for privately rented property in England and Wales. This means that, from April 2018, landlords of privately rented domestic and non-domestic property in England or Wales must ensure that their properties reach at least an Energy Performance Certificate (EPC) rating of E before granting a new tenancy to new or existing tenants. Exemptions are available for reasons related to the costs incurred by landlords, no relevant improvements being feasible, and other barriers that are outside of the landlord's control. From April 2018, landlords are only required to meet the minimum standard for new, renewed and extended tenancies. From April 2020 this has been extended to all tenancies. All research in this report was conducted prior to April 2020.
- This evaluation focuses on the domestic rental sector, with the aims of understanding how landlords and others in the sector are responding to the regulations and providing evidence on the impacts of the regulations on the wider housing market. This interim report focuses on the first of these aims. It is based on evidence from surveys of English and Welsh landlords and qualitative interviews with landlords and letting agents.

## Awareness and understanding of the regulations

- **The majority of landlords are aware of the regulations and around a half or more say they also fully understand the details.** Forty-seven per cent say they are aware and fully understand the details (English Private Landlord Survey, 2018)<sup>1</sup>. The remainder say they are either aware but do not understand the details (19%), or they are not aware of the regulations at all (35%).
- **Awareness and understanding of the regulations appears to have increased amongst landlords since their introduction.** In a repeated panel survey of landlords registered with a landlord association, the proportion of landlords who say they are fully aware and understand the details of the regulations increased from 67 per cent before the regulations came into force to 82 per cent afterwards (Landlord Panel Survey, 2017 to 2018).
- **Awareness and understanding of the regulations is lowest amongst individual landlords (as opposed to company landlords), landlords with small portfolios, and**

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<sup>1</sup> The interim evaluation draws on the results of four surveys recently conducted with private landlords rather than just relying on the results of one survey. The executive summary presenting the findings from the most robust survey relating to each question, including a reference for clarity. The main report presents the results from across the surveys.

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**landlords who do not know the EPC ratings of their properties.** 39 per cent of individual landlords say they are aware and fully understand the details of the regulations compared to 61 per cent of company landlords (English Private Landlord Survey, Q3 2018). Thirty-one per cent of landlords with one property say they are aware and fully understand the details compared to 66 per cent of landlords with five or more properties. In contrast, 14 per cent of landlords who do not know the EPC rating of their properties say they are aware and fully understand the details compared to 47 per cent of landlords who know they have an E, F or G rated property.

- **Awareness and understanding is limited regarding the grounds for exemption from the regulations, and the potential costs and benefits of making energy efficiency improvements.** Most landlords fully understand the types of properties that are in scope of the regulations, the level of energy efficiency improvements required, and that responding to the regulations is their responsibility. Awareness and understanding of what the different grounds for exemption are, how these may apply to their properties, and the cost and benefits to them of making energy efficiency improvements is comparatively lower.
- **National landlord bodies, market actors (such as agents and EPC assessors), and the media are the main sources of landlords' initial awareness and understanding of the regulations.** For English landlords, bodies such as the National Landlords Association and Residential Landlords Association are key sources of initial awareness and understanding. Rent Smart Wales performs a similar role for Welsh landlords.
- **Market actors play an important role in helping landlords understand how the regulations apply to their individual circumstances and the different ways they can respond.** Landlords often seek out more detailed information and advice from their agent, an EPC assessor or surveyor to help understand how the detailed aspects of the regulations apply to them personally and their properties, and how to respond.

## Decision making in response to the regulations

- **Almost all landlords with properties in scope of the regulations say they would make energy efficiency improvements or register an exemption, and less than five per cent say they would not comply.** Eighty-seven per cent of landlords say they would make energy efficiency improvements if they had a property in scope of the regulations (Landlord Panel Survey, Q3 2018). Only one per cent say they would not make energy efficiency improvements and continue letting the property.
- **Landlords are motivated to comply with the regulations for three main reasons: the desire to avoid negative consequences of non-compliance, pre-existing plans to upgrade their property, and a general compliance mindset.** Landlords do not all have an accurate understanding of what the potential punishment for non-compliance is but all expect there is some form of penalty and are highly motivated to avoid this. They are motivated to make energy efficiency improvements if they already have plans to upgrade their property. Some also comply with the regulations, without giving much active thought to the pros and cons of doing so, due to a general compliance mindset.
- **Around a half of landlords think there are non-financial barriers to making energy efficiency improvements to their properties, although these do not currently appear to be leading to non-compliance with the regulations.** Fifty-nine per cent of landlords think there are such non-financial barriers (Landlord Panel Survey, Q3 2017).

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The main barriers cited are associated with the characteristics of their property and potential disruption to tenants. However, there is little evidence that these anticipated barriers are directly leading to actual non-compliance with the regulations.

- **There is currently limited evidence on reasons for non-compliance but what there is suggests cases of possible non-compliance are associated with a lack of awareness, confusion or uncertainty concerning the regulations.** Cases of potential non-compliance identified in the research included landlords who were simply unaware of the regulations, landlords who had possibly been misinformed that their properties were not in scope of the regulations, and landlords who were just uncertain over whether they needed to take any action in response to the regulations or what they were expected to do in order to be considered compliant.
- **Deciding how to comply with the regulations can be a rapid and uncomplicated process for some landlords but more convoluted for others. Establishing the potential costs of energy efficiency improvements is often a cross-roads in their decision making.** Some landlords make an immediate decision to make energy efficiency improvements when they first become aware of them. Others seek out more information to inform their decision, and establishing the potential costs of energy efficiency improvements often informs decisions between making these improvements or seeking an exemption.
- **Landlords who decide to make energy efficiency improvements in response to the regulations describe this as a relatively unproblematic process, while experiences of the exemptions register are mixed.** Landlords had either made energy efficiency improvements while their property was vacant or said their tenants had been accepting of any disruption due to the benefits of improvements to them. Landlords found the exemption register easy to use but some had expected more formal confirmation than they received. These landlords were left feeling uncertain about whether their exemption might still be reviewed, queried or rejected in the future.

## Implications of the regulations for the wider housing market

- **Most landlords anticipate using savings to pay for energy efficiency improvements made in response to the regulations, while around one in five anticipate putting up their rent to meet these costs.** Sixty-four per cent of landlords say they would pay for energy efficiency improvements using their savings (Landlord Panel Survey, Q3 2018). A minority, 21 per cent, say they would put up their rent to meet these costs.
- **Evidence to date suggests the regulations may prompt a minority of landlords to leave the private rented sector, although other recent legislation appears to be exerting a stronger influence in this respect.** Three per cent of landlords said they would not make energy efficiency improvements and either sell or not re-let their property (Landlord Panel Survey, Q3 2018). A further three per cent also said they would make energy efficiency improvements and then sell their property. However, the qualitative interviews with landlords and wider evidence indicates other recent legislation appears to be exerting a stronger influence in plans to leave the sector.

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## Interim conclusions

- **Overall, the interim evaluation finds high levels of awareness of the regulations and indicates high levels of compliance too.** However, awareness is not universally high across all types of private landlord. Smaller, individual landlords, who aren't members of national bodies, don't have benefit of a wide network of contacts in the sector, and those who may not even know the EPC rating of their properties are likely to be the least aware and knowledgeable about the regulations. It is also fairly clear that where awareness and understanding is lacking, the potential for non-compliance is increased. More evidence is needed on other possible factors determining non-compliance and this will be explored further through future waves of the evaluation.
- **Evidence on the impacts and wider implications of the regulations is uncertain and speculative at this stage.** There are indicators that the regulations could influence a minority of landlords to put up their rent or sell their properties, with the potential to negatively affect the availability and affordability of properties in the sector. However, other recent legislative changes affecting private landlords and market trends appear to be stronger determinants of landlord decision-making in these areas.
- Potential implications of the interim evaluation findings for the ongoing implementation of the regulations:
  - There is scope for **further measures to increase landlord awareness and understanding of the regulations**. This should be targeted most at the types of landlords – described above – who are currently the least aware and knowledgeable.
  - **More widespread, and visible, activities by local authorities to enforce the regulations** are likely to have a positive effect on levels of compliance given the early evidence on factors affecting non-compliance. Landlords interviewed for the interim evaluation were not aware of any such activities happening currently.
  - There may be further value in **promoting the financial benefits of energy efficiency improvements to landlords**. Awareness of any such potential benefits appears to be very low, meaning this is not currently functioning as a motivator for compliance with the regulations.
  - The **exemptions register process** could be slightly modified to provide landlords with more definitive confirmation that once they registered their exemption they had fulfilled all their obligations.

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# 1 Introduction

This is a report of the interim findings from the evaluation of the domestic private sector minimum energy efficiency standard regulations. The evaluation is being conducted for the Department for Business, Energy and Industrial Strategy (BEIS) by a consortium of ICF, Kantar Public, Ereda Consultants and Professor Peter Kemp. This chapter provides information on the regulations, the evaluation and the structure of the rest of the report.

## 1.1 The regulations

### 1.1.1 Background

The domestic private rented sector represents a substantial part of the UK's housing market. The English Housing Survey reported that in 2017-18, 19% per cent (4.5 million) of households were renting privately<sup>2</sup>. The Government is committed to a bigger, better, more secure private rented sector, as set out in the affordable housing programme and the package of measures for renters in the February 2017 Housing White Paper<sup>3</sup>. An essential part of this ambition is ensuring that privately rented homes are of good quality, meeting modern standards of comfort and with affordable energy bills for tenants.

Achieving this ambition requires increasing the energy efficiency performance of homes in the sector. Improving a home's energy efficiency helps the occupants keep warm, reduces their energy bills and provides better protection for their health and wellbeing. Those benefits are particularly important to households on lower incomes and in homes which are expensive to heat. Landlords may benefit from reduced long-term property maintenance costs, increased rentability, increased tenant satisfaction, reduced void periods, and increased sale value of the property. Society will also benefit through reduced carbon emissions and improved air quality.

### 1.1.2 Overview of the regulations

The Energy Efficiency (Private Rented Property) (England and Wales) (Amendment) Regulations 2016 establish a minimum level of energy efficiency for privately rented property in England and Wales<sup>4</sup>. These regulations cover both domestic and non-domestic properties. The focus of this evaluation is on domestic properties.

The domestic private rented sector minimum energy efficiency regulations target the most inefficient properties, namely those with an Energy Performance Certificate (EPC) rating of F or G. It has been estimated that at the beginning of 2017 290,000 properties are within scope of the regulations<sup>5</sup>. The regulations came into effect in April 2018. They require private landlords in England and Wales with domestic properties that have an EPC rating of F or G to improve this to a rating of E or better. Under the regulations, from April 2018 landlords are only

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<sup>2</sup> <https://www.gov.uk/government/statistics/english-housing-survey-2017-to-2018-headline-report>

<sup>3</sup> <http://www.gov.uk/government/collections/housing-white-paper>

<sup>4</sup> <https://www.legislation.gov.uk/ukdsi/2015/9780111132432/contents>

<sup>5</sup> <https://www.gov.uk/government/consultations/domestic-private-rented-sector-minimum-level-of-energy-efficiency>



required to take action for new and renewed tenancies. From April 2020 the regulations have been extended to all tenancies.

In order to be compliant with the regulations, landlords must either make energy efficiency improvements to their property or register an exemption from the regulations. Landlords are required to register an exemption and provide supporting evidence online on the PRS Exemptions Register<sup>6</sup>. Up until April 2019 landlords could register an exemption on the following grounds:

- **No cost to landlord exemption** - landlord cannot access third-party finance to meet the costs of making improvements.
- **Further improvement exemption** - it is not possible to further improve the energy efficiency of the property and the property remains sub-standard, that is below EPC E rating.
- **Third-party consent exemption** - improvements require consent from a third party, for example, the local planning authority, a superior landlord, tenant or mortgage lender, and this consent is not granted.
- **Property devaluation exemption** - making improvements would negatively affect the value of the property.
- **Wall insulation exemption** - new wall insulation is required to improve energy efficiency but this would have a negative impact on the fabric or structure of the property (or the building of which it forms a part).
- **Temporary exemption due to recently becoming a landlord** - while the other exemptions last for five years, a temporary exemption of six months can be registered in cases where a person has become a landlord at short notice and it is not reasonable to expect them to comply with the regulations immediately.

The regulations have recently been amended to remove the 'no cost to landlord' grounds for exemption<sup>7</sup>. Since April 2019 landlords are required to **partially or wholly fund the required energy efficiency improvements up to a cap of £3,500 (including VAT) per property** if they cannot access sufficient third party finance to do so. To support this change, a new exemption type was introduced, and is available to landlords in instances where they have made all of the energy efficiency improvements which can be made and their property remains below EPC E. The introduction of the capped landlord contribution requirement was made in recognition of the limited availability of third-party finance through the Energy Company Obligation (ECO) scheme, Green Deal, and other sources. However, the evidence presented in this interim report is based entirely on research conducted with landlords when the 'no cost to landlords' exemption was still in place.

A landlord is judged to be non-compliant if they do not make energy efficiency improvements to their property or register an exemption and continue to rent it out. The regulations only apply to let properties, so if a landlord takes no action but leaves their property unlet or sells it, then they are not non-compliant. It is the landlord's responsibility to ensure they are compliant with

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<sup>6</sup> <https://prsregister.beis.gov.uk/NdsBeisUi/used-service-before>

<sup>7</sup> The Energy Efficiency (Private Rented Property) (England and Wales) (Amendment) Regulations 2019 <http://www.legislation.gov.uk/ukxi/2019/595/contents/made>

the regulations, even if their properties are let and managed by an agent. Non-compliance can result in a fine of up to £5,000 for the landlord. Local authorities in England and Wales are responsible for enforcing compliance with the regulations. Detailed guidance on the regulations is published online<sup>8</sup>.

## 1.2 The evaluation

### 1.2.1 Evaluation aims

The aims of the evaluation, as set out by BEIS in the original invitation to tender, are:

- **Aim 1 - to develop the evidence base to inform policy development.** The evaluation should provide evidence to understand how the regulations are being implemented including landlord and wider stakeholder reactions to them. Evidence should be collected to understand awareness of the regulations among landlords and other stakeholders, the barriers that prevent landlords from taking action to comply, the role of other stakeholders in the process and implications for the housing market.
- **Aim 2 - to provide evidence of the impacts of the regulations.** Evidence is required to support a regulatory review of the regulations in 2021. To satisfy this aim, levels of compliance with the regulations and the impact of the regulations on energy efficiency of the private rental housing market should be assessed. The wider impacts of the regulations on landlords, tenants, and the housing market should also be assessed.

The detailed questions the evaluation is seeking to address are provided in Appendix 1.

### 1.2.2 Evaluation methodology

This report presents evidence from research conducted before the April 2020 extension of the regulations to all tenancies.

The evaluation methodology combines a process evaluation (primarily to address Aim 1 of the evaluation) and an impact evaluation (to address Aim 2 of the evaluation). Table 1 illustrates the main elements of evaluation methodology and when they are being conducted.

The process evaluation methods are being employed from the start to provide evidence to inform policy development. The impact evaluation has only begin in earnest after the regulations were extended to all tenancies in 2020 and data becomes available to enable a robust quantitative assessment of compliance and impacts.

**Table 1: Overview of evaluation methodology**

|                            | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|----------------------------|------|------|------|------|------|------|------|
| <b>Process evaluation:</b> |      |      |      |      |      |      |      |
| English landlord surveys   | X    | X    | X    | X    | X    | X    |      |

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/794253/domestic-prs-minimum-standard-guidance.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/794253/domestic-prs-minimum-standard-guidance.pdf)

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|   | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|------|------|------|------|------|------|------|
| Welsh landlord surveys                    | X    |      | X    |      |      |      |      |
| Landlord and letting agent interviews     | X    | X    | X    | X    | X    |      |      |
| Tenant interviews                         |      |      | X    | X    | X    |      |      |
| <b>Impact evaluation:</b>                 |      |      |      |      |      |      |      |
| Scoping study                             |      |      | X    |      |      |      |      |
| Assessment of compliance                  |      |      |      |      | X    | X    |      |
| Assessment of impact on energy efficiency |      |      |      |      |      | X    |      |
| Assessment of impact on property market   |      |      |      |      |      | X    |      |
| <b>Synthesis and reporting:</b>           |      |      |      |      |      |      |      |
| Interim and final reports                 |      | X    |      | X    | X    |      | X    |

There is a detailed description of the evaluation methodology in Appendix 2.

### 1.2.3 Evidence the interim evaluation is based on

The interim evaluation is based on results from recent English and Welsh landlord surveys, evidence from the first wave of landlord and letting agent interviews and data from the PRS exemptions register.

#### English and Welsh landlord surveys

Findings from each landlord survey are presented in this report. The report narrative indicates where findings have been found to be statistically significant.

Table 2 summarises the main features of the English and Welsh surveys of landlords that have been drawn on in this interim report, with further detail in Appendix 2. The evaluation draws on three English surveys which are conducted independently of the evaluation but include bespoke questions concerning the regulations. The Welsh Landlord Survey is conducted as part of the evaluation, using several of the same questions included in the English surveys, as no existing Welsh Landlord survey was available.

#### Table 2: Overview of English and Welsh landlord surveys

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| Survey  | Country and commissioner  | Fieldwork Timing  | Sample size <sup>9</sup>                       | Source of sample  | Other sample characteristics  |
|---|---|-------------------|--|---|---|
| <b>English Private Landlord Survey (EPLS)</b> <sup>10</sup> | England – Ministry of Housing, Communities and Local Government | Mar-Apr 2018      | 6,212 (all landlords)<br>1,514 (EFG landlords) | Landlords placing deposits with Tenancy Deposit Protection scheme <sup>11</sup> | Mix of individual and company landlords<br>Mostly landlords with 1 or 2-4 properties<br>Sample weighted to be representative of English Landlords |
| <b>Landlord Panel Survey (LPS)</b> <sup>12</sup>            | England – BVA BDRC  | Sep 2017 (Q3)     | 856 (all landlords)<br>179 (EFG landlords)     | Members of the National Landlords Association <sup>13</sup>                     | Mostly individual landlords<br>Mostly landlords with 2-4 or 5+ properties<br>Sample unweighted  |
|   |   | Mar 2018 (Q1)     | 1,043 (all landlords)<br>314 (EFG landlords)   |   |   |
|   |   | Sep 2018 (Q3)     | 690 (all landlords)<br>176 (EFG landlords)     |   |   |
| <b>Small Landlord Panel Survey (SLPS)</b> <sup>14</sup>     | England – BVA BDRC  | Sep 2017 (Q3)     | 249 (all landlords)<br>70 (EFG landlords)      | Dynata consumer research panel accessed by BVA BDRC                             | Mostly individual landlords only<br>Mostly landlords with 1 or 2-4 properties<br>Sample unweighted  |
|   |   | Mar 2018 (Q1)     | 251 (all landlords)<br>96 (EFG landlords)      |   |   |
|   |   | Sep 2018 (Q3)     | 249 (all landlords)<br>84 (EFG landlords)      |   |   |
| <b>Welsh Landlord Survey (WLS)</b>                          | Wales - BEIS  | Nov 2018-Jan 2019 | 1,119 (all landlords)<br>392 (EFG landlords)   | Landlords registered with Rent Smart Wales and unregistered landlords           | Mix of individual and company landlords<br>Mostly landlords with 1 or 2-4 properties  |

<sup>9</sup> Unweighted survey sample sizes are provided for all landlords and specifically for landlords who said they had a property with an EPC rating of E, F or G at the point they were surveyed.

<sup>10</sup> <https://www.gov.uk/government/publications/english-private-landlord-survey-2018-main-report>

<sup>11</sup> It is estimated that 75% of private landlords in England have placed a deposit with a Tenancy Deposit Protection scheme.

<sup>12</sup> <https://www.bva-bdrc.com/products/landlords-panel/>

<sup>13</sup> There are over 40,000 landlords registered with the National Landlords Association.

<sup>14</sup> <https://www.bva-bdrc.com/products/landlords-panel/>

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| Survey | Country and commissioner | Fieldwork Timing | Sample size <sup>9</sup> | Source of sample                          | Other sample characteristics                            |
|--------|--------------------------|------------------|--------------------------|---|---|
|        |                          |                  |                          | recruited from Kantar panel <sup>15</sup> | Sample weighted to be representative of Welsh Landlords |

The main strength of the survey evidence is that it provides quantitative results on the prevalence of different attitudes and behaviours, collected from samples of landlords in both England and Wales. The English Private Landlord Survey and Welsh Landlord Survey in particular have large sample sizes – even when this is restricted to just landlords with an E, F or G rated property. Weightings are applied to the English Private Landlord Survey and Welsh Landlord Survey results to ensure they are representative and less affected by the achieved sample makeup than the other surveys drawn on in this evaluation. The Landlord Panel Survey and Small Landlord Panel Survey have smaller sample sizes and the results are not weighted to correct for any bias in the sample composition<sup>16</sup>.

The use of multiple surveys in this evaluation delivers several benefits:

- The English Private Landlord Survey and Welsh Landlord Survey provide large representative samples of landlords affected by the regulations. This provides robust evidence of awareness and reactions to the regulations.
- The Landlord Panel Survey and Small Landlord Panel Survey are repeated every 6 months, allowing for changes over time to be observed as well as explicitly targeting a range of landlord types.
- The Welsh Landlord Survey, Landlord Panel Survey, and Small Landlord Panel Survey allowed scope for more questions to be included, giving more evidence than was available from the English Private Landlord Survey.

However, caution should be taken when interpreting apparent differences between the results of the different surveys. These variations may well reflect the differing timings and sampling of the surveys as much as or more so than actual differences between, for example, English and Welsh landlords.

Significance testing has been carried out for responses for variables collected in the same survey. It is not appropriate methodologically to test for significance between the responses collected in two different surveys, or different waves of a repeat survey. This is because the sample compositions of these surveys and waves vary, and these variations may therefore account for any differences that are observed. Only differences found to be statistically significant at the 95 per cent level or higher are described as significant in the main body of this report. Pearson’s chi-squared test has been used to test whether differences in the survey responses for two variables (e.g. landlord type and awareness of the PRS regulations) are statistically significant.

<sup>15</sup> It is estimated that 95% of private landlords in Wales are registered with Rent Smart Wales.

<sup>16</sup> Weighting is not applied as the survey is not designed to be representative of the landlord population, the primary aim is provision of market insight for the panel subscribers.

### First wave of landlord and letting agent interviews

Sixty-five interviews were conducted in total (55 with landlords and 10 with letting agents) between November 2018 and March 2019. Table 3 illustrates the characteristics of the sample of landlords interviewed.

**Table 3: Sample of landlords interviewed**

| Characteristic of landlord / property | Target interviews | Achieved interviews |
|---------------------------------------|-------------------|---------------------|
| <b>Response to regulations:</b>       |                   |                     |
| Made energy efficiency improvements   | 20                | 20                  |
| Registered exemption                  | 25                | 25                  |
| Taken no action                       | 20                | 10                  |
| <b>Country:</b>                       |                   |                     |
| England                               | Aim for spread    | 39                  |
| Wales                                 |                   | 16                  |
| <b>Landlord type:</b>                 |                   |                     |
| Company                               | Aim for spread    | 14                  |
| Individual/Couple                     |                   | 41                  |
| <b>Properties:</b>                    |                   |                     |
| 1                                     | Minimum of 8 each | 11                  |
| 2-5                                   |                   | 21                  |
| 6+                                    |                   | 23                  |
| <b>Total</b>                          |                   | <b>55</b>           |

**Table 4: Sample of letting agents interviewed**

| Characteristic of letting agent | Target interviews | Achieved interviews                                |
|---------------------------------|-------------------|--|
| <b>Role:</b>                    |                   |  |
| Fully manage properties         | Min 2             | 10 who both fully and partially managed properties |
| Partially manage properties     | Min 2             |  |
| <b>Total</b>                    |                   | <b>10</b>  |

Landlords and letting agents were recruited to be interviewed primarily through their previous participation in one of the English or Welsh surveys discussed above or from the PRS exemptions register. Further details on the interview recruitment and fieldwork are provided in Appendix 2.

A strength of the interview evidence is that it provides good representation of landlords who had complied with the regulations - either by making energy efficiency improvements (20) or registering an exemption (25). The characteristics of the landlords interviewed are also sufficiently diverse to provide scope for exploring qualitatively how decision-making and experiences compare between different landlord types, landlords with large and small portfolios, and landlords in different areas.

The 10 letting agent interviews provide further insight into their potential role in mediating landlord awareness and decision-making.

The main weakness of the interview evidence is that the target number of interviews with landlords who had taken no action in response to the regulations (20) was not achieved, meaning there is more limited qualitative insight into the reasons and circumstances surrounding non-compliance with the regulations.

Landlords who had either made energy efficiency improvements or taken no action in response to the regulations were also recruited to take part in an interview through their previous participation in surveys which included questions about the regulations. This may have made landlords more conscious and aware of the regulations than they would otherwise have been prior being interviewed. The potential bias introduced by this sampling approach should be considered alongside interpretation of the interview findings, primarily that the disengaged or disinterested landlords are unlikely to have been included.

### **Exemptions register data**

Northgate provide monthly reports for BEIS on the volume and characteristics of the exemptions registered on the PRS exemptions register. Data from the January 2019 monthly report has been drawn on in this interim evaluation.

## **1.3 This report**

Unless otherwise stated, the findings presented in this report are for **landlords who said they had an E, F or G rated property** at the point they were surveyed or interviewed – i.e. landlords most likely to be affected by the regulations. However, some findings for other landlords (those with higher rated properties only and those who don't know the EPC rating of their properties) are included for comparison. Survey results for all landlords are also provided in Appendix 3.

The remainder of the report is structured as follows:

- **Chapter 2** reports findings on landlord awareness and understanding the regulations
- **Chapter 3** reports findings on landlord decision-making in response to the regulations
- **Chapter 4** reports findings on the implications for the wider housing market
- **Chapter 5** provides interim conclusions on the findings of the evaluation

## 2 Awareness and understanding of the regulations

The extent to which landlords are aware of, and understand, the regulations is a potentially important determinant of how they respond to them. This chapter reports findings on:

- Levels of general awareness and understanding of the regulations
- Awareness and understanding of the more detailed aspects of the regulations
- Sources of awareness and understanding of the regulations

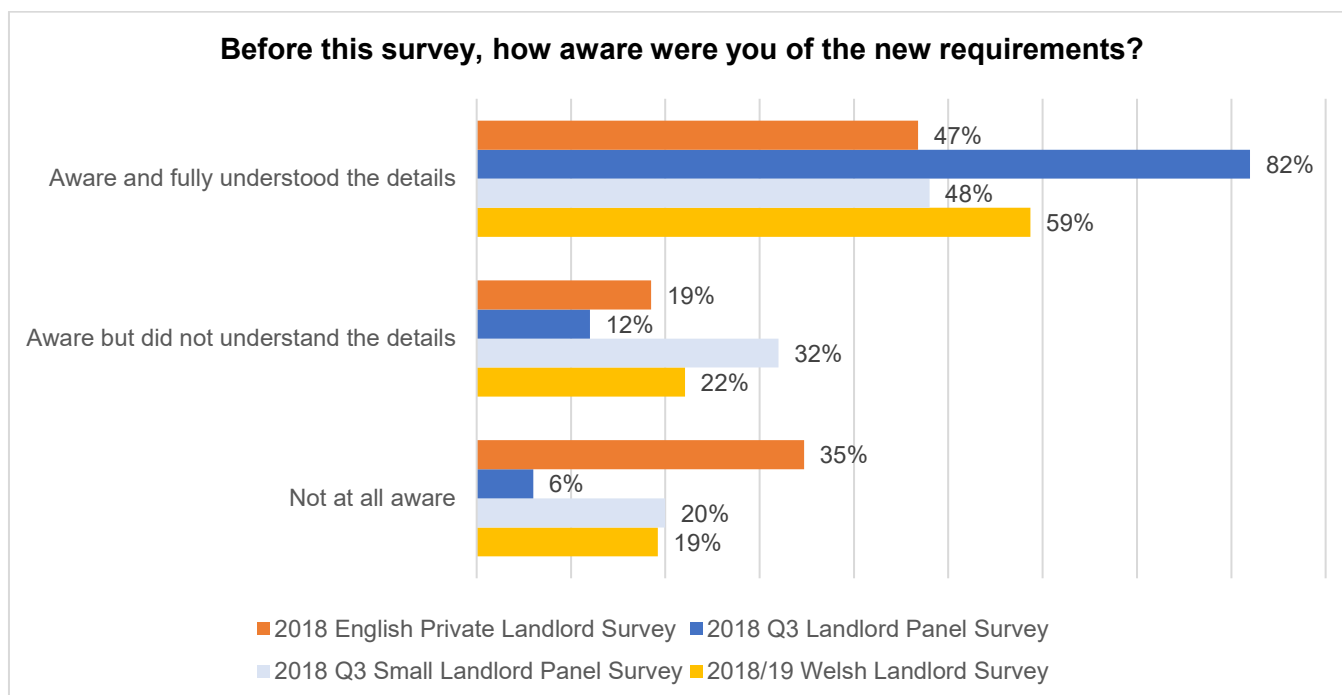
### 2.1 Levels of general awareness and understanding of the regulations

#### 2.1.1 Overall levels of awareness and understanding

**The majority of landlords in England and Wales are aware of the regulations and around a half or more say they also fully understand the details.**

Levels of awareness and understanding of the regulations have been measured through each of the English and Welsh landlord surveys detailed in the Chapter 1. Figure 2.1 presents the results from the surveys for landlords with E, F and G rated properties. For the surveys that have been run more than once in the last 18 months (the Landlord Panel Survey and Small Landlord Panel Survey), only the most recent results are presented here.

**Figure 2.1: Levels of awareness and understanding of regulations (England and Wales)**



Base: 2018 EPLS n=1514; 2018 Q3 LPS n=176; 2018 Q3 SLPS n=84; 2018/19 WLS n=392



Figure 2.1 indicates that between 47 per cent and 82 per cent of landlords (depending on the survey) are aware of the regulations and say they fully understand the details<sup>17</sup>. Between 12 per cent and 32 per cent are aware of the regulations but say they don't understand the details. Between six per cent and 35 per cent said they were not at all aware of the regulations.

The apparent variations in levels of awareness and understanding between the surveys are likely to partly reflect differences in their timing and the characteristics of landlords in their samples. For example, the survey which indicates the lowest levels of awareness (the English Private Landlord Survey) was conducted early in 2018, at the time when the regulations were coming into force. The other surveys were conducted after this date. The survey which indicates the highest level of awareness (the Landlord Panel Survey) also contains a higher proportion of landlords with large portfolios than the other surveys. The effect of these two factors – i.e. time and landlord characteristics – on levels of awareness and understanding is explored further in the following two sub-sections.

### 2.1.2 Levels of awareness and understanding over time

**Awareness and understanding of the regulations appears to have increased amongst landlords since they came into force, although the evidence on this is not clear-cut.**

One means of tracking levels of awareness and understanding over time is by comparing the results from the different quarters in which the two panel surveys (the Landlord Panel Survey and Small Landlord Panel Survey) have been conducted. Despite the same sample frame being used in each wave of these surveys, it should be noted that membership of the sample frames is not restricted for the purposes of these surveys (as it would be for a formal panel survey methodology). It is possible that members join, or leave, the sample frame over time (for example as landlords join or leave the NLA)<sup>18</sup>. In practice these surveys provide a reasonable basis for comparing results over time as they provide repeated insight from a relatively stable population. There are currently no other nationally representative surveys that provide regular insight into these regulations. As the evaluation progresses, it will seek to make use of robust nationally representative data to track changes over time (for example the English Private Landlord Survey). Figure 2.2 presents the results from the Landlord Panel Survey.

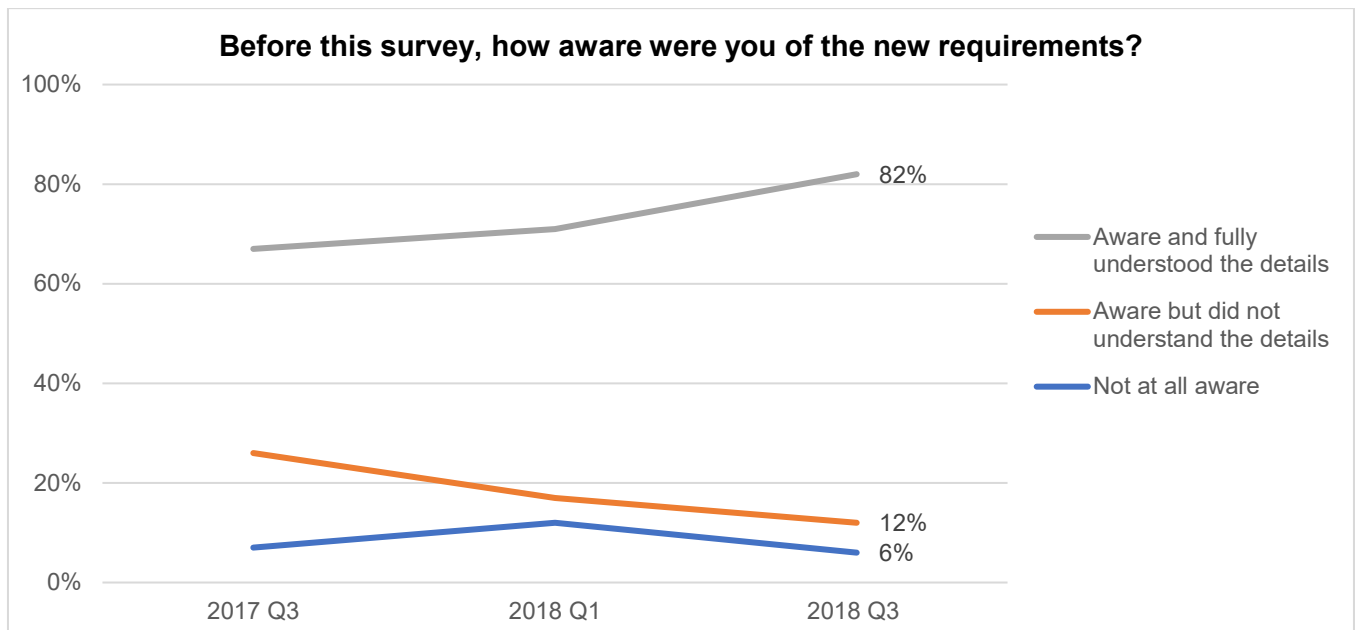
**Figure 2.2: Levels of awareness and understanding of regulations over time – Landlord Panel Survey (England)**

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<sup>17</sup> This represents landlords' own assessment of their awareness and understanding of the regulations. In each of the surveys they were asked "From April 2018, there is a new legal requirement for all properties rented out on new tenancies to have a minimum "E" energy efficiency rating on the Energy Performance Certificate (EPC). Before this survey, how aware, if at all, were you of this new legal requirement?" and given three response options to select from: "I was not aware of this at all", "I was aware of it, but I did not understand the details" and "I was aware of it and fully understood the details".

<sup>18</sup> It is possible that some landlords will have participated in more than one of these quarters of the LPS and SLPS. BDRRC estimate that around 1 in 3 landlords in the LPS take part in consecutive quarters of the survey. In the SLPS, landlords who have taken part in one quarter of the survey are excluded from the next quarter (but could still be invited to take part in a quarter after that one).

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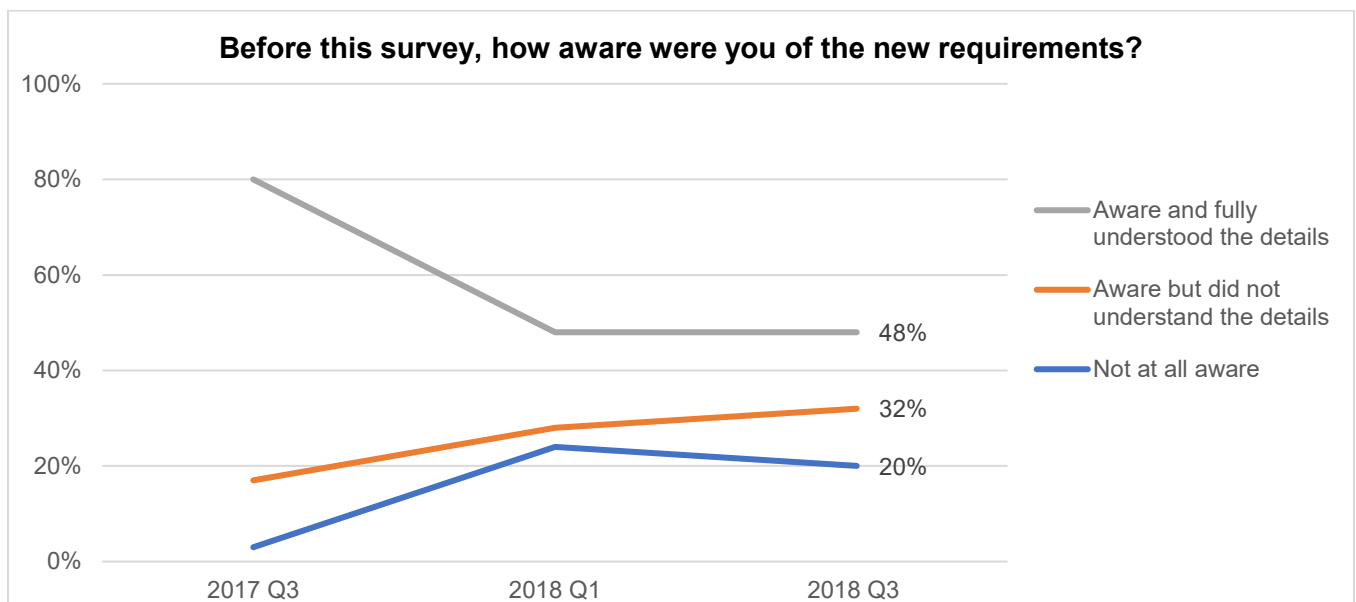


Base: 2017 Q3 LPS n=179; 2018 Q1 LPS n=314; 2018 Q3 LPS n=176

Although overall awareness amongst landlords in the survey was already very high in quarter three of 2017 (at 93 per cent) and has stayed at a similar rate in subsequent quarters, there was a clear increase in the proportion of landlords who were aware and fully understood the details of the regulations. In quarter three of 2017, two-thirds (67 per cent) of landlords in the survey said they were aware and fully understood the details of the regulations. This rose to 71 per cent in quarter one of 2018 (i.e. just before the regulations came into force in April 2018) and to 82 per cent in quarter three of 2018. These results have not been tested for significance as they are drawn from different waves of the survey (See Appendix 2)

However, the results from the Small Landlord Panel Survey do not follow the same pattern. Rather than increasing, levels of awareness and understanding actually appear to have decreased over time.

**Figure 2.3: Levels of awareness and understanding of regulations over time – Small Landlord Panel Survey (England)**



In quarter three of 2017, 80 per cent of landlords in the survey said they were aware and fully understood the details of the regulations. In quarter one of 2018 this had fallen to 48 per cent, and it remained at 48 per cent in quarter three of 2018. The proportion who said they were aware but did not understand the details did increase from 17 per cent in quarter three of 2017 to 28 per cent in quarter one of 2018 and 32 per cent in quarter three of 2018 – but this was not sufficient to prevent a decline in overall awareness, from 97 per cent in quarter three of 2017 to 80 per cent in quarter three of 2018. These results have not been tested for significance as they are drawn from different waves of the survey (See Appendix 2)

This apparent decrease in awareness could reflect something about the composition of the Small Landlord Panel Survey sample itself, which is mainly made up of landlords with small property portfolios, or the survey sample sizes. Levels of awareness and understanding are lower amongst landlords with small portfolios than other landlords. It is possible these results reflect limitations in the Small Landlord Panel Survey methodology rather than a real decline in awareness and understanding. The survey’s sample sizes are relatively small, especially when restricted to just those landlords with E, F or G properties, and no weightings are used to correct for bias in the composition of the sample.

Even taking the survey limitations into account, a decrease in awareness over time - for any landlord type - is difficult to explain and not supported by the qualitative interview evidence. Similarly, the results for the full Small Landlord Panel Survey sample (i.e. not just those with E, F or G rated properties) shows a rise in awareness between Q3 2017 and Q3 2018 (full sample results are provided in Appendix 3).

Future waves of the larger English Private Landlord Survey and Welsh Landlord Survey will provide more robust results on levels of awareness and understanding over time.

### 2.1.3 Levels of awareness and understanding across different types of landlord

**Awareness and understanding of the regulations varies widely between different types of landlords and is lowest amongst individual landlords, landlords with small portfolios, and landlords who do not know the EPC rating of their properties.**

Table 2.1 compares levels of awareness and understanding of the regulations between different types of landlords, based on results from the English Private Landlord Survey. Similar variations by landlord type are also evident in the other English and Welsh landlord surveys, and the full data tables for these are provided in Appendix 3.

**Table 2.1: Levels of awareness and understanding of regulations by landlord type (England)**

| Landlords                                | Not at all aware | Aware but did not understand details | Aware and fully understood details |
|--|------------------|--------------------------------------|------------------------------------|
| <b>Company v individual<sup>19</sup></b> |                  |                                      |                                    |
| Company landlords                        | 19%              | 19%                                  | 61%                                |

<sup>19</sup> Here and elsewhere in the report, landlords are defined as either company or individual landlords based on their own definition of the type of landlord they are when asked in a survey or qualitative interview.

## Evaluation of the Domestic Private Rented Sector Minimum Energy Efficiency Standard Regulations: 2019 Interim Report

| Landlords   | Not at all aware | Aware but did not understand details | Aware and fully understood details |
|---|------------------|--------------------------------------|------------------------------------|
| Individual landlords                              | 44%              | 16%                                  | 39%                                |
| <b>Portfolio size</b>                             |                  |                                      |                                    |
| 1 property  | 54%              | 15%                                  | 31%                                |
| 2-4 properties                                    | 41%              | 18%                                  | 41%                                |
| 5+ properties                                     | 19%              | 15%                                  | 66%                                |
| <b>EPC of properties</b>                          |                  |                                      |                                    |
| Landlords with E/F/G properties                   | 35%              | 19%                                  | 47%                                |
| Landlords with A/B/C/D properties                 | 40%              | 15%                                  | 45%                                |
| Landlords who don't know EPC rating of properties | 68%              | 18%                                  | 14%                                |

Base: Company v individual 2018 EPLS n=357; Portfolio size 2018 EPLS n=356; EPC of properties 2018 EPLS n=1,822

These results illustrate that there are higher levels of awareness and understanding amongst company landlords (compared to individual landlords) and landlords with larger portfolios. These differences are statistically significant.

There are very similar levels of awareness and understanding between landlords with E, F or G rated properties and landlords who only own properties rated A, B, C or D. The awareness and understanding amongst this latter group is still of potential interest because they could come into ownership of F or G rated properties in the future (and may be affected if the minimum energy efficiency standard is raised in the future). Awareness and understanding is substantially lower amongst landlords who do not know the EPC rating of the properties they own compared to those that do, and these differences are statistically significant. These landlords represent 17 per cent of the English Private Landlord Survey sample (and 25 per cent of the Welsh Landlord Survey sample). Some will be landlords of properties that may not require an EPC (such as listed buildings and houses of multiple occupation, though this information was not collected in the surveys) and therefore are not affected by the regulations. Others are likely to be landlords who own properties that are in scope of the regulations<sup>20</sup>.

Another factor potentially mediating awareness and understanding of the regulations is **membership of national landlord bodies**. The Landlord Panel Survey sample is composed entirely of National Landlords Association members and, as reported in Section 2.1.1, levels of awareness and understanding are higher in this survey than in the other English surveys (the English Private Landlord Survey and Small Landlord Panel Survey). In addition, 95 per cent of

<sup>20</sup> Individual landlords and landlords with small portfolios are more likely than company landlords and landlords with larger portfolios to be unaware of the EPC ratings of their properties.

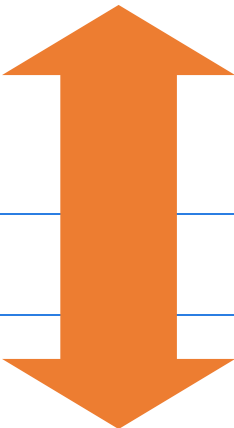
the Welsh Landlord Survey sample are landlords registered with Rent Smart Wales<sup>21</sup>, and awareness and understanding is higher in this survey than in the English Private Landlord Survey and Small Landlord Panel Survey. The National Landlords Association and Rent Smart Wales were also both commonly cited as sources of awareness of the regulations by landlords in England and Wales respectively.

## 2.2 Awareness and understanding of different aspects of the regulations

**Awareness and understanding of some aspects of the regulations is high but more mixed for other aspects - particularly the grounds for exemption from the regulations, and the potential costs and benefits of making energy efficiency improvements.**

The qualitative interviews with landlords provided more scope than the surveys to explore awareness and understanding of different aspects of the regulations. Their responses suggest some aspects are universally recognised and comprehended. For other aspects, awareness is patchy and misunderstandings or misinterpretations quite common. Figure 2.4 illustrates where different aspects of the regulations fall on this sliding scale of awareness and understanding.

**Figure 2.4: Landlord awareness and understanding of different aspects of the regulations**

| Level of awareness and understanding   | Aspect of regulations  |
|--|--|
|  <p>HIGHEST</p> <p>LOWEST</p> | <p>Affects F and G rated properties only</p> <p>Requirement to improve to E or better</p> <p>It is the landlord's responsibility to respond</p> <p>New, renewed and extended tenancies only</p> <p>Non-compliance will be punished</p> <p>Possibility of exemptions from regulations</p> |
|  | <p>What punishment for non-compliance is</p> <p>What different grounds for exemption are</p>   |
|  | <p>How grounds for exemption apply to different landlord and property types</p> <p>What evidence is required for an exemption</p> <p>What owners of listed buildings and HMOs are required to do</p> <p>Financial costs/benefits of making improvements</p>                              |

Source: thematic analysis of qualitative interview evidence

The positives from this are that the key basic features of the regulations (**which properties it applies to, the obligation on landlords to respond, and that non-compliance will have consequences**) were widely recognised and understood by the sample of landlords

<sup>21</sup> Since 2015, all landlords operating in Wales have been legally required to register themselves as a landlord with Rent Smart Wales. As part of this landlords are required to pass a 'fit and proper person' check, undertake approved training, and pay a registration fee.

interviewed. This indicates there is no fundamental shortfall in information available to landlords about these basic features.

Focusing on the areas of lower awareness and understanding, landlords did not all have an accurate understanding of what the **penalty for non-compliance** is (a fine of up to £5,000). Some either expected a fine smaller or larger than this, or talked instead about the possibility of being taken to court and/or barred from renting out their property.

*“Q: Do you know what the consequences of non-compliance could be? A: I think a fine. I don’t know how much it is. About a thousand quid, maybe more.”  
(Company landlord, 2-5 properties, Wales, registered exemption)*

As described in Chapter 1, there are six main grounds on which landlords with F and G rated properties can be exempted from reaching the E standard. The expectation that there were some **grounds for exemption** was high but not universal in the sample in landlords interviewed, and awareness of what the different grounds were was also variable. For example, even landlords who had registered an exemption in response to the regulations generally only knew of two or three of the grounds available.

*“I don’t know if there are any properties that are exempt. The only ones I would have thought that would be exempt is if you had a flat in a large block of, like, 20 or 30.”  
(Individual landlord, 2-5 properties, Wales, no action)*

*“Well, the exemption bit was quite blurry.”  
(Individual landlord, 6-15 properties, England, made improvements)*

Two related areas where understanding was comparatively low - especially when landlords first became aware of the regulations - were **how the grounds for exemption apply to different landlord and property types**, and what evidence is required to register an exemption. They had generally only got to grips with these questions if they had decided to make a concerted effort to identify grounds for exemption, and taken additional steps to seek out more detailed information and advice.

Landlords with **houses in multiple occupation** are not, in most cases, required to have an EPC for these properties, and therefore should not need to either make energy efficiency improvements or register an exemption in response to the regulations. Landlords with **listed buildings** (or a building in a conservation area) will not be required to have an EPC for these properties if compliance with Building Regulation energy performance requirements would unacceptably alter their character or appearance. If an individual property is not legally required to have an EPC, it will not be covered by the minimum standard regulations. Some of the sample of landlords interviewed did have a house in multiple occupation, or a listed building not required to have an EPC, but not all said they had understood this to be the case. Consequently some had sought to register an exemption from the regulations despite not being required to do so.

The landlords interviewed typically had limited awareness of the potential **financial costs and benefits** of making energy efficiency improvements in response to the regulations – especially the potential benefits. Landlords indicated they had used rough rules of thumb or figures provided on their EPC certificate to estimate costs in the first instance, and then sought out more definite costs from a surveyor or EPC assessor only if they progressed on to giving serious consideration to making improvements. Although landlords often said they had seen information on potential savings on energy bills on EPC certificates, these did not typically register with them as a ‘benefit’ because these bills were paid by their tenants. Landlords either

said they didn't know what the impact of energy efficiency improvements would be on the value of their property or expected there would be no notable impact.

*"I don't think it would make a great deal of difference to future value."  
(Company landlord, 2-5 properties, England, registered exemption)*

None said they had sought out information on the potential impact of improvements on the value of their property.

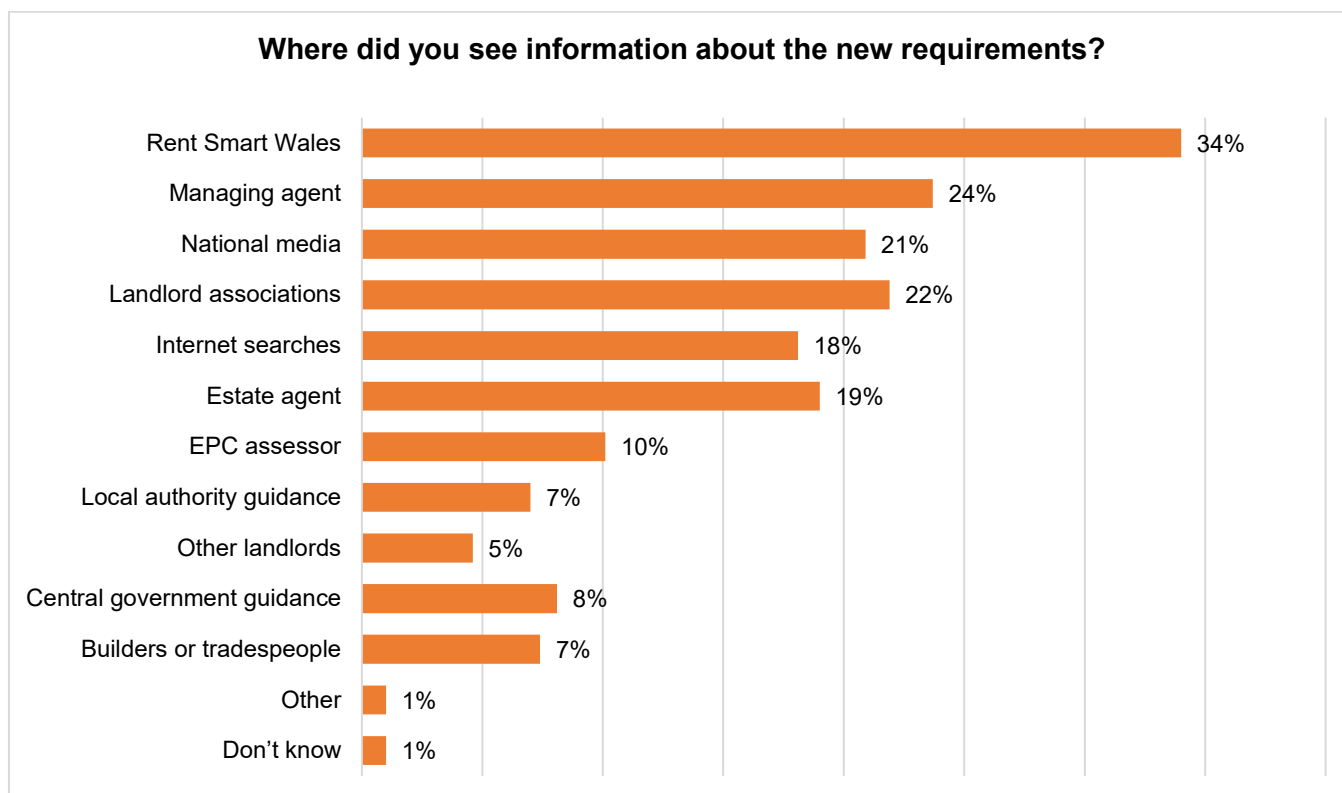
## 2.3 Sources of awareness and understanding

### 2.3.1 Sources of awareness and understanding of the regulations

**National landlord bodies, market actors (such as letting and managing agents and EPC assessors), and the media are the main sources of landlords' initial awareness and understanding of the regulations.**

Sources of landlord awareness and understanding of the regulations was only explored quantitatively through the Welsh Landlord Survey. There are no equivalent English survey results. Figure 2.5 presents the results of the Welsh Landlord Survey on this question.

**Figure 2.5: Sources of awareness and understanding of the regulations (Wales)**



Base: 2018/19 WLS n=392

Multicode question, percentages may not sum to exactly 100

Rent Smart Wales was the most widely cited source of information about the regulations in the Welsh Landlord Survey. Market actors (i.e. agents, EPC assessors, and builders or tradespeople) also represent a widely cited source, while the media and the internet were each cited by around one in five landlords. Central and local government guidance was cited by less

than one in ten landlords. Qualitative interviews with English landlords suggested a very similar pattern in England, although with the National Landlords Association taking the place of Rent Smart Wales as the most widely cited source of awareness and understanding.

There are statistically significant differences in the usage of information sources by landlord type. As Table 2.2 illustrates, a higher proportion of company landlords said they had seen information about the regulations from landlord associations and different market actors than individual landlords.

**Table 2.2: Sources of awareness and understanding by landlord type (Wales)**

| Source of awareness and understanding | Company landlords citing this source | Individual landlords citing this source |
|---------------------------------------|--------------------------------------|---|
| Landlords associations                | 36%                                  | 18%                                     |
| Estate agents                         | 23%                                  | 12%                                     |
| Managing agents                       | 32%                                  | 21%                                     |
| Builders or tradespeople              | 17%                                  | 3%                                      |

Base: 2018/19 WLS n=392

Multicode question, percentages may not sum to exactly 100

These findings are consistent with the higher levels of awareness and understanding of the regulations that company landlords have, when compared to individual landlords. It also lends weight to evidence from the qualitative interviews that company landlords typically have wider networks and more contacts to draw on than individual landlords.

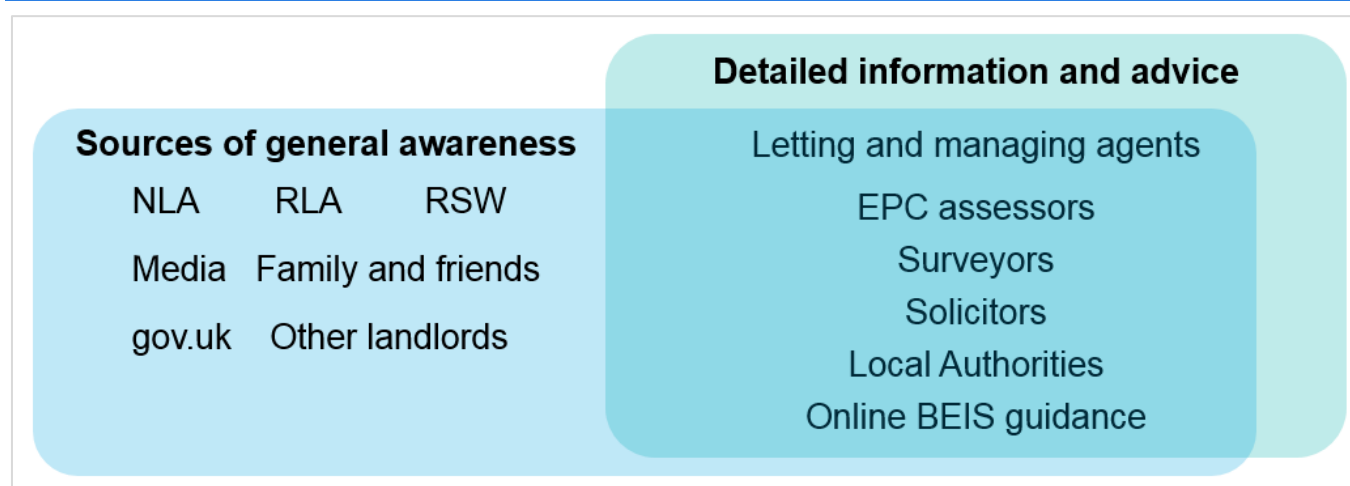
### 2.3.2 The role of different market actors in awareness and understanding

**Landlords can find it difficult to understand how the regulations apply to them personally and often rely on market actors to understand and inform how they respond.**

The qualitative interviews suggest different sources of information performed different roles in informing landlord awareness and understanding of the regulations. Some were primarily or exclusively sources of initial awareness of the regulations and what their broad features were. Others were sources of detailed information and advice about the regulations, and how they applied to the landlord's individual circumstances. This is illustrated in Figure 2.6.

**Figure 2.6: The role of different sources of awareness and understanding**





Source: thematic analysis of qualitative interview evidence

Sources of general awareness such as the **National Landlords Association**, the **Residential Landlords Association** and **Rent Smart Wales** were widely trusted to provide accurate information about the regulations. Landlords had often first become aware of the regulations and their basic features through newsletters, social media and stories on the websites of these organisations.

However, landlords typically said the information they got from these sources of general awareness was not sufficient, on its own, to enable them to confidently determine how the regulations applied to them personally and their individual properties. There was therefore a pattern of landlords accessing more detailed sources of information and advice to inform how they responded to the regulations.

This was very often their **letting or managing agent** (for landlords who had one). In these cases, most landlords said their agent had explained the more detailed aspects of the regulations, including whether or not they needed to respond to them, and what their options were for doing so.

*“Without the management company I probably would never have known about it [the regulations], to be perfectly honest. When they told me they had a look and then said ‘Oh yes, that’s what you need to do’.”*

*(Company landlord, 2-5 properties, England, registered exemption)*

*“We were talking about an expenditure in the tens of thousands. So once it was clear that we were talking about works on this scale, at that point the agent said well I do know that you can register for an exemption.”*

*(Individual landlord, 1 property, Wales, registered exemption)*

The agents who were interviewed indicated that they had been proactive in reaching out to those of their landlords who had F or G rated properties to provide this kind of advice. They said they had encouraged landlords to comply with the regulations but had left it up to them to decide whether they did so through making energy efficiency improvements or registering an exemption. This is consistent with what landlords themselves said about the advice they received from their agents.

**EPC assessors** were another source of detailed advice and information cited by landlords. Some did voice underlying doubts about the consistency of ratings made by EPC assessors,

and the EPC assessment regime more generally. However, this did not appear to take away from the trust that landlords had in EPC assessors to provide accurate advice about how the regulations applied to their properties and how they could respond.

*"The EPC guy explained it to me. And he, you know, he obviously knew what he was talking about."*

*(Individual landlord, 1 property, England, registered exemption)*

**Surveyors** and **solicitors** were cited less frequently but were credited by some landlords with helping them to understand more detailed aspects of the regulations, for example around the different grounds for exemption and how to establish if they and their properties qualified for these.

A small number of landlords also said they had approached their **local authority** for advice about the regulations but said they had generally not been able to provide the kind of detailed advice and information they had been seeking.

*"I've spoken to the council a couple of times but you don't get much out of them."*

*(Individual landlord, 1 property, England, registered exemption)*

Landlords were generally aware that there is detailed **BEIS guidance** about the regulations accessible on gov.uk and some said they had consulted this to learn more about the regulations. However, the guidance was viewed as being quite complicated.

*"I don't think it's readily accessible for people, you know, who haven't got degrees and who are unable to understand the legislation."*

*(Individual landlord, 2-5 properties, England, registered exemption)*

There was a clear preference amongst landlords for being able to speak to someone (i.e. the market actors discussed above) who could effectively interpret and translate what the guidance meant for them personally.

## 3 Decision making in response to the regulations

Reliable quantitative data on the number of landlords making energy efficiency improvements in response to the regulations will only become available in future years of the evaluation. This chapter presents what existing evidence there is on:

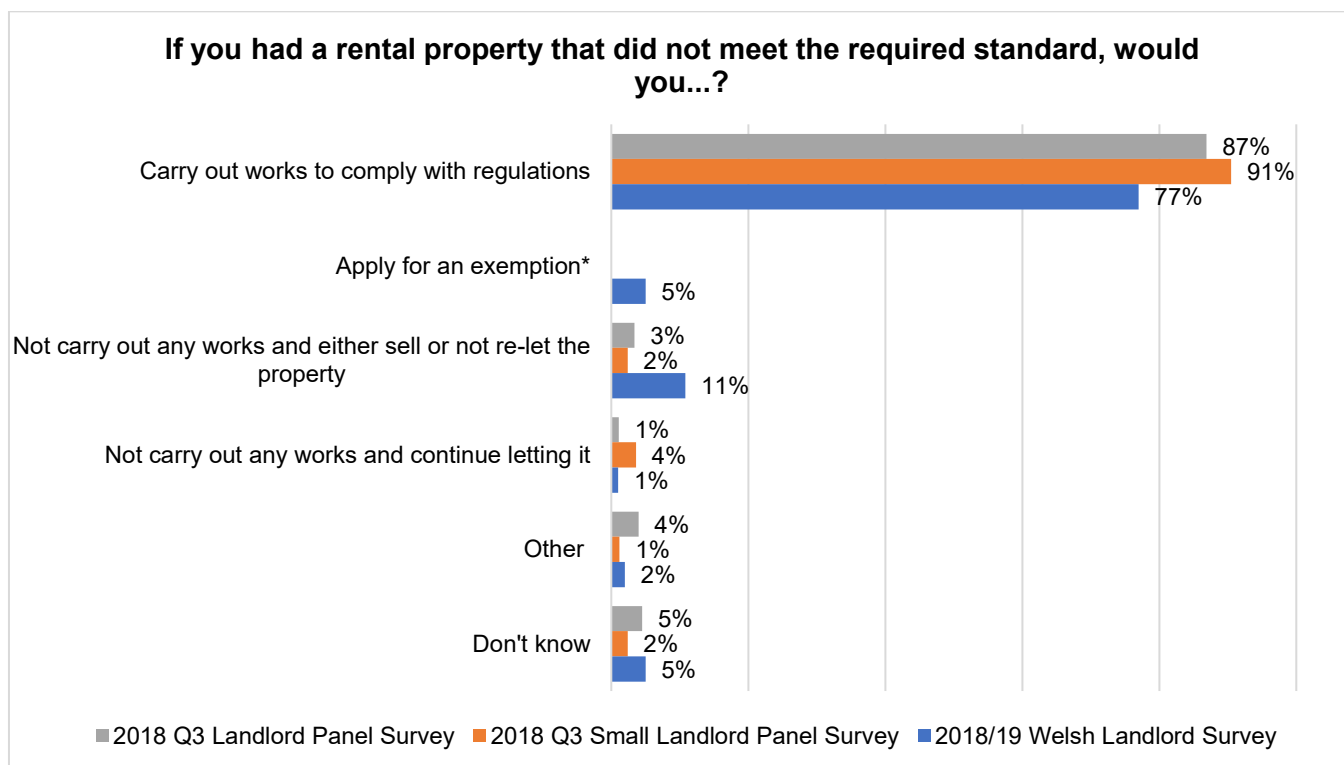
- Early indicators of responses to the regulations
- Factors determining compliance and non-compliance with the regulations
- Processes through which landlords decide how to respond to the regulations
- Landlord experiences after deciding how to respond to the regulations

### 3.1 Early indicators of responses to the regulations

**Most landlords say they would make energy efficiency improvements if they had a property affected by the regulations. Less than five per cent say they would not comply.**

None of the landlord surveys in England and Wales to date have directly asked how landlords have responded to the regulations but three of them have asked how landlords *would* respond if they had an affected property. Figure 3.1 illustrates the responses to this question.

**Figure 3.1: Intended responses to the regulations (England and Wales)**



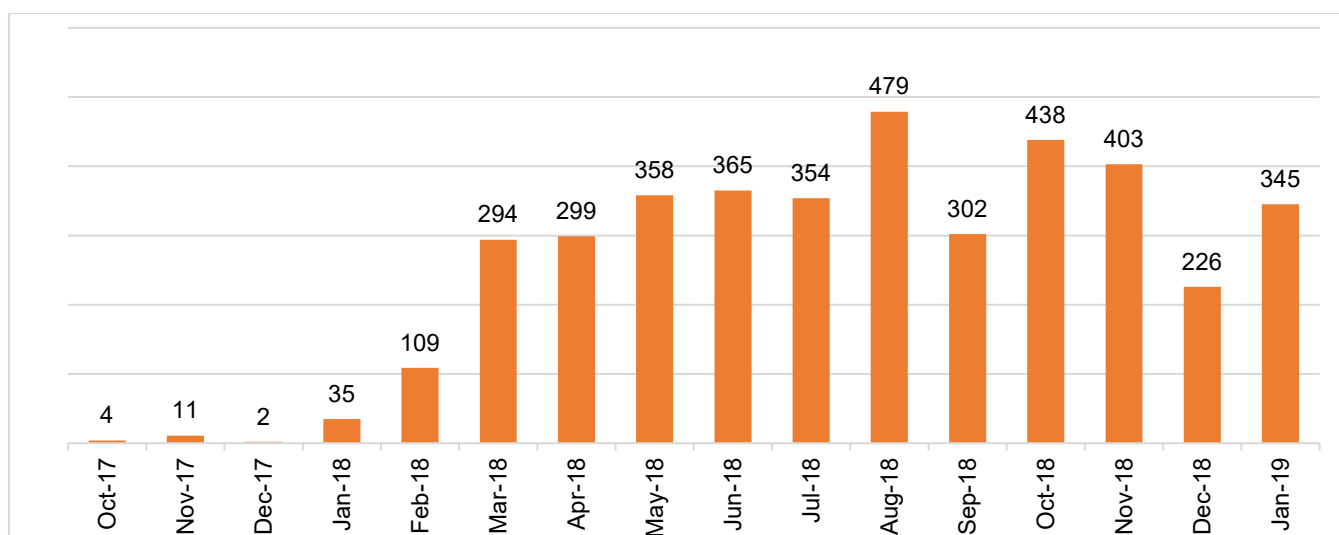
Base: 2018 Q3 LPS n=176; 2018 Q3 SLPS n=84; 2018/19 WLS n=392

\*This was not a response option in the Landlord Panel Survey and Small Landlord Panel Survey questionnaires

In all three surveys, over three-quarters of landlords said they would make energy efficiency improvements to a property affected by the regulations in order to comply. In the Welsh Landlord Survey respondents were also given the response option of ‘Apply for an exemption’, and five per cent selected this. Only between one per cent and four per cent said they would not make improvements and continue to let the property.

Data is also available on the number of exemptions being registered by landlords each month since the exemptions register has been up and running – see Figure 3.2.

**Figure 3.2: Number of exemptions registered by month (England and Wales)**



Source: Northgate, PRS Monthly Report – January 2019

In total, 4,024 exemptions had been registered by the end of January 2019. It is not yet possible to determine what this represents as a proportion of all properties in scope of the regulations. The number of F and G rated properties in the sector prior to when the regulations came into force was approximately 290,000, but only some of these will have had a new, renewed or extended tenancy in this timeframe.

Table 3.1 shows what proportion of exemptions that have been registered under the different grounds for exemption open to landlords in January 2019.

**Table 3.1: Registered exemptions by grounds for exemption**

| Grounds for exemption                                | Exemptions registered |
|--|-----------------------|
| No cost to landlord                                  | 60%                   |
| All relevant improvements have been made             | 24%                   |
| Consent denied or subject to unreasonable conditions | 9%                    |
| Wall insulation would have a negative impact         | 6%                    |
| New landlord under qualifying circumstances          | 1%                    |
| Negative impact on property value                    | 0%                    |

Source: Northgate, PRS Monthly Report – January 2019

The ‘no cost to landlord’ grounds for exemption (which landlords could qualify for up to April 2019 if they were unable to access third party finance to pay for the costs of energy efficiency improvements) accounted for over half of the exemptions registered. Around a quarter of exemptions were on the grounds that all relevant energy efficiency improvements had already been made to the property, while the other grounds for exemption were much less widely used.

## 3.2 Factors determining compliance and non-compliance with the regulations

### 3.2.1 Reasons for compliance with the regulations

**Landlords are complying with the regulations for three main reasons: pre-existing plans to upgrade their property, the desire to avoid negative consequences of non-compliance, and a general compliance mindset.**

Evidence from the qualitative interviews with landlords who had complied with the regulations indicates that compliance is primarily being driven by:

- **The desire to avoid negative consequences of non-compliance.** As discussed in Chapter 2, landlords did not always have an accurate understanding of what the punishment would be if they did not comply with the regulations. However, all expected some form of punishment and were strongly motivated to avoid this. The interviews suggested that their understanding of what form the punishment would take did not greatly affect their attitude. For example, those who thought there would be a fine of below £5,000 were not much less motivated to comply than those who thought it would be over £5,000.

*“I could end up with a penalty of £1,500. So basically it’s a no-brainer then, isn’t it?”*  
(Individual landlord, 2-5 properties, Wales, made improvements)

If anything, the greatest concern landlords voiced was the possibility of being unable to rent their property for an extended period of time, because of the loss of income this would incur.

*“Obviously I didn’t want to be in a position where I couldn’t let properties, it’s my game.”*  
(Individual landlord, 2-5 properties, England, made improvements)

- **Pre-existing plans to upgrade their property.** Landlords frequently said they had been contemplating some kind of upgrade to their properties at the point they became aware of the regulations. They talked about making such upgrades on a fairly regular basis, e.g. every couple of years, to ensure their properties remained attractive to tenants and minimise maintenance and repair costs. The decision to make energy efficiency improvements in compliance with the regulations was therefore a relatively straightforward one, although hearing about the regulations had often triggered them to bring forward a planned upgrade and ensure the required energy efficiency improvements would be achieved by the planned work.

*“The driver was it needed doing at some point anyway. The old boiler was okay but it broke down every now and again, so I would just say it was more of a commercial decision rather than a decision particularly to protect the environment*

*or make an impact to the tenants.”*

*(Individual landlord, 2-5 properties, England, made improvements)*

*“As people leave we renovate things to quite a high standard but we would incorporate it into our renovations.”*

*(Individual landlord, 1 property, Wales, made improvements)*

The only stumbling block was if the costs of the required energy efficiency improvements were much higher than the landlord was willing to spend on upgrading the property.

- **A general compliance mindset.** There were also landlords who indicated they had decided to comply with the regulations without giving much active consideration to pros and cons of doing so.

*“I didn’t have any great feelings about it at all. If it’s something you have to do, I have to do it.”*

*(Individual landlord, 2-5 properties, England, made improvements)*

*“I’m one who just goes out and deals with it and complies.”*

*(Individual landlord, 6-15 properties, England, made improvements)*

These were typically individual landlords rather than company landlords. They were accustomed to other regulations and requirements affecting private landlords and had a general mindset of compliance with these.

Other potential motivations for complying with the regulations were cited much less frequently, if at all, by the landlords interviewed:

- **To benefit the environment or their tenants.** When prompted about whether this was a motivation for making energy efficiency improvements in response to the regulations, some individual landlords said it had been, although this appeared to have been a contributory or secondary consideration rather than a defining factor. Other individual and company landlords indicated it had not been a consideration at all in their decision-making.

*“I would just say it was more of a reactive decision rather than a decision particularly to protect the environment or make an impact on the tenants.”*

*(Individual landlord, 2-5 properties, England, made improvements)*

- **To make a long-term financial return.** None of the landlords in the sample interviewed cited this as a motivation for complying with the regulations. As discussed in Chapter 2, landlords didn’t expect any savings on energy bills to benefit them because these were paid by their tenants.

Landlords had also not sought out or come across any information on the potential impact of energy efficiency improvements on the value of their property. In the absence of such information there was widespread scepticism that there would be any notable increase in property value.

*“Q: Did you think about the potential impact of improvements on the future value of your property? A: No I didn’t because it wouldn’t have made any difference.”*

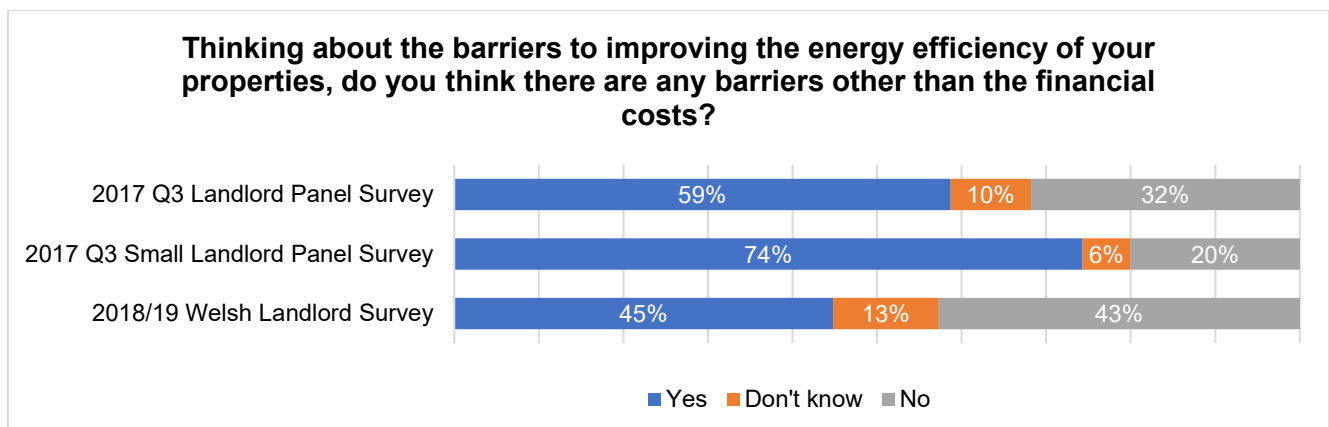
*(Individual landlord, 6-15 properties, England, made improvements)*

### 3.2.2 Perceived barriers to compliance with the regulations

**Around a half of landlords think there are non-financial barriers to making energy efficiency improvements in response to the regulations, although these do not currently appear to be leading to non-compliance.**

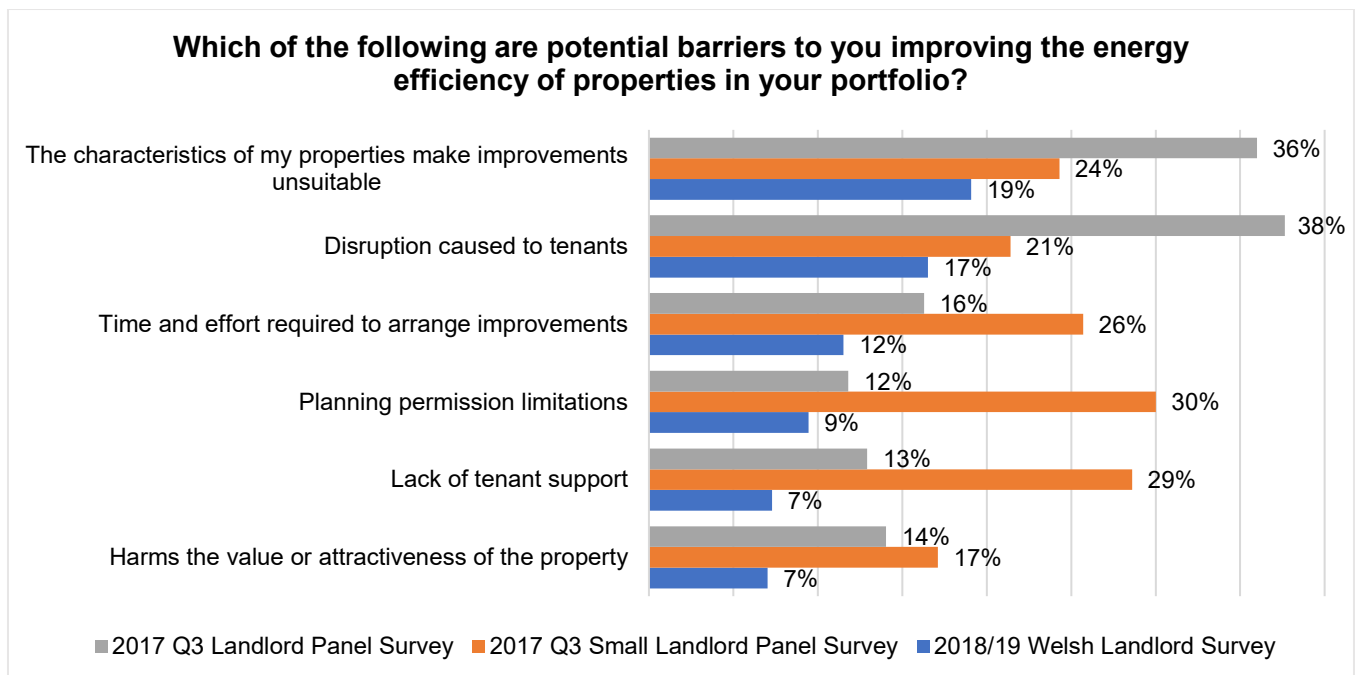
Respondents in three of the landlord surveys were asked about whether they thought there were any non-financial barriers to them making energy efficiency improvements to their properties. The questions were worded in this way on the assumption that the costs of improvements are the main barrier perceived by landlords (and the qualitative interview findings do support this). Figures 3.3 and 3.4 provide the relevant results for the surveys.

**Figure 3.3: Whether landlords perceive non-financial barriers to making energy efficiency improvements (England and Wales)**



Base: 2017 Q3 LPS n=179; 2017 Q3 SLPS n=70; 2018/19 WLS n=392

**Figure 3.4: Perceived non-financial barriers to making energy efficiency improvements (England and Wales)**



Base: 2017 Q3 LPS n=179; 2017 Q3 SLPS n=70; 2018/19 WLS n=392

Multicode question, percentages may not sum to exactly 100

This illustrates that around a half of landlords in the Landlord Panel Survey and Welsh Landlord Survey, and nearly three-quarters in the Small Landlord Panel Survey, thought there were non-financial barriers to making energy efficiency improvements. The most frequently cited barriers in the Landlord Panel Survey and Welsh Landlord Survey were associated with the potential suitability of their properties for improvement and potential disruption to their tenants. The most frequently cited barriers in the Small Landlord Panel Survey were planning permission limitations and lack of support from tenants.

It is important to note that landlords citing these potential barriers were not necessarily indicating they would refuse to comply with the regulations because of them. They still had the option of either making such improvements despite the barriers or potentially registering an exemption instead. For example, an exemption can be granted if consent for making improvements is not given by either the tenant or the local planning authority, or if all relevant improvements have already been made and no further are possible.

### 3.2.3 Reasons for non-compliance with the regulations

**There is currently a lack of evidence on reasons for non-compliance but what there is suggests cases of possible non-compliance are primarily associated with a lack of awareness, confusion or uncertainty concerning the regulations.**

Only a small number of landlords in the qualitative interview sample indicated they had taken no action in response to the regulations, and even in these cases it was sometimes unclear whether their behaviour could accurately be classified as 'non-compliance'. What these cases had in common was some degree of misunderstanding, confusion or uncertainty concerning the regulations themselves, as illustrated in the following examples:

- **Landlord was simply unaware of the regulations.** Exceptionally one landlord in the interview sample had not been aware of the regulations at all, and thought they were going to be interviewed about the restrictions that some lenders impose on mortgages for energy inefficient properties. They had therefore had neither made energy efficiency improvements or registered an exemption.
- **Landlord had been wrongly advised that the regulations did not apply to their properties.** One landlord with several F and G rated properties said they had asked the advice of their EPC assessor and been told they did not need to take any action in response to the regulations. However, this was again an exceptional case. As reported in Chapter 2, EPC assessors and other market actors were widely trusted by landlords to provide accurate information and advice, and appeared to have done so in every case except this one.
- **Landlord had made energy efficiency improvements but did not think it was necessary to get an updated EPC.** This was more common in the sample than the above cases. Landlords said they had made energy efficiency improvements to an F or G rated property some time in the past and thought this would have improved them to an E rating or better. However, they had not got a new EPC to confirm this, despite being aware of the regulations. It is unclear whether such landlords would be deemed compliant or non-compliant if they came to the attention of the relevant local authority.
- **Landlord had a listed building or house in multiple occupation and did not think they were required to take any action in response to the regulations.** As discussed in Chapter 2, landlords with listed buildings or houses in multiple occupation often said they were uncertain whether they needed to respond to the regulations in any way.



*“You don’t need the EPC for the rooms in an HMO house but the house already had an EPC which was, when it was last done, an F. So I didn’t really know what the standing was on that. I’m pretty sure it’ll be alright but I don’t even know whether it needs to be redone because it’s not strictly clear whether it needs one.”*  
(Company landlord, 6-15 properties, England, no action)

Some had sought to register an exemption and others had taken no action, on the assumption they didn’t need to. In most cases this assumption will have been correct – if a listed building or house in multiple occupation is not legally required to have an EPC then the regulations do not apply to them. However, there are circumstances in which a listed building or house in multiple occupation is required to have an EPC and in these cases landlords would be required to respond to the regulations.

The financial cost of making energy efficiency improvements did not emerge from the qualitative interviews as a direct reason for non-compliance. Landlords did talk about the financial costs of improvements in the interviews, and in cases where they judged these to be unreasonably high, were clearly motivated to avoid paying them. However, this had typically prompted them to look into possible grounds for an exemption rather than deciding to take no action at all in response to the regulations. In all these cases, landlords said they had subsequently found a valid basis for an exemption.

*“When I saw the costs I thought ‘this is not going to get done’. Because, you know, it was such a lot of money. I went straight for an exemption.”*  
(Individual landlord, 1 property, Wales, registered exemption)

More unusually, two landlords said they had been unwilling to pay the costs they were quoted for making energy efficiency improvements and had chosen to leave their properties vacant in the short-term with a view to selling them. Both had limited awareness of the possibility of registering an exemption.

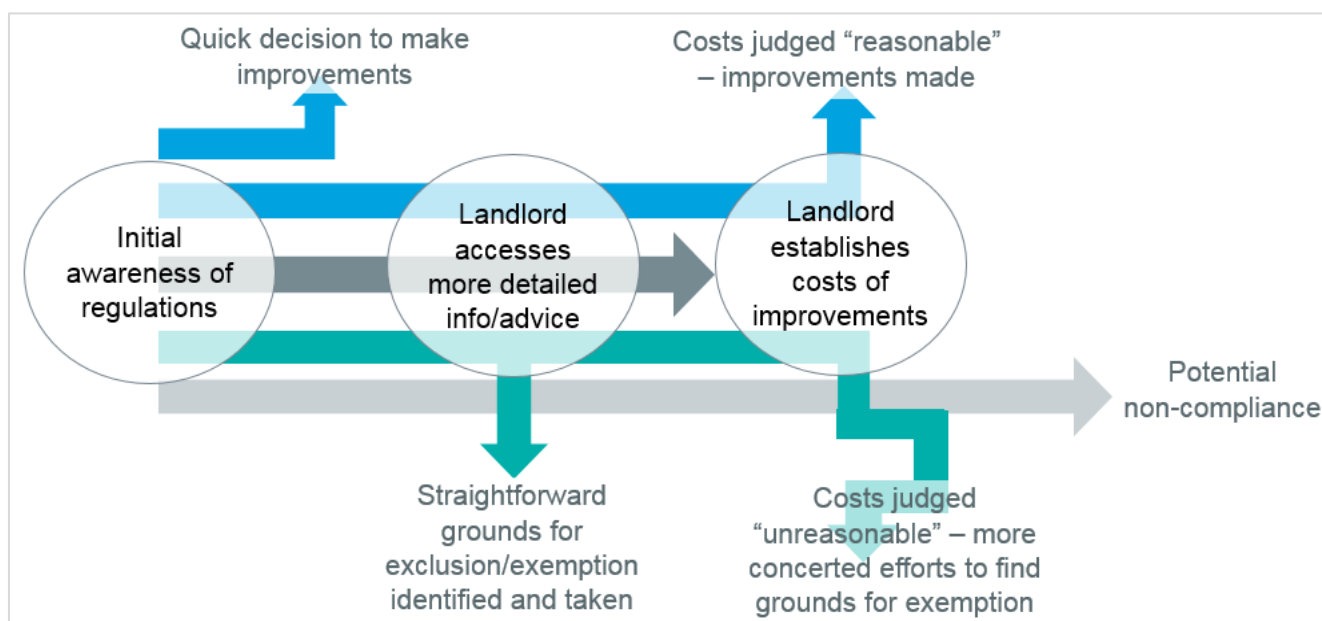
It is worth reiterating that the interviews for this interim report were conducted before the ‘no cost to landlord’ grounds for exemption was replaced with the £3,500 cap on the cost to landlords from April 2019, so these landlords’ belief that they would have been expected to self-fund improvement at that time, reflected an incomplete understanding of the regulatory requirements. Future stages of the evaluation will explore whether this change has had any effect on landlords’ responses to the regulations.

### 3.3 Processes through which landlords decide how to respond to the regulations

**Deciding how to comply with the regulations can be a rapid and uncomplicated process for some landlords but more convoluted for others. Establishing the potential costs of energy efficiency improvements is often a cross-roads in their decision making.**

In the qualitative interviews, landlords were rarely able to reconstruct a detailed timeline for the processes or stages they had gone through in deciding how to respond to the regulations. Nonetheless, it was possible to discern some key decision points and different routes through which landlords had reached their decision. These are summarised in Figure 3.5.

**Figure 3.5: Landlord decision making**



Source: qualitative interviews

Some landlords said they had made an immediate decision to make energy efficiency improvements when they first became aware of the regulations. These were landlords who were already contemplating some form of upgrade to their properties, and who had established that increasing the energy efficiency rating of their property as part of this upgrade would not be a great stretch financially. These landlords had often had gone ahead with making improvements, despite potentially having a valid basis for an exemption (they simply had not looked into this possibility). Referring back to the reasons for compliance discussed in Section 3.2.1, this included some landlords who had a general “compliance mindset”.

The majority of landlords, however, had sought out more detailed information and advice to inform their response to the regulations. Where this brought to their attention an obvious basis for an exemption or factor that excluded their property from the regulations (e.g. listed buildings and houses in multiple occupation not legally required to have an EPC) they had often decided to take these opportunities as an alternative to making energy efficiency improvements.

Other landlords progressed on the point of getting a quote for the potential cost of making energy efficiency improvements. The scale of these costs, and the extent to which landlords judged them reasonable or unreasonable was then the key determining factor in whether they decided to make energy efficiency improvements or make more concerted efforts to establish if they had grounds for exemption.

*“I’m thinking, oh blimey, this could cost me a fortune. But then, after discussing it with people – you know, the management company – he said it shouldn’t cost you a penny because there’ve got to be grants available. They can’t just make you do this.”*

*(Individual landlord, 6-15 properties, England, registered exemption)*

Finally, there were the landlords who had taken no action in response to the regulations (and could therefore potentially be judged non-compliant), due in part to their more limited engagement with information and advice about the regulations.

## 3.4 Landlord experiences after deciding how to respond to the regulations

**Landlords who decide to make energy efficiency improvements in response to the regulations describe this as a relatively unproblematic process, while experiences of registering an exemption are mixed.**

Once the decision to **make energy efficiency improvements** had been reached, landlords described few problems in arranging for the improvements to be made. Either the property was vacant at the point when this happened or - in the case of renewed or extended tenancies - tenants were said to be content to put up with any temporary disruption because of the benefits the improvements would have for them.

*“The tenants seem in general quite happy to put up with any disruption. You know you just explain that it’ll be a lot warmer and that it’ll save money on electric and gas and stuff.”*

*(Company landlord, 6-15 properties, England, made improvements)*

Future waves of the evaluation will include interviews with tenants in order to collect more evidence on their perceptions and experiences of the regulations.

Most landlords who had made improvements indicated they had done enough to achieve the minimum requirement of an EPC rating of E but no more, primarily to limit their financial outlay.

*“I’m not going to be breaking laws but I will do as little as possible to get myself over the line in any situation where that means spending as little as possible.”*

*(Individual landlord, 16+ properties, England, made improvements)*

Equally, there were also a few landlords who said they had improved their property to better than an E rating. This was either because they made the energy efficiency improvements as part of quite an extensive upgrade to their property or because they wanted to ‘future proof’ their property against future increases in minimum energy efficiency standards.

Landlords who decided to **register an exemption** said they found the online exemptions register interface straightforward to use and reasonable in terms of the types of information they were required to provide.

*“The process itself for me was relatively straightforward.”*

*(Individual landlord, 2-5 properties, Wales, registered exemption)*

The one negative comment concerned the information landlords are provided with once they have registered their exemption. Landlords do receive email confirmation that their exemption has been successfully registered but several landlords said they had expected something that went further than this, for example confirmation along the lines of ‘your exemption has been reviewed and approved’. This left some landlords feeling uncertain about whether their exemption might still be reviewed, queried or rejected at some point in the future.

*“Well I don’t know if I was ever formally granted an exemption, I just stuck it on the register.”*

*(Company landlord, 16+ properties, England, registered exemption)*

None of the landlords interviewed said they had come across, or were aware of, any enforcement activities being undertaken by their local authority. Research conducted immediately prior to the regulations coming into force highlighted concerns that local authorities may lack the resources to fully and actively perform their intended enforcement role, and there was some confusion over who within local authorities would lead on this<sup>22</sup>. BEIS has awarded funding in 2019 to a small number of local authorities to implement and evaluate a range of enforcement activities and strategies, with the intention that learning from this will stimulate and inform enforcement activities more widely in other local authorities.

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<sup>22</sup> Association for the Conservation of Energy and CAG Consultants (2018) The Warm Arm of the Law: Tackling fuel poverty in the private rented sector.

## 4 Implications of the regulations for the wider housing market

The regulations have several potential implications for the private rented sector, beyond the energy efficiency of properties. This chapter presents early evidence to date on:

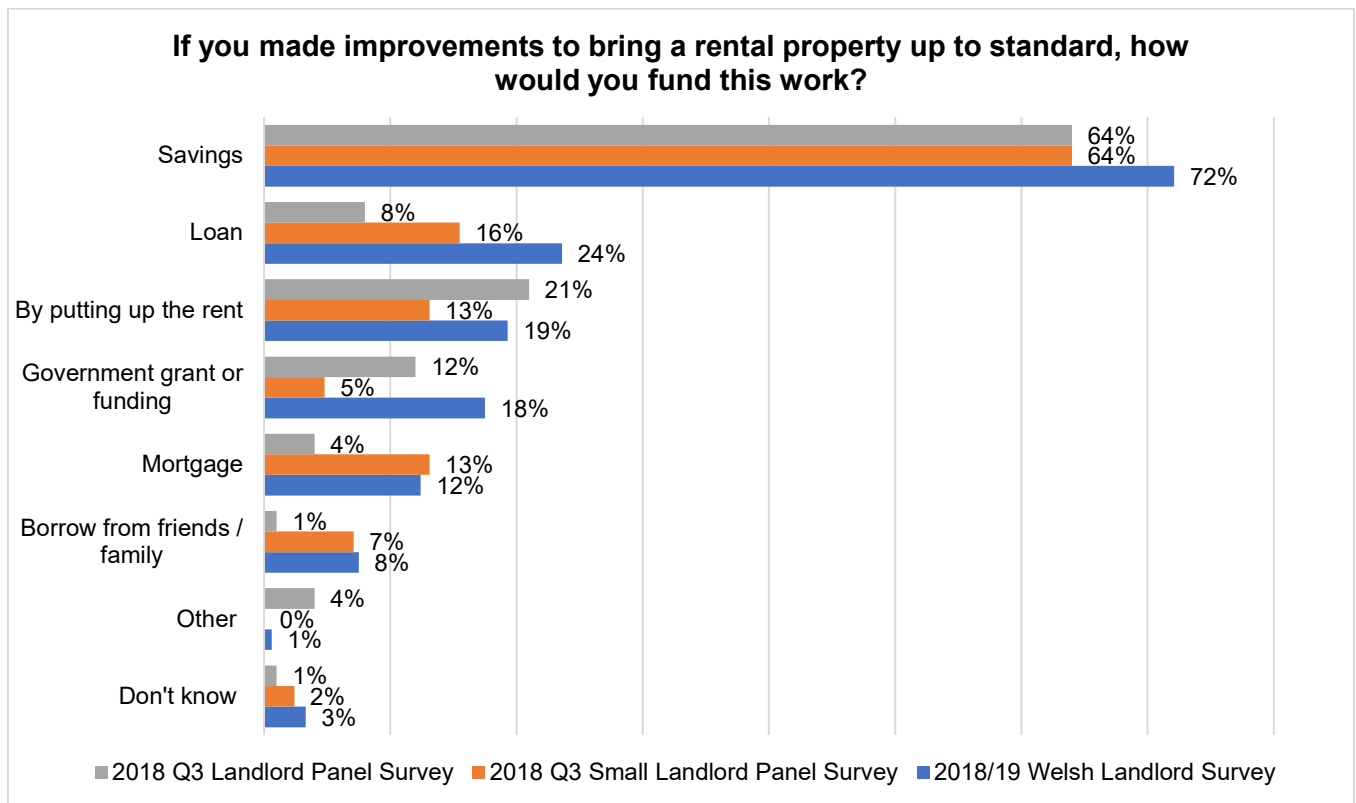
- Implications of the regulations for landlord finances and rent levels in the private rented sector
- Implications of the regulations for the size of the private rented sector

### 4.1 Implications of the regulations for landlord finances and rent levels in the private rented sector

**Most landlords anticipate using savings to pay for energy efficiency improvements made in response to the regulations, while around one in five anticipate putting up their rent to meet these costs.**

In three of the surveys, landlords were asked how they would pay for making energy efficiency improvements in response to the regulations. Figure 4.1 shows their responses.

**Figure 4.1: How landlords anticipate paying for energy efficiency improvements (England and Wales)**



Base: 2018 Q3 LPS n=176; 2018 Q3 SLPS n=84; 2018/19 WLS n=392

Multicode question, percentages may not sum to exactly 100

Using their savings was by far the most frequently anticipated means of paying for energy efficiency improvements in the two English landlord surveys (both 64 per cent) and the Welsh landlord survey (72 per cent).

Other means of meeting these costs were cited by less than 25 per cent of landlords in each survey. However, this still included between 13 and 21 per cent of landlords who anticipated putting up their rent to pay for the improvement - which has potential wider implications for the availability of affordable properties in the private rented sector. This proportion was slightly higher in the Landlord Panel Survey and Welsh Landlord Survey, which contain more landlords with larger portfolios in their samples than the Small Landlord Survey (although the small sample size of the latter means we cannot be sure that this is fully representative of the smaller landlord population). A higher proportion of company landlords (29 per cent) also say they would put up their rent compared to individual landlords (18 per cent) in the Welsh Landlord Survey, and this difference is statistically significant.

The qualitative interviews conducted with landlords who had already made energy efficiency improvements in response to the regulations largely reinforce these survey findings. Most said they had used their savings or what they referred to as their 'rental income' to pay for the improvements.

None of the interviewed landlords said they had increased their rent as a direct response to having to meet these costs. As discussed in Chapter 3, energy efficiency improvements were often made as part of a property upgrade the landlord had already planned (and presumably budgeted to some extent) for. Landlords also indicated that their main priority in the current climate was attracting and holding onto reliable tenants (in order to protect their existing income) and were therefore mindful of the potential risks of increasing their rent. However, a few landlords indicated they had increased their rent or were considering doing this due more generally in response to other recent legislative changes<sup>23</sup> which - in their eyes - had penalised private landlords.

*"They've taken a lot of money off us, both actually and potentially over the last two or three years, and it's going to get worse. I mean, the changes that they've made to the stamp duty are one thing, the changes they've made to the tax system are another."*

*(Individual landlord, 16+ properties, England, no action)*

In this context the minimum energy efficiency standard regulations, and the potential need to pay for energy efficiency improvements these introduced, was seen by landlords as a further financial burden being placed on them.

*"With the stamp duty increases, with the lack of mortgage interest relief that's been phased in, and now the EPC regulations, the government are just making it more difficult to be in this business."*

*(Individual landlord, 16+ properties, England, made improvements)*

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<sup>23</sup> This has included the withdrawal of mortgage interest relief for higher and additional rate tax payers, a 3 per cent surcharge on purchases of an additional property, and the introduction of a ban on upfront letting fees for tenants.

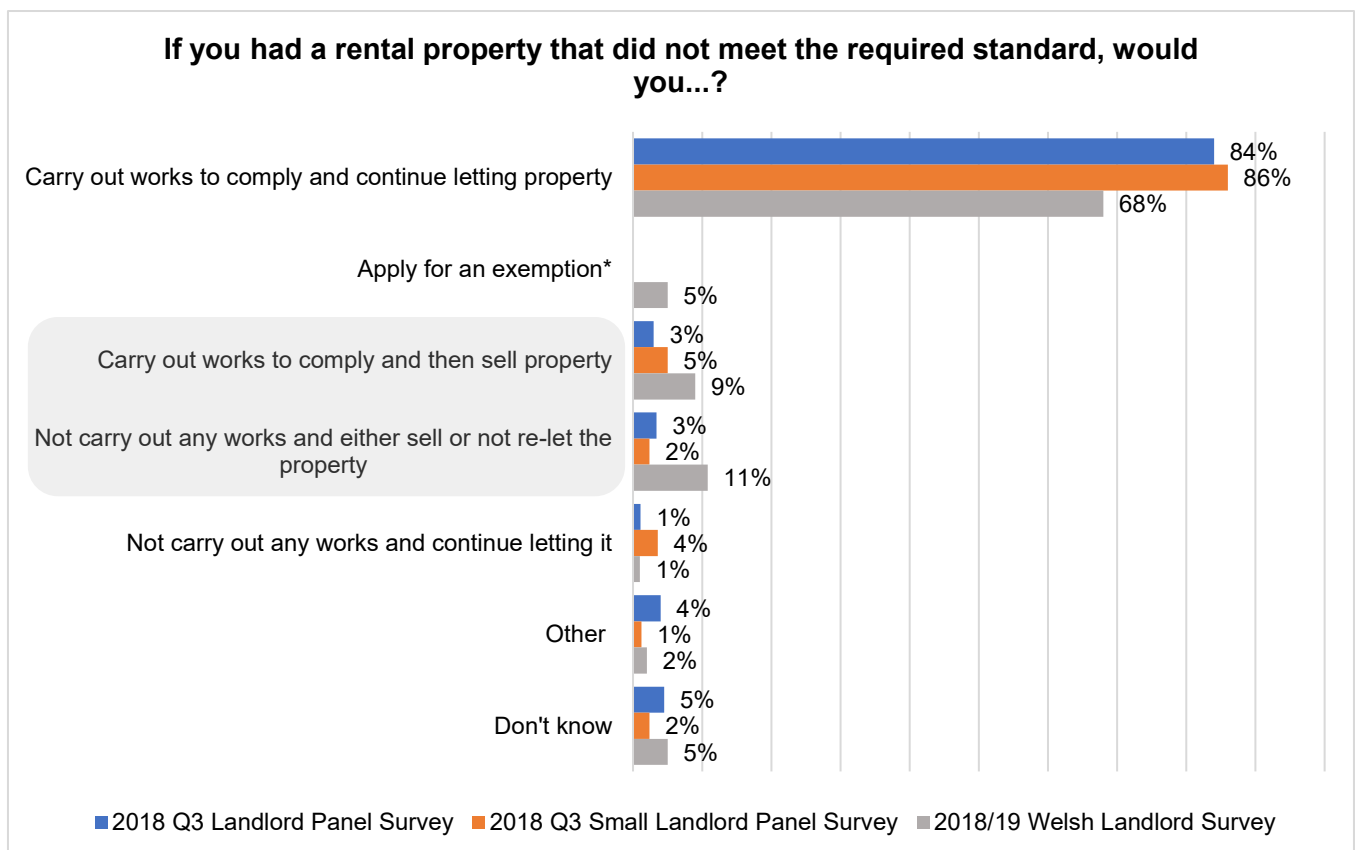
One difference between the English and Welsh landlords interviewed was that more of the latter said they had been able to access government funding to meet the costs of making improvements. This was through the Welsh Government’s NEST Fuel Poverty programme which provides support for energy improvements to low income households. Only one of the English landlords interviewed had accessed equivalent support through the ECO scheme. This does also cohere somewhat with the survey results: 18 per cent of landlords in Welsh Landlord Survey anticipated paying for improvements through a government grant or funding, which is slightly higher than the 12 per cent in the Landlord Panel Survey and five per cent in the Small Landlord Panel Survey (both of which surveyed English landlords).

## 4.2 Implications of the regulations for the size of the private rented sector

**Evidence to date suggests the regulations will prompt a minority of landlords to leave the private rented sector, although other legislative changes affecting private landlords appear to be exerting a stronger influence in this respect.**

Private landlords have the option of selling their F and G properties (or leaving them vacant) as an alternative to making energy efficiency improvements or registering an exemption in response to the regulations. Landlords could also comply with the regulations in the short-term and then seek to sell their property. This has the potential - depending on whether they sell to other landlords or owner-occupiers - to reduce the number of properties in the private rented sector. Figure 4.2 illustrates the proportions of landlords who indicated they would sell their property in these circumstances.

**Figure 4.2: Intended responses to the regulations (England and Wales)**



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Base: 2018 Q3 LPS n=176; 2018 Q3 SLPS n=84; 2018/19 WLS n=392

\*This was not a response option in the Landlord Panel Survey and Small Landlord Panel Survey questionnaires

Between three and 11 per cent of landlords said they would not make energy efficiency improvements and either sell or not re-let their property. Between three and nine per cent also said they would make energy efficiency improvements and then sell their property. In each case, landlords in the Welsh Landlord Survey were more likely to indicate they would sell their property than landlords in the two English landlord surveys.

These results indicate that a minority of landlords in both countries might sell their properties that are in scope of the regulations, either as a direct alternative to compliance or as a more indirect and deferred response. However, to put these results in context, 15 per cent of all landlords in the 2018 English Landlord Panel Survey said they either planned to reduce their portfolio size or sell all their properties over the next two years. This was in response to a survey question that did not make any reference to the minimum energy efficiency standard regulations, although when asked in a follow-up question about why they planned to sell some or all of their portfolio, 61 per cent cited 'legislative changes'.

Findings from the qualitative landlord interviews for this evaluation provide further insight into what may be driving these results. They strongly indicate that it is other recent legislative changes affecting private landlords that are primarily influencing landlords to consider exiting the market.

*"It's becoming more and more difficult to make it financially feasible to rent the properties, and that probably will mean that in the future I think when they decide to leave, the current tenants, I'll probably put it up for sale. It's the taxing."  
(Individual landlord, 2-5 properties, England, registered exemption)*

Equally, for some, the minimum energy efficiency regulations are seen as a further burden that is tipping the balance towards them deciding to exit the market rather than remain in it.

*"There'll come a point when I think I'll sell up and one of the things which will influence me is how many more burdens get lumbered on landlords. They're enough already."  
(Individual landlord, Wales, 2-5 properties, no action)*

It is also worth reiterating that the survey results presented above in Figure 4.2 are for a question that asked landlords, hypothetically, how they would respond if they had a property in scope of the regulations. Future waves of the evaluation will include the analysis of quantitative data on actual property sales and the number of properties in the private rented sector before and after the regulations came into force.



## 5 Conclusions

This chapter provides interim conclusions and discusses potential implications for the ongoing implementation of the minimum energy efficiency standard regulations.

### 5.1 Interim conclusions

The following conclusions are structured around the main evaluation questions set by BEIS. At this interim stage in the evaluation we focus on questions concerning the implementation of the regulations, landlords' responses, and early evidence of impacts.

#### **What proportion of landlords are aware of the regulations and their associated obligations? What factors influence landlord awareness of the regulations and knowledge of their associated obligations and actions they can take?**

Landlord surveys suggest that most landlords in England and Wales are at least aware of the regulations. Longitudinal data from the landlord panel surveys suggests that awareness has increased somewhat since the regulations came into force in April 2018. Survey data also highlights that whilst general awareness of the regulations was widespread, landlords' understanding of their obligations was more mixed.

This was explored in more detail via qualitative research with a sample of landlords. Interviews indicated that these landlords understood their overall responsibilities (i.e. that it was their job to ensure properties were rated at E or above) and knew that there were consequences if they did not comply. Interviewed landlords were somewhat less clear on the details of the regulations, including the costs and benefits of compliance and the precise workings of the exemptions system.

Various factors influenced landlord awareness of the regulations and understanding of obligations. Interaction with market stakeholders was a key factor shaping awareness (see below). There were also notable variations in awareness and understanding of the regulations depending on the characteristics of the landlord. As might be expected, awareness and understanding of obligations was lowest amongst individual landlords, landlords with a single property, and landlords who did not know the EPC rating of their properties.

#### **What role are market stakeholders playing in the implementation of the regulations?**

At this point in time, we only consider the role of market stakeholders in making landlords aware of the regulations and their obligations. Survey and interview evidence suggest that market actors have played an important role to date, and highlight the range of different types of stakeholder involved. Interviewed landlords highlighted the role of national landlord bodies in raising awareness about the regulations (Rent Smart Wales has played a key role in Wales).

Market actors - letting and managing agents, EPC assessors, surveyors - seem to have played a role in raising awareness and also providing landlords with more detailed information about their obligations, and in some cases the likely costs of compliance (whether via the EPC process or through a specific estimate of the costs of work). Agents were interviewed and indicated that they had been proactive in reaching out to their landlords who they were aware would need to make changes to be compliant.

**What proportion of landlords/properties have complied with the regulations? For what reasons/in what circumstance is compliance not taking place? How easy or difficult do landlords find it to respond to the regulations and why?**

Levels of compliance with the regulations will only be known after the regulations apply to all F and G properties from April 2020 onwards. The picture is also complicated by changes in exemptions conditions from April 2019. To date, evidence of the scale of compliance is incomplete, being self-reported and – in the case of survey data – mostly pre-dating the entry into force of the regulations (landlords reported intentions rather than actions). Taken at face value, evidence suggests widespread compliance, though the April 2019 removal of the ‘no cost to landlord’ exemption may have an impact (since this exemption accounted for most exemption cases as at January 2019). Only one to four per cent of landlords (depending on which survey is used) reported that they intended to continue letting a non-compliant property.

Interview evidence suggests that non-compliance is associated with a lack of awareness, confusion or uncertainty concerning the regulations. Landlords highlighted a range of challenges with compliance – the financial cost (although prior to April 2019, work was only required where there would be no cost to the landlord), the suitability of properties for improvements, disruption to tenants – though these seem mostly to have resulted in investigation of grounds for exemptions rather than non-compliance or market exit (see below).

For the most part, compliance with the regulations would appear to be relatively straightforward for landlords (at least to date). No evidence has emerged that landlords are struggling to find installers who will complete the necessary works. Landlords reportedly drew on a range of sources to fund improvements, though savings were most commonly used (perhaps reflecting a lack of awareness of the previous ‘no cost to the landlord’ provision).

Qualitative interviews with landlords highlighted that some routinely look to upgrade their properties to keep them attractive to tenants, and simply fitted compliance with the regulations into these plans. Other landlords reported that they are used to reviewing and responding to regulatory requirements (a ‘compliance mindset’) without giving much active thought to the possibility of not complying.

The exemptions register was reportedly straightforward to use, though since the details of exemptions conditions were one of the less well understood areas of the regulations, it is likely that some landlords did not appreciate that this was an option for them.

**How many landlords are leaving the market, or changing property ownership / management practices as a result of the regulations? How are the policies influencing the market for private rental properties, including property prices and movement of properties between PRS to Owner Occupier Sector?**

Given that the two largest surveys used for evidence of landlord behaviour pre-dated the coming into force of the regulations, it is presently too early to assess the impacts of the regulations on the private rental market. Nevertheless, early evidence from landlords suggests that there is unlikely to be a major impact on the stock of rental properties. A small minority of landlords reported an intention to sell their properties (whether non-compliant or having been made compliant).

Of course, sold properties may remain within the private rental market, and in any case, it does not appear that the volume of sales is out of proportion to general ‘churn’ within the market. Qualitative research did highlight the risk of assessing each piece of regulation affecting the private rental market in isolation, since landlords may decide to exit the market (or put up

rents) due to the cumulative effect of the regulations in combination with other legislative changes and market trends.

## 5.2 Implications for the ongoing implementation of the regulations

Given the dynamic nature of the regulations, it would be unwise to assume that the findings of this first interim evaluation provide a complete understanding of how landlords will respond to them in coming years. Since the research was conducted for the interim evaluation the 'no cost to landlords' grounds for an exemption has been removed, with a spend requirement (capped at £3,500 per property) introduced in its place. From April 2020, the regulations have been extended to all tenancies rather than just new, renewed and extended ones.

Nevertheless, there are findings from the interim evaluation that are likely to remain salient as the implementation of the regulations continues, and which could usefully inform this process:

- There is scope for **further measures to increase landlord awareness and understanding of the regulations**. These should be targeted most at those with the lowest current levels of awareness and understanding, i.e.: individual landlords, landlords with small portfolios, and landlords who do not use an agent and are not affiliated with national landlord bodies. Although more evidence is needed (and will be collected through the future phases of the evaluation) on the reasons for non-compliance, a lack of awareness and understanding was a direct or contributory factor in all of the instances of potential non-compliance identified in the interim evaluation. Suggestions made by landlords for increasing awareness and understanding included additional communication and resources to outline the requirements of the regulations and clarify existing areas of confusion in layman's terms and a helpline to talk through how the regulation applied to them personally.
- **More widespread, and visible, activities by local authorities to enforce the regulations** can only have a positive effect on levels of compliance. As reported in Chapter 3, landlords were motivated to comply with the regulations by a desire to avoid any form of punishment for non-compliance but none of those interviewed had come across any activities by local authorities to enforce the regulations. This does suggest that such activities will be beneficial in reinforcing compliance in general and more specifically in persuading the minority of landlords who may be considering non-compliance to comply.
- There may be further value in **promoting the financial benefits of energy efficiency improvements** to landlords. One potential motivation for making energy efficiency improvements in response to the regulations which does not appear to currently be exerting a tangible influence is the possible return on investment for landlords from making these improvements, principally through increased property value. This is despite published research that, on average, the value a property does increase if its EPC rating is improved<sup>24</sup>.

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<sup>24</sup> See, for example: DECC (2013) An investigation of the effect of EPC ratings on house prices [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/207196/20130613 - Hedonic Pricing study - DECC template 2 .pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/207196/20130613_-_Hedonic_Pricing_study_-_DECC_template_2_.pdf)

- The **exemptions register process** could be slightly modified to provide landlords with more definitive confirmation that once they registered their exemption they had fulfilled all their obligations. This could be as simple as a change in the wording to the email that is already sent to landlords acknowledging that their exemption has been successfully registered on the system.

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