Beyond the bricks:

what does a green housing market really look like?

COVENTRY for intermediaries

All together, better

Published: November 2023

Executive summary

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Environmental awareness has increased significantly over the last decade, as extreme weather patterns, rising temperatures, and a greater number of natural disasters demonstrate the real impact of our warming climate.

As countries including the UK look to find ways to reduce the impact of human activity on the environment, the need for more energy efficient homes has become a growing priority.

According to figures from the ONS[1], UK housing is a major contributor to greenhouse gases, accounting for 26% of total carbon emissions in this country. This is an astonishing figure that has seen both the housing industry and the UK government already put steps in place to reduce carbon emissions and reach a net zero target by 2050.

The mortgage market itself has also started to innovate, introducing green mortgage products designed to incentivise borrowers to improve their EPC ratings. These work by offering landlords and homeowners preferential terms if they choose an energy efficient house or retrofit an existing property with eco-friendly features to reduce carbon emissions.

In order to gain a better understanding of the appetite towards the creation of more energy efficient homes in the UK and the steps that homeowners and landlords plan to take to achieve this, we recently conducted research on the perceptions of sustainability and energy efficiency of UK housing.

Despite the government's decision to postpone the EPC rating proposals, our research, which surveyed 1,000 homeowners and 500 landlords, shows that 91% of homeowners believe sustainability and energy efficiency is important, with 90% of homeowners and 92% of landlords having already made green home improvements.

This report aims to help brokers support their clients navigate the green mortgage market so that they can provide them with the best possible advice, products and deals to suit their homes and their finances.

It also aims to help brokers improve their understanding of the energy efficiency of UK homes and offer valuable insights on where we are now and where we are heading, as well as highlight the motivations and barriers among borrowers towards implementing energy efficient changes.

[1]https://www.ons.gov.uk/economy/environmentalaccounts/articles/climatechangeinsightsuk/august2022

Key stats at a glance:

Landlords have spent a mean average of £9,419 on energy efficiency improvements in the last year

All homeowners aged 18-24 are planning to make energy efficiency improvements in the next year

The most popular green home improvement among landlords was replacing windows with more effective glazing (43%)

Homeowners expect to achieve a mean average of £13,078 return on investment on green home improvements in the next 20 years

Two-fifths (40%) of homeowners said the main reason for making or considering making green home improvements would be to save money on energy bills

The current landscape

As sustainability continues to be a focus for consumers, it's important that brokers get up to speed on the most recent green developments occurring in the market. Including the types of energy efficiency improvement available and which are the most effective at reducing greenhouse emissions.

This will help them to add value to the conversations they have with borrowers around renovation requirements for a first home or further borrowing for home improvements. It will also enable them to identify which of those are worthwhile for their clients and how much money these efficiencies can save both landlords and new homeowners.

For example, our research found that the most popular green home improvements among homeowners were switching to energy efficient lighting (54%), replacing windows with double or triple glazing (46%) and increasing loft or wall insulation (40%).

These options were also the energy efficiency improvements favoured by landlords, by replacing windows with more effective glazing a top choice for 43% of those surveyed.

While knowing the most popular energy efficient changes is crucial for brokers advising their clients on green mortgages, understanding and explaining the financial impact of these changes will also help borrowers prioritise which improvements to make.

For example, according to Energy Saving Trust, installing A-rated double glazing can save 375kg in carbon emissions and £155 a year, while insulating walls could reduce emissions by 650kg and save £265 a year[2]. Even small changes can have an impact – switching to energy efficient lighting can reduce carbon dioxide emissions by up to 50kg a year and save up to £13 per bulb, per year[3]. Borrowers are always looking for ways to reduce spending and bring down energy bills, even more so during the current economic climate, and these savings can really make a difference.

While implementing energy efficient measures certainly has long-term benefits, it is also essential that brokers communicate the short-term costs associated with putting these measures in place.

[2]https://energysavingtrust.org.uk/top-energy-saving-ideas-for-your-home-improvement-project/

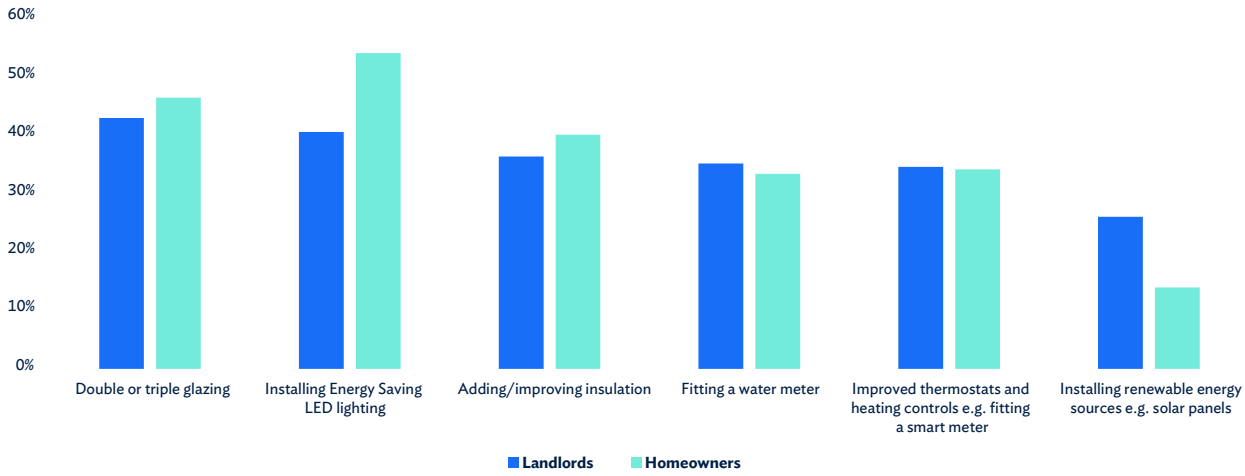
[3]https://energysavingtrust.org.uk/advice/lighting/

Our research found that landlords have spent a mean average of £9,419 on energy efficiency improvements in the last year, while homeowners have generally spent less (£6,967). Homeowners aged 24-35 spent the most (£8,368) on green changes, while those aged 55 and over spent notably less (£5,973).

These are significant costs, but the fact that only 10% of homeowners responding to the survey have not undertaken any green home improvements shows there is growing demand for advice in this area of the mortgage market.

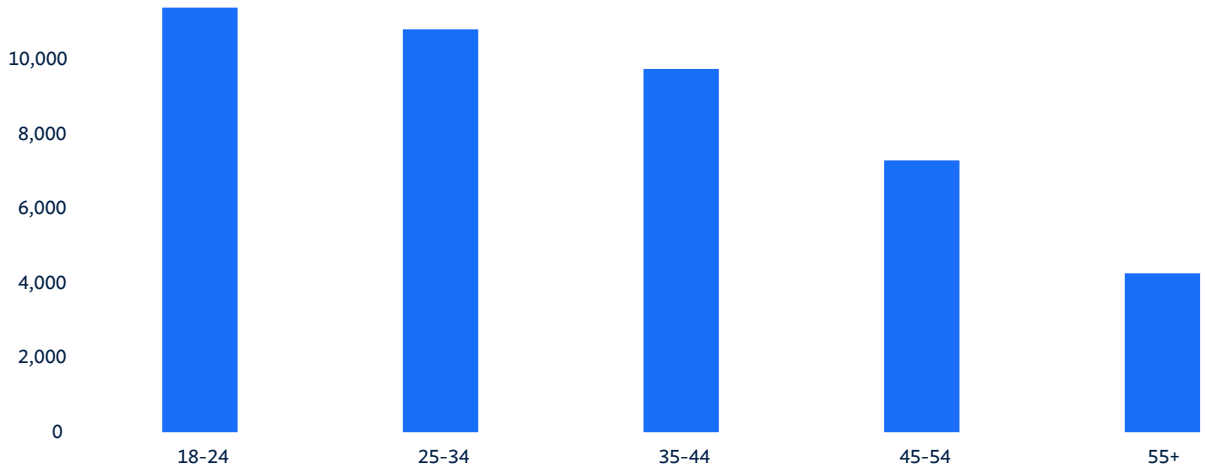
Brokers can ensure they continue to address this demand by using Coventry's Home Energy Efficiency Tool and understanding their client's budget to establish which sustainability improvements will benefit their home the most.

Most popular green home improvements for landlords and homeowners

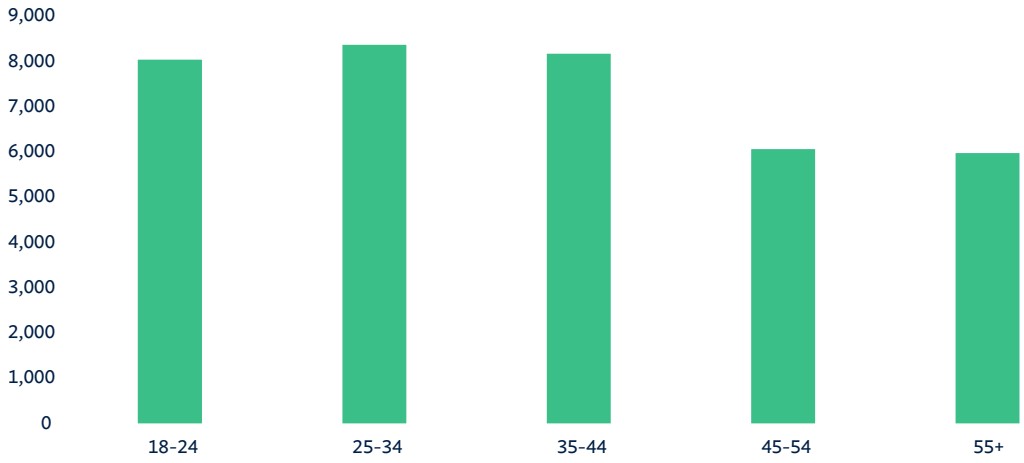


Landlords have spent a mean average of £9,419 on energy efficiency improvements in the last year

Average spent on green home improvements by landlords in the last year (£) by age



Average spent on green home improvements by homeowners in the last 5 years (£) by age



Where we are heading

With demand for greater energy efficiency in UK homes likely to become even more of a key priority in the next few years, brokers have an opportunity to tap into this growing area of the market and help borrowers create an energy efficiency plan for their homes.

Demand for advice on the most effective green home improvements and the costs associated with implementing these looks set to continue over the next year, with our research showing that 17% of homeowners are planning to add a renewable energy source such as solar panels to their home in the next 12 months.

Replacing doors or windows with double or triple glazing, or installing draught proofed external doors is on the agenda for 13% of those we surveyed, with only 15% of homeowners saying they wouldn't make any green home improvements in the next year. Interestingly, zero homeowners aged 18-24 said they wouldn't make any energy efficiency improvements in the next year.

In total, 92% of landlords said they have already taken steps to improve the energy efficiency of their rental properties, demonstrating a clear commitment among landlords to creating more desirable and energy efficient homes for tenants.

92% of landlords said they have already taken steps to improve their energy efficiency

Return on investment

While the environmental benefits of implementing green home improvements cannot be overstated, homeowners and landlords will undoubtedly be interested in the financial benefits and cost savings that can be made by putting these energy efficient measures in place.

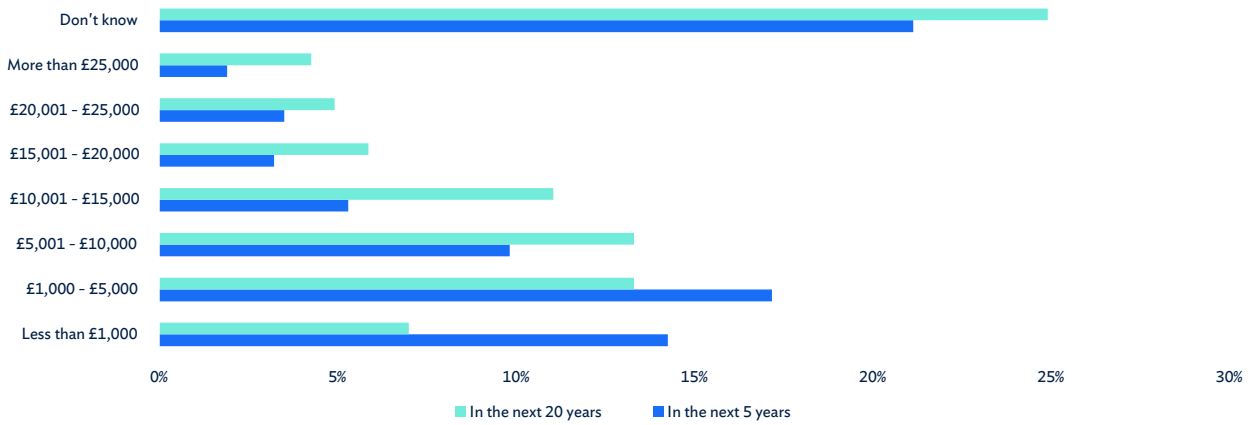
However, in the current economic climate, the financial strain caused by the ongoing cost of living crisis and higher energy bills mean the long-term return on investment (ROI) may not be top of mind. Instead, the immediate cost of any improvements is likely to remain a major barrier to many people undertaking energy efficiency improvements to their home.

Despite this, many homeowners and landlords are already aware of the benefits of making energy efficient improvements. More than two-thirds (67%) of homeowners already agree such improvements would increase the value of their property , Landlords also agree, with 33% listing adding value to their properties as one of the top three reasons for making or considering making green home improvements.

Overall, homeowners said they expected to achieve a mean average of £13,078 ROI on green home improvements in the next 20 years, while 34% of landlords believe they will see an average ROI of £11,327 on the green changes they have already made in the next three to four years.

The fact that landlords anticipate seeing a greater ROI sooner is perhaps due to the fact that they expect to attract tenants willing to pay more by offering a property with greener features that could help renters save money on bills during their tenancy.

Expected ROI in the next five and next 20 years amongst homeowners



However, there is still clearly a chunk of both homeowners and landlords who need more support to understand the benefits and potential ROI that energy efficiency improvements can bring. Brokers will need to reinforce the positive impact any updates can have on the saleability or rentability of a property, and help these individuals to see the longer term financial benefits.

Motivations and barriers

The ongoing cost of living pressures coupled with high inflation has forced many homeowners and landlords to rethink their priorities and financial outputs. The green agenda and energy efficiency improvements may have been pushed down the priority list for some individuals.

Understanding the motivations and barriers to making these improvements and the financial solutions that are available to address these issues, will help brokers tailor their advice to the individual needs and circumstances of each of their clients.

For example, the research found that homeowners are now spending an average of £137 more on energy bills per month this year , with 60% reporting an increase in their average monthly energy bills over the last 12 months. It is therefore unsurprising that 40% of homeowners said the main reason for making or considering making green home improvements would be to save money on energy bills in the long-term. This presents brokers with a real opportunity to highlight the cost savings of green home improvements on energy bills to their clients, as well as the longer-term ROI.

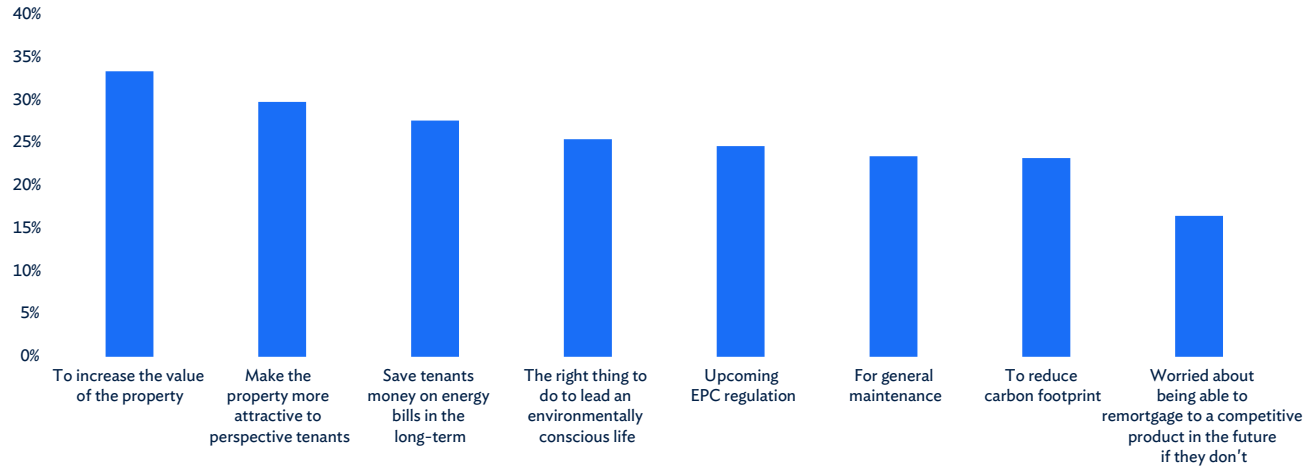
For instance, installing an air source heat pump could save **£295 on energy bills per year** for those with an old gas boiler, while insulating cavity walls could save around **£265 per year on energy bills.**

This is an attractive proposition to homeowners looking to reduce their energy costs, but also landlords who want to increase the value of their properties and attract new tenants. Those in the Buy to Let sector are becoming increasingly aware of the importance current or prospective tenants place on EPC ratings, with 30% believing that making a property more attractive to prospective tenants is a key reason for making green home improvements – more than the 28% who said saving tenants money on energy bills in the long-term was a key driver for change.

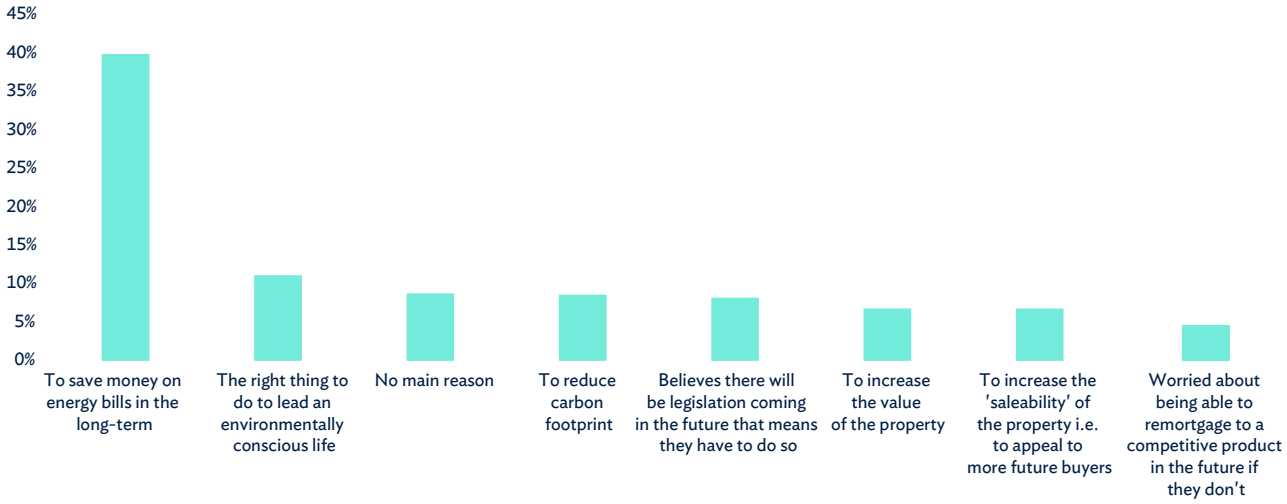
Homeowners are now spending an average of £137 more on energy bills per month this year

Main reasons for making green home improvements

Landlords



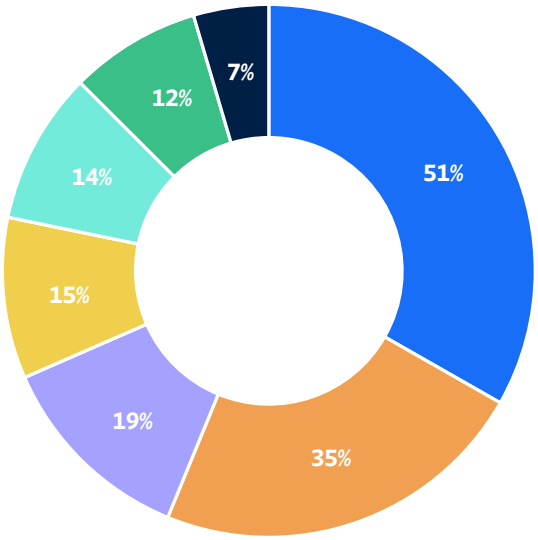
Homeowners



While energy efficient and sustainable properties are likely to become more attractive to prospective buyers and tenants in the future, the costs of implementing these changes are of course a concern to both homeowners and landlords, particularly in times of economic uncertainty.

It is here that brokers can help by advising clients on the financial solutions available to help fund sustainable changes and save money in the long-term.

Key barriers to landlords making green home improvements



- Cost
- Sustainability and green improvements are a low priority right now
- Don't see any benefit of making these changes
- There are no barriers preventing them from making sustainable improvements
- Potential disruption to tenants
- Don't know which improvements would be best suited for property/properties
- Don't see the need for changes

While there are some sustainable home improvements that can be relatively costly, such as installing a heat pump, brokers can also help clients identify more cost-effective measures such as adding wall or loft insulation, which can still have a positive impact on the environment while also helping them save money on energy bills in the long-term.

Similarly, brokers can also highlight the green products and incentives that are currently available in the mortgage market, such as Coventry for intermediaries' **Green Further Advance,** which enables residential and Buy to Let clients to borrow more for energy efficiency improvements.

Products such as these can also benefit clients by offering lower interest rates and can help them minimise or manage the costs associated with green home improvements through specific tailored products.

Working towards a greener future

Even with recent uncertainty created by the Government's decision to push back some of its net zero pledges, the direction of travel is clear. We all need to aim for a greener future.

With the majority of homeowners (93%) and landlords (94%) unable to correctly identify the percentage of UK carbon emissions originating from housing stock, this provides brokers with an opportunity to help clients understand how creating more energy efficient homes can reduce their carbon footprint and bring about change.

Creating effective and clear messaging on the advantages of making green home improvements is vital, and needs the collaboration of the whole industry to do so. For brokers, starting with the long-term financial benefits green changes can bring will set them up for success. The research shows that people really do care about the environment, with 91% of homeowners saying sustainability is important to them, but that they also need to align this with their personal financial circumstances, with saving money on energy bills the main motivation for making green home improvements for two-fifths of respondents.

This is where green products can come into the equation. Being at the forefront of the advice process, brokers are in the best position to help borrowers identify financial solutions that can help to alleviate some of the costs of making green home improvements. Not only does that ensure such changes can be made, but it also allows the borrower to take advantage of the long-term financial savings that a greener home can bring.

By raising awareness about schemes and products, and providing a greater understanding about the environmental and financial benefits of energy efficiency improvements, we are most likely to see change. In the long-term, that will help to create a healthier, greener and more sustainable environment in which we can all live.

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CFI BRO 0029 11/23