

**Propertymark response to the Scottish Government's Home energy efficiency: equity loan pilot consultation**

**Background and introduction**

1. Propertymark is the UK's leading professional body for estate and letting agents, inventory providers, commercial agents, auctioneers and valuers, comprising nearly 18,000 members. We are member-led with a Board which is made up of practicing agents and we work closely with our members to set professional standards through regulation, accredited and recognised qualifications, an industry-leading training programme and mandatory Continuing Professional Development.
2. Propertymark welcomes the opportunity to respond to the Scottish Government's consultation on its home energy efficiency equity loan pilot. Reducing emissions from our homes and buildings is one of the most important things we can do to help end Scotland's contribution to climate change. Operating across both the residential sales and lettings industries, property agents have immediate access to new and existing property owners acting as important intermediaries in the Scottish Government's endeavours to reduce greenhouse gases from homes and remove poor energy performance as a driver of fuel poverty.

**Question 1. What is your view on the use of equity in people's homes in order to support the decarbonisation of buildings and the improvement of energy efficiency as a means to improve wellbeing and support independent living?**

3. Propertymark believes that the use of equity in people's homes to support the Scottish Government's decarbonisation and fuel poverty reduction agendas can enhance the range of options available for owner occupiers and private landlords to make improvement to their homes that will ultimately have positive impacts for residents and the government. However, we note that the scheme relies heavily upon asset growth, a phenomenon the Scottish Government has committed to tackling in its Housing to 2040 strategy,<sup>1</sup> which means there will need to be clear safeguards in place to help protect borrowers from any negative impacts caused by a downturn in the housing market as well as any changes to energy efficiency and decarbonisation requirements for domestic properties across Scotland.
4. Providing an additional financial route for homeowners to make energy efficiency improvements to their homes and decarbonise their heating systems can make a contribution towards the Scottish Governments plans to reach net zero by 2045 and facilitate improvements to health by creating healthy indoor living environments with healthy air temperatures, humidity levels, noise levels, and improved air quality.<sup>2</sup> Fuel poverty is strongly associated with sub-optimal physical and mental health, so enabling more owner occupiers and private landlords to make energy efficiency improvements to their properties

---

<sup>1</sup> <https://www.gov.scot/publications/housing-2040-vision-principles/documents/>

<sup>2</sup> <https://www.iea.org/reports/multiple-benefits-of-energy-efficiency/health-and-wellbeing>

will help alleviate these impacts for more people, and will have positive knock-on effects for levels of independent living. With this in mind, we are supportive of a range of options being made available for homeowners, including landlords, to take action that can decarbonise their homes and make energy efficiency improvements. However, the equity loan scheme's heavy reliance on housing market growth to make it financially viable raises two areas of concern for us. Firstly, the rules fail to address the likely impact of any further changes to the minimum energy efficiency and carbon emission requirements of domestic premises which would no doubt require further investment. Homeowners cannot be reasonably expected to invest in measures that may well require further changes as the Scottish Government develops its long-term zero carbon plans in response to emerging evidence that suggest nations are not doing enough to meet emissions targets.<sup>3</sup> We believe there should be protections in place to ensure that where the Scottish Government introduces future minimum energy efficiency and decarbonisation requirements, that render measures taken using equity loan funds noncompliant, borrowers receive grant funding to make the necessary improvements rather than being asked to invest more of their own money.

5. The second area of concern arising from the scheme's heavily reliance on housing market growth is the lack of clarity on what the Scottish Government intends to do in the event that a house price fall reduces a borrower's equity to below the minimum 30 per cent as set out in the eligibility criteria. Capping the amount to be paid back to the Scottish Government at the equivalent of 2.5 per cent APR for the duration of the agreement can help protect borrowers in the event of strong market growth and the current rule ensuring that owners retain a minimum 30 per cent equity stake in the property will provide the Scottish Government with a reasonable degree of protection of their investment if house prices fall. However, there is currently no mechanism that can enable borrowers to avoid ending up with negative equity ownership at the point of sale in the event of a downturn in the housing market. Including a staircasing option for borrowers to buy back equity in tranches over time would provide a valuable safeguard for both borrower and the Scottish Government as an investor. Borrowers with a negative equity share in their properties are less likely to move (upsize or downsize) which would cause blockages in the market.

**Question 2. If you have direct experience of the equity loan pilot, please provide views or evidence of the impact of the loan product and support provided.**

6. Propertymark does not have direct experience of the equity loan pilot.

**Question 3. Do you have views on the eligibility and scope of the pilot as it exists now?**

7. Yes
8. **Please explain your answer.** While Propertymark broadly agrees with the eligibility and scope of the pilot as it is now, there are four elements we believe should be changed before being rolled out to a national scheme. Firstly, we do not believe landlords with more than two properties should be automatically ineligible for a loan, but instead, the pilot loan should be

---

<sup>3</sup> [https://public.wmo.int/en/resources/united\\_in\\_science](https://public.wmo.int/en/resources/united_in_science)

made available to landlords with more than two properties where it could be demonstrated that no other third-party funding was available. Furthermore, landlords who meet all other criteria and are letting their properties to tenants who are living in fuel poverty should automatically be eligible, especially considering that private renters account for 36 per cent of all households living in fuel poverty across Scotland – a rate not dissimilar to the social rented housing sector.<sup>4</sup> Secondly, the current eligibility criteria relating to Council Tax band restrictions and being in receipt of a qualifying benefit potentially exclude a significant number of householders who are living in fuel poverty but who have limited access to liquid assets to enable them to invest in making the necessary energy efficiency improvements to their homes. The Council Tax band of a property should have no bearing on a home-owner's eligibility for a loan because while fuel poverty rates may generally decrease as bands increase, there were still 185,000 households living in properties with a Council Tax Band D and above living in fuel poverty across Scotland in 2019<sup>5</sup> – this is almost one third of all households living in fuel poverty across Scotland.<sup>6</sup> Thirdly, while we recognise that the loan is made available for owners of properties in Council Tax bands D and above where the occupier is in receipt of a qualifying benefit, it ignores people in low income employment and as it is not based on net income, it cannot accurately reflect a household's means to cover energy costs once all expenditure, including Covid-19 related debt, is accounted for. Fourthly, borrowers should be given the opportunity to buy back the equity value of the loan at any point in full, or to increase their equity share through 'tranching up' over time as is offered via the Help to Buy equity loan scheme.<sup>7</sup>

**Question 4. What is your view on the contribution a nationwide equity loan scheme focused on both energy efficiency and decarbonised heat solutions can make towards supporting our climate change and fuel poverty targets?**

9. Propertymark believes expanding the equity loan pilot to a full nationwide support scheme will provide more homeowners (owner occupiers and landlords) with an additional route to funding changes that can minimise their own or their tenants' fuel costs and support the Scottish Government's progress towards meeting its climate change and fuel poverty targets. However, as described in our answer to question three, the current eligibility criteria potentially exclude a significant number of householders who are living in fuel poverty but who have limited access to liquid assets to enable them to invest in making the necessary energy efficiency improvements to their homes. Based on a scaled-up version using the current criteria, it would be logical to assume its contribution would be minimal unless three key changes are made to the eligibility criteria. Firstly, loans should be made available to landlords with more than two properties where it can be demonstrated that no other third-party funding is available. Secondly, any reference to the Council Tax banding of property should be removed and thirdly, qualifying benefit criteria should be replaced with a net

---

<sup>4</sup> <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/6/>

<sup>5</sup> 175,000 households living in a Council Tax Band A property in 2019 were living in fuel poverty in 2019 (this amounts to 35% of all Council Tax Band A properties). 27,000 households were living in a Council Tax Band F property (14% of all Council Tax Band F homes), and 27,000 were living in a Council Tax Band G-H property (16% of homes in Council Tax Bands G-H). <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/6/>

<sup>6</sup> <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/6/>

<sup>7</sup> <https://www.mygov.scot/help-to-buy/after-buying>

income threshold that aligns with the definition of fuel poverty set out in section 3 (1) of the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019.<sup>8</sup>

**Question 5. Please provide your views on the proposal to expand the equity loan pilot to a full nationwide support scheme. (please explain your position)**

10. Propertymark believes expanding the equity loan pilot to a full nationwide support scheme will provide more homeowners with an additional route to funding energy efficiency improvements and the decarbonisation of their homes, but its impact will be minimal unless three key changes, described in our answer to question four, are made to the eligibility criteria. There will also need to be a large-scale communication strategy to ensure all potentially eligible homeowners are aware of the scheme, within a suite of options to be fully explored to determine the most appropriate on a case-by-case basis, so they can make a fully informed decision about whether to pursue it.

**Question 6. Do you have a view on which energy efficiency measures and zero emission heating solutions should be included in the list of eligible measures?**

11. Yes
12. **Please explain your position.** Propertymark believes that the list of eligible measures is adequate as long as they continue to cover all energy efficiency measures and zero emission heating solutions measures that may be included the EPC recommendations report or otherwise help meet the Scottish Government's decarbonisation and fuel poverty reduction targets.

**Question 7. a: Do you agree that a nationwide equity loan can support the reduction of fuel poverty in Scotland?**

13. Yes
14. **Please explain your answer.** Propertymark believes a nationwide equity loan scheme could support a significant reduction of fuel poverty in Scotland, but only if important changes are made to the eligibility criteria – please see the changes we set out in answer to question four. Making these changes would maximise the level of financial help to landlords with fuel poor tenants and to owner occupiers who have sufficient equity in their homes and who are experiencing fuel poverty but who are not eligible for support via other Home Energy Scotland scheme or who do not have access to other appropriate third-party financing options. This will maximise progress towards achieving the target of no more than 5 per cent of households

---

<sup>8</sup> A household is in fuel poverty if their fuel costs are more than 10 per cent of the household's adjusted net income and what they have left over is insufficient to maintain an acceptable standard of living for members of the household: Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019, Section 3 (1): <https://www.legislation.gov.uk/asp/2019/10/section/3>

living in fuel poverty by 2040 as set out in the Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019.

**Question 7. b: Do you have any suggestions on how a future scheme could better support a reduction in fuel poverty in Scotland?**

15. Yes

16. **Please explain your answer.** Please see our answer to question five.

**Question 8. a: The equity loan pilot uses the EPC recommendations as a basis for eligible measures which can be funded by the loan and we will be consulting on a reformed EPC assessment process to better align with wider net zero objectives as part of our Heat in Buildings Strategy. Do you agree with using the EPC in this way for a future scheme?**

17. Yes.

18. **Please explain your answer.** Propertymark believes this is the right approach.

**Question 8. b: Can you provide any alternatives?**

19. No

20. **Please explain your answer.** Propertymark believes that the new EPC assessment process should continue to have both fuel costs and carbon emissions measures.

**Question 9. a: Do you agree with the proposed approach to consumer protection set out above?**

21. Yes

22. **Please explain your answer.** Propertymark believes that the Scottish Government's proposed approach to consumer protections adequately addresses concerns about the potential conflict between emissions and fuel poverty targets and will help ensure consumers receive high quality work carried out by skilled operatives through use of the latest retrofit standards.

**Question 9. b: Are there any additional consumer protection measures that can be considered within Scottish Government competence?**

23. No

24. **Please explain your position.** Propertymark is not aware of any additional consumer protection measures that can be considered within Scottish Government competence.

**Question 10. The expansion of the pilot could provide a greater opportunity for eligible homeowners to participate in scheduled refurbishment works being undertaken by local housing associations and local authorities. Do you have suggestions on how best to achieve such a working partnership?**

25. Yes

26. **Please explain your suggestions.** A working partnership to enable eligible homeowners to participate in scheduled refurbishment works being undertaken by local housing associations and local authorities, could be achieved via a pro-active approach and by enabling homeowners to access discounted or subsidised rates for the works being carried out. There could be a communication campaign in the local areas to let homeowners know that the works are being carried out, why they are beneficial and that they may be eligible for an equity loan to fund the same work in their homes, at a discounted rate. The subsidised rates would be justified because contracted workmen would already be carrying out a schedule of works in the local areas so it would be more cost effective to commission work in this way rather than via a larger number of individual projects.

**Question 11. Do you have any suggestions on how to ensure delivery of the scheme is efficient and robust, including the legal process and customer support service whilst ensuring value for money?**

27. **No**

28. **Please explain your position.** Propertymark does not have any suggestions on how to ensure delivery of the scheme is efficient and robust, including the legal process and customer support service whilst ensuring value for money.

**Question 12. Please provide your views on any challenges and/or opportunities offered by the potential expansion of the pilot.**

29. The potential expansion of the equity loan pilot scheme presents two key challenges. Firstly, the Scottish Government's energy efficiency targets for domestic properties are too ambitious unless a significant programme of grant funding is made available to heavily supplement individual homeowners' investments. The Scottish Government and Scottish Green Party have made a commitment in their shared policy programme to require, where technically and legally feasible and cost-effective, 'a large majority' of buildings to be upgraded to at least EPC Band C or equivalent by 2030, and for all homes to meet this standard by 2033.<sup>9</sup> Targets that are too ambitious fail to consider investments already made in current heating systems and will result in owner-occupiers and landlords having to spend significant amounts of money retrofitting properties to bring them up to standard. For example, there will be many who, up to the point of the regulations coming in will have recently installed new gas boilers on payment plans for possibly 5-10 years. The upheaval and additional costs will not be welcome and in many cases may cause considerable financial damage meaning many owners may decide to sell up rather than spend the amount needed to bring the property up to standard. Should action be introduced on a mandatory basis, interest-free loans and grants must be offered to owner-occupiers and advertised widely to make energy efficiency improvements. By providing owner-occupiers with a financial incentive, as well as supporting them to make improvements, more people will be encouraged to raise the energy performance of their

---

<sup>9</sup> <https://www.gov.scot/publications/scottish-government-scottish-green-party-shared-policy-programme/documents/>

homes. Secondly, unless exemptions are clarified in statute many homeowners will be unable to comply with mandated requirements because they can either not afford it or because the type and condition of the property means retrofitting is not physical or financially feasible. The Scottish Government must not introduce minimum energy efficiency requirements where exemptions are not in place. Before any energy efficiency targets are introduced for owner occupiers, the Scottish Government must legislate on any proposed exemptions from the minimum EPC grades. Further, we would argue that there will be many properties, largely due to the age of the stock, that will never reach the proposed EPC targets. Propertymark particularly seeks clarification on listed buildings, properties where it is not technically feasible to make improvements, and where funding cannot be obtained.

30. The potential expansion of the equity loan pilot scheme presents two important opportunities. Firstly, homeowners will be more likely to invest their own money in making energy efficiency improvement measures and taking action to decarbonise the heating systems of their homes, if they can see tangible financial benefits via increased value and desirability of their properties, in both the sales and lettings markets. Secondly, expansion of the pilot would warrant a full communications campaign to promote the benefits of making improvements. We believe that an effective communications campaign has the potential to make an impact on improving energy efficiency among owner-occupiers and landlords if it is well-informed and provides consumers with helpful material to encourage and aid them in making improvements. This could include information on the minimising the environmental impact of energy inefficient Scottish homes, work on combatting fuel poverty, and details on resources and funding available for homeowners. In developing a campaign, the Scottish Government must ensure it works with consumer groups, industry bodies and other non-governmental organisations to disseminate the information.