Nationwide
HOUSE PRICE INDEX

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Special Report – August 2021

Energy efficiency ratings currently having limited impact on house prices despite push to go green

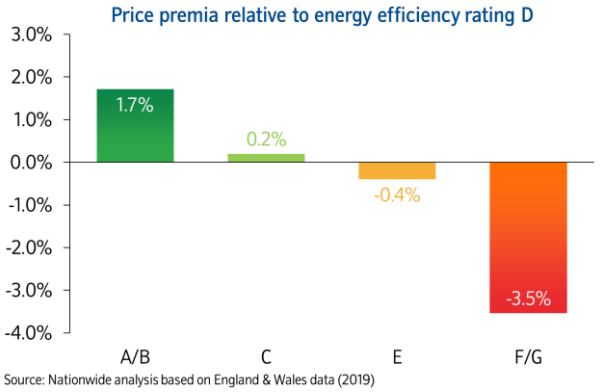
- **1.7% house price premium for an owner occupier property rated A or B compared to a D-rated home**
- **Properties rated F or G attract a 3.5% discount compared to a similar D-rated property**

Commenting on the figures, Andrew Harvey, Nationwide's Senior Economist, said:

"Decarbonising and adapting the UK's housing stock is critical if the UK is to meet its 2050 emissions targets, especially given that the housing stock accounts for around 15% of the UK's total carbon emissions.

"With this in mind, we used our house price data to explore the extent to which ***owner occupiers*** pay a premium or discount for a home due to its energy performance rating.

"To do this, we included energy efficiency ratings from energy performance certificates (EPCs) alongside the usual property characteristics data we use in our House Price Index. This allowed us to control for other factors that can influence the value of a house or flat and isolate the impact of energy efficiency ratings alone.



Source: Nationwide analysis based on England & Wales data (2019)

"Our analysis suggests that a more energy efficient property rated A or B attracts a modest premium of 1.7% compared to a similar property rated D (the most commonly occurring rating). There is little difference for properties rated C or E compared with D, as shown in the chart.

"There is a more noticeable discount for properties rated F or G - the lowest energy efficient ratings. Indeed, an F or G rated home is valued 3.5% lower than a similar D rated property.

"Overall, our research suggests that, for now at least, energy efficiency has only a modest influence on house prices for owner occupiers, where an impact is only really evident for the best and worst energy efficiency ratings.

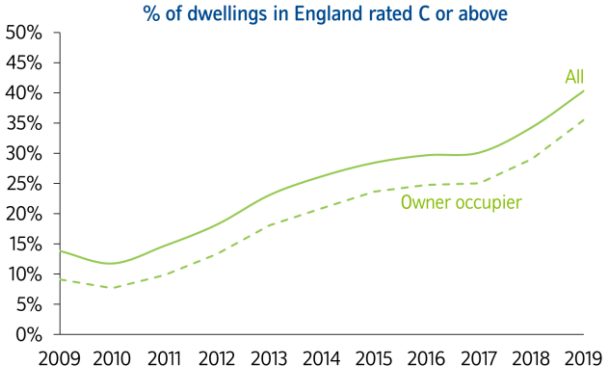
"However, the value that people attach to energy efficiency is likely to change over time, especially if the government takes measures to incentivise greater energy efficiency in future to help ensure the UK meets its climate change obligations.

Energy efficiency of the housing stock is gradually improving

"The Government aims to update as many homes as possible to energy efficiency rating C by 2035 'where practical, cost-effective and affordable'. It also aims for all fuel poor households, and as many rented homes as possible, to reach the same standard by 2030.

"Over the past ten years energy efficiency has improved significantly thanks to the higher energy rating of newly-built properties, and the improvements carried out on many existing homes, such as loft and cavity wall insulation. The latest data (2019) shows 40% of the housing stock is now rated C or higher, up from 14% of the stock in 2009.

"Nevertheless, this means that 60% of the housing stock is still rated D or below.



Source: MHCLG English Housing Survey

Media enquiries to: Andrew Harvey, Senior Economist, andrew.harvey@nationwide.co.uk
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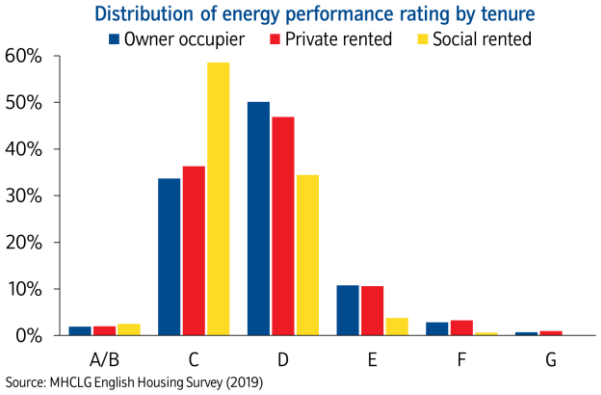
"As noted above, newly built properties typically have a much higher EPC rating (94% are rated C or above), although the stock increases very slowly (typically by c1% per annum). However it is important to note that, while they are energy efficient once built, a significant proportion of new homes' carbon footprint (between 25% and 50%) relates to its construction.

Socially rented typically more energy efficient than private rented or owner occupied dwellings

"There is significant variation in the energy efficiency of the housing stock across different tenure types. As shown on the chart below, energy efficiency is better among the social rented stock (i.e. properties owned by local authorities or housing associations) due to tighter regulation.



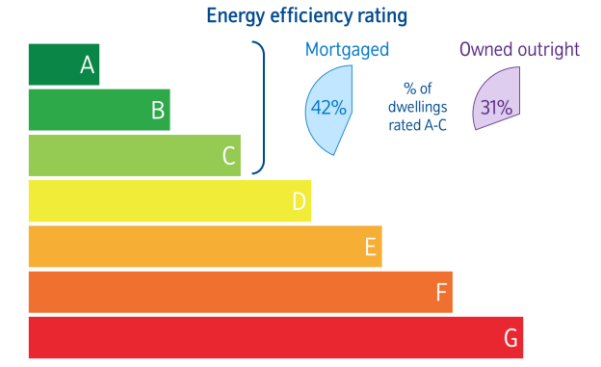
Source: MHCLG English Housing Survey (2019)

"Within the owner occupier sector there are significant differences in energy efficiency between those who own their property outright and those buying with a mortgage. In part, these differences reflect the different types and ages of dwellings within the two groups.

"Those with a mortgage are more likely to live in newer properties and flats, whereas those owning outright tend to live in older houses and are also likely to be older themselves and have lived in their property for longer.

"Consequently, those owning outright are less likely to live in the most energy efficient homes. For example, 31% of properties owned outright by owner occupiers are rated A to C compared to 42% of those owned with a mortgage.

"Those owning outright are also more likely to live in the least efficient homes - 18% of those owned outright are rated E to G, compared with 9% of those owned with a mortgage.

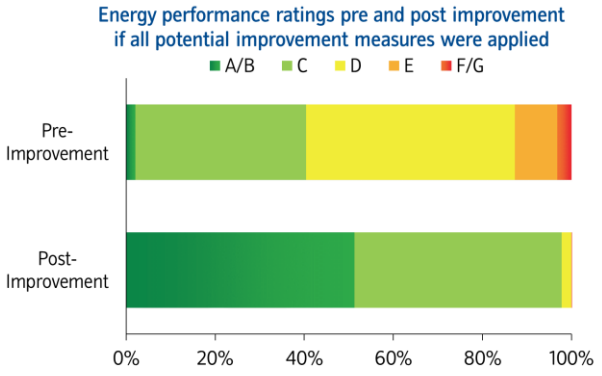


Source: MHCLG English Housing Survey (2019)

Room for improvement?

"Our housing market survey conducted earlier this year suggested around a third (35%) of homeowners[1] looking to enhance their home cited an intention to improve energy efficiency or reduce the carbon footprint of their home.

"Government analysis based on the latest English Housing Survey suggests that if **all** eligible energy improvement measures defined in the EPC methodology were to be installed in the current stock of dwellings, 98% would be rated A to C, with just 2% in band D or lower (see chart below).

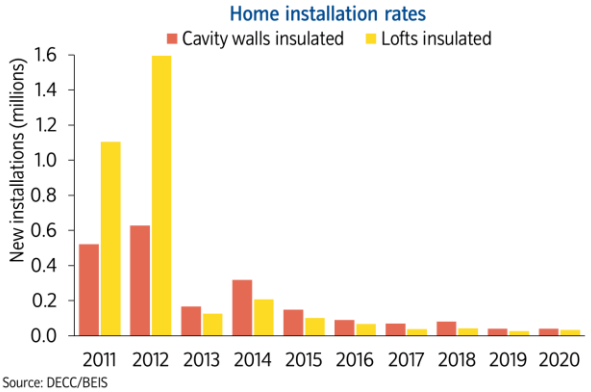


Source: MHCLG English Housing Survey (2019)

"Installing all the recommended energy improvement measures in homes currently rated F or G would result in an average saving of around £1,780 per year. However, the installation cost for such measures is also high at an estimated £25,800, meaning a payback period of around 14 years.

"The Government's current aspiration is to upgrade as many homes as possible to band C by 2035. The average cost to improve a property to an energy efficiency of band C is c£8,100, though the cost is considerably higher for properties rated F or G.

"However, the pace of energy efficiency improvements is relatively slow given the scale of the challenge. For example, insulation installation is well below the 2012 peak (see chart), the last year of the Carbon Emissions Reduction Target and Community Energy Savings Programme. This suggests a need for further incentives to help decarbonise homes."



Source: DECC/BEIS

[1] Research conducted online by Censuswide, 23-27 April 2021, with a nationally representative 3,012 general consumers aged 18+ across the UK.

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Notes

The methodology correlates the price paid for a property against the set of property characteristics (including the property type, age, number of bedrooms), locality (local neighbourhood as described by ACORN) and its energy efficiency rating. Only properties where an Energy Performance Certificate (EPC) was available were included.

The data was drawn from Nationwide's house purchase mortgage lending at the post survey approvals stage in England and Wales in the period January 2019 to December 2019.

Energy Performance Certificate data sourced from the Energy Performance of Buildings Register published by the Ministry of Housing, Communities & Local Government.

More information on the house price index methodology along with time series data and archives of housing research can be found at www.nationwidehousepriceindex.co.uk

Legal Information

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