REVALUE

Assessment of the current practice of financiers with regard to investments in Energy Efficiency of residential real estate

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Executive Summary

This deliverable is one of a series of short resports detailing different aspects of qualitative research conducted in 2017 as a part of the REVALUE project. The project has the overall aim of developing deeper understanding of the connections between the energy efficiency of residential rented stock in various EU countries and its market or investment value. There is a particular focus on the social housing sector. By so doing it aims to support moves towards investment in upgrading existing stock for greater efficiency. The project also aims to inform professional bodies with a view to revision their guidance to valuers who advise investors and banks.

When assessing the possibilities for Energy Efficiency improvements in residential real estate, an important element is the funding of such investments. The REVALUE Project Team wanted to understand how funders/financiers consider these types of investments. We also tried to understand what determines the funding conditions and whether there is common practice to offer preferential conditions for projects which lead to improving the sustainability characteristics, specifically energy efficiency of assets (and hence diminishing risks).

The methodology adopted by the REVALUE team was to conduct semi structured qualitative interviews with financial institutions, banks and investors. A total of seven interviews were conducted, mainly with UK based institutions (some with international spread) but also one German bank.

There was willingness to take part in the research, but one of the main findings was that funders/financiers currently have not found a way to add elements of Energy Efficiency (EE) or sustainability systematically to their funding criteria. All organisations we interviewed had the opinion that it would be beneficial if there were to be a known value ascribed to Energy Efficiency (in general) but the valuations on which they rely to determine the amount of loans, do not explicitly have this value shown. Although they would find this helpful, they do not normally ask for this.

Financial institutions are primarily interested in recovering the money plus the interest of the sums that they lend out to organisations. To be confident about customers and loans they normally do not look at assets on a detailed level. The strength of the balance sheet and the operational results as recorded in the profit/loss accounts do (mainly) determine whether an organisation is able to attract loans. Professional valuers play an important role in the assessment because they give an opinion about the value of underlying assets that back the loans. Social housing landlords are viewed as normally responsible companies who will keep their properties to a ‘*decent’ standard*”.

Financiers demand of clients that they comply with statutory and legal obligations; some demand a little more. In the assessment of professional valuers information on the energy labels is collected but there is no evidence that this information does in any way affect the conditions or the price of the loans, although one lender did claim to differentiate in loan terms.

Some financial institutions do offer forms of ¨green funding¨. These special products are not yet used commonly and do not offer the differential in conditions that could stimulate accelerated investments in Energy Efficiency. Clients (housing associations or other owners of residential real estate) are often driven away from these types of funding because of the high level of detail that

is required in order to obtain the special conditions. Extra handling costs of the loans are not compensated by the better conditions.

Within the interviews, funders/financiers were asked about future trends and who or what would drive change from a funding perspective. There was consensus that changes should be primarily market driven. Only if the market recognizes the value of Energy Efficiency did they think it would be reflected in the assessments of funders/financiers. If there is a recognized value, the financiers will make this value fundable. Currently this does not happen although there was some consensus that professional bodies and valuers could play a stronger role and more specific data would help.

The interviews confirmed the findings from other strands of the qualitative work, namely that professional valuers and conventional funders/financiers operate in parallel ways. They do not – indeed for the sake of prudence they cannot - include assumptions that have not yet been proven to be valid into their assessments. The current practice is market-based evidence but at the corporate lending level it relates to the perceived risk of the company and not, primarily, the value of the stock. However, there was a clear appetite for change and an acknowledgement that policy will continue to push but only when there are market reactions that change will be built into the secured lending valuations on which lenders depend.

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Chapter 1 Introduction

This deliverable is one of a series of short reports detailing different aspects of qualitative research conducted in 2017 as a part of the REVALUE project. This deliverable focuses on the current practice of financiers in regard of investments in Energy Efficiency in residential real estate, primarily within the social rented sector but with reference also to lending to real estate residential developers and individual borrowers to fund house purchase. In other publications of REVALUE, detailed information regarding the valuation techniques and practice were assessed (Deliverable 1.1). The positioning and strategy of owners of residential real estate are key elements in our research that are integrated throughout the documents of the REVALUE research.

One of the premises of REVALUE is that the adoption of changes in the way valuations of residential real estate are conducted could be part of the key to accelerated investments in Energy Efficiency. However, this argument is to an extent circular as valuers act within the confines of their instructions and, for the most part, are dependent on data made available by their commissioning client in order to conduct their valuations. It follows that if lenders do not collect data on energy from their clients and instruct their valuers to consider energy efficiency within their valuations, then valuations will not be explicit in this regard, albeit that valuers will take account of it implicitly should there be market evidence as to its importance to potential buyers.

Since housing providers normally get their investment funding backed on the basis of the underlying value of the assets (asset backed funding), a greater clarity on instructions to valuers and the due diligence process, in theory, could directly benefit them. Therefore, we were curious to find out how financiers regard the value of underlying assets when making their funding decisions. Is there evidence that supports the thesis that Energy Efficiency, or a lack of it, affects the potential future value of assets or the risk rating attached to the loan? How does the funding process work and what elements are considered? How important is the role of the valuer in the funding process?

In this deliverable, the investigation of the funding process is described based on the information in respect of current practice that we collected in both Germany and the UK. Whilst these are only two countries, it can be noted from the list provided in Appendix A that several interviewees operate beyond national boundaries.

The Project Team's approach has been to involve and interview as many types of financiers as possible in order to get a clear and qualitative picture on current funding practice. We executed individual interviews but for some interviews more than one person for the organisation took part meaning that effectively it became a group discussion. This helped to make the evidence base more robust. The objective was to establish current funding practice in residential real estate in relation to energy efficiency. In addition, we discussed the expectations of financiers regarding future trends with a special focus on the potential impact of current developments related to energy efficiency.

From the interviews and the information that we gathered, we have been able to identify several elements that could help to drive change of the funding practice. Requirements and funding conditions of residential real estate could change but the impulse for change needs to come from market-based evidence.

This deliverables is one of a series of short reports detailing different aspects of qualitative research conducted in 2017 as a part of the REVALUE project. The project has the overall aim of developing deeper understanding of the connections between the energy efficiency of residential rented stock in various EU countries and its market or investment value. There is a particular focus on the social housing sector. By so doing it aims to support moves towards investment in upgrading existing stock for greater efficiency. The project also aims to inform the professional body with a view to revision of their guidance to valuers who advise the investors and banks.

When assessing the possibilities for Energy Efficiency improvements in residential real estate an important element is the funding of such investments. The REVALUE project team wanted to understand how funders/financiers consider these types of investments. We also tried to understand what determines the funding conditions and whether there is common practice to offer preferential conditions for projects which lead to improving the sustainability characteristics, specifically energy efficiency of assets (and hence diminishing risks).

The deliverable does not address approaches to mortgage lending to individuals in respect of loans secured against individual assets.

Chapter 2 The practice of funding Energy Efficiency investments of residential real estate

2.1. Rationale

The REVALUE consortium aims to provide valuers with information and insights necessary to determine the appropriate way of assessing the impact of energy efficiency components in dwellings' valuations. To explore the options, the set of work processes and data collected by specialised energy consultants/engineers and economists were merged with those of professional valuers.

When assessing the possibilities for Energy Efficiency improvements in residential real estate an important element is the funding of such investments and a better understanding of how corporate funders view energy improvements in terms of their lending criteria and appreciation of value fits within the objectives of the project. The REVALUE project team therefore wanted to understand how funders/financiers view such funding opportunities in practice, including any funding conditions that were normally imposed and whether it is common practice to offer preferential conditions for projects which lead to improving the sustainability characteristics, specifically energy efficiency of assets. As risk profiling is an inherent part of funding considerations, it was important to assess whether energy efficiency is, in practice, considered to be part of the risk profile for corporate asset based lending. Lending to individuals based of the security offered by a single dwelling is not the purpose of the report; nor is it the focus of REVALUE, although it is being considered in other projects.

From the literature and other strands of research already reported, the view had been formed that, until recently, consideration of energy efficiency was not a factor within the risk profiling for lending against real estate; further there was little evidence that valuers had been instructed to consider the energy efficiency of the properties they valued for the purposes of secured lending (see for example Michl et al.2016). This provides an indication that any risk posed by properties due to a lack of energy efficiency was not a specified risk, although if the valuer undertaking the commission considered the energy efficiency (or otherwise) of a dwelling to be a material valuation consideration it would have been factored in, but not specifically separately reported or asked for.

However, since the start of the REVALUE project but around the time the interviews took place, the UK-based Lenders Project (2017) recommended that energy costs should be factored into lending criteria for domestic mortgages. Further, discussions at the Green and Healthy Homes Conference held at Maastricht University (2016) had revealed that several banks were considering offering basis point reductions on loan costs where properties met energy efficiency standards as these were perceived as lower risk. Most recently, and since the empirical research undertaken for this deliverable was completed, a move by Barclays Bank to team up with new housebuilders in the UK to recognise energy efficiency in lending has been announced.

In terms of corporate lending on real estate portfolios, there has been very little reported and none in relation to social housing. Parker (2018), who undertook an international review of 'green REITS (Real Estate Investment Trusts) which specialised in the purchase and holding of so-called 'green assets', concluded that they offered investors superior risk/return trade-offs but that does not necessarily indicate a lower corporate cost of borrowing. There was therefore perceived to be scope to find out from major lenders whether they were developing policies towards funding for energy efficiency, either in their approach to corporate funding or direct funding for retrofit work

2.2. Method Adopted

The starting premises was that if any lenders were likely to have a positive and differentiated approach to lending based on energy efficiency, it would be either the major banks or specialist funders. Further it was considered that in-depth interviews with key people within lending organisations was likely to yield more insightful information than would be obtained through a more comprehensive questionnaire survey. Therefore, REVALUE partners undertook a series of in-depth telephone interviews with a range of financiers who were considered likely to be in the vanguard as far as interest in energy efficiency was concerned. All the institutions approached offered their support and specialist officers took the time to answer our questions showing thus interest in the topic.

Of the 7 organisations interviewed, six were based in the UK, although several worked for organisations with international businesses. The seventh is based in Germany. Most of the interviewees were mainstream organisations but one was a specialist investor in energy related projects and one was a social enterprise lending primarily to the social sector and charities. The names of the organisations are listed in Appendix 1. Names of the interviewees have been kept confidential but are held in the REVALUE Team records. Each interview took between 1 and 2 hours and were semi-structured using the same set of questions (see Appendix 2). Three members of the Team were involved in the interviewing and write ups of each interview were checked and agreed with the interviewee as constituting a fair and accurate record of the discussions. In choosing interviewees, care was taken to ensure that the person chosen was of a suitable seniority and experience to be able to provide a wide overview of their practice and that of other market participants; however, where necessary to gain sufficient scope we interviewed more than one person within the organisation.

The set of questions (see Appendix 2) was carefully prepared within the REVALUE consortium and touched on several aspects of funding (including innovative ways of funding like ¨green bonds¨).

The interview was divided into the following three parts:

- About your organisation and your portfolio;
- The current data about the residential stock funded;
- General views.

Chapter 3 Findings

3.1. The Scope of Lending

Initial questions sought to establish both the geographic spread and the amount of lending undertaken. It was confirmed that most operated across borders, but some did not. All lend against residential stock though for most this was not the only real estate lending undertaken. What was clear was that where lending took place across a variety of types of real estate, it was normal to have specialist teams for residential. This means that the criteria for lending for residential may not be the same as that for commercial. For these interviews the emphasis was on lending against residential portfolios.

3.2. Current Consideration of Energy and Sustainability in Lending

The Team asked about whether lenders instructed valuers to collect any specific information about the energy efficiency of the stock offered for loan security and, further, whether differential terms were offered. Among the 'main stream' lenders, the answers confirmed what had been thought to be common practice, namely that, although they required professional valuations as a basis for decision making, there was no requirement placed on valuers to report on energy efficiency or any other sustainability features.

Interviewees were then asked if they would give preferential terms to 'green stock' and whether they would consider such stock to be lower risk. Given that energy data was not routinely being collected, it was expected that there would be no firm response to these questions. However, whilst no organisation interviewed did provide preferential terms, most considered that the risk profile would be reduced; one interviewee went further by opining that the reverse was true i.e. stock that was sub-standard would be regarded as higher risk, thus implying an expectation of enhanced obsolescence and value loss compared to other stock. Of the interviewees one organisation tended to provide finance primarily against new stock, so the issue was less imminent for them.

However, in summary, there was a growing recognition that, quite aside from the issue of the actual asset valuation, lending against so-called 'green stock' potentially was less risky. But as questions were not asked of borrowers about the energy credentials of the stock against which the funds were loaned, it appears that lenders do not have detailed knowledge of the energy efficiency of the assets that constitute their loan book. Only one of the small funders we interviewed offered specific funding conditions for investments in Energy Efficiency as a niche market

3.3. Corporate vs. Asset Based Lending

The interviewees were questioned about their approach to corporate lending as well as individual project funding. In particular, the Research Team wished to explore whether, when considering loans for non–specific projects secured against portfolios, the quality of the underlying assets was a consideration or whether a simple business model was adopted. Views varied. In general, the normal business case rules applied, with investigation of the company as an entity including the accounts and cash flows. The contribution of energy efficiency in terms of supporting reduced outgoings on the cash flow was not at a level of detail that was generally taken into account.

However, several respondents did indicate that, if granting a loan to a corporate entity, they would examine the corporate responsibility policy of the borrower; further two lenders indicated that if they were lending to a social housing provider they worked on the presumption that the borrower would keep the stock to a 'decent' level as required by regulation. Comments were also made by one lender that they considered in detail the 'aspirations' as well as business plans. However, If the responses are representative of the banking sector, borrowers' attitudes towards and policies for corporate responsibility are increasingly important within the lending decision but only at a company level; there is not normally a detailed consideration as to how this works through into real estate asset management.

Not all of those interviewed tend to fund specific improvement schemes, but some do. When funding against specific projects, a much closer examination of the asset based is called for, and as one funder responded, “We always ask for all the details behind the business plan: budget, expenditure, time lines, value added and deliverability”. For this lender, the nature of the upgrade and the technology used was also important as they had “a moral obligation to make sure that the client is not unprotected against risks”. In this case the lender went on to say that they had “a responsibility to make sure that the chosen technology (to be used in the improvement work) is the right solution for the client”.

However, with the exception of a specialist funder and one mainstream lender, respondents reported little in the way of monitoring of works to ensure that they were completed to specification. As long as the borrower did not default that was the end of the matter, although one respondent expressed the view that monitoring and evaluation did require to be more rigorous.

In summary, from the lender perspective, the issue of energy efficiency is not yet a critical matter when making corporate funding, and even reporting on the EPC is not normally mandatory for the funding assessment. It was observed by some respondents that the provision of such a certificate is seen as a “tick-box” obligation with very little further importance. EPC´s are not comparable across Europe and the label doesn´t have a direct relation to energy consumption or to value.

In contrast, approaches to sustainability, as revealed through corporate responsibility reporting, do matter, and if and when energy costs begin to be more explicitly revealed through profit and loss accounts and the balance sheet, it will impact. However, for project lending, closer examination takes place though there was limited evidence that energy efficiency is a driver and monitoring of loans is limited. There are however exceptions to this giving early signs of change.

3.4. Energy Efficiency Initiatives Funded

Interviewees were asked about the type of technologies that prospective borrowers were adopting for both new and existing buildings when they requested asset secured loans. It was hoped that this would give insight into both the level of detail collected (and therefore subsequently held) by lenders and the market appetite for differing technologies. No very clear picture emerged, with views varying from “it depends on the technology that will receive government assistance” to all types of technologies. However, a lack of confidence in some newer technology was evident, possibly due to a lack of track record and, in the case of new build high insulation, issues such as condensation due to lack of ventilation. Unsurprisingly, PV panels and, at larger scale, combined heat and power plants were mentioned several times. These views confirmed the work of some researchers who have found either a ‘performance gap’ in terms of design expectations and performance of some technologies (Bordass, 2004[1]; Von Dronelaar et al, 2016)[2]) or a simple mistrust of them (Yoshida and Sugiara, 2010)[3]. This last named is important to REVALUE as it relates to values related to residential sales. These factors can be inhibiting factors in the adoption rates of newer technologies in upgrade work and hence lending connected to such work.

[1] Bordass, B., 2004, April. Energy performance of non-domestic buildings: closing the credibility gap. In in Proceedings of the 2004 Improving Energy Efficiency of Commercial Buildings Conference.
[2] van Dronkelaar, C., Dowson, M., Burman, E., Spataru, C. and Mumovic, D., 2016. A review of the energy performance gap and its underlying causes in non-domestic buildings. Frontiers in Mechanical Engineering, 1, p.17.
[3] Yoshida, J. and Sugiura, A., 2010. Which “greenness” is valued? Evidence from green condominiums in Tokyo.

Payback periods are important to some lenders: projects such as the installation of LED lighting can payback very quickly and may be influential in raising EPC levels: a factor that reduces the risk to a loan. However, several respondents made the separate point that it was difficult to really track the performance and/or value 'add' to one specific item as schemes of work tended to be holistic. This view is important because it relates back to the connection between value and energy efficiency and the role of the valuer which itself was also later explored and is considered below.

3.5. Looking Forward: prospects for market transformation demand for loans Energy Efficiency upgrades

Interviewees were asked several questions to help form a judgement as to the state of the lending market for energy efficiency work and what role both professional bodies and valuers could play in market transformation. To the REVALUE Project Team, it is important to judge the extent to which the market is seen to be moving in directions which support value differentiation, in particular whether this is sufficient to achieve a quantum change whether further stimulus is required. Further, previous work on the project had revealed that many social housing portfolio owners simply did not hold sufficient data to enable the valuer to extract from either market transaction evidence or cash flow inputs supplied by the client to establish the true contribution of energy efficiency. The Team also wished to establish the extent to which knowledge existed of the moves to introduce 'building passports' to help establish better data collection and transparency. When explained, the general idea of creating more transparency was embraced but there were also reservations whether it would overcomplicate the appraisal process.

In their responses, all those interviewed were of the view that it was probably, or would almost definitely, be the case in the future that they will require more information about energy efficiency when assessing loans, though whether they viewed reduced risk as either mirroring or going beyond compliance varied between respondents. They also were of the view that the market is moving towards differentiation of values, with a brown discount more likely than a green premium; for some it was critical that the market should be the mechanism for change despite the dominant view that change is slow or too slow. Reasons cited included that many market participants continue to be unaware of the issues, that energy prices have not yet made it a critical issue and that, in terms of pricing decisions, "energy is not a key driver."

If this situation is to change, there was a general acknowledgement that while EPCs were not a sufficiently good measure they were, in effect, the only measure. Whilst respondents would like to see better data, interviewees, barring one respondent, lacked any knowledge of building passports. However, based on this sample, there would be some appetite for them.

3.6. Responsibility for, and prospects, of Change

The interviewees were asked about the role of both valuers and their professional bodies and of policy makers. In terms of the former, all agreed that valuers' reports were critical to the lending process. So if these did not address energy efficiency it would or could not feature in the loan decision. However, there was a realisation that valuers should report on market value and, whilst some additional commentary in terms of market direction was mentioned by some as desirable, in the words of one typical response "valuation reports should only ever reflect the market", there was some support for the idea that "they do not know enough". Five of the seven organisations were of the view that the RICS could take a more positive lead - though how was not clear with one suggesting research into market responses and another to educate those engaged in agency. There was an acknowledgement that there is still much learning to be undertaken about the importance and impact of energy consumption on value. It was evident from the responses that some organisations were not exactly sure about the role of the professional bodies.

Whilst this sample considers that the RICS could be leading more positively, most also recognised the key role for policy makers. Key messages to them were that energy efficiency is, and should be, a regulatory matter but those regulations should be “simple”, “transparent” and “consistent” but most importantly regulations should be sustained. The financiers unanimously agreed that if stricter regulation was to be introduced it would lead to a change of the market.

Finally, interviewees were invited to express other views and from these some additional prospects for change can be discerned. More than one interviewee was keen to point out that the agenda is important to them and that they are keen to help drive the agenda, but as rational stakeholder accountable organisations they need to respond to markets Therefore it is only if the market demand is there for greener products, that funder support will be given.

Chapter 4 Summary and Concluding Remarks

This deliverable has detailed the findings from a series of interviews conducted by members of the REVALUE Team to gain insights into the perspective of lenders in relation to energy efficiency. The emphasis throughout was on corporate asset based lending, not lending to individuals via conventional mortgages. Most of those interviewed were from ‘mainstream’ lenders although two specialist organisations were also part of the sample. This was in recognition that, although many social housing providers had actively started to look for alternative funding sources for their business following the financial crisis during which banks had started to retract towards such lending, traditional funding sources remain prevalent. This was confirmed by the interviews.

The values placed on the assets offered as security is critical to the lending process. Obtaining a valuation by an experienced professional is essential. Reputable banks and other lenders will only consider a valuation report prepared in accordance with the Royal Institution of Chartered Surveyors’ (RICS) Red Book which takes into account such factors as: the property’s location, condition and quality, whether there is any demand/supply in the area for specific property, what the current market conditions are in the area, how much income is derived from the property, whether tenants are reliable, if there is potential for an alternative use, if there is any planning permission in place which will affect its future value. If the valuer considers that energy efficiency impacts on value, this will be reported, but otherwise, whilst the valuer is advised to collect data, it will not be specifically reported.

Although the valuation of underlying assets is important, for corporate lending, there is a strong emphasis on the capacity of the borrowing organisations’ strength and ability to pay the interest and amortization of loans. For this reason, combined with a lack of data collected by owners and passed on to valuers, energy efficiency does not feature highly in the decision process with most lenders not specifically asking for or receiving such data, much of which is not systematically collected in any event. Further there were concerns expressed about the adequacy or otherwise of EPCs as a measure of energy efficiency. However, there are now early signs that, on an individual mortgage level, banks are starting to assess the overall costs of living including expenditure on energy consumption.

The independent role of the valuer is important to funders but the consensus is that the professional valuers must reflect the market, although there was an appetite for them to be able to provide some commentary to assist lenders in assessing risk. In terms of risk, overall energy efficient stock is seen to provide lower risk and that this is likely to be increasingly the case moving forward. However, whilst the interviewees have an expressed desire to support energy efficiency and consider sustainability and responsibility policies in their loans to companies, they are not yet seeking information in detail at the asset level. There is a belief in market drivers and that funders, like valuers, will follow the market. But ultimately energy efficiency is also viewed as a policy driven matter.

Annex I List of interviewed organisations

All interviews have been transcribed and stored in the archives of the REVALUE project. In order to keep opinions and information anonymous we have prevented any type of quotations. The information used in the report is extracted from all available material and tends to give a balanced view of the collected information. We deliberately have chosen for this approach in order to be able to share as much information as possible with the public. Instead of what earlier had been decided, we have chosen to make this Deliverable public so it can be used by others in the context of research and development projects. The information in this document is based on the available information only and as such we cannot guarantee that other stakeholders have another view or opinion.

Financers/Funders

Postbank	Germany
Allia	United Kingdom
Amber Infrastructure	United Kingdom
HSBC	United Kingdom
Lloyds bank	United Kingdom
M&G	United Kingdom
RBS	United Kingdom

Annex II Template interviews with financiers

Dear ….,

Funding Energy Efficient Retrofits in Residential Rented Stock in Europe

Thank you for agreeing to be interviewed as part of a Research Project that is being undertaken by a consortium including the RICS and Savills with the aid of EU Horizon 2020 funding. Further details of the project can be found at http://revalue-project.eu/

The overall purpose of the research is to investigate how the benefits of energy efficiency retrofitting of residential rented stock in selected European countries can be quantified and used to incentivize or/and facilitate upgrade projects which will contribute to the reduction of carbon emissions and enhance the health and wellbeing of occupants.

We are conducting statistical analysis of a wide range of data from case studies of social housing portfolios to evaluate whether schemes have produced a dividend. In terms of added market value, but to support this we are undertaking a series of interviews and focus groups with investment owners, funders and key industry bodies in each country in order to gain a deeper understanding both as to the decision-making process prior to investment in retrofits and into the evaluation of benefits.

I am attaching a copy of the largely open-ended questions that we wish to explore with you. Whilst we appreciate that not every interviewee will be able to contribute to every question, in the interests of transparency, we are circulating all questions to lenders to you.

We anticipate that the interview will last for between 30 - 45 minutes. Following the interview, we will write to you with a summary of the discussion with you but please accept our assurance that you will not have any comments directly attributed to you as the data will be collated and used anonymously. We would however be grateful if you would consent to your name or/and affiliation being included as part of our reporting process to the European Commission.

If there is any further information you require before the interview or if you need to alter any of the arrangements please do not hesitate to contact me at sarahlsayce@gmail.com or Fiona Haggett at fhaggett@rics.org as she is coordinating the RICS input to the project.

Yours sincerely

Professor Sarah Sayce

Advisor to RICS on the REVALUE Project

Undertaking Energy Efficient Retrofits in Residential Rented Stock in Europe

We would like to explore the following key issues with you; we acknowledge that your experience may lead you to have expertise in only some of the areas and we confirm anonymity.

About your Organisation and your Portfolio

- In what country/ies do you fund real estate investments?
- What is your role in the organisation: director/lending manager/ fund manager/ other
- Against what type of real estate assets do you lend?
- In terms of your lending to or funding of residential stock, how is this split between tenure(s) market rent/intermediate/affordable/supported living?
- For which do you supply funding: purchase of existing stock/development/ improvements?
- Are you involved in funding any large-scale schemes – such as investing in REITS?

The current data about the stock you fund

- What is the type of data you collect routinely for individual units on which you lend? Does it include specific information about energy efficiency and/or sustainability features – e.g. EPCs?
- If you answered yes, are there minimum standards that you require properties to achieve either as a pre-condition of the loan or as part of ongoing works within a time scale? Does this apply to both new build and existing stock?
- Do you regard lending against 'green stock' to be less risky? Why?
- Do you offer preferential terms for energy efficient stock? If so what? (increased LTV; basis point reduction; other)
- In your experience what green initiatives are prospective borrowers adopting for both existing and new build properties? (e.g. Insulation, solid wall, cavity or loft insulation, heating, draught proofing, double glazing, renewable energy generation such as solar panels or heat pumps, energy efficient lighting and smart meters, etc)
- Where you are lending against a portfolio, do you interrogate the underlying assets offered as security in the same way or do you lend against the corporate entity?
- If you are lending against the corporate entity do you take account of the borrower's corporate responsibility policy and their plans for portfolio upgrades?
- Would you consider funding implementation of EE measures for a scheme? What level of detail of the scheme would you require?
- If you exercise differential funding regimes for EE projects or EE buildings, how is your business case justified?
- Where companies/individuals borrow for improvement schemes how do you monitor the execution and subsequent performance of the work? Do you only lend against specific technologies –or are there any technologies you do not fund?

- In your experience when you lend against schemes of improvement, does the borrower undertake more comprehensive improvements than simply energy upgrade (i.e. is energy simply a part of a more holistic scheme of works)?

General views

- In the future, are you likely to increase your enquiries about the energy efficiency and sustainability credentials of the stock against which you are lending?
- What is likely to be your minimum specification requirement (statutory compliance/significantly above/zero carbon) for future lending?
- What are your views on building passports?
- What information would you find useful to receive within a valuation report in respect of energy efficiency (e.g. summary of portfolio EPC ratings if available)?
- What do you see the government role as in promoting EE in residential property? (enabler; regulator; financier)
- What role do you think valuers can/should play in driving purchaser/lender opinions towards energy efficiency? Should they provide Market based evidence only? Technical or strategic advice – both? Neither?
- Do the valuation professional bodies take a strong enough lead in ensuring energy efficiency is reflected in valuation advice?
- Would you expect more sustainable properties to have a premium going forward ie green premium/ brown discount?
- If you were to give advice to policy makers to aid energy efficient upgrades to your stock, what would it be?
- What are your company's future aims on sustainability/energy efficiency and what do you see as the driving force behind this? Government driven or industry driven?
- Is there anything else you would wish to share with us?

Annex 1 - List of funders/financiers interviewed

Organisation	***Country***	***Number of people interviewed***	***Role***
Allia	United Kingdom	1	Deputy Chief Executive
M&G	United Kingdom	1	Head of Social Housing
RBS	United Kingdom	4	RBS Sustainable Energy, Lombard, Director Social Housing Finance Team, Commercial & Private Banking
Amber Infrastructure	United Kingdom	1	Principal (technical/relationship)
HSBC	United Kingdom	1	Head of Social Housing
Lloyds bank	United Kingdom	1	Relationship Director in the Housing Team
Postbank	Germany	2	Director Residential Real Estate, Associate Director Residential Real Estate