

Episode 246

Self build mortgages that promote sustainable living – with Paul Ellis from Ecology Building Society

The show notes: www.houseplanninghelp.com/246

Paul: So, I've been involved with Ecology since 1981, literally before we actually started business. So, we are the youngest building society in the country. We were the last operating building society to be formed, in fact. And I think that's because we've got this particular focus and that is very much on pursuing sustainability and looking for the best environmental outcomes. And that's driven us all the way. That's what got me involved. That was my interest in matters environmental, which morphed into sustainability in its wider sense.

Ben: How do you start something like this? You mentioned you are the youngest. That normally means it's pretty difficult to get your elbows in.

Paul: I think one of the reasons why we haven't seen any more is that the rules have got progressively more difficult since we began. There hadn't been any new building societies for quite a while when we got this crazy idea to spend time setting up a building society. At that time, you only needed ten investors with a maximum of five-thousand pounds to actually start a building society, and that's what we did.

The authorities got wind of this and decided they were going to put that amount up to fifty-thousand. Very kind officials from the Registry of Friendly Societies met us at Kings Cross in order to process our papers with about five minutes to go before that amount increased. So, if things had been slightly different, if the train had been late, who knows whether it would have got going.

Now it's quite hard to see people setting up a new building society from scratch because we're now subject to wide international banking regulations and we would need at least a million pounds just to begin planning, to start a building society.

Ben: How easy was it to get those first customers, and were there any ecological criteria back then? I'm assuming there were, or maybe you set it up with a few people in mind?

Paul: The first ten founders were all people who were committed to a variety of environmental causes. At that time, that involved quite a lot of interest in self-sufficiency, low-impact living. And in fact, they met through the Ecology Party which was the forerunner of the Green Party. So, they were keyed into a network of individuals who wanted to live in that way.

The building society arose out of experience. These were individuals who were looking to buy properties to renovate them to reasonable energy efficiency standards, but without doing too much work, not doing unnecessary works, and possibly having some land attached so that they could do small holding and small scale farming.

They found at the time that lenders were very restrictive and weren't really interested in providing support. So, they would demand certain works to the property, such as ripping out stone floors, putting in damp-proof courses that weren't really needed, but it was all about minimising their risk. So, they'd often say they'd lend the money, but we'll only lend you it once you've done all the work, which wasn't the point because everybody wanted to do their own work, be self-sufficient and learn building skills. So, they would be forced immediately into trying to get others to do the work and they were probably not going to have those kinds of funds available.

So, the building society was set up to really encourage that ability to take properties and bring them back into good use to a reasonable standard, but not to provide expensive kitchens and so on and so forth.

Ben: You also, at some stage, decided to build your own offices. How did that come about? This is obviously a building podcast. I have to ask a little bit about it.

Paul: Sure. We'd been thinking for a while that we needed our own offices. We'd rented a succession of small properties and the concept of the building society had taken off, business volumes were growing, we had increasing numbers of staff. So, we needed a facility that matched our ambitions and our potential.

Originally, we thought about renovating a property because renovation was such a big part of what we did. But we found it quite difficult to find a suitable property that we could grow in. It quickly

became clear that one way forward was to build our own property, incorporate some of the techniques we were asking our borrowers to consider, and use it as a bit of a test bed and see what the issues were.

It certainly worked out that way. The building has been largely successful, but there have been things that we would do differently if we were starting from scratch now, and there are certain things that we would want to change about the building, certainly.

Ben: Tell us a little bit about the construction type.

Paul: The building actually dates from 2003 and it dates from before Passivhaus really became well-known in this country. If we were doing it now, and certainly when we extend this building, we will look to use Passivhaus concepts.

So, it's a mixture of technologies. We have two quite distinct elements to the building. This part of the building very much focuses on long-term energy use. So, there is actually quite a large use of concrete within the building, but the idea being that you can build to a good level of airtightness and the building will last. So, while there's a lot of energy consumed in the actual construction of the building, that's then locked in for a long period of time.

We were fortunate to get the advice of some very eminent energy efficiency experts here in the UK designing the building. I have to say, some of what they suggested we had to retreat from because in our view, it wouldn't necessarily have created a warm, welcoming space to live and work in, if you like. So, we compromised slightly on some of the ideas or adapted them to our use. But that's the basics.

So, it's very highly insulated, warmcel in a timber frame roof, there's insulation under the floors, and throughout the building we make as much use as we can of recycled and reclaimed materials and other materials that have a low embodied energy in them or are very simple in their construction. So, there's lots of Marmoleum used throughout the building because it's a very simple material, for instance, but quite hard-wearing.

There's very little we've had to change, actually. So, that's quite a testament to the materials, I think.

The other element of the building is quite different because it completely majors on natural materials and has gone for a more breathable structure. And that's our meeting room, which is entirely constructed from strawbales, which we were really pleased that a

lot of our members actually got involved in the construction of that element of the whole thing.

We had a few weekends where members came along and learnt the skills of building with strawbales. The advantage of strawbales is you can build quite quickly – in fact, too quickly at times. When you have volunteers, you have to take some down and calm people down, do it properly. But then it also has a clay plaster render on the inside.

The whole building was built without foundations because we used a limecrete base. That's an older material that pre-dates concrete and was used in the construction of the Houses of Parliament. Much lower embodied energy, much more difficult to use because it's caustic and it takes time to go off, unlike concrete which is quite quick. So, you have to do it in the right conditions. But it's flexible and that's why we don't need the kind of foundations that you would need with a concrete base.

Ben: It's a building that's got a lot of character, which is one thing that I like particularly, as I've seen that there's a developer estate not far from you here that is springing up and I'm sure that's not a particularly joyful thing for you.

You mentioned that you learnt a number of things through the process and might do things differently. Do you have any desire still there? Not necessarily for offices, but what would you like to try out?

Paul: As I say, with the extension, we'd almost certainly go for Passivhaus principles and then test them out against the rest of the building and see how that works.

Ben: A whole area, almost like in a separate building?

Paul: Yes, on the side. That's one of the things we're thinking about at the moment, how do we connect the two up.

Ben: The airlock.

Paul: Yes. It's almost like an airlock. So, we're just making the best use of the space that we have here at the moment, to use that to its highest efficiency, but after that, that is the direction that we will take.

Looking back, I think we put the meeting room probably in the wrong location. The layout of the building was determined by the geography, but that meant that the meeting room probably went on

to the wrong side of the building and doesn't get enough solar gain. It was built without any heating in there, but that was slightly optimistic, I think. So, we've had to retrofit heating into that space. It still works as a really nice space, however.

Ben: All this is quite good context to understand if we're coming into this process. A lot of the podcasts that we do are about new builds, although people are constantly saying to me I should do more on retrofit as well. Maybe we could take that situation that someone does want to create an ecological home. Perhaps they're just not sure how the finance side works. Certainly, when I meet people in the early days, sometimes they can just be dreaming a little bit. So, what would be your advice? Maybe we could go through this process of how we could get a stable financial footing before we do anything else.

Paul: We would encourage people to obviously look at our website and give us a call, talk through their own particular situation and what their plans are. We won't approve but we might comment on their ideas around budget, whether we think that might be viable for what they're proposing.

Obviously, at this stage, we're often talking to people who haven't yet identified a plot. So, it's very conceptual. And sometimes we're talking to people for quite a few years. We often meet people at some of the shows like Homebuilding and Renovation. And it may be three years before we suddenly get the call and of course they sometimes think we'll remember exactly all the details. We don't always do. But that's how long it might take.

Clearly, you've got individuals who have been thinking of this for a long time and have been amassing information and refining their concepts. But it is important to have that initial call, that initial discussion, to try and work out what would be viable for those individuals.

When people do come to us, they've quite often saved up a reasonable level of deposit which is essential, obviously, to make the cashflow work. In many cases or most cases with us, they're probably coming having already got the plot, which is good for us because then we can concentrate on the plans. For us to make a decision, we have to be sure that there is something here which is going to work in terms of energy efficiency or wider environmental considerations, and so it's hard for us at the outset to give more than a rough picture of what we can contemplate because we don't know the nature of the building. For us as a lender, the actual nature of the building, the finished product, is quite important to us.

For other lenders, it would be more of a focus on the finances. For us, it's what the building will achieve.

Ben: Obviously, there are various different approaches to sustainability. Some people will focus a lot on the materials, and you've got the Passivhaus and hopefully everything coming together. But how do you assess different projects and what are your criteria?

Paul: When we have a discussion with individuals, we ask them what techniques they're going to use, what materials they're going to use, and we look against a rough palette of different ways of construction and the materials they're planning to use, and take a view on whether or not that's a project that we think will work. What we're doing there in effect is exploring whether the individuals understand the techniques they're thinking of using and whether it will work out in practice against the budget.

Now, what happens a lot these days is there are more and more architects who are aware of these techniques, and so more and more of our borrowers would employ an architect to help with that whole process. And I think that's quite valuable and that's been a good development, that there are more architects out there who are eco-designers, if you like, or understand that. Probably don't always work in that field but look out for those projects, want to be involved. We get quite a few referrals through from architects for that reason.

Obviously, those architects will have worked with other contractors in the past. So, they'll know individuals who know how to actually do it in practice. Because as you will know, there's a big difference between actually setting out to do this, and actually achieving it and making sure it actually works going forward.

Ben: What does the release of the money look like? Is there a set pattern, does it change, or does it depend on what route you go down to?

Paul: Typically, with our projects there will be staged payments. The way we do it here, it's not a set stage such as first fix or whatever, that we would actually lend against. The borrower will come back to us to say, 'we've done this amount of work.' We will get it valued, we will see what the value of the property is at that point, and then we'll release money against that.

That introduces a certain level of flexibility. Obviously, internally, we do track and monitor the progress of the building to make sure that it's remaining on track. And that's because we're looking after our members' money. We're making sure they're secure. But within

that, we can be quite flexible when those releases will happen to suit the circumstances of the borrower. And that might be that they're tying into other financial resources as well. They might have monies that are not quite available or whatever, so we'll take that into account.

Ben: Are there ever situations where you're almost behind on the money you need to draw down? And how does that look? Are there any other options?

Paul: Looking at it from the other way, what we often get is individuals who have taken the project to a certain distance without finance, and then find that something's gone wrong. Or the budget has expanded because they got a bit carried away. And that's often when we're actually talking to some people. We can help in those circumstances, but obviously, it's best to agree it all upfront.

But as I say, we will be flexible on those staged releases where we're pretty certain that the thing will come to fruition.

Ben: Are there any pitfalls when things go wrong, just so that we can try and avoid them?

Paul: Know your site well, for a start. Quite often we've found people have bought sites and then discovered issues with the sites. So, problems with boundaries, problems with hidden structures. So, on one site some cellars turned up. So, you've got a lot of groundworks to do before you can get going. Obviously, that can delay, that can bring in extra costs.

What we always say is have a ten percent contingency and we look for that in the costings. We test the costings to see if they'll work. Because it's not in our interests, it's not in the borrower's interests to lend money when individuals are going to find problems further down the line. So, it's good to have that contingency in there and we would expect that.

Ben: What's it looking like in terms of the client base? I know that you have a mixture of different projects. So, do you have a couple of examples you could share with us?

Paul: It's quite a varied client base. Not so many first time buyers, I would say. They do come along to us, however, they're likely to have been gifted the plot or have had some help with the funding. We often find first time buyers tend to get involved in the renovation projects more. Because for a relatively small budget on some properties, you can actually increase the value substantially. So, it becomes a good investment.

We like to support renovation projects. That was mostly our emphasis in the early days.

The emphasis has switched more to new build and self-build. And you can see why, in some respects, because there's been a lot of development in green building techniques, in products, and you can start with a blank sheet and design in energy efficiency from the start.

Any renovation project will create its own challenges and I think there's a lot of work out there at the moment. Organisations we're working with, companies and cooperatives and government departments like BEIS, trying to find a way which we can create models to encourage more people into the renovation and retrofit space by providing systems, if you like. Or systems of support and information, which makes it easier for people to engage.

And I think from an environmental point of view, that's where the big wins exist because we've got such a poorly performing housing stock in relative terms and that will be with us for quite a long time. So, we need to improve the housing stock. We're not building enough to actually replace that in any kind of timescale that we need to, to address climate change. So, our emphasis is on encouraging renovators where we can.

Our self-builders are largely people who have done some research, come up with some ideas, informed themselves, possibly engaged with organisations like the Passivhaus Trust or the Association of Environmentally Conscious Building. We do have self-builders who are probably less well-versed and we welcome conversations with them. We can point them in the right direction. We might question one or two aspects, 'do you really want to put all of those renewables on when you haven't really considered the insulation of the property?' And so on.

We will have people who are purchasing semi-constructed kit houses which they're going to customise to their own needs. They're semi-manufactured off-site so you get some kind of guarantee of the energy efficiency levels. And we're quite keen to encourage that kind of off-site construction, modern methods of construction, because of the inherent possibilities around energy efficiency and avoiding some of the pitfalls that you get on site with materials not being installed properly, particularly around insulation and so on, and insufficient checks being done to ensure that the correct standards have been applied.

So, that's a big area for us. That's something we're quite keen on. And we're encouraging other lenders to take a positive view of that type of build.

Ben: We've mentioned a couple of times this unique angle that you come from here. Why, as a self-builder, would we choose you? There's a discount involved, isn't there?

Paul: Yes. Certainly, on the pricing, what we do is we try and align the pricing to the impact on the environment. So, if you're building to one of the higher standards, you'll get our maximum discount. We base our discounts on a variety of systems such as EPCs and ACB Silver and Gold standards, Passivhaus, formerly the Code for Sustainable Homes. We think it was a backwards step to get rid of that.

We're looking to create our own standards over time as well, so that we can reward particular features of the build, and where individuals go above and beyond.

So, our maximum discount would be for Passivhaus and that kicks in as soon as you have completed the build. And unlike short-term discounts at the beginning of a contract, our discounts then last for the life of the mortgage term. So, if you stay with us, you'll get that discounted price for the full term, be it twenty-five or thirty years.

But I think the big advantage is that we've done hundreds and hundreds, supported thousands of self-builds over the years, and we have a very experienced underwriting team who have seen loads of different techniques, lots of different projects, seen all sites and budgets, some things that have gone wrong, and so we're able to really understand the project and engage with you as the borrower, and understand how to react when something doesn't go quite right and you need a bit of flexibility. So, I think that's been a big advantage for us.

What's often happened is that people who have started projects hit problems with other lenders. Some have needed more money and they've said that's not what was agreed and so on and so forth. And it's then that they've found us, and then discovered what we can do. So, we get endless testimonials about how we enabled the projects to happen. So, that's really pleasing when that happens, and they get sent around the building and everybody's passing on their congratulations. It's really nice when you get that.

Ben: Is there anything else or any other message that you think people don't quite understand about this part of building a house that you would like to mention? Any other tips? Anything useful?

Paul: What you have to remember, of course, is that while you're building, there's that element of construction risk. And that is the period when it can be quite difficult. So, to get this properly planned out in advance is key.

Try to avoid adding features in and potentially blowing the budget. Because there are issues of affordability that we will have to take account of. And so, if you're thinking of making changes, then talk to your lender. Make sure they're fully on side with what you're trying to do.

Ben: Zooming out for a moment, this is obviously the sort of thing that I love seeing, ethical, encouraging ecological building. I just think there's a whole economy here waiting to come out. It seems incredibly slow sometimes. What are your thoughts on that, of other businesses that could just be working a bit more with the planet rather than against it?

Paul: I think we're in quite a strange situation at the moment because I think we're seeing retrenchment by government in terms of policies that would support that transition to a more sustainable economy. Particularly we're seeing that around housing, retreating from zero carbon housing and so on.

But what we've seen over time is we were quite lone pioneers at the beginning. There wasn't much in the way of a green building components industry. But what we're seeing is more and more firms coming up with exciting products. We're seeing more and more companies trying to do the right thing.

So, it's almost like despite the drift of government policy, business, companies, individuals, cooperatives are leading the way on this because they know it's not only good for the planet, it's good for society, it's creating sustainable jobs, and it is beginning to happen.

There are some interesting signs that the need for sustainable finance to back all that is beginning to be understood and we're seeing the City of London in particular, in the UK context, beginning to push the Green Finance Initiative, which is looking at ways of increasing the flow of funds in to green investment products. And we're seeing the European Union doing the same. So, we're currently working on a project to create an energy efficiency mortgage model that would be available right across Europe. And



that would enable more mainstream organisations to get involved in creating preferential financing for mortgages on properties that are actually making a difference to our carbon footprint.

Ben: Paul, I've really enjoyed my chat today. Thank you very much.

Paul: Thank you.