

CLIENT BULLETIN

EPC Update June 2022

As EPC regulations have steadily tightened in recent years, with further restrictions being applied in the near future, investors have been reviewing their portfolios to identify which properties or units are most at risk, and what needs to be done to ensure they can continue to be let or sold.



In addition to these tightening of regulations, recent changes to the methodology used to calculate EPC ratings in England & Wales, coupled with existing differences in EPC regulations in Scotland when compared to England & Wales, make this task even more complex.

A further looming consideration is the Department for Business, Energy & Industrial Strategy's (BEIS) move towards a potential replacement for the EPC system altogether, with a new system likely to align with existing operational-focused rating systems such as NABERS UK.

This client update on EPC's helps demystify this complex area by addressing;

- What are the differences in EPC regulations north & south of the border?
- What are the recent changes announced to calculating EPC ratings, and what impact will they have?
- What are the most effective ways of improving energy efficiency, and therefore EPC ratings?

WHAT ARE THE DIFFERENCES IN EPC REGULATIONS NORTH & SOUTH OF THE BORDER?

The respective legislation differs in two key areas – when EPCs are required and what the minimum standards for those EPCs are.

WHEN IS AN EPC REQUIRED IN SCOTLAND?

In Scotland, an EPC need only be obtained and exhibited when a property is to be sold or let – although the regulations don't cover sales or leases before construction of the building is complete. Nor do they include renewal of an existing lease to the same tenant - and it's generally considered that assignments of leases are excluded also. The position on sub-leases is not clear.

The EPC should be prepared and ready for exhibition at the outset of the marketing process for sale or leasing – it needs to be produced within 7 days of the process commencing.

The main difference with England & Wales is that in addition to the EPC, an Action Plan is required, prepared by a specialist and containing a list of prescribed improvement measures. The owner must then decide whether they elect to carry out those works (which they must then do within 42 months) or instead to elect to implement an "operational rating measures" regime by displaying a "Display Energy Certificate" at the property – recording total CO2 emissions and operational ratings over the previous three years - and renewing and registering this annually. The theory is that energy and emissions reductions can be delivered through behavioural change as well as by building improvements.

There are a number of exemptions to the requirement for an Action Plan, specifically if the building has been constructed in accordance with 2002 Building Regulations, then no Plan is required as these are deemed to be sufficiently compliant with energy performance requirements.

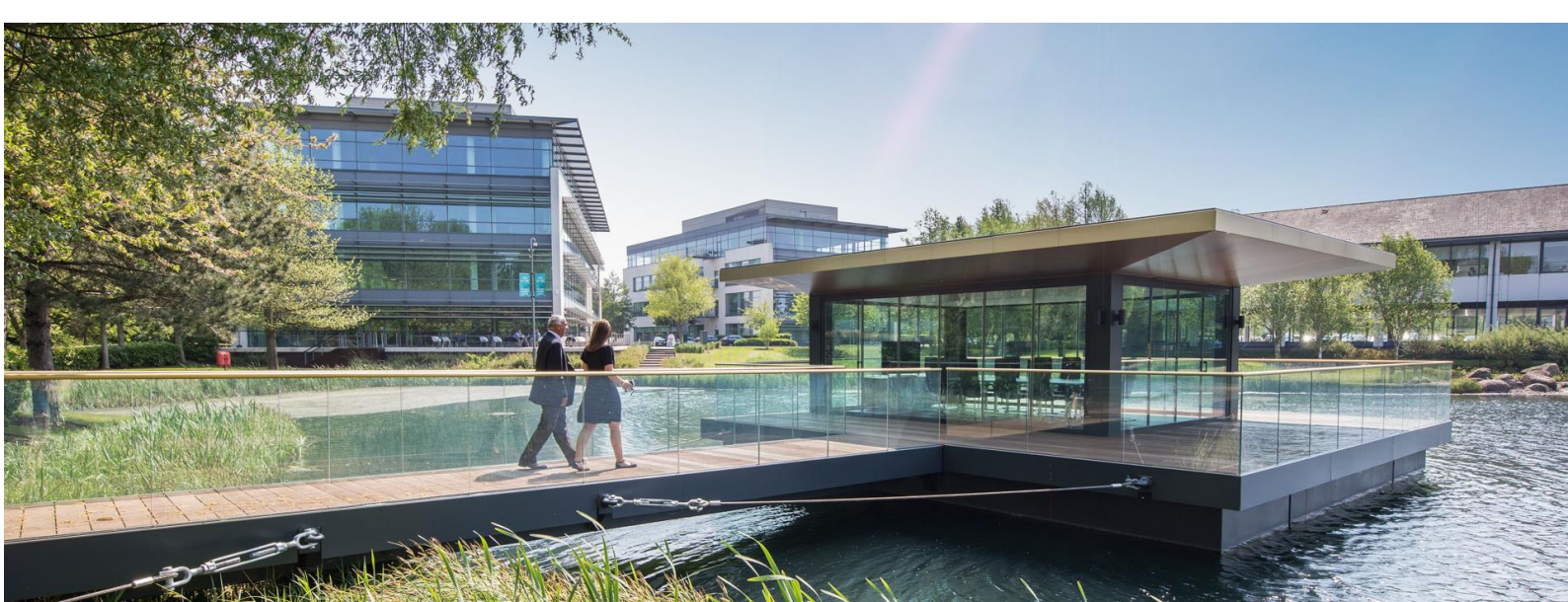
WHEN IS AN EPC REQUIRED IN ENGLAND & WALES?

Similarly in England and Wales, an EPC is also required for a sale or letting (not a renewal). The position on sub leases is clear though in that the tenant becomes the landlord in this scenario and similarly needs to ensure a valid EPC exists for their sub-letting. There is however no action plan requirement.

WHAT ARE THE MINIMUM REQUIRED EPC STANDARDS IN SCOTLAND (SEEP)?

Unlike in England and Wales there is no prohibition on selling or letting properties with an EPC rating below a specific level – although there is anecdotal evidence of some lenders who have failed to appreciate the distinction north and south of the border.

As mentioned above, the minimum energy efficiency scheme introduced in Scotland from 1 September 2016 means owners of large (more than 1,000 sq m) non-domestic buildings are however required to produce an Action Plan. This is generally referred to as a Section 63 Action Plan and assesses the energy efficiency of the property for sale or letting. The owner must either improve the building within a specified period or report annually on its actual energy use until such time as the improvements are complete.



WHAT ARE THE MINIMUM REQUIRED EPC STANDARDS IN ENGLAND & WALES (MEES)?

From 1 April 2018, the MEES regulations introduced measures to improve the energy efficiency of private rented property in England and Wales meaning it will not be possible to grant a lease on a non-domestic building to a new tenant or renew a lease unless the energy performance certificate for the property meets the minimum E rating.

The second phase of these regulations extends this requirement to existing leases, meaning landlords of commercial premises must not continue to let property after 1 April 2023, where the energy performance is below the minimum E level rating. This legislation does not apply to sales.

In addition, the government recently announced the future trajectory for MEES which will require an EPC B by 2030. There is also consultation over a requirement for all units to have a valid EPC by 2025 and a potential 2027 interim banding of a minimum C requirement.

As stated above these minimum standards **do not apply to Scotland** where there are currently no minimum EPC requirements.

ARE EPC RATINGS COMPARABLE EITHER SIDE OF THE BORDER?

It should also be noted that the EPC grades in England and Wales are not directly comparable to those in Scotland where Scottish properties may perform less well when compared to the English ratings.

In order to compare the energy efficiency of buildings in England & Wales and Scotland more information needs to be considered than just the headline rating achieved. Often ratings in Scotland are poorer than a similar building would achieve in England & Wales because the methodology adopted in the latter includes a comparison with notional building emissions, which aren't used in Scotland. This means a building in England will appear to be more energy efficient than that same building in Scotland which may cause investors to favour investment bias towards England. To truly understand a building's energy efficiency, we need to look beyond just EPC ratings and look at the underlying energy usage.

“

The second phase of these regulations extends this requirement to existing leases, meaning landlords of commercial premises must not continue to let property after 1 April 2023, where the energy performance is below the minimum E level rating. This legislation does not apply to sales.

”





“

In 14 test projects by Carbon Profile, all nine of the grid-electric buildings received a better rating under the new version 6.1 SBEM. All gas-heated buildings got worse.”

WHAT ARE THE RECENT CHANGES ANNOUNCED TO CALCULATING EPC RATINGS AND WHAT IMPACT WILL THEY HAVE?

This month has seen a significant change in energy assessments for non-domestic buildings, which will impact EPC ratings with the introduction of the most recent version of the Simplified Building Energy Model (SBEM). This is the methodology used by energy professionals to calculate energy efficiency in commercial property, and the latest version appears to penalise those buildings that continue to use gas, making it harder for them to achieve better EPC ratings.

Driven by the government's push towards meeting Net Zero targets, the updates will impact the way non-domestic properties' energy consumption is assessed, and how EPC ratings are achieved. Today, 30% to 40% of the electricity in the national grid is produced by renewable or low-carbon fuels. Now that the national electricity grid has become less reliant on fossil fuels, the carbon factor of electricity has been improved by 73% on the previous 2013 values.

While the carbon factor for electricity has improved, the carbon factor for natural gas has worsened slightly, which means those buildings still using gas are likely to receive a poorer ratings compared to those without.

In 14 test projects recently calculated by Carbon Profile, all nine of the grid-electric buildings received a better rating under the new version 6.1 SBEM. All five natural-gas-heated projects got worse.

Before committing to refurbishment works to achieve a better EPC rating, it is important to recalculate EPCs under the new SBEM methodology.

WHAT ARE THE MOST EFFECTIVE WAYS OF IMPROVING ENERGY EFFICIENCY, AND THEREFORE EPC RATINGS?

Looming regulatory change, along with sharp increases in energy costs, mean 'real' energy efficiency is now paramount, so improving the EPC rating of commercial property will be a major focus of investors during the coming years.

Although payback periods from interventions can vary, with accurate input data and realistic intervention forecasts building consultancy teams can help with costs and practical implementation to ensure EPC uplifts deliver to the modelled forecasts, ensuring energy and cost savings kick in as soon as possible.

Here are five ways to achieve a better EPC rating:

1. Locate the data

Often, EPC assessments are carried out according to default values for a building's age and asset class. Although this can result in cheap, quick EPC turnarounds, it often leads to inaccuracies, and ratings that only reflect a typical, notional building. To avoid this, it's essential to track down accurate data for individual properties. It may take more effort to obtain as-built drawings, floor plans and elevations, understand the u-values, and any building improvements, but information relevant to each specific building generally means a better outcome. Creating a pack of information for the EPC assessor will immediately mean a more seamless EPC turnaround – and usually a superior result.

2. Control the glow

Replacing existing lighting with LEDs is one of the easiest and most cost-effective ways to improve an EPC rating. Of course, the extent of improvement will depend on what's already in situ. Where a building has very old fluorescent lighting, replacing it with LEDs will likely mean a big win. But LEDs will be an advantage to any building. And what could ratchet that up further is adding smart controls such as movement sensors so that if people are not using a particular area, the lights will dim or turn off. Similarly, around the perimeters of a floor plate, where there is enough daylight from windows, sensors can assess when it's bright enough with natural light.

3. Get clever

In a hybrid working world, many buildings don't require the same old seasonally adjusted patterns of heating, cooling, and ventilation, so controlling this properly is key. Some properties may have been on a similar time schedule for



years. However, the technology is now available to attune this according to external predicted factors such as weather forecasts, the level of occupancy, and the areas in which they are expected to congregate. It's about making sure the heating and cooling controls are powered by intelligent building operating systems in order to understand what the building's doing in the context of wider factors, not just operating on a basic time clock.

4. Save the hot air

At a basic level, putting in draft-proofing strips, sealing around window and door frames, and filling gaps in the fabric avoids energy leaking out through the building. A cleverer approach is to think about heat recovery. A slightly more costly option, this is very viable at the point of replacing ventilation systems. Rather than sucking warm air out of the building into the atmosphere, the heat in that air is recovered and reused back into heating systems. Mechanical ventilation heat recovery means heat is saved, and the air is still exchanged. This reduces energy demand, and with minimal leakage, less heating and cooling is required in the first place.

5. Let the sunshine

Installing solar PV panels to generate energy on site helps with EPC ratings and much more effectively than wind turbines (which often feature in EPC recommendation reports, despite not being very effective for commercial property). Although solar PV demands a higher outlay than most of the solutions detailed here, the payback can be compelling and ever more so with the unfortunate energy price hikes.



For further information on EPC legislation or if you need advice assessing and mitigating the EPC risk profile of your assets, please contact:

VICKY COTTON

ESG Director
t. +44 (0)207 227 6211
e. vicky.cotton@workman.co.uk

HEDLEY JONES

Head of ESG - Refurbishment & Development
t. +44 (0)117 980 6227
e. hedley.jones@workman.co.uk

workman.co.uk

BIRMINGHAM | BRISTOL | CAMBRIDGE | CHORLEY | GLASGOW | GUILDFORD | LONDON | MANCHESTER | MILTON KEYNES | NEWCASTLE | SWINDON | PARIS
