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Everything you thought you knew about Energy Performance Certificates for commercial buildings...but did not!

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What is an EPC?

The story of the Energy Performance Certificate begins in 2003 with the Energy Performance of Buildings Directive (EPBD). This European Directive was designed with the intention of reducing the amount of energy buildings use and improving their energy efficiency. An Energy Performance Certificate, often referred to as an EPC, is the document that provides an assessment of the property's energy performance.

The Minimum Energy Efficiency Standards (MEES), introduced in 2018, aim to improve the energy efficiency of commercial and domestic buildings in the UK, contributing to UK emissions reduction targets. This is achieved by providing information via EPCs on the current energy efficiency and associated emissions of buildings and making recommendations for improvement.

EPC assessments must be undertaken by an accredited assessor and the outcome provides a rating for the property from A – G (A being the best and G the worst). Commercial EPCs, slightly different to their domestic equivalent, entail more detailed inspection and subsequent recommendations. They estimate the cost of powering the property and its related emissions and provide guidance on what can be done to improve it. Once complete, a certificate is valid for ten years.

Awareness of EPCs increased in 2018 because of MEES, with any new leases being required to have a minimum EPC rating of E. Further reform in 2023 added existing leases to the requirements, such that all privately rented non-domestic properties must now have an EPC rating of E or above.

What's next for EPCs?

In 2021 the Government launched a consultation on The Non-Domestic Private Rented Sector MEES – Implementation of the EPC B Future Target. The consultation proposed milestones up to 2030 (EPC C by 2027 and EPC B by 2030 for Non-Domestic Private Rented buildings), however the proposal paused at consultation stage. The government's website shows the consultation as closed, stating "we are analysing your feedback".

Why are EPCs important?

Regulation designed to improve the energy efficiency of buildings will support the government to achieve its target, enshrined in law, of a 78% reduction in greenhouse gases by 2035 - moving closer to Net Zero by 2050. According to the UK Green Building Council, the built environment contributes around 25% of the UK's total greenhouse gas emissions¹.

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Given the estimate that 80% of buildings that will exist in 2050 have already been built, upgrading the existing stock is considered a necessity^{2 & 3}.

Within the EPC there are recommendations of measures that can be undertaken to improve the overall rating. Some of these could be small gains whilst other larger scale improvements pertinent to commercial buildings may have a significant cost implication. Consideration will need to be given to how cost-effective improvements will be and the long-term benefit both in terms of energy saving but also the value of the property.

According to CBRE data, the market tends to see tighter regulations as inevitable, and subsequently the market is viewing anything below an EPC rating of B as likely to need upgrading at some point in the future. This is going to be a big ask given that across England and Wales only 10% are B or above. Still, our major regional cities have a higher share of A and B rated commercial buildings; Leeds and Manchester have the highest share of 'energy efficient' buildings, at 38% and 39% respectively. In contrast, less than 20% of offices in Oxford and Liverpool have an EPC rating of A or B⁴.

It is estimated that there is circa 72 million square foot of energy inefficient office space in our regional city centres. Using proprietary CBRE retrofit cost data, it's estimated the investment required to upgrade this space to EPC A or B is in the region of £2 billion⁴.

It's not just regulations that are driving energy efficiency in commercial properties; demand for office spaces that help tick the corporate social responsibility (CSR) box have seen a significant rise in recent years.

Recently, we've supported a commercial refinance on two office blocks in central London. The offices cover over 80,000 square footage between them and have extremely high ESG credentials including BREEAM* 'Excellent' certified, and EPC ratings of A. The space is mainly used by national and international tenants, helping to support their own net zero goals.

Do all buildings need an EPC?

EPC Exemptions

As with domestic properties, there are properties which are excluded from requiring an EPC certificate. The list of the exclusions includes:

- a listed or officially protected building, for which the minimum energy performance requirements would alter it unacceptably
- a temporary building that is going to be used for two years or less
- a building that is used as a place of worship or for other religious activities

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- an industrial site, workshop or non-residential agricultural building that doesn't use much energy
- a detached building with a total floor space of under 50 square metres
- a building that is due to be demolished by the seller or landlord, for which the owner has the relevant planning and conservation consents
- a building that is due to be sold or rented out with vacant possession
- a building suitable for demolition on a site that could be redeveloped
- a building with planning permission to be demolished.

Should the property not qualify for an exclusion, fines of between £5,000 and £150,000 based on the rateable value of the building, and duration of the non-compliance, can be imposed if you do not make an EPC available to any prospective buyer or tenant.

What to do now?

Given government targets for 2035 and 2050, Net Zero is not moving far from the agenda and there is no doubt that energy efficiency improvements will be required to meet them. Commercial property owners should therefore be looking over their stock and the EPCs for each of their properties as well as highlighting those which require improvement. Consideration can then be given to factoring in the costs of the required upgrades in the coming years.

¹ <https://ukgbc.org/our-work/climate-change-mitigation/>

² <https://www.theclimategroup.org/our-work/news/energy-efficiency-measures-will-lead-way-net-zero-buildings#:~:text=New%20builds%20vs%20retrofitting,emissions%20for%20decades%20to%20come>

³ <https://ukgbc.org/our-work/climate-change-mitigation/>

⁴ <https://www.cbre.co.uk/insights/articles/how-energy-efficient-is-our-city-centre-office-stock#:~:text=We%20estimate%20there%20is%20c72,region%20of%20%C2%A32%20billion>

* <https://breeam.com/about/how-breeam-works>