

EPC RISK MANAGEMENT

MINIMUM ENERGY EFFICIENCY STANDARD

The proposed Minimum Energy Efficiency Standard (MEES) legislation in England and Wales will require all properties to achieve a minimum EPC rating of E by April 2018 before a lease event can take place.

For the first time, the fines for non-compliance will be directly linked to the rateable value of the asset with a range of between 10%-20% of rateable value capped at £150,000. Depending upon the nature of the transaction, the impact of poorly performing properties could affect the balance sheet of either occupiers or investors.

In addition, the proposed legislation includes powers to apply the minimum standard to lease renewals and extensions as well as all new leases. This means new sections of the market that had previously been exempt from all EPC obligations are now captured.

IMPACT ON INVESTMENT

Approximately 18% of properties in England and Wales has a rating of F or G therefore the legislation has potential to significantly impact the property market.

With the introduction of Minimum Standards both vendors and purchasers are starting to interrogate EPCs to a greater degree. From recent portfolio reviews, it is apparent that may existing EPCs do not accurately represent an asset, which may put the portfolio at risk from MEES unnecessarily. This could impact the transactional value if a purchaser takes a negative view on the associated costs of improvement works to achieve the minimum standard.

A cautious investor may take the minimum standard legislation into account prior to committing to an acquisition. A more informed approach would be to interrogate the accuracy of the assessment as part of any due diligence process. This applies equally for disposals and acquisitions to ensure the risk is effectively managed.

CBRE APPROACH

We can undertake a desktop review of any existing EPCs. This may well highlight potential errors in the original assessment which would reduce the risk through recertification. If the assessment is accurate the desktop review can give an understanding of the potential costs to mitigate the risk. This information can then be used to influence the negotiation process.

We have carried out a number of reviews on behalf of both purchasers and vendors and a sample of these are shown overleaf.

MEES - KEY FACTS

- Minimum standard in England and Wales to be EPC rated E
- Effective from 2018 on new leases and renewals
- Fines of up to £150,000 linked to business rates
- By 2023 it will be applied to all properties irrespective of lease
- Impact can be deferred if works negatively affect asset value or consent not given by interested parties

EPC Risk Management Process

Desktop Review

- Identify risk
- Review existing EPCs
- Correlate risk to asset value

Site Survey

- Validate existing EPC
- •Collect more accurate data
- Identify potential improvements

EPC Assessment

- Carry out accurate assessment
- Lodge improved rating if achieved

Improvement Plan Provide budget costings for works and potential impact on lease events

KEY CONTACTS



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PATRIOT COURT, SLOUGH

EPC review of potential acquisition of a c. 90,000 sq ft commercial office in Slough. The existing EPC did not accurately represent the recently completed refurbishment works leading to an unquantified investment risk. CBRE reassessed the building to quantify the refurbishment and provided cost advice for any potential improvement options.



MALMAISON HOTEL, LONDON

Technical due diligence of a central London hotel on behalf of the purchaser identified a EPC rating of F. Upon interrogation of the assessment methodology adopted errors were identified and changes were made by the vendor's consultant. The revised rating of D accurately reflected the property thereby allowing the transaction to complete.



ONE CHRISTCHURCH WAY, WOKING

Energy audit of building identified a EPC rating of F. An improvement option appraisal was carried out leading to an extensive refurbishment of the asset. A sustainable design focused approach resulted in a revised EPC rating of B. The asset is now fully let despite difficult market conditions.



TIGER / ATREMIS PORTFOLIO

Portfolio review of 40+ assets across the UK on behalf of the owner to identify high risk assets and carry out reassessments where required to mitigate the risk. Recertification was completed where improvements could be realised through a more accurate assessment. Action plans were then developed and costed to mitigate the risk to all remaining assets.



COVENT GARDEN RETAIL, LONDON

Technical due diligence of boutique retail units in central London on behalf of a potential purchaser to assess the accuracy of F and G rated assets. Site survey identified that the lighting systems had been incorrectly assessed and recertification resulted in EPCs of C and D. This enabled the transaction to be completed without further delays.



GALA CASINO & BINGO PORTFOLIO

Desktop review on behalf of the vendor of 60+ properties across the UK. The existing EPCs indicated that approximately 40% of the portfolio did not achieve the minimum standard. Through a detailed exercise CBRE identified errors in the documentation and assisted the original assessor to update the documents to accurately reflect the portfolio. Where improvements could not be made CBRE carried out a full building simulation and advised the vendor of the associated costs to mitigate the risk of non compliance with MFFS.

