

Low on Energy? How to benefit from the Energy Efficiency Standards

The Energy Act 2011 changes regarding minimum energy efficiency standards are coming into force through the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015, from 1st April 2016 for requests for energy improvements and 1st October for letting properties.

You should be aware that the Energy Act 2011 contains a clause with severe implications for about 18% of all commercial property effecting:-

- New transactions – From 1st April 2018 both domestic and commercial properties cannot be re-let (or leases renewed) if they have ‘F’ or ‘G’ EPC rating. New freehold purchasers will have 6 months from the purchase date to implement energy efficiency improvements.
- All property leases – From 1st April 2020 for domestic properties; and from 1st April 2023 for commercial properties.

Here at Ingleton Wood we have the in-house experience and expertise to assist you in all aspects of your requirements.

The Energy Act 2011 and how it affects you

The Energy Act 2011 contains a number of provisions which will affect owners and occupiers of property. Probably most significant are the proposed minimum energy standards. From April 2018, the legislative changes will make it unlawful to let residential or commercial properties with an EPC Rating of F or G (i.e. the lowest 2 grades of energy efficiency). This could have very significant implications for landlords, and for occupiers who wish to assign or sublet space, including:

- Marketability of some properties will be challenging with low ratings, unless they are upgraded to meet the minimum standards. It is estimated that approximately 18% of non-domestic properties could be in the F & G rating brackets.
- The new minimum standards will apply to all lettings and re-lettings, including sub-lettings & assignments.
- Valuations of such properties could be affected if their marketability is diminished.
- Rent reviews for properties in this situation are affected. Implications for dilapidations assessments would also exist.

Given this risk to property owners and occupiers it is clear that a full understanding of the energy efficiency of your property assets should be attained. Thereafter owners and occupiers will need to assess the costs and viability of undertaking retrofits or refurbishments, and possibly bringing forward properties for re-letting. Property owners and occupiers should also consider how their property values may be affected.

Landlords and sub-letting occupiers will need to achieve an EPC “E” rating or have implemented the maximum package of works allowable under the Green Deal (even if they fall short of the “E” rating required). Exemptions may be made for certain types of properties via secondary legislation.

There are exemptions which need to be registered on the Private Rented Sector Exemptions Register which last for a period of 5 years. Reasons for exemption include the following:

- The property is listed.
- The property has a short lease of less than 6 months, or a long lease in excess of 99 years.

- Energy efficiency improvements might devalue the property by in excess of 5% and has been reported on by an independent surveyor. This might include the loss of lettable floor space by insulating internal walls.
- All cost effective energy improvements have been undertaken. Cost effective is defined as having a payback of 7 years.

Penalties are to be calculated on the basis of the rateable value of the property and can extend up to £150,000.

What can you do?

We suggest that if you think your building portfolio is affected you should contact us so we can help you to identify the potential impact of the proposed legislative changes and the risk to your portfolio. Clearly affected landlords and occupiers will want to minimise risk.

There is a high likelihood that the minimum energy standards proposed for 2018 will be raised in the future too. Although the implementation of the minimum energy standards legislation is 6 years away time is still short to minimise risk.

We therefore suggest the following immediate actions:

- All rentable property needs to have a valid current EPC Assessment. Where the EPC Rating is “F” or “G” (or is at risk of becoming so) an “Energy Efficiency Plan” should be put in place to improve the energy efficiency of the property. This should include assessing the costs and benefits of improving energy efficiency and weighing these against options to market the property and/or to update the lease.
- Energy efficiency improvements should take advantage of void periods, lease breaks and/or be included as part of the on-going maintenance and plant renewal programme.
- Energy efficiency improvement works would need to be implemented before April 2018. It should be assessed whether Green Deal finance could be utilised (we can assist you with the green deal process).

How we can help

We can provide a full compliance service through our multi-disciplinary sustainability/surveying teams including:

- Advice upon the legislation and its implications for your assets.
- Provide/review/update EPCs and assess the risk across our clients’ property portfolios. (Advising what might be exempt from requiring improvements). We will include a full recommendations report, as we are licensed CIBSE Low Carbon Consultants.
- Prepare option appraisals on most appropriate energy efficiency strategy for each property.
- Develop a schedule and programme of energy efficiency improvement works.
- Provide a Programme of improvements to link in with planned maintenance to gain economies of scale.