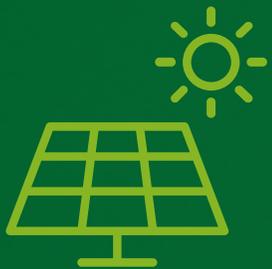


Key energy efficiency changes for commercial property from 1 April 2023



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Agenda – focussing on EPCs and MEES for commercial property

– CMS:

- What is MEES?
- What changed on 1 April 2023?
- Enforcement and penalties
- Exemptions from MEES
- What do I need to do now?
- Data centre considerations
- The future of EPCs and MEES

– CBRE:

- EPCs in real estate
- What does an EPC actually represent?
- What can we use an EPC for?
- EPCs may impact how assets are valued

What is MEEES?

- Derived from the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015
- Bars landlords (or tenants, where it is a sub-lease) from letting “sub-standard property” unless:
 - it has made all of the “relevant energy efficiency improvements” or no such improvements can be made; or
 - an exemption applies
- The relevant improvements are those which:
 - fall within prescribed classes of works (usually by reference to Building Regulations);
 - are recommended in an EPC recommendation report or a surveyor's report; and
 - would achieve a simple payback - through reduction in energy bills - in seven years or less



What is MEES | cont'd

- A “sub-standard property” is one that falls within the scope of the regulations and has an EPC rating below an E
 - **BUT** this will tighten over time!
- All properties within this criteria are caught, except those that:
 - do not require an EPC;
 - are let for six months or less (providing the same tenant has not occupied the property for over 12 months); or
 - are let for 99 years or more

Score	Energy rating	Current	Potential
92+	A		
81-91	B		
69-80	C		
55-68	D		67 D
39-54	E		
21-38	F		
1-20	G	1 G	

What changed on 1 April 2023?

- Since **1 April 2018**, landlords of “sub-standard property” have not been permitted to grant a new tenancy of those properties without complying with the MEES requirements
- From **1 April 2023**, the bar on letting extended to all leases, including continuing to let leases already in place at that date



Enforcement and penalties

- Local authority (Trading Standards) empowered to enforce
- Not criminal, and lease not invalidated

Length of Breach	Max penalty for Commercial Private Rented Property
Less than three months	Whichever is greater of either of the following: <ul style="list-style-type: none">•£5000.•10% of rateable value of the property at the date of service of the penalty notice, up to a max of £50,000.
Three months or more	Whichever is greater of either of the following: <ul style="list-style-type: none">•£10000.•20% of rateable value of the property at the date of service of the penalty notice, up to a max of £150,000.

Exemptions from MEEES

Consent

Tenant or other third party consent refused

7 year payback

Do the works pay for themselves?

Acquisition

6 months

Devaluation

All improvements made

REGISTER

What do I need to do now?

- Consider, review and update current lease drafting where possible
 - Service charge, EPCs, alterations
 - Are there sufficient access rights?
- Audit portfolios to ascertain which units are (or may be at risk of becoming) sub-standard
 - Consider whether an EPC is even required
 - Focus on most urgent properties which may be in breach post-1 April
 - Then forward plan to avoid voids, future unlawful lettings and impacts on wider transactions
- Review T&Cs of employed energy assessors or surveyors

Data Centre considerations

- When is an EPC required?
- MEES will apply to data centre operators in their capacity as landlords
- Co-location agreements
- What you need to do:
 - Check if buildings have an EPC and if not take advice before obtaining one
 - If EPC shows F or G, take steps to improve it, unless an exemption applies

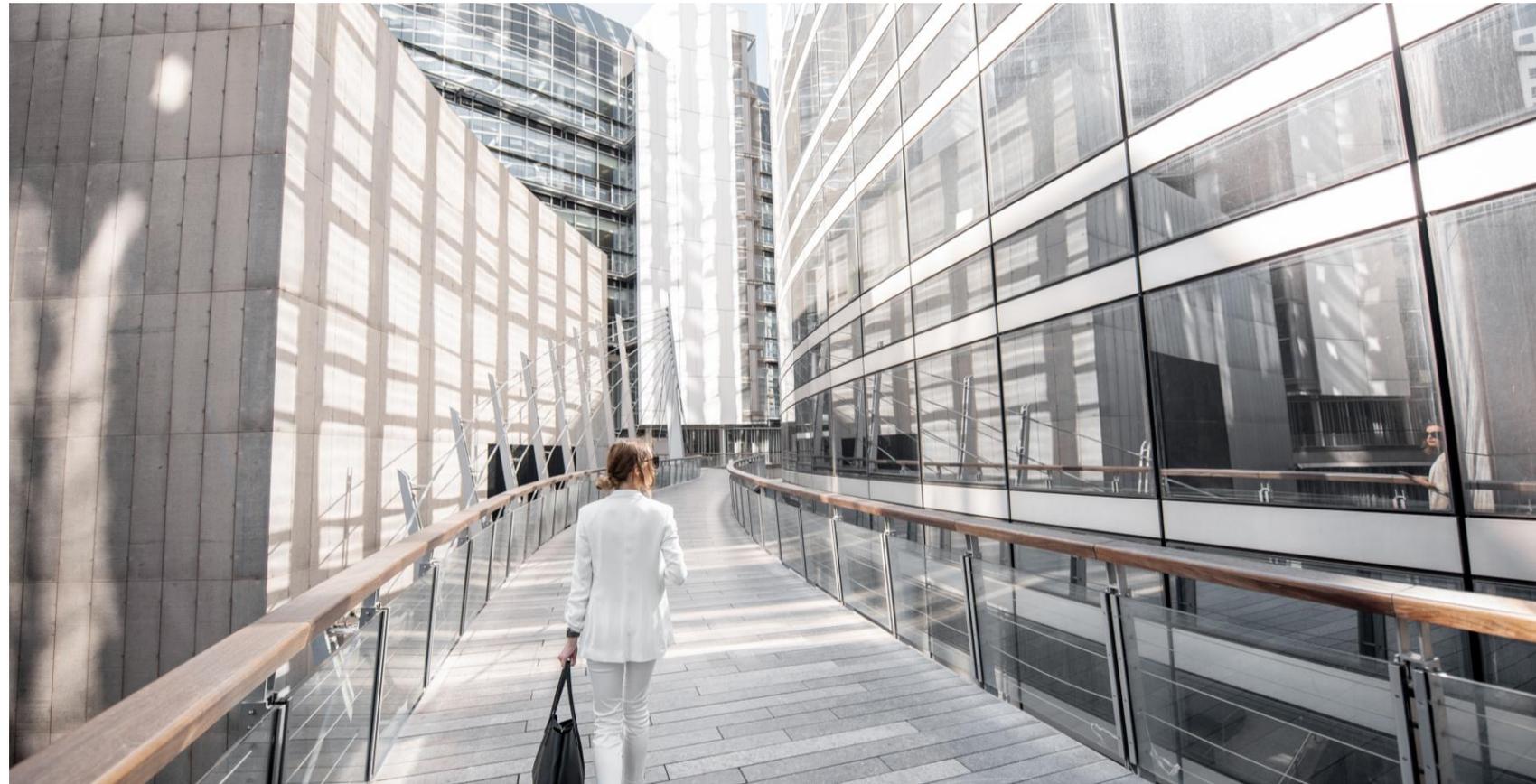


The future of EPCs and MEES

- Government consultation from 2021
- Potential for:
 - Tightening of ratings in the run up to Net Zero in 2030; and/or
 - EPCs to need to be in place regardless of if they have been triggered by a sale or letting
- BUT not set in stone and no legislation has yet been progressed



EPCs in Real Estate



What does an EPC actually represent?

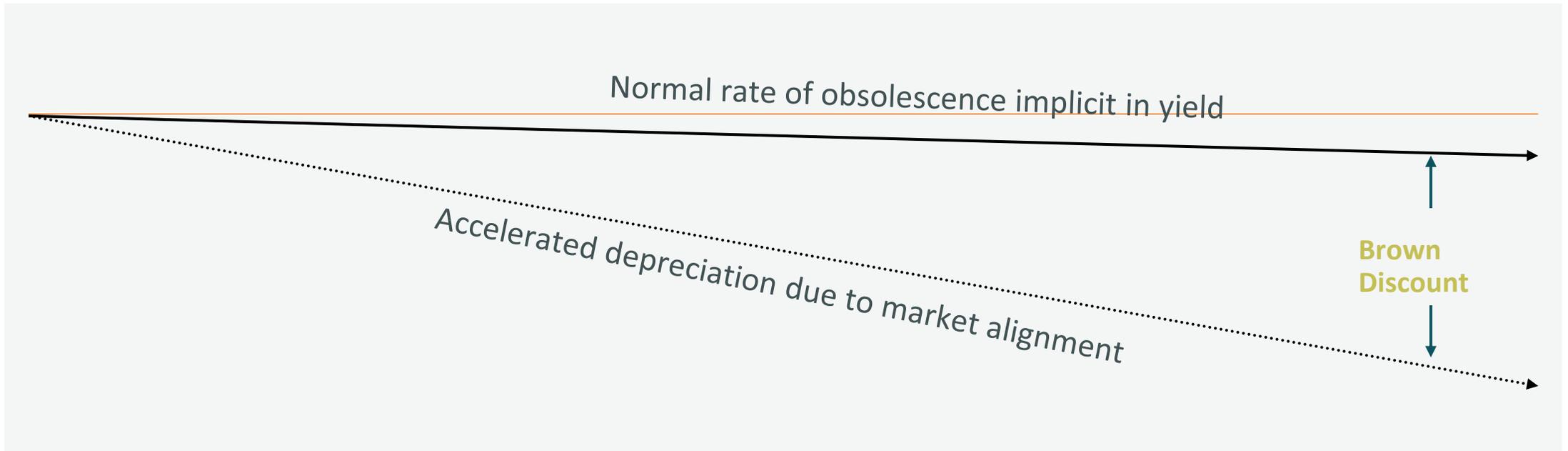
- Asset Rating: Model of how energy is used in the building: includes plant, fabric, lighting.
- Not performance, you don't know how good the building actually performs – how the building is managed, it's real carbon footprint
- Poor assessments result in poor ratings due to defaults in the software

What can we use an EPC for?

- Compliance! As we've seen.
- Recommendations report is generated through the software, considered of limited use
- Landlords are now reporting more MEES exposure, so EPCs have become important in investor and REIT reporting
- Lenders are increasingly assessing EPCs/MEES risk as an ESG component of their lending. Potential for green finance

EPCs may impact how assets are valued

- Assets which are not aligned with market expectations will depreciate faster. This includes MEES regulatory requirements.
- Example: asset with an EPC of D



Get in touch

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Questions & Discussion



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