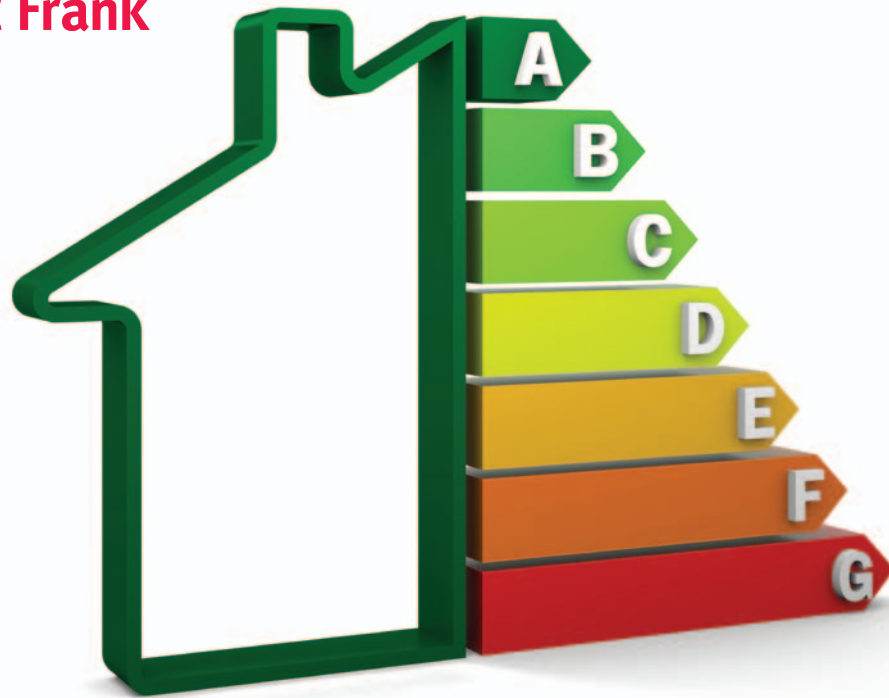


# MINIMUM ENERGY STANDARDS:

Protecting your assets

**Knight Frank**



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 proposed legislative changes would 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 would become impossible unless they were upgraded to meet the minimum standards. It is estimated that approximately 20% of non-domestic properties could be in the F & G rating brackets.
- ♦ Further clarification on the transactional trigger for minimum energy standards is awaited; however the new minimum standards could 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 could also be 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 marketing prior to 2018 or re-gearing leases.

Property owners and occupiers should also consider how their property values may be affected.

## Linking minimum energy standards to the “Green Deal”

The Government believes that the “Green Deal” may provide a financial solution to support energy efficiency refurbishment and retro-fit projects.

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. Trading Standards Officers will enforce the rules for commercial properties; the precise level of fines will also be part of the secondary legislation.

## What can you do?

In the first instance, Knight Frank suggest that if you let space in your buildings you should contact us so we can help you and your colleagues 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 and Government is committed to implementing this policy.

Although the implementation of the minimum energy standards legislation is 6 years away time is still short to minimise risk. We suggest the following immediate actions:

- ♦ All rentable property needs to have an 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 re-gear 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 (the Government is seeking to roll out the Green Deal from autumn 2012).

## What can Knight Frank do?

Knight Frank can provide a full compliance service, including:

- ♦ Advice upon the legislation and its implications for your assets.
- ♦ Assess current energy efficiency and energy performance risk across your portfolio and for individual assets.
- ♦ Produce a bespoke risk management plan (“Energy Efficiency Plan”) for your buildings to implement any necessary energy efficiency improvements, aligned with the building life cycle.
- ♦ The Energy Efficiency Plan will include fully costed investment grade projects for achieving the minimum standards required.
- ♦ Negotiate with landlords or occupiers regarding the completion of energy efficiency projects, including possible lease re-gearing.
- ♦ Procure and manage any necessary improvement works.
- ♦ Provide energy performance reports and ratings for statutory compliance and marketing purposes.
- ♦ Advice on the appropriate marketing of your properties.

For immediate advice on this risk to your portfolio please contact:



**David Goatman**

**T** +44 (0) 20 7861 5109

**M** 0782 512 0534

david.goatman@knightfrank.com