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Impact of Energy Act revealed

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The impact of the government's 2011 Energy Act has been revealed by Corenet Global's UK Chapter and SEGRO.

The two bodies presented a research document this morning on the impact of the act, which will become effective on 1 April 2018. After this date, it will become unlawful to let buildings with an EPC rating of F or G.

From April 2016, it will be unlawful for landlords to turn down requests from occupiers to improve the energy efficiency of their buildings.

Findings were gathered following discussions with organisations who in total occupy more than 4.4m sq ft of space.

The key findings were:

- While the corporate sustainability agenda is a key concern, awareness of the act and aspects of the Green Deal itself are not current priorities for the occupiers surveyed.
- Most corporate organisations regard 2018 as being a long way off, in corporate planning terms.
- However, the act could have a significant impact on values, particularly for older stock.
- Most organisations do not have a wider plan for dealing with the act. Generally speaking, buildings are being dealt with on a building-by-building basis as and when lease events occur.
- One of the key areas of preparation is gaining a full picture of the energy performance of occupied space, which means having EPCs prepared.
- There are areas of ambiguity over who ultimately pays for improvements to comply with the Act.
- One of the most problematic areas of the act appears to be in multi-let buildings where the interests of different occupiers might not all align; where some services (such as air handling) are shared from central plant. It is likely that such issues will be resolved through test cases rather than great clarity within the act.

A list of recommendations were also provided:

- The most basic step is to gain a full picture of EPC ratings across an occupied estate. Without this base data it will be impossible to assess the extent of exposure and corporate risk.
- Once this base data collection is complete, it will be possible to 'map' building ratings onto lease and ownership situations to understand where pinch points will occur. This exercise should include a consideration of impacts on valuation and disposability of properties.
- It will then be possible to assess a cost-benefit appraisal of options, both in terms of upgrading buildings and retention/disposal strategy.
- Where F-rated and G-rated buildings are identified, three broad options present themselves. First, if the buildings are to be retained and there is no leasing activity anticipated, then in theory no action need be taken. It would however, be prudent to understand the potential corporate risk.
- Secondly, if buildings are to be retained but leasing activity is anticipated (for example, sub-leasing or assignment) then an improvement programme should be developed. This will involve a capital expenditure programme and will identify 'soft' opportunities for works (such as lease breaks or planned preventative maintenance programmes).
- Thirdly, if the buildings are to be disposed of, then a strategy for disposal before 2018 needs to be prepared. This will recognise the pricing impact of the energy rating.
- Given possible future direction of Government policy, it might also be prudent to assess risk exposure to E-rated buildings. While there is no such suggestion yet, should legislation tighten a new round of improvements will be required, and there could be benefits in dealing with these in the short-term.
- Where improvement programmes are decided upon, then the Green Deal should be investigated in order to understand whether it might form part of an improvement programme.

Kate Dean, director of offices in the Thames Valley for SEGRO, said: "The results of this research indicate that the legislation itself and the far reaching implications for the real estate industry are not well known. This presents an opportunity for landlords and occupiers to work together to seek clarity on some of the more ambiguous aspects of the Act and work in partnership to deliver a clear set of industry guidelines."

Steve Probert, president of CoreNet Global UK Chapter, said: "Corporate occupiers are well advanced in their sustainability agendas but the act and its implications are less well known. Even though the 2018 deadline seems a long way off, there are a number of steps businesses can and should be taking before then to ensure compliance – this research is designed to raise awareness and help companies start taking the first steps needed."