

Commercial property landlords - are you ready for EPC changes?

Nic Rotton, commercial mortgage consultant at Sterling Commercial Finance, prepares you for the upcoming changes surrounding EPCs.



If you are a landlord of a commercial property, you may be familiar with the importance of Energy Performance Certificates (EPC) since their introduction in 2008. An EPC rates how energy efficient your building is, providing a rating from A to G, with the most efficient achieving an 'A' rating. Under current rules introduced in 2018 in the 'Minimum Energy Efficiency Standards' (MEES) regulations, a commercial building must have an EPC rating of at least 'E' before a new lease or a renewal lease can be granted.

A new deadline of 1 April 2023 is fast approaching, following a government consultation in 2019. The government proposes to introduce changes to MEES which will affect the Non-domestic Private Rented sector and will extend the rules surrounding EPC rating to include existing leases on commercial property.

As a commercial property landlord, this may affect your ability to let or continue to let your property if it does not meet the new rules. It may also affect rent reviews and the valuation of your property.

Another important consideration is the impact on your ability to obtain a mortgage or refinance your property. We are starting to see a trend in Lenders

reviewing a property's EPC rating as part of their initial assessment of new applications.

In addition, the 2020 Energy white paper indicated that all commercial properties (without an exemption) would be required to achieve an EPC rating of 'B' by 2030. The government has proposed to phase in the requirement for an EPC rating of 'B' minimum standard by setting an interim milestone in 2027 for a minimum standard of 'C'.

Whilst no immediate action is required, 2023 is fast approaching and owners of commercial property should begin the following:

- * Carry out an audit of the current EPC ratings of all properties and their dates of expiry.

- * Clarify if your commercial properties are affected. There are a few exemptions, notably, leases shorter than 6 months and longer than 99 years.

- * If you have established that your building/s need to increase the EPC rating before the proposed deadline, you will need to plan to make the necessary improvements in good time and take professional advice.

- * Speak with your commercial finance broker to review your existing finance

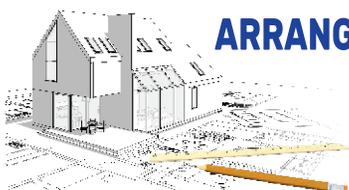
arrangements and future property purchases. It may be possible to cover the cost of any improvements with a loan secured against the property.

If you continue to let a property without meeting the required EPC rating and do not hold a valid exemption certificate, you will run the risk of enforcement action, which could include a fine of up to £150,000.

These changes inevitably raise the question of who will cover the increased compliance costs for landlords. Landlords might argue that tenants will benefit from lower energy bills brought about by the improvements, whilst tenants might claim landlords will ultimately benefit from increased capital value and their continued ability to let the property.

For more information on how the changes might affect you, contact Sterling Commercial Finance on 0115 9849800 or email property@sterlingcommercialfinance.co.uk

You can read more on the proposed implementation of the changes here: www.gov.uk/government/consultations/non-domestic-private-rented-sector-minimum-energy-efficiency-standards-epc-b-implementation



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