



CONSULTING

MEES 2023 – POTENTIALLY 8% OF BUILDINGS NON-COMPLIANT

A lot of consideration and discussion has been given to potential changes to the MEES regulations. However, has the industry lost sight of existing deadlines? From 1st April 2023 it became unlawful to continue to let a non-domestic property with an EPC lower than 'E'.

BACKGROUND

The Energy Efficiency (Private Rented Property) (England and Wales) Regulations – also known as MEES regulations, were introduced in 2015. The MEES regulations imposed two deadlines; firstly, from 1st April 2018 non-domestic properties had to have an EPC rating of 'E' or above before they could be let. Secondly, that as of 1st April 2023, a Landlord can only continue the letting of a non-domestic property if it has an EPC rating of 'E' or above.

Non-compliance of the regulations can lead to enforcement, which includes fines and publication of non-compliant Landlords on a national register. As a reminder the potential fines are detailed below:

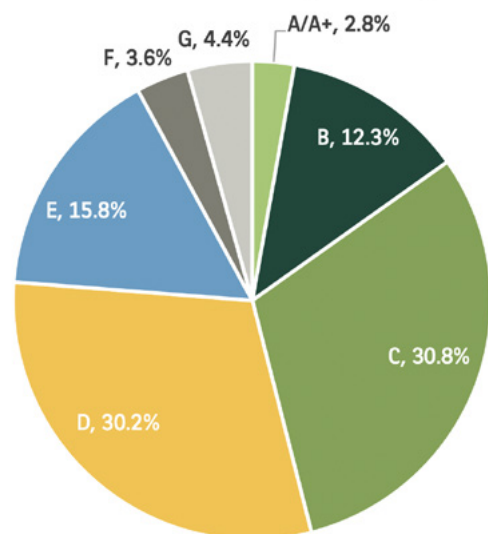
INFRINGEMENT	PENALTY IF PROPERTY LET FOR < 3 MONTHS	PENALTY IF PROPERTY LET FOR > 3 MONTHS
Renting out a non-compliant property	Greater of: £5,000 or; 10% of rateable value – maximum of £50,000	Greater of: £10,000 or; 20% of rateable value – maximum of £150,000

CURRENT POSITION

An EPC can be valid for up to 10 years from the date of lodgement, unless superseded by a new certificate. The government has recently published the latest data tables showing the ratings of EPCs lodged up to end Q4 2022. This shows that 8% of all EPCs lodged within the last ten years are rated F or G. On the right is a snapshot of all EPC ratings over the last ten years.

Based on this evidence, our suggestion would be that a number of Landlords must undertake energy improvement measures to their properties in order to avoid non-compliance with the MEES regulations. We cannot say for certain that the industry is ready for the next MEES deadline.

EPC RATINGS - NATIONAL Q1 2013- Q4 2022



ACTIONS TO TAKE

As we are at the second MEES deadline, time is of the essence. Firstly, Landlords should undertake a review of their portfolio to identify the at risk properties.

Secondly, at risk properties should be reassessed with draft EPCs prepared. We are aware that a number of lodged EPCs are inaccurate and do not reflect the current performance of the building. This could be because part or all of the property has been refurbished since the last EPC was commissioned, or because of how a building was originally assessed. Accurate data is key in order to consider next steps.

If the EPC is rated 'E' or above this should be lodged and no further action would be required to meet the April 2023 deadline.

Assuming that the property has been reassessed and is lower than an 'E', the next stage would be to commission an EPC+ report. This is a report that would consider various improvement works detailing how each piece of work would impact the EPC. Depending upon the advisor, budget costs for the completion of the necessary works may be included. At this stage a plan should be prepared for undertaking necessary improvement works before commissioning a new EPC.

If a Landlord is unable to complete the recommended upgrades they should review whether they are able to apply for an exemption.

LOOKING FURTHER AHEAD

The government has targeted that the UK is net-zero carbon by 2050 and this will impact upon real estate. According to the UK Green Building Council, the UK built environment is responsible for 25% of greenhouse gas emissions. Furthermore, they advise that 80% of buildings in 2050 have already been built and so there will be greater focus on improving existing buildings.

The government is reviewing the MEES regulations and is analysing feedback on a consultation to set higher minimum standards by 2030. The new minimum standards and proposals are:

1st April 2025 – All non-domestic rented buildings within the scope of MEES regulations will have to have a valid EPC. This means that if an EPC has expired, a new one must be commissioned.

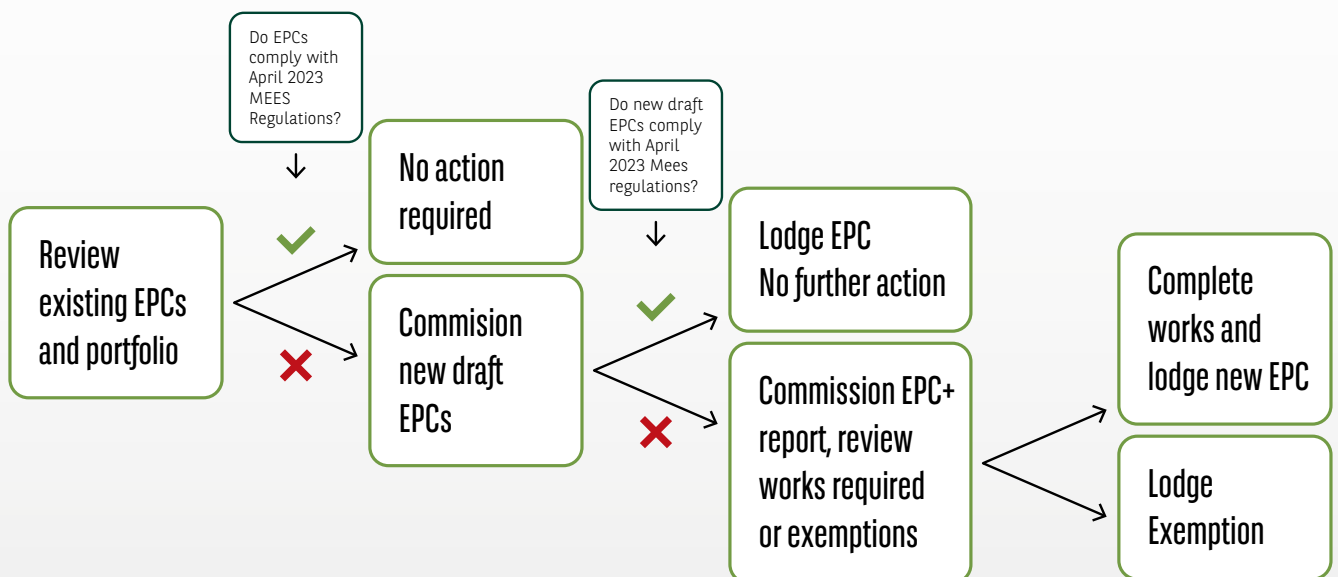
1st April 2027 – All non-domestic rented buildings must have an EPC rating of 'C' or better.

1st April 2028 – Landlords of all non-domestic rented buildings within the scope of MEES must present a valid EPC.

1st April 2030 – All non-domestic rented buildings must have an EPC rating of 'B' or better.

The government is also looking at how the regulations are enforced.

It is highly likely that these changes will be implemented. Currently only 12.5% of all EPCs lodged in the last ten years are rated 'B' or above. As such, Landlords should look to improve the energy efficiency of their buildings as much as possible and not just to ensure that they meet the 2023 minimum standards. Careful asset management will be required to ensure that assets do not fall foul of the regulations.



ARE THE MEES REGULATIONS A SUCCESS?

The MEES regulations appear to be driving improvements on the energy performance of buildings. Since 1st April 2018, the first MEES deadline, only 2.5% of all EPCs lodged in England and Wales are rated 'F' or 'G'. For comparison, nearly 15% of EPCs in the preceding six years were rated 'F' or 'G.'

Based on this simple measure, it does appear that the MEES regulations have been successful in driving the EPC rating of properties. However, whether MEES is actually leading to lower energy use is another question. MEES only relates to EPCs which do not measure energy in use and therefore are an imperfect measure of whether buildings are achieving net-zero carbon.

HOW WE CAN HELP

BNP Paribas Real Estate has experience in dealing with these issues on an individual and portfolio basis at all stages throughout the property lifecycle. Our Building Consultancy team have completed numerous projects, which improved the EPC rating of the property. We work closely with property managers and agents to ensure a unified approach is delivered to clients. We are able to guide clients through the process from the initial point of undertaking a review, through to specifying, tendering and managing any necessary improvement works. Our integrated approach utilises the strength and depth of various experts within our company to provide a rounded strategy.

TALK TO OUR EXPERTS



IAN BRAGG

UK Head of Building Consultancy
+44 (0) 7702 884622
ian.bragg@realestate.bnpparibas



RICHARD KAYE

Director, Building Consultancy
+44 (0) 7557 176300
richard.kaye@realestate.bnpparibas



DONNA ROURKE

ESG Director
+44 (0) 7443 372273
donna.rourke@realestate.bnpparibas