Facing the future: Energy Performance Certificates and commercial property

Tim Dixon, Miles Keeping and Claire Roberts look at the prospective impact of the Energy Performance of Buildings Directive.

The 2003 European Union Energy Performance of Buildings Directive (EPBD) is set to have a major impact in the UK commercial property sector over the next 12 months. But new research for Investment Property Forum by King Sturge and Oxford Brookes University suggests that many in the industry are not fully prepared, and that there may well be procedural difficulties in implementing the Directive.

Background

Until recently the UK government has focused firmly on achieving energy efficiency in the domestic building sector. Perhaps this reflects partly the fact that domestic buildings are responsible for about 26% of carbon emissions, with non-domestic buildings accounting for about 14%. However, over the last five years there has been an increasing focus on the commercial sector, culminating in the required implementation of the EPBD.

The growing focus on energy efficiency has also been driven by the knowledge that the rate of growth in the UK service sector energy consumption since the 1970s has been approximately three times greater than in all other sectors of the UK economy, except transport. During the 1990s the rate of increase slowed, but the sector consumed about 14% of total energy in the UK in 2001. The increase in consumption in the sector has been driven, primarily by changes in output in the economy (measured as the sector's contribution to the UK economy), increased floor area, changing levels of employment and technological innovation. The commercial service sector is therefore a major consumer of energy and also an important source of carbon emissions.

Table 1: Proposed implementation timetable

Date	Element to come into force
19 April 2007	Establishment in law of necessary enabling activities – for example National Calculation Methodology, certificate design, qualification and accreditation regime
6 April 2008	EPCs for sale or rental of non-residential > 500m²
	EPCs for construction for all non-residential
	DECs for all public buildings > 1,000m²
1 October 2008	EPCs for sale or rental of all remaining non-residential
4 January 2009	First inspection of all existing air conditioning systems > 250 kW†
4 January 2011	First inspection of all existing air conditioning systems > 12 kW†

With the continued controversy over home information packs (HIPs) in the domestic sector there is a danger that the fast approaching deadline for implementing energy performance certificates (EPC) in the commercial property sector is overlooked. But, despite several missed deadlines, on the 29 March 2007, the UK government laid the Regulations necessary to implement the EPBD before Parliament. These Regulations have been long awaited and after significant consultation, more is now known about how and when the Directive will be implemented. The proposed timetable for EPBD implementation in relation to non-residential property is shown in Table 1.

There are four key provisions in the Directive which are important for property investors and other stakeholders involved in commercial property:

- Energy performance certificates (EPCs);
- Display energy ertificates;
- Air conditioning assessment; and
- The assessment and certification of energy performance.

The original purpose of EPCs was to contribute towards reducing emissions from the built environment and its users and to create more cohesion between member states by standardising property products in the market so that investors and occupiers can consider properties across Europe on an equal footing. EPCs will be required in the UK when a new building is to be built or an existing building is to be sold or let, and responsibility for provision of the EPC will rest with:

- The contractor providing it to the owner of a new build property.
- The seller making it available to any prospective purchaser.
- The prospective landlord making it available to a prospective occupier. The EPC should be provided, on request, to any prospective tenant, and should in any case be provided by the landlord to the successful tenant before a contract for tenancy is made. There is no need to obtain an EPC for an existing tenancy, and once obtained an EPC remains valid for up to 10 years. If a valid EPC still exists when changing tenants no new EPC is required.

Two types of energy certificate are being developed for commercial buildings with distinctly different purposes; the energy performance certificate (EPC) and the display energy certificate (DEC). The EPC will contain an asset rating and will measure and report on the intrinsic performance potential of the building by using a standardised energy performance computer model based on a national calculation methodology. The energy model will produce a grading (based on the CO_2 emissions per sq m of floor area) on an A-G scale related to energy performance standards required by the 2006 Building Regulations.

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Display energy certificates, on the other hand will only apply to public buildings with a total useful floor area over 1,000 sq m. The DEC will contain both the asset rating and an operational rating giving the CO_2 emission per sq m of floor area of the building in use. DECs show the actual energy usage of a building and are based on the energy consumption of the building as recorded by gas, electricity and other meters. This can then be used to compare different buildings' energy usage.

What are the likely impacts of the EPBD?

The DCLG Regulatory Impact Assessment (RIA) for the EPBD includes a summary assessment of the financial costs and benefits of introducing the EPBD for the commercial property sector (i.e. non-dwellings or non-residential excluding public buildings). Deconstructing this analysis suggests that the EPBD will impact potentially on a significant number of UK commercial properties over the next two to three years (i.e. 150,000 EPCs will be required each year from 2008 to 2012 in England and Wales). Furthermore, DCLG analysis also suggests that the overall costs of implementation of EPCs (both direct and indirect) for all non-residential property (excluding public property) is calculated to be £1,148m over the period 2008 to 2020, which in crude terms is the equivalent of 2.5% of annual property development and improvement investment expenditure in the UK. The key benefits are seen as being in carbon savings, with some 4m tonnes of carbon saved for all non-domestic stock (excluding public buildings), but, in our view, caution should be attached to the overall analysis not only because of the assumptions underlying the data, but also because of the recognition by DCLG that there is a potential shortfall in assessors. A further area of concern in the DCLG analysis is the unit cost imputed for an EPC. This is calculated on the basis of a daily rate of £400 for assessors, but the time taken for each survey may well be an underestimate.

The implications for property investors

There has been a degree of discussion in previous research and anecdotally in the market place about the potential for energy certification leading to capital and rental value differentiation because of the relative energy efficiency of properties and the evidence from our interviews with investors and technical experts suggests that in the medium/long term, this is likely to be the case. In this respect, it is suggested that investors who are currently unprepared for the EPBD are likely to face difficulties. For example, several interviewees identified that the recommendations contained within an EPC could be used in 'price chipping', negatively impacting on the capital or rental value of the property.

Other issues which the research identified as the most pressing concerns for property investors include:

- Shortage of assessors – This should be a concern for investors, as it already is for the Government, and was the chief reason given for the delay in implementing the first phase of the EPBD relating to residential property. It may well also turn out to be a reason given for any delays to implementation in the commercial sector as well! Nonetheless, wise investors will already have begun to consider strategies for procuring the services of energy assessors in order to try to reduce the potential problems that they might encounter because of the current situation (for example, in relation to the marketing of properties).
- Costs of surveys – The DCLG has identified the approximate costs for EPC surveys ranging from £130 for 'new build' to £1,790 for a large commercial premises. However, it is questionable whether these estimates are realistic, particularly in the light of the shortage of assessors.
- Potential difficulties with process – Although the regulations have been published, there is still a certain amount of doubt in the market place with regard to some of the detail. For example:

  – Certification is not required for certain buildings, such as industrial units with low energy demand, but whether this includes storage and distribution units or relates only to manufacturing facilities is unclear to many people. Reference to the Building Regulations needs to be made clearer to ensure that people understand what this means.

  – Whether or not the initial benchmarks against which buildings will be rated in terms of energy performance are robust or appropriate.

  – The capability of the enforcement regime, shared by Building Control and Trading Standards divisions of local authorities, to cope with the large number of likely transactions and completions may cause problems such as delay for those involved in the transaction process.

As a bare minimum, therefore, it is suggested that property investors should consider acting on the following recommendations, if they have not already done so:

- Developing their strategic thinking on the potential value impact from the certification of the energy performance of buildings. What is their view and likely response, for example, to the potential for price chipping by purchasers or occupiers, and a perceived, increased obsolescence of a poorly rated building?
- Considering how many properties are likely to be traded in any given period of time and quantifying the likely need for accredited assessors. This should thereafter lead to proactive procurement of the limited number of accredited assessors' services.
- Addressing the procedural implications of procuring certificates, such as data availability for existing buildings, ahead of time. This will require a joined-up approach between fund managers, asset managers, facilities managers and energy assessors.