HOW TO NAVIGATE THE EPC MINEFIELD

BE News, Maples Teesdale and MEES Solutions brought together a panel of industry experts to debate the future of MEES and whether EPCs will make their way back on to the political agenda

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In April 2023, new Minimum Energy Efficiency Standard (MEES) regulations came into force that made it unlawful to let a commercial property with an Energy Performance Certificate (EPC) of less than 'E'.

However, the government offered no further guidance and at last October's Conservative Party Conference it scrapped plans to require all residential rental properties to have an EPC rating of at least 'C' by 2028.

This prompted some experts to speculate that the proposed commercial targets of an EPC minimum of 'C' by 2027 and a minimum of 'B' by 2030 could be watered down.

With Labour also rowing back on its ESG commitments last month by ditching its £28bn green investment pledge, EPC and MEES regulations are clearly not a political priority in the run-up to the general election.

But what about afterwards? What does the future hold for MEES regulations, both on the commercial and on the residential front? Will EPCs be back on the political agenda or will they continue to be kicked into the long grass as firms continue to navigate the EPC minefield?

A panel of leading industry figures joined *BE News* editor-in-chief Liz Hamson and keynote speaker John Gummer, the Rt Hon Lord Deben and a former Conservative minister, to debate these and other questions at an audience participation event of more than 100 market representatives with co-sponsors Maples Teesdale and MEES Solutions and host ING Media.

INDUSTRY GUESTS

Melanie Leech, chief executive, British Property Federation

Andrew Knapp, director, MEES Solutions

Samantha Kempe, co-founder and chief investment officer, IMMO

Tyler Goodwin, chief executive and founder, Seaforth Land

Anastasia Klein, partner, Maples Teesdale

Andres Guzman, head of ESG, Tishman Speyer

John Gummer

The UK's EPC regulatory regime is a contentious issue thanks to government rollbacks on policy, which have led to widespread calls for a clearer framework and financial incentives to support the decarbonisation of buildings ahead of commercial deadlines set for 2027 and 2030.

In his keynote speech, John Gummer, the Rt Hon Lord Deben and former Conservative secretary of state for the environment, summed up the current situation as a "total mess". Discussing the general election, and how a new government might tackle EPCs, he warned: "If you make it [EPC regulations] worse, it becomes very difficult to navigate."

Gummer said the next government would undoubtedly introduce EPC regulations. "You cannot meet international requirements or legal requirements of climate change if you don't, so they will do it," he explained. "It is not acceptable for people to let houses when people can't even warm their homes properly."

Gummer described the current situation as "terribly dangerous", adding: "If you build houses that people must retrofit afterwards, what you're really doing is taking the profit now and handing the cost on to the person who buys the house. And that's [also] true of commercial properties."

He also labelled the planning system "not fit for purpose" and said: "If we want the development we need, if we're going to have the infrastructure that's necessary… the planning system itself needs significant overhaul."

Gummer finished his speech saying the government needed to make the rules clear and consistent, and after making a decision on the direction of travel that decision needed to be stuck to for the next five to 10 years.

In the *Question Time*-style debate that

> ***It is not acceptable for people to let houses when people can't even warm their homes properly***
>
> *John Gummer*

followed the keynote speech, the experts on the panel were asked what they believed would happen with EPC regulations. It was pointed out that despite a flurry of consultations – including two non-domestic MEES consultations – and the introduction of an EPC Action Plan, there has been little activity since 2021.

'Easy win' for a new government

Andrew Knapp, director at MEES Solutions, said: "As you get further into that time and there isn't any legislation, or response, and it's coming up to a period when there's got to be an election, then you start to think this isn't going to happen.

"I think it [EPCs] will be picked up again. It's an easy win for a new government to move that legislation forward from where it is now, without costing them a huge amount. It must be done as part of the carbon pledge."

Samantha Kempe, co-founder and chief investment officer at IMMO, said that even if EPCs were to rise up the agenda after an election, the main question would be how the government would address the shortage of specialist workers and supply chain challenges surrounding the introduction of heat pumps and grids being properly set up to support this activity. "There are so many different pieces to this puzzle that go way beyond saying you have a certain EPC by a certain date," she explained. "Execution of it is very complex."


Tyler Goodwin

Melanie Leech


Samantha Kempe

British Property Federation (BPF) chief executive Melanie Leech said it wasn't a great surprise the topic hadn't been on the political agenda in the run-up to the general election because there are "no votes in EPCs or MEES".

Although the government U-turned on its green commitment before last year's party conference, Leech said it didn't have an impact on those companies that were already committed to net zero. However, she added: "Everybody who hadn't started or was worried where the money was going to come from [to pay for building upgrades] thought 'well, I don't need to worry about that'. Politically, it did exactly what the government wanted it to do. And it put another dent in the claims we're a world leader; that we've got clear plans and a strategy we're committed to. This is where the damage was done."

The panel debate soon moved on from the political agenda to the bigger questions around whether EPCs are the right metric in the first place. "[They are] a great proxy, but they are not perfect," said Tyler Goodwin, chief executive and founder of Seaforth Land.

"We are doing a BREEAM 'Outstanding' building and a NABERS building and we have delivered an EPC 'A' building, and there's

Andrew Knapp

Andres Guzman

Anastasia Klein

not one agenda that works perfectly," he said, adding that not every approach would necessarily take into account important things such as embodied carbon or operational carbon.

"There's always something that's [not there] so we need more than one solution," he explained. "As a manager for institutional capital, what we're concerned about is delivering long-term reliable cashflow with an inflation-hedging characteristics building, core buildings, and you do that by putting in best-in-class tenants with great covenants.

"They are the ones who are concerned about the environment so you're pushing against an open door to deliver a best-in-class building in terms of environmental standards."

According to Anastasia Klein, partner at Maples Teesdale, regardless of the political landscape, her clients, who are mainly institutional, are proactive when it comes to EPC regulations and they are still aiming to make the changes required by the 2027 and 2030 deadlines.

Klein said even if the government attempted to backtrack or water down current legislation, it would result in a reaction from a real estate industry that "contributes a significant amount to UK inc". She added: "They have a loud voice and if there's any kind of plan to change or dilute it, there would be pressure from our industry to say 'no, that's not acceptable'."

Best rating

On the question of whether people should be going for a 'C' or 'B' rating at this stage, Knapp said for a non-domestic building, they should look at 'B', and for domestic a 'C', because, "this is probably where we'll end up, although the difference is domestic is a cost metric based on the cost of heating the building, and non-domestic is a carbon metric".

Andres Guzman, head of ESG at Tishman Speyer, agreed with Klein and said regardless of who wins the general election, the bar has been set in terms of the requirement to hit the EPC 'B' minimum rating. "That has been included in some negotiations we've done over the last couple of years, and I honestly don't see that changing, regardless of whatever adjustments are coming down the line," he said.

According to Guzman, realistically there is no alternative when it comes to EPCs – they are here to stay. "Whether you like them or not, EPCs are the preferred government mechanism that were obviously introduced in a European directive. They are never going to be perfect, but they're on the way. And I thoroughly agree with what Lord Deben said about making a few tweaks to them to ensure they are more suitable for what we want them to do." □