

ENGLAND AND WALES

Guidance Note: EPC Conversion Factors

In June 2022, there were updates to the EPC calculation methodology, that are typically seeing worsening of EPCs that use gas and do not comply with the latest building regulations. Typically, non-domestic properties of this type have experienced a 1-grade drop.

LANDLORD BUILDING IMPLICATIONS

Was your EPC lodged prior to June 2022? Does your property use gas?

If your property falls into both of the above categories, your current EPC was calculated using the old methodology, at renewal of EPC, you may be at risk of a worse EPC score or rating, even if you have completed improvement works. Depending on the property, a worse EPC may negatively impact:

- Tenancy contracts/green lease clauses
- Existing funding or investment agreements (if clauses are linked to the EPC rating)
- Current Minimum Energy Efficiency Standards, if you are currently close to a D or E rating.

To understand the potential implications to your EPC, it may be time to commission a new EPC assessment (this does not necessarily need to be lodged if your current EPC is still valid), to enable accurate forward planning if issues arise.



LANDLORD LEASE IMPLICATIONS - NEW LEASES AND TENANT ALTERATIONS

It is now commonplace for commercial tenants to be under an obligation for their alterations to not negatively impact the EPC rating. The concern for tenants arises where works have been carried out since the EPC was initially lodged (prior to June 2022). Upon completion of the works (if these works necessitate a new EPC), there is a significant risk that the overall EPC rating could come down. Tenants may face challenges proving that the completed works are not the cause of the downgraded EPC rating, which could complicate their position.

ACTIONS GOING FORWARD

Mutual benefit/clarity

To provide clarity for both landlords and tenants on the current position of the building where:

- The EPC was lodged prior to June 2022
- Gas is used at the property.

Consider commissioning a new EPC assessment (as previously mentioned this does not necessarily need to be lodged if your current EPC is still valid). This can then be used to evidence a correct baseline which ensures clarity for both a landlord and tenant on the EPC rating of the property (allowing the tenant to accurately assess the impact of any alterations they may be planning) and gives the landlord an ability to plan what future investment will be required to ensure they continue to have a good and marketable asset well into the future.

GUIDANCE NOTE: EPC CONVERSION FACTORS

If you would like legal or EPC advice on anything covered in this note or on sustainable lease drafting or investment lifecycle considerations in general, please contact a member of the Forsters CRE or LifeProven ESG Property Company team listed below.

For Legal Queries



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