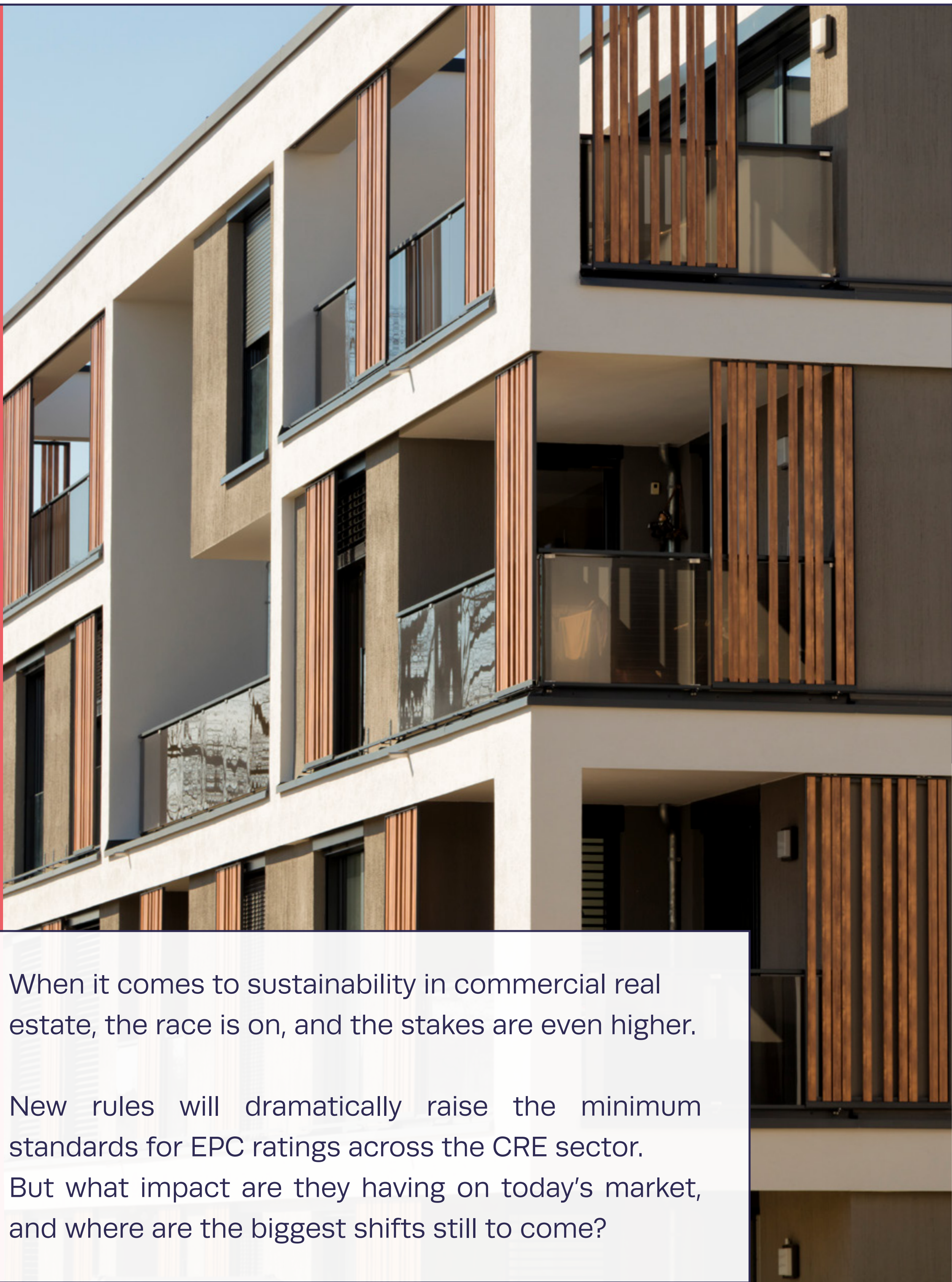
EG Radius

EPC and the sustainability race



When it comes to sustainability in commercial real estate, the race is on, and the stakes are even higher.

New rules will dramatically raise the minimum standards for EPC ratings across the CRE sector. But what impact are they having on today's market, and where are the biggest shifts still to come?

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EPC ratings and the sustainability race:
what to expect in the report

EXECUTIVE SUMMARY

When it comes to sustainability in commercial real estate, the race is truly on, and the stakes are set to get even higher.

This spring saw the introduction of new rules meaning that commercial buildings with an EPC rating lower than E are no longer eligible to be traded or leased. Data from EG shows that this could render some 119m sq ft of CRE unlettable, **putting £2.5 billion of rent at risk.**

Across the sector, landlords, occupiers and developers say they are committed to reaching net zero. But the arrival of tighter standards, with the minimum EPC set to rise to C in 2027 and and B in 2030, will soon put that commitment to the test.

How is the market adapting to the new EPC rules and which regions are leading the race? Data from EG Radius offers unparalleled insight into how the market has evolved over time.

In this report, we will uncover:

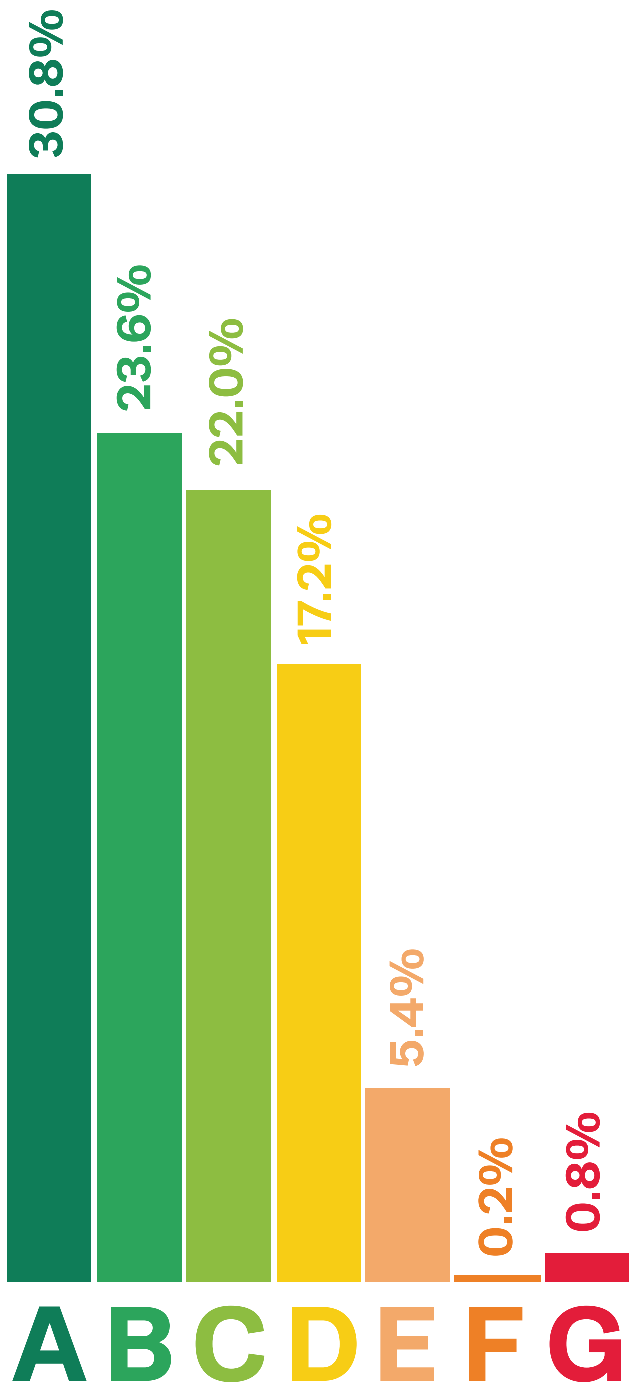
- Which areas have the highest and lowest concentrations of EPC A and B
- Which areas have seen the largest improvement in EPC standards over time
- Which areas have the largest potential for improvement and investment.
- The typical EPC profile of all 11 areas and regions in the UK

MARKET SUMMARY: 1 IN 5 PROPERTIES MEET EPC A OR B

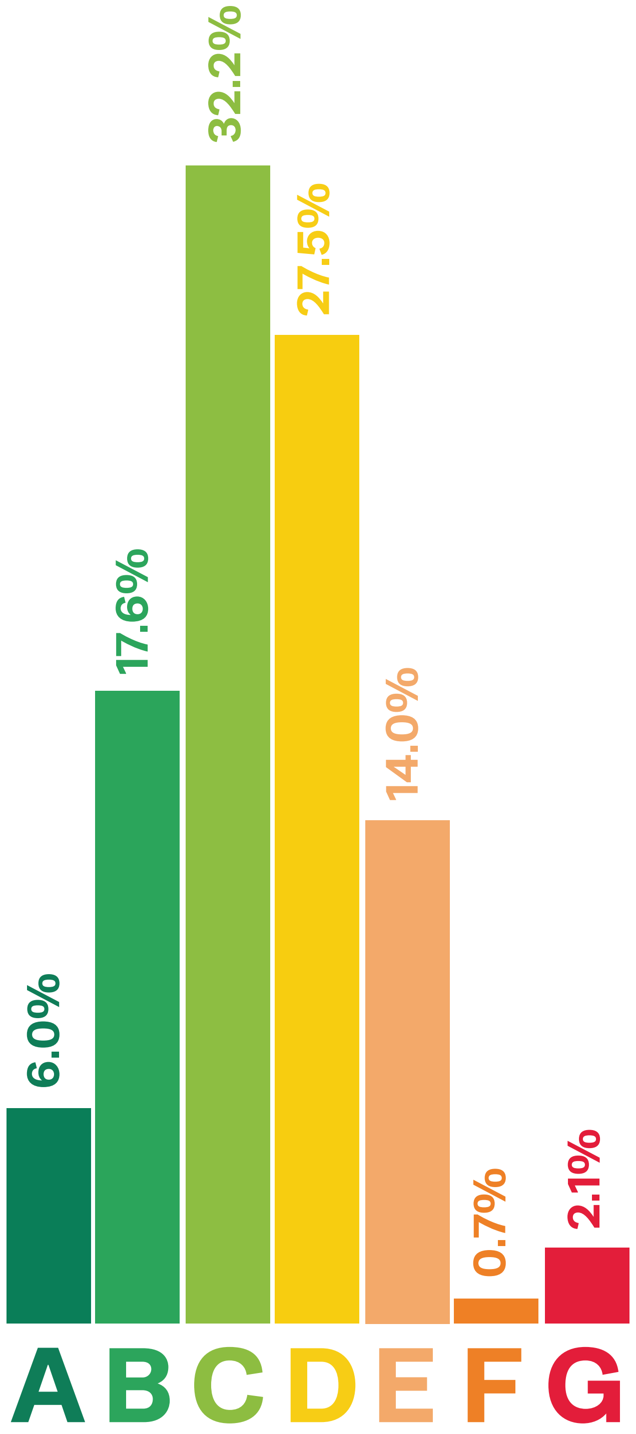
As of August, Properties on EG Radius in 2023 account for more than 62m sq ft of commercial real estate across 11 areas and regions of the UK.

When adjusted to take account of the number of individual properties – rather than the total sq ft – the breakdown is as follows:

% of sq ft within each EPC rating



% of properties within each EPC rating



By both measures, though, the data shows a clear improvement in recent years. 2023 is the second year running that more than 50% of available CRE (by sq ft) has been rated A or B.

The overall sq ft with an EPC rating A has risen from 13% in 2018, to 24.4% in 2020 and then to 30.8% in 2023 – showing a consistent and sizable shift to the most environmentally-friendly properties.

At the same time, the percentage of sq ft with the two lowest ratings has fallen from 5.6% in 2018, to 2.4% in 2021 (the year that the new mandatory standards were announced) and now to 1%.

1 IN 3 LONDON PROPERTIES RATED EPC A OR B

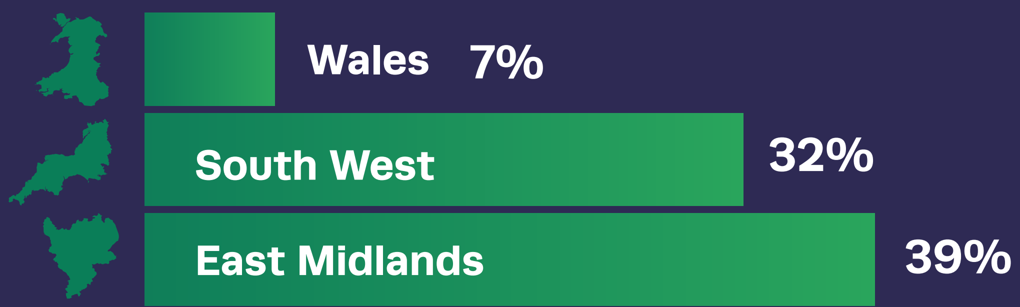
Data from EG Propertylink provides real-time evidence as to how different areas and regions of the UK are responding to the sustainability drive.

Across each of the regions and areas, the headline data shows a flight to quality and sustainability. In 6 of the 11 areas, for example, more than 50% of available CRE (by sq ft) is now rated either A or B.

The highest concentration of A and B ratings (by sq ft) can be found in the North West – with an impressive 70%. However, it is worth noting that the region accounts for only 4% of the entire market (by sq ft)

% of A and B ratings by sq ft

Lowest concentration of A and B ratings (by sq):



When adjusted to the number of properties – rather than sq ft – the data points to three clear leaders:

% of properties rated A or B

% of properties rated A, B or C

The picture shifts slightly when C-rated CRE (which account for the largest share of properties in 7 out of 11 areas) is included:

3 AREAS HAVE MORE THAN 10% OF CRE RATED BELOW D

Our data also reveals the percentage of CRE 'at risk' from future EPC standards – demonstrating the potential challenge facing the sector.

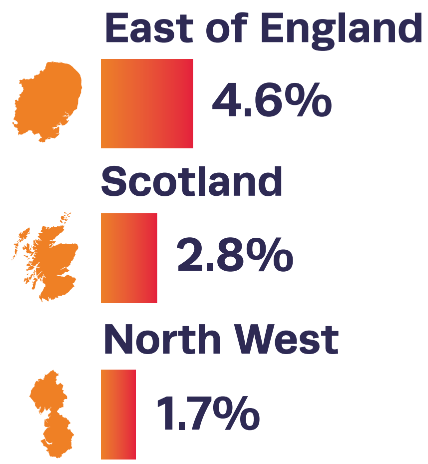
But while EPC standards can bring costs for some landlords, they also create opportunities for investors and developers. Properties can be purchased at a discount, for example, and then renovated to add value.

There is little doubt, though, that the new minimum standard of EPC E (announced in March 2021) is already having an impact on the market. In 2018, for example, 4% of sq ft was rated F and G. This has fallen to 1%.

While all areas have reduced their share of the lowest rated stock, three areas have demonstrated the strongest improvement against their longer-term average – Scotland, Wales and the East of England.

% of sq ft rated F or G

Despite those improvements, there are still three areas where more than 1% of CRE (by sq ft) is rated F or G:

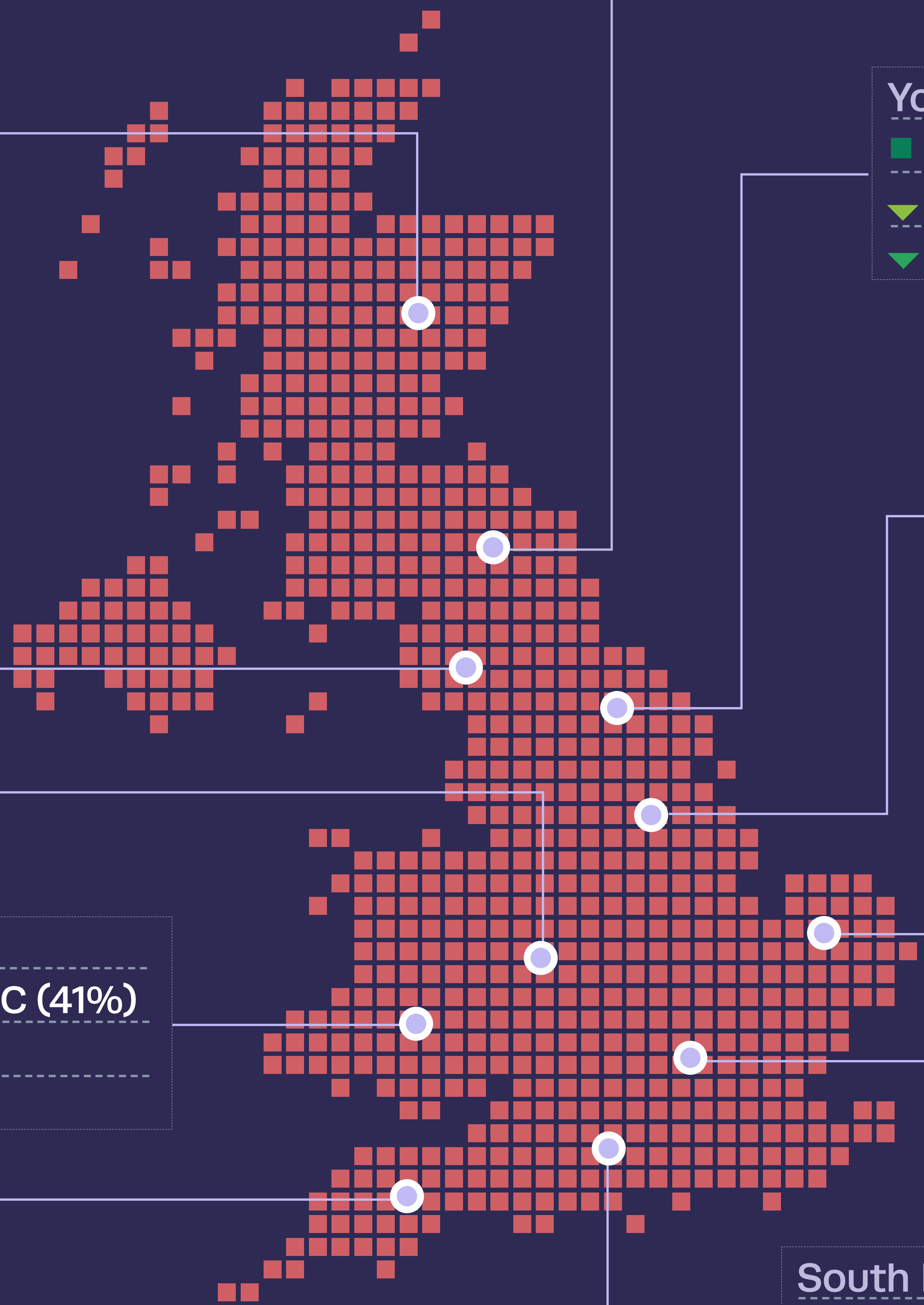


As expected, the share of the current market potentially at risk of the next EPC rating – due to take place in April 2027 – is significantly higher. Indeed, 4 out of 11 areas have more than 25% of their CRE (by sq ft) rated less than C.

The largest shares are:

Developers seeking investment opportunities may also be interested that London currently has 21% of its stock rated less than C, potentially presenting an opportunity to purchase at a discount.

Areas in profile by sq ft



Scotland
- Largest share: B (38%)
- Below C: 13%
- Below B: 34%

North West
- Largest share: A (47%)
- Below C: 13%
- Below B: 30%

West Midlands
- Largest share: A (40%)
- Below C: 16%
- Below B: 38%

Wales
- Largest share: C (41%)
- Below C: 51%
- Below B: 93%

South West
- Largest share: C (40%)
- Below C: 29%
- Below B: 68%

North East
- Largest share: A (34%)
- Below C: 30%
- Below B: 51%

Yorkshire & Humberside
- Largest share: A (41%)
- Below C: 32%
- Below B: 42%

East Midlands
- Largest share: D (43%)
- Below C: 48%
- Below B: 61%

East of England
- Largest share: A (31%)
- Below C: 23%
- Below B: 39%

London
- Largest share: A (28%)
- Below C: 18%
- Below B: 46%

South East
- Largest share: C (27%)
- Below C: 11%
- Below B: 55%

LOOKING FORWARD: EPC RE-SHAPES THE MARKET

EG's data on deals across the UK has consistently shown how occupiers, investors and developers are prioritising sustainability when it comes to their CRE needs.

In April 2023, high-spec lab space providers Bruntwood SciTech secured £100m in green funding, around half of which is expected to be used for the next phase of their development at Circle Square in Manchester.

Bruntwood aims for the 15-storey office development at No 3 Circle Square to achieve net zero embodied carbon during construction and operation for its shared spaces, as well as an EPC A rating.

"We are committed to a net zero future within the world-class infrastructure we build and provide for science and technology businesses and we continue to set ourselves ambitious targets to meet this goal," commented chief executive Kate Lawlor.

In July 2023, warehouse developers Logicor outlined its regeneration plans for a 38.5 acre logistics park in Daventry (Northamptonshire) which it acquired in 2021 with the aim of providing sustainable warehouse space.

Logicor is set to deliver some 800,000 sq ft of new space, including three warehouses. The existing facilities on site will also be developed, targeting BREEAM Excellent and EPC A certificates.

As the market looks ahead to 2027, and to net zero, this sustainability premium will inevitably continue to shape both demand and deals. EG Radius will capture this transition in real time.

Radius

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