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Buying Commercial Properties With MEES

For the past 18 months we have concentrated on the fact that a property with an F or G EPC rating would not be able to be leased without placing the property on the EPC exemption list. With Minimum Energy Efficiency Standards (MEES) coming into effect in April 2018, what are the implications when buying commercial properties with the intent to lease?

MEES does not apply to buying or selling a property (although an EPC is still required) and so transactions on F & G rated properties can be undertaken with no restrictions. Although if the property is bought with the view to lease then the EPC rating should be a major consideration.

The first consideration should be whether the existing EPC allows the property to be let without any improvement works (A-E rated) and just as important, how long before the EPC expires. It is important to look at when the EPC is due to be renewed, as even if the current EPC is a good rating (A-E) there is no guarantee that when the property is re-inspected the rating will be the same. There are a significant number of properties that will have a good current EPC rating, but when undertaken again will fall into the F-G banding. This could be due to any one or a combination of the following reasons:

- Tightening of energy regulations
- A change in how EPCs are calculated
- Incorrect current EPC rating
- The building has been changed since the last EPC inspection.

The above reasons can also change the EPC from a poor EPC rating (F-G) to a good EPC rating (A-E). Therefore, it would be a mistake to consider purchasing a property without looking, not only at the current EPC, and the EPC expiry date, but more importantly, what the current EPC rating would be if undertaken at the time of sale.

Without taking any of these points into account, depending on the length of any potential lease, there could be unexpected costs to improve the building to meet MEES; or vice versa there will be properties that are currently F or G rated that with very little or no investment at all, will be ready for leasing.

The second consideration is based on the way that the banking industry currently views MEES. For all potential investments the banking industry looks at the credit risk to themselves. Depending on the perceived risk this will have an impact on the proposed interest rate offered. With the correct information on the EPC rating, the correct interest rates should then be applied.

The purchaser should look at the EPC rating (as detailed above). The banking industry should also take the same view. This would not only aid their credit risk calculations, it would also ensure that they are not providing credit on a perceived "good property" to then subsequently find out that this property will not be able to be leased without some major improvement works.

The potential required works could impact the leasing potential of the property, which in turn could have an adverse effect on the repayment schedule. It may also be that additional credit may be required to complete the unexpected works, which may not be forthcoming.

It is our advice, considering that MEES is less than 6 months away, that with all property purchases the EPC is looked at in the context of the above, before the sale takes place.

If you require any further information or advice please contact 4see on

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