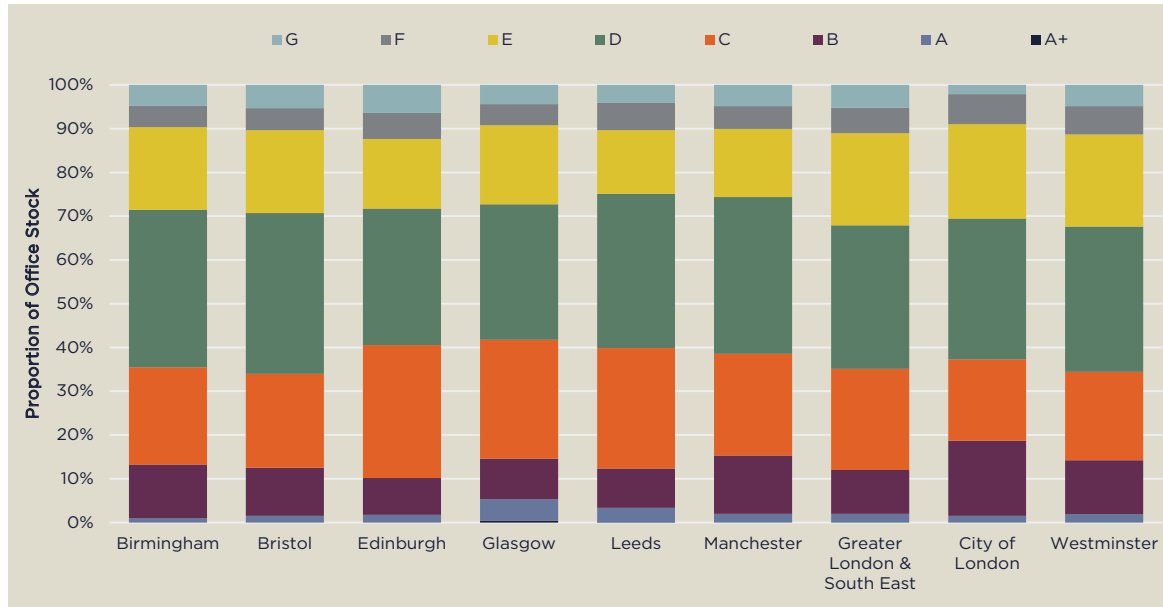


# How Sustainable is the Office Stock in the UK?



**Summary:** The scale of the challenge to improve the energy efficiency of the UK office stock is sizeable, with 87% of the office stock in the major office markets throughout the UK having an Energy Performance Certificate (EPC) of 'C' or below.



Source Savills Research

## Key Data Points

**87%**

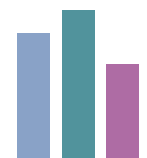
of the office stock in the major UK office markets is rated EPC "C" or below

**2030**

The proposed year for all non-domestic rental properties to be rated at least EPC "B" standard

**2027**

The proposed year for all non-domestic rental properties to be rated at least EPC "C" standard



**1 billion sq ft** of office stock across the UK is rated below EPC 'B'

## What are the proposed legislation changes, and how will this impact the UK office market?

The built environment is one of the largest energy consumers in Europe, making up 40 per cent of total energy consumption and 36 per cent of CO<sub>2</sub> emissions - the relevance of ESG to the real estate sector is undeniable. With a body of new ESG-focused legislation and strategies expected to be implemented over the next year, the importance of ESG to real estate investors only looks set to increase.

New energy efficiency legislation was introduced in 2016 via The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 which stated that it is unlawful to let residential and commercial buildings with an Energy Performance Certificate (EPC) rating below "E" from 2018 onwards. A consultation has since been held by the Department for Business, Energy and Industrial Strategy (DBEIS) from March-June 2021, which aims to implement a framework that would improve the compliance and enforcement process of ensuring that by 2030 all non-domestic rented buildings achieve an

EPC rating of least 'B'. The responses to the consultation are due to be published later this year. As part of the proposed framework an interim target has been set with a minimum requirement of EPC rating 'C' by 2027. All non-domestic properties will need to achieve these standards regardless of when the property was let or the lease was renewed.

The DBEIS estimates that the built stock in the UK accounts for 31% of total greenhouse gas emissions and the proposed legislation will help businesses reduce their energy use and costs. Improving the minimum energy efficiency standards will accelerate the deployment of low carbon heating technologies and help the UK achieve its target of net zero carbon emissions by 2050.

The property industry has supported the proposed legislation which was revealed in the 2019 consultation with 91% of respondents supporting the EPC 'B' target. There are however concerns that the current regulations

do not work effectively for buildings which are let in a shell and core condition. The DBEIS have proposed in the March 2021 consultation that the tenant must have occupied the property for at least six months before a local authority can take action against the landlord for not meeting the required EPC standard. This will help landlords and tenants work together to ensure the property adheres to the minimum EPC rating.

Savills Research has analysed the EPC ratings of the current stock across the major office markets in the UK. It is estimated that 87% of the office stock has an EPC rating of 'C' or below and over 1 billion sq ft across the UK is below the proposed minimum EPC 'B' rating, highlighting the scale of the challenge to improve the energy efficiency of the UK office market.

The City of London has the highest proportion of stock above the required level of EPC 'B' at 19% of total stock.

🔗 The implementation of the minimum requirement of EPC "B" by 2030 will cover approximately 87% of UK's office stock 🏡

# Case Study: Regional Office Market

The demand for office space that can satisfy ESG credentials is currently outpacing the supply

The majority of stock in the regional office market is rated EPC 'C' or below, with none of the Big Six regional cities or the Greater London & South East market having over 15% of stock rated EPC 'B' or above. Each market area does, however, have between 20-30% of the stock rated EPC 'C', this peaks in Edinburgh at 30% which would satisfy the interim minimum EPC standard of 'C' by 2027 in the proposed new legislation.

The bulk of the stock that have the lowest EPC ratings are occupied buildings, and this is reflected when analysing the current EPC ratings of the regional office supply. The proportion of available space that is rated as EPC "B" or above significantly rises. This accounts for 45% in the Big Six regional cities combined and 39% for the Greater London & South East office market.

Variations on a regional level are broadly minimal, with Edinburgh having the lowest proportion of available office space rated as EPC 'B' or above at 37%. The demand for buildings that can satisfy ESG criteria for occupiers is rising which is reflected in the ongoing flight to quality across the regional office market. The proportion of space let rated EPC 'A' or 'B' exceeded 60% from 2020 onwards in Birmingham, Edinburgh, Leeds and Manchester. This proportion peaked in Edinburgh at 78%, the highest of all the Big Six regional cities. The Greater London & South East region has also experienced a similar trend with 52% of space let since the start of 2020 being rated EPC 'A' or 'B'.

Developers are responding to the demand for sustainable office space, which is reflected in the

space under construction across the Big Six regional cities. There is currently four million sq ft under construction, all of which is certified as BREEAM Very Good or above.

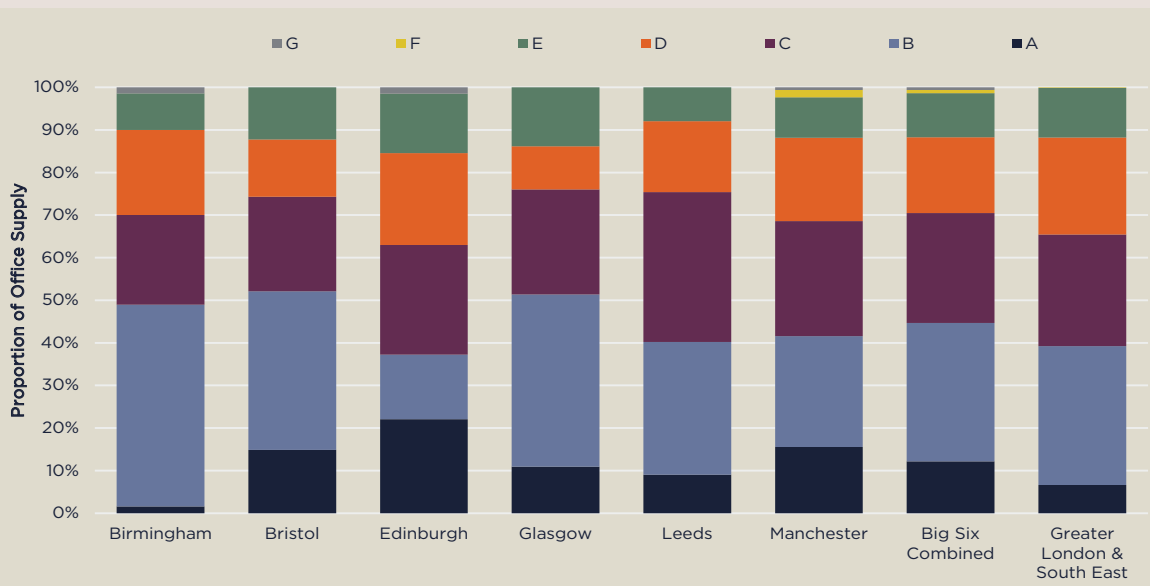
A notable development is Cadworks in Glasgow which comprises 94,000 sq ft. The building has been speculatively developed by FORE and will be one of the first net zero office buildings in the city. The development offers the most comprehensive cycling facilities in Glasgow with Scotland's first integrated bike ramp and 119 bike stations available. The development also uses recycled construction materials and air purifying Airlite paint.

The benefits of leasing sustainable office space for tenants are notable from lower energy bills, reputational benefits, and lower costs in having to offset any residual carbon emissions. For landlords, the benefits are likely to come in higher occupancy rates as tenants look for the best-performing space, and again, reputational advantages.



Cadworks, which was speculatively developed by FORE, aims to be the most sustainable office building in Scotland. Savills is joint letting agents on the scheme.

**Summary:** The proportion of available space that is rated as EPC "B" or above significantly rises. This accounts for 45% in the Big Six and 39% in Greater London and the South East markets.



👉 **Developers are responding to demand for sustainable office space.** There is currently 4 million sq ft under construction, all of which is certified as BREEAM Very Good or above. 👈

## Savills team

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