

# Eco upgrading offers opportunities

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**The office sector is truly being hit while it is down. Covid-19 sparked a destructive spiral and now the next level of Minimum Energy Efficiency Standards (MEES) comes into effect on 1 April, meaning all buildings will have to have a minimum EPC rating of 'E' – and from 2030, that rating will be 'B'.**

Savills' data states that three-quarters of the UK office market currently falls below the EPC 'B' rating. This clearly has the potential to put acres of office space worth billions at risk of redundancy.

However, we are still seeing strong tenant demand for offices in the UK, particularly in London. A recent Irwin Mitchell survey (p18, 03.03.23) found that 37% of respondents were looking to increase office space by between 11% and 25%.

The key is to retrofit the poor stock we have to meet environmental and tenant standards. Owners charging higher rents will potentially be able to absorb the costs of upgrades, but in areas where rents are lower or where ratings are significantly poorer, this is unlikely to happen. This is a large proportion of office real estate and we will see distressed sales as a result and tenants desperate for alternative accommodation.

However, this opens up the market to creative investors and developers who can acquire buildings at a discount and add significant value by refurbishing to higher standards and selling on or renting at a premium.

ASK recently funded two such projects in London, one on Gray's Inn Road, an 11,016 sq ft freehold grade-A office building that was comprehensively refurbished last year; and another in Great Suffolk Yard that consists of around 65,000 sq ft of grade-A BREEAM 'Excellent' standard office space.

Eco-friendly buildings are already achieving higher capital values and rents. According to research by JLL, each step up in a building's energy rating is adding 3.7% to the building's value.

Among traditional bank lenders and institutional finance, liquidity is likely to dry up for poor-quality office space, but this leaves specialist lenders the chance to fund the many value-add opportunities I believe are on the horizon.