Global Sustainable Buildings Guide - United Kingdom

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*This chapter was last reviewed in April 2024.*

# Authors

# Green Certification

## Is there a nationally adopted and recognized form of certification for buildings? What is it and is it mandatory for all new buildings and refurbished buildings?

The primary certification model in the UK is the Building Research Establishment Environmental Assessment Methodology (BREEAM), a non-domestic design-stage methodology based on building type models. BREEAM was developed in the UK. It is a voluntary system, but it is widely adopted and understood by the construction industry. BREEAM considers 10 areas of sustainability and environmental performance, including energy, water and waste, as well as human health and wellbeing, and transport. There are variations for new construction, in-use, and refurbishment and fit-out projects. BREEAM assesses a wide range of asset types, including offices, retail and industrial buildings, and houses, apartments, hospitality and residential institutions.

For the assessment of performance in civil engineering and public realm projects, BREEAM Infrastructure (formerly CEEQUAL) has become the industry-accepted scheme.

BREEAM maintains its status as the preferred sustainability standard for new and existing commercial real estate. According to research undertaken by JLL,[1] capital values for London office premises are on average 20.6% higher for properties with a BREEAM certification and show an average increase in rents of 11.6%.

[1] <https://www.jll.co.uk/en/newsroom/environmentally-sustainable-real-estate-attracts-higher-prices>

# Energy Performance Certificates and Minimum Energy Standards

## Is there a mandatory form of energy performance certification? When does it apply and are there any prescribed minimum standards?

The Energy Performance of Buildings Directive was given legal force in the UK via a number of pieces of implementing legislation, including the Buildings Regulations 2010 and the Energy Performance of Buildings Regulations 2012. These include requirements to produce Energy Performance Certificates (EPCs) and recommendations for energy performance improvements whenever a building is constructed, sold or rented, and, in some circumstances, refurbished.

The Minimum Energy Efficiency Standard (MEES) regime was put in place by Part 3 of the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 (SI 2015/962), following the Energy Act 2011. This regime is intended to improve the energy efficiency of both commercial and residential privately-rented property, though this section of the guide focuses only on commercial rented property.

Under the current MEES regime, any new or renewal lease, or lease extension, granted in relation to commercial properties in England and Wales, must (subject to certain exemptions) have a valid energy performance certificate (EPC) showing an energy efficiency rating for the property between 'A' and 'E' (with 'A' being the best). Ratings of 'F' and 'G' denote the property as sub-standard in terms of energy efficiency.

Since 1 April 2023, this MEES standard has extended to all existing commercial leases, even where there is no change in tenancy arrangements.

There is no formal requirement to improve the energy efficiency of a sub-standard property before a sale (although an EPC will be necessary as part of the sale process). However, MEES must be considered where a sub-standard investment property is being purchased, as the property owner or landlord will not be able to grant new leases without raising the property's energy efficiency to an acceptable level. A new landlord will also need to consider whether that cost could be shared with tenants, review any existing exemptions and consider any potential exemptions from the MEES regulations. A buyer of sub-standard property will not inherit any exemption from MEES compliance that has been previously obtained by the seller and will need to either raise the energy efficiency standard of the property to the permitted level, or satisfy the criteria, and apply for a new MEES exemption.

The required standards for energy efficiency are in flux. The UK government's 2020 Energy White Paper, "Powering our net zero future," revealed its intention for all rented commercial buildings to achieve an EPC rating of 'C' by 2027, and an EPC 'B' rating by 2030. However, the UK government seems to have relaxed that trajectory, though as at the date of publication of this guide, there has been no clarification of what the revised targets for non-domestic buildings might be.

# Incentives for Green Retrofit

## Are there any government-funded or sponsored schemes for improving the energy efficiency of existing buildings and, broadly, how do they work?

Since the first edition of this guide was published, various UK government subsidy schemes for improving the energy efficiency of homes have closed.

In December 2023, the UK government allocated GBP 6 billion to launch various funding schemes to reduce energy use in residential properties, support a move from gas boilers to electric heat pumps, and improve insulation. For commercial properties, grants of up to GBP 7,500 are available to fund the cost of a heat pump.

# CO2 and Energy Targets

## Are there any national targets for CO2 reduction and/or energy use reduction from buildings? If there are, are there any exclusions?

The UK Climate Change Act 2008 implemented the world's first legally binding climate change target. It aimed to reduce greenhouse gas emissions by 80% from the 1990 baseline by 2050, with an interim target of 34% by 2020. In June 2019, this commitment was strengthened to net zero by 2050.

The UK has also set targets to reduce carbon emissions by 68% by 2030, and 77% by 2035.

In 2022, buildings accounted for approximately 17% of the UK's greenhouse gas emissions. The Climate Change Committee's 2023 Progress Report stated that progress in the buildings sector had stalled, with little reduction in emissions since 2010.

The UK government has adopted a suite of policies to reach net zero, set out in two strategy publications, the [Net Zero Strategy](https://www.gov.uk/government/publications/net-zero-strategy) (2021) and [Powering Up Britain: The Net Zero Growth Plan](https://www.gov.uk/government/publications/powering-up-britain/powering-up-britain-net-zero-growth-plan) (2023). In particular, the latter was published following the High Court judgment in *Friends of the Earth and others v. Secretary of State for Business, Energy and Industrial Strategy* [2022] EWHC 1841 (Admin), which required the government to set out more detail on its plans to achieve net zero in accordance with its 2050 target.

# Renewable Energy

## Are there any regulations requiring a percentage of energy consumption to come from renewable sources?

In 2022, 40% of the UK's electricity came from renewables. After gas, wind was the second largest source of electricity [**(26.8%)**](https://www.edie.net/what-did-the-uks-electricity-generation-mix-look-like-in-2022/?regwall=success&amp;register=success), solar represented 4.4%, biomass 5.2% and hydro 1.8%.

Targets for renewable energy have not been enshrined in regulation and are instead set out in government strategy documents.

The [Net Zero Strategy](https://www.gov.uk/government/publications/net-zero-strategy) (2021) includes the target for the UK to be powered entirely by 'clean electricity' (which includes from nuclear power as well as renewables), subject to security of supply, by 2035.

The [British Energy Security Strategy](https://www.gov.uk/government/publications/british-energy-security-strategy/british-energy-security-strategy#renewables) (2022) includes a target for up to 50 gigawatts of offshore wind by 2030.

The UK government has incentivized the development of renewable energy projects with schemes such as Contracts for Difference (CfD). A CfD is a private contract between a low-carbon electricity generator and the Low Carbon Contracts Company, a company owned by the UK government. A CfD reduces the exposure of electricity generators to volatile wholesale prices and is intended to compensate the generator for the potentially high cost of investing in low-carbon technology. However, offshore wind developers did not place any bids in the fifth auction round (March 2023). The government's Climate Change Committee considered that this was because the pricing offered to offshore wind generators had not been adjusted to reflect significant increases in supply chain and development costs.

For small-scale generators of renewable electricity, the [Smart Export Guarantee](https://www.ofgem.gov.uk/environmental-and-social-schemes/smart-export-guarantee-seg) (SEG) tariff pays for any power they export to the national grid. It applies to solar, onshore wind, anaerobic digestion and hydro installations of up to 5 megawatts, and micro-CHP (combined heat and power) that can produce electricity of up to 50 kilowatts.

In the domestic heating sector, the Boiler Upgrade Scheme (BUS) provides grants to eligible households in England and Wales to cover part of the cost of replacing a gas, oil or electric heating system with a heat pump or biomass boiler. In this area, the government had a [Domestic Renewable Heat Incentive (RHI)](https://www.ofgem.gov.uk/environmental-and-social-schemes/domestic-renewable-heat-incentive-domestic-rhi/domestic-renewable-heat-incentive-domestic-rhi-apply-now-or-log-your-myrhi-account), but this closed to new applicants in March 2022.

The government published its first [Hydrogen Strategy](https://www.gov.uk/government/publications/uk-hydrogen-strategy/uk-hydrogen-strategy-accessible-html-version#executive-summary) in 2022, which sets out ambitions for increasing the use of low-carbon hydrogen ([not all hydrogen is low-carbon](https://www.lse.ac.uk/granthaminstitute/explainers/how-important-is-hydrogen-to-climate-action-and-what-are-countries-doing-about-it/)) across different economic sectors, including delivering a 5-gigawatt production ambition by 2030.

There is concern that limitations in the UK's electricity grid infrastructure, and increasing competition for grid connections, are likely to slow down the deployment of new projects in the coming years. Battery storage is likely to be an important component to renewable energy projects, especially where generators do not wish to export electricity to the grid.

# Regulation

## What other national regulatory measures are there, such as taxes on energy consumption and/or tax reliefs on energy-saving measures, that can encourage more efficient use of energy in buildings?

In the UK, there are legal requirements for quoted companies, large unquoted companies and large limited liability partnerships to report on greenhouse gas emissions, energy consumption and energy efficiency action for financial years beginning on or after 1 April 2019, under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155). This is known as the SECR regime (streamlined energy and carbon reporting). This includes energy emissions from owned and leased buildings, and therefore may incentivize more efficient use.

The government's Department for Energy Security and Net Zero is conducting a post-implementation review of the SECR regime and is due to report on this by April 2024.

An enhanced capital allowances scheme is in place, which allows companies to write off the entire capital cost of investing in qualifying energy-saving plants and machinery against taxable profits made in the year of purchase (this is against the standard regime for qualifying expenditure, which allows partial write-offs over successive tax years). Qualifying technologies include heating, ventilation and air-conditioning (HVAC), and new energy-efficient boilers.

Through updates to the building regulations (which came into force in 2022 and relate to buildings in England), the UK government has introduced net zero-focused changes, including a new performance metric to measure energy efficiency, and changes to how onsite electricity generation systems are regulated. They also include a requirement for a 27% reduction in emissions from new, non-residential buildings.

The UK government is currently consulting on implementation of a "Future Homes Standard" and a "Future Buildings Standard" to address operational emissions from new domestic and non-domestic buildings. These standards will be more stringent than the current building regulations and are intended to be the final step in meeting net-zero targets for new buildings, provided that the electricity grid decarbonizes as planned. They include high fabric standards and mandate low-carbon heating. The consultation also considers standards for domestic residences created though material change of use.

The UK government has also announced its intention to consult on its approach to measuring and reducing embodied carbon in new buildings in due course. The government has also launched a Plan for Water, which aims to review water efficiency options in planning, building regulations, and voluntary schemes in non-domestic buildings, such as offices and hotels.

# Financing

## Are there any public or private “green” financing initiatives for sustainable real estate projects?

The private lending sector is paying greater attention to financing sustainable real estate projects globally. This is due to a combination of customer demand and internal impetus from the lenders themselves. The Loan Market Association has published a set of Green Loan Principles. In 2020, it published two sets of guidance on the application of the Green Loan Principles in the real estate finance investment lending and lending context, for green buildings and retrofit projects. In 2022, it further published guidance on the application of the Sustainability-Linked Loan Principles in real estate finance and real estate development finance. Green loans and sustainability-linked loans are different, with a green loan requiring a firm link to new or existing green projects. Conversely, a sustainability-linked loan is designed to incentivize specific sustainability performance objectives of the borrower.

In the UK, there are no other specific private green financing initiatives for sustainable real estate projects.

As for public green financing initiatives, the government established the UK Green Investment Bank in May 2012, as a government-owned public limited company with GBP 3.8 billion of taxpayer funding to be invested in sustainable projects on a commercial basis in partnership with the private sector. It was required to deploy at least 80% of its capital in three priority sectors, namely offshore wind farms, recycling and energy from waste, and non-domestic energy efficiency. However, in 2017, the UK Green Investment Bank was privatized, and is now the Green Investment Group (GIG), a specialist green investor within Macquarie Asset Management. The GIG has five "green purposes," to which every investment must contribute. These are protected by independent shareholder, the Green Purposes Company (GPC). The green purposes cannot be altered without the approval of the GPC.

# Planning

## Is the national or local/state government able to mandate green initiatives via the planning/zoning regime (e.g., district heating systems on large developments)?

In March 2012, the UK government significantly overhauled its national planning policy guidance. The publication of the National Planning Policy Framework required local planning authorities to amend their local planning decision policies to place sustainability at the heart of their development plans and to ensure that sustainability is a material consideration in the assessment of applications for the development of land.

Updated planning policies now encourage both regional and local planners considering new developments to use information about predicted climate change in ways that minimize vulnerability and build in resilience to those anticipated changes.

Developers are increasingly being required by local planning authorities, on an application and site-by-site basis, to incorporate and fund energy-efficiency and other green elements into their designs, and ensure green development in the area around the project. It is often a condition that the scheme include district heating systems and sustainable urban drainage systems as part of the design.

As noted above under the "Regulation" section, updates to the building regulations (which came into force in 2022 and relate to buildings in England), have introduced net zero-focused changes, including a new performance metric to measure energy efficiency, and changes to how onsite electricity generation systems are regulated. They also include a requirement for a 27% reduction in emissions from new, non-residential buildings.

Since January 2024, developers in England have been required to deliver a 10% "Biodiversity Net Gain" when constructing new housing, industrial or commercial projects, via, for example, new habitats and green spaces. Biodiversity Net Gain for small sites will be applicable from April 2024, and implementation for Nationally Significant Infrastructure Projects is planned for 2025.

The government has appointed 48 responsible authorities in England to lead in preparing a local nature recovery strategy for their area. Responsible authorities will work with other organizations and partners to agree on what should be included in their local nature recovery strategies. The Levelling Up and Regeneration Act 2023 introduces the requirement for plan-makers, at all tiers of planning, to take into account of consider relevant local nature recovery strategies with specific reference to the objectives and provisions outlined in the Environment Act 2021.

New developments and the environment will also benefit from a reduced risk of flooding and pollution thanks to a new approach to drainage. The government has committed to requiring sustainable drainage systems in new developments, with implementation expected in 2024.

London is leading the way in developing the Smart City initiative in the UK. Smart cities have the potential for businesses to plan efficient routes to transport goods, allow local authorities to create effective public health services and provide the public with real-time data access.

# Green Leases

## Are green leases or green lease provisions mandatory or optional? If mandatory, to whom do they apply? If optional, is there significant take up?

Green leases per se are in increasingly common usage in the United Kingdom, though with certain types of green clauses being more frequently being incorporated into lease contracts. Significantly, acceptance by tenants of these provisions are becoming the market norm and such provisions, (e.g., those requiring the tenant to contribute to carbon-reduction commitment costs related to the service charge provision) are being accepted without material amendment (see section entitled "Regulation" above.).

The private sector is taking the lead, mostly through large private sector institutional landlords. Nonetheless, both those landlords and tenants that have adopted environmental and sustainability considerations into their corporate strategies tend to be much more receptive and, in certain cases, are trailblazing the green lease agenda.

It continues to be extremely uncommon for green lease provisions to be retrofitted into existing leases. In its place, there are many notable examples of landlords agreeing with their tenants to set out aspirational, and largely non-binding, objectives in a separate memorandum of understanding (MoU).

As yet, there is no mandatory requirement to include green clauses in leases either within the private or the public sectors in the UK, and we don't see this changing in the foreseeable future, particularly in relation to the private sector, where legislative interference with open-market negotiations is always unwelcome.

In the UK, the debate on green lease clauses is being championed by a number of sector organizations. These include RICS and the Better Buildings Partnership (BBP).

On 29 January 2024, the BBP launched a radically updated [Green Lease Toolkit](https://www.betterbuildingspartnership.co.uk/green-lease-toolkit-0) ("**Toolkit**"), for use in the UK. It is an invaluable resource to inform and normalize green lease thinking between landlords and tenants, and to facilitate a more seamless incorporation of sustainability-focused provisions within commercial leases.

The [Toolkit](https://www.betterbuildingspartnership.co.uk/green-lease-toolkit-0) was originally launched in 2008, and last updated in 2013. Notwithstanding, it has been one of the BBP's most prolifically used publications, as owners, investors, tenants and agents recognize the increasing urgency of, and market desire to pursue, increased sustainability measures.

The [2024 update](https://www.betterbuildingspartnership.co.uk/green-lease-toolkit-0) is significant. It provides stakeholders and advisers with a more robust legal framework to guide conversation, agreement and drafting. It contains suggested legal clauses (and detailed explanatory notes) at levels ranging from "light" to "dark" green, depending upon the level of commitment that the parties agree to in a number of environmental action areas.

Core, but not-exhaustive, areas for green drafting are set out in the[Toolkit's Green Lease Essentials](https://www.betterbuildingspartnership.co.uk/green-lease-toolkit/green-lease-essentials), and focus on matters such as co-operation, building management, sustainable use, data sharing and metering, energy performance certificates, waste and renewable energy, and others.

Alongside the Toolkit's [drafting options](https://www.betterbuildingspartnership.co.uk/green-lease-toolkit/green-lease-clauses) are user-friendly statements of intent and guidance, to aid understanding between the parties and to drive discussions as to how to make a meaningful, workable environmental plan that stretches, and delivers on, industry ambitions to reduce emissions.

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