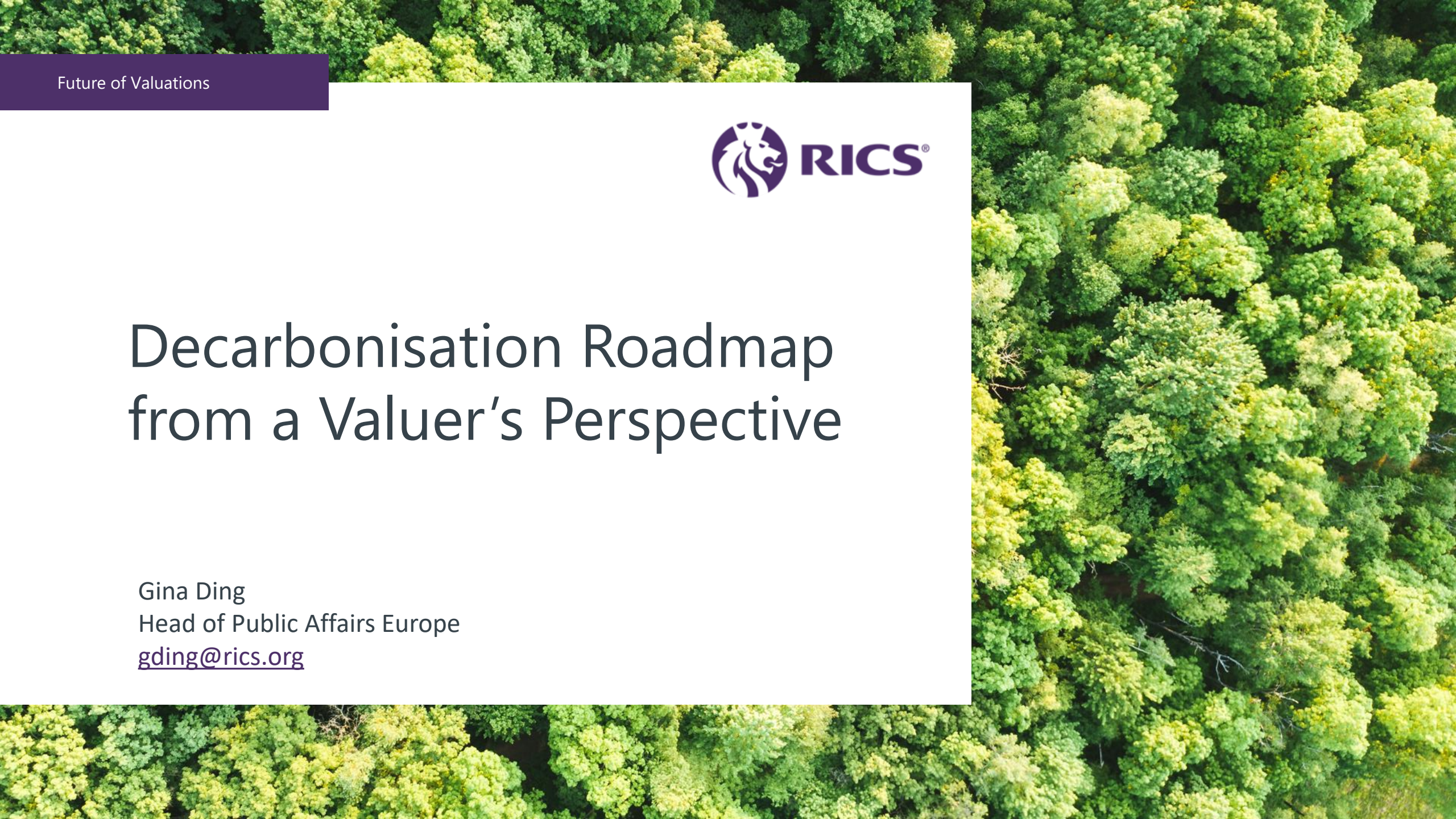


Future of Valuations

Decarbonisation Roadmap from a Valuer's Perspective

Gina Ding
Head of Public Affairs Europe
gding@rics.org

The RICS Chartered Surveyor…

Surveying is really a series of professions with overlapping and synergistic skills, usually with some degree of specialism:

- Building Surveyor
- Quantity Surveyor [Cost consultant]
- **Valuation Surveyor [Appraiser]**
- Environmental Surveyor
- Commercial Surveyor [Asset Management, Investment Management, Facilities Management]

Etc…..

Sustainability interfaces with each of these – **but no one specialism has all the answers….**

Setting the scene….

The latest **Sustainability Report from RICS**, which involved around 4,000 real estate experts worldwide, highlights a significant increase in demand for sustainable properties, particularly in Europe.

SCAN ME

Demand for green buildings keeps rising

Interest in sustainable built assets among investors and occupiers has risen for the fourth consecutive year.

+63% Europe

+54% UK

+49% Middle East and Africa

+38% Asia Pacific

+25% Americas

+41% Global

Policy matters

Interest in sustainable buildings is at its highest in Europe, where regulation and standards around green practices are most comprehensive.

52% of respondents believe this to have a high impact on trends and practices.

Perceived value and demand is driving investment

50% of professionals believe that green buildings have a higher capital value.

Investor Demand for Green Properties: Europe Leads, Americas Lag Behind

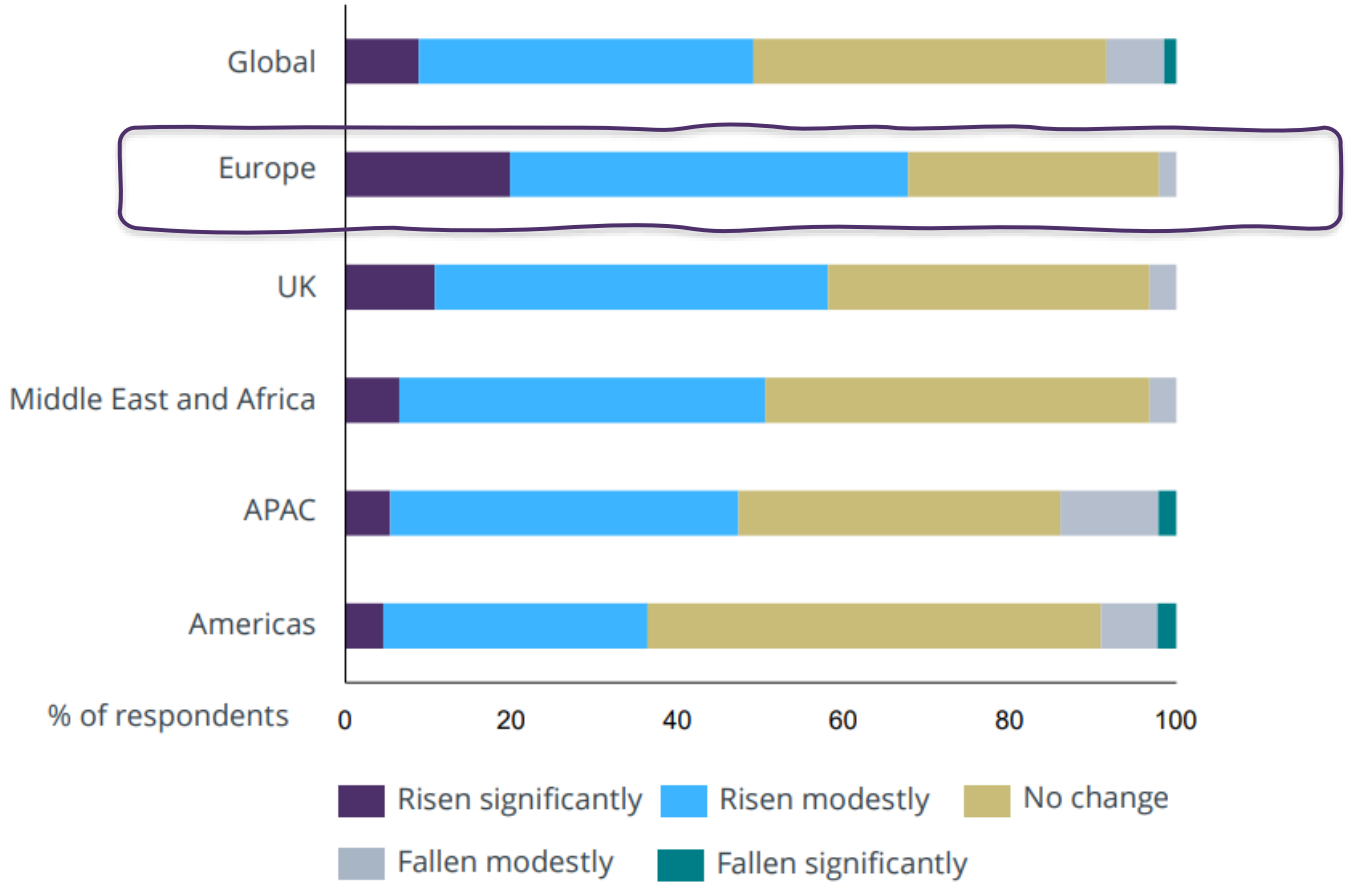


Figure 3: How has investor demand for green/sustainable buildings changed in the last 12 months?

Assessments Show Strong Impact of Sustainability Features – Premium or Discount on Rents?

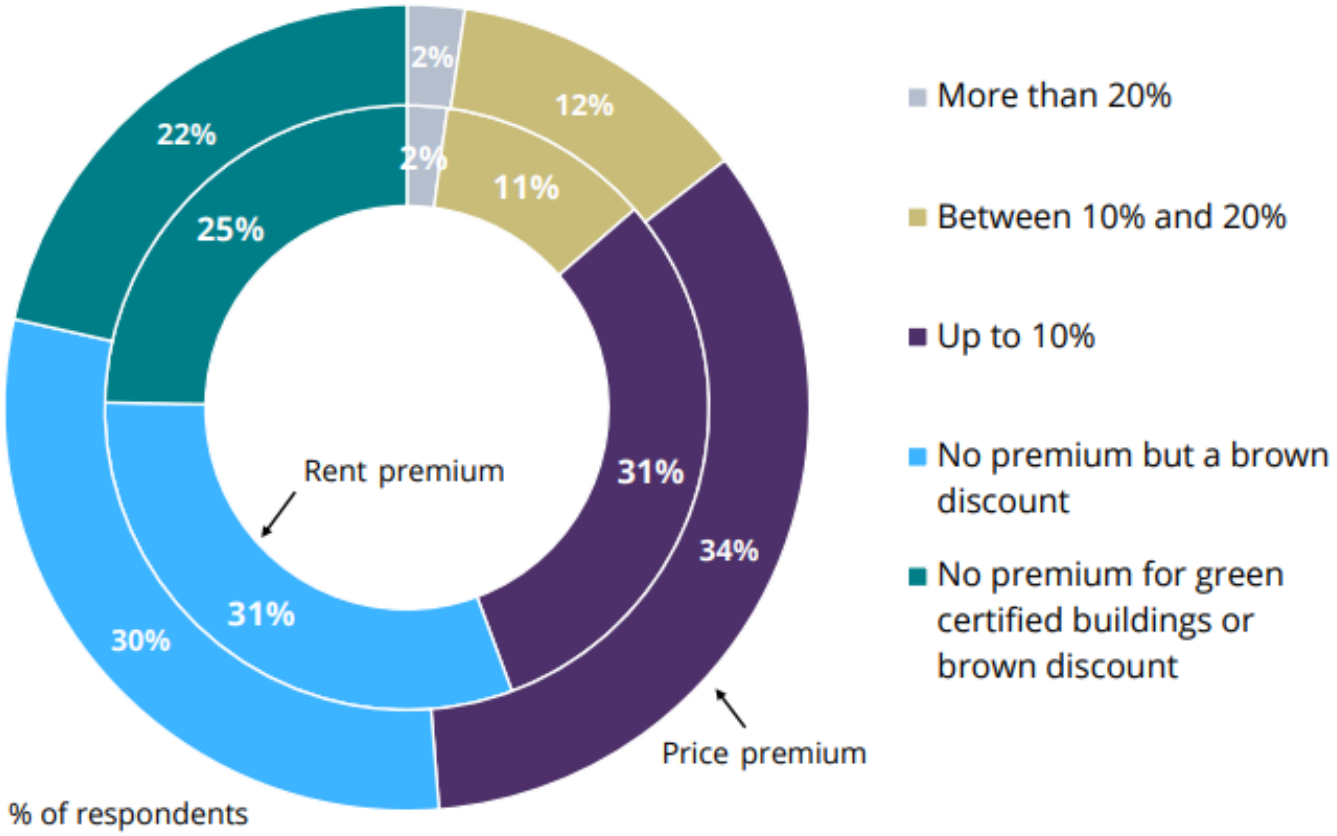


Figure 4: In the area you operate in, do green buildings achieve a rent or price premium over comparable non-green buildings?

Premium vs Discount: Regional Differences Show "Premium" in the Middle East, Africa, APAC, and Europe

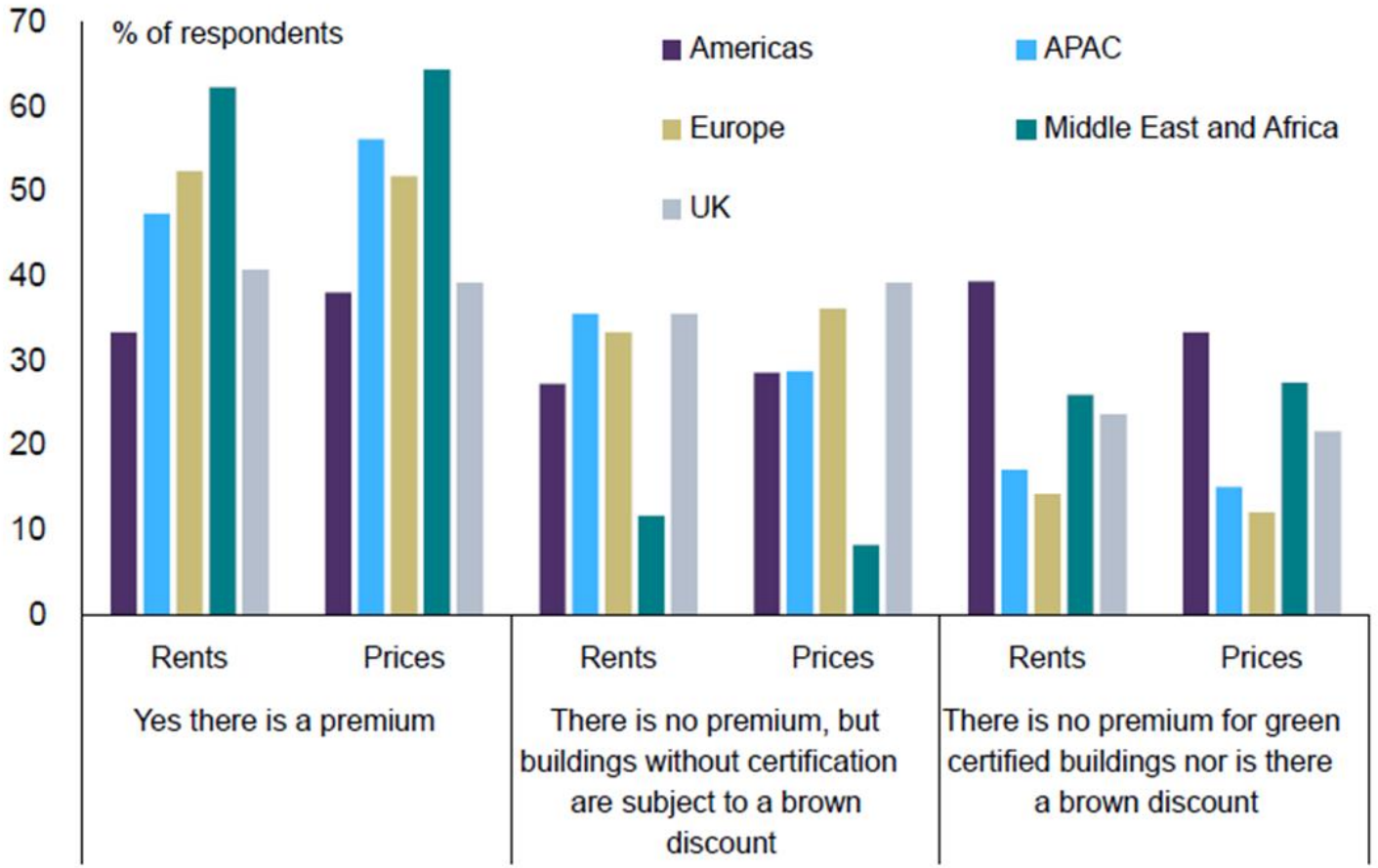


Figure 5: Regional breakdown: In the area you operate in, do green buildings achieve a rent or price premium over comparable non-green buildings?

Resilience to climate change is only moderately important to occupiers and investors globally

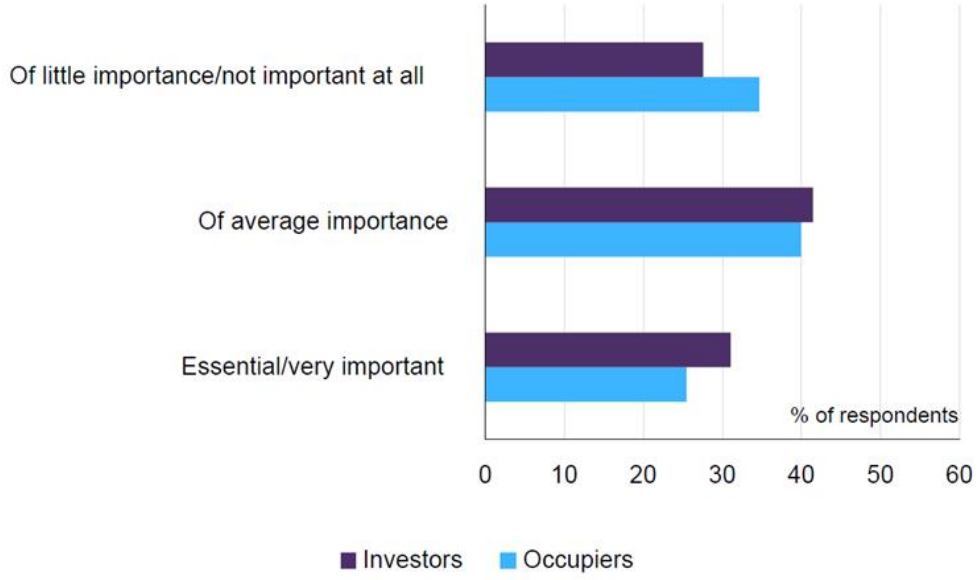


Figure 6: To what extent is a property's resilience to extreme weather conditions and the adverse effects of climate change important for occupiers and investors?

Adapting to and building resilience against the adverse effects of climate change is one of the most pressing challenges facing the built environment today. According to the Intergovernmental Panel on Climate Change (IPCC), the frequency and intensity of extreme weather events are expected to increase significantly in the coming decades. This will place pressure on human health and livelihoods but also severely impact the built environment.

For investors in particular, climate risks could lead to:

- ❑ increases in insurance premiums
- ❑ accelerated depreciation of assets
- ❑ greater incidences of stranded assets
- ❑ considerably higher capital costs.

The built environment sector must adapt to climate change to address these challenges. This includes **adopting proactive design methods to increase resilience to extreme weather, assessing risks to existing assets and focusing on delivering scalable and measurable actions**

Demand from clients, stakeholders and customers is seen as the driving force behind the surge in environmental, social and governance (ESG) investment

Respondents were asked to identify the key drivers behind the growing popularity of ESG funds, which have led to the value of funds invested in sustainable assets exceeding **$30 trillion**.

- **Customer, stakeholder, and user demand** tops the list, with **38%** of respondents worldwide citing it as one of the main factors.
- **Legal requirements** come second, being seen as crucial for the growth of ESG investments by **25%** of respondents globally.
- Close behind are **high energy prices** and **high construction costs**. Regulatory incentives, subsidies, and the increasing availability of ESG-related data and research findings round out the list. However, only about **10%** of respondents worldwide consider these factors as important drivers.

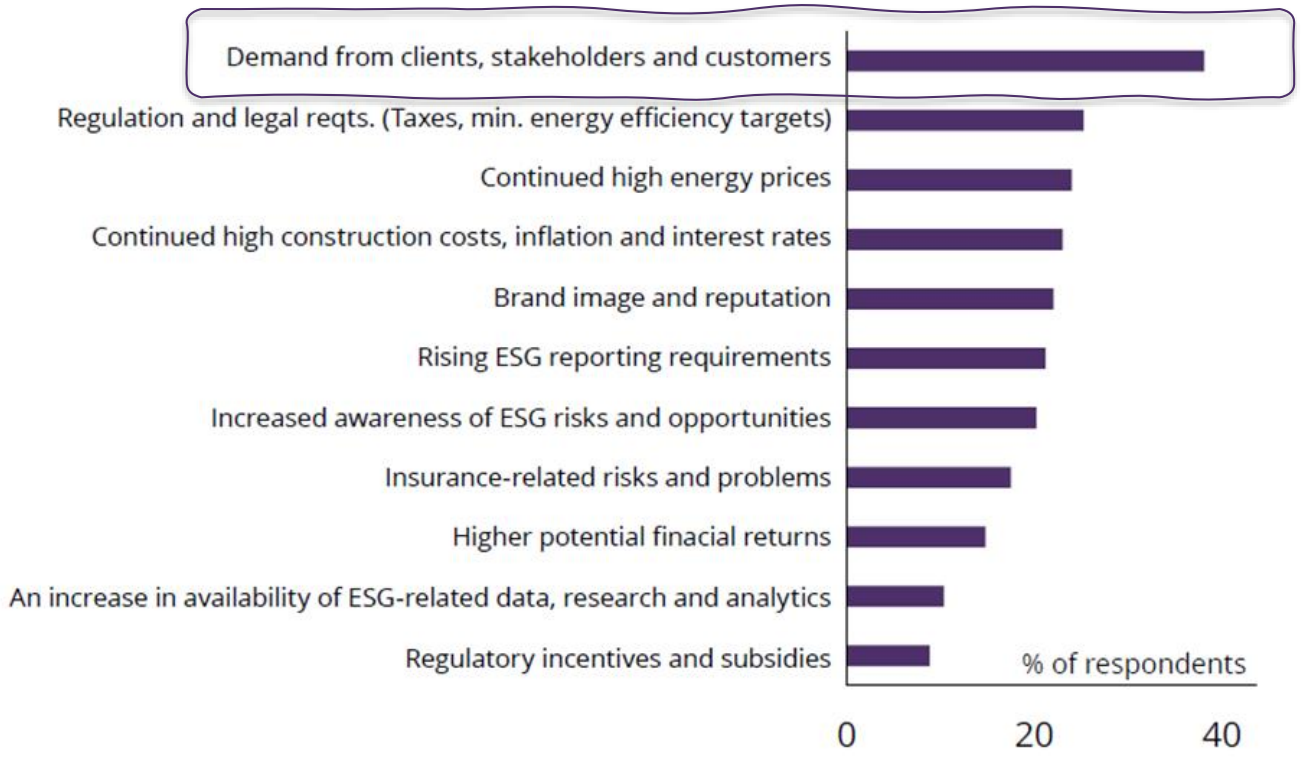


Figure 7: If ESG considerations are impacting investment decisions, what factors are currently driving this trend? (Respondents were asked to select up to three factors)


Higher quality, better performing real estate in the right location that meets the needs of its users, tends to be higher in value.

Valuation and ESG introduction

Valuation myth-busting

- **Valuation is not the creation of value**

[This is usually created by demand/lack of supply/synergising]

- **Valuation is not mandating the price an asset will sell for**

[Asking prices are typically proposed by an agent/broker and determined by markets – sometimes through negotiation]

- **Valuation is not applying averages to individual situations**

[The average house price on a street is in most cases not the value of an individual house]

- **Markets don't [always, if ever] follow models**
- **No-one can predict the future absolutely**

[valuation typically refers to the current date or a date in the past; it can refer to very recent in some cases 'live' evidence].

Valuation is useful

It can:

- Provide reassurance around investment in an asset
- Educate the valuation user around important factors in value
- Compare with other assets and investments
- Support the planning of investment and development

Definitions

Environmental, Social and Governance (ESG)

‘The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices, financial performance or operations of a company, asset or liability. ESG comprises three pillars: environmental, social and governance, all of which may collectively impact performance, the wider markets and society’.

[Source: IVS Glossary]

Sustainability

‘Carrying out activities without depleting resources or having harmful impacts. It includes matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and collective responsibility that can or do impact valuation.

[Source: Global Red Book Standards]

ESG is the assessment tool and framework, whereas sustainability is the goal and/or outcome.

What is the task?

Valuation with the context of ESG

01 Different from strategic risk advice

02 Different from corporate disclosure

03 Different from a building survey

04 Different from a transition risk analysis

‘Valuers must identify, report and document the consideration of significant ESG factors and any **impact on the valuation conclusion** and/or rationale.’

[Source: Red Book Global Standards , VPS 6 2.2(q)]

‘

ESG factors and the ESG regulatory environment should be considered in valuations **to the extent that they are measurable and would be considered reasonable by the valuer applying professional judgement.**

[Source: International Valuation Standards, IVS 104 Data and Inputs: Appendix, A10.06]

Valuation - An opinion of the value of an asset or liability on a stated basis, at a specified date.

Red Book Global Standards Glossary

Valuation standards and ESG

RICS ESG in Valuation –standards programme

Update Global Red Book ESG content

2/12/24

Incorporate IVS ESG standards (e.g. scope of work) into Global Red Book

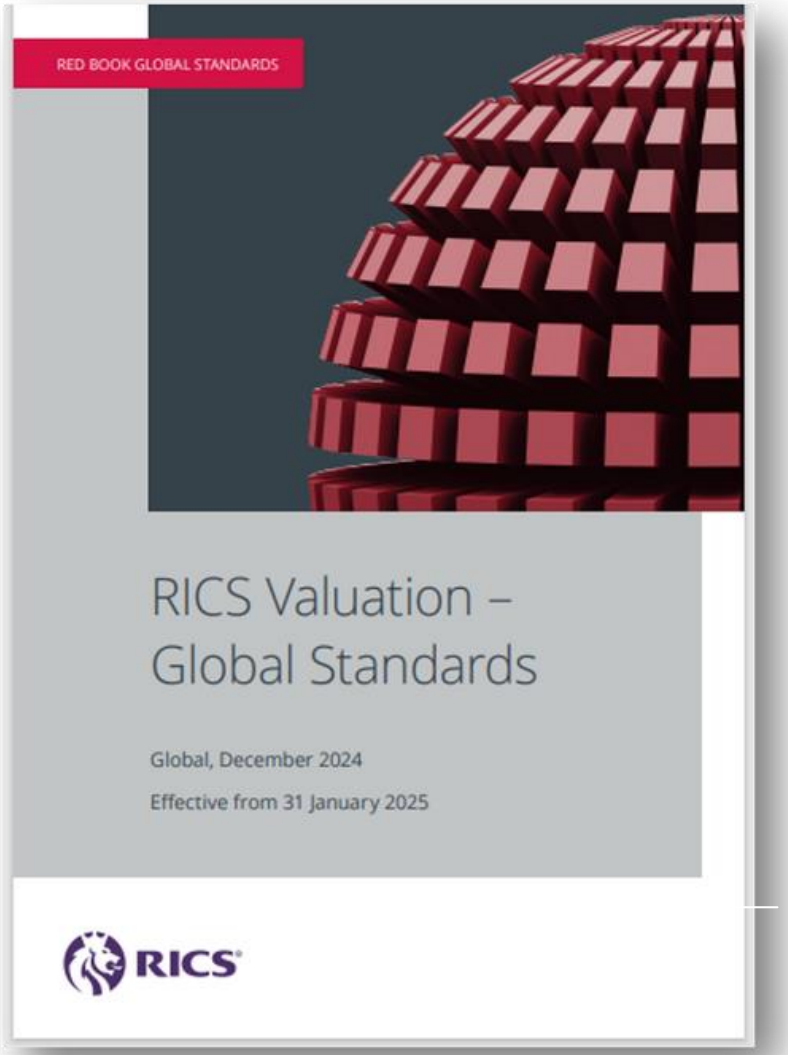
2/12/24

Update RICS Global ESG in Commercial Property Valuation professional standard*

Target 1/12/25

*Including new UK and EU appendices (covering e.g. MEES/MEPS)

The above process will also involve integrating RICS and other industry standards e.g. RICS Whole Life Carbon Assessment and IFRS S1/S2. Target dates shown are provisional at this stage.



Integration of new IVS ESG standards

New mandatory requirements for:

- Terms of engagement (VPS 1)
  - *Inspection and investigation (VPS*
  - *Reporting and documentation (VPS 6)*
- Asset type best practice:
  - *e.g. Valuation of real property interests (VPGA 8)*
- Purpose specific best practice:
  - *e.g. financial reporting under (VPGA 1) and secured lending valuation (VPGA 2)*

The terms of engagement must include

any requirements in relation to the consideration of significant environmental, social and governance (ESG) factors. VPS 1 paragraph 3.2 (s)

Valuers must identify, report and document

the consideration of significant ESG factors and any impact on the valuation conclusion and/or rationale. VPS 6 paragraph 2.2 (q)

ESG valuation of real property interests (VPGA 8)

- VPGA 8 now has its own ESG section (3), including detailed coverage of each pillar
- The IVS data and inputs appendix is for all asset types. The updated VPGA 8 recognises ESG factors particularly relevant to real property:

E

- Energy Regulations & Improvements: Legal energy rating schemes, required enhancements, and related costs.
- Energy Consumption: Usage for heating, cooling, and lighting, with intensity benchmarks by sector.
- Energy Sources: Types used (electricity, oil, gas) and onsite renewable generation.
- Renewable Systems: Specifications and quantities (e.g., solar panels, heat pumps, wind turbines).
- Certifications: Labels like BREEAM, LEED, WELL.
- Emissions & Pathways: Greenhouse gas emissions and CRREM pathway analysis.
- Climate Risks: Physical risks (flood, heat, drought, sea level rise).
- Water Use: Adaptations for conservation, management systems, and consumption levels.
- Biodiversity: Non-vegetated areas, biodiversity impacts, pesticide use, action plans, and green surfaces.

S

- Location & Infrastructure: Connectivity and transport access.
- Mobility: EV charging points, bicycle parking.
- Accessibility: Compliance with disability access requirements.
- Indoor Air Quality: Ventilation, filtration, CO_2 levels, temperature.
- Community Impact: Zoning, occupier mix, green spaces, local business interaction, pollution, traffic.
- Adaptability: Building flexibility for different uses.

Not a checklist! Each factor only where proportionate, relevant and there is evidence of impact on value

G

- Safety: Compliance with regulations and market expectations.
- Ownership & Risk: Criminal activity concerns (money laundering, terrorism financing, modern slavery, sanctions breaches).
- ESG Perception: Public and market views on ownership/occupation impact.
- Diversity & Inclusion: Building design for inclusivity (neurodivergence, generational needs).
- Contracts & ESG: Sustainability clauses in leases and agreements.
- Legal & Planning: Zoning, registration, licensing, and heritage considerations.

Source: Red Book Global Standards VPGA 8 3.7.4.

Sustainability and ESG in commercial property valuation (2021) and update 2025….

- A global RICS Professional Standard
- A practical framework for delivering Global Red Book and IVS sustainability and ESG requirements
- Note: “commercial” sector only
- Effective 31/1/22
- The current professional standard is linked here

New for 2025:

- UK/EU appendices covering specific regulatory requirements (to include the data list?)
- More around income and cost considerations
- Explicit ESG considerations in terms of engagement and reporting

An industry initiative …

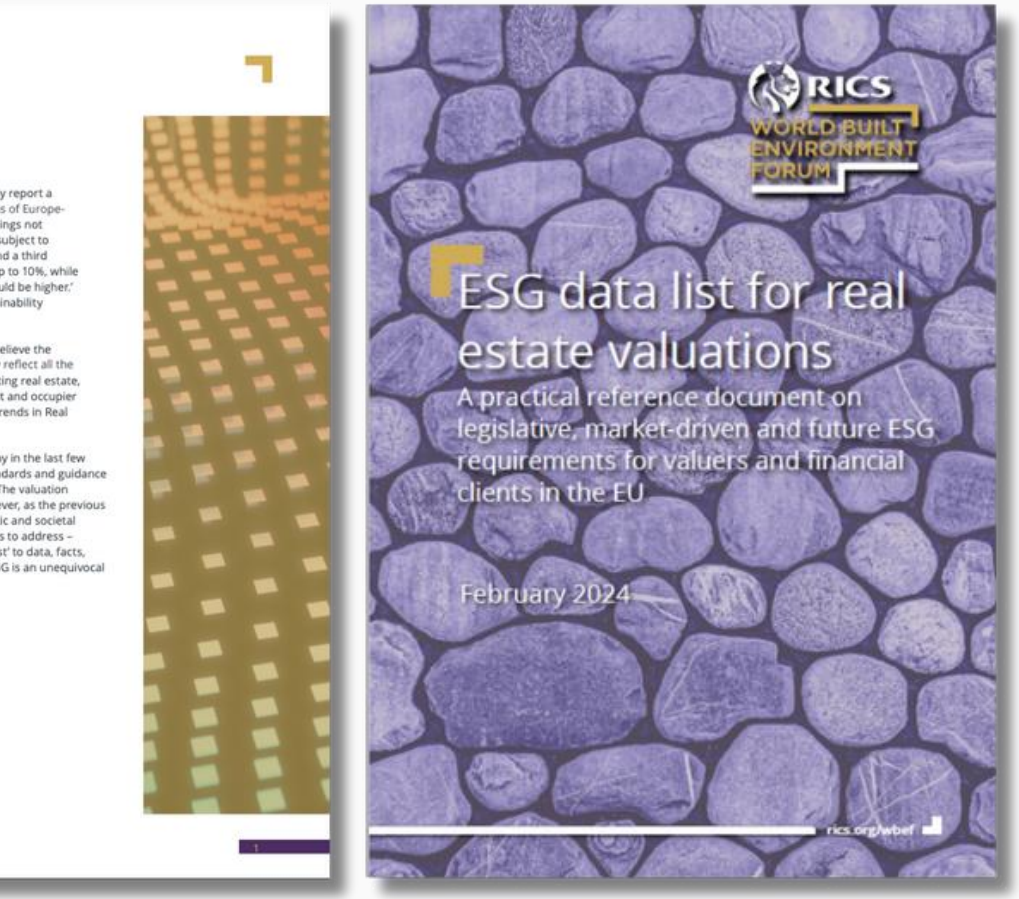
RICS European Leaders Forum
Future of Valuations – The impact of ESG

Members of the Leaders Forum:

Aim:

To embed ESG requirements into valuations and the valuation process

Valuation & ESG Data List – Scope & Content



Scope:

- EU
- Real Estate
- Asset level

Core Data List – 12 indicators

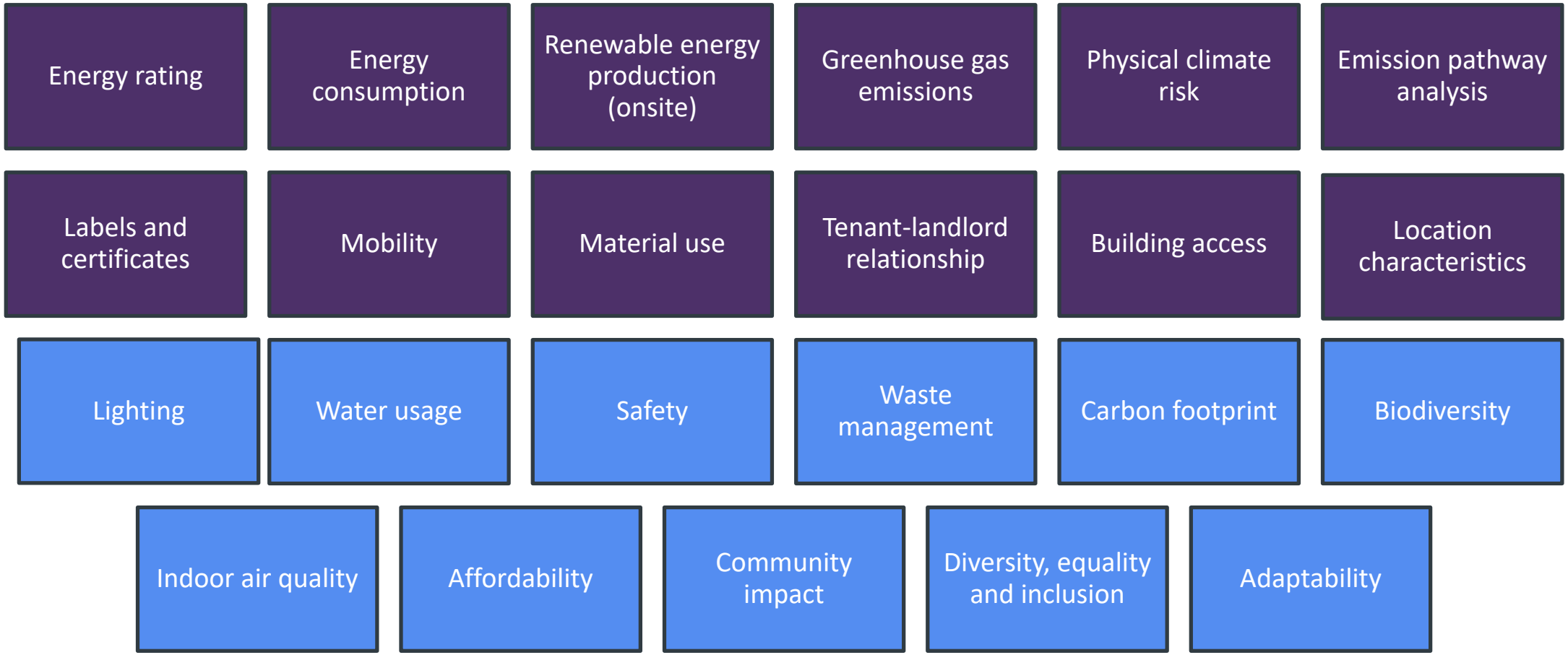
- Future Potential Indicators
- Comply or explain approach
- Data to be captured and analysed
- Unit of measurement

Recommendations on

- Data source
- Valuation approach
- Valuation driver

SCAN ME

The ESG Indicators



	ESG indicator	Data to be captured and analysed	Unit of measurement/ indicative performance measure	Explanatory note
02	Energy consumption	• Primary and final energy consumption • Energy intensity	• kWh/m²/year • kWh/m²	Where is the property in relation to others in terms of energy consumption and efficiency? This should cover both landlord and tenant consumption. Referenced in Directive 2010/31/EU on the Energy Performance of Buildings (recast) [EPBD] Primary energy consumption covers energy consumption by end users such as industry, transport, households, services and agriculture, plus energy consumption of the energy sector itself for production and transformation of energy, losses occurring during the transformation of energy (e.g. the efficiency of electricity production from combustible fuels) and the transmission and distribution losses of energy. Final energy consumption is the total energy consumed by end users, such as households, industry and agriculture. It is the energy that reaches the final consumer's door and excludes what is used by the energy sector itself. This indicator applies to all asset classes, unless specified otherwise by national legislation. Data source: energy audit provided by, for example, the building owner, asset manager or constructor. Preferred approach: comparative, income. Main drivers: risk, cash flow.

	ESG indicator	Data to be captured and analysed	Unit of measurement/ indicative performance measure	Explanatory note
05	Greenhouse gas emissions	CO_2e emissions, excluding and including refrigerant gases, based on real energy consumption	• $kgCO_2e/m^2/year$	Where is the property in relation to others in terms of greenhouse gas emissions? Definition of greenhouse gas emissions: (1) of Article 3 of Regulation (EU) 2018/842 of the European Parliament and of the Council (12). Referenced in Regulation on the Governance of the Energy Union and Climate Action. Referenced in SFDR Annex 1 Table 1 Universal PAI. Referenced in SFDR Annex 1 Table 2 Additional Real Estate PAI. Scope 1 covers emissions from sources that an organisation owns or controls directly. Scope 2 covers emissions that a company causes indirectly and comes from where the energy it purchases and uses is produced. This indicator applies to all asset classes, unless specified otherwise by national legislation. Data source: third-party providers/professionals. Preferred approach: comparative. Main driver: risk.

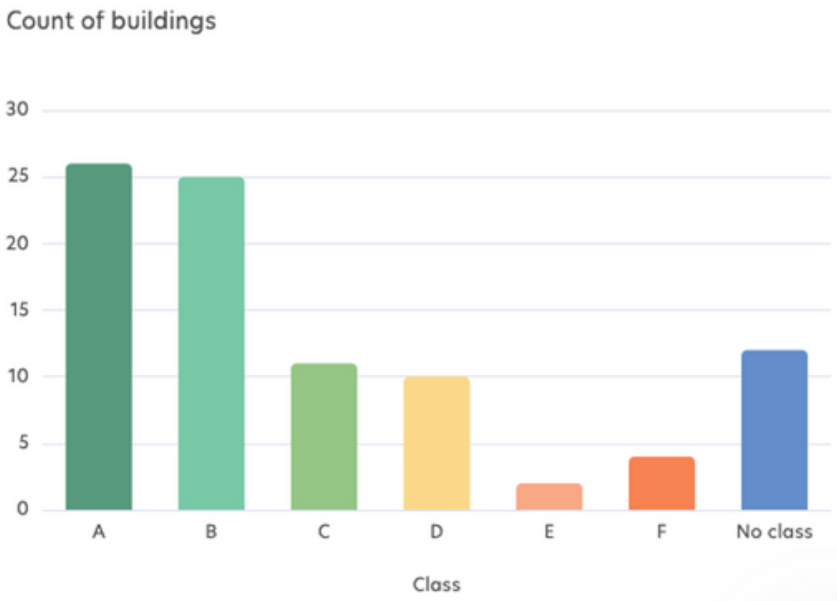
Future potential indicator	Description
Waste management	Is there a waste management system to separate waste flows, and are they managed appropriately? Data to be captured can include volumes and type of waste disposed, and non-recycled waste ratio. Units of measurement can include the waste recycling rate, proportion of waste to landfill and cost of waste disposal per annum.
Carbon footprint	Has the property been constructed using low-carbon construction principles? This is linked to whole life carbon assessment and can include embodied, operational and usage carbon.
Biodiversity	Any actions or property attributes that impact, either positively or negatively, on biodiversity. Biodiversity is already mentioned in the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy Environmental Delegated Act (Taxonomy). Data to be captured can include land artificialisation (share of non-vegetated surface area compared to the total surface area of the plots of all assets), activities negatively affecting biodiversity-sensitive areas, use of pesticides, existence of a biodiversity action plan and the approximate area of planting or any roof coverings. Units of measurement can include the percentage of non-vegetated surface (green walls, or open ground land that can be differentiated), presence of bee hives and biodiversity labels. Some biodiversity aspects will be anchored in local laws, whereas other considerations will be market-driven. An important consideration is that the new buildings are not built on greenfield sites, taking into the account the EU Taxonomy 'do no significant harm' criterium for biodiversity.

The indicators- Energy Rating

EPC Basic information

Assets with EPC available	Assets with class A or B EPC (SFDR)	Assets with class A EPC (EU Taxonomy)
65 / 273	42 / 273	26 / 273
23.8%	15.4%	9.5%

Classification of the EPC per energy class



Certificate type	Reporting type	Related real estate object	Country code
Non residential	Consumption	DE-BE-30	DE

Validity

Valid from	Valid until
24.11.2016	24.11.2026

Status: Valid

Details

Primary energy	Final energy
192,5 kWh/(m².y)	205,1 kWh/(m².y)
Electricity	**Heating**
43,1 kWh/(m².y)	162 kWh/(m².y)
Carbon emissions	**Energy class**
62.7 $kgCO_2eq/(m^2.y)$	B
Energy class accuracy	**Heating source**
Estimated	-

Reference data

Area	Area type
3.972,6 m²	Net room area
Reference number	**Alternative link to the evidence**
BW-2016-001119366	-

Documents

EPC Document

Nearly zero energy building (NZEB)

Primary energy demand is: Above NZEB value

Data source: Third-party providers/professionals

Main drivers: Risk, cash flow

Source: BUILDING MINDS

Appendix B Comparison to INREV guidelines/ESG SDDS

This appendix aligns the data list with the INREV guidelines/ESG SDDS. INREV is the European Association for Investors in Non-Listed Real Estate Vehicles.

The INREV ESG SDDS (Standard Data Delivery Sheet) reporting template is designed to facilitate ESG data exchange and standardise the way ESG KPIs are reported for real estate investment vehicles.

This ESG reporting template covers the ESG KPIs required by the INREV guidelines, as well as recommended ESG KPIs It contains vehicle- and asset-level data fields and definitions.

	ESG indicator	INREV
01	Energy rating	RG73 Required KPIs: ENV27, 28
02	Energy consumption	RG73 Required KPIs: ENV4, 6, 7
03	Renewable energy production (onsite)	RG73 Required KPIs: ENV8, 9, 10
04	Labels and certificates	RG73 Required KPIs: ENV26 (ESG SDDS identifier: AL9.1) RG78 Recommended KPIs: ENV70, 71 RG78 Recommended KPIs: SOC 11 (ESG SDDS identifier: ESG5.5.2)
05	Greenhouse gas emissions	RG73 Required KPIs: ENV 18, 20,21 (ESG SDDS identifier: AL4.10, 4.13)
06	Emissions pathway analysis	RG78 Recommended KPIs: ENV47, 48, 49, 50, 51 (ESG SDDS identifier: RAL4.1, 4.2, 4.3)
07	Physical climate risk	RG73 Required KPIs: ENV23 (ESG SDDS identifier: AL6.1) RG78 Recommended KPIs: ENV53
08	Location characteristics	RG78 Recommended KPIs: SOC33, 34, 35 (ESG SDDS identifier: ESG5.5.8, 5.5.8.1, 5.5.9)
09	Mobility	RG78 Recommended KPIs: SOC31, 32 (ESG SDDS identifier: ESG5.5.6, 5.5.7)
10	Building access	
11	Tenant-landlord relationship	RG78 Recommended KPIs: SOC20, 21 (ESG SDDS identifier: ESG5.3.6, 5.3.6.1)
12	Material use	RG78 Recommended KPIs: ENV68 (ESG SDDS identifier: RAL6.14)

More mapping underway …

Working Group to Align Real Estate Sustainability Indicators

Mission Statement:

- We agree that there is a lack of a consistent set of indicators to systematically assess the sustainability performance of buildings, which hinders considering sustainability factors in real estate decision making.

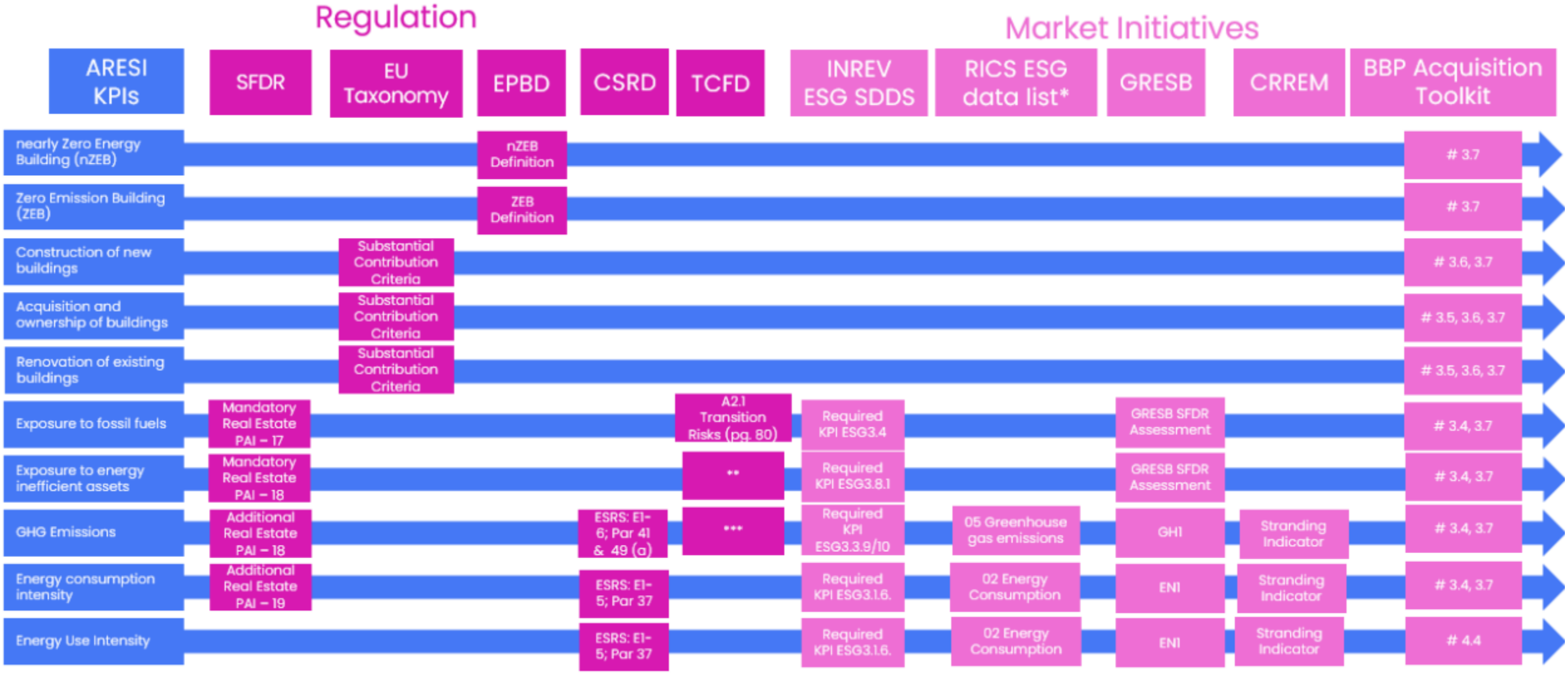
Therefore, we aim to:

- Identify a consistent set of indicators to address ambiguity in sustainability decision making in the built environment;
- Address existing ambiguities in these indicators by signposting existing resources and definitions to ensure these are calculated in a consistent and transparent way; and,
- To, in principle, embed these indicators into our decision-making process.

SCAN ME

The 10 climate mitigation indicators identified

Indicator #	Indicator	Source	Use in Existing European Legislative Frameworks (Non-exhaustive)
1	nearly Zero Energy Building (nZEB)	EPBD	EU Taxonomy, EPBD, SFDR
2	Zero Emission Building (ZEB)		
3	Construction of new buildings	EU Taxonomy (Substantial Contribution Criteria)	EU Taxonomy, SFDR, BBP Acquisition Toolkit
4	Acquisition and ownership of buildings		
5	Renovation of existing buildings		
6	Exposure to fossil fuels through real estate assets	SFDR	SFDR, TCFD, INREV ESG SDDS, GRESB, BBP Acquisition Toolkit
7	Exposure to energy inefficient real estate assets		
8	GHG Emissions		SFDR, CSRD, TCFD, INREV ESG SDDS, RICS ESG data list for real estate valuations, GRESB, CRREM, BBP Acquisition Toolkit
9	Energy consumption intensity		SFDR, CSRD, INREV ESG SDDS, RICS ESG data list for real estate valuations, GRESB, CRREM, BBP Acquisition Toolkit
10	Energy Use Intensity		


Regulation
Market Initiatives
ARESI KPIs
SFDR
EU Taxonomy
EPBD
CSRD
TCFD
INREV ESG SDDS
RICS ESG data list*
GRESB
CRREM
BBP Acquisition Toolkit
nearly Zero Energy Building (nZEB)
nZEB Definition
3.7
Zero Emission Building (ZEB)
ZEB Definition
3.7
Construction of new buildings
Substantial Contribution Criteria
3.6, 3.7
Acquisition and ownership of buildings
Substantial Contribution Criteria
3.5, 3.6, 3.7
Renovation of existing buildings
Substantial Contribution Criteria
3.5, 3.6, 3.7
Exposure to fossil fuels
Mandatory Real Estate PAI – 17
A2.1 Transition Risks (pg. 80)
Required KPI ESG3.4
GRESB SFDR Assessment
3.4, 3.7
Exposure to energy inefficient assets
Mandatory Real Estate PAI – 18
**
Required KPI ESG3.8.1
GRESB SFDR Assessment
3.4, 3.7
GHG Emissions
Additional Real Estate PAI – 18
ESRS: E1-6; Par 41 & 49 (a)
***
Required KPI ESG3.3.9/10
05 Greenhouse gas emissions
GHI
Stranding Indicator
3.4, 3.7
Energy consumption intensity
Additional Real Estate PAI – 19
ESRS: E1-5; Par 37
Required KPI ESG3.1.6.
02 Energy Consumption
ENI
Stranding Indicator
3.4, 3.7
Energy Use Intensity
ESRS: E1-5; Par 37
Required KPI ESG3.1.6.
02 Energy Consumption
ENI
Stranding Indicator
4.4

Practical application of ESG consideration in valuation

What Effect

Risk Driver

elevate the property’s risk profile, and include environmental hazards, social conflict, governance issues and regulatory compliance.

Cash Flow driver

influence the cash flow related to a property. Examples include tenant demand, rental income, operating costs, cap rates, property finance costs and property tax incentives.

Value Driver

directly impact the property’s value, and can include factors like energy efficiency, location, green certifications and building design.

How do valuers practically consider ESG?

ESG considerations for real property interests – practical steps

Examples are subject to the terms of engagement, asset to be valued, purpose, basis and approach:

- **Inspection and investigation data**
  typically certification, energy performance and heat/flood physical risk data
- **Reference to market evidence**
  transactions, deal background, bid information, particulars, analysis of market participants
- **Reference to wider economic evidence**
  indices, statistics, macro level indicators
- **Modelling of known current and pending related operational costs and potentially income***
  typically energy, this would often require separate instruction/expertise
- **Modelling of known current and pending capital costs***
  this would typically require separate instruction/expertise
- **Analysis and adjustment**
  void periods, lease terms and incentives, rent-free
- **Legal analysis**
  current and pending regulatory/legal matters
  (this may also require separate instruction)

…Despite the considerable diversity of circumstances, the key question is always **the extent to which the factors identified affect value. Particular care should be taken when assessing or commenting on ESG factors, as **valuers may not have the specialist knowledge and experience required**. An increasingly prevalent example of this globally is the assessment of capital expenditure required to meet market and regulatory energy efficiency and decarbonisation requirements by a specific target date. In appropriate cases, **the valuer may recommend making further enquiries and/or obtaining further specialist or expert advice** in respect of these matters. (Red Book Global 24/25, VPGA 8, paragraph 3.1.2)*

This is a list of examples and is in no way exhaustive. What is beyond the valuer? Beyond valuation?

Comply ~~or~~ and Explain

Consolidated ESG advice

- **ESG is not a valuation issue alone**
- ESG is interwoven into all aspects of real estate
- Many firms and organisations seek consolidated advice (e.g. building advice, cost advice, energy assessment, investment advice and valuation)
- **RICS members and firms are in a great position to support**
- The scope of work (terms of engagement) for all professional work is critical

Beyond valuation RICS and partners have a suite of standards and guidance that support consolidated ESG advice:

- IBOS, A framework for assessing building performance linked here.
- RICS Responsible business framework linked here.
- ICMS 3 linked here.
- Whole Life Carbon 2nd edition linked here


CHALLENGE

From empirical evidence …

… to market evidence

Summary/Conclusions

01 If you are a **user** of valuations, you're in a very strong position to **agree terms of engagement that, where reasonable, consider and reflect upon the challenges you need to resolve**. This does not mean you can tell the valuer what the answer is! valuations!

02 There aren't magic numbers and quick fixes – spend time and resource, where possible, looking at the nuance, the options and potential solutions. Difficult for periodic fund etc.

03 **What is the market doing?** Call people – setup meetings – if you are the market call each other! Try and **understand investment and transaction decision making** as much as possible and at a deeper level e.g. Don't just get the transaction price – get the capex spend as well. [Market value] reflects hypothetical decisions of market participants - so what is the market doing?

04 Irrespective of politics, personal views, regulation and even to a certain extent markets – there is a positive story to tell about how **better performance measurement can lead to more accurate observations…**

Thank you!