University of the Built Environment
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Horizons, 60 Queen's Road, Reading, RG1 4BS
ube.ac.uk | +44(0)118 921 4696 | enquiries@ube.ac.uk

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Author(s)	David Hourihan, David Hourihan, David Hourihan and David Hourihan
ORCID	https://orcid.org/0000-0003-1405-3130; https://orcid.org/0000-0003-1405-3130; https://orcid.org/0000-0003-1405-3130; https://orcid.org/0000-0003-1405-3130
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PROPERTY VALUATION

(BG3 ALT S6)

Section 3 –

Sustainability and Valuations

Real Estate Business Management Program

Year 3 – Work study program

Présenter: David Hourihan MSc Prop Inv FRICS

6 November 2023

Property Valuation (BG3 ALT S6)

Agenda

1. Introduction.
2. Environmental, social and governance (ESG).
3. Valuations and Sustainability: Overview.
4. The Red Book and Sustainability.

Property Valuation (BG3 ALT S6)

1. Introduction

What do we mean by the term ‘sustainability’?

Can it be defined?

- Living within the means of our planet.
- An individual responsibility?
- A company responsibility?

Property Valuation (BG3 ALT S6)

2. Environmental, social and governance (ESG).

‘The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices of a company on its financial performance and operations. ESG comprises three pillars: environmental, social and governance, all of which collectively contribute to effective performance, with positive benefits for the wider markets, society and world as a whole.’

The RICS guidance on this topic notes how sustainability this can impact on:

- Role of the Valuer.
- Valuation Purpose.
- Valuation Instructions and Terms of Engagement.
- Inspection, Investigation and data.
- Basis of Value.

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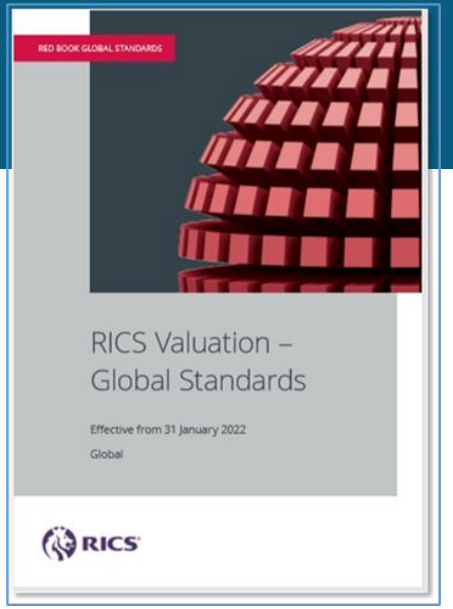
3. Valuations and Sustainability: Overview



RICS Professional Standards

RICS develops and enforces leading international standards to protect consumers and businesses, ensuring the highest level of professionalism is employed across the built and natural environment. These standards documents lay out the ethical, conduct and competence expected for Members of RICS. By working to our standards, professional members and RICS regulated firms deliver confidence. RICS ensures these standards are upheld by the profession through a system of independently led regulation.

Sustainability and ESG in commercial property valuation and strategic advice

This global professional standard provides a practical framework for delivering on sustainability and ESG investigation, and reporting requirements in professional valuation advice.

The practical and globally relevant principles for the delivery of the sustainability and ESG requirements are in the Red Book Global Standards. They provide:

- Good practice advice supporting everyday commercial valuation practice and its interface with ESG and sustainability.
- Alignment of ESG and sustainability considerations with the core mechanics of valuation (purpose, basis, approach).
- A glossary of globally relevant sustainability and ESG terms and an appendix referencing world-leading rating, benchmarking and performance frameworks and tools.

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4. The Red Book and Sustainability

Inspection and investigation

[sustainability and ESG matters].

Such factors are commonly important in terms of market and societal perception and influence, and valuers should have proper regard to their relevance and significance in relation to individual valuation assignments.

RICS Global Standards – Valuation – "Red Book" VPS 2, 1.5

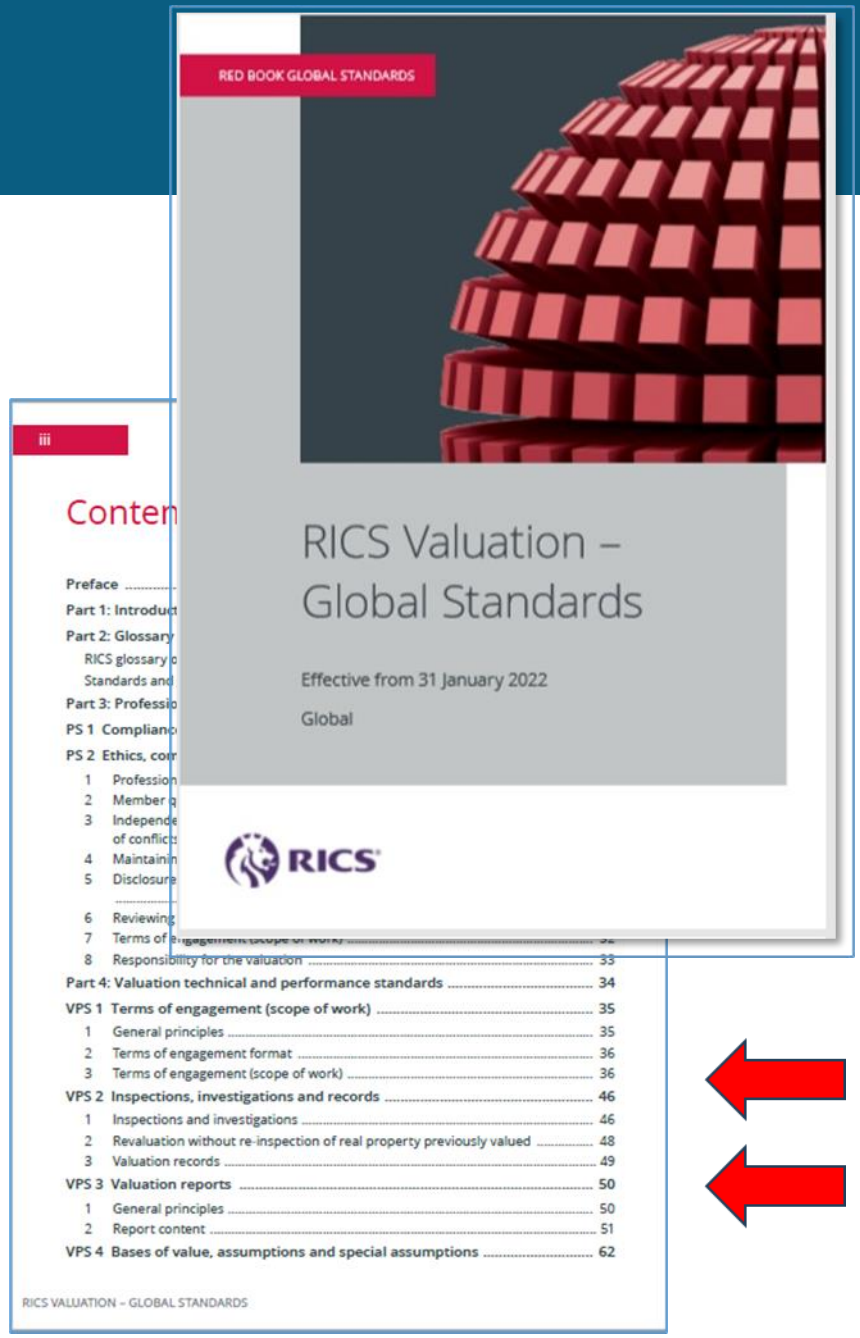
Valuers should collect and record appropriate and sufficient sustainability and ESG data for the valuation.

RICS Global Standards – Valuation – "Red Book" VPS 2, 3.3

Reporting

"…the relevance and significance of sustainability and ESG matters should form an integral part of the valuation approach".

RICS Global Standards – Valuation – "Red Book" VPS 3, 2.2, I



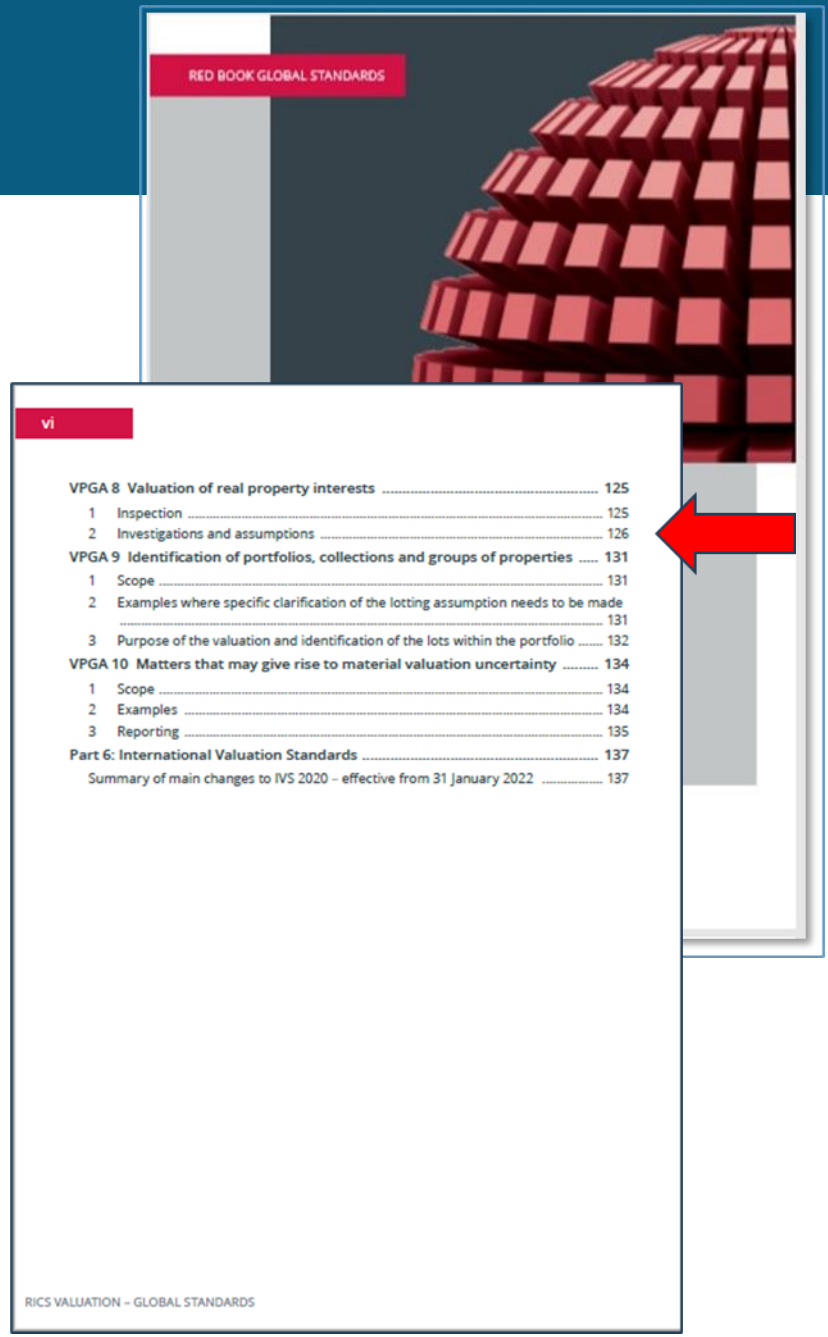
Property Valuation (BG3 ALT S6)

4. The Red Book and Sustainability

VPGA 8 - Valuation of real property interests, s2.6

'Potential or actual constraints on the enjoyment and use of property caused by ***sustainability and ESG factors may result from natural causes (such as flooding, severe storms and wildfires), from non-natural causes (such as contamination) or sometimes from a combination of the two (such as subsidence resulting from the historic extraction of minerals). There may also be sustainability and ESG factors beyond the directly physical, such as carbon emissions.*** *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. In appropriate cases, the valuer may recommend making further enquiries and/or obtaining further specialist or expert advice in respect of these matters.** The following paragraphs consider the matter in more detail.'



4. The Red Book and Sustainability

Valuation of real property interests, s2.6

***Sustainability matters can impact occupier preferences and purchaser behaviour**, and may also be a consideration for investors, secured lenders, insurers and public bodies. Only where existing market evidence would support this, or where in the valuer's judgement market participants would expressly reflect such matters…should sustainability…directly influence value(s) reported. **Valuers are often asked to provide additional comment and strategic advice.** In these cases, the valuer should, subject to their competence and expertise, consult with the client on the use and applicability of sustainability and ESG metrics and benchmarks that are applicable in each case….*

…While valuers should reflect markets, not lead them, they should **be aware of sustainability features and the implications these could have on property values in the short, medium and longer term**.

4. The Red Book and Sustainability

Reporting

Where appropriate, in order to comply with best practice in reporting, valuers should:

- ***assess the extent to which the subject property currently meets the sustainability and ESG criteria typically expected within the context of its market standing and arrive at an informed view on the likelihood of these impacting on value**, e.g. how a well-informed purchaser would take account of them in making a decision as to offer price.*
- *provide a **description of the sustainability-related property characteristics** and attributes that have been collected*
- *provide **a statement of their opinion on the relationship between sustainability factors and the resultant valuation**, including a comment on the current benefits/risks that are associated with these characteristics, or the lack of risks and*
- *provide an opinion on **the potential impact of these benefits and/or risks to relative property values over time**.*

Next Lecture

Section 4 - The Regulatory Environment