LEADERS FORUM SUMMARY

Leaders Forum – **Sustainability in Property Valuation**			
Session Date: 4th December 2019	**Venue:** RICS, 12 Great George Street, London, SW1P 3AD	**Start:** 10.00	**Finish:** 12.00

Synopsis

This is a bullet point summary of the subject forum, its main content and outcomes. It is not intended to be a verbatim account of the meeting. This document should be read in conjunction with the forum brief.

Introduction

- There was broad consensus agreement that matters of sustainability were an essential consideration in valuation and new RICS Red Book reporting requirements[1] effective from January 2020 were discussed (and clarified).
- It was agreed that sustainability has a wide definition from environmental to social to economic[2]. Whilst this depth was necessary it was agreed that individual matters, for example, energy efficiency may need to be addressed specifically.
- Some sustainability factors are attached to real estate, chattels and the wider built environment, and some to land, geography and natural resources (i.e. cannot be moved away from).
- Matters of sustainability overlap with wider corporate governance and ESG policies.
- Valuation of sustainability matters has increasing interplay with other real estate and professional disciplines – particularly in respect of lifecycle valuation and costing.

[1] VPS 3 (I) 3 *'In the case of assets or liabilities that are interests in real estate, attention is drawn to VPS 2 paragraph 1.5 and the fact that, wherever appropriate, the relevance and significance of sustainability and environmental matters should form an integral part of the valuation approach and reasoning supporting the reported figure.*

[2] The 2017 Red Book definition (p10) was referred to*: Sustainability is, for the purpose of these standards, taken to mean the consideration of matters such as (but not restricted to) environment and climate change, health and well-being and corporate responsibility that can or do impact on the valuation of an asset. In broad terms it is a desire to carry out activities without depleting resources or having harmful impacts. (Note: There is, as yet, no universally recognised and globally adopted definition of 'sustainability', and therefore members should exercise caution over the use of the term without additional explanation.)*

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Education and Continued Professional Development (CPD)

- Anecdotes were given of varying experience around the extent sustainability factors were considered within RICS structured training, including the Assessment of Professional Competence (APC). It was agreed that sustainability should be fundamental at this stage, in order to allow fuller integration into the profession.
- In tandem with initial training above, several delegates suggested mandatory CPD requirements around sustainability issues although it was suggested that this would only be effective if properly administered and enforced.

Expertise and competence

- There was discussion of circumstances where it was appropriate for valuers to (i) 'take a view' based on environmental data received and their experience of the effect on value (ii) recommend the outsourcing of further advice or (iii) provide valuations caveated around sustainability assumptions. The issues of valuer liability and Professional Indemnity Insurance (PII) were mentioned in terms of both over extending expertise and competence and failing to take sustainability matters into account.
- A need for upskilling of valuers and supporting stakeholders was seen as essential. This would be to the extent of a working knowledge of, for example, environmental risks, sustainability issues in building pathology and regulatory requirements. This upskilling and education were also said to be necessary for the consumers of valuation services – with a joint responsibility to remain informed.

Valuation purpose and bases

- *Market value*[3] was understood to be a measurable, consistent and technically accurate basis of value having been tested through the court system. However, some delegates queried whether it was fit for purpose for longer term projections, measuring intangibles, synergies, societal responsibilities and other external factors required to consider sustainability fully.
- Some suggested that *market value* was fit for purpose as a basis, but the question was the extent to which valuation methodology should account for future change explicitly through DCF and other detailed modelling or whether implicit approaches with a substantive rationale were enough.

[3] Red Book 2017 (p8), Market value (MV): *The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 104 paragraph 30.1).*

- It was suggested that analysis of sustainability required two outcomes: a valuation figure and a quantitative and/or qualitative analysis and commentary around sensitivity and risk.
- It was commented that additional advice and advisory would need to be allowed through efficiencies (such as technology) but also a frank review of fees. Market pressures around this were discussed and it was suggested that providers of valuation and other services could do more to show the range of options available so that end-users could choose their preferred path and appetite for explicitly looking at sustainability issues.
- It was suggested that standards and supporting guidance might need to be more prescriptive going forward to take account of the subtleties in the market to do with sustainability. IFRS were given as an example of a move from a higher level to more detailed approach.
- It should be noted that each of the points raised in the section above, have also been referred to in our leaders forums on Financial Reporting. It can perhaps be concluded that valuation of sustainability fits into wider challenges around valuation.

Valuers engaging with the market and clients

- The role of the valuer was set out as an interpreter, not leader of the market. Some delegates regarded this as something of a devolvement of responsibility. There was a discussion around the educational role valuers could play in terms of reporting market outcomes but with advisory around sustainability matters. New Red Book requirements were highlighted – with valuation providers confirming that templates had been updated to reflect changes.
- Valuers submitted that they were able to account for economic obsolescence in markets, which reflected issues of sustainability. The example was given of small Victorian offices remaining economically viable while some large office blocks built only a few decades ago were being pulled down.

Data and technology

- Measuring sustainability in valuation is reliant on core data.
- Metrics are either created by professional bodies and through academia or driven by regulations (e.g. EPCs). There is not necessarily any cross jurisdictional or cross-disciplinary benchmarking or sustainability measurement.
- Environmental data provision was seen as sometimes being delivered through a business model that prioritised licensing and volume over quality and insight.

- There was criticism of a culture of requesting data to tick a box rather than for further analysis and advice.
- RICSs data projects related to sustainability were mentioned, including the RICS Building Carbon Database[4].
- Where regulation existed such as in the UK with MEES and EPCs, data sets were being established and acted upon. However, some delegates suggested an unwillingness for valuers to explicitly take the impact of this data into account.

Next steps and action points

- In addition to standards work it was recommended that RICS engage with major global projects on sustainability, with Central Banks, Governments and standard setters from other disciplines; including, where appropriate, lobbying for change and development in dealing with sustainability risks. The Task Force on Climate-related Financial Disclosures (TCFD) was given as an example and it is confirmed that RICS is engaged with this.
- It was requested that RICS communicate its sustainability projects and available resources more widely to members and stakeholders. New opportunities for this will arise from the launch of RICSs new digital communication service in early 2020, including a special project on sustainability.
- It was recommended that RICS update its Sustainability and Commercial Property Valuation[5] Guidance Note, with further input from cross-industry stakeholders.

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[4] https://www.rics.org/uk/products/data-products/insights/rics-building-carbon-database/

[5] Sustainability and Commercial Property Valuation, 2nd edition, 2013: https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/sustainability-and-commercial-property-valuation/