

# Sustainability: A New Fixture in Value Reporting



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Green Awards  
2008 WINNER

DRIVERS  
JONAS <sub>1</sub>

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&

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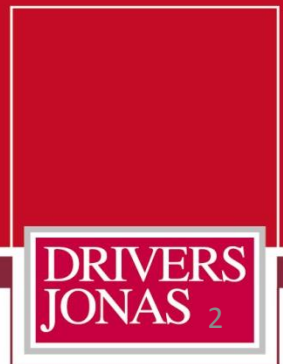
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## Sustainability: A New Fixture in Value Reporting



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- Sustainability & Value – What is the issue ?
- The RICS' Valuation Response
- Valuers – Time to get involved
- VIP 13 – What it says....and what it doesn't
- Reflecting Sustainability in Valuations



## Agenda

**“Although Gold dust is precious, when it gets in your eyes it obstructs your vision.”**

**His-Tang Chih Tsang, 735-814  
Renowned Zen Master**

- Link: Sustainability and financial performance
- Relentless increase in Sustainability reporting
- Stakeholder demand.



**Sustainability & Valuation**  
**Why the issue ?**

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## 1. FINANCIAL

Reducing costs, cash flow stability and optimising profits

## 2. REPUTATIONAL

Differentiation and protection of brand integrity

## 3. LEGAL

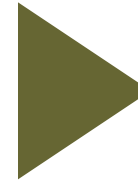
Ensuring statutory compliance and minimising negative exposure to environmental regulation

## 4. PHYSICAL

Managing and abating environmental and cultural risk

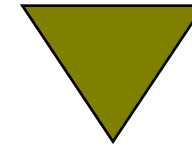
## 5. ETHICAL

Promotion of social and intergenerational equity



**GREATER  
RESILIENCE**

**GREATER  
COMPETITIVENESS**



**VALUE  
DIFFERENTIAL**

Put Another Way.....

# The Valuer's Primary Role – ‘Scorekeeper’.....not ‘Scoremaker’

- Market Value – Interpretation of the market
- No mandate for personal prejudice

But, this is not an excuse

Valuer's role is wider:

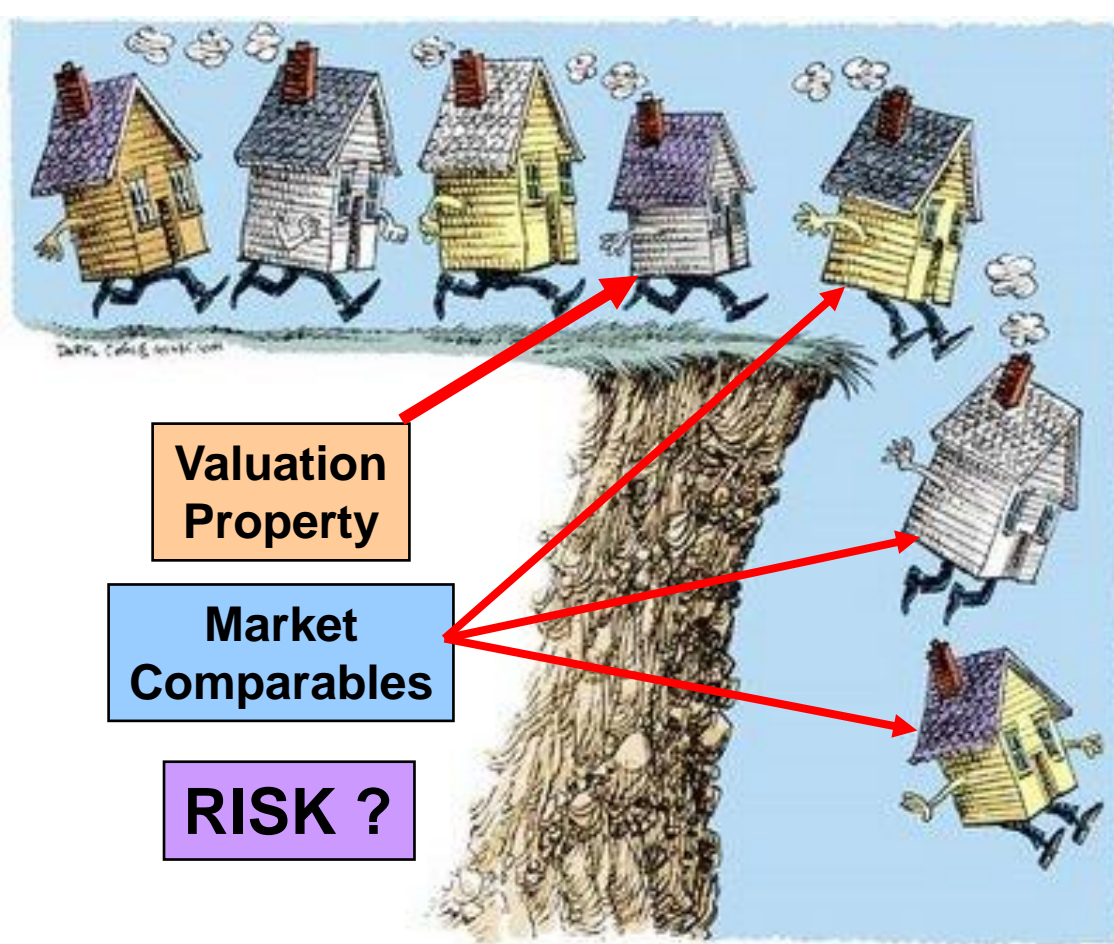
- Provides commentary on risks to value
- Client's 'sounding-board'
- Worth / appraisal input
- Due Diligence



*“...and promote the usefulness of the profession to the public advantage”*

## The Value Connection





## RICS Valuation Sustainability Working Group

- Global Membership
- VIP 13 Publication
- Red Book Review
- Research

## Vancouver Valuation Accord

- Global Valuation Organisation and User Membership
- Commitment to Training
- Mutual review of standards and practices.

The RICS' Valuation Response

**“[We] are the makers of our own state and...individuals who realize the fact need not, ought not, to wait for collective action.”**

**Mahatma Gandhi**



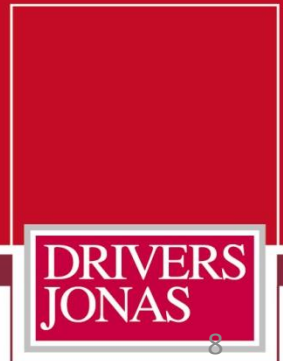
## **Social**

- Rise in CSR and Responsible Investment Movement
- Increasing calls for ‘Sustainability Accounting
- Evolving Tenant and Investor preferences.

## **Environmental**

- Climate Change pressure – Property Adaptability
- Resource Thirst
- Regulatory Change
- Construction Techniques

**Have we arrived at a Tipping Point ?**





## VIP 13: Sustainability and Commercial Property Valuation

- The challenge:
  - *informing* not *leading*
  - part of assistance to move forward
- Genesis in 2008
- Consultation early 2009
- Effective from 15 September 2009
- Anticipation of review within 2 years
- World wide application – from a worldwide development group

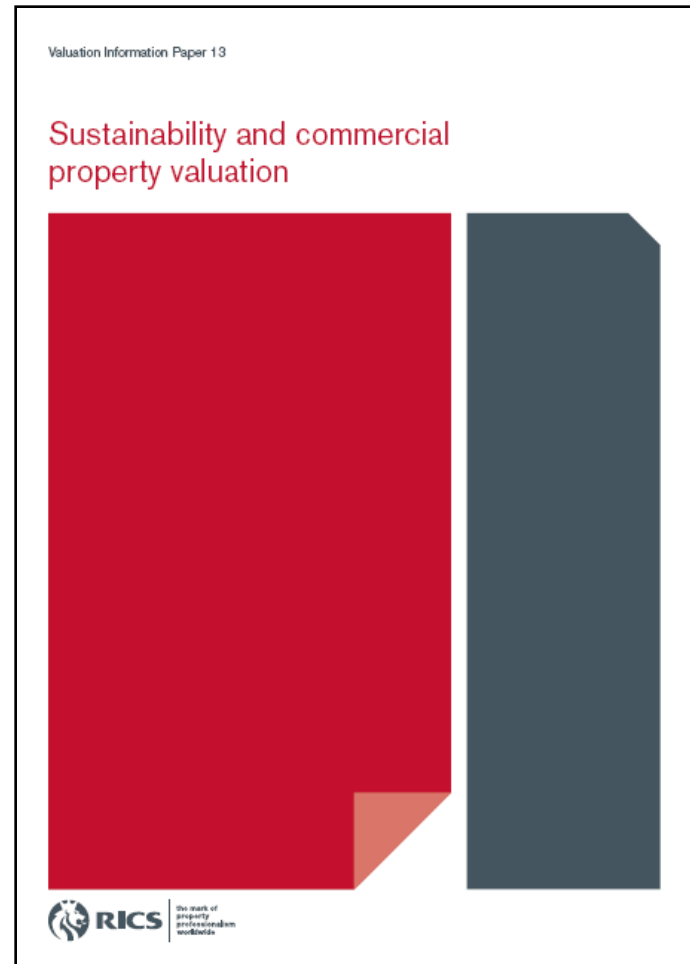
Valuation Information Paper No. 13

Balancing the needs for awareness of sustainability issues

*with*

Best practice for valuers undertaking

**Market value** and  
**Investment Worth**



## VIP 13: Catalyst for Change?

## PS3.2 MARKET VALUE

Market value is the estimated amount for which an asset **should exchange** on the date of valuation between a willing buyer and a willing seller in an **arm's length transaction** after proper marketing wherein the parties had each **acted knowledgeably, prudently** and without compulsion.

## Market Value

The Valuer should reflect ***the behaviour of the markets***

*how far can it be assumed that a **knowledgeable** and **prudent** purchaser would account for sustainability issues in any assessment of rents and yields now and moving forward?*

*But.....*

Market Value

## PS3.4 WORTH OR INVESTMENT VALUE

Worth or Investment Value is: The value of property to a particular owner, investor, or class of investors for identified investment or operational objectives.

## Investment Worth



# ***“Worth is the stuff of decisions”***

Mallinson, 1994

*how far in respect of sustainability issues can it be assumed that a knowledgeable and prudent investor would act ahead of the market?*

***Where worth leads – market value may follow***

Investment Worth

- What is a sustainable building?
- What features contribute to its sustainability (social and environmental)?
- to what extent are these characteristics recognised in market pricing and/or worth?



*“by moving to a more efficient building the agency will save 10% every year on operational and energy costs”*

*Paul Leinster: October 2009*

## VIP 13: 2 Key Issues



# Sustainable Building Rating Systems

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**breeam**

**Building Research Establishment  
Environmental Assessment Method –  
based in UK**



**Leadership in Energy & Environmental Design  
- based in US**



**Green Star – based in Australia**



**Green Globes - based in Canada**

# Sustainable Building Rating Systems

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- Most have different Grades
- Change over time
- Measure different things
- Voluntary
- Chargeable
- *Tend to be new build*
- *Tend to concentrate on Environmental*



Green Star quote business benefits: *green schools save an average of US\$100,000 a year - enough to buy 200 new computers or 5,000 new textbooks.*

***This makes it hard for the valuer to have full understanding to use for comparability***

# Sustainable Building Rating Systems



- Most buildings are not rated
- Only compulsory ratings: Energy ratings
- EPCs and DECAs are NOT indicators of true sustainability

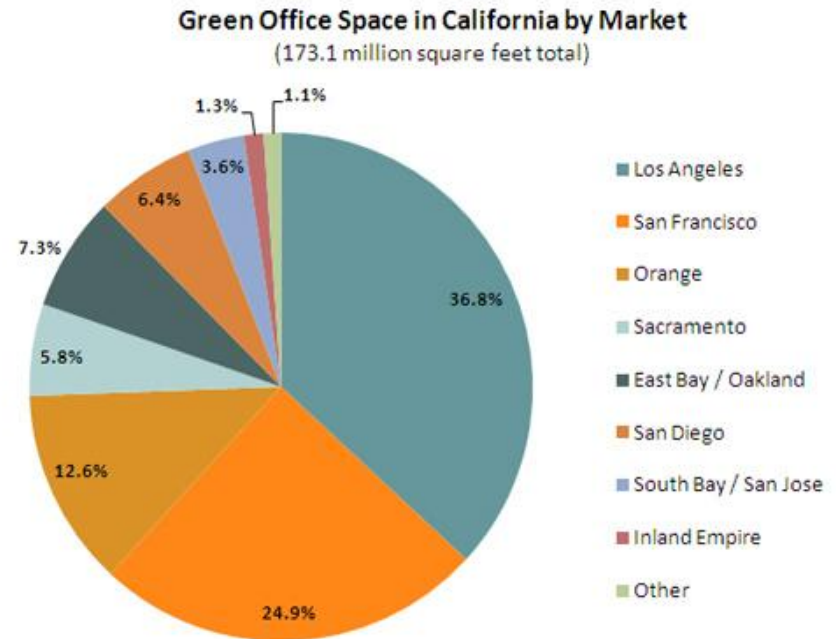


***Rating systems not currently the answer***

## Sustainable Building Rating Systems

# Empirical studies

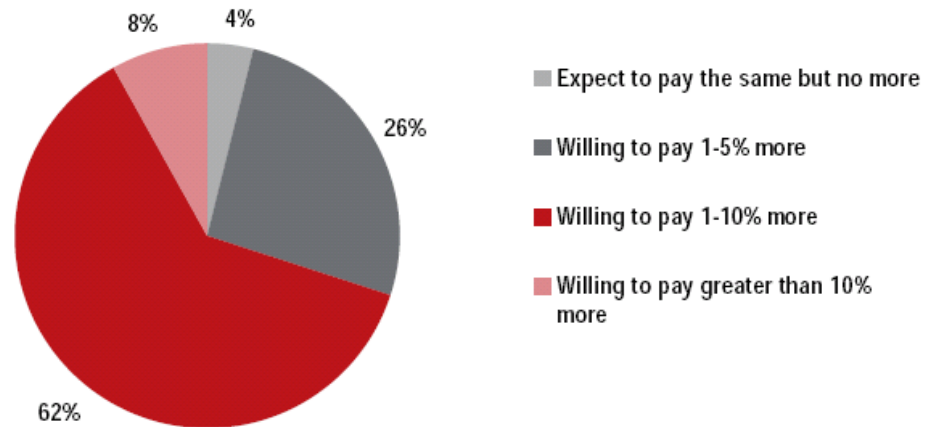
- All based in the US
- All claim some level of rental differentiation between certified and non-certified buildings
- But could have been 'hot market'
- Tenants paid *less* for buildings that were not LEED rated
- Only in geographical pockets



Source: CoStar Market Data, April 2009

## Impact on Value: Where's the evidence?

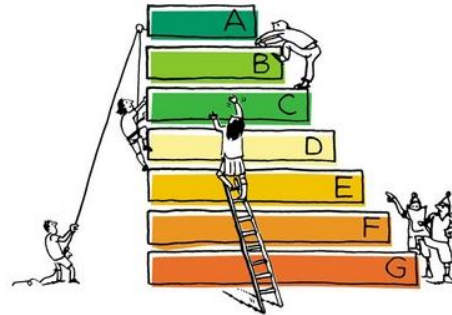
- Corenet Global/JLL (2008) –
  - 80% *said* they might pay up to 10% premium for LEED/BREEAM
- Dixon (2009)
  - Sustainability desired, but traditional selection criteria more important



## Impact on Value

- Metrics *are growing*: valuers need to be abreast of these
- Valuers should tread carefully about how sustainability is affecting the decision-making process of both occupiers and investors

breeam



## Implication for Valuers

- **Land Use**

- Contamination may be an issue – but only in respect of e.g. insurance and flood risk liability

- **Design & Configuration**

- Not always ‘high tech’ that is most sustainable
- Flexibility/adaptability may be key to ‘future-proofing’ demand levels
- Health and human performance research likely to grow in importance

*“The decarbonising of our society is progressing at such a rate that world class sustainable infrastructure will be out of date by the time it is completed”*

*Keith Clarke  
Chief Executive  
WS Atkins*

# Sustainability Characteristics



- **Construction & Services**
  - Embedded energy *not* the issue – energy source & security might be
  - Water and waste differentially important – depending on building type
- **Management & Leasing**
  - Green leases can be positive or negative in value terms
  - What is the potential for upgrade – and what return? To whom?
  - Will building life be compromised by legislative change?

## Sustainability Characteristics

# How does my subject property compare with comparables? And best in class?



Waste management is critical for shopping centres



Multi-modal transport accessibility – critical for all..



Offices may need to support changing working practices..

## Key Questions for Valuers

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# Does its sustainability performance matter to the potential occupier or investor?

	BREEAM 2006	BREEAM 2008
Management	15%	12%
Health & Wellbeing	15%	15%
Energy & Transport	25%	-
Energy	-	19%
Transport	-	8%
Water	5%	6%
Materials & Waste	10%	-
Materials	-	12.50%
Waste	-	7.50%
Land use & Ecology	15%	10%
Pollution	15%	10%

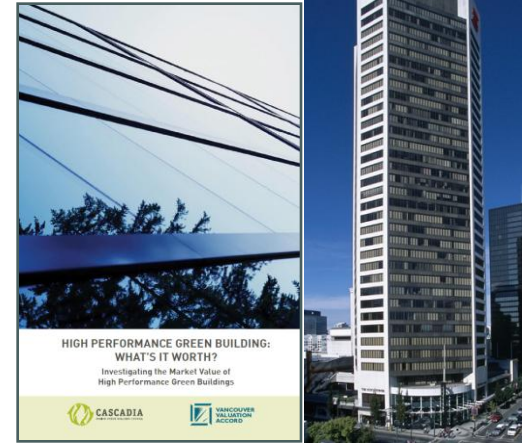
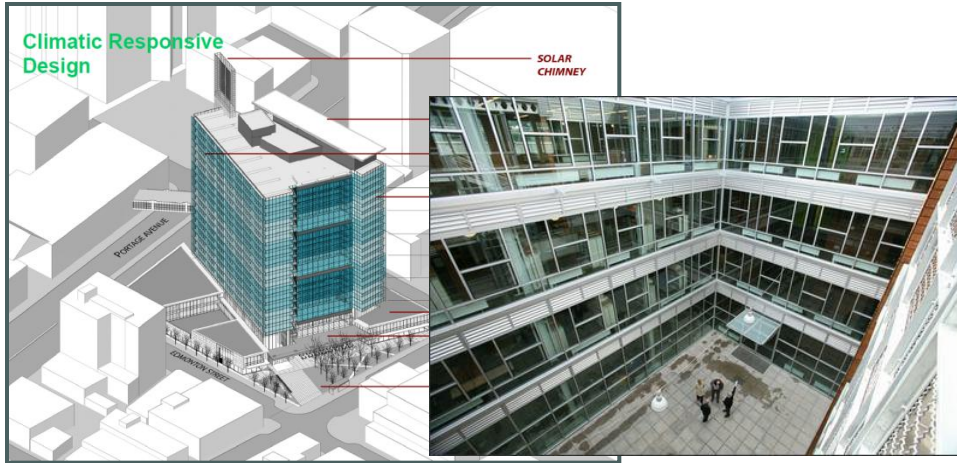
A BREEAM rating matters more for some occupiers than others



Could it drive savings – occupational (running) and ownership (e.g. refurbishment)

## Key Questions for Valuers

# How far is the building adaptable to climate change? What impact will this have on rental growth and obsolescence?



Climate response will vary from location to location – technology change is key

In Canada, new style lease for retrofit to support increased investment case

## Key Questions for Valuers



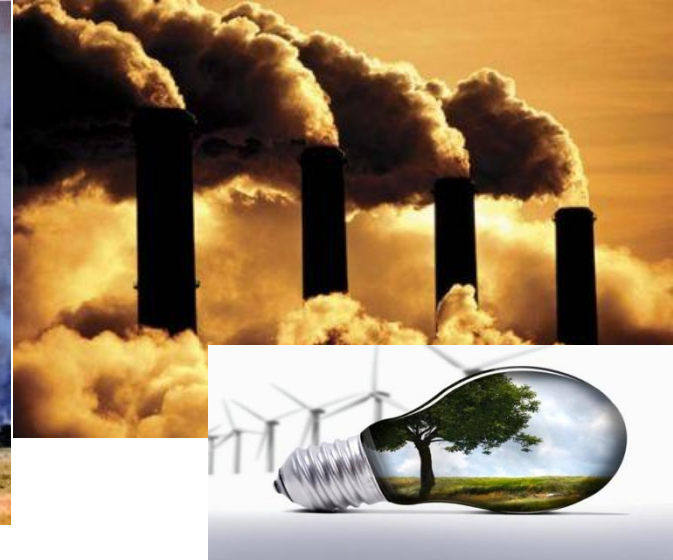
# Will it be particularly susceptible to future legislation that will impact on demand?



Flood risk moving up the legislative agenda



Bushfires and extreme temperatures are increasing



Increasingly stringent energy performance and Carbon Reduction Commitment

## Key Questions for Valuers

- The property as an expression of corporate values
- Operational costs moving forward (as long as it doesn't get factored into rent!)
- Flexibility
- Accessibility
- Lease requirements

Centre for Interactive Research on Sustainability (CIRS) Its components will be modular allowing them to be reconfigured in a 'plug and play manner' as technologies evolve.



What might matter to occupiers...

- The property as an expression of corporate values: and to some the externality issue
- Impact of operational concerns on rental growth
- Ability to re-let and duration to sale
- Obsolescence:
  - Functional
  - Exit yield
  - Risk premium

What might matter to investors...

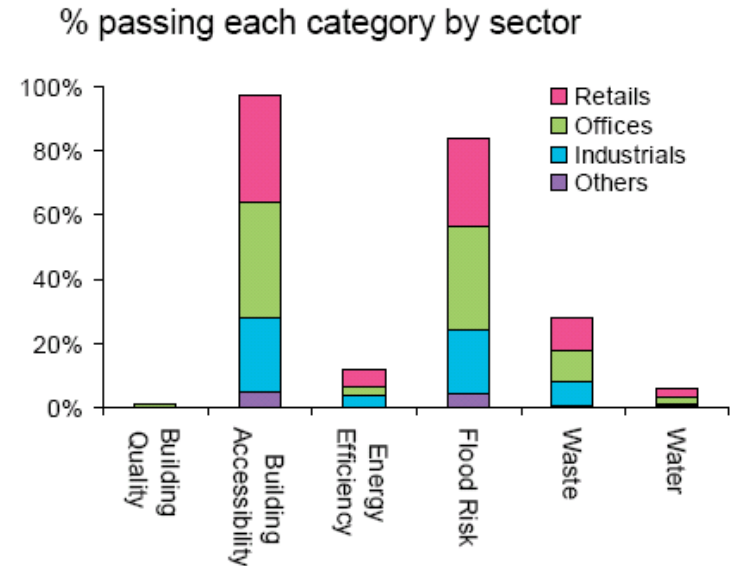


- It may be that factors *not yet* impacting on Market Value will be built into Investment Worth
- Some investors have their own models..
- IPD just starting to track via ISPI (IPD/IPF Sustainable Property Index)...

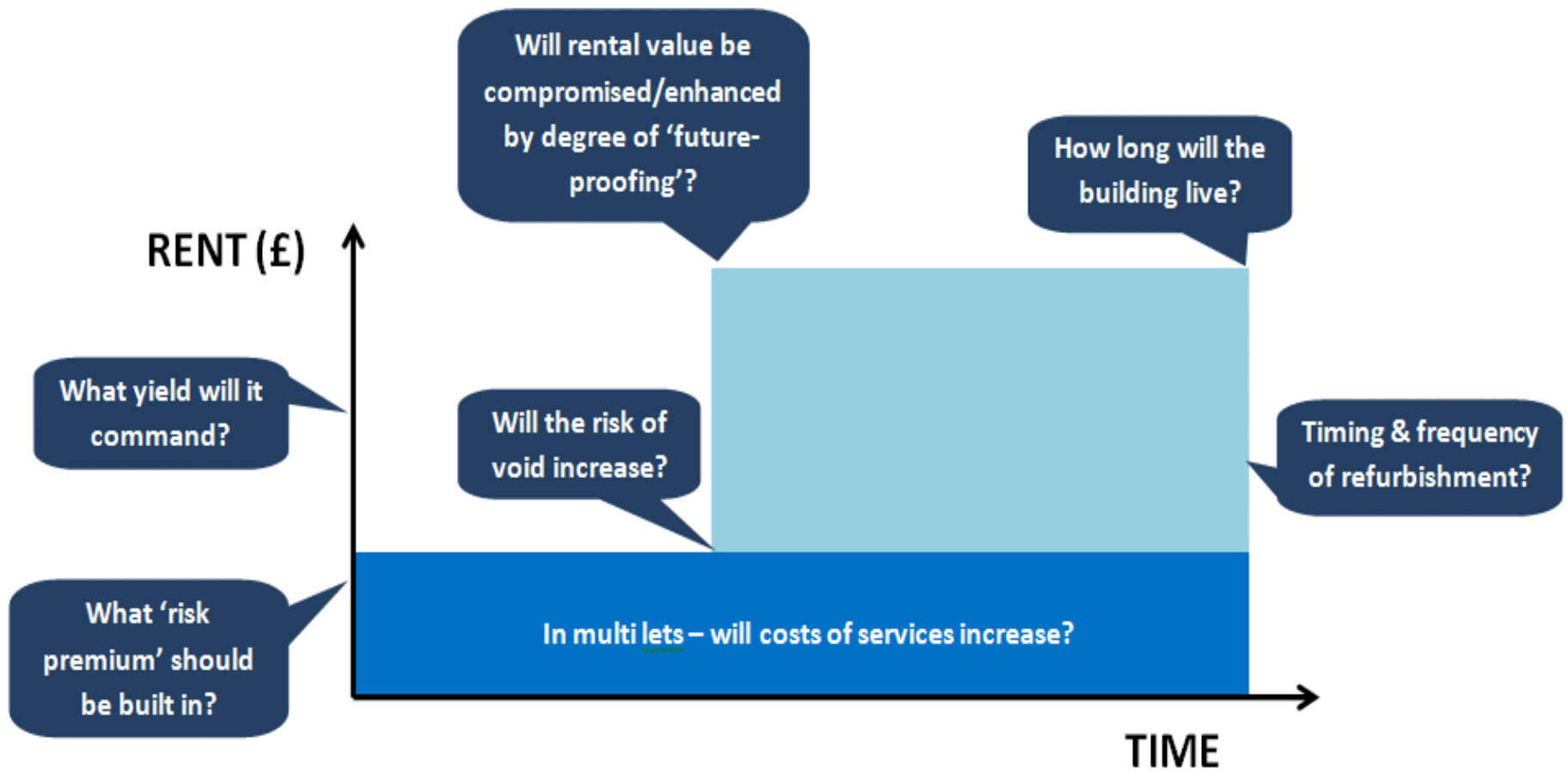


What might matter to investors...

- Difficulty finding properties for which data exists
- Used criteria adapted from Kingston Work (Sustainable Property Appraisal Project)
  - More/less sustainable approach
  - Under 10% ‘more sustainable’
  - Initially no correlation between performance and characteristics



## IPD/IFP Sustainable Property Index



# Summary – The Pinch Points

- The valuer must reflect all “*material factors that may influence value*”
- Markets *appear* to be moving towards greater recognition of sustainability
- As they do so, it is “*increasingly important that the valuer is aware and can reflect this in the advice given.*”



***“Price is what you pay. Value is what you get.”***

Warren Buffett

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Questions...