



RETHINKING SUSTAINABILITY

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The shift in public perception of climate change and environmental degradation as real phenomena has caused interest in sustainability to rise almost exponentially. What has been lacking so far has been an awareness among market participants that sustainable property investment and management are, indeed, a highly profitable exercise and that refurbishing the existing building stock represents the most cost-effective solution available for tackling the looming environmental crisis. However, the fact that all major actors are now to some extent concerned with sustainability issues creates a real opportunity for broad market penetration. Precisely this opportunity is currently being seized by the Royal Institution of Chartered Surveyors (RICS). Together with other construction and property-related networks and organisations, bold steps have been taken to speed up the transformation towards more sustainable real estate markets. This has occurred, for example, through support of the following recent developments: **changing understanding of the concept of value.** Within parts of the financial and corporate sectors there is widespread recognition that economic success is closely linked to environmental and social performance. Although this is not yet part of mainstream thinking, the majority of organisations commit themselves (at least on paper) to Corporate Social Responsibility. This view is now being transferred to property assets which means that the understanding of the concept of property value is in transition. An isolated analysis of mere economic variables is no longer adequate for capturing the broadening concept of property value. In fact, it is becoming evident that the market value of a property also depends on the building's capability to create and protect environmental, social and cultural values. As a result, many conventional buildings may currently be traded at an unjustifiable premium because standard valuation practices are unable to capture the increasing risks associated with these buildings or the added value of more sustainable ones. Understanding the interaction and interdependence between these different factors and incorporating this

knowledge into valuation theory and practice ranks among the profession's biggest challenges.

Renaissance of building quality: The issue of sustainability is often reduced to energy efficiency and environmental protection. However, a closer look reveals that the sustainability debate is embedded in the discussion about achieving, describing and communicating technical and functional building quality. Translated to buildings, this means safeguarding long-term marketability and competitiveness. Within mature markets this increasingly works only by signalling superior building quality. **Broadening perspective:** In the process of implementing the principles of sustainable development, the traditional focus on those actors directly involved in construction has been helpful but not sufficient. The involvement of property professionals, banks, research and educational institutions is an absolute necessity. The interplay between all these different actors as well as the information flow needs to be organised in such a way that the knowledge regarding the financial benefits of sustainable buildings pervades all areas and is accounted for within the processes of valuation and risk analysis. Summing up, embedding sustainability into property-related decision-making leads to a clear win-win situation for all. The realisation of this will depend on a dialogue and convergence between supply and demand side actors as well as those involved in governance. But the converse is also true: unsustainable property investment and management practices will lead to losses with regard to financial performance and asset value. Besides having a societal responsibility, investors and asset managers may in the future also be held financially liable for disregarding the principles of sustainable development.

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