

RICS Climate Change Series: Getting all the Green Ducks in a row

Energy performance, value and green homes

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Sustainability & Property Value

A brief international overview

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Why is property valuation critical?

- Valuations are carried out in almost any phase of the building life cycle.
- Valuers are the “independent axis around which property information flows”.
- Valuers act as “information managers” in often highly intransparent property markets.
- While valuation professionals do not “make the market”, they do have an influence since the arguments used in negotiations between the parties in a transaction process are usually based on advice given by valuation professionals acting on both sides.
- Poor property valuation leads to the misallocation of capital.

Integration of sustainability issues into the valuation process

The methodological and conceptual basics were developed between 2000 and 2007 with key contributions coming from:

- Australia 
- Austria 
- Canada 
- Germany 
- Japan 
- Norway 
- Switzerland 
- UK 
- USA 

(29 publications including journal papers, conference proceedings, special reports, presentations and published speeches – a full list of references is available on request)

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From 2008 onwards the topic went “mainstream”, culminating in the:

- Publication of the RICS Valuation Information Paper No. 13
- First educational course on the valuation of green buildings offered by the Appraisal Institute in the USA

On-Topic research projects and initiatives

Country	Authors / Contributors	Project Title	Source / Website
Australia	Richard Bowman, John Wills, and others	<i>Valuing Green – How green buildings affect property values and getting the valuation method right</i>	http://www.gbca.org.au/resources/valuing-green/1466.htm
Austria	Susanne Geissler, Maïke Groß, Otto Bammer, Maria Fellner, Martin Treberspurg, Mariam Djalili, Roman Grüner, Bernhard Lipp, Karin Sammer, Klaus Wolfinger	<i>“Neue Immo-Standards” – Leitfaden zum Umgang mit Energieeffizienz und weiteren Nachhaltigkeitsparametern in der Immobilienwertermittlung</i>	http://www.energyagency.at/geb-aeude-raumwaerme/aktuelle-projekte/immo-standards.html
European Union	Sven Bienert, Christian Schützenhofer, Gerrit Leopoldsberger, Kerstin Bobsin, Klemens Leutgöb, Walter Hüttler, Daniela Popescu, Emilia-Cerna Mladin, David Koch, Dag Fjeld Edvardsen, David Steixner	<i>IMMOVALUE - Improving the market impact of energy certification by introducing energy efficiency and life-cycle cost into property valuation practice</i>	http://www.immofvalue.org
Japan	Masato Ito, Tomonari Yashiro, and others	<i>Environmental Added Value of Real Estate</i>	http://www.sumitomotrust.co.jp/csr/innovation/real-estate/01english.html
Switzerland	Erika Meins, Hans-Peter Burkhard, Peter Christen, Regina Hardziewski, Niels Holthausen, Silvia Makowski, and others	<i>Economic Sustainability Indicator (ESI) – ESI-Immobilienbewertung</i>	http://www.ccrs.uzh.ch/
USA	Scott Muldavin, Andy Fuscas, John J. D'Andrea, Sue Ragen, Geoffrey Lewis, Maureen Muldavin, Theddi Wright Chappell, Tim Lowe, Brian Gross, Molly McCabe, Peter Morris, Stuart Brodsky, and others	<i>Green Building Finance Consortium (GBFC) - Value Beyond Cost Savings</i>	http://www.greenbuildingfc.com
UK	Sarah Sayce, Louise Ellison, Judy Smith	<i>The Sustainable Property Appraisal Project</i>	http://www.sustainableproperty.ac.uk/sri-index.htm

Source: Lorenz, D. and Lützkendorf, T., 2010, *Sustainability & Property Valuation: An International Literature Review*, Karlsruhe Institute of Technology, Research Report

3 main arguments for an integration of sustainability considerations into the valuation process

1. Transactions observed in the market place as well as already foreseeable market developments (such as rising energy costs, changing and differentiated user requirements, environmental legislation and sustainability reporting liabilities, etc.) require it.
2. The professional ethics of the valuation profession and the resulting responsibility towards society imply that valuation professionals take action to further advance sustainable development within the property and construction sector.
3. Lack of knowledge of certain market participants leads to a situation where single property assets are mispriced (hypothesis: conventional properties can be sold “overpriced”; sustainable buildings are offered “too cheap”) which results in investment opportunities for “enlightened” investors.

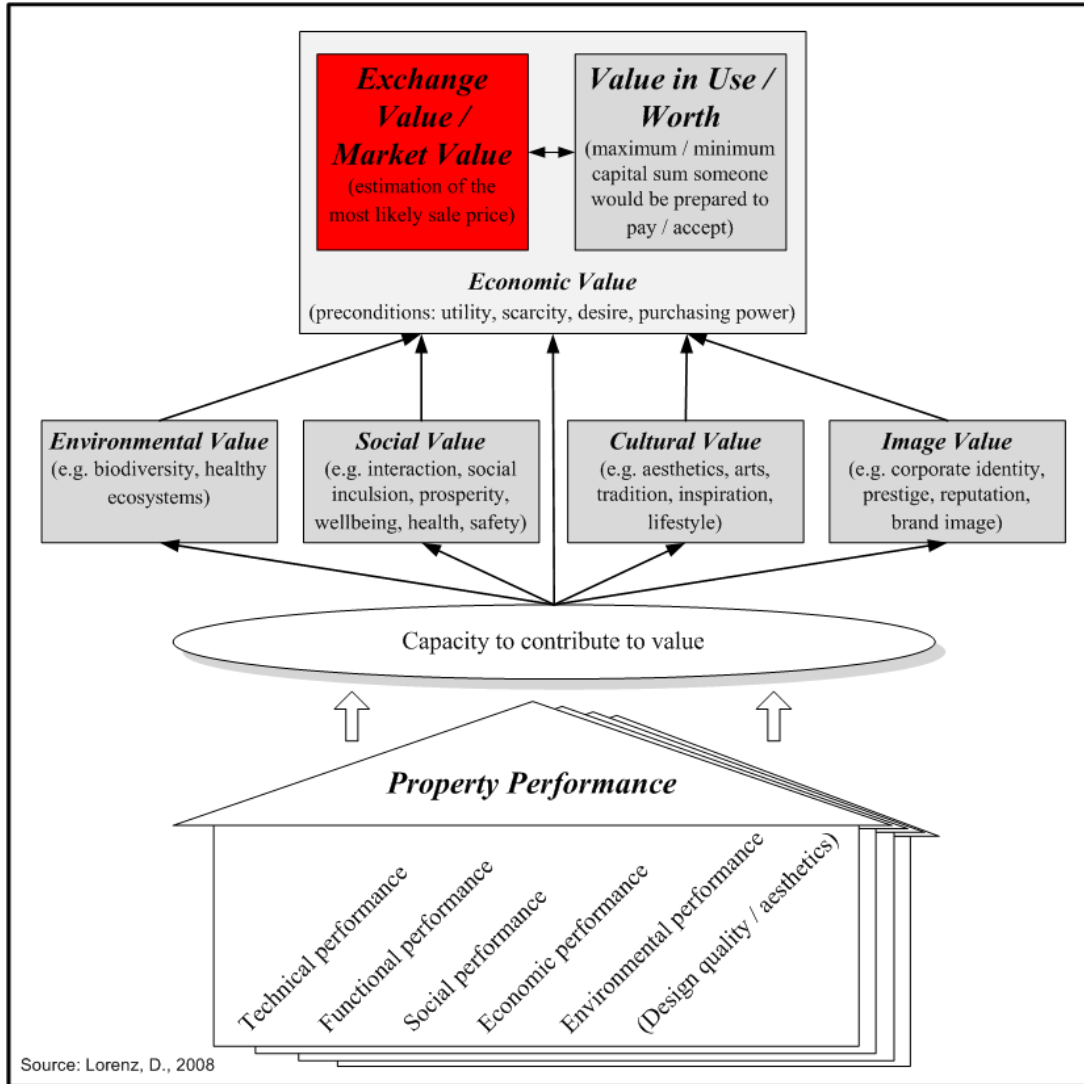
Widened understanding of the concept of value

Categories of Value	Actors								
	Owner-occupier	Investor (direct and indirect)	Developer / Constructor	Bank	Insurance company	Tenant	User / Inhabitant / Visitor	Government	Society / Community
Physical Value (embodied energy and resources)	○		○					○	○
Market Value / Exchange value (most likely sale price)	●	●	●	●	●			○	○
Worth / Value in Use (value for an individual)	●	●	●	○		●	○		
Social Value (interaction, inclusion, prosperity, health, safety)	●	○	○		○	●	●	●	●
Cultural Value (tradition, arts, aesthetics, inspiration, lifestyle)	○	○	○			●	●	●	●
Emotional Value (feelings, positive experiences, wellbeing)	●	○	○			●	●	○	●
Image / Sign Value (social status, reputation, prestige, identity)	●	●	●			●	○	○	○
Environmental Value (biodiversity, healthy ecosystems)	○	○	○	○	○	○		●	●



Source: Lorenz, D., 2010

Property performance affects value in many different ways



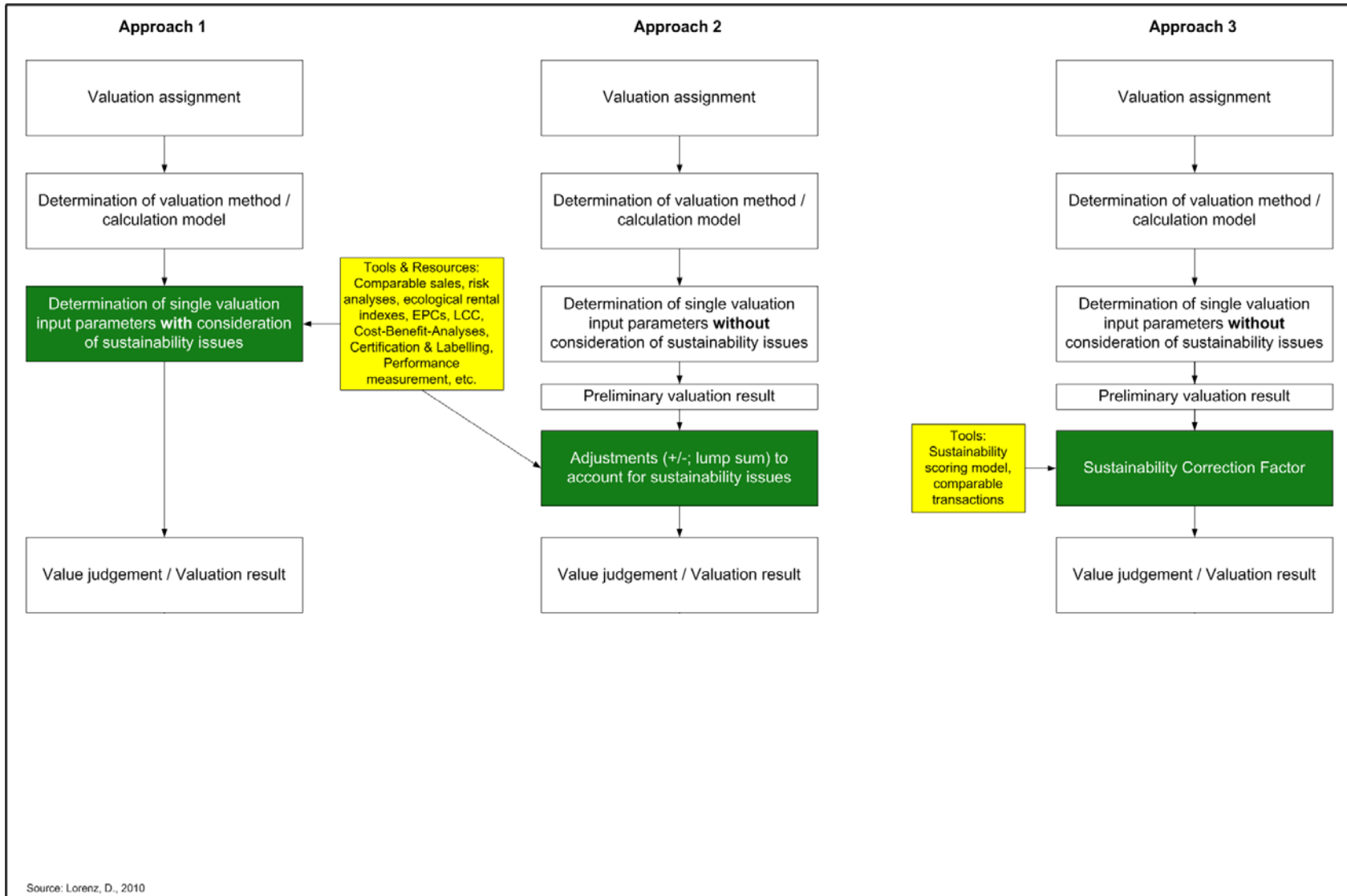
Source: Lorenz, D., 2008

It's all about Value:

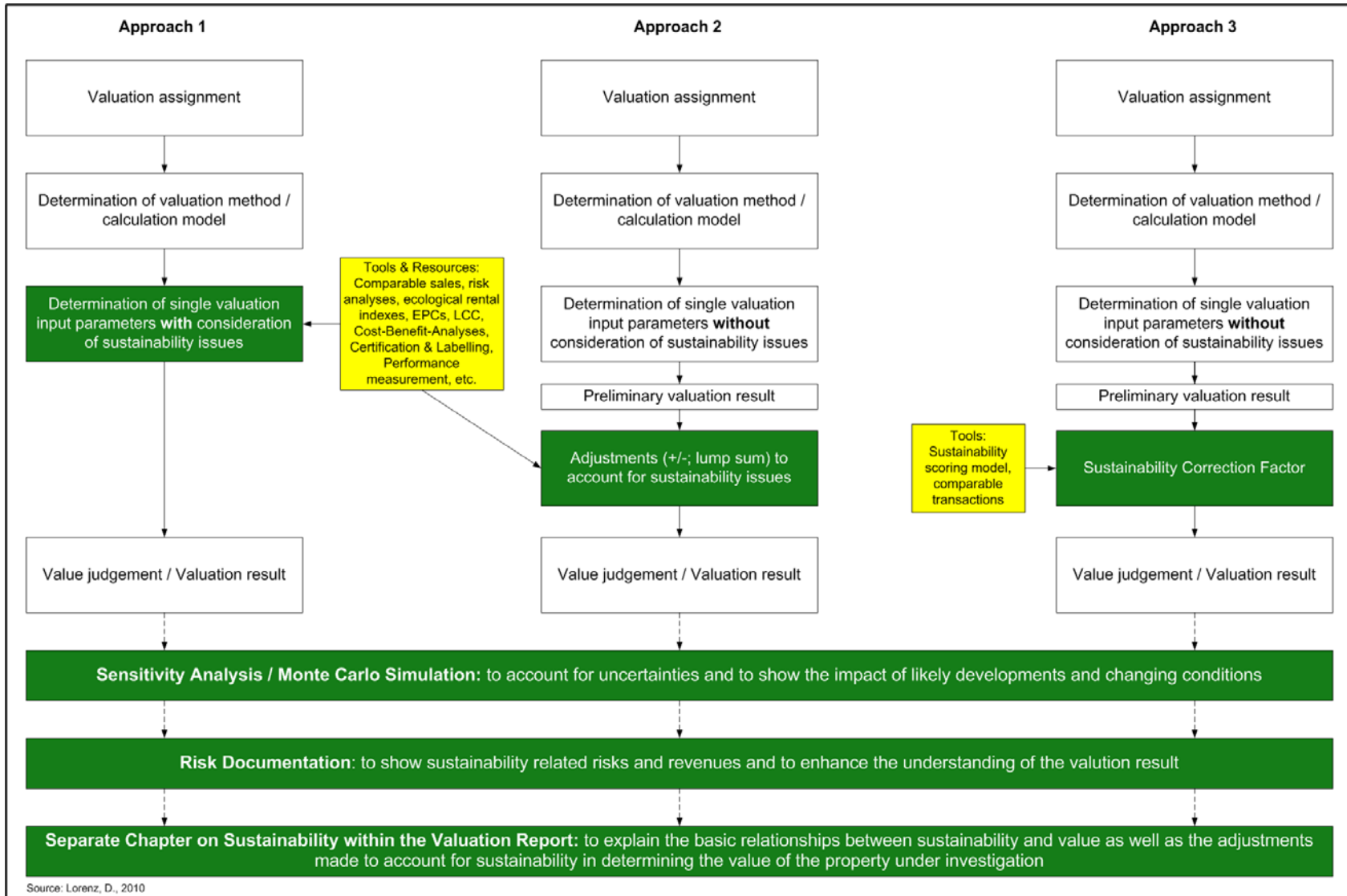
“The value of goods arises from their relationship to our needs, and is not inherent in the goods themselves. With changes in this relationship, value arises and disappears.”

Carl Menger, 1871, Principles of Economics

General approaches for an integration of sustainability issues into the valuation process



General approaches for an integration of sustainability issues into the valuation process



Source: Lorenz, D., 2010

Key conclusions from an international literature review

- No straightforward or automated formula to account for sustainability issues exists.
- The extent and approach of reflecting sustainability in value estimates strongly depends on regional and local market conditions, property type, conventions, etc.
- Existing property valuation methods are capable of accounting for sustainability issues; no new valuation methods are needed.
- Instead, new ways of gathering, processing and presenting property related information are required.
- The integration of sustainability into the valuation process is also an issue of increasing valuation transparency: the client needs to understand the valuer's thought process.

The Role of the Valuer:

- is to reflect the market, and nothing else.
- is also to inform the client on the benefits of sustainable building practices and the likely implications this could have on the value stability and value development of the building under investigation, even if sustainability considerations are not yet fully reflected in today's market prices.

Do valuers have an informational duty (or moral responsibility) regarding the issue of sustainability?

Thank you very much for your attention!

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