

Designing the Next Generation of Valuation Guidance for Sustainability in Residential Property

The Importance of Updating Valuation Standards

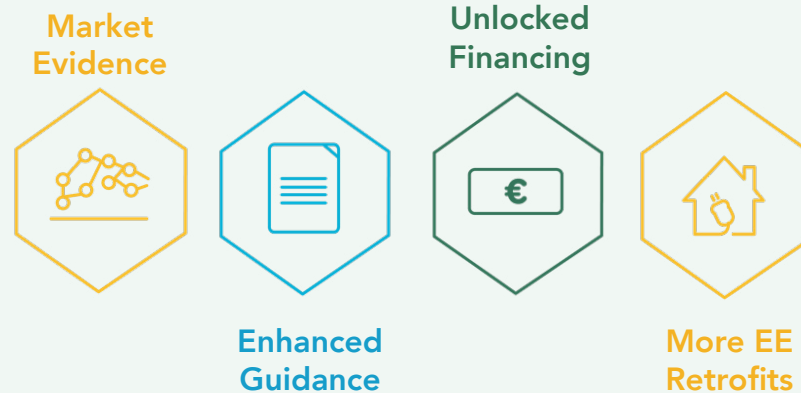
Throughout Europe, the energy standards of new homes have risen, primarily driven by changes to building codes. However, the real estate market is dominated by transactions of existing homes, as new dwellings represent only a tiny fraction of the total supply.

Decisions on house purchasing for occupation or investment are driven by a number of factors, and to date energy efficiency has not been a key issue. This is surprising in the context of Europe's home energy bill of €340Bn per year, or roughly €500 per person.

Indeed, it may well not be reflected in the capital or rental pricing equation, although some evidence is now emerging that it is starting to impact, for example in differentials in interest rates offered.

To allow owners and financial institutions to better assess, the effects of implementing EE improvements and renovations, enhanced insights into the financial and wider effects of energy efficient stock need to be in place. For that to happen better datasets will need to be available to provide credible supporting evidence.

From the corporate owner's perspective, the lack of connection between the energy efficiency rating and the capital value of a property may make it hard to justify investing in EE improvements.



What is REVALUE?

REVALUE is a three-year project to develop international guidance for property appraisers, incorporating the collection and easy analysis of relevant evidence. This will help valuers to reflect the value of energy efficiency (EE), in their valuations of social and private housing stock. By increasing awareness of impact of energy efficiency on value among lenders, investors and valuers, the project aims to promote advanced market practices and support and encourage market transformation.

REVALUE focuses on revising and strengthening the requirements of due diligence and reporting in relation to the energy efficiency and sustainability characteristics of residential properties. The project includes provision for the creation of targeted training material for valuers.

It is hoped that by introducing guidance to practitioners in the market, additional income streams could be recognised and other value drivers found, which might assist buyers and owners consider EE retrofit decisions. Conversely implementation of EE measures may result in additional expenditure for those with interests within such properties. Investors and financiers may begin to reflect EE in their risk assessments and cash flow projections; potentially unlocking additional streams of finance, or resulting in adjusted discount factors.

For certain investors, the financial aspect may not be the prime concern. Opting for a 'green', EE building, can be part of a wider sustainability strategy, to future proof an asset, protect its value, and potentially improve tenant satisfaction.

Objectives and Approaches

There is a large gap between the construction and engineering knowledge linked to understanding EE, and the skills in applied economics that valuers typically have and apply. Guidance can advise on the best approach to this element of valuation, equipping the valuer to identify whether differentiation of value should be made depending on EE characteristics.

To support the valuer in forming an opinion on asset value, deeper knowledge and information about EE future building performance and investor and tenant preferences is required. This may mean changes to the 'due diligence' process that valuers undertake. For each, detailed guidance can be developed to highlight which information sources can be considered, and which elements to inspect; and more importantly, whether or not a building can be upgraded effectively, and at what cost.

Providing the relevant background information and evidence on the assumptions that valuers need to make, such as voids, arrears, changes in the legal framework are also vital.

The Project Team anticipate that, working with stakeholders to develop clear evidence of how investing owners can, and have, overcome barriers to undertaking energy efficiency upgrades, and by so doing realised financial and social benefits, will lead to the development of updated valuation guidance. Professionals will be able to identify emerging market trends, helping to strengthen the foundations for the future proofing of Europe's housing stocks. REVALUE will achieve these objectives through:

Creating a framework that aligns property de-



cision making tools used by lenders (banks and other institutional investors), property owners (housing associations and private commercial landlords), and the advice provided by valuers to enable decisions which more fully reflect the actual, and potential, implications of the energy efficiency (actual and potential) of dwellings

Providing advanced understanding of market trends and key stakeholders' positions. Valuation guidance should acknowledge accepted market practice, but also help to lead that practice, and thus support and encourage market transformation. Assessing the type of information that will enable more sophisticated assessments of energy efficiency in relation to property appraisals will be undertaken and converted to simple guides for valuers, thus ensuring more comprehensive reporting and due diligence is feasible. Case studies will be used as exemplars.

Developing training materials to enable valuers to apply the knowledge and revised, valuer friendly guidance produced through the execution of the study.

Who is REVALUE?

The Royal Institution of Chartered Surveyors (RICS) and Savills, who advise on residential valuation and management, are at the core of the team. RICS are key to the project as they are the world's largest body of valuation professionals, and it sets the mandatory standards including reporting by which its members operate.

The REVALUE consortium is completed through the Real Estate Finance Group from Maastricht University, LUWOGÉ Consult GmbH, Vanhier, and Bax & Company.



For further details or to contact the Project Team please see the website <http://revalue-project.eu/>



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