



REVALUE

Recognising Energy Efficiency Value in Residential Buildings

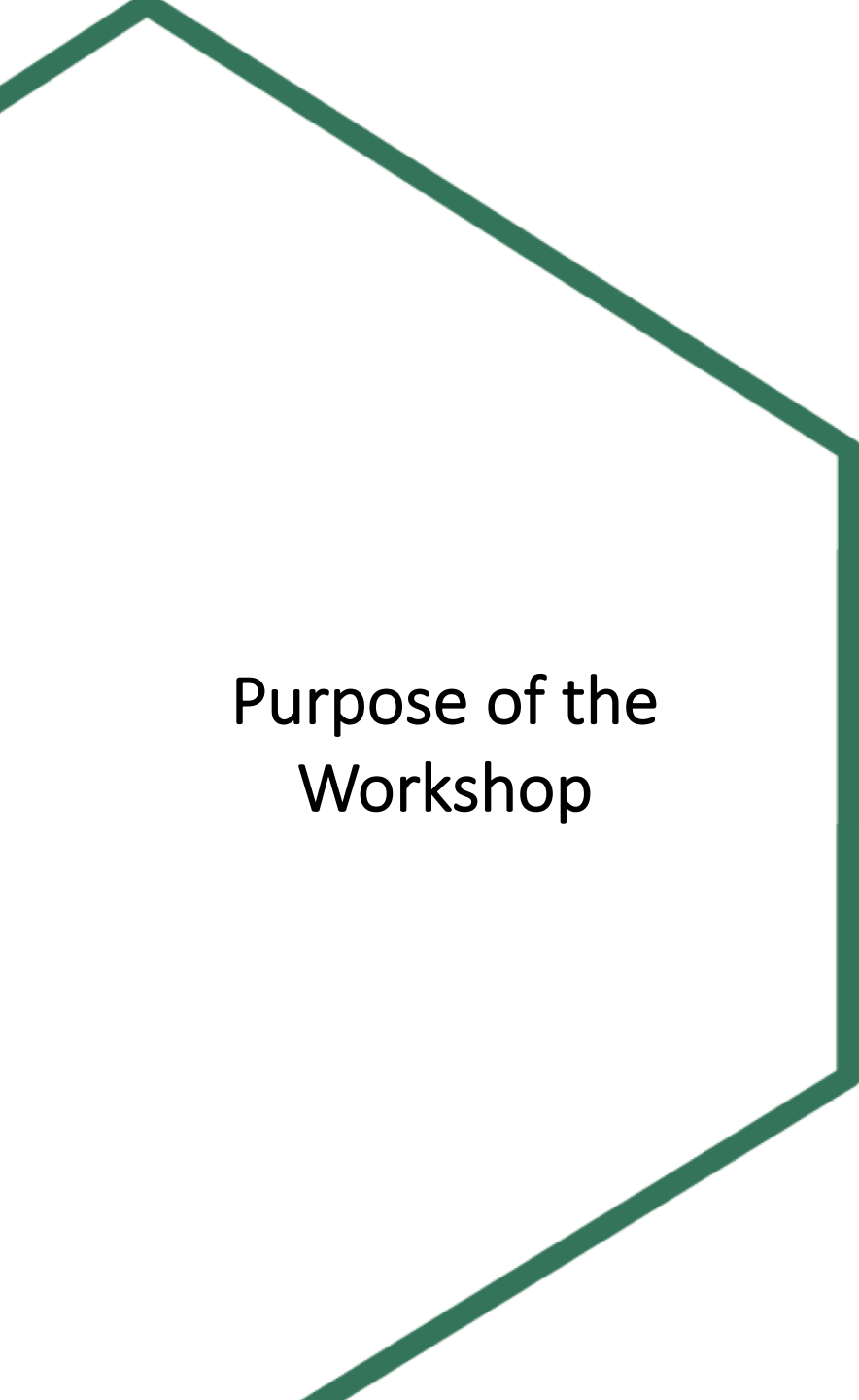
Roundtable in Brussels

Rolf Bastiaanssen and Maarja Meitern (Bax & Company), Juan Francisco Palacios Temprano (Maastricht University), Corne Koppelaar (Savills)

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Purpose of the Workshop

- To share with you key findings of the empirical research
- To discuss with you – as experts in the field – the inferences of the work: *does it chime with your ‘view of the world’? What findings are most likely to be useful to the stakeholders and policy makers?*
- To discuss your views on some specific questions:
 - What does the REVALUE project tell us in terms of the motivations of investment owners and their business case for retrofits?
 - Is there a need to better understand the residential sector as a series of different markets (owner-occupied; social rented; private rented)?
 - Is the business case sufficiently strong to drive improvements at the speed required to meet climate change goals?
 - If not, what else can/should be done to facilitate faster change in the rented sector?
 - what do the REVALUE findings tell us about what works: coercion or grant?

Who is in the Team



REVALUE



Co-funded by the Intelligent Energy Europe Programme of the European Union



Who are the REVALUE participants?

ASSET OWNERS

Affordable and social housing providers in 4 European countries in ~200.000 dwellings



VALUERS

Valuation professional bodies who advise on the value of assets for various purposes including, investment, financial reporting and secured lending

LENDERS

Banks and other institutional investors involved in specific case study projects and/or finance sector representatives



REVALUE Methodology

Data Analysis



ASSET OWNERS

Calculation of investment strategies and Regression Analysis on links between EE and Value~120,000 dwellings

Case Studies



LENDERS

Individual interviews and involvement in the individual investor case study on sustainability



Expert Panels



VALUERS

Expert discussion groups and individual interviews with valuers in 4 different countries



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Work Streams

- A. Review of academic literature on the links between value and energy efficiency
- B. Quantitative study on the observed links between the energy efficiency of dwellings and their reported values
- C. Examination of Building Typologies to establish cost/value effective renovation strategies
- D. Interviews and Round Table discussion groups with Registered Housing Providers, valuers, financial institutions to better understand how EE in buildings is impacting investment/lending decisions and market values
- E. Case studies with selected housing providers on sustainability planning



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Energy Performance and Valuation of Social housing in Europe: a quantitative analysis

Juan Francisco Palacios Temprano
(Maastricht University)



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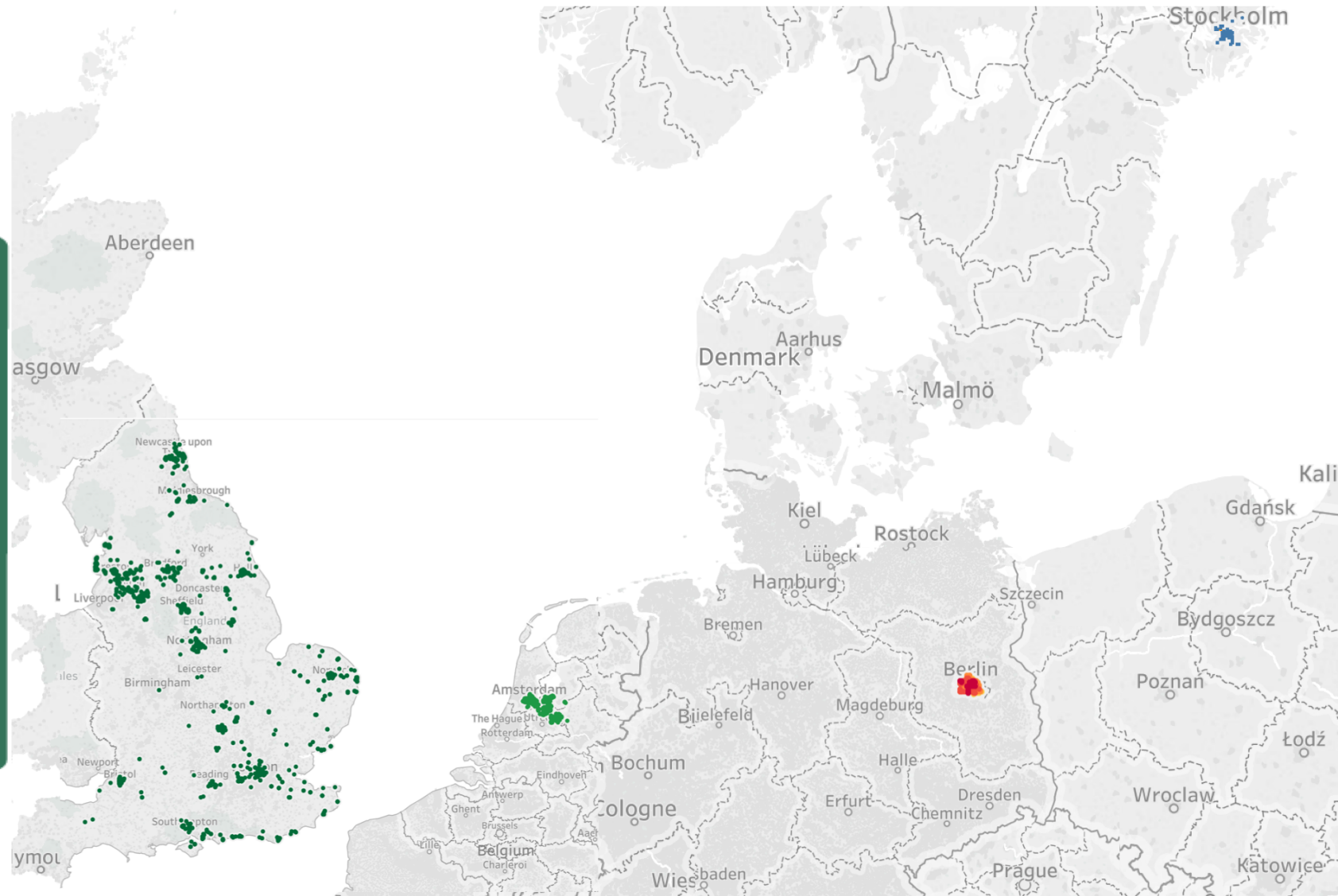


*Is energy efficiency incorporated in expert
opinions of value?*

Our approach:

Regression covering 4 countries, 10 providers, ~120.000 units, mostly affordable housing

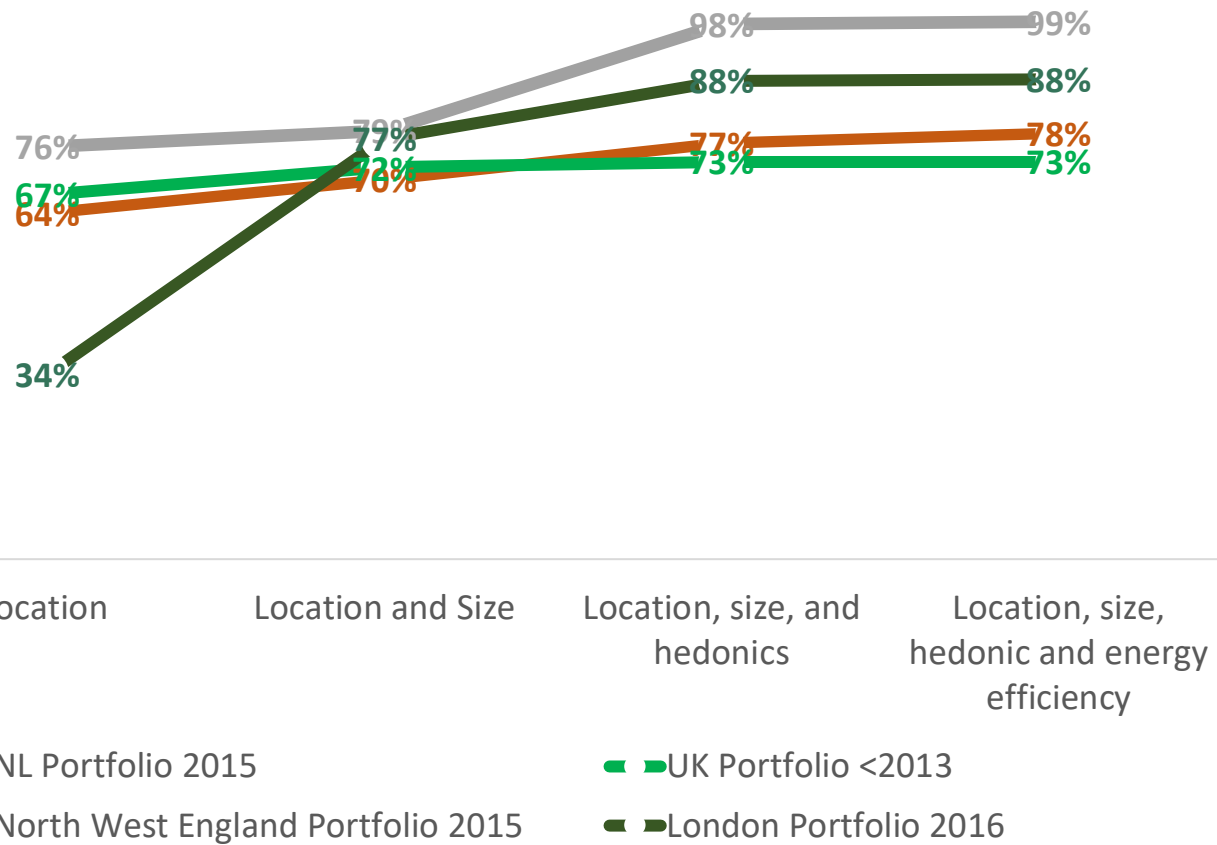
RICS 'asset' valuations, controlled for typical hedonic characteristics (and modernisation)



Reported values of dwellings remain dominated by traditional value factors.

Energy Efficiency is not a dominant factor of value

% Explained of final valuation

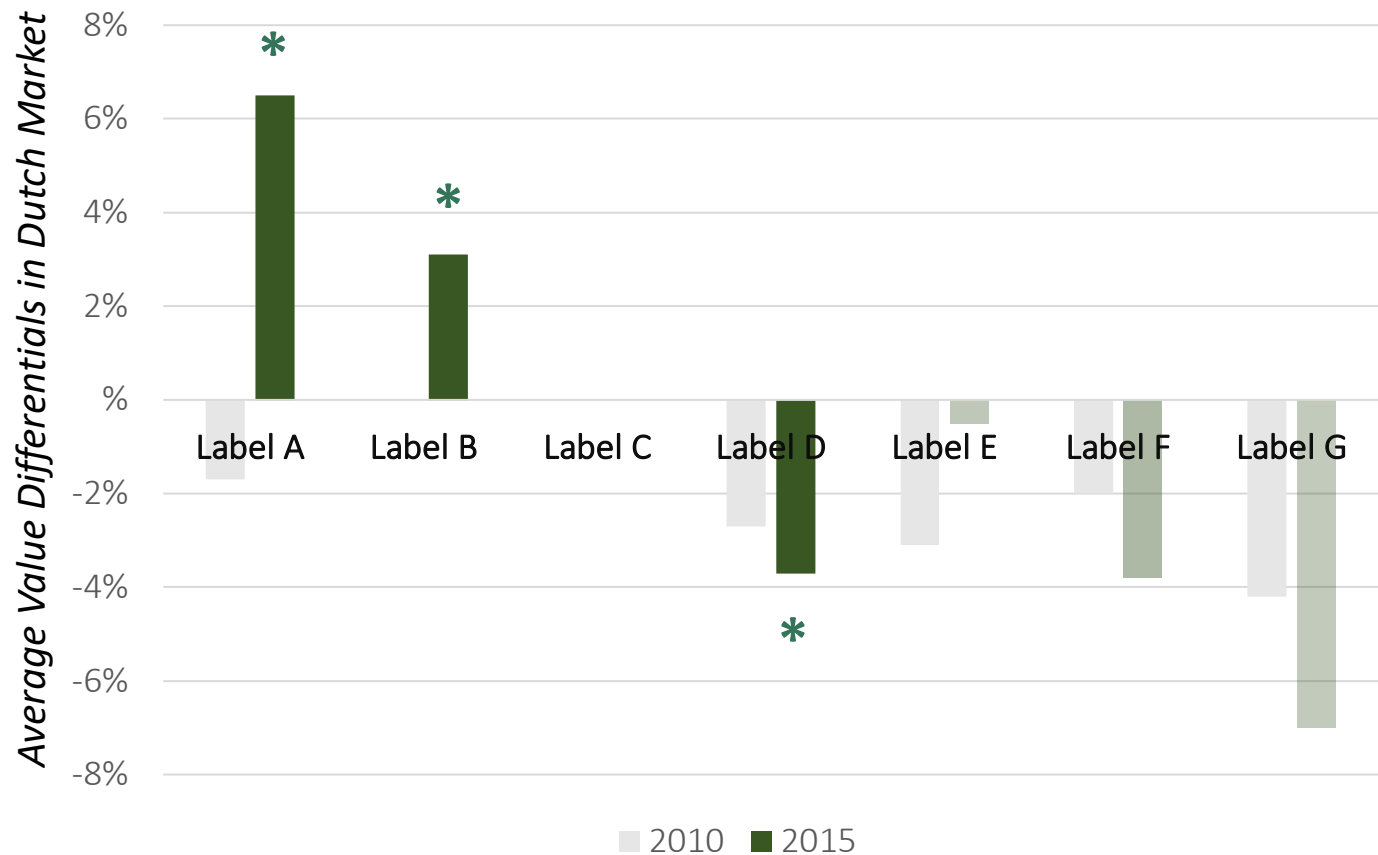


In some locations, energy efficiency is increasing in importance

In NL over 5 years, green premium and brown discount increased

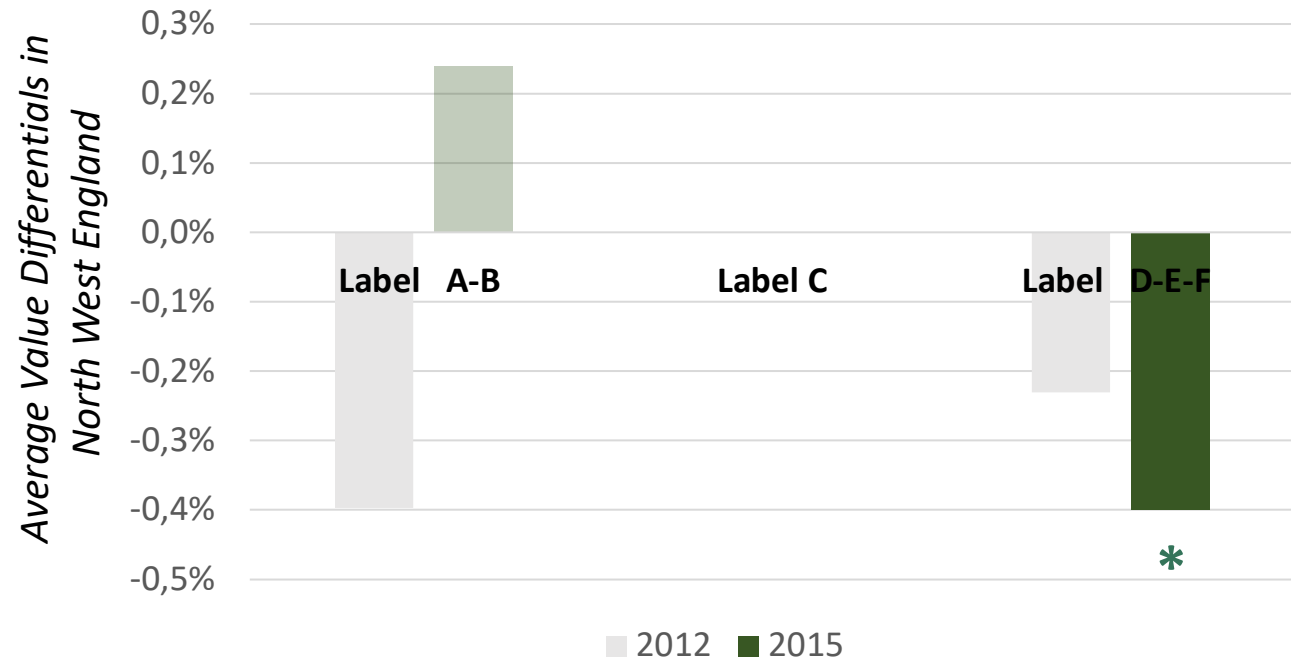


The good is getting better the bad is getting worse...
Evidence from Amsterdam area



Results suggest presence of brown discount in the English market

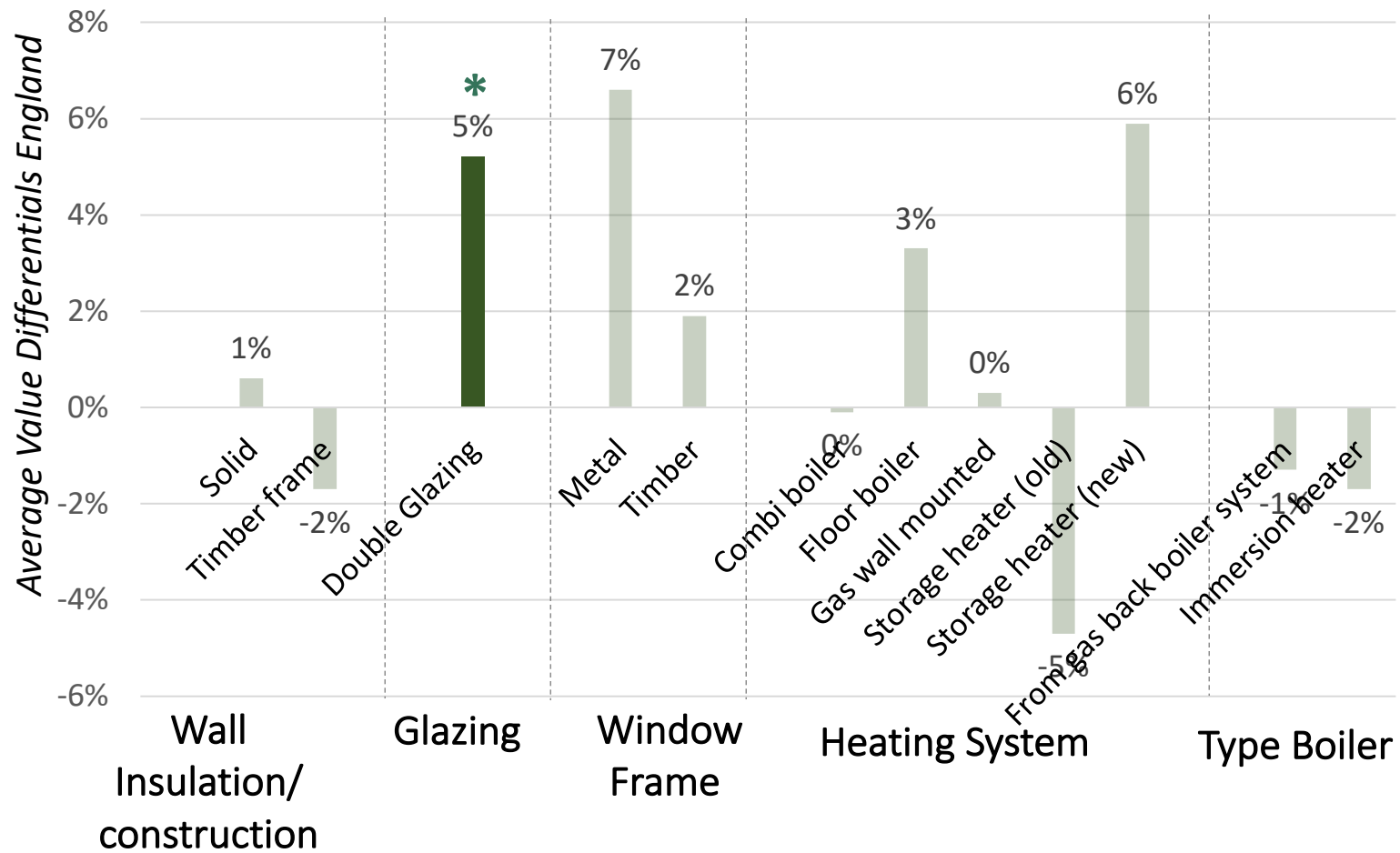
...
And in
Evidence from North West England



What is the impact of energy components on assessed valuations?

Evidence from England

Double glazing has a significant effect on assessed valuations





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The impact of Energy Efficiency on residential real estate values: findings from Round Table discussions with Valuers

Sarah Sayce
(RICS)

Presented by Corne Koppelaar (Savills)



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Market evidence

Enhanced guidance

Unlocked financing

More EE retrofits

The valuer's role is to reflect the market – not to influence it

But they may give strategic advice which influences investment and lending decisions

The RICS provides guidance to valuers as to due diligence in relation to sustainability; this has been enhanced during the period of the REVALUE project

- 6 workshops with (mainly) RICS registered valuers
- Semi-structured discussions over 2 hours using building details as prompts
- Explored practice regarding EE and the relation to value



The new Minimum Energy Efficiency Standards (MEES) regulations in the UK are likely to impact some investment returns *and* investor strategy

How it will 'play out' remains to be seen

Other countries also introduce similar regulations

EU policy remains linked to the EPC

Key finding 1: EPCs

- Valuers have found little evidence that EPC-ratings impact on the market value of residential assets
- Confidence in EPCs varies between countries. Nowhere do they play a key role in market behaviours
- Values are driven by traditional factors
- Where demand outstrips supply EE gets pushed down the agenda even further

Key finding 2: But some EE factors *are* priced in

- The 'normal' specification continues to rise – double glazing in UK (maybe triple in Germany) and effective heating systems are expected
- These are not specifically seen as EE
- A brown discount may apply if they are missing
- *But* some new/innovative technologies are not trusted or understood



A previous survey for RICS showed that most valuers have never been instructed to consider sustainability in their reports

The new Red Book places a stronger requirement on valuers to investigate and store data.

The 'Lenders' project suggested banks link their 'lifestyle analyses' to energy outgoings

The EeMAP project may lead to easier finance for EE refurbishment

Key finding 3: The nature of the Instructions is critical

- Many clients *still* do not ask questions about EE – nor are they prepared to pay for additional work
- It is easier to reflect EE in 'investment worth' but this needs rents to adjust in response to investment – for SHP this often cannot be done.
- Banks are beginning to ask valuers for comment - and there is evidence that this may increase

Key finding 4: To build in EE needs greater knowledge of technologies – and more data

- A valuation is not a building survey or an energy audit
- In Spain many valuers are engineers by training – elsewhere they are not
- A more 'forensic' examination of EE requires better data, integrated professional services – and more fees



Markets are often slow to adapt and valuers cannot move ahead of the market

Valuers will continue to be 'reflectors' but access to better, more consistent data would enable them to undertake more forensic comparisons

Inference:

- It is important to understand the role of the valuer and the limitations of a valuation
- The market expectations of what is the 'normal' quality specification is changing: properties that fall short will face discounted values – a 'brown' discount'
- But new technologies that are not yet proven or have developed reputational issues, may well not bring a value premium; they may even decrease a value
- It is unrealistic to suppose that simply changing guidance on inspections/reporting carried out by valuers will be a strong force for change: market stimulus is needed





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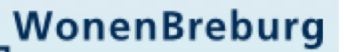
*Long-term sustainable investment planning:
Best practice found in HP case studies*

Rolf Bastiaanssen (Bax & Company) & Corne Koppelaar (Savills)



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Good and common
practices of housing
providers





Housing providers and financing

- Housing associations invest to give their clients a dwelling that offers tenants comfort and well being. Investments are not only initiated out of financial motives
- Rent caps influence the investment capacity seriously, while many EE investment programmes are based on (temporary) grants.
- Usual investment planning cycles are 5 years. Out of cycle investments could be prompted by e.g. Health and Safety concerns;
- Tenants' costs of living and comfort factors are increasingly considered important to HPs, but knowledge of tenants' income and energy consumption patterns is limited;
- Some HPs are finding a link between EE and default rates

Housing providers and **valuers**

- Most housing providers do not specifically instruct valuers to focus on EE in relation to valuation reporting. **Valuer's knowledge of EE is cited as added value**
- Institutional housing providers are becoming more cashflow-driven and require investment value (worth) calculations. Over time EE might influence the discount rate (risk premium).
- The data that Housing associations hold on their stock is incomplete in terms of EE factors and data collected differs from organization to organization which makes comparative studies of physical performance difficult – if not impossible;
- The term Building Passport is not used in the dictionary of housing companies yet; Housing companies would welcome more qualified information on Energy Efficiency in valuation reports (EPC, SAP and technical and strategic advice);


Semi- structured interviews with selected banks and financial institutions in UK and Germany were undertaken to understand their views.

Interviews took place in early 2017

- Banks confirmed that ‘green assets’ would be viewed as lower risk – or perhaps: sub-standard properties as higher risk. It is however very rare that funding to housing associations is provided on a project basis!
- Lenders are not specifically asking for energy data during assessments - although some receive EPC data – Energy data do not yet influence loan conditions
- For specific energy upgrade schemes there is variation in the detail required: some will lend against all technologies others have reservations on some solutions;
- A lack of confidence on new technology was evident – confirming fears of a ‘performance gap’
- Lenders serve the market. If clients have market incentives to invest in EE, funders will develop financial products to fund the investments.



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The Discussion Session

- What does the REVALUE project tell us in terms of the motivations of investment owners and their business case for retrofits?
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