



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

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, 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 consideration of 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.

Marketing Evidence



Unlock Financing



Enhanced Guidance

More EE Retrofits



Who is REVALUE?

REVALUE is led by experts in the fields of property valuation, building services, research, property regeneration, and financial analysis. The high-level team aims to develop the knowledge and information database needed to create guidance for the valuation profession.

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, LUWOG Consult GmbH, Vanhier, and Bax & Company.



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.

For example: a typical ambitious energy renovation project could cost in the region of €50,000, around twice the cost of a traditional renovation, depending on the type of structure, its age and design. To access asset-backed financing,

which is typically longer term and lower cost, the bank will assess loan-to-value ratios. A number of factors influence those lending ratios and at the moment, EE is not one of them. However, it could be that the expected energy quality of a building becomes one of the measures used to assess the lending ratio and for that reason, EE performance and its measurement needs to be properly understood by investors in terms of long-term exposure to risk, obsolescence and value depreciation.

However, there is limited knowledge of how, in practice, property investors who have upgraded their properties have developed their business cases, and what lessons they have learned to inform future upgrade schemes. How did the owners and investors who upgraded justify the capital outlay? How did they obtain the money? In addition, what did they learn?

This is where REVALUE comes in.

REVALUE Project Objectives and Approaches

With buildings and energy technology becoming more complex, the skills in applied economics that valuers have and apply needs to be connected with the construction and engineering knowledge linked to understanding EE. Guidance can advise on the best approach to this element of valuation, allowing the valuer to identify whether differentiation of value should be made based on EE characteristics.

To support the valuer in forming an opinion on asset value, better 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 is being developed to highlight which information sources can be considered, which elements to inspect; and more importantly, whether or not a building can be upgraded effectively, and at what cost.

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

REVALUE will achieve these objectives through:

- Creating a framework that aligns property decision 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 of dwellings.
- Producing advanced qualitative evidence to improve understanding of the relationship between EE and value beyond the energy label alone, and to explore impacts across selected European regional markets, for building types and individual building components.

This comprises original research in five EU countries covering thousands of observations, linking detailed building stock descriptions and energy performance of buildings, and connecting them to asset valuations both within the social and private rented sectors.

- Providing advanced understanding of market trends and key stakeholders' positions.

This will be developed through the organisation of expert sessions involving valuers, lenders and property owners to identify cutting-edge practices and trends at country level, and by the detailed analysis of case studies where investment in EE has taken place. The objective being to understand current decision-making and provide frameworks for developing enhanced knowledge.

- 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, ensuring that 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.

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, could lead to the development of updated valuation guidance. Professionals will be able to identify emerging market trends, helping to strengthen the basis of assessing the future value of Europe's housing stock.

Contact information

For further details or to contact the Project Team please see the website www.REVALUE-project.eu/.



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