

ESGs in Real Estate Valuation Reports

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As awareness of climate change and the impact of sustainability issues grows, it is becoming increasingly important for the property market to adapt to change. As the property sector accounts for almost a quarter of all carbon emissions and over a third of all energy consumption in Sweden, sustainability aspects are central to the sector's long-term value and impact on the environment.

Future climate changes, such as flooding and increased risk of extreme weather, are likely to affect the attractiveness of specific locations, as there may be an increased risk of damage to the property. There are studies that indicate that these risks already affect property prices and may have an increasing impact in the future (Lind & Nordlund, 2021).

There are also studies on the valuation of green buildings that are environmentally certified, which argue that a green building can have a higher value for several reasons, such as lower operating costs, higher rental income and better financing opportunities (Lind & Nordlund, 2021). Lind and Nordlund (2021) also argue that sustainability issues have led to a discussion about the role of property valuers. Whether they should only reflect the market, or whether they should instead emphasize the environmental characteristics of buildings. Lützkendorf and Lorenz (2007) also provide a discussion in relation to this concluding that sustainable aspects are valued through its performance. However, Warren-Myers (2022, 2023) argue that competence among the valuers are a crucial component to enable sustainability and ESG to be capitalized in the property value and the valuation report.

The integration of sustainability aspects into property valuation is a requirement set by RICS, and RICS requires that sustainability be integrated into the property valuation. However, it is not self-evident how this integration should take place, and how the sustainability aspects should be quantified in a valuation report. For example have RICS arranged several meetings around the world to discuss this question and also published different policy briefs in the matter.

Therefore, this paper addresses the question of how ESG:s are incorporated in the valuation report.

This study was initiated by the local RICS organization in Sweden together with the board of valuation within the non-profit organization Samhällsbyggarna. The process started with a group interview with three authorized property valuers discussing how sustainability are taken in consideration in valuation reports. The outcome were that the different companies are struggling with this question as they see both RICS and bank requirements together with questions from the real estate companies to recognize and promote these aspects at the same time as the auditors, when making valuation reports for the real estate companies annual reports asks for more information and transparency.

The research was conducted through three round table discussions. Each round table discussion consisted of six representatives; two authorized valuers, one bank representative, one auditor, and two real estate company representatives, and lasted three hours.