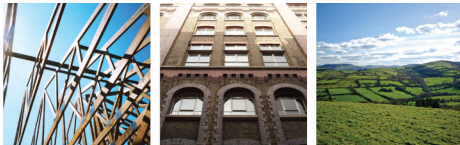


# Value Creation in the Built Environment

Zsolt Toth, RICS

22 June 2017, Brussels



# About RICS

- ▶ A global, independent and self-regulating **professional body**
- ▶ Sets and enforces professional and ethical **standards**
- ▶ Established in 1868 by Royal Charter, serving the **public interest**
- ▶ **150 years** of knowledge and experience
- ▶ **118,000** qualified **members** in 146 countries, more than 8000 in continental **Europe**
- ▶ Headquartered in **London**, regional offices in **Brussels, Hong Kong, Beijing, Singapore, Tokyo, New Delhi, New York, Sao Paulo, Dubai and Sydney**
- ▶ Provider of **thought leadership**, such as RICS Futures, Insights, Economics and Research

# The role of RICS in Green Value creation



Research  
and Data  
Collection

Market  
Research

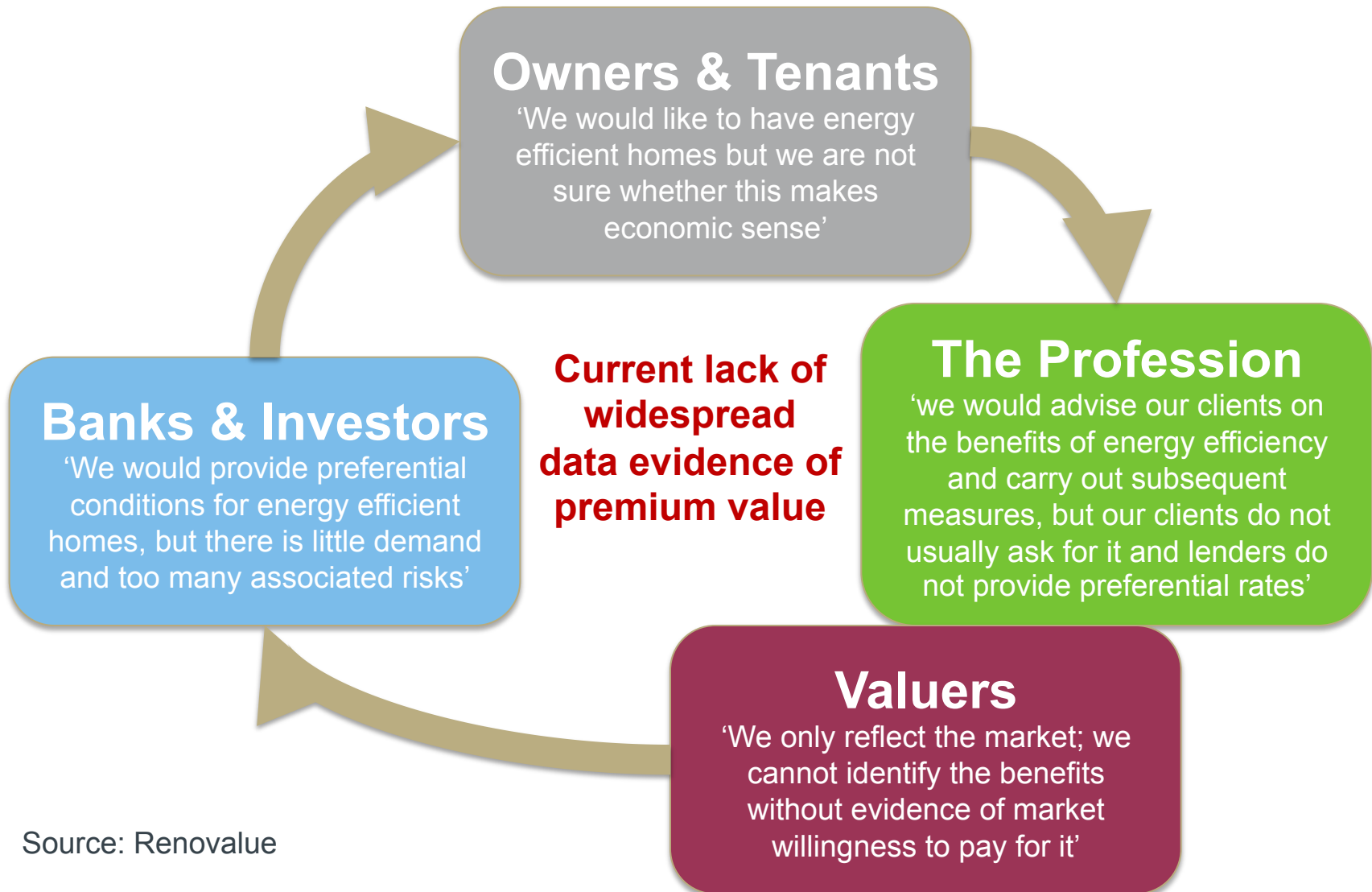
Training and  
Guidance

Global

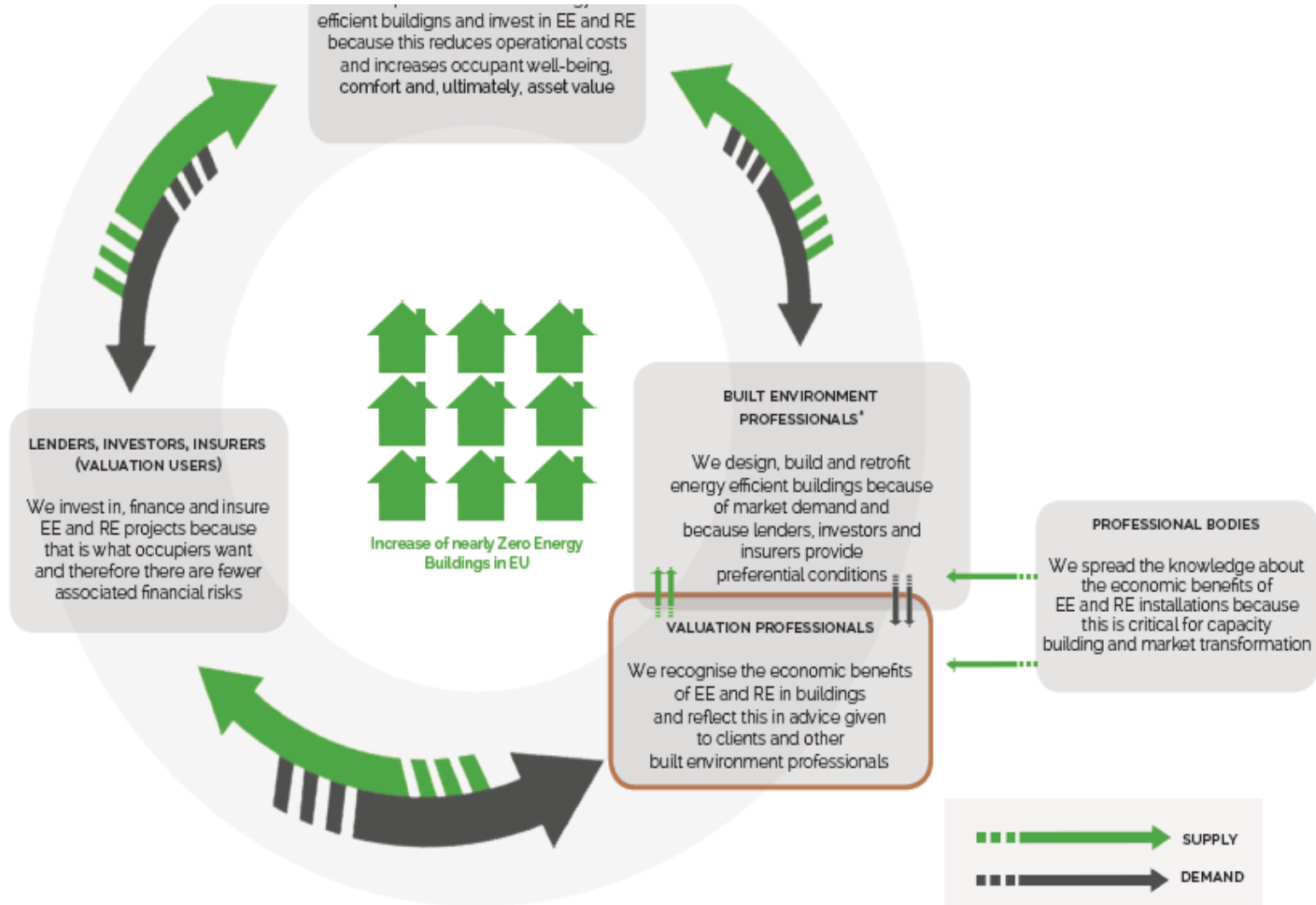
## Value is important in three different ways:

- ▶ Value is measurable
- ▶ Value is important for the real estate market - addressing climate change in terms of value and risk is something investors, property professionals, owners, etc. can relate to
- ▶ Creating value for green buildings is critical to governments (-> energy certificates, carbon property taxing...).

## ... because it all about value



# The evidence of green premiums...



# EU project examples



- ▶ Strengthening the role of valuation professionals
- ▶ Integrating sustainability considerations in valuation practice



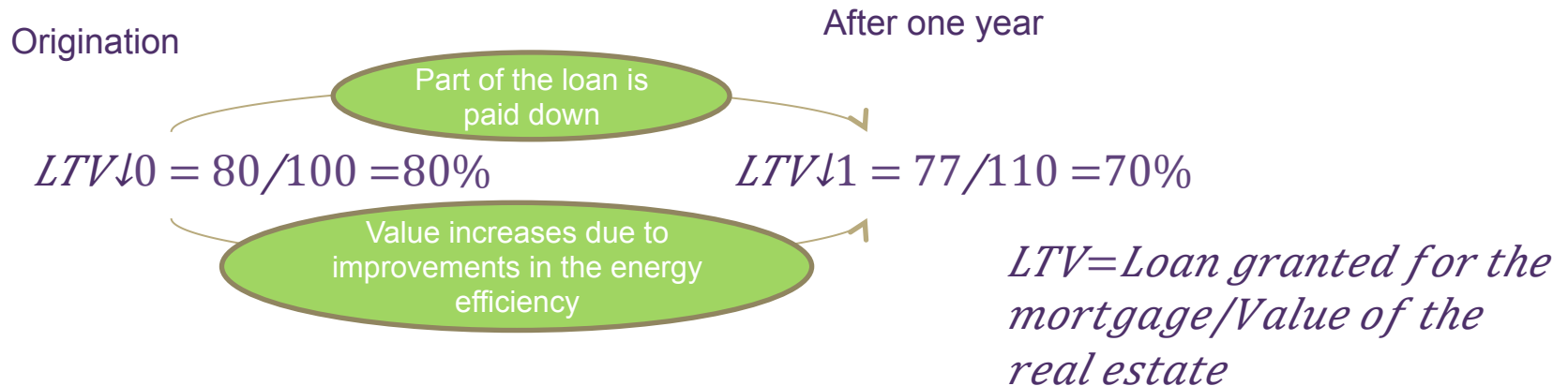
- ▶ Update/complement valuation guidance recognising energy efficiency value
- ▶ Improve the evidence base of differential values



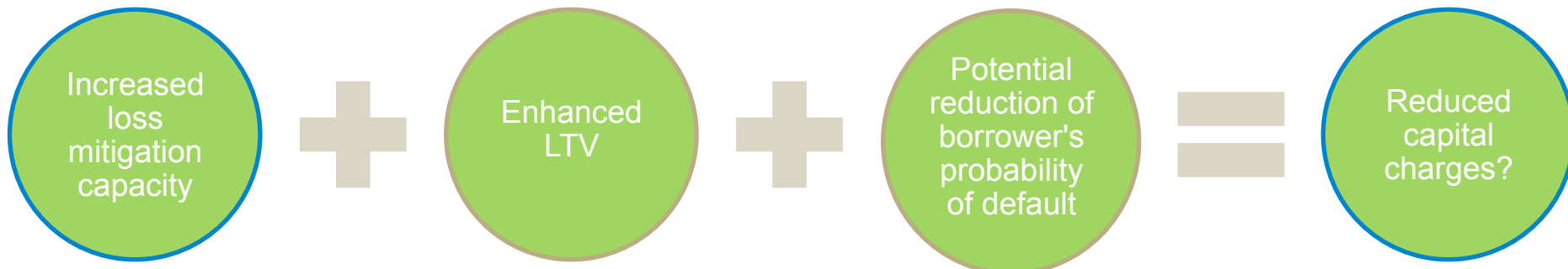
- ▶ Pan-European private bank financing mechanism to encourage the energy-efficiency improvement of the EU's housing stock

# Energy Efficient Mortgages

## The impact of energy efficiency on value and LTV



## Can energy efficiency lead to better capital treatment?





# What we know so far

- ▶ Difficulties in translating energy efficiency into 'green' value
- ▶ Difficult to disentangle 'energy efficiency' only
- ▶ Lack of guidance and support on appropriate data capturing and data management
- ▶ Lack of market transparency and trust
- ▶ Lack of standardised metrics and procedures
- ▶ Sales or rental premiums still down to sentiment or anecdotal evidence

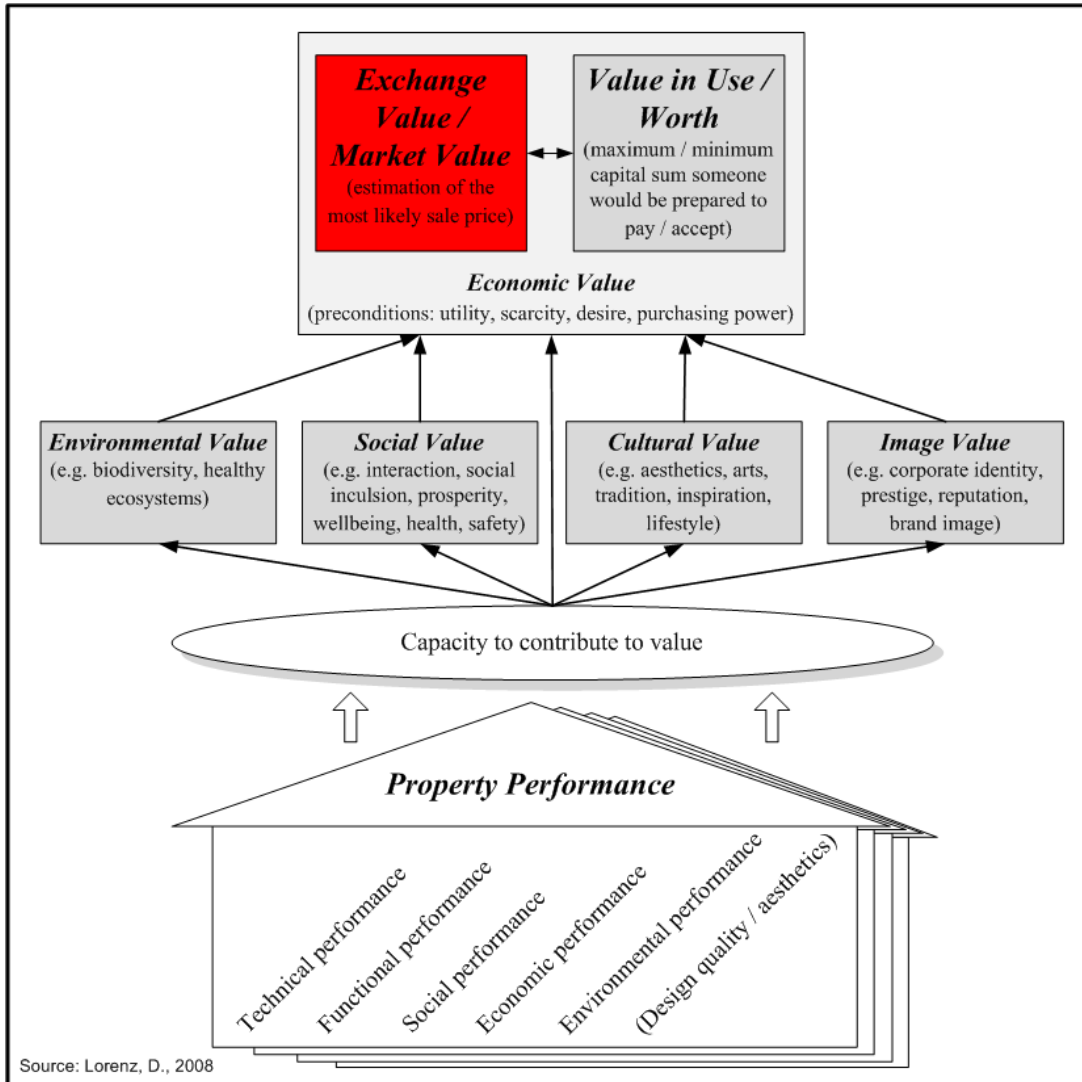
***This backs up other empirical findings that, whilst they may be some evidence of market pricing building in recognition of energy labels, market transformation has not fully occurred.***

# A key barrier

## Quality of building descriptions in transaction databases

	Type	Brief Explanation	Examples
1	<b>Characteristics based description</b>	Statement on the availability, number, age or size of particular building features or components	Floor area, central heating, green roof, number of rooms, flexible walls, suspended ceiling, etc.
2	<b>Experience based description</b>	Subjective and mainly qualitative judgement mainly based on implicit assumptions	Building quality is considered 'good' because of sound structural condition, favourable layout, equipment, etc.
3	<b>Attribute based description</b>	Judgement or classification based on quantifiable technical and/or physical building characteristics	Heat and sound insulation class, degree of efficiency of heating system, share of renewable materials, etc.
4	<b>Performance based description</b>	Measurement of direct impacts that result from the building's technical and physical characteristics	Primary energy demand, CO <sub>2</sub> -emissions, life-cycle-costs, annual maintenance costs, etc.

# Property performance and value



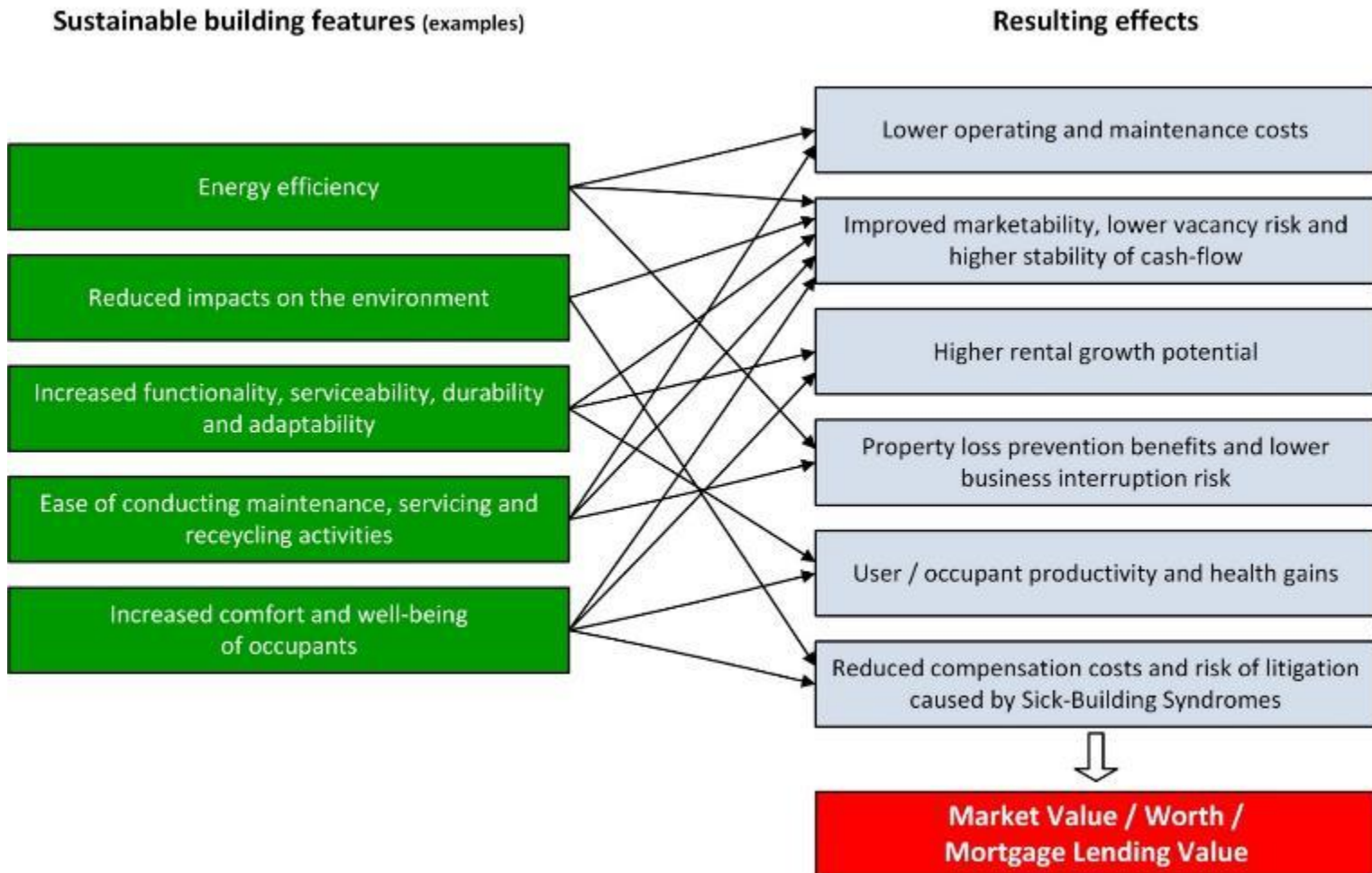
Source: Lorenz, D., 2008

## 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*

# Building performance linking through to value



# Comprehensive understanding of value



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

Source: Lorenz, D., 2010

# Acknowledgements



Renovalue  
Revalue  
EeMAP

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