The European Commission's science and knowledge service

Joint Research Centre

Level(s) webinar: 6.2 Indicator on value creation and risk factors

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Introduction to indicator 6.2

Agenda

1. Introduction to the indicator:
   - ✓ the idea behind the indicator and its two parts.
2. Sustainability from a property valuer's perspective:
   - ✓ a basic introduction, Professor Sarah Sayce from Reading University
3. Using and reporting on indicator 6.2:
   - ✓ how the reliability rating works
   - ✓ how reporting on the valuation method used should be done.
4. Question and answers

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# 6.2 Indicator on value creation and risk factors

Aim:

to support property valuers and investors by supplementing their existing data and knowledge, thereby allowing them to better take into account the potential influence of sustainability aspects on value and risk.

Dual focus

1. Aspects of a more sustainable building performance with the potential to create financial value or to avoid exposure of owners and investors to risks and liabilities in the future.

2. The reliability of the underlying data and calculation methods on which a reported performance is based and then communicated to those involved in the appraisal of a buildings value.

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Conventional v. sustainable buildings
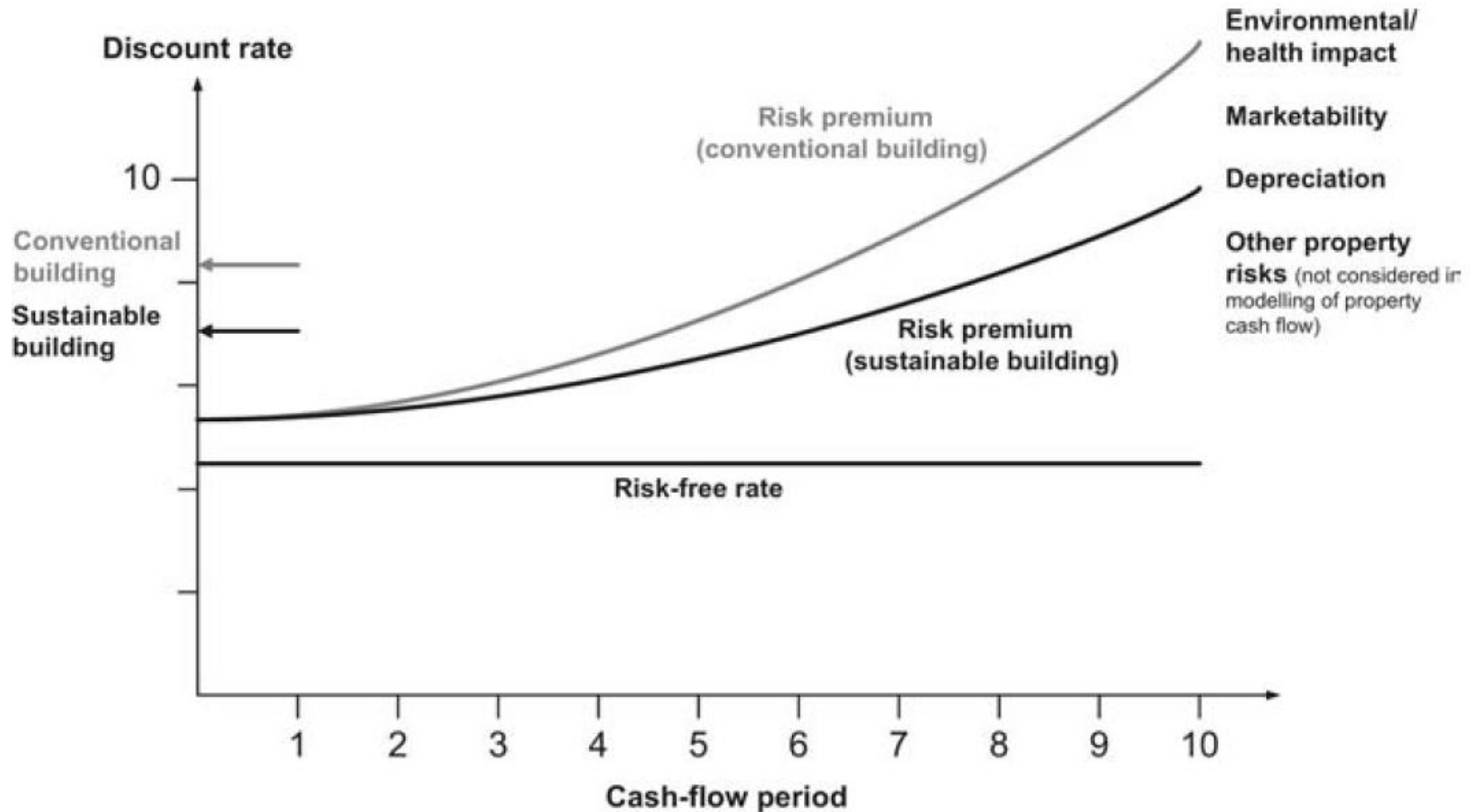
Source: Lorenz & Lutskendorf (2011)

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Potential influence on value and risk?

Identified or emerging influence of Level(s) framework indicators on property value and risk

1. Increased revenues: due to market recognition and lower voids
2. Reduced costs: operational, maintenance, repair and replacement
3. Manage future risk: potential for increased overheads or loss of income

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What does it measure?

1. Comprehensiveness of the valuation or risk rating:

✓ the potential for a Level(s) performance assessment to influence a property valuation appraisal or risk rating

✓ how sustainability performance has been considered within the valuation criteria used

✓ the assumptions made about the market influence of improved sustainability performance

2. Reliability of the reported Level(s) performance assessments:

A three part rating of the reliability of a Level(s) performance assessment:

✓ the data and calculation method,

✓ the professional capability of the those carrying out the performance assessment,

✓ the extent to which there is independent verification of the results.

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Property valuation

VAP 12
Office properties

1. Criteria Class 'Market' (national and regional) – Office

Sub-criteria	Weighting Sub-criterion	Weighting National/regional	Criteria class
1.1 national			
1.1.1 Acts of God	5 %		
1.1.2 Socio-demographic development	10 %		
1.1.3 Overall economic development and international attractiveness	30 %	30 %	
1.1.4 Political, legal, taxation and monetary conditions	15 %		
1.1.5 Property market: office	40 %		
1.2 regional			
1.2.1 Acts of God	5 %		
1.2.2 Socio-demographic development	15 %	70 %	Criteria
1.2.3 Economic situation and attractiveness	35 %		class 1
1.2.4 Property market: office	45 %		20 %
RESULT FOR THE MARKET RATING		100 %	

2. Criteria Class 'Location' – Office

Sub-criteria	Weighting Sub-criterion	Criteria class
2.1 Suitability of the micro location for the property type and target occupiers	25 %	
2.2 Image of the quarter (office district) and the location	15 %	
2.3 Quality of transportation infrastructure of the plot and quarter	25 %	Criteria
2.4 Quality of local supply facilities of the plot and quarter for target occupiers	15 %	class 2
2.5 Acts of God	20 %	30 %
RESULT FOR THE LOCATION RATING	100 %	

3. Criteria Class 'Property' – Office

Sub-criteria	Weighting Sub-criterion	Criteria class
3.1 Architecture / type of construction	20 %	
3.2 Fitout	10 %	
3.3 Structural condition	15 %	Criteria
3.4 Plot situation	25 %	class 3
3.5 Ecological sustainability	10 %	20 %
3.6 Profitability of the building concept	20 %	
RESULT FOR THE PROPERTY RATING	100 %	

4. Criteria Class 'Quality of the property cash flow' – Office

Sub-criteria	Weighting Sub-criterion	Criteria class
4.1 Tenant / occupier situation	20 %	
4.2 Rental growth potential / value growth potential	30 %	
4.3 Letting prospects	20 %	Criteria
4.4 Vacancy / letting situation	10 %	class 4
4.5 Recoverable and non-recoverable operating expenses	10 %	30 %
4.6 Usability by third parties and/or alternative use	10 %	
RESULT FOR THE RATING OF THE QUALITY OF THE PROPERTY CASH FLOW	100 %	

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Sustainability and valuation criterion

Indicative example

EU Level(s) framework indicator or scenario	Valuation or risk rating criteria influenced	
	Valuation criterion	**Sub-criterion**
Scenario 2.2.1 Design for refurbishment and adaptability	*Quality of the property cash flow*	*Tenant and occupier situation: duration and structure of rental contracts*
		Letting prospects
		Vacancy/letting situation
		Usability by third parties

Using the reliability rating

1.1 Use phase energy performance

Rating aspect	Brief description of the aspect	Rating score (reflecting the degree of representativeness)			
		0	**1** Low	**2** Medium	**3** High
1.1 Technical representativeness of the building use patterns	Reflecting the actual conditions of use, occupancy patterns and behaviour.				
1.2 Technical representativeness of the input data used	The extent to which building materials and services input data reflect the surveyed building or as-built construction.				
2.1 Geographical representativeness of the weather data used	The use of climate data that reflect the building location.				
2.2 Geographical representativeness of the primary energy factors	The use of primary energy factors that reflect the building location.				
3.1 Time representativeness of the calculation method	The extent to which simulations are a more dynamic representation of performance.				
3.2 Time representativeness of the energy demand profiling	The extent to which demand profiles support the optimisation of supply and demand				

2.2b Design for adaptability and refurbishment

Rating aspect	Brief description of the aspect	Rating score (select based on the assessment level used for the scenario)			
		0	**1**	**2**	**3**
Scenario 1 Building and elemental service life planning	Estimating the design service life of the building as a whole and the service lifespan of the major building elements				
Scenario 2 Design for adaptability and refurbishment	How the building's design can facilitate future adaptation to changing occupier needs and market conditions				
Scenario 3 Design for deconstruction, reuse and recyclability	The potential for deconstruction to facilitate the reuse and recycling major building elements				

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How can it be used?

Project stage	Activities related to use of indicator 6.2
1. Outline appraisal	✓ Early stage identification of potential design influences on value and risk
2. Detailed appraisal and risk rating	✓ To support detailed evaluation and value engineering of designs ✓ To develop more informed future scenarios for the market performance of the property
3. Financial approvals and due diligence	✓ To provide greater insight into the reliability of performance assessments ✓ To demonstrate how performance aspects have been taken into account in the value engineering of the project
4. Cost control on site	✓ To identify those specifications that are important from a value and risk perspective

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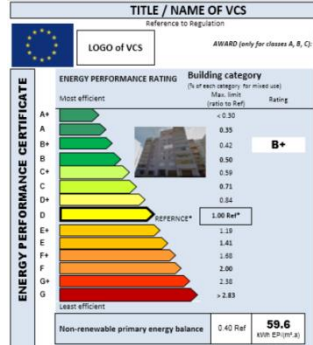
Why use this indicator?

Risk rating and valuation standards:
Royal Institution of Chartered Surveyors (RICS),
the European Group of Valuer's Associations (TEGoVA)
the International Valuation Standards Council (IVSC)

- ✓ integrate sustainability as an aspect to take into account
- ✓ highlight the possibility to make 'special assumptions' about its future impact on value, calling upon 'relevant expertise, certifications and reports' to supplement their professional skills.
- ✓ encourage the client and their professional team to learn about the sustainability characteristics of a property.
- ✓ 'Ensure judgements are made in a way that promotes transparency and minimises the influence of any subjective factors on the process.'

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Hypothetical case

1.2 Life cycle Global Warming Potential

1.1 Use stage energy performance
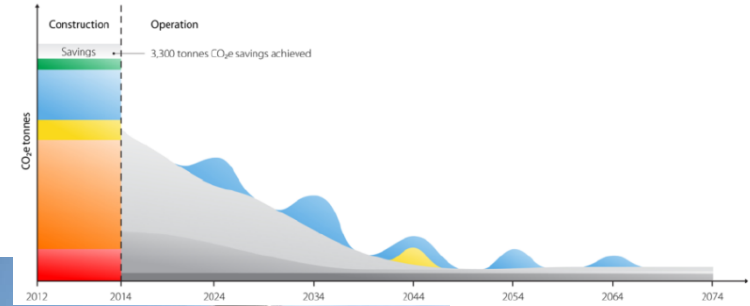
6.1 Life Cycle Costs

2.2 Design for refurbishment and adaptability

4.1 Indoor air quality

5.1 Projected future climate: thermal comfort

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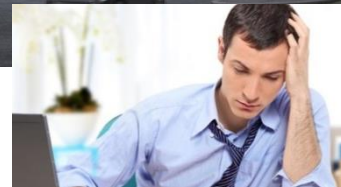
Thanks for taking part

Download the Level(s) Beta v1.0 documentation

http://susproc.jrc.ec.europa.eu/Efficient_Buildings/documents.html

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